

# CAPSTONE 23-4

## WHEM FIELD STUDIES TRIP BOOK



### COUNTRIES

**Mexico**



**Panama**



**Dominican Republic**



**Jamaica**



# CAPSTONE 23-4

## WESTERN HEMISPHERE FIELD STUDIES TRIP BOOK

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**STATEMENT OF**  
**GENERAL LAURA J. RICHARDSON**  
**COMMANDER, UNITED STATES SOUTHERN COMMAND**  
**BEFORE THE 118<sup>TH</sup> CONGRESS**  
**HOUSE ARMED SERVICES COMMITTEE**  
**MARCH 8, 2023**



Chairman Rogers, Ranking Member Smith, and distinguished committee members, 2022 marked two important milestones for U.S. Southern Command (USSOUTHCOM): the 25<sup>th</sup> anniversary of our move from Panama to Miami in 1997, and the 25<sup>th</sup> anniversary of our Human Rights Initiative. For a quarter of a century, the brave women and men of USSOUTHCOM have called Miami home, while working with allies and partners to improve security, advance democratic ideals, and promote peace and prosperity throughout our shared neighborhood.

At the end of the Cold War, the United States, its allies, and partners believed that democracy would displace authoritarianism around the globe. Twenty-five years later, the strategic environment in Latin America and the Caribbean (LAC) has changed significantly. The 2022 National Security Strategy (NSS) states, in no uncertain terms, that “autocrats are working overtime to undermine democracy.”<sup>1</sup> We see this right here in our own hemisphere that external malign actors like the People’s Republic of China (PRC) and Russia are aggressively exerting influence over our democratic neighbors.

The NSS also states “no region impacts the United States more directly than the Western Hemisphere.”<sup>2</sup> Presence and proximity absolutely matter, and a stable and secure Western Hemisphere is critical to homeland defense. After traveling across LAC and meeting our partners face to face, I can confirm our security at home is directly impacted by the challenges facing this strategic region.

Our adversaries use a multidisciplinary and multidomain approach to counter democracy and SOUTHCOM, our allies, and partners must use the full weight of integrated deterrence, leveraging the whole of government, industry, private sector, and academia, in order to

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<sup>1</sup> <https://www.whitehouse.gov/wp-content/uploads/2022/10/Biden-Harris-Administrations-National-Security-Strategy-10.2022.pdf>

<sup>2</sup> <https://www.whitehouse.gov/wp-content/uploads/2022/10/Biden-Harris-Administrations-National-Security-Strategy-10.2022.pdf>

effectively respond. With shared purpose and mutual trust, we must collectively act with a much greater sense of urgency to ensure this hemisphere remains a stronghold for democracy.

Today, the PRC has both the capability and intent to eschew international norms, advance its brand of authoritarianism, and amass power and influence at the expense of the existing and emerging democracies in our hemisphere. This is a decisive decade and our actions or inactions regarding the PRC will have ramifications for decades to come.

While the PRC remains our pacing challenge, other malicious actors erode regional security. Russia continues its extensive disinformation campaigns and bolsters authoritarian regimes in Cuba, Nicaragua, and Venezuela. Transnational criminal organizations (TCOs) spread violence and corruption throughout the region and beyond. These TCOs traffic drugs that contribute to the deaths of thousands of Americans in cities and towns across the country, from Alabama to Washington, from Rhode Island to Mississippi and everywhere in between. TCOs foment violence and instability that contribute to irregular migration, forcibly displacing hundreds of thousands of people who risk their lives to reach U.S. territory each year. TCO corruption creates insecurity, deteriorates rule of law, and leaves partner nations susceptible to the actions of malign state and non-state actors.

We aren't alone in our efforts to create a stable and peaceful hemisphere. Integrated Deterrence includes campaigning with our partners and allies as force multipliers for achieving success in this resource-constrained reality. With our partners and allies from the United Kingdom, Canada, France, and the Netherlands, we recently adopted the Framework for Western Hemisphere Collaboration. The framework commits us to more frequently share information, and work more closely together on our aligned strategic interests.

Our USSOUTHCOM lines of effort in the face of these challenges are clear: by **strengthening alliances and partnerships**, collectively **countering threats**, and **building our team**, we are working to preserve democracy in our shared neighborhood. While doing so, we are pioneering ways to outcompete even our most innovative adversaries and address these transnational challenges.

### **Expanding Challenges in the Region**

#### **Strategic Competition with the People’s Republic of China – A Decisive Decade**

When regional leaders and experts discuss the PRC’s engagement in the Western Hemisphere, they focus largely on trade and investment. In 2002, PRC trade with Latin America and the Caribbean was just \$18 billion; in 2022 it ballooned to \$450 billion. That number is expected to increase to \$700 billion by 2035. Conversely, current U.S. trade within the region amounts to \$700 billion, which suggests that the United States’ comparative trade advantage is eroding.<sup>3,4</sup>

What concerns me as a Combatant Commander is the myriad of ways in which the PRC is spreading its malign influence, wielding its economic might, and conducting gray zone activities to expand its military and political access and influence in the AOR. The PRC is investing in critical infrastructure, including deep-water ports, cyber, and space facilities which can have a potential dual use for malign commercial and military activities. In any potential global conflict, the PRC could leverage strategic regional ports to restrict U.S. naval and commercial ship access. This is a strategic risk that we can’t accept or ignore. These activities are heavily subsidized through PRC state-owned enterprises (SOE), allowing them to underbid

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<sup>3</sup> <https://www.cfr.org/background/china-influence-latin-america-argentina-brazil-venezuela-security-energy-bri>

<sup>4</sup> <https://www.atlanticcouncil.org/in-depth-research-reports/china-lac-trade-four-scenarios-in-2035/>

on infrastructure projects, quickly displacing local and international competitors. SOEs are developing deep-water ports in seventeen countries, particularly around strategic maritime chokepoints in this region. In Asia, Africa, and the Middle East, PRC SOEs abused commercial agreements by conducting military functions at host-country ports. What's to keep them from doing the same right here in this hemisphere?

In Panama, PRC-sponsored companies are engaged in, or bidding on, several projects related to the Panama Canal - a global strategic chokepoint. These projects include port operations on both ends of the canal, water management, and a logistics park. Meanwhile, in Argentina, a PRC SOE is attempting to secure the rights to build dual-use maritime installations near the southern port city of Ushuaia, which would support sustainment and power-projection while providing proximity to the Strait of Magellan, Drake Passage, and Antarctica. This would be a potential game-changer for the PRC, dramatically improving its access to Antarctica.

The PRC also sees this region as key to expanding its space domain awareness and improving its military space capabilities. There are at least 11 PRC-linked space facilities across five countries in this region, more than any other geographic combatant command's AOR, that provide Beijing with space tracking and surveillance capabilities. This includes a joint space-monitoring facility in Chile and a deep space station in Argentina that is managed by an agency subordinate to the People's Liberation Army (PLA).<sup>5</sup>

Our nation's leaders have expressed concern about the insidious nature of the PRC-sponsored 5G technology providers for years now. In our region alone, five countries adopted Huawei's 5G technology, and 24 countries have existing Chinese telecommunication infrastructure (3G/4G), increasing their potential to transition to Chinese 5G. There are also

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<sup>5</sup> <https://features.csis.org/hiddenreach/china-ground-stations-space/>

twelve countries using PRC-created Safe City programs that provide persistent surveillance and give PRC SOE technicians access to government networks. These actions, among others, create a potential counterintelligence threat to the U.S. military, our civilian personnel, and our regional partners. The proliferation of this technology has also led even more partner nation military personnel to travel to China to receive training on cybersecurity and military doctrine.

The PRC relies heavily on resources, including food sources and minerals from the USSOUTHCOM AOR. This region is one of the richest in the world in critical rare earth minerals. The PRC's efforts to extract South America's natural resources to support its own population of 1.9 billion people are conducted at the expense of our partner nations and their citizens. These actions have the potential to destabilize the region and erode the fundamental conditions needed for quality private sector investment.

Environmental crimes such as illegal, unreported, and unregulated fishing (IUUF), illegal logging, and illegal mining continue to have devastating impacts on the region and the PRC is the largest perpetrator of these biodiversity crimes. Every year, there are between 350 and 600 Chinese Communist Party (CCP)-subsidized vessels fishing off the coast of South America. These vessels severely deplete fish stocks, disregard environmental safeguards, destabilize the economies of coastal states, and exacerbate security challenges at a cost of nearly \$3 billion in lost revenue annually.<sup>6</sup> When I meet with our partner nations, IUUF, along with transnational criminal networks and cyber security, is consistently among their top national security concerns. As a result, their militaries are increasingly being asked to play a leading role in combating this illegal activity.

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<sup>6</sup> (U) Online Publication: American University Center for South America and Latino Studies; 12 July 2022; (U) Latin America-Caribbean: Illegal Fishing is Environmental Security Challenge; <https://aulablog.net/2022/07/21/latin-america-caribbean-illicit-fishing-is-environmental-security-challenge/>



## **Russia as an Acute Threat**

The impacts of Vladimir Putin's illegal, unprovoked invasion of Ukraine reverberated around the world, worsening a global energy and food crisis. The USSOUTHCOM AOR has not been spared. Families across the region are struggling to put food on the table and gas in their cars because of the sharp rise in prices, compounding the negative impacts in this region from COVID-19.

Through military engagements and gray zone operations, Russia colludes with authoritarian regimes in the region to undermine U.S. influence. In the past year, Russia continued its military engagements with both Venezuela and Nicaragua. Last year Venezuela hosted *Sniper Frontier 2022*, a shooting competition and subcomponent of Russia's International Army Games. Nicaragua has publicly supported the Russian invasion of Ukraine, voting – along with only North Korea, Syria, and Belarus – against a UN resolution condemning Russia for its invasion. These engagements increase Russian influence with nations who are destabilizing forces in the region.

Russia uses disinformation to further its malign influence, sow instability and undermine democracy in the region, activities that promote Russian geopolitical goals and undermine U.S. national security interests. For example, Russia spreads false narratives about its invasion of Ukraine through its Spanish-language media arms, RT en Español, Sputnik Mundo, and its various social media sites. RT en Español's Facebook page has 18 million followers, more than its English-language site or even CNN's Spanish-language channels.<sup>7</sup> Despite efforts by Facebook and Twitter to take down accounts spreading disinformation, Russian operators continue to generate bot accounts to spread falsehoods quickly. We are in a constant fight to

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<sup>7</sup> <https://www.nytimes.com/2022/08/09/business/russia-propaganda-spanish-social-media.html>

counter and remove the disinformation spread by fake accounts and correct the misperceptions this disinformation propagates. It is in our interest to help develop our partner nations' knowledge and understanding of these tactics and false information before this malign activity permanently erodes this hemisphere's confidence in democracy.

### **Transnational Criminal Organizations**

Although many partner nation leaders recognize the threats the PRC and Russia pose to democracy in the region, they see TCOs as their primary security challenge. The number one cause of death among citizens ages 15-49 years old in Latin America and the Caribbean is violence and more than 60% of the world's most crime-stricken cities are in this region.<sup>8</sup>

USSOUTHCOM estimates that there are 200 TCOs and four terrorist groups operating throughout the region. TCOs such as the Sinaloa Cartel and Jalisco New Generation Cartel in Mexico are spreading their reach to the region. The National Liberation Army (ELN), Revolutionary Armed Forces of Colombia – People's Army (FARC-EP), Segunda Marquetalia, and Sendero Luminoso continue to operate along primary cocaine trafficking corridors. First Capital Command (PCC) operates in Brazilian urban streets, the Amazonian jungle, in neighboring Paraguay, Bolivia, and in the United States. In Haiti, gangs control roughly 60 percent of the country, blocking roads for much-needed food and fuel.

