

CA-1-2017 (I)

Icefi recommends a change in economic and fiscal model in Central America in light of the possible adoption of radical policies by the United States of America

The growing expectation that institutional strength, self-restraint and common sense will prevail in the process of redefining U.S. policies, and that Latin America- and particularly Central America- don't seem to be among the main priorities of the new American government, are elements of hope in the region. However, the threat presented by the possibility that President Trump accomplish the aggressive and radical promises made during his electoral campaign continues and, according to the Central American Institute for Fiscal Studies (Icefi) must be analyzed with seriousness and solid technical criteria.

In order to face this uncertainty, Icefi studied the possible impacts on Central American countries, with emphasis on those on their economies and public finances, in case that the new U.S. president delivers his most radical and alarming proposals on immigration, trade, and investment. Icefi analyzed what the main transmission channels to Central America could be, through which these countries could suffer detrimental effects.

On the immigration front, during his campaign the now President Trump promised the construction of a wall along the U.S.-Mexico border, massive deportations, actions that would criminalize immigration and a Zero Tolerance Policy against immigrants, with programs like "entrance-exit" (surveillance on foreigners who enter the country with a visa, to detect those who do not leave the country), or "extreme examination" (to identify ideological or religious characteristics of those who enter the U.S.). For Icefi, complying with these measures could generate negative effects for El Salvador, Honduras, and Guatemala (the so-called Central American "Northern Triangle"), through a decrease in remittance that immigrants living in the U.S. send to their families in Central America, a source of U.S. Dollars of growing macroeconomic importance, comparable to exports and direct foreign investment that reaches those countries.

Estimated amount of Central American residents in the U.S. in 2005 and 2015

Country	Estimated amount of people				Family remittances as % of GDP		
	2005	2015	Variations		2005	2015	Absolute Variation
			Absolute	Relative			
Costa Rica	108,164	156,084	47,920	44%	1.4%	1.0%	-0.4%
El Salvador	1,239,640	2,171,894	932,254	75%	16.0%	16.5%	0.5%
Guatemala	758,898	1,377,500	618,602	82%	10.0%	9.9%	-0.1%
Honduras	459,653	851,501	391,848	85%	15.9%	18.1%	2.2%
Nicaragua	281,167	416,768	135,601	48%	9.4%	9.4%	0.0%
Panama	136,375	200,265	63,890	47%	1.4%	0.9%	-0.5%
Central America	2,983,897	5,174,012	2,190,115	73%	7.7%	7.2%	-0.5%

Sources: For the estimated amount of people, Icefi based on the American Community Survey of the U.S. Census Bureau (available online: https://factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=ACS_13_1YR_B03001&prodType=table); for the family remittances, Icefi based on the statistics of the Secretariat of the Central American Monetary Council.

Note: in absolute terms, family remittances received in Central America in 2005 added up to US \$11.8 billion and in 2015 to US\$ 16.4 billion.

Another possible transmission channel identified by Icefi for the possible negative effects in Central America if Trump delivers his most aggressive promises is international trade. As part of his opposition to free trade and globalization, Trump promised to revise, or even withdraw the U.S. from Free Trade Agreements, such as the Dominican Republic-Central America Free Trade Agreement (CAFTA-DR), which made permanent the tariff-free treatment enjoyed by 80% of the Central American products included in the Caribbean Basin Initiative (CBI), reaching an estimated total two-way trade of US\$ 30 billion.¹

¹ Source: U.S. Commerce Service, at: <http://www.buyusa.gov/guatemala/cafta/index.asp>

Trade between Central America and the U.S. in 2010 and 2015, as a percentage of the GDP

Country	CA Imports from the U.S.			CA Exports to the U.S.		
	2010	2015	Differences	2010	2015	Differences
Costa Rica	16.9%	11.1%	-5.8%	9.0%	6.9%	-2.1%
El Salvador	12.8%	14.9%	2.1%	5.5%	5.9%	0.4%
Guatemala	11.1%	9.3%	-1.8%	3.1%	2.3%	-0.8%
Honduras	18.2%	16.1%	-2.1%	6.5%	6.8%	0.3%
Nicaragua	9.9%	8.3%	-1.6%	6.5%	7.2%	0.7%
Panama	8.7%	6.0%	-2.7%	0.7%	0.3%	-0.5%
Central America	13.0%	10.2%	-2.8%	5.0%	4.0%	-1.0%

Source: Icefi bases on statistics from the Central American Secretariat for Economic Integration.

Icefi explains that, historically, the U.S. has been the main trade partner of Central America as a whole, but foreign trade data shows differences among countries in the degree of their economic dependency, and with the only exception of El Salvador, a decrease has even been registered in exports to the U.S. as a percentage of the GDP of each country. The Institute explained that a restrictive trade policy from the U.S. towards Latin America, and in particular towards Central America, could deepen the decrease in exports of the region to this important market.

