



Issue brief

Why modernizing CAFTA-DR matters for the United States, and options for updating the trade pact

Enrique Millán-Mejía, Antonio Ortiz-Mena, and Rocío Rivera-Barradas

Bottom lines up front

- The United States' free trade agreement with Central America and the Dominican Republic needs updating to address digital trade, labor standards, and supply-chain rules that have evolved since it took effect in 2005.
- Modernizing CAFTA-DR will strengthen US economic security by countering China's influence and reducing migration pressures.
- Three paths forward exist: full USMCA accession for CAFTA-DR members; replacing the group agreement with bespoke bilateral deals; or targeted updates to specific chapters of the original agreement.

As the US government reconsiders its trade architecture, as well as its trade network in the Western Hemisphere, updating the Central America–Dominican Republic Free Trade Agreement (CAFTA-DR) should be viewed not as a simple economic exercise, but as a strategic investment in US economic security and competitiveness. An upgraded CAFTA-DR could reinforce regional stability at a time when economic fragility, migration pressures, and external influence are converging in the United States' near abroad.

Aligning CAFTA-DR's standards with the more modern United States–Mexico–Canada Agreement (USMCA) framework—for example, on digital trade, labor, and supply-chain governance—would create a more coherent North American–Central American production corridor serving US industries, reducing dependence on distant suppliers, and supporting a more orderly regional economy. For the United States, modernizing CAFTA-DR is not about generosity; it is about strengthening the resi-

lience of the neighborhood that most directly shapes its security and prosperity.

CAFTA-DR has been a cornerstone of US economic engagement with this region since the agreement's staggered entry into force between 2006 and 2009. But as global trade evolves and geopolitical competition intensifies, the agreement faces new challenges that demand modernization.

CAFTA-DR was designed to establish a free trade zone among the participating countries, eliminating tariffs, granting the United States preferential market access, and creating predictable rules for trade and investment. Although it served as a model for subsequent trade promotion agreements with Colombia, Peru, Panama, and South Korea, the agreement is now twenty years old and predates major developments in digital trade, which was at its start when the agreement went into force. Today, labor and environmental standards, supply-chain rules of origin, services liberalization, and investment screens must be updated, particularly considering that the new model to

measure trade-pact compliance is based on the latest version of USMCA, currently under review.

CAFTA-DR needs modernization not only for trade and investment disciplines, but also in terms of how the region can deepen integration, boost exports and high-quality foreign direct investment (FDI), and strengthen resilience against third-country economic coercion. This is particularly important when it comes to China’s opaque financial influence. Options differ sharply in complexity and political risk.

CAFTA-DR members face an additional hurdle: modernizing the agreement while negotiating with the US government on contingency plans to eliminate reciprocal tariffs imposed by the Trump administration in August 2025. Costa Rica and Nicaragua received a 15 percent tariff base and an 18 percent tariff base, respectively. All other members of the trade pact were affected by a 10 percent reciprocal tariff, despite the pact’s initial negotiations, the main objective of which was to reduce tariffs as much as possible for most goods imported to the United States.

In October 2025, the Office of the United States Trade Representative (USTR) announced a determination that Nicaragua’s acts, policies, and practices involving labor rights, human rights, and the rule of law are “unreasonable” and burden US commerce under Section 301. The United States is now considering responsive actions, including suspending Nicaragua’s benefits under CAFTA-DR or imposing tariffs of up to 100 percent on Nicaraguan imports. This poses another challenge to any attempt to modernize the trading architecture of the region.

CAFTA-DR background, and important data to consider

CAFTA-DR is the multilateral free trade agreement between the United States and five Central American economies—Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua—and the Dominican Republic.

Negotiations began in 2003; members implemented the agreement in stages from 2006 (for most Central American members) through 2009 (Costa Rica), the latter requiring a referendum to be approved. The USTR describes CAFTA-DR as the first free trade agreement between the United States

and a group of smaller developing economies, and is intended to liberalize goods, services, and investment and strengthen trade-related institutions.

CAFTA-DR was an evolution of the contested Free Trade Area of the Americas, which several countries in the region boycotted, including Venezuela, Bolivia, and Argentina. Early negotiations of CAFTA-DR did not include Panama. The Dominican Republic, a country with deep trade and investment ties with the United States, was included and received Caribbean Basin unilateral trade preferential treatment.