TCOs are engaged in a wide variety of illicit activities, including drug smuggling, arms dealing, illegal logging and mining, human trafficking, IUUF, and manufacturing counterfeit goods. They are also invested in numerous legitimate enterprises, including, but not limited to, commercial banking, manufacturing, agriculture, consumer sales, and real estate. Their diverse

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<sup>8</sup> <https://www.maplecroft.com/insights/analysis/latin-america-hosts-over-60-of-worlds-most-crime-stricken-cities-global-ranking/>

activities amount to a war chest of roughly \$310 billion annually, five times the combined military budgets of every nation in Latin America and the Caribbean. TCOs are better funded, equipped, and manned than the security forces trying to fight them and increasingly rely on PRC-connected criminal organizations to launder billions of dollars around the world.<sup>9</sup>

Drug trafficking originating from this region contributes to the deaths of more than 100,000 Americans every year. Interdicting the flow of drugs directly saves lives by removing product from the pipeline. It also reduces TCO revenue. The type of contraband or destination is irrelevant as the money remains in the Western Hemisphere and TCOs use their illicit funds to exacerbate regional corruption, insecurity, and instability. This in turn disrupts legitimate economic opportunity, compromises the rule of law, allows malign state actors the opportunity to make inroads, and drives irregular migration. TCOs victimize migrants, by extorting them, forcing them into human trafficking, and saddling them with debt. The human toll TCOs cause is heartbreaking.

## **Iran**

Iran is focused on rebuilding its economic and diplomatic ties in the region and pursuing opportunities to circumvent U.S. sanctions. Tehran's intelligence and security activities continue to be a concern and over the past two years Iran has increasingly used Venezuela to assert its presence in the region.

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<sup>9</sup> <https://www.propublica.org/article/china-cartels-xizhi-li-money-laundering>

## Regional Humanitarian Crises

**Fragility.** The COVID-19 pandemic severely impacted the economies of Latin America and the Caribbean, driving 170 million people into poverty.<sup>10</sup> Countries in the region suffered disproportionately from the pandemic. While accounting for only eight percent of the world's population, Latin America and the Caribbean suffered nearly 29% of the world's COVID-19 deaths. Fragility and instability drive irregular migration and create an environment ripe for corruption and exploitation.

**Haiti.** In recent years, Haiti has suffered an onslaught of setbacks including corrupt leaders and political assassinations, rampant gang violence, disease, and devastating natural disasters. Violence in Haiti is at its worst level in decades, according to the UN, characterized by gender-based violence, homicides, and kidnapping for ransom. Civil unrest, inter-gang fighting, and road blockages hinder commerce and humanitarian access. Today, Haitian citizens are suffering, and its government faces a myriad of challenges to include insecurity, limited governance capacity, and health concerns. The chaos caused more than 69,000 Haitians to seek refuge in the United States in fiscal year 2022.<sup>11</sup>

**Nicaragua.** President Daniel Ortega's regime continues to detain and prosecute political opponents, even targeting clergy and shutting down hundreds of civil society organizations and independent media outlets.

Since switching diplomatic allegiance from Taiwan to the PRC in December 2021, Nicaragua has engaged with the PRC in bilateral talks for a comprehensive Free Trade Agreement. In September 2022, PRC Foreign Minister Wang Yi met with Nicaraguan Foreign

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<sup>10</sup> <https://www.bloomberglia.com/english/number-of-latin-americans-living-in-poverty-expected-to-surpass-one-third-of-total/>

<sup>11</sup> <https://www.cbp.gov/newsroom/stats/nationwide-encounters>

Minister Denis Moncada on the sidelines of the UN General Assembly, highlighting that the new bilateral relationship has already yielded “early harvests.”<sup>12</sup>

**Cuba.** President Miguel Diaz-Canel’s government continues to repress all Cuban citizens critical of the regime. The government engages in arbitrary detention, including children, and limits access to information and freedom of expression, and incarcerates political dissidents. The Cuban government’s oppressive tactics have forced more than 230,000 Cubans to seek refuge in the United States in fiscal year 2022.<sup>13</sup> In September 2022, Hurricane Ian struck Cuba, devastating homes, causing flooding, and knocking out power to many communities.

**Venezuela.** The humanitarian crisis caused by the Maduro regime in Venezuela remains one of the most severe in the world. President Nicolas Maduro’s regime and security forces continue to target and deny access to critical services to any citizen who speaks out against them. His regime continues to engage in extrajudicial killings, forced disappearances, torture, and prosecution without due process. The International Criminal Court is currently investigating possible crimes against humanity in Venezuela.

The Maduro regime’s oppressive tactics and gross economic mismanagement have caused more than seven million Venezuelans to seek refuge elsewhere, causing instability and deepening challenges for those nations that have welcomed them. U.S. Customs and Border Protection statistics show that more than 187,000 Venezuelan migrants were encountered at the U.S.-Mexico border in FY 2022.<sup>14</sup>

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<sup>12</sup> [https://www.fmprc.gov.cn/mfa\\_eng/topics\\_665678/kjgzbdffyq/202209/t20220921\\_10769061.html](https://www.fmprc.gov.cn/mfa_eng/topics_665678/kjgzbdffyq/202209/t20220921_10769061.html)

<sup>13</sup> <https://www.cbp.gov/newsroom/stats/nationwide-encounters>

<sup>14</sup> <https://www.cbp.gov/newsroom/stats/nationwide-encounters>

## **Levers: Overcoming Threats and Challenges in the AOR**

The pervasive threats and challenges highlighted above pose significant risks to U.S. and regional security interests. We cannot accept such risks so close to home and we confront them by strengthening partnerships, countering threats, and building our team.

### **Strengthen Partnerships**

As the Secretary of Defense said, “you can’t surge trust at the eleventh hour; trust is something you have to work on every day.”<sup>15</sup> We need to continuously engage our partner nations to build and sustain that trust and be their preferred partner. As we campaign in strategic competition to enable integrated deterrence and build enduring advantages, our engagements, presence, and policies must be flexible, consistent, and responsive to counter malign influence in the region.

The best way to outcompete our adversaries is to help partner democracies deliver for their populations at the speed of relevance. We achieve this by improving partner nation capability, capacity, and resilience through security cooperation, exercises, and training programs while upholding democratic values to ensure malign influence and autocratic alternatives do not further take root in this region.

The main priority in our USSOUTHCOM Campaign Plan is to expose and mitigate PRC malign activity. Ultimately, strategic competition with the PRC is an ideological one between democracy and authoritarianism. Presently, the majority of nations in the Western Hemisphere are democracies, and eight of the 14 nations that still recognize Taiwan are located in

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<sup>15</sup> Secretary of Defense Lloyd Austin, speech to U.S. and NATO troops in Bulgaria, 18 March 2022.

USSOUTHCOM's AOR. Beijing is seeking to reduce that number and increase influence throughout the region while putting the defense of the U.S. homeland at risk.

***Security Cooperation.*** Building Partner Capacity (BPC) programs are my main lever for engaging partners in this posture-limited theater. These programs allow us to be on the field and engaged, to strengthen our partnerships, and develop military capabilities to counter a broad spectrum of threats and challenges. From high-end technical training that keeps partner intelligence, surveillance, and reconnaissance (ISR) assets in the air, to building institutional capacity that develops logistics and lifecycle management disciplines, to professional military education, we are developing trust and interpersonal linkages. USSOUTHCOM's BPC programs aim to make our partners resilient to the adversaries operating in this hemisphere.

Our embedded Ministry of Defense Advisors and field service representatives within partner nation security ministries, such as those in Colombia, support modernization and innovation efforts in such areas as personnel, defense intelligence, and doctrine development to help our partners meet threats to their national security.

The U.S. Colombia Action Plan enables Colombia to provide training and readiness directly to several countries, including Panama, Honduras, El Salvador, Costa Rica, the Dominican Republic, Ecuador, and Paraguay in Spanish, and at a fraction of the cost of U.S.-provided training. We really appreciate congressional support of this program.

These security cooperation programs offer a huge return on investment as they build trust and enhance capabilities and security throughout the region -- a little goes a long way here.

***Department of State Security Assistance.*** State security assistance programs increase interoperability with our partners while meeting their individual security requirements. Foreign Military Sales (FMS), Foreign Military Financing (FMF), and Excess Defense Articles (EDA)

programs produce an exponential return in this AOR. Brazil recently made an FMS purchase of \$15.8 million of 12 Joint Light Tactical Vehicles as part of the Brazilian Marine Corps modernization plan, strengthening its ability to counter threats and enhancing interoperability with U.S. forces. The former U.S. Coast Guard cutters Albacore, Cochito, and Gannet were delivered to Uruguay on November 12, 2022. These ships greatly enhance the maritime security of Uruguay and demonstrate that the United States is the preferred partner in the region. The Colombian Army received 86 armored vehicles in 2022 via the EDA program, giving Colombia a more modern capability to counter threats facing the country.

USSOUTHCOM executes State's International Military Training and Education (IMET) program that provides professional military education to personnel from 28 countries in the region. In 2022, USSOUTHCOM countries were allocated \$13.9 million for the IMET program. On average, this allocation provides professional military education for approximately 800 international students in U.S. schools. The IMET program is one of USSOUTHCOM's strongest levers for countering the PRC and other malign actors in the region by acquainting international students with democratic ideals and professional military doctrine. Partner nation personnel who attend these schools often go on to become senior military leaders in their countries. The relationships built at these schools last a lifetime.

***Joint Exercise Program.*** Our Joint Exercise Program continues to provide an outsized return on investment not only in building readiness, but also in strengthening partnerships that allow us to counter malign influence. In 2022 we had over 11,000 participants from 34 nations take part in our exercises, demonstrating once again that the United States has the convening power to bring nations together. These complex training events were multi-domain in nature and



provided us year-long engagement opportunities across the AOR, to include engagements with key leaders.

USSOUTHCOM's exercise program in the counter-TCO realm also brings together the Drug Enforcement Administration, the Federal Bureau of Investigation, the Bureau of Alcohol, Tobacco, Firearms and Explosives, the Department of State, and Department of Homeland Security (including the U.S. Coast Guard), along with partner nation and allied military forces to enhance readiness, interoperability, and domain awareness, and to increase intelligence and information sharing.

Additionally, our exercises include training on human rights and on Women, Peace, and Security, which helps to enhance professionalism and advance democratic principles.

***USNS COMFORT.*** The USNS COMFORT hospital ship deployed to five countries in the region from October to December 2022 – Guatemala, Honduras, Colombia, the Dominican Republic, and Haiti – taking part in a humanitarian assistance, readiness building, and goodwill mission. The USNS COMFORT's crew included military and civilian personnel as well as personnel from non-governmental organizations and partner nation militaries. Since its inception in 2007, the Continuing Promise mission has treated more than 580,000 patients overall and conducted over 7,000 surgeries. The USNS COMFORT mission to the USSOUTHCOM AOR historically lasts approximately 159 days, but even during this year's reduced mission of 52 days, the COMFORT managed to treat over 30,000 patients, conduct 350 surgeries, and positively impact 100,000 people with its outreach activities. This tremendous soft power asset will have lasting effects not just on the individuals who were treated, but also on the entire region.

***Operation Health Engagement Assistance Response Team (HEART).*** During Operation HEART, a team of 34 medical professionals and 17 support personnel conducted orthopedic,

ophthalmology, and dental surgeries in Guatemala and Honduras. In just 56 days, Operation HEART treated 993 patients and conducted a knowledge exchange with medical residents and doctors from Honduras, Guatemala, Nicaragua, Costa Rica, and El Salvador.

***Key Leader Engagements.*** Since I last addressed this committee, I have visited 13 countries and conducted over 90 key leader engagements with ministers and chiefs of defense. Increasingly, I have also met with heads of state and vice presidents as the appetite grows amongst our partners to engage at senior levels with the United States. To date, I have engaged eight presidents, three vice presidents, and two prime ministers, and I have a full calendar of engagements planned throughout 2023. Establishing and cultivating these relationships is vital and we must step up our presence in the region to maintain relevance. Relationships absolutely matter, and our partner democracies are desperate for assistance from the United States, but if we're not there in time, they have no choice but to take what's available, creating opportunities for the PRC to expand its influence. Just like with the COVID-19 vaccine, they wanted a U.S. vaccine, but some partner nations had to take the Chinese Sinopharm or Russian Sputnik vaccines at 50-60% effectiveness because we weren't there with our Pfizer or Moderna vaccine.<sup>16, 17</sup>

***U.S. Army Corps of Engineers.*** Infrastructure is one of our partners' critical needs, and the PRC is leveraging that need to achieve influence overmatch in the region. We need to step up with much greater responsiveness in our processes if we want to address our partner nation requirements and outcompete the PRC in this domain. The U.S. Army Corps of Engineers (USACE) works with USSOUTHCOM and partner nations to advance security, preserve

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<sup>16</sup> <https://apnews.com/article/china-gao-fu-vaccines-offer-low-protection-coronavirus-675bcb6b5710c7329823148ffbf6ef9>

<sup>17</sup> <https://absolutelymaybe.plos.org/2022/04/20/did-we-ever-find-out-how-effective-sputnik-v-vaccine-actually-is/>

environmental sustainability and climate resiliency, and protect at-risk indigenous populations. USACE is providing technical support to the Panama Canal Authority to help ensure the canal operates successfully for the next 50 years. It also supports Ecuador to mitigate the negative effects of a substandard PRC construction project at the Coca Coda Dam. In January 2023, at the request of the embassy and the government of the Dominican Republic, USACE assigned a subject-matter expert embedded within the Dominican Republic's Agency of Mines and Minerals to assist with developing efforts to preserve rare earth materials.

