



DONALD TRUMP REELECTED AS PRESIDENT OF THE US: IMPLICATIONS FOR INVESTORS AND CENTRAL AMERICA

Key Points

- **Changing Dynamics in U.S.-Central America Relations:** New policies on trade, immigration, and foreign aid may alter economic prospects in Central America, necessitating adaptation strategies in trade, investment, and workforce development.
- **Strengthening Economic Resilience:** Central American economies can reduce their dependency on the U.S. by focusing on regional trade, engaging with non-U.S. markets, and developing high-potential sectors such as agriculture, tourism, and technology.
- **Opportunities in Digital Transformation and Sustainability:** Enhancing infrastructure and promoting sustainable practices are key to attracting international investment and diversifying growth across the region.

INTRODUCTION

Central America has traditionally relied on the United States for trade access, economic aid, and remittance flows, but evolving U.S. policies present both challenges and new growth opportunities. The region's strategic location and abundant natural resources offer significant potential to diversify and attract global investment. This report explores how Central American economies might adapt to these external shifts and build resilience through regional partnerships, infrastructure investments, and sustainable economic policies.

KEY U.S. POLICIES AND POTENTIAL IMPACTS ON CENTRAL AMERICA

1. Immigration Policies and Remittance Dependency:

Remittances from Central American citizens working abroad, especially in the U.S., are vital for sustaining local economies and household incomes. However, stricter U.S. immigration policies may reduce the workforce of Central American nationals in the U.S., decreasing remittance inflows and potentially weakening domestic consumption. To mitigate this impact, governments can focus on domestic job creation in high-potential sectors such as manufacturing, agriculture, and tourism. Increasing local employment opportunities and enhancing the skills of the labor force through training programs can reduce the economic vulnerability associated with remittance dependency.

2. Potential Reductions in Foreign Aid and Development Assistance:

U.S. foreign aid supports several Central American countries in areas like healthcare, education, and infrastructure development. A shift toward reduced aid could create budgetary

pressures, especially for countries with limited resources. Policymakers can address this potential gap by diversifying funding sources. Expanding partnerships with the European Union, China, and international organizations like the Inter-American Development Bank (IDB) can attract alternative funding to sustain essential development projects. Additionally, focusing on foreign direct investment (FDI) can bolster local industries and support economic stability, even in the absence of U.S. aid.

3. Evolving Trade Policies and Market Access Challenges:

As the U.S. increasingly emphasizes protectionist trade policies, Central American exporters may face new barriers. Agricultural products, textiles, and manufactured goods are core Central American exports to the U.S., but higher tariffs or restrictions could disrupt these sectors. Central American nations could counterbalance potential trade risks by diversifying trade relationships, expanding agreements with South American, European, and Asian markets, and increasing intra-regional trade. Initiatives like the Central American Integration System (SICA) offer frameworks to enhance regional economic collaboration and reduce dependency on a single market.

4. Environmental and Labor Standards Compliance for Exports:

There is a growing emphasis on environmental sustainability and labor standards for imported goods, particularly in U.S. and European markets. Central American producers may need to adopt eco-friendly practices and ensure compliance with fair labor standards to maintain competitiveness. Implementing sustainable farming, water conservation, and energy-efficient production techniques can enhance the appeal of Central American products and open access to green financing opportunities. These measures align with global investment trends that favor companies committed to environmental, social, and governance (ESG) principles.

5. Digital Transformation and Access to Technology for Economic Growth:

Central America's young population and increasing interest in technology present a strong foundation for digital transformation. To capitalize on this potential, governments must invest in internet infrastructure, digital literacy, and access to affordable technology. This can drive productivity, enable innovation, and foster entrepreneurship. Expanding digital infrastructure can also enhance financial inclusion, bringing banking and e-commerce to remote areas and supporting small businesses. For instance, increased use of mobile banking could allow unbanked communities to participate more fully in the economy.