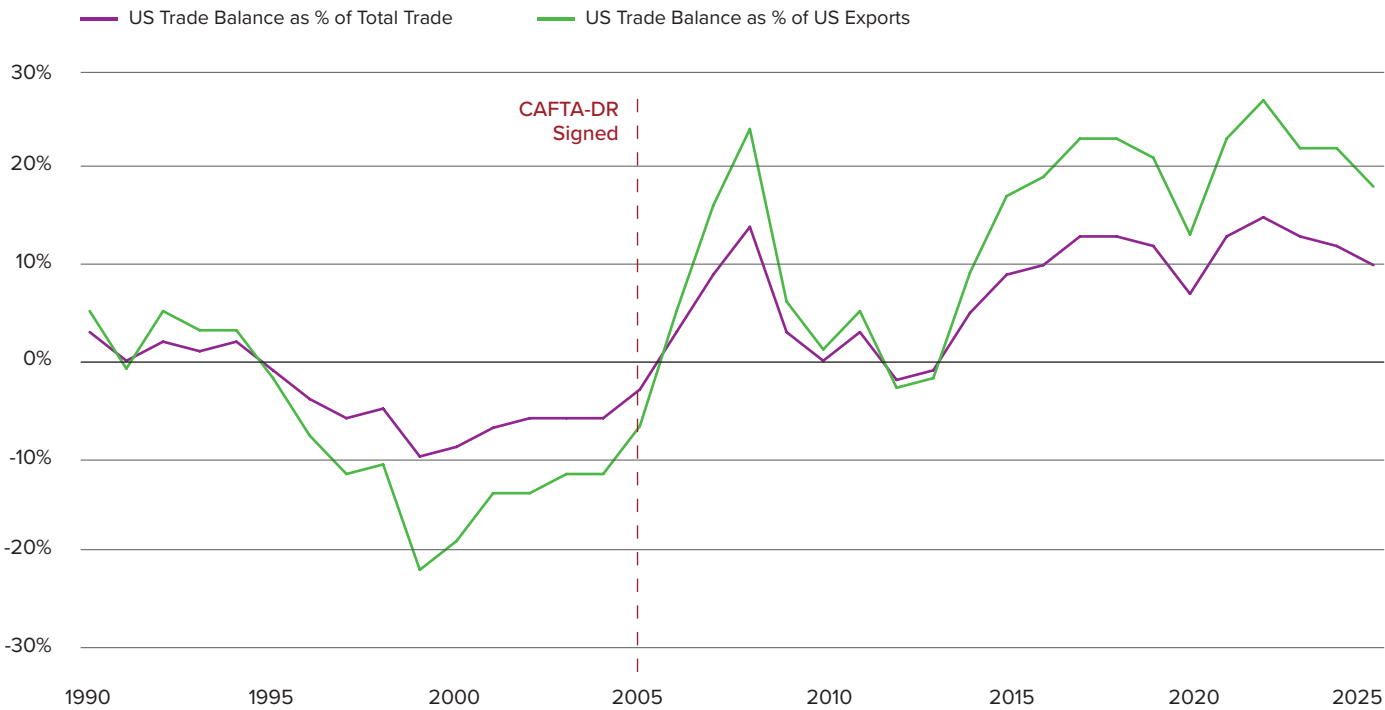
USTR and US Census data show robust two-way trade between the United States and individual CAFTA-DR members, with notable country variation. For example, US goods trade with Costa Rica and Honduras recently reached multibillion-dollar levels (US exports to Costa Rica were reported to be about \$9.6 billion and imports \$11.6 billion in 2024; US trade with Honduras was about \$12.6 billion that year). Overall, two-way trade has grown substantially since CAFTA-DR’s start, driven by manufacturing (apparel, electronics assembly), agricultural products, and minerals and foodstuffs, while services and digital flows have also expanded.

The primary exports from CAFTA-DR members to the United States include apparel and textiles (notably from Guatemala, Honduras); agricultural goods (coffee, bananas, sugar, and tropical fruits), which are important for several Central American members and the Dominican Republic; and increasingly electronics, medical devices, and processed food from Costa Rica and the Dominican Republic.

Exports from the United States to CAFTA-DR countries include agricultural commodities, machinery, chemicals, fuel, transport equipment, and services (information technology, logistics, professional services).

FDI from the United States remains a major source of foreign investment in the region, particularly in the Dominican Republic and Costa Rica (tourism, manufacturing, services, and free-zone investments). US firms are significant investors in *maquiladora* assembly, agribusiness, and services across Central America. US State Department and investment climate reports document steady US FDI inflows and the importance of investment protections under CAFTA-DR for investor confidence.

Fig. 1: US trade balance with CAFTA-DR countries as % of total trade



Note: This figure provides insight into how the US trade balance has grown since the trade pact came into force in the mid-2000s. The US trade surplus has reached a high of 30 percent of total trade in 2022, improving significantly from pre-agreement times, where the same indicator reached a low of 20 percent of total trade.

Source: Authors’ calculations based on data from US Census Bureau’s USA Trade Online platform, 2025.

What aspects of CAFTA-DR need modernization?

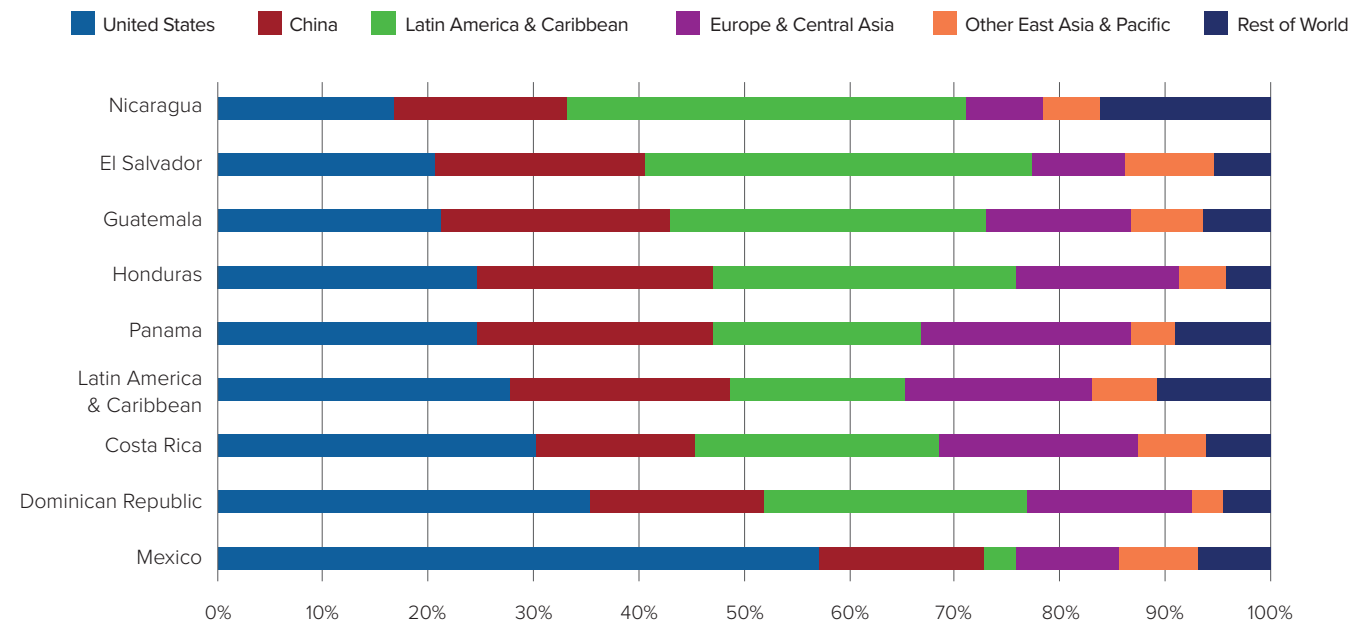
Since the CAFTA-DR was negotiated in the early 2000s, key disciplines and areas of interest have evolved significantly as new-generation trade agreements have also emerged around the world. At least some adjustments are needed to better align the pact with current trends:

