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JOBS, MIGRATION, AND SECURITY

A New Agenda for Central American Resilience

In collaboration with

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Central America has long played an outsized role in Washington's view of the Americas. Coming months promise to amplify this reality given the special importance of countries including Mexico, El Salvador, Guatemala, and Honduras to the domestic U.S. migration debate. While the "pull" factor for intending migrants to the United States cannot be minimized or overlooked, the "push" factor of local conditions in Central America and the Mundo Maya is the other side of the same coin.

Representation of the Mundo Maya region

Study after study shows that, given a choice, any number of intending migrants would prefer to remain at home, with family, local communities, a familiar language and surroundings. Since the end of the Central American civil wars in the mid-1990's, literally billions of dollars have been spent, both by the United States and other international partners, to improve regional conditions in an effort to promote development and reduce the urge to migrate. To this end, a regional free trade agreement (CAFTA-DR) was consummated with Washington in 2005. It was intended to assist in the building of local economies through trade and investment to reduce migration and keep Central Americans tied to their respective local economies.

Despite these efforts, regional development lags expectations. The reasons are complex. One is a lack of full market access to the United States for sensitive agriculture and textiles products in which the region is most competitive. Another is continued reluctance to regionalize rather than nationalize intra-Central American economies. Others include a deteriorating security environment and rampant corruption, insufficient education and labor skilling, and the perception among many—promoted by the people-smuggling *coyotes* who prey on them with messages circulated freely on social media—that the United States would generously accommodate migrants who present themselves at the border.

A more restrictive U.S. approach is now on offer, with greater attention to border security and enforcement, migrant repatriations, and expectations for enhanced cooperation across a range of related issues. Tariffs are the point of leverage that will be threatened and used aggressively to coerce cooperation from sending and transit nations regardless of any pre-existing free trade agreements.

No doubt expectations must be adjusted. But with appropriate policies, it could, in fact, be a significant opportunity for growth and development in affected nations, including El Salvador, Guatemala, and Honduras, particularly in the quest for near-shoring alternatives stemming from the pandemic. Creative policies are required. It's time to think differently about these issues, taking the world as it is rather than how we might want it to be, and react accordingly.

With this in mind, Council of the Americas embarked on a year-long project, generously funded by Corporacion Multi Inversiones, to explore impactful policies for the northern part of Central America and southern Mexico that can generate investment flows to create jobs and stem migration. Our efforts concentrated on identifying key reforms that might unlock job creating investment by establishing a more hospitable investment climate linking Northern Central America and Southern Mexico more actively to North American supply chains.

Over the course of 2024, we held three very high-level policy roundtables, featuring senior public and private sector officials, ministers and ambassadors, and experts. Each roundtable was organized around a specific theme, with a view to gaining insights into these issues and recommendations on how to address deficiencies, leading to improved investment performance. We held roundtables in Washington on trade and energy, and in Miami on infrastructure focused on ports. We anticipate that these discussions will expand in 2025 as we continue to contribute meaningfully to a regional agenda for private sector-led growth.

The ideas that follow include a new framework for looking at the region and specific recommendations for U.S. and regional officials and policy leaders. They are meant as the beginning rather than the conclusion of a conversation, one that we must openly and urgently engage. Additional topics cry out for their own future investigation and treatment. Nonetheless, trade, energy, and infrastructure must all be addressed in the near term if the region is to achieve its highest ambitions and impressive potential.

We invite you to join us in this journey toward effective and sustainable development in Central America.

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INTRODUCTION

This strategy document draws directly from a series of high-level dialogues focused on identifying and addressing investment barriers in Northern Central America and Southern Mexico (the traditional Mundo Maya) over the course of 2024. It synthesizes insights gained and provides a series of targeted recommendations designed to enhance the attractiveness of nearshoring, draw foreign direct investment, create jobs, and reduce migratory pressures. Countries of primary focus include El Salvador, Guatemala, and Honduras.

The priority areas for investigation include trade, energy, and infrastructure. It's certainly not a comprehensive list of topics or sectors, but these are three areas commonly considered critical for accelerating regional development and growth in Central America. We explore these sectors through the lens of recent developments, regional dynamics, and potential for reform, aiming to provide actionable strategies for unlocking investment potential and addressing the root causes of irregular migration, primarily to the United States. We suggest that with sustained collaboration between

WASHINGTON, DC: Guillermo Areas, Head of Government Relations for the Latin America and Caribbean Representative Office at BMW Group, joins the *Trade Integration and Resilient Supply Chains Roundtable*.

governments, private stakeholders, and international organizations, the Mundo Maya can leverage its strategic location as an attractive nearshoring alternative leading to a more prosperous and stable future. In all of this, the private sector is essential to success and must be a full partner in regional development.