From a defense and security cooperation perspective, USACE's recent agreement with the Peruvian Navy to build out Peru's port facilities, and its continued construction efforts on Tolomaida Air Base in Colombia, facilitating the development of the largest rotary wing training and maintenance facilities in the region, will increase our partners' capacity to counter TCOs in the region.

***State Partnership Program.*** Through the State Partnership Program (SPP), the National Guard continues to develop relationships with our partner nations. Eighteen U.S. states, Puerto Rico and the District of Columbia have active partnerships with defense and security forces from 30 nations in the Caribbean, Central America, and South America. By providing long-term and consistent support and building trust and teamwork, National Guard servicemembers give us the presence on the field that is so critical. For example, this year, the South Dakota National Guard worked with its partner Suriname to renovate a school for 450 children and provide medical and dental care to three separate rural and underserved communities, impacting approximately 2,500 civilians. This year, the Regional Security System (RSS), consisting of seven Eastern Caribbean nations, conducted 25 events across the RSS and in the continental United States.

SPP's success is enhanced through National Guard participation in partner nation exercises like those in Brazil and Colombia. The National Guard also provided medical service members from Puerto Rico, Louisiana, Arkansas, and South Carolina to our successful Continuing Promise operations through the USNS COMFORT deployment.

***Humanitarian Assistance and Disaster Response (HA/DR).*** Latin America and the Caribbean are susceptible to hurricanes, earthquakes, droughts, and other extreme natural disasters. The United States is there with assistance before, during, and after disaster strikes. USSOUTHCOM engages our partner nations regularly, encouraging and assisting them to take positive steps toward disaster risk reduction, mitigation, preparedness, and resiliency. Several of our annual exercises, including TRADEWINDS and CENTAM GUARDIAN, have a HA/DR component to help build resiliency and readiness related to climate change and natural disaster response.

A recent example of our support is our response to Haiti's widening political and humanitarian crises. Supporting a whole-of-government effort led by the U.S. Agency for International Development and the State Department, USSOUTHCOM delivered thousands of gallons of much-needed fuel and 300,000 cholera treatment packets to Haiti. This operation relieved strain on the local healthcare system and enabled the U.S. Embassy to remain open to facilitate life-saving assistance.

Humanitarian assistance activities also address basic needs of the population and build partner capacity to maintain a healthy population. Activities emphasize public health capacity building, such as improving medical facilities, disease surveillance systems, and providing basic medical equipment, education, prevention, and training. Basic infrastructure activities focus on building partner capacity to provide essential services, like potable water. Finally, we recently

joined with 12 other countries to identify logistics processes, procedures, and protocols that are required to improve the military logistics support to HA/DR activities in the Western Hemisphere.

***Confronting Climate Change.*** This is one of the regions most impacted by climate change. Hurricanes, rising sea levels, flooding, and drought are causing grave harm to the region's health, food, water, energy, and socioeconomic development. Extreme weather events impact our partners' national security, displacing populations and increasing irregular migration already accelerated by TCOs and insecurity.

These calamities know no borders. In 2022, Hurricane Fiona slammed into the Dominican Republic and Puerto Rico, Hurricane Ian ravaged western Florida and Cuba, and Hurricane Julia caused landslides and wiped-out crops in Central America. To help address threats from climate change and support humanitarian assistance, USSOUTHCOM works to strengthen our partners nations' ability to address more demanding disaster response roles, mitigate the effects from climate change, protect the environment, and enable the transition to clean energy through subject-matter expert exchanges and by incorporating energy security scenarios in exercises. Successfully confronting this complex issue requires a true integrated approach. For example, USSOUTHCOM partners with the Pacific Disaster Center in Hawaii to facilitate disaster response training and conduct National Disaster Preparedness Baseline Assessments with our partner nations. These assessments promote a multi-agency approach to disaster risk reduction and national disaster preparedness, in collaboration with partner nations' national disaster management agencies.

## Countering Threats

*Countering PRC malign efforts.* In alignment with the 2022 National Defense Strategy's integrated deterrence approach, we strive to use all levers through campaigning to deny the PRC the perceived benefits of aggression. USSOUTHCOM leverages the expertise of the Executive branch, to include the Departments of State and Commerce, to improve partner nations' knowledge of effective legal frameworks to develop reliable and secure telecommunication infrastructure and cyber resilience, while highlighting state-of-the-art substantive alternatives to counter PRC state-owned enterprise expansion in the region.

By methodically identifying and synchronizing separate initiatives, from building cyber capability to exposing PRC malign activities, we can strengthen critical infrastructure to improve our collective ability to operate in the face of multi-domain threats posed by the PRC. Information sharing with our partners on the malign activities of the PRC in other nations and regions that have undercut sovereignty is critical to ensuring our partners can make informed decisions on their engagements with the PRC. However, information sharing alone is insufficient. Collectively, in a whole-of-nation integrated approach, we must also provide viable alternatives for partnerships and offer significantly more incentives through campaigning for critical infrastructure investment and port development in the region.

While the PRC consistently works to expand its network of military space infrastructure across the AOR, we are focused on strengthening relationships with our allies and partners through sustained engagement and investment with what we currently have, including by assisting our partners to build capability to conduct space operations to meet their needs. By focusing on strengthening relations, the United States demonstrates what a true partner looks like, which stands in stark contrast to the transactional nature of PRC engagements. This

strategy, coupled with continued exposure of the military purpose of the PRC's scientific or academic space sites in the region, may slow and possibly reverse the expansion of the PRC's space network in our neighborhood.

***Illegal, Unregulated, Unreported Fishing.*** IUUF is another area where we must leverage diverse capabilities and authorities. We have teamed up with the Department of State, partner nation stakeholders, the private sector, civil society, international organizations, and an interagency team of U.S. government experts to confront this issue head on. The U.S. Coast Guard is conducting various IUUF missions in the AOR, and USSOUTHCOM has four ongoing IUUF initiatives that are complementary in nature.

Enhanced Domain Awareness is a secure, unclassified, virtual environment where USSOUTHCOM, interagency, and foreign partners can leverage commercially and publicly available information and analytics. This allows us to collaborate on diverse security challenges including strategic competition and IUUF as well as issues like migration, human trafficking, and illegal mining.

USSOUTHCOM has signed a memorandum of understanding with Global Fishing Watch and has a longstanding relationship with Florida International University through which we partnered to create the Security Research Hub—a virtual research community that brings together the United States, partner nations, academic institutions, civil society, and the private sector to foster shared understanding of the most pervasive security issues, to include IUUF.

USSOUTHCOM is also exploring areas of cooperation and opportunities to provide technical assistance and support to the Eastern Tropical Pacific Marine Corridor, a voluntary regional cooperation mechanism created by the coastal states of Ecuador, Costa Rica, Colombia, and Panama.

Finally, working with 14 partner nations and the National Maritime Intelligence-Integration Office, U.S. Navy South leads the way for an intergovernmental approach to information-sharing efforts. When fully implemented, they will collectively foster timely, actionable information sharing, multifunctional collaboration, and multinational trust. This collaboration will illuminate nefarious actors negatively impacting our partner nations' economies and populations.

***Countering Russian malign influence.*** USSOUTHCOM is postured to compete with Russia through the coordination and application of information-related capabilities. While Russia may seem distant, its presence and influence is felt in our hemisphere, actively undermining the security and stability of our partner nations. Our multifaceted approach aims to bolster partner efforts and expose malign activities, with the goal of blunting Russian exploitation in the information environment.

Our partners are inclined to support efforts that impose costs on Russia. Some are willing to exchange their Soviet-era equipment for NATO-interoperable, U.S.-made equipment. However, as our partners agree to support efforts against Russia, the United States must have responsive mechanisms in place to rapidly provide replacement assets to maintain partner nation readiness – if not done right, we could lose this opportunity.

***Cyber.*** Cyber is an all-encompassing domain capable of affecting every sector of society, not just defense. USSOUTHCOM partners with other U.S. agencies and organizations such as the Departments of State, Commerce, Homeland Security, and Justice along with U.S. Cyber Command, our National Guard SPP teammates, and the U.S. Coast Guard, to deliver the right support at the right time to assist our partners with their cyber-related challenges.



Through our cyberspace advise and assist efforts, including subject-matter expert exchanges and leveraging the expertise of our Joint Combatant Command Cyber Assistance Teams, we support our partners' efforts to advance their defensive cyber capabilities and develop cyber resiliency. These programs are enablers that help our partners tactically defend against the threats posed by Russia and its proxies in the cyber domain. However, with the significant increase in nation-state cyber attacks and hacktivist attacks in the region, our partner nations are struggling to protect their citizens in the cyber domain, and we are in a race to help them protect their cyber assets before they choose competitor solutions.<sup>18</sup>

***Competing in the Information Space.*** Additionally, our information operations team shapes pro-U.S., pro-democracy narratives, counters disinformation by promoting fact-based information, and works aggressively to reduce U.S. adversary influence in the information environment. This team highlights democratic ideals such as respecting human rights and protecting the rule of law. This capability is postured to provide accurate, timely, and valid information to support reasonable decision making, resulting in better outcomes and ultimately decreasing the effectiveness of propaganda.

***Agile Processes.*** To outcompete our adversaries and win through campaigning, we need to be agile and support our partners at the speed of relevance. While we are committed to transparent processes, we must be faster and more innovative to outcompete our adversaries. Right now, our partner nations are quickly losing confidence in the U.S.'s ability to deliver capability. At a recent event when I spoke about what I call "Team Democracy," a term I use to describe integrated deterrence and working together to counter adversary malign activity, a head of state responded that there aren't very many on "Team Democracy" anymore, citing multiple

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<sup>18</sup> <https://www.recordedfuture.com/latin-american-governments-targeted-by-ransomware>

examples of countries turning away from democracy because the U.S. overpromises and underdelivers. FMF, FMS, and Security Cooperation are great levers that can make huge inroads in the AOR when delivered at the speed of relevance for our partners. However, these programs are only as good as the processes by which we execute them. While a little goes a long way in this AOR, we need to do better to support and react at the speed of need, armed with the capabilities our partners can implement quickly and sustain for the long term. When we don't support our partners at the speed of need, our competitors willingly fill the gap.

To help improve processes, the Office of the Under Secretary of Defense for Policy has established two working groups to break down barriers to our success. The Campaigning in the Western Hemisphere Group brings together entities within the Department of Defense that play a role in building partner capacity, and the Defense Opportunities Group convenes interagency partners that have a stake in a stable and secure Western Hemisphere. We aspire to quickly gain efficiencies across the U.S. Government so we may apply all levers of national power in this vital strategic competition.

***Countering TCOs.*** Our Joint Interagency Task Force-South (JIATF-S) conducts the statutorily-directed mission to detect and monitor illicit drugs transiting toward the United States in the maritime and air domains, delivering a high return on modest investments. In Fiscal Year 2022, JIATF-South facilitated the disruption of 371 illegal smuggling events, including a total of almost 300 metric tons of cocaine and over 140,000 pounds of marijuana, with a combined wholesale value of \$7.5 billion and saving an estimated 2,976 American lives. In addition to saving U.S. lives and reducing TCO revenue, JIATF-South-facilitated drug trafficking disruptions produce evidence in the form of contraband, detainees, and other information. Our

interagency and international law enforcement partners use this evidence, to help affect judicial end states that degrade and dismantle TCOs.

I want to highlight our international partners' participation in these operations, as they are key to overall mission success. Our international partners participated in 76% of the JIATF-South-facilitated disruptions (up from 62% last year) and were responsible for removing 475,000 kilograms of transit zone cocaine headed toward the United States. This is a testament to their commitment to support this regional effort and build their capability and capacity.