- **Digital trade and data flows:** CAFTA-DR lacks modern, binding rules on cross-border data flows, restrictions on data localization, online consumer protection, and liability frameworks for platforms.
- **Services and temporary movement of professionals:** Agreement chapters regarding services could be deepened to reflect new tradable service sectors (cloud, fintech, professional services) and improve the movement of professionals.
- **Investment rules and intellectual property:** Intellectual property (IP) provisions and investor-state dispute

settlement mechanisms could be updated to reflect twenty-first-century norms and balance investor rights at the same level as the host-state policy space.

- **Labor and environmental enforcement:** Stronger, more enforceable labor and environmental commitments (with clear remediation and monitoring) are needed to support decent work and sustainable supply chains.
- **Rules of origin and supply-chain resilience:** Rules of origin for textiles, autos, and electronics should be updated to reflect modern regional value chains and incentivize near-sourcing.
- **Customs and trade facilitation:** Digital single windows, mutual recognition of trusted traders, e-certificates of origin, and improved customs cooperation would reduce friction.
- **Regulatory cooperation and procurement:** Agreement chapters on transparency, state-owned enterprise rules, and procurement could be strengthened to reduce market-distorting practices.

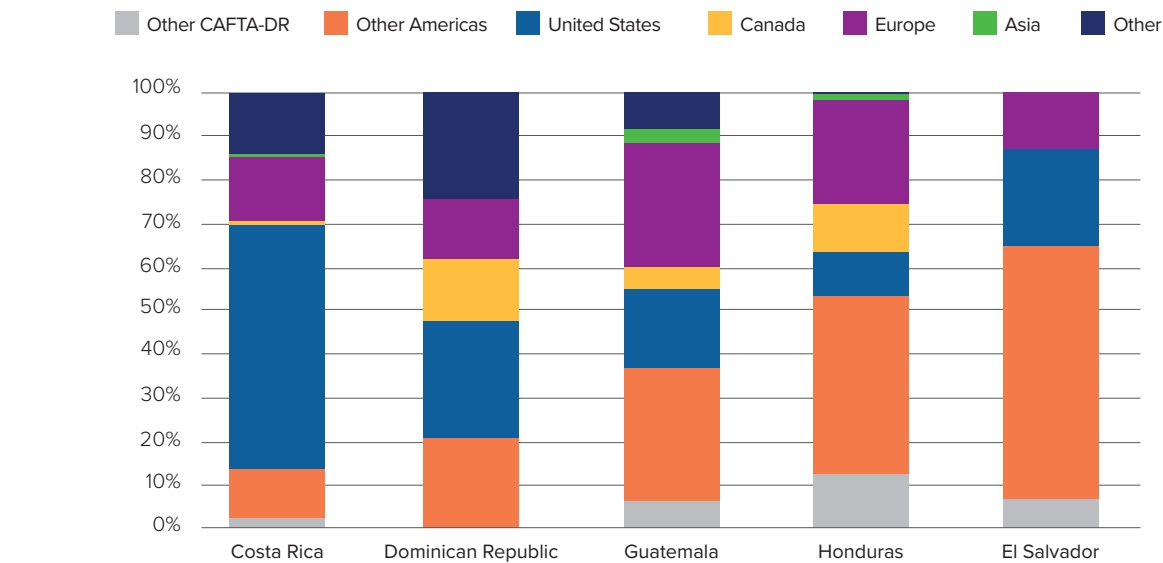
Fig. 2: Imports of intermediate goods by source country as share of total (2022)



Note: This figure represents the robust influence of US trade in CAFTA-DR countries, especially in terms of imports of intermediate goods. Notably, Costa Rica and the Dominican Republic have particularly high levels of imports from the United States, exceeding 30 percent of their total imports of intermediate goods in 2022.

Source: Authors’ calculations based on data from World Integrated Trade Solution (WITS) platform, 2025.

Fig. 3: US share of foreign direct investment in CAFTA-DR countries (2010–2023, % of total)