6. Regional Stability and Security Challenges:

Central America faces various social and economic challenges, including poverty, gang violence, and political instability, which can hinder economic progress. Reduced U.S. assistance could

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exacerbate these issues. Regional leaders can address these challenges by investing in public safety, strengthening the rule of law, and creating economic opportunities to prevent youth involvement in criminal activities. Collaborating with international NGOs and creating regional security frameworks can also improve stability, making Central America more attractive to investors.

IMPLICATIONS FOR CENTRAL AMERICAN POLICYMAKERS AND BUSINESSES

1. Enhance Regional Economic Alliances and Trade Agreements:

Strengthening regional trade agreements and economic collaboration will be critical for Central America's resilience. Existing trade frameworks like the Central American Common Market (CACM) can be leveraged to harmonize tariffs, simplify customs procedures, and encourage cross-border investments. This approach enables Central American countries to present themselves as a single, larger market with unified regulations, which is attractive to foreign investors.

2. Invest in Sustainable Agriculture and Food Security Initiatives:

Agriculture is vital to Central American economies, but food security concerns and vulnerability to climate change demand innovation. By investing in agri-tech, water-efficient irrigation, and climate-resilient crops, Central America can secure its food supply, improve yields, and reduce reliance on imported agricultural goods. This investment in sustainability aligns with global trends and positions the region as a source of eco-friendly agricultural products.

3. Expand Renewable Energy Investments:

Central America's diverse landscape offers vast potential for renewable energy, from hydroelectric and geothermal to solar and wind power. Countries like Costa Rica and Nicaragua are already leading in renewable energy, and further investment in this sector could attract green financing and reduce energy import costs. Renewable energy projects also create jobs and support sustainable economic growth while mitigating the environmental impacts of fossil fuels.

4. Strengthen Financial Markets and Access to Capital for SMEs:

Developing robust financial markets is essential for Central America's economic resilience. Governments can support SMEs by simplifying business regulations, offering tax incentives, and enhancing access to credit. By fostering a more transparent financial system, Central American countries can attract FDI and support local entrepreneurs. Innovative financing options, such as microfinancing and impact investing, can be particularly beneficial in underserved communities, empowering small businesses to scale.

5. Develop Sustainable Tourism and Eco-Friendly Hospitality:

Central America is rich in natural beauty, biodiversity, and cultural heritage, making it a prime destination for tourism. Developing sustainable tourism practices can attract visitors while preserving the environment and generating local jobs. By promoting eco-friendly hotels, guided nature tours, and cultural heritage experiences, Central American nations can draw environmentally conscious travelers and create a positive economic impact.

6. Invest in Workforce Development and Education Initiatives:

With a young and dynamic population, Central America has the potential to become a hub for tech-savvy workers. Investing in education—especially in STEM fields—can prepare the workforce for the demands of a digital economy. Vocational training in healthcare, renewable energy, and agriculture can also provide alternatives to migration, retaining talent within the region. Initiatives to promote bilingual education can prepare the workforce for global job opportunities, making Central American countries more attractive to multinational corporations.

7. Promote Entrepreneurship and Innovation Ecosystems:

Supporting entrepreneurship through tax breaks, incubator programs, and training opportunities can encourage innovation and reduce reliance on foreign goods. By cultivating a start-up ecosystem focused on addressing regional challenges, such as affordable housing and healthcare, Central America can foster self-reliant communities and create homegrown solutions to local needs.

CONCLUSION

Central America faces both risks and opportunities in response to evolving U.S. policies. Regional collaboration, sustainable development, and strategic investment in human capital will be critical for adapting to these changes. Central American countries are well-positioned to leverage their unique strengths—such as natural resources, a young workforce, and geographic proximity to North America—to become more resilient and less dependent on external economic forces. For investors, Central America's progress in digital transformation, sustainable tourism, and renewable energy offers promising opportunities aligned with global growth trends.

By embracing regional trade, promoting digital innovation, and attracting investments in sustainable sectors, Central America can achieve long-term economic stability and growth. These strategies will help the region adapt to policy changes while fostering a resilient, diversified economy that benefits its people and international partners alike.

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