U.S.-led, multinational counternarcotics operations ultimately result in our international partners taking the lead on their own operations, as Colombia does via their Operation Orion. Colombia executed two iterations of Orion in 2022, leading a coalition of 41 countries, resulting in the disruption of more than 180,000 kilograms of cocaine and seizing dozens of conveyances. This is an excellent example of integrated deterrence return on investment – gained by combining willing and able international partners with a committed U.S. presence in the Western Hemisphere. Each of these operations was only successful because of the U.S. investment to train and equip our Colombian military and security partners.

Notwithstanding our significant achievements over the decades in this mission space, there is still more to do. As U.S. resources against this threat decline, we will continue to innovate – both in strategy, like re-examining current authorities, and unconventional resourcing, like contract assets, commercial data, and artificial intelligence and machine learning.

***Combating Money Laundering.*** Systemic political corruption and lack of strong anti-money laundering policies make the region a permissive environment for illicit financial activity. USSOUTHCOM continues to identify TCO financial support networks, providing direct analytic support to U.S. Treasury Department and other interagency partners that facilitate sanctions,

arrests, and prosecutions against TCOs. Recently, USSOUTHCOM supported Treasury's designation of Ecuadorian national Wilmer Emilio Sanchez Farfan, one of the most significant drug traffickers in the world and a major cocaine supplier to the Sinaloa cartel.<sup>19</sup> While continued disruptions of illicit drug movements toward the United States remain critical, to truly disrupt these billion-dollar conglomerates, we must also support interagency efforts to follow the money.

***Coast Guard Support.*** The U.S. Coast Guard is one of USSOUTHCOM's strongest partners, with its National Security Cutters and Fast Response Cutters providing the bulk of our counterdrug forces. U.S. Coast Guard assets enhance operations with unique capabilities and authorities which, when used in conjunction with the U.S. Navy and partner nation platforms, maximize the effectiveness of a variety of missions. The Coast Guard is executing its largest fleet recapitalization since World War II. These recapitalization efforts will provide capabilities that support three USSOUTHCOM strategic initiatives: enhancing Theater Security Cooperation, countering IUUF, and combating TCOs. Additionally, the Coast Guard provides valuable humanitarian mission support across the region, saving lives and delivering much-needed aid when natural disasters suddenly strike the region.

### **Building our Team – People First**

***Housing.*** Our service members and families are our strength and foundation. While having our headquarters and two subordinate commands in South Florida offers a great synergy with our AOR, our team faces extraordinary pressures with the expensive, competitive, and volatile housing market. In September 2022, Secretary Austin announced immediate and long-

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<sup>19</sup> <https://home.treasury.gov/news/press-releases/jy0592>

term actions to help strengthen the economic security and stability of service members and their families. We benefited with automatic increases in the Basic Allowance for Housing (BAH) for the Miami-Dade and Broward County areas that have carried forward in the Calendar Year 2023 BAH rates. We are seeking similar relief for the Key West area. We are also continuing our work with the Department of the Army and the Office of the Secretary of Defense (OSD) on a housing solution to address servicemember concerns about cost and availability of housing in the Miami area.

***JIATF-South Resiliency.*** JIATF-South is currently operating out of 70-year-old facilities that are severely degraded. We received full fiscal year 2023 planning and design funding to complete the design for a new command and control facility. We appreciate this continued support as we look to finalize the design and request the military construction funding to construct a resilient facility for this critical mission for the nation.

***Women, Peace and Security (WPS).*** At USSOUTHCOM, we deliberately integrate gender perspectives throughout all ranks into our operations, activities, and investments, exemplifying a truly diverse joint force and encouraging our partner nations to do the same. Our main objective is to maximize the talents of the force through recruitment, retention, training, and advancement. We also highly encourage partner nation leaders to increase their numbers of women who participate in IMET and other special programs. We are seeing results. In August 2022, the Florida National Guard and Guyana's Defense Force hosted the first Caribbean Regional WPS conference with leadership from 12 partner nations – including Guyana's First Lady Arya Ali and the AOR's first female Chief of Defense, Jamaica's Staff Rear Admiral Antonette Wemyss-Gorman, advocating for gender inclusivity and advancing regional influence in ways that our adversaries cannot. In September 2022, Colombia appointed its first female

Senior Enlisted Leader of the Colombian Military Services, Command Sergeant Major Consuelo Diaz Alvarez, and in October 2022, for the first time in its history, the Colombian Navy promoted two female Navy Captains, Beatriz Helena Garcia Restrepo and Carolina Gomez de Castillo, to the rank of Rear Admiral. Although much work remains, these are just a few of the examples that demonstrate USSOUTHCOM and its partners' commitment to provide opportunities for women to become leaders in the defense and security sectors.

***Total Force.*** The United States military is the most powerful in the world, and USSOUTHCOM leverages all available personnel, making us flexible and agile to counter any challenges we may face. Of the service members at USSOUTHCOM, up to 20 percent at any given time are Guard or Reserve members conducting operations in more than 20 locations throughout the AOR.

One such total force mission has been ongoing for a decade. Since 2003, Air National Guard Airmen have supported JIATF-South's detection and monitoring mission through the Host Nation Rider Program. This program provides technical language support and translation/interpretation that has been instrumental in achieving successful detection and monitoring of air operations within the AOR. In fiscal year 2022, this program was involved in the seizure of over 49,000 kilograms of cocaine, 24,000 pounds of marijuana, and the apprehension of 154 detainees.

The Reserve Component is a force multiplier used in a cyclic manner to provide predictability, operational capability, and as a strategic force, providing depth to support a full spectrum of conflicts. Guard and Reserve support is critical to USSOUTHCOM's mission continuity and success.

## **What Resources Does USSOUTHCOM Need?**

In this region, a small investment – whether in time, physical resources, funding, or collaboration – goes a long way. We don't have to outspend the PRC to outcompete, but we must be present on the field and deliver at the speed of relevance. This requires having a timely budget – continuing resolutions are disruptive to U.S. and partner nation efforts to defend against threats. If we don't, China and Russia will fill the void.

*Security Cooperation* is our main tool for building the capability of our very willing partners. These partners take our small investments and immediately employ them against the threats and challenges that affect our entire hemisphere. Our partner nations are a force multiplier in a posture-limited theater. The support Congress provided for the fiscal year 2023 budget toward making our partners more capable makes us all stronger. We look forward to putting those funds to good use to support both our fiscal year 2023 and fiscal year 2024 programs for security cooperation in our region.

*Security Assistance* goes hand-in-hand with security cooperation. The security assistance we provide to countries like Colombia, Ecuador, and Panama is a game-changer for our partners who are working every day to counter illicit trafficking, address irregular migration, and secure our region. However, in contrast, Honduras, Guatemala, and El Salvador are currently not eligible for FMF. We will work with the Department of State to consider tailored solutions to advance regional policy goals.

*Domain Awareness* is key to countering PRC, Russia, and TCO malign activities that threaten hemispheric security, as well as assisting our partners during disaster relief. Air, maritime, land, space, and cyber domain awareness projects in the region fill debilitating coverage gaps and enable our partners to counter drug smuggling, IUUF, money laundering,

human smuggling, weapons trafficking, and illegal trade in natural resources. These projects reveal shared problems, illuminate opportunities, foster enhanced collaboration, and enable us to export security regionally. The ability to sense, make sense, and share data with our partners is critical. Maintaining a comprehensive threat picture with our allies and partners through our Enhanced Domain Awareness platform enables us to react quickly to threats and to collaborate in real time as we engage in combined operations and activities. Critical to building this shared picture is commercial imagery, open-source intelligence, and off-the-shelf bulk data analytics that allow us to harness this data in the public and commercial space to address critical gaps.

Aerial ISR is also paramount to maintaining domain awareness. To stay ahead of the growing pernicious threats that state and non-state actors pose, we require long-range, long-dwell, next-generation aerial ISR, such as solar-powered aircraft with a greater range and time over target. Aerial ISR aircraft have been critical to our ability to detect and deliver actionable information to other U.S. agencies and partner nations that enable their counternarcotics and counter-TCO operations. In fiscal year 2022, information provided by airborne ISR assets operating overland accounted for the seizure of 322 metric tons of cocaine and deprived TCOs of over \$9 billion in profits. To further enhance our ability to enable counternarcotics and counter-TCO operations, we are pursuing ISR technologies with a greater ability to detect active drug production laboratories. When deployed, this capability will allow us to collect over a 4x larger area with twice the sensor resolution of any comparable platform in the U.S. Government's inventory.

The National Geospatial-Intelligence Agency (NGA) also remains a key intelligence provider in meeting U.S. Southern Command's priorities. Warning decision-makers of the breadth and depth of challenges in the Western Hemisphere requires geospatial analysis at speed



and scale. We appreciate Congress's continued support for NGA's budget request and for their personnel supporting the Combatant Commands.

***Innovation, Science, and Technology.*** Today we face a more level playing field in technology, and we need to rapidly adjust how fast we get technology to the warfighter to maintain dominance and confound the adversary. The USSOUTHCOM AOR provides a permissive environment that has a high tolerance for technology experimentation, willing partners, and diverse climates and geography, all close to the U.S. homeland. This affords us great opportunities to conduct innovative activities with our partners that help gain and maintain a strategic advantage over the PRC, Russia, and other malign actors.

We take every opportunity to capitalize on these benefits. We are developing green energy capabilities, working on the first unmanned persistent solar-powered aircraft with a 300-pound payload, creating small-scale autonomous low-profile vessels, and developing laser communications systems with a low probability of detection and faster speeds than conventional solutions on the market.

A good example of this innovation is our collaboration with the Office of Naval Research, which has designed an experimentation series known as SCOUT. SCOUT's inaugural cycle automates antiquated processes and places capabilities into warfighters' hands faster. The SCOUT team, comprised of warfighters, engineers, academia, and industry partners, executes small-scale, discovery-focused events that provide multiple opportunities to test and measure technologies. This year we will conduct our first main event in JIATF-South to integrate prototype solutions focused on enhancing counternarcotics operations.

***Information Related Capabilities.*** To compete in the information environment, USSOUTHCOM needs an adequate force structure with the requisite skills to counter the

overwhelming threat from malign state actors in the information domain. Our adversaries are dedicating significant effort and resources with unrestrictive policies to undermine democracy in this region. We must do better to keep pace with them and outcompete them.

**NAVSCIATTS.** While considering modern warfare, we tend to focus on five domains: the high seas, inland regions, air, space, and cyber. However, littorals and rivers are the lifeblood of maritime commerce, large population centers, and bustling seaports for most of the 31 LAC countries. Ensuring security in these vital areas is essential to good governance, economic growth, and long-term prosperity. Malign state and non-state actors know the significance of littorals and rivers and routinely use them to transport bulk currency and illegal drugs, smuggle people and a vast array of illicit commodities, and enable illegal mining and logging activities that imperil the environment.

We appreciate the support Congress offered last year for the Naval Small Craft Instruction and Technical Training School (NAVSCIATTS) in Stennis, Mississippi. The maritime training and education programs at NAVSCIATTS generate outsized return on investment, providing invaluable opportunities to military and law enforcement personnel from the United States and our allies and partners, most of whom operate smaller craft. Expertise shared at NAVSCIATTS generates reciprocal trust, shared knowledge and understanding, collaboration, and multifaceted technical skills that enable integrated deterrence against the PRC and other malign actors. They also reduce environmental damage and protect natural resources.

**Ambassadors.** We truly appreciate Congress's efforts to confirm additional ambassadors in the Western Hemisphere last year. Having a confirmed ambassador in country is critical to maintaining strong relationships and, conversely, not having one in place can have a detrimental

effect and opens the door to our adversaries in the region. We look forward to Congress's continued support in the effort to strengthen diplomatic ties in our neighborhood.

### **Conclusion**

The defense of the U.S. homeland is directly linked to the resilience, stability, and security of the Latin America and Caribbean region. Proximity places us on the frontline of strategic competition, as we share transboundary challenges and global threats. This requires the USSOUTHCOM team to be a trusted partner and pursue efforts that meet our partners where they are, maximizing our efforts where their priorities align with our own national interests. Meeting these challenges requires campaigning through an integrated approach to utilize all available levers across the DOD, U.S. interagency, Allies and Partner Nations to establish the desired conditions of security, peace, and prosperity throughout our neighborhood.