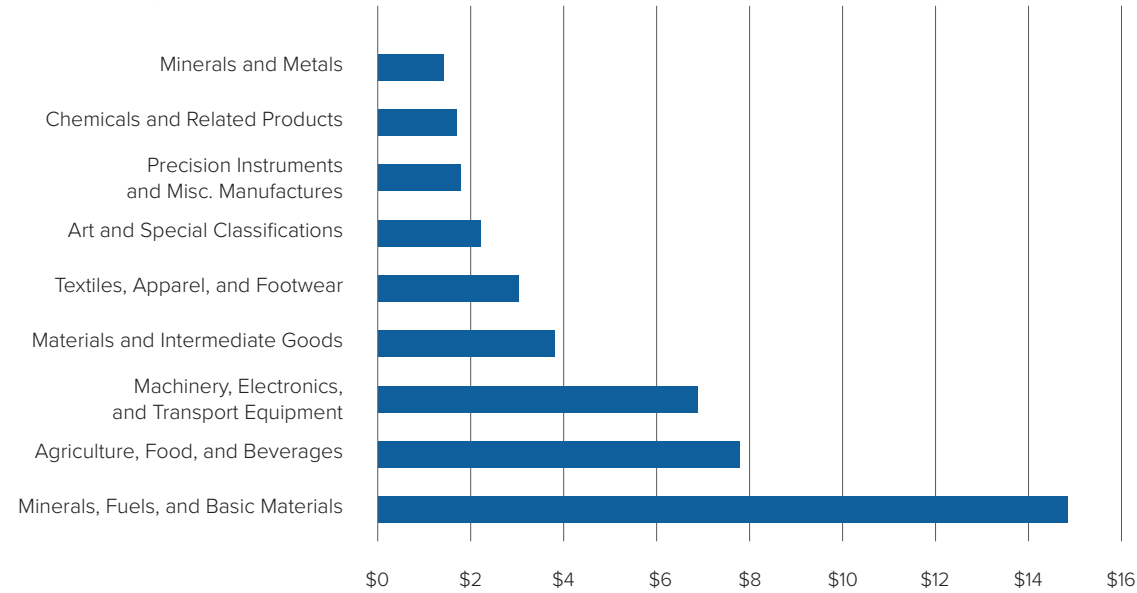


Note: This figure illustrates the significance of US FDI in the CAFTA-DR region, particularly in Costa Rica and the Dominican Republic, with indicators accounting for 30–55 percent of the total FDI share in those countries. Calculated as the cumulative US foreign direct investment (FDI) inflows divided by cumulative total FDI inflows over 2010–2023, used as a proxy for FDI stock due to lack of official stock data. Negative annual flows are included in the sum.

Source: Authors’ calculations based on data from the Consejo Monetario Centroamericano, 2025.

Fig. 4: Main US exports to CAFTA-DR

In billion US dollars, 2024



Note: This figure illustrates US exports to CAFTA-DR countries during the last reported year (2024). HS2 codes included in each category: Agriculture & Food (01–24), Minerals & Fuels (25–27), Chemicals & Pharmaceuticals (28–35, 38), Plastics & Rubber (39–40), Leather, Wood & Paper (41–48), Textiles, Apparel & Footwear (50–65), Stone, Glass & Jewelry (68–71), Metals & Metal Products (72–83), Machinery & Electrical Equipment (84–85), Transport Equipment (86–89), Precision Instruments (90–93), Furniture & Miscellaneous Manufactures (94–96), Special Provisions / Miscellaneous (98–99).

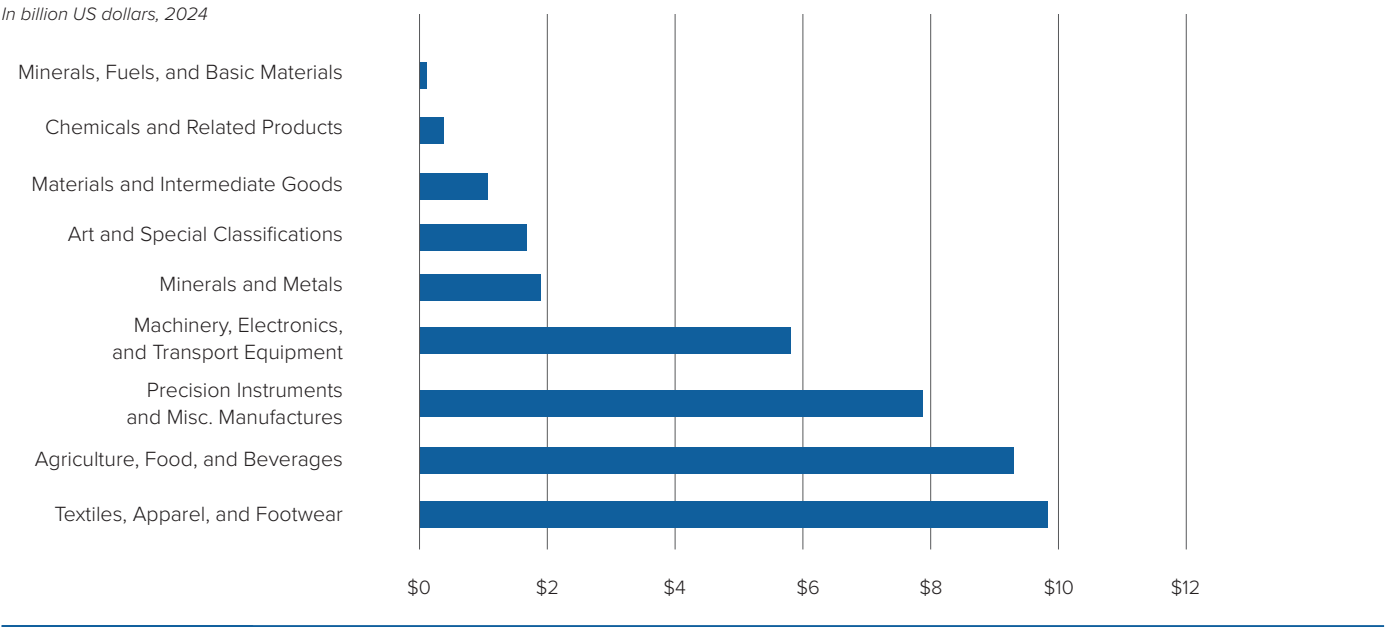
Source: Authors’ calculations based on data from US Census Bureau’s USA Trade Online platform, 2025.