Economic integration is key. CAFTA-DR has helped, but it was only ever a starting point not an end point. With several obvious weaknesses, e.g. market access for agriculture and textiles products in which the region is most competitive, and no formal linkage to neighboring Mexico, the agreement nonetheless provides significant market access to the United States and strong provisions to assist regional development. What the region itself did not do, however, was use CAFTA-DR effectively to drive a process of intra-regional economic consolidation, marked by common regulations and regulators, infrastructure projects, and reduced barriers to trade including streamlined customs procedures. In addition to making economies more efficient, such an approach would have drawn the eye of outside investors seeing Central America more as a region, with larger markets and economies of scale, rather than a collection of small markets each vying competitively against each other for investment.

WASHINGTON, DC: Left to right: Ambassador Arturo Sarukhan, Under Secretary of State Jose W. Fernandez, and AS/COA Vice President Eric Farnsworth lead the discussion at the *Trade Integration and Resilient Supply Chains Roundtable*.

MIAMI, FL: Glenn Wiltshire, Deputy Port Director of Port Everglades, Jose Gregorio Baquero, CEO of CMI Foods, and Jaime Roberto Diaz, Executive Vice President of the Central American Bank for Economic Integration, joined the *Central America Ports and Infrastructure Roundtable*.

WASHINGTON, DC: Under Secretary of State Jose W. Fernandez, AS/COA Vice President Eric Farnsworth, and CMI Board Member Felipe Bosch Keynote the *Energy Integration and Accessibility Roundtable*.

Increasing the reliability and breadth of energy supply is also crucial for broad-based economic development. At present, gaps in energy supply hinder investment and business scalability, deterring capital. A modernized energy sector coupled with supportive regulatory frameworks will draw investment and drive growth, particularly given increasing expectations among investors for cleaner and greener manufacturing and production throughout global supply chains. With higher ambitions and better policies, Central America can gain economic advantage by promoting its relatively clean energy matrix with a high renewables content.

Similarly, modernizing trade-related and other infrastructure including ports is critical. Inadequate infrastructure raises business costs and reduces regional competitiveness. Insufficient road, rail, air, and port infrastructure produces significant delays, creating shortages while increasing shipping costs, often facilitating corruption. Additionally, in the nearshoring context, adequate port infrastructure is fundamental for competitiveness as investors seek cost-effective, efficient alternatives with geographical proximity to access the U.S. market.

TRADE

In 2005, the United States, Central America (El Salvador, Costa Rica, Guatemala, Honduras, Nicaragua), and the Dominican Republic free trade agreement went into force. It removed tariffs and trade barriers and expanded regional opportunities for workers and consumers while instituting rule of law to frame regional trade and investment relations. It also added certainty for businesses by making reciprocal and permanent the unilateral trade preferences for Central America that Congress was required periodically to re-authorize.

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By 2023, the total trade in goods and services between the United States and Central America had exceeded $100 billion, marking a notable increase from the $34 billion recorded in 2005. Moreover, the agreement has improved the quality of Central America's exports to the U.S.—considering a shift from primarily raw materials and commodities to apparel, medical equipment, motor parts, and other value-added goods. CAFTA-DR also grew intra-regional trade, strengthening commercial ties among Central American countries.

Nonetheless, the absence of regional entities that streamline investment procedures and work to harmonize regulations, among other things, continues to hinder investment. Considerable bureaucratic obstacles that deter potential investment inflows, such as inconsistencies in cargo admissibility policies and variations in tariff implementation, act as barriers. In the same vein, trade expansion is hindered by regulatory fragmentation, hampering public-private collaboration. Investments in the region are negatively impacted by shifting regulatory policies, such as royalties and concessions, produced by changes from one administration to the next.

Further, given the nature of shifts in regional political administration, commitment to adhering to CAFTA-DR's rules has become an issue for certain countries. Unilateral rule changes are commonplace, reducing predictability and raising costs from one country to the next. The temporary suspension of CAFTA-DR benefits should be weighed for those countries unable or unwilling to adhere to treaty requirements, and/or those which meaningfully walk away from democratic governance such as Nicaragua.

Fortunately, a pathway exists to build competitiveness, increase growth, create incentives for meaningful reforms, and reward best performers while restoring enforceability and accountability to CAFTA-DR parties: accession to USMCA.