# MEXICO





# Integrated Country Strategy

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**MEXICO**

**FOR PUBLIC RELEASE**

Approved: March 29, 2022

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## 1. Chief of Mission Priorities

Today more than ever, North America must stand for the proposition that, as stated by President Biden, “democracies can deliver in the second quarter of the 21st century.” The United States and Mexico are two of the world’s largest democracies, and our bilateral relationship is one of the most complex, strategic, and consequential to the lives of the American people. More than \$1.6 billion a day (or \$1.1 million a minute) is traded over our nearly 2,000-mile border, with an average 5 percent annual growth since 2010. An estimated forty million people in the United States are of Mexican origin. Close to 1.6 million U.S. citizens live in Mexico, joined by more than 25 million who travel as tourists here each year. The United States and Mexico share a history, a border, and deep familial and community ties. We must transform this relationship in an enduring and positive way for the American people by creating lasting partnerships and durable frameworks on the basis of deep mutual understanding and trust in all areas, including trade, security, and attention to our climate and natural resources.

The first year of the Biden administration has already resulted in significant progress. The September 2021 High Level Economic Dialogue (HLED); the October 2021 Bicentennial Framework for Security, Public Health, and Safe Communities; and the November 2021 North American Leaders Summit, along with the United States-Mexico-Canada Agreement (USMCA), provide both lasting frameworks for cooperation and momentum and confidence on both sides of the border. On December 12, 2022, the United States and Mexico will celebrate 200 years of diplomatic relations, providing an additional platform to celebrate the ties that bind us across communities, government, academic institutions, civil society, and the private sector.

Our shared challenges are numerous: the ongoing impact of COVID-19; an increasing flow of migrants from Central and South America; the growing power of transnational criminal organizations (TCOs) fueled by significant drug sales in the United States and the smuggling of illegal arms and bulk cash into Mexico; shaken U.S. investor confidence due to changes in Mexican regulation; water scarcity and other environmental concerns; and a growing threat of malign actors, including China and Russia. In order to successfully respond to these challenges

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and to build a North American region that delivers for the interests of our citizens, Mission Mexico has identified four priorities for the Integrated Country Strategy:

*A Secure and Democratic North America:* Our two nations' collaboration on securing the U.S.-Mexico border is important to ensure the security of the American people and to facilitate the lawful trade and travel critical to our shared economy and communities. The Bicentennial Framework includes cooperative efforts to deter human smuggling, arms trafficking, illegal precursor chemicals trade, and illicit finance. As we increase our law enforcement cooperation to counter TCOs and illicit networks, we will work to strengthen judicial systems and the rule of law to ensure criminals are brought to justice. The Bicentennial Framework provides a strategy for addressing public health and safer communities, including for the tens of millions of U.S. citizens who visit Mexico or call it home. Critical to this issue is an increased commitment to protecting human rights, with a particular focus on women and vulnerable populations. While we address shared regional security and rule of law challenges, we will work with Mexico to remain resilient to malign foreign influence, including in cybercrime and cybersecurity threats.

*A Prosperous and Inclusive North America:* The U.S. and Mexican economies are deeply intertwined on a national and subnational level. Both the USMCA and the HLED process provide a framework to facilitate more efficient bilateral trade and investment. While working to increase our cross-border economic ties, Mission Mexico is committed to ensuring economies that protect labor rights, benefit workers, and build up the middle class. Key areas of focus include the economic development of southern Mexico; increasing the number of micro, small, and medium-sized enterprises that enhances opportunity for women, youth, indigenous peoples, Afro-Mexicans, and other marginalized communities; and workforce development programs that further connect and strengthen the North American economy.

*A Resilient North America:* Building a resilient North America that is prepared to deal with global challenges is crucial for the United State and the region. Mexico and the United States not only share a border, but we also share rivers, lakes, and coasts, demanding close cooperation on a range of environmental issues. Resilience for the future includes access to

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clean, secure energy sources, and the United States is an important partner in Mexico in fighting climate change and developing renewable energy sources. We will cooperate in addressing the shared global health challenges we face, as well as in ensuring food safety and security and a response to chemical, biological, radiological, and nuclear threats.

*A North America Coming Together:* While our shared history unites us, concerted attention to nurturing positive relations between our two countries will define success for the U.S.-Mexico relationship. Our Consular Sections will protect the health, safety and interests of the tens of millions of U.S. citizens who live in or visit Mexico each year while facilitating the lawful travel of Mexicans to the United States. Our Public Affairs Sections will increase the number of university exchanges as a means of shaping tomorrow's leaders with a deeper appreciation of the positive impact of our bilateral relationship. And the entire Mission will work to increase Mexican understanding of U.S. policies, programs, and engagement as an important means of increasing the numbers of Mexicans who support close alignment with the United States.

The challenges and opportunities we face in the areas of economics, security, and migration are intertwined, and the solutions we seek require a similar holistic approach. While our Integrated Country Strategy is organized around four separate priorities, we recognize that success in one area will positively impact the other efforts as well.

In order to achieve these ambitious goals, Mission Mexico will continue to modernize our data platforms, standardize procedures across all posts as necessary, promote the diversity and inclusion that unleashes the potential in each of our staff members, and take care of our employees by ensuring they have the tools, training, vision, and resources to succeed.

## 2. Mission Strategic Framework

### Mission Goal 1: A Secure and Democratic North America

- **Mission Objective 1.1:** The United States and Mexico collaborate on joint border security management that facilitates lawful trade and travel while reducing irregular migration, smuggling of illicit goods, and other threats to the health and safety of U.S. citizens.
- **Mission Objective 1.2:** The United States and Mexico collaborate to counter transnational criminal organizations and illicit networks, address impunity, and strengthen judicial systems and the equitable application of the rule of law. (Incorporates CDCS DO 1)
- **Mission Objective 1.3:** The United States strengthens Mexico's resilience to malign foreign influence, including through increased cybersecurity awareness and capacity, as well as support for shared democratic ideals. (Incorporates CDCS DO 1)

### Mission Goal 2: A Prosperous and Inclusive North America

- **Mission Objective 2.1:** The United States and Mexico work together to facilitate more fluid and efficient trade and investment bilaterally and within North America. (Incorporates CDCS DO 2)
- **Mission Objective 2.2:** The United States supports Mexico in implementing policies and programs that equitably develop the Mexican middle class and address the root causes of poverty and stalled economic development, particularly for marginalized communities in southern Mexico. (Incorporates CDCS DO 2)
- **Mission Objective 2.3:** The United States supports Mexico in efforts to propel economic sectors which will increase growth, develop its workforce, and facilitate a more inclusive economic recovery.

**Mission Goal 3: A Resilient North America**

- **Mission Objective 3.1:** Mexico becomes an effective North American partner in addressing global challenges of climate change and ensuring a clean, resilient, and secure energy future. (Incorporates CDCS DO 2)
- **Mission Objective 3.2:** The United States and Mexico collaborate to conserve biodiversity and protect critical ecosystems, promote food and water security, and strengthen capacities to respond to public health emergencies. (Incorporates CDCS DO 2)

**Mission Goal 4: A North America Coming Together**

- **Mission Objective 4.1:** The United States and Mexico increase positive interaction through Mission Mexico's facilitation of safe and legitimate travel between the United States and Mexico and the protection of U.S. citizens' health and safety in Mexico.
- **Mission Objective 4.2:** The U.S. Mission engages the public in Mexico and diaspora in the United States to advance a closer relationship between our two peoples and improve political and public opinion support for cooperative engagement. (Incorporates CDCS DO 1 and DO 2)

**Management Objective 1:** Data, service delivery, and management controls align with USG and department legal and regulatory requirements at six sigma levels.

**Management Objective 2:** Mission management activities rest on seamless standardized procedures across all posts.

**Management Objective 3:** Mission Mexico represents best-in-class professional development opportunities and highest possible career advancement for all employees.

### 3. Mission Goals and Objectives

#### **Mission Goal 1 | A Secure and Democratic North America**

**Description |** The health and safety of millions of U.S. citizens who travel to or live in Mexico is a top U.S. priority. The security of the entire United States also depends on countering the effects of powerful transnational criminal organizations (TCOs) that generate violence in both our countries and smuggle drugs, firearms, wildlife, and people across our shared border. In October 2021, the United States and Mexico opened a new era of security cooperation based on shared responsibility. Through the U.S.-Mexico Bicentennial Framework for Security, Public Health, and Safe Communities, the United States and Mexico are working to better protect the health and safety of our citizens, prevent transborder crime, and pursue TCOs. We will also work with Mexico to promote effective migration management, protect human rights, and improve cybersecurity, while strengthening the rule of law and resisting foreign malign influence.

**Objective 1.1 |** The United States and Mexico collaborate on joint border security management that facilitates lawful trade and travel while reducing irregular migration, smuggling of illicit goods, and other threats to the health and safety of U.S. citizens.

- **Justification |** Mexico is an indispensable partner in ensuring the security of our shared border. Mexico is a source, transit, and destination country for migrants and an important ally in controlling unprecedented flows of irregular Central American, South American, and extracontinental migrants headed to the United States. Close binational cooperation to ensure the safe and efficient management of our shared border is necessary to facilitate lawful trade and travel and diminish the capacity of powerful TCOs to smuggle illicit drugs, firearms, wildlife, and people. Potent synthetic drugs like fentanyl entering the United States from Mexico are killing record numbers of Americans. At the same time, the illicit southbound flow of firearms is contributing to historically high levels of homicides in Mexico and empowering TCOs.

- **Linkages |**

- State-USAID Joint Strategic Plan Goal 5: Serve U.S. Citizens around the world and facilitate secure international travel.
- Bureau of Western Hemisphere Affairs and Bureau for Latin America and the Caribbean Joint Regional Strategy, Bureau Objective 3.1: Protect U.S. citizens, ensure secure borders, promote safe, humane, and orderly immigration and asylum systems, enhance protections for refugees and displaced persons, and promote stability in areas impacted by migration
- Consular Affairs Functional Bureau Strategy Goal 3: Facilitate legitimate travel while ensuring secure U.S. borders
- USAID-AMEXCID MOU
- Collaborative Migration Management Strategy (CMMS)
- U.S. Root Causes Strategy
- U.S.- Mexico Bicentennial Framework for Security, Public Health, and Safe Communities
- 21st Century Border Management Process
- Binational Bridges and Border Crossings Group
- Bilateral Military Cooperation Roundtable: (BMCR) Objectives 1 and 2
- **Risks |** Under-resourced Mexican agencies struggle to manage Mexican borders and address increased irregular migration flows. This enables irregular migration and permits powerful TCOs to continue smuggling humans, weapons, drugs, and other illicit goods. Corruption, inadequate resources, lack of training for Mexican law enforcement, and widespread impunity undermine immigration enforcement operations and efforts to combat organized crime. Moreover, Mexico's National Migration Institute (INM), the Mexican Commission for Refugee Assistance (COMAR), child welfare authorities, and National Guard efforts to enforce immigration policy are unlikely to result in dramatic decreases of irregular migration until conditions in other countries of origin improve and reduce migration push factors.

**Objective 1.2** | The United States and Mexico collaborate to counter transnational criminal organizations and illicit networks, address impunity, and strengthen judicial systems and the equitable application of the law.

- **Justification** | Powerful TCOs fuel high levels of crime and violence in Mexico and degrade the safety and security of Mexican and U.S. citizens. Mexico's prosecution rates remain extremely low. This permits criminal syndicates to operate with relative impunity as they compete over increasingly diversified revenue streams, including illicit drugs, human smuggling, wildlife trafficking, kidnapping, extortion, illegal mining, and fuel theft. The United States is partnering with Mexico to disrupt and bring TCOs to justice. To foster effective investigation and prosecution of crime, the United States builds the capacity of and collaborates with Mexican actors and institutions across the justice sector, including police, forensics labs, prosecutors, judges, and correctional facilities, with an emphasis on encouraging collaboration among Mexican judicial institutions.
- **Linkages** |
  - State-USAID Joint Strategic Plan, Goal 5: Serve U.S. Citizens around the world and facilitate secure international travel
  - U.S.-Mexico Bicentennial Framework for Security, Public Health, and Safe Communities
  - INL-CONADIC Memorandum of Understanding
  - Bureau of Western Hemisphere Affairs and Bureau for Latin America and the Caribbean Joint Regional Strategy, Bureau Objective 3.1: Protect U.S. citizens, ensure secure borders, promote safe, humane, and orderly immigration and asylum systems, enhance protections for refugees and displaced persons, and promote stability in areas impacted by migration
  - Consular Affairs Functional Bureau Strategy, Goal 3: Facilitate legitimate travel while ensuring secure U.S. borders
  - Incorporates CDCS Development Objective (DO) 1

- **Risks |** High levels of impunity coupled with its limited investment in security institutions inhibit Mexico's ability to adequately respond to crime and violence. Mexico spends about 1 percent of its GDP on security, which is one of the lowest percentages in the OECD. The United States is increasing investments in treatment and counseling programs, but Mexico's nascent programs are underfunded. While the Bicentennial Framework for Security, Public Health, and Safe Communities offers a promising roadmap for increasing citizen security on both sides of the border. Successful implementation depends on political will and resource commitments by both countries.