Current challenges facing the US private sector with regard to CAFTA–DR members

USTR’s annual National Trade Estimate (NTE) Report identifies foreign trade barriers for US exporters. The 2024 and 2025 NTE Reports list country-specific issues across CAFTA-DR members, with common themes including regulatory opacity, customs delays, technical barriers to trade, and sanitary and phytosanitary (SPS) measures, and limits on services and digital trade. Some representative challenges include the following:

- **Trade capacity building:** A key component is the CAFTA-DR Committee on Trade Capacity Building, which identifies needs through National Action Plans and coordinates donor support from organizations like the US government, Development Bank of Latin America and the Caribbean (CAF), and Inter-American Development Bank (IDB).
- **Customs and trade facilitation:** Modernization efforts should include improving customs administration and infrastructure to reduce costs, enhance transparency, and speed up trade.
- **Costa Rica:** regulatory transparency, restrictions in public procurement, and barriers related to agricultural SPS measures, as well as some investment-related measures
- **Dominican Republic:** trade remedies, customs valuation and clearance delays, and technical barriers on agricultural and industrial products; concerns about IP enforcement and services restrictions in some sectors
- **El Salvador, Guatemala, and Honduras:** customs administration inefficiencies, SPS measures that hamper exports, and weaknesses in regulatory certainty that affect services and investment
- **Nicaragua:** there are persistent trade and intellectual property concerns that underscores an unpredictable business climate driven by weak rule of law, lack of transparency, and government interference in the economy. Key barriers include opaque public procurement processes, burdensome customs procedures, and preferential treatment for government-linked entities. Investors face risks stemming from arbitrary expropriation, corruption, and limited judicial independence, which undermine fair competition and market access.

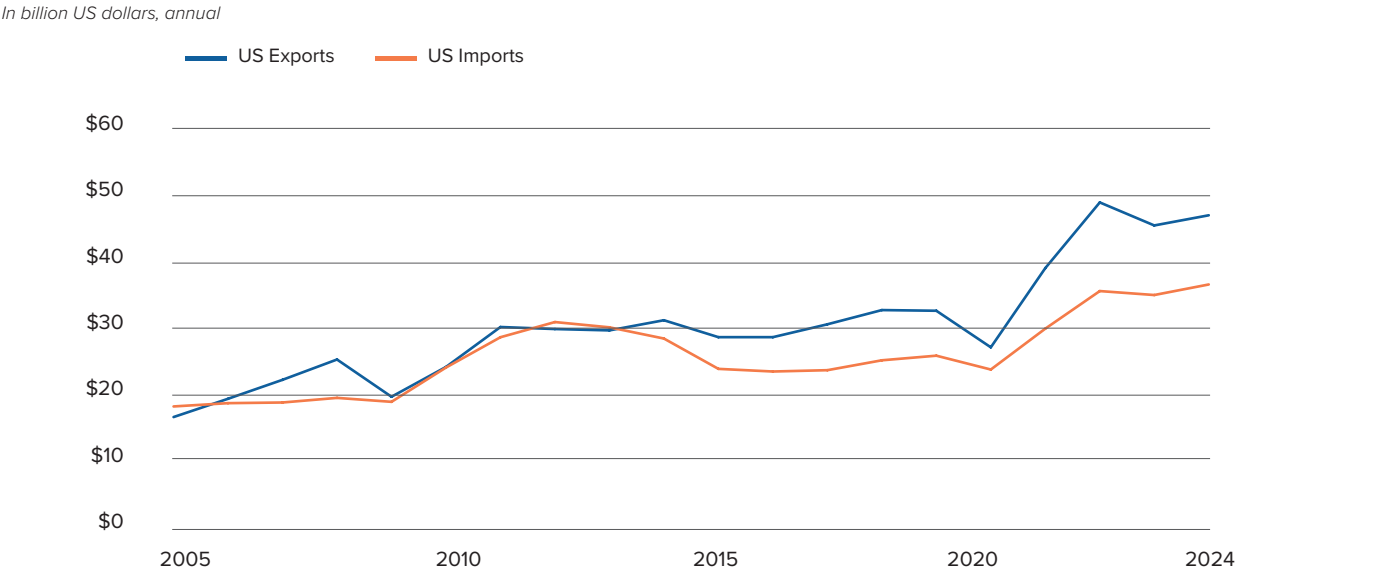
Fig. 5: Main US imports from CAFTA-DR



Note: This figure illustrates US imports from CAFTA-DR countries during the last reported year (2024). HS2 codes included in each category: Agriculture & Food (01–24), Minerals & Fuels (25–27), Chemicals & Pharmaceuticals (28–35, 38), Plastics & Rubber (39–40), Leather, Wood & Paper (41–48), Textiles, Apparel & Footwear (50–65), Stone, Glass & Jewelry (68–71), Metals & Metal Products (72–83), Machinery & Electrical Equipment (84–85), Transport Equipment (86–89), Precision Instruments (90–93), Furniture & Miscellaneous Manufactures (94–96), Special Provisions / Miscellaneous (98–99).

Source: Authors’ calculations based on data from US Census Bureau’s USA Trade Online platform, 2025.

Fig. 6: Historical trade balance between the US and CAFTA-DR countries



Note: This figure illustrates the historical trade balance between the US and CAFTA-DR countries, that it has become favorable to the US after the implementation of the trade pact back in 2014. During the last recorded year reflects a trade surplus for the US of almost 10 billion US.

Source: Authors’ calculations based on data from US Census Bureau’s USA Trade Online platform, 2025.

USTR’s 2025 Special 301 Report notes that Guatemala remains on the Watch List due to continuing deficiencies in IP enforcement. Across the region, counterfeit apparel, pirated digital content, and weak judicial capacity persist despite generally adequate legal frameworks.