USMCA, the successor to NAFTA, will be reviewed in 2026. Assuming that the agreement continues in its present form, it will be a historic opportunity to bring in individual Central American countries as full partners, doing more than anything else to create the framework that will supercharge the nearshoring agenda, linking countries directly to North America. Countries would only be considered based on their ability and willingness to take on the higher obligations contained within USMCA, including digital and labor provisions. Those not yet ready to do so would have an incentive to reform in such a manner as to make themselves attractive potential parties to the agreement. Early movers would be rewarded by investors. A race to the top would ensue. The bipartisan, bicameral Americas Act currently under consideration in Congress is a vehicle to get this done. It should be a priority for the incoming administration.

Finally, the Governments of El Salvador, Guatemala, and Honduras should prioritize a regional trade facilitation initiative focused on improving cross-border customs operations and infrastructure. Modernizing customs facilities and processes is essential to improving regional competitiveness, reducing corruption, and improving nearshoring prospects. Such an initiative should center on implementing regional electronic customs systems, training personnel, and promoting investment in trade related infrastructure to reduce delays, lower costs, and generally create a more suitable trade and investment environment.

ENERGY

Universal, cost-effective access to clean energy is fundamental for national competitiveness. Mundo Maya is poised for transformation, as renewable energy offers a pathway to economic resilience and more sustainable growth. Moreover, the region enjoys considerable potential in hydropower, wind, and thermal energy, despite a current overreliance on imported fossil fuels making economies more susceptible to supply disruptions, cost fluctuations, and dirtier industrial production, among other things.

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As the region strives to decarbonize, it must leverage competitive and cohesive regulatory frameworks that attract investment and seek to expand energy provision and access. Expanding populations with growing wealth profiles, as well as burgeoning requirements to support digital infrastructure including crypto mining in El Salvador, will increase demand. This, coupled with government commitments to diversify energy matrices, introduces opportunities for developing renewable energy projects. Market-friendly energy frameworks are key to drawing investment and innovation. For instance, since the 1996 privatization of the electricity sector, Guatemala has received over $7.5 billion in energy investment.[1] As a result, household electrification rates have increased significantly, rising from 42% in 1992 to 92% today.

On the other hand, Honduras serves as a cautionary tale due to fraught regulatory frameworks and structural conflicts of interest acting as barriers to investment. The absence of independent technical governance bodies and policy coherence has restricted investor interest leading to supply challenges. The situation is compounded by substantial government arrears to providers leading to a self-reinforcing cycle of underinvestment. This creates a ripple effect, discouraging present operators from expanding operations and potential investors from entering the market.

1 https://www.trade.gov/market-intelligence/guatemala-renewable-energy

El Salvador, Guatemala, and Honduras rely heavily on hydrocarbons for their total energy needs. Notably, oil accounts for 54.9% of Honduras' total energy use and 51.8% of El Salvador's.[2] [3] For Guatemala, reliance on oil is 30%.[4] However, the share of renewables utilized as inputs for power generation continues to trend upward. For El Salvador, 84.4% of power generation is derived from renewable sources, while in Guatemala, the share is 70.4%. Honduras trails its peers with 61.4% of total electricity generation from renewables.

The private sector is essential to regional integration and transformation by providing capital, technology, and expertise. Through strategic partnerships, cross-sector collaboration can accelerate energy infrastructure modernization and guarantee an efficient, affordable, and sustainable energy supply for the entire region. The region's energy sector faces structural challenges that restrict the scalability and bankability of projects, many of which stem from the lack of technical capacity and regulatory alignment across countries. In response, regional integration efforts have prioritized harmonizing regulatory frameworks and standardizing environmental and operational guidelines to improve cross-border project feasibility. Further, facilitating private-sector investment requires reducing policy unpredictability and promoting transparent and competitive bidding processes, especially as energy demand increases and the transition to renewables accelerates.

SIEPAC, the interconnection system that powers six Central American countries, was established to foster greater strategic alignment and fully implement regional regulation.[5] For the countries of Northern Central America, it creates an opportunity to promote further integration through cross-border electrical infrastructure, including Mexico. By facilitating energy exchanges between countries, SIEPAC has produced a significant reduction in costs due to its ability to address supply shortfalls.