**Objective 1.3 |** The United States strengthens Mexico's resilience to malign foreign influence, including through increased cybersecurity awareness and capacity, as well as support for shared democratic ideals.

- **Justification |** We will build on already strong relationships with Mexican counterparts to promote shared democratic principles and protect our societies against foreign malign influence, particularly through defense and law enforcement cooperation. Robust U.S.-Mexico cybersecurity cooperation is essential to protect our shared supply chains and critical infrastructure and deter cross-border cybercrime. Mexico ranks second in Latin America (after Brazil) for the most cyber-attacks, according to 2020 consumer data, and has requested international assistance to achieve broader, stable, and secure internet connectivity. We must continue to promote the United States – vice China or Russia – as Mexico's primary partner on security matters through regular bilateral engagement with Mexico in the defense, diplomatic, and economic spheres. Our bilateral partnership is also critical to address significant human rights challenges, including forced disappearance, gender-based violence, torture, and aggression against journalists.
- **Linkages |**
  - USMCA Article 19.15 (Cybersecurity)
  - State-USAID Joint Strategic Plan

- WHA/LAC Joint Regional Strategy Objective 1.3 (Counter Russia and malevolent cyber actors)
  - BMCR Objective 1.4 (Cyber)
  - BMCR Objective 3.1 (Training) and 1.3 (Common Operating Picture)
  - NDAA 17
  - Incorporates CDCS DO 1
- **Risks** | Mexico has high levels of impunity and extremely low rates of prosecution for all crimes, including human rights abuses. Roughly 94 percent of crimes go unreported or uninvestigated, according to the government's federal statistics agency. Human rights violations, if not adequately protected, corrode the rule of law and significantly undercut public trust in elected officials and public institutions. Malign actors also seek to expand their relationship with Mexico and its military given Mexico's proximity to the United States. Failure to strengthen Mexico's resilience to malign foreign influence could weaken the United States on matters of national defense and in international fora, as malign actors seek to sway Mexico. On the economic front, Lopez Obrador's austerity measures may drive the Mexican government to pursue cost savings by awarding defense and public works contracts to untrusted, unsecure, and state-influenced actors. The participation of untrusted vendors in telecommunications networks and other critical infrastructure presents a risk not only for the Mexican government and public, but also for U.S. government agencies and companies that interface with Mexico through interconnected telecommunications networks and supply chains.



## **Mission Goal 2 | A Prosperous and Inclusive North America**

**Description |** To enable sustainable, inclusive growth for the region, the United States must work with Mexico to eliminate barriers to trade and investment, boost regional competitiveness, provide employment opportunities for U.S. and Mexican workers, and level the playing field for U.S. businesses. This will depend on the United States and Mexico adhering to commitments under the United States-Mexico-Canada Agreement (USMCA), the High-Level Economic Dialogue (HLED), and the North American Leaders Summit (NALS), all of which uphold international standards and norms for fair competition and the rule of law. Shared prosperity recognizes that the world benefits when all countries can offer security and opportunity to their citizens. To support shared prosperity, Mission Mexico will carry out USG efforts to invest in and develop a strong and inclusive Mexican economy with infrastructure that rebuilds the supply chains necessary for a robust global recovery from the pandemic.

**Objective 2.1 |** The United States and Mexico work together to facilitate more fluid and efficient trade and investment bilaterally and within North America.

- **Justification |** Effective implementation of the USMCA requires a level playing field for U.S. businesses through coordination on the rules and regulations governing trade in all three countries. U.S. and Mexican commitments under the USMCA, HLED, and NALS support a cooperative and transparent trade environment that will strengthen the North American trade bloc and improve our countries' resilience to future economic shocks. Mission-wide activities should focus on addressing regulatory and infrastructure barriers to trade, investment, and public procurement, in addition to countering malign actors and attracting investment to the United States.
- **Linkages |**
  - State-USAID Joint Strategic Plan, Goal 2, Promote global prosperity and shape an international environment in which the United States can thrive
  - State-USAID Joint Strategic Plan, Goal 5, Serve U.S. Citizens around the world and facilitate secure international travel
  - Incorporates CDCS DO 2

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- WHA JRS Goal 4, Objectives 4.1 and 4.2, and Goal 3, Objective 3.1
- USMCA Chapters 3, (Agriculture), 7 (Customs Administration and Trade Facilitation), 11 (Technical Barriers to Trade), and 22 (State-owned Enterprises)
- Consular Affairs Functional Bureau Strategy, Goal 3, Facilitate legitimate travel while ensuring secure U.S. borders
- White House Strategy on Countering Corruption (issued December 6, 2021)
- **Risks** | President Lopez Obrador is committed to a nationalist economic policy that can run in contrast to U.S. interests. Recent actions include the weakening of independent regulatory institutions, a campaign to roll back reforms to privatize Mexico's energy sector, an increasing number of executive decrees to centralize economic authority, and changes to Mexico's own regulatory review process. This general posture and the specific actions by the administration threaten USG efforts to pursue a market-based approach to North American competitiveness.

Systemic corruption and the lack of transparency in public institutions and the private sector pose significant risks. Corruption directly impacts and harms Mexico's business climate, decreases domestic and foreign direct investment, and ultimately impedes economic growth. With regional and global supply chains, corruption in Mexico also risks disrupting the flow of goods and services, particularly across North America. The lack of an effective mechanism to screen foreign investments in critical sectors from a national security perspective also makes the Mexican and North American economies potentially vulnerable to nefarious influence by malign actors over important value chains and natural resources.

**Objective 2.2** | The United States supports Mexico in implementing policies and programs that equitably protect labor rights, benefit workers, and develop Mexico's middle class and address the root causes of poverty and stalled economic development, particularly for marginalized communities in southern Mexico.

- **Justification** | The underlying factors contributing to economic and social disparities in Mexico are deep-rooted and long-standing. There are no easy fixes. Approximately 44 percent of Mexicans live in poverty and 56.2 percent are employed in the informal economy, without access to social benefits. Record high remittances, primarily from the United States, during 2020 and 2021 suggest COVID-19 left many Mexicans in need of supplemental income. Though widespread, poverty is most pronounced in southern Mexico – a region that is home to 28 percent of the country's total population but only 18 percent of national economic output. The north and center of Mexico have grown at rates far exceeding the south and southeast. The lack of economic opportunities serves as a push factor for migration to the United States from Mexico's most vulnerable regions. By focusing on the root causes of poverty – poor infrastructure, disparate educational outcomes, and low rates of investment – the United States can address migration flows, contribute to Mexico's stability, and improve regional competitiveness. President Lopez Obrador has declared the development of their southern states a priority, creating an opening for the U.S. government to collaborate.

Sharing borders with Central America and the United States, Mexico is a natural partner on migration and providing economic opportunities for Central Americans vulnerable to irregular migration. The GOM exported its agriculture and youth workforce projects to northern Central America, allocating \$62 million to Honduras and El Salvador, and intends to begin work in Guatemala soon. The United States has pledged to address the root causes of irregular migration and has welcomed Mexico as a partner in this endeavor.

- **Linkages |**
  - State-USAID Joint Strategic Plan, Goal 2: Promote global prosperity and shape an international environment in which the United States can thrive.
  - Incorporates CDCS DO 2
  - WHA JRS Goal 2, Objective 2.1 and 2.2 and Goal 4, Objectives 4.1, 4.3, and 4.4.
  - USMCA Chapter 23 on labor and Annex 23-A.
  - U.S. National Security Strategy and Department's current policy guidance on "Promoting Gender Equality and Advancing the Status of Women and Girls."
  - U.S. Strategy for Addressing the Root Causes of Migration in Central America; Pillar I: Addressing Economic Insecurity and Inequality, which identifies, prioritizes, and coordinates actions within the USG to improve security, governance, human rights, and economic conditions.
  - Bureau of Educational and Cultural Affairs Goal 2, Increase the professional skills of emerging and established U.S. and foreign leaders to address global challenges such as countering disinformation and mitigating climate change.
- **Risks |** Growth in Mexico's southern states will depend on a competitive business environment to attract investment. Energy is most expensive and least reliable in its southern states. Energy policies that do not follow market principles could have a deleterious impact on southern states' competitiveness. Post will use continued high-level advocacy for market-based energy policies as well as promote renewable energies to hedge this risk. The COVID-19 pandemic has suppressed economic growth in Mexico. While projections for economic growth in Mexico are bright, a prolonged pandemic could result in lockdowns, travel restrictions, and other public health measures that would further suppress growth and make addressing economic and social disparities more challenging. On Central America joint assistance, long term funding from the Government of Mexico for foreign assistance will be critical to continue to partner on the root causes. Mission Mexico and the GOM have integrated these risks into the HLED and NALS frameworks to address these risks with high level political will.

**Objective 2.3** | The U.S. supports Mexico in efforts to propel economic sectors which will increase growth, develop the workforce, and spur an inclusive economic recovery.

- **Justification** | A prosperous Mexico and North America depend on a well-educated workforce equipped with the science, technology, and innovative skills required to succeed in the economy of the future. Foreign Secretary Marcelo Ebrard has repeatedly emphasized the importance of deepening educational exchanges, noting there should be far more than 14,438 Mexican students enrolled in U.S. institutions given our geographic proximity and cultural affinity. Deepening academic ties is not only essential to strengthening social understanding and cooperation, but also a necessary step towards technology transfer, economic integration, and regional recovery.
- **Linkages** |
  - State-USAID Joint Strategic Plan, Goal 2: Promote global prosperity and shape an international environment in which the United States can thrive.
  - WHA JRS Goal 4, Objectives 4.1, 4.3, and 4.4.
  - Bureau of Educational and Cultural Affairs Goal 2, Increase the professional skills of emerging and established U.S. and foreign leaders to address global challenges such as countering disinformation and mitigating climate change.
- **Risks** | Risks include unmet commitments by the Government of Mexico due to competing budget priorities.

### **Mission Goal 3 | A Resilient North America**

**Description |** Our North American partners are vitally important for ensuring the future prosperity of the United States. Our integrated supply chains, shared borders, and natural ecosystems play a critical role in promoting a competitive U.S. economy and healthy U.S. population. As the COVID pandemic has shown, this relationship can be disrupted by external threats that do not respect national boundaries. Building a resilient North America that is prepared to deal with global challenges is crucial for the United States and the region. The world faces a climate change crisis, and the global community must act urgently to transform our economies – including our sources and usage of energy – and reduce greenhouse gas (GHG) emissions to avoid the most catastrophic impacts of climate change. The United States should work with Mexico to reduce emissions and support climate adaptation to strengthen the resilience of the communities most vulnerable to climate change. We must also prepare for future public health and environmental emergencies. This mission goal supports a resilient North America by ensuring Mexico is an effective partner in addressing the climate challenge; protecting critical ecosystems; promoting energy, water, and food safety and security; and strengthening North American capacity to respond to public health emergencies.

**Objective 3.1 |** Mexico becomes an effective North American partner in addressing climate change and ensuring a clean, resilient, and secure energy future.

- **Justification |** Mexico ranks 11th among the leading GHG-emitting nations. The Lopez Obrador administration's energy policy, with its focus on strengthening the national energy company's production of crude oil while disincentivizing renewable energy makes it challenging for Mexico to meet its GHG reduction targets, which remain insufficiently ambitious. Nevertheless, President Lopez Obrador committed to supporting U.S. climate efforts during an October 2021 visit with Special Presidential Envoy for Climate (SPEC) John Kerry and reiterated these commitments in an October 2021 letter to President Biden and during Secretary of Energy Granholm's January 2022 visit. Mission-wide activities in climate build upon the bilateral climate working groups

led by SPEC and the Secretariat of Foreign Relations, with a particular focus on raising Mexico's climate ambition and identifying concrete areas for GHG emissions reductions.