Guatemala and El Salvador face chronic enforcement and coordination challenges; Honduras and Costa Rica show modest procedural improvements; and the Dominican Republic has strengthened interagency cooperation through its Inter-ministerial Council on Intellectual Property but still struggles with online piracy and limited deterrent-level penalties.

The Special 301 Report identifies Nicaragua for inadequate protection and enforcement of intellectual property rights (IPR). Persistent issues include weak border and criminal enforcement against piracy and counterfeiting, limited deterrent penalties, and insufficient institutional capacity to safeguard copyrights, patents, and trademarks. Regulatory actions are often discretionary and lack due process, constraining innovation and foreign investment. Taken together, these barriers hinder trade, discourage investment, and restrict the development of a rules-based market economy in Nicaragua.

Modernization scenarios: pathways, opportunities, and risks

Accession of CAFTA-DR members to USMCA

The USMCA contains more thorough rules on labor, environment, IP, and digital trade, and updated rules of origin (including for the automotive sector). Some analysts and policymakers have proposed expanding the USMCA to include other regional partners, and Costa Rica has publicly expressed interest in joining. Expanding the USMCA could effectively “upgrade” CAFTA-DR members to a higher-standard pact. Such a decision, however, would need to be made collectively.

Accession would bring stronger, modern standards (for example digital trade, labor, and environment) and potentially greater market access for higher-value exports. It would signal geopolitical economic alignment with North America, which could attract higher-quality FDI and integrate CAFTA-DR producers into North American supply chains (especially Costa Rica’s electronics and medical devices). Moreover, it could harmonize standards across an extended North American zone and streamline large firms’ investment decisions.

Moving forward implies dealing with several risks. The first relates to legal and political complexity. USMCA accession would require consent from the three USMCA parties and likely congressional approval in the United States, plus domestic implementing steps in Canada and Mexico. The USMCA contains procedural and technical rules (e.g., rules-of-origin

formulas tied to North American content) that may not match CAFTA-DR economies’ current value chains.

Additionally, Nicaragua’s compliance with the current agreement is under scrutiny following the USTR Section 301 investigation on labor rights and decision made in October 2025 regarding Nicaragua’s increased risk of losing trade benefits and membership in the pact.

A second risk relates to the adjustment costs needed to move forward with accession; stricter rules of origin & labor and environmental enforcement could be politically and economically painful for lower-income CAFTA-DR members that rely on tariff preferences and have weaker regulatory capacity.

On other matters, there is always room for domestic political backlash. Accession to the USMCA is perceived by many Central American stakeholders as a loss of policy space or competitive shock to local industry, which could provoke opposition from labor, small producers, or nationalist political actors.

Finally, and most importantly, accession must be accepted by the three current USMCA members. There is no certainty that a group accession can move forward, especially when Mexico expressed on several occasions during the first USMCA negotiations that there should be more space for origin cumulation with third members on USMCA, including CAFTA-DR countries, for certain sectors—but not a pass-through mechanism for free or conditional accessions. In contrast, the US textile industry has been in open opposition to allowing concessions to the origin cumulation with third members in the USMCA, creating uncertainty and lack of clarity on this matter.

Bilateral US-CAFTA-DR member agreements

An alternative scenario would involve the United States negotiating bespoke bilateral free trade agreements with individual CAFTA-DR members rather than pursuing a groupwide modernization.

This approach would allow for tailored provisions that reflect each country’s economic strengths (e.g., services and medical devices in Costa Rica, or tourism and manufacturing in the Dominican Republic). It could also lead to faster, politically manageable deals with reform-minded partner countries.

Nevertheless, there are risks associated with this scenario as well. The first is the fragmentation of regional rules and possible erosion of regional integration. This would imply weaker bargaining leverage for smaller countries, as well as the risk of “competitive liberalization” where terms would vary across neighbors. Other risks are political: Bilateral deals might be viewed domestically as favoritism or neocolonialism.

Finally, separating CAFTA-DR into multiple individual trade agreements could create a difficult administrative burden for USTR to implement and manage, even though the agreements

could be negotiated using the same template. Another cumbersome element is that approving individual agreements would require several rounds of approvals from the US Congress when there is not a fast track in place giving clearance to USTR to negotiate trade agreements. Furthermore, the agreements would need to be approved individually by each member country’s parliament, and in some cases would need a constitutional review from higher courts in each country.

Targeted CAFTA-DR modernization: Updates to certain chapters of the existing pact

From a logistical perspective, the easiest option would be to retain the multilateral CAFTA-DR framework while negotiating a targeted modernization protocol focused on specific areas such as digital trade, customs procedures, labor and environmental enforcement, and rules of origin.

This scenario would preserve regional coherence, lower negotiation complexity, and focus political capital on high-impact reforms. It would be easier to secure a consensus around making pragmatic, technical updates to outdated aspects of the current agreement.

This model also has risks. One is that it does not satisfy demand for deeper market access or sector-specific improvements (e.g., in services or investment protections). Another is that it requires effective regional coordination, which historically has been uneven.

For it to work, this alternative would require continued and strong engagement among the US government and CAFTA-DR counterparts, and a mechanism to decide if Nicaragua should continue receiving benefits from the agreement. Most important, it would require a determination of how the modernization could be handled while negotiations occur to totally or partially remove the reciprocal tariffs recently imposed by the Trump administration to trade partners around the world.

How modernization would land in the region

CAFTA-DR modernization would play out differently across domestic politics:

- In Costa Rica, where government leadership has signaled openness to deeper North American integration, accession to USMCA or deep modernization of CAFTA-DR could be politically popular among export sectors (electronics, medical devices) but may provoke opposition from public-sector unions and rural producers fearing competition. In May 2026, there will be a new administration in power in San Jose, and it is not clear what its preferences regarding CAFTA-DR modernization will be.