Another transmission channel considered by Icefi for possible negative effects produced by a radical shift in American policies is the direct investment that the region receives from the U.S. According to the Institute, the available official figures show that as a percentage of the GDP, American investment has increased in Nicaragua and lightly in El Salvador and Panama, in Costa Rica it came to a standstill, and in Guatemala and Honduras it fell. With this, drastic measures of withdrawal of American capital, like those already being implemented in Mexico, would exacerbate the reduction of their impact in growth and economic development of the region, especially in the countries in which lower or static investment flows.

Direct Investment Flow from the U.S. in Central America in 2010, 2013 y 2015

Country	Millions of US\$				As percentage of GDP			
	2010	2013	2015	Differences ^{1/}	2010	2013	2015	Differences ^{1/}
Costa Rica	1,036	1,392	1,503	467	2.8%	2.8%	2.8%	0.0%
El Salvador	-41	170	160	201	-0.2%	0.7%	0.6%	0.8%
Guatemala	343	221	348	5	0.8%	0.4%	0.5%	-0.3%
Honduras	159	114	164	5	1.0%	0.6%	0.8%	-0.2%
Nicaragua	88	244	n.a.	156	1.0%	2.2%	n.a.	1.2%
Panama	82	305	n.a.	223	0.3%	0.7%	n.a.	0.4%
Central America	1,667.0	2,446.0	n.a.					

1 / Absolutes of the last year available regarding 2010: for Costa Rica, El Salvador, Guatemala and Honduras is 2015-2010; for Nicaragua and Panama, is 2013-2010

Source: Icefi with based on data from ECLAC.

It must also be recognized that a decrease in the economic growth and the resulting weakening of the public income in the region could have negative consequences for the majority of girls, boys and teenagers, especially those from the Northern Triangle- as the low public investment in their wellbeing could be reduced as part of adjustments in social spending. In Guatemala, Honduras and El Salvador, it is estimated that there are currently 6.2 million children without access to education and only between October 2015 and September 2016, a total of 46,893 children and teenagers who have migrated alone were detained by border police of the U.S,

Daily public investment by boy, girl, and teenager, and total as a percentage on the GDP in 2007 and 2013

Country	In daily USD per child, child or adolescent			Public investment in childhood and adolescence as a % of GDP		
	2007	2013	Differences	2007	2013	Differences
Costa Rica	2.77	4.91	2.14	6.2%	8.7%	2.5%
El Salvador	1.15	1.55	0.4	5.2%	6.1%	0.9%
Guatemala	0.52	0.69	0.17	3.7%	4.3%	0.6%
Honduras	0.81	0.82	0.01	8.4%	8.6%	0.2%
Nicaragua	0.41	0.4	-0.01	5.7%	6.2%	0.5%
Panamá	2.79	4.32	1.53	5.9%	6.4%	0.5%

Source: Icefi / Plan Internacional, Public investment in childhood and adolescence 2007 - 2013 - December 2016

Last, Icefi expresses concern for a radical turn in the environmental policies of the U.S., considering that the President Trump during his campaign called climate change as a “myth” and his declarations regarding the fate of the Environmental Protection Agency are alarming and worrisome. For the Institute, the fact that the *German Watch’s* Climate Risk Index places Central America as one of the most vulnerable regions to the effects of climate change,² makes this region one that could suffer the most dramatic negative impacts in the case that the U.S. adopts policies that undermine the reality of climate change and generate world-wide environmental damage.

In any case, according to the Institute, the prevailing economic and social model in Central America, focused on exports and foreign direct investment as the main growth drivers, is inadequate for the region to face successfully the new challenges arising by the Trump Administration, due to its demonstrated inefficacy in solving the structural problems of the region, like inequality, exclusion and poverty.

Icefi insist in calling for democratic dialogues that reflect on this reality, with the objective of promoting social and fiscal pacts that increase Central American integration, at the same time that more democratic economic and fiscal systems are put in place- committed to development, endogenous economic growth, and social well-being.

According to Icefi, this is the only responsible and reasonable answer for the region to the new challenges emerging from its neighbor in the North.

Guatemala, Central America, January 21st, 2017.

Note: this press release was translated into English with the kind and most valuable contribution of the *American Friends Service Committee*.

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² According to the average of measurements for the period 1995-2014 of this index, the most vulnerable country to climate change is Honduras. Nicaragua is the fourth country, Guatemala the tenth, and El Salvador the fourteenth most vulnerable countries in the world. See: <https://germanwatch.org/fr/download/13503.pdf>