- **Linkages |**

- State-USAID Joint Strategic Plan Objective 1.2 (Climate change), Objective 2.2 (Inclusive and Sustainable Economic Growth), and Objective 2.4 (Strengthen Resilience);
- WHA Joint Regional Strategy Objective 5.1 (Promote a clean, resilient, and secure energy future), Objective 5.2 (Build resilience to address climate change and ensure food and water security), and Objective 5.3 (Promote natural climate solutions); and
- Incorporates CDCS DO 2
- OES Functional Bureau Objective 2.2 (Climate action).

- **Risks |** Failure by Mexico to become an effective partner on climate and clean energy would jeopardize North American leadership in addressing the climate crisis. Mexico's current energy policies focused on strengthening the state-owned energy and power companies will make it extremely difficult for the country to meet its nationally determined contribution (NDC) to address climate change, an NDC that reputable NGOs deem insufficiently ambitious. The Mission will seek to mitigate this lack of climate ambition by initially focusing climate engagement on less politically contentious areas outside of the energy sector while gradually increasing clean energy efforts in areas the government does not perceive as threatening its goal to strengthen the state-owned energy and power companies.

**Objective 3.2 |** The United States and Mexico collaborate to conserve biodiversity and protect critical ecosystems, promote food and water safety and security, and strengthen capacities to respond to public health emergencies and health security crises.

- **Justification |** Mexico is a megadiverse country with over 10 percent of the world's species. The Eliminate, Neutralize, and Disrupt (END) Wildlife Trafficking Act required embassies to perform an assessment, and the Secretary of State determined

Mexico to be a Focus Country (1 of 26) as a major source, transit point, and/or consumer of wildlife trafficking products. Water management issues have become critical in Mexico as demand increases, drought conditions continue in several areas, and infrastructure ages. Border wastewater challenges threaten U.S. public health and environmental protection. As the top provider of foods exported to the United States and second of medical devices, it is important to ensure that Mexican regulators are aware of regulatory and policy developments in the United States and globally to ensure its food exports are safe and prevent foodborne outbreaks. In addition, Mexico's ability to respond to public health emergencies of international concern (PHEICs), as defined under the framework of the World Health Organization's International Health Regulations (2005), directly impacts U.S. health, economic, and national security. Improving Mexico's core capacities to prevent, detect, prepare, and respond to public health emergencies directly benefits the health and national security of Mexico, the United States, and the North American region.

- **Linkages |**
  - State-USAID Joint Strategic Plan Objective 1.1 (Leadership in strengthening global health security)
  - Incorporates CDCS DO 2
  - WHA Joint Regional Strategy Objectives 4.4 (Strengthen health and education systems and improve inclusive access) and 5.4 (Conserve biodiversity and protect critical ecosystems in the hemisphere)
  - North American Plan for Animal and Pandemic Influenza (NAPAPI).
- **Risks |** Wildlife trafficking and habitat destruction threaten sensitive species and generate revenue for transnational criminal organizations. Wastewater emergencies, such as the collapse of one of Tijuana's main sewage collectors in February 2017 and flooding of a pump station in 2019, can result in millions of gallons of Mexican sewage flowing into the United States. Public health emergencies, such as the COVID-19 pandemic, can have devastating effects on U.S. health, economic, and national security. Mexico has not yet participated in the WHO's mission to evaluate its implementation of



core capacities to respond to public health emergencies. Also, Mexico is the top provider of foods exported to the United States and second of medical devices, which underscores the needs for increasing technical capacities and ensuring alignment with international regulatory standards to support a more resilient, safe, and secure supply chain. The Mexican government's commitment to budget austerity, prioritization of job creation and assistance to the rural poor, and insufficient resources for law enforcement can translate into a lack of both political will and resources to adequately address environmental protection and wildlife conservation. These challenges can be mitigated by offering U.S. financial and technical assistance and demonstrating clear and compelling linkages to Mexico's core economic and public welfare interests.

#### **Mission Goal 4 | A North America Coming Together**

**Description |** The depth of the U.S.-Mexico relationship is rooted in people-to-people ties. Interconnected by our shared border, history, and culture, these people-to-people ties strengthen the bonds between our nations on a personal, grassroots, and lasting basis. Frequent travel and interaction between the United States and Mexico serve as a driving force that underpins our economic and security relationship. With an estimated 1.6 million resident U.S. citizens, Mexico hosts one of the world's largest U.S. expatriate populations. In 2020, U.S. citizens made 21.7 million trips to Mexico, ranging from brief cross-border visits to lengthy vacations to visit family or tourist destinations throughout the country. Mission Mexico will reinforce these networks by facilitating safe and legitimate travel and engaging in strategic public diplomacy programming and messaging, increasing the Mexican public's understanding of and affinity for U.S. policies and priorities.

**Objective 4.1 |** The United States and Mexico increase positive interaction through Mission Mexico's facilitation of safe and legitimate travel between the United States and Mexico and the protection of U.S. citizens' health and safety in Mexico.

- **Justification** | Mission Mexico provides services and information to U.S. residents and tourists in Mexico. Ensuring the health and safety of U.S. citizens in Mexico is the Mission's top priority. The Mission annually facilitates the travel of millions of foreign tourists. Given the highly integrated nature of U.S. and Mexican cultures and economies, accurately and efficiently adjudicating U.S. visa applications is of paramount importance.
- **Linkages** |
  - State-USAID Joint Strategic Plan, Goal 5: Serve U.S. Citizens around the world and facilitate secure international travel.
  - Consular Affairs Functional Bureau Strategy, Goal 1: Provide consular services to U.S. citizens overseas effectively and efficiently; Goal 2: Enhance the customer experience while improving the security and efficiency of Passport Services; and Goal 3: Facilitate legitimate travel while ensuring secure U.S. borders.
  - Bureau of Western Hemisphere Affairs and Bureau for Latin America and the Caribbean Joint Regional Strategy, Bureau Objective 3.1: Protect U.S. citizens, ensure secure borders, promote safe, humane, and orderly immigration and asylum systems, enhance protections for refugees and displaced persons, and promote stability in areas impacted by migration
- **Risks** | Given the mutual benefit of maintaining high levels of travel between the United States and Mexico, the U.S. government remains vigilant about COVID-19 developments and crime trends in Mexico, which directly impact the health, economy, and security of the United States. Pandemic-related restrictions limited in-office personnel, and travel restrictions initially decreased visa demand worldwide. The derivative funding shortfalls and related decrease in staffing resulted in challenges to providing services as demand increased. Recent violent incidents between criminal groups in popular tourist areas underscore the need to regularly monitor trends and share our best security assessment for U.S. citizens.

**Objective 4.2** | The U.S. Mission engages the public in Mexico and diaspora in the United States to advance a closer relationship between our two peoples and improve political and public opinion support for cooperative engagement.

- **Justification** | The Mexican population has traditionally held a favorable view of the United States, especially on non-political matters. However, a 2021 poll showed that just 51 percent of Mexicans believe Mexico should align itself more closely with the United States. Mission Mexico's public diplomacy programming and strategic messaging, aligned with U.S. government foreign policy objectives, can move that needle through ongoing educational and professional exchanges and speaker programs. Guided by our bilateral strategic priorities, public diplomacy can redefine the dialogue with influential Mexican groups, journalists, and academics, who in turn shape broader Mexican public opinion.
- **Linkages** |
  - Joint Regional Strategy for Bureau of Western Hemisphere Affairs and Bureau for Latin America and the Caribbean 2018-2022 Bureau Goal 4: A hemisphere receptive to U.S. leadership and values.
  - State-USAID Joint Strategic Plan 2022-2026 Objective 1.5 Enhance foreign publics' understanding of and support for the values and policies of the United States.
  - State-USAID Joint Strategic plan 2022-2026 Objective 3.5 Improve inclusive and equitable health, education, and livelihood services, especially for women, youth, and marginalized groups. ECA Functional Bureau Strategy 2022-2026, Bureau Goal 1: Further U.S. foreign policy objectives, including the advancement of democratic principles and promoting mutual understanding, through people-to-people exchanges and public diplomacy engagement efforts and
  - Incorporates CDCS DO 1 and DO 2
  - ECA Functional Bureau Strategy 2022-2026, Bureau Goal 2: Increase the professional skills of emerging and established U.S. and foreign leaders to

address global challenges such as countering disinformation and mitigating climate change.

- Bureau of Western Hemisphere Affairs Public Diplomacy Diaspora and Domestic Engagement Strategy
- **Risks |** Misunderstandings over U.S. policies, particularly regarding migration, constrain our influence on Mexican audiences and limit the impact of our programs. Despite our geographical proximity and strong ties, Mexico ranks only ninth in number of students studying at U.S. higher education institutions. In turn, with about 3,000 U.S. students in Mexico during the 2019-2020 academic year, Mexico ranks only twelfth as a destination country for U.S. students. We must strive to assertively maintain and strengthen our strong bilateral ties in the face of global competitors, particularly China, who seek to expand their cultural footprint in Mexico. We counter these risks by challenging disinformation and by accentuating the mutual benefits of balanced engagement between neighbors.

## 4. Management Objectives

**Management Objective 1 |** Data, service delivery, and management controls align with USG and department legal and regulatory requirements at six sigma levels.

**Description:** The support platform for Mission Mexico relies on data transparency, reliability, and fidelity across the International Cooperative Administrative Support Services (ICASS) core enterprise systems. These systems, including, but not limited to, the Integrated Logistics Management System (ILMS), Overseas Personnel System (OPS), Global Financial Management System, MyServices, MyData, and the Real Property Application (RPA), reflect the complexity of the world's largest diplomatic mission.

- **Justification |** Any efforts to achieve meaningful standardization and seamless operations across ten posts, the U.S. Logistics Center in Brownsville, and nine consular agencies will require the highest level of data quality to ensure fundamental service delivery and informed decision making. Likewise, fundamental business terms like unit costs, person hours, and budget forecasts require confidence at the enterprise, provider, and customer levels, not “garbage in/garbage out” performance. Mission Mexico possesses an adequate resource profile, high quality trained staff, and high-performing in-country infrastructure to support this goal and associated objectives. The infrastructure quality will only improve over the coming 36 months as the final pieces of the Mission’s capital construction projects come online.
- **Linkages |**
  - State-USAID Joint Strategic Plan Objective 4.1, Strengthen the effectiveness and sustainability of our diplomacy and development investments.
    - Performance Goal 4.1.1 By 2022, increase the use of evidence to inform budget, program planning and design, and management decisions.
  - State-USAID Joint Strategic Plan Objective 4.2, Provide modern and security infrastructure and operational capabilities to support effective diplomacy and development.

- Performance Goal 4.2.2 establish a plan to expand and leverage analytics capabilities of the Department's integrated global logistics systems to drive data-informed decisions, efficiencies, and/or improved accountability in the supply chain.
- Department of State Enterprise Data Strategy Objective 3.4, Establish a Data Quality Program.
- **Risks** | The successful attainment of this goal and objectives depends on a disaggregated set of systems that have little in common in terms of data nomenclature, data sharing, and underlying architecture. Any operational discontinuity and/or major revisions in one will necessarily affect the ability to "roll up" data stores to achieve management priorities. Nevertheless, Mission Mexico represents a unique environment for achievable incremental improvements in, and monitoring of, data quality and scalable innovation efforts in information technology.

**Management Objective 2** | Mission management activities rest on seamless standardized procedures across all posts.

**Description:** Just as clean data fuels better performance, so do smooth workflows and leveraged economies of scale. Distributed work processes represent the most advantageous aspects of the automated ICASS platform. Partnering easily monitored transactional processes with transparent service standards can power a continuous improvement cycle across all core business functions in finance, procurement, facilities, travel, shipping, and talent management.

- **Justification** | This goal and its associated objectives feature the aspects of management operations that present the greatest marginal returns for relative effort. Mission Mexico's annual procurements of cellphone, internet, and landline services total millions of dollars of strategic sourcing opportunities. Likewise, the positive effects of streamlined arrivals and departures processing can reduce the administrative burden on customers and service providers alike. The ICASS Furniture and Appliance Pool (FAP) carries a USD 5 million surplus that will permanently distort the true budget

picture and prevent accurate agency assessments if the objective is not met. Finally, the Mission stands at the closing stages of a revolution in its facilities profile after the planning and execution of the moves into the New Consulate Compounds and the New Embassy Compound are successfully completed.