- In the Dominican Republic, strong export growth and increasing levels of FDI mean upgrades could be framed as competitiveness enhancers. But procurement and intellectual property reforms can create readjustment costs the private sector considers unnecessary.
- In northern Central America, where apparel and maquila are significant industries, stricter rules of origin or labor enforcement could increase compliance costs. Domestic politics in this region involve powerful business groups and labor advocates with diverging interests.
- Domestic sentiment in Nicaragua toward a potential CAFTA-DR modernization is mixed and highly influenced by the country’s polarized political environment. The private sector generally sees modernization as an opportunity to improve market access, enhance competitiveness, and update trade rules on services and digital commerce. However, businesses express concern that deterioration in rule of law, weak institutions, and strained US–Nicaraguan relations could limit the country’s ability to benefit. Politically, the government remains wary of deeper commitments that could increase transparency, accountability, or external scrutiny.

In general, across the CAFTA-DR region, a modernization process could be perceived as a loss of benefits from the original trade pact, since it will require a new negotiation process with the United States at a time when trade balances and tariffs are on the table. Stronger enforcement of labor and environmental standards, or rapid rules-of-origin tightening, could be used politically by opposition parties to rally nationalist sentiment against “outsourced” economic policy decisions.

The future of Nicaragua as CAFTA-DR member

The USTR Section 301 investigation into Nicaragua found persistent and systemic barriers to US trade and investment, justifying potential retaliatory measures. Key issues include inadequate protection and enforcement of intellectual property rights, arbitrary government interference in the economy, and discriminatory treatment of foreign investors. Weak rule of law, limited judicial independence, and opaque regulatory practices undermine fair competition, while restricted market access in critical sectors hinders US exporters. The USTR assessed that these combined practices materially burden or restrict US commerce, providing the legal and economic basis for USTR’s determination and potential tariff actions or exclusion from preferential trade benefits under CAFTA-DR.

A US government decision to impose 100 percent tariffs on Nicaragua under a Section 301 action, or to suspend its CAFTA-DR benefits, would have ripple effects across the region.

Other CAFTA-DR members could face supply-chain disruptions, as Nicaraguan inputs in regional production lose preferential access, reducing the competitiveness of integrated exports to the United States. Regional transportation and logistics networks could be strained as trade is diverted or re-routed.

Why does this matter to the United States?

The global landscape has changed dramatically in the last year. China’s expanding presence in Central America and the Caribbean, via critical infrastructure investments, technology partnerships, and growing trade links, has altered regional dynamics and tried to dilute US influence. Modernizing CAFTA-DR is therefore not just an economic update; it is a geopolitical must-have to both secure supply chains and keep key trade partners aligned with the United States.

An updated CAFTA-DR could strengthen supply chain resilience by encouraging the strategic relocation of certain US light and more-labor-intensive manufacturing and by diversifying away from China-dependent networks. It would also enhance digital trade rules, environmental standards, and labor protections, all central issues on today’s economic security agenda. By refreshing these commitments, the United States could help its partners attract high-value investment, foster inclusive growth, and reduce migration pressures fueled by economic fragility.

Moreover, modernization would reaffirm Washington’s long-term commitment to shared prosperity and democratic governance. A proactive US agenda, anchored in fair trade, sustainable investment, and transparent governance, could offer a compelling alternative to China’s transactional and opaque financial approach. In short, an updated CAFTA-DR represents a strategic tool for deepening US partnerships, defending economic values, and reinforcing the hemisphere’s autonomy at a time when geopolitical competition is intensifying.

Modernization is not simply about trade or trade rules; it is about ensuring that the United States remains the partner of choice in a region critical to its economic and security interests.

Takeaways for modernizing CAFTA-DR

For CAFTA-DR governments:

1. Present a unified regional modernization front

Lead: Ministries of Foreign Trade and trade negotiators, with Secretariat for Central America Economic Integration (SIECA) coordination

Agree early on a shared modernization mandate and coordinated negotiation strategy. A unified stance increases leverage with the United States, enhances regional credibility, and enables the bloc to shape the scope and sequencing of modernization.

2. Launch a phased, “low friction” modernization protocol

Lead: CAFTA-DR Free Trade Commission (FTC) and trade ministries

Begin modernization where there is high benefit and limited political sensitivity: digital trade, customs facilitation (single windows and e-certificates), and enforceable labor and environment cooperation. Early wins will build trust and momentum while managing political exposure.

3. Harmonize rules of origin to strengthen regional value chains

Lead: Customs authorities and trade ministries; SIECA for alignment

Simplify and harmonize rules of origin to encourage cumulative production across the region. This will improve competitiveness in US and North American supply chains, reduce administrative burden, and attract US investment.

Encourage the promotion of the **CAFTA-DR origin complaint rule** following USMCA success on reciprocal tariff exemptions, by enhancing this rule Central American countries and the Dominican Republic have an incredible opportunity to highlight the use of US inputs for local manufacturing, and future export of finished goods to the US, in order to get clearance of reciprocal tariffs.

4. Strengthen regulatory capacity to enable compliance and investment

Lead: Trade and economy ministries, customs, and SPS regulators; supported by IDB, World Bank, CABI

Invest in customs modernization, SPS laboratory upgrades, and e-governance systems. Leveraging multilateral financing reduces fiscal strain and accelerates reforms needed to meet US standards and attract high-quality FDI. In other matters, it is crucial to adopt artificial intelligence tools, plus the use of blockchain, to enhance supply chain traceability and transparency. This is an opportunity for the IDB in partnership with CAF to extend the “LACChain” in Central America.