The project, however, shows that further integration would not simply occur by facilitating interconnections. If domestic regulatory frameworks are inappropriate for investment, inputs into the interconnection system will stall. Further, the absence of harmonized regulations leads to inefficiencies, as the system's potential for optimizing regional energy flows is undercut by fragmented national policies. SIEPAC's ability to connect regional grids is a net positive. If regulatory frameworks are now updated with enforceable regulatory best practices, the region could become an attractive hub for energy investment making the region more competitive overall while improving people's lives. Examples include timely payment for services rendered,

2 https://www.iea.org/countries/honduras/

3 https://www.iea.org/countries/el-salvador/

4 https://www.iea.org/countries/guatemala/

5 https://publications.iadb.org/en/central-american-electricity-integration-central-american-electrical-interconnection-system p.14

transparency in public tenders and reverse auctions to foster greater competitiveness, and mitigation of conflicts of interest between administrators and public utilities.

Given underinvestment in transmission infrastructure, regulatory fragmentation, and local grid dependency among some SIEPAC countries, SIEPAC's existing framework should be updated to ensure a regional electricity market rather than individual markets that happen to be interconnected. Private and public stakeholders might explore formation of a regional body to develop and harmonize enforceable regulatory best practices and guidance for further steps.

INFRASTRUCTURE

> "Currently, shipping delays in Guatemala result in yearly loss estimates of $350 million. Puerto Quetzal tends to operate at 140% capacity; wait times can exceed 25 days. In Honduras, Puerto Cortés operates at over 90% capacity, where high demand also causes trade delays and increases the cost of goods."

Modernization of infrastructure will be pivotal in determining the extent to which the region can harness shifts in global supply chains. Gaps in infrastructure, particularly in road, rail, air, and maritime ports, limit the region's ability to translate the advantages of geography into tangible economic gains. A commitment meaningfully to address infrastructure challenges would not only draw investment for the projects themselves, it would also have a significant multiplier effect for industries and sectors requiring upgraded infrastructure to get goods and services (including tourism) to market. Key to this would be the nations of the Mundo Maya taking a coordinated rather than disaggregated approach. What is politically difficult is economically imperative. Expanded investor interest and global competitiveness would result.

Infrastructure is costly. Modernizing port infrastructure, for example, requires significant investments in bulkheads, seawalls, and equipment for operating gantry cranes. Building or refurbishing seaport infrastructure is contingent upon long-term financial guarantees and considerable resources. Working in a coordinated manner, nations can build a more unified, natural economic space, using limited resources to build out infrastructure with a more economically viable approach. Currently, shipping delays in Guatemala result in yearly loss estimates of $350 million.

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Due to these inefficiencies, import costs have increased by over 40%, negatively affecting consumers while enabling corruption. In the short term, regional leadership could implement temporary measures, such as identifying new berth locations to alleviate the excess demand, but longer-term solutions must be advanced. Port authorities often overlook these challenges, viewing high activity as business success. In practice, however, many ports and their associated infrastructure are operating well above capacity, leading to increased costs that negatively impact the overall business environment in the region.

Guatemala, Central America's largest economy, is well-positioned to accommodate nearshoring but infrastructure deficiencies are an Achilles heel. Public investment in infrastructure has been limited to 1.5% of GDP, and the framework for public-private partnerships has proven inefficient and bureaucratic. A new infrastructure law passed in late 2024 aims to change that. It's a big step in the right direction assuming full and enthusiastic implementation. El Salvador and Honduras are faced with similar challenges, allocating approximately 1.3% and 1% of GDP, respectively, to infrastructure development. Cross-sector collaboration is critical; these countries must establish cohesive guidelines to attract private interest and investment. To attract adequate resources, the region must also pay more attention to regionalization.

Ideally, IFI's and the United States could collaborate with regional governments to establish a comprehensive PPP framework for the Mundo Maya that would establish guidelines for dynamic and appropriate private sector participation in a regional approach to infrastructure development. Grants, low-interest loans, and technical assistance for private sector-led development should be considered for countries adopting such frameworks. A pilot project to develop a flagship port project on the Pacific Coast of Central America would be an appropriate demonstration project for a new PPP regionalization model with full participation from IFI's and the U.S., local, and other interested governments such as, potentially, Japan and Taiwan.

ABOUT THE COUNCIL

Council of the Americas is the premier organization dedicated to the promotion of democracy, open markets, and the rule of law in the Americas. For 60 years we have helped set the regional agenda through timely and targeted meetings that bring the public and private sectors together, working groups and policy papers that offer informed, actionable recommendations, and Congressional testimony and direct engagement with regional leaders to impact decision-making, among other priorities.

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