For the US government:

1. Appoint a CAFTA-DR special envoy

Lead: US Department of State, and USTR

Designate a high-level interlocutor in the Trump administration who can both engage with regional governments on a schedule to modernize the agreement and demonstrate to re-

gional governments that it is in their interest to work with the United States—including from a strategic perspective to dilute China’s opaque financial influence in the region.

2. Consider a regional CAFTA-DR modernization as the first preference

Lead: US Department of Commerce, CBP, USDA, US Department of Labor, DFC, EPA

Offer technical and financial assistance to modernize customs, SPS protocols, digital infrastructure, and labor and environmental monitoring to make upgrades politically viable and credibly enforceable. This would also help preserve regional coherence and reduce fragmentation risks. Where appropriate, offer “pathways” for willing CAFTA-DR members to adopt deeper USMCA-style commitments over time, paired with capacity support and phased implementation windows.

3. Leverage the DFC reauthorization and the potential prospective benefits of the Americas Act if it is approved by the US Congress

Lead: US Congress

DFC reauthorization is key to de-risk private investment in the region, by introducing finance development tools such as political risk insurance including the offer of technical assistance tied to in-country modernization commitments. The Americas Act, if approved, can offer an institutional framework for capacity building in the region to create competitive conditions for US investment in the region.

4. Strengthening cooperation with strategies for capacity building

Lead: US Department of State and USTR

Create a series of metrics and methodology to measure the stability of the business environment, including factors such as a stable rule of law, harmonized regulation for property rights, and anti-corruption efforts.

For the private sector:

- 1. Strengthen alliances with bilateral counterparts.** Trade matters on both sides of the equation. US companies heavily exporting to the region need to address the US Congress and the Trump administration about the importance of preserving their trade benefits in the region. US jobs related to export sectors to CAFTA-DR countries are at stake if the pact is not modernized or continued.
- 2. Showcase CAFTA-DR investment in the United States.** CAFTA-DR investors in the United States need to highlight their economic footprint in the country and how they contribute to the US economy.
- 3. Engage with companies with a similar stake in hemispheric free trade.** We have seen this engagement at the Americas Economic Security working group, where companies help to raise awareness of the CAFTA-DR region in the United States, unlocking trade and investment opportunities between them. It also shows the importance of creating a partnership to ensure the economic security alliance to achieve supply-chain resilience, by improving critical infrastructure, and creating more jobs in the region.

Bottom lines

- CAFTA-DR remains strategically important for US economic security in the subregion, and has proven effective at expanding trade, investment, and regional stability.
- A focused, pragmatic modernization that prioritizes digital trade, customs facilitation, enforceable labor and environmental standards, and rules-of-origin adjustments would deliver strong economic gains without the political turbulence of radical treaty rewrites.
- Accession to USMCA for select members, such as Costa Rica and the Dominican Republic, could yield deeper benefits, but would be legally and politically complex and must be weighed against regional cohesion costs and domestic adjustment risks.
- The United States and CAFTA-DR governments should coordinate a phased modernization plan that pairs higher standards with tangible capacity building and domestic transition support to maximize benefits and minimize political backlash.

About the authors

Enrique Millán-Mejía is a senior fellow in economic development at the Adrienne Arsht Latin America Center of the Atlantic Council. He served as senior trade and investment diplomat for the government of Colombia to the United States between 2014 and 2021.

Antonio Ortiz-Mena, PhD, is a nonresident senior fellow at the Adrienne Arsht Latin America Center of the Atlantic Council. He served as head of the Trade & Economics office of the Embassy of Mexico to the United States between 2007 and 2015. He is the CEO and founder of AOM Advisors.

Rocío Rivera Barradas, PhD, is a senior advisor with AOM Advisors. She served as trade and investment diplomat of the government of Mexico to the United States, based at the Mexican Consulate in Chicago, between 2019 and 2024.

Acknowledgments

The authors would like to thank Americas Economic Security Group founding member Millicom, represented by Karim Lesina, and corporate partner CMI, represented by Edgar Villanueva, for their support of this project.

Additional thanks to all Americas Economic Security Group members, particularly Mario di Giovanni and Bruna Pizzutti Menga of FedEx, Kristie Pellechia Loacono of Pellechia International, Jessica Bedoya of LARA Fund and Atlantic Council nonresident senior fellow Marino Auffant, for their input and feedback on this project.

Special recognition to Ignacio Albe for his timely and outstanding data and economic research for this project, Martin Cassinelli and Salome Ramírez-Vargas for their reviews and suggestions, as well to all the Atlantic Council editorial staff for their reviews and assistance.

We’d also like to recognize Maria Fernanda Bozmoski who provided incredible regional insight into the project, and thoughtful leadership on how to approach the main discussion points.

Special gratitude goes to Jason Marczak for his guidance and vision as leader of the Adrienne Arsht Latin America Center of the Atlantic Council.

About the Adrienne Arsht Latin America Center

The Atlantic Council’s nonpartisan Adrienne Arsht Latin America Center broadens understanding of regional transformations while demonstrating why Latin America and the Caribbean matter for the world. The center focuses on pressing political, economic, and social issues that will define the region’s trajectory, proposing constructive, results-oriented solutions to inform public sector, business, and multilateral action based on a shared vision for a more prosperous, inclusive, and sustainable future.



The Atlantic Council is a nonpartisan organization that promotes constructive US leadership and engagement in international affairs based on the central role of the Atlantic community in meeting today's global challenges.

© 2025 The Atlantic Council of the United States. All rights reserved. No part of this publication may be reproduced or transmitted in any form or by any means without permission in writing from the Atlantic Council, except in the case of brief quotations in news articles, critical articles, or reviews. Please direct inquiries to:

Atlantic Council
1400 L Street NW, 11th Floor
Washington, DC 20005
(202) 778-4952
www.AtlanticCouncil.org