- **Linkages:**
  - Executive Order on Transforming Federal Customer Service Experience and Service Delivery to Rebuild Trust in Government of December 13, 2021,
  - State-USAID Joint Strategic Plan Performance Goal Statement 4.4, Strengthen security and safety of workforce and physical assets.
    - Performance Goal 4.4.2, By 2022, Department of State will move overseas U.S. government employees and local staff into secure, safe, and functional facilities at a rate of 3,000 staff per year.
- **Risks |** All management activities fundamentally depend on a defined resource profile. Incomplete and intermittent appropriations handicap strategic planning, program management, and project execution. Ongoing effects of the COVID pandemic disrupt supply chains and inhibit efficient talent recruitment and retention. Mexico's plethora of management resources coupled with a historic facilities investment open a unique window of opportunity to set a positive performance flywheel in motion.

**Management Objective 3 |** Mission Mexico represents best-in-class professional development opportunities and highest possible career advancement for all employees.

**Description:** Any organization depends on its people for success. This statement is always true in the case of U.S. diplomacy. In fact, every other component of this strategy depends on the Mission's ability to attract talent at every organizational level in all roles and then develop, utilize, and retain it.

- **Justification** | The shift to Merit Based Compensation (MBC) will align the Mission with an ongoing Department management objective and will represent a definitive milestone in that effort. Successful implementation will enable supervisors to recognize superior performance for all local staff including the approximately 20 percent who have reached their maximum pay step. It is essential for the U.S. Mission to reflect American diversity and the diversity of our host nation. Finally, the recovery from COVID will require a redress of the training deficit over the previous two years.
- **Linkages:**
  - State-USAID Joint Strategic Plan Strategic Objective 4.3 Enhance workforce performance, leadership, engagement, and accountability to execute our mission efficiently and effectively.
- **Risks** | Continued COVID pandemic effects could forestall the in-person requirements of MBC implementation. Likewise, COVID has the potential to delay a return to broader areas of in-person training.





Boundary representations are not necessarily authoritative.

## BACKGROUND

### Land and Climate

Mexico is a little smaller than Saudi Arabia, or about three times the size of the U.S. state of Texas. It shares its northern border with the United States and its southern border with Guatemala and Belize. Deserts separate Mexico from the United States. In central Mexico, there is a large plateau, and jungles are found in the far southeast. Much of the country is covered by mountains, which include the Sierra Madre Oriental and Sierra Madre Occidental mountain ranges. Earthquakes are a common threat in Mexico, which sits atop the boundaries of three tectonic plates: the North American, the Cocos, and the Pacific plates. Mexico is rich in natural resources, including oil, natural gas, gold, silver, and coal.

Temperatures and rainfall vary with elevation and region. The deserts of the north are usually dry and hot. The high central plateau, where Mexico City is located, is cooler and tends to get a lot of rain during the summer. Humidity is higher in the southeast jungles and along coastal areas, where rain falls more often.

### History

#### Indigenous Peoples and Colonization

Mexico's history boasts a long line of advanced indigenous civilizations whose accomplishments rival those of the Egyptians and early Europeans. They built huge empires, were skilled artisans, and created accurate calendars. The Olmecs were among the first inhabitants of the area. By 500 BC, the Maya Empire had built incredible cities in southern

Mexico and Central America, but the empire began to decline in the 10th century AD and eventually fell. Following the fall of the Maya Empire, the Aztecs rose to power and built soaring temples, developed a writing system, and created an accurate calendar.

In the early 1500s, Spanish explorers came to Mexico. Following years of fighting, the Aztecs were conquered by the Spanish in 1521, and Mexico became a colony of Spain. While the Spanish assimilated some aspects of the native cultures, the destruction of these civilizations was widespread. Spaniards brought Christianity to the land and ruled until the 19th century.

#### Independence

Mexico was one of the first countries to revolt against Spain. Led by a priest named Miguel Hidalgo y Costilla, the drive for independence began in September 1810 and was achieved in 1821. A constitution was adopted in 1824 and a republic was established. However, Antonio López de Santa Ana took power in 1833 and ruled as a dictator. During his regime, Mexico diminished in size as it lost territory comprising Texas and much of the current western United States.

#### Political Transitions and Revolution

Santa Ana resigned in 1855, and after a series of interim presidents, Benito Juárez became president. In 1861, French troops invaded Mexico City and named the Austrian archduke Maximilian the emperor of Mexico. Forces under Juárez overthrew Maximilian in 1867. Dictator Porfirio Díaz came to power in 1877 and was overthrown in 1911, when Mexico entered a period of internal political unrest and violence. That period of social change, which ended in the 1920s and produced a new constitution, became known as the Mexican

Revolution.

### ***The Rise and Fall of the PRI***

The Institutional Revolutionary Party (PRI) emerged as the national leader in 1929; it ruled the country as a single party and restricted political dissent for many years. Many changes did take place, but none challenged the PRI's domination. Elected in 1988 amid allegations of fraud, President Carlos Salinas de Gortari signed the North American Free Trade Agreement (NAFTA) with the United States and Canada. After his term, he fled the country because of allegations of corruption.

In the 1990s, charges of corruption against high-level government officials and an economic crisis weakened the PRI's power. In 1997, the PRI lost control of the lower house in Congress for the first time since the party's founding. In July 2000, Vicente Fox of the National Action Party (PAN) was elected president, ending more than 70 years of PRI control of the government.

### ***The Drug War***

Felipe Calderón (PAN), who was elected president in 2006, cracked down on the drug trade while attempting to curb rising drug-related violence. He relied on the military, rather than Mexico's underpaid and highly corrupt police force, to increase security and target cartel leaders. During Calderón's six-year term, the military arrested two-thirds of the country's most-wanted drug kingpins. However, these arrests often created power vacuums that bred violence, as those in the cartels' middle ranks vied for leadership positions and organizations splintered into rival groups. In all, more than 60,000 people were killed in drug-related violence between 2006 and 2013 and tens of thousands disappeared.

When PRI candidate Enrique Peña Nieto became president in 2013, he put a greater emphasis on social programs aimed at preventing young people from joining criminal organizations. The drug trade remains an enormous problem, however. There are several major cartels, the largest of which are the Sinaloa, the Jalisco New Generation, and the Zetas, which employ hundreds of thousands of people and continue to be largely responsible for Mexico's high rate of violence.

### ***Modern Mexico***

Despite the violence that plagues its society, Mexico has seen progress in recent years thanks to a growing middle class, an open and increasingly competitive economy, and strengthened democratic institutions. Ensuring that all Mexicans benefit from this progress remains a challenge. Andrés Manuel López Obrador was elected president in 2018 on his third attempt by tapping into voters' frustrations with traditional political parties and by promising to tackle longstanding problems like poverty, economic inequality, corruption, and violence.

## **THE PEOPLE**

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### **Population**

Roughly 62 percent of Mexico's population is of mixed Spanish and Indigenous heritage. Roughly 28 percent belongs to various Indigenous groups, most of whom are descendants

of the Maya and Aztecs. About 10 percent is of European ancestry. Most Mexicans tend to identify with their Indigenous and Spanish heritage.

Most the population lives in urban areas. Mexico City, the capital, is one of the largest cities in North America; its metropolitan area has a population of over 21 million. Guadalajara and Monterrey are also major population centers. Though many Mexicans continue to immigrate to the United States in search of work and an increased standard of living, hostile attitudes toward immigrants in the United States and improving opportunities in Mexico have slowed migration rates and caused a growing number of Mexicans to return to Mexico.

### **Language**

Spanish is the most widely spoken language, and Mexico has the largest population of Spanish speakers in the world. The Spanish spoken in Mexico is somewhat unique in pronunciation and idiom uses. One characteristic is the abundant use of diminutives to express small size, endearment, or politeness: *chico* (small) becomes *chiquito*, *abuelo* (grandfather) becomes *abuelito*, etc.

More than two hundred Indigenous languages, including Tzotzil and Tzeltal (Mayan dialects), Nahuatl (Aztec), Otomi, Zapotec, and Mixtec, are still spoken in parts of Mexico. Most people who speak an Indigenous language also speak some Spanish. Indigenous languages and Spanish are often used jointly in rural schools that serve large Indigenous populations, such as those located in the states of Chiapas, Guerrero, and Yucatán. English is taught at public and private schools, but competence in English is rare in most rural areas.

### **Religion**

Most Mexicans (78 percent) are Roman Catholic, although many do not attend church services regularly. This is especially true of younger generations. The Catholic Church has greatly influenced the culture, attitudes, and history of Mexicans, and Catholic holidays are celebrated widely. The Virgin of Guadalupe is the patron saint of Mexico and a national symbol. According to legend, she appeared several times to an Indigenous man named Juan Diego in December 1531. Other Christian churches are also active in Mexico; some are growing quite rapidly, especially in rural areas.

The Mexican constitution was drafted during the revolution in an attempt to transfer power from the Catholic Church to the people. It guaranteed freedom of worship but banned public displays of worship and forbade churches to own property or exist as legal entities. In 1992, the law was changed, endowing churches with more legal rights. Although many officials ignored the previous restrictions, the law relieves tension between the state and various religions—without forcing the government to endorse a specific church.

### **General Attitudes**

Most Mexicans value friendship, humor, hard work, personal honor, and honesty. Nevertheless, corruption is a fact of life at nearly all levels of society. For many Mexicans, social status is measured by family name, education, and wealth,

which is respected even when that financial success is achieved through illegal means. In general, Indigenous Mexicans are more hesitant than other Mexicans to flaunt wealth or accomplishments in public, and they tend to be more appreciative of reserved and humble behavior.

*Machismo*, the ideal of a strong, forceful man, is still prevalent. The elderly are respected, particularly in Indigenous communities. Mexicans traditionally have had a relaxed attitude toward time, although this is changing in urban areas. Generally, they believe individuals are more important than schedules.

Despite Mexico's challenges, Mexicans tend to be patriotic and proud of their country. Though divided on many issues, Mexicans will often put aside their differences and unite for the good of the country during times of crisis. Many Mexicans will also fight publicly for a cause they feel strongly about. In fact, in the tradition of revolutionaries like Pancho Villa and Emiliano Zapata, Mexicans frequently engage in protests, boycotts, and other social movements to bring about improved living, working, and public health conditions. Complaints about government or social institutions are also communicated through political cartoons, graffiti, speeches, pamphlets, and the internet.

Mexicans also tend to be proud of the country's mestizo identity. The mestizo mix of Spanish, Indigenous, and African heritage created by colonization has given birth to unique cultural traditions in music, food, dance, dress, language, and social values. However, some Mexicans believe that this concept of mixed racial unity draws attention away from the way race affects social hierarchies, with those of primarily Spanish descent and generally lighter skin often found at the top of the social ladder and those with more Indigenous or African backgrounds and generally darker skin at the bottom.

### Personal Appearance

Most Mexicans follow the latest fashion trends and wear clothing that is also common in the United States. Brand-name clothes are valued, and counterfeit versions of popular brands are common. Secondhand clothing, much of which comes from the United States, is common among poorer and rural Mexicans. While casual clothing is popular among Mexicans of all ages, older generations tend to dress more formally.

Many Indigenous groups wear traditional clothing—either daily or for festivals. In some areas, a man wears a wool poncho (*sarape*) over his shirt and pants when it is cold. He also may wear a wide-brimmed straw hat. Rural men and professional men in the north may wear cowboy hats, boots, and jeans. In the south, men may wear a *guayabera* (a decorative shirt of light fabric that hangs to just below the waist).

Rural women may wear dresses or skirts, often covered by an apron. They may also use a shawl (*rebozo*) to carry a child, cover the head or arms, or help support water buckets carried on the head. Fabric designs and colors can be characteristic of a specific region.

People often dress up for special occasions. Women in particular are careful about their appearances and tend to wear

a lot of makeup. Earrings are usually worn daily, while bracelets, necklaces, and rings may be reserved for important social events. Once widely popular, gold jewelry is now closely associated with drug cartels.

## CUSTOMS AND COURTESIES

### Greetings

Mexicans usually greet with a handshake or nod of the head, although family and close friends commonly embrace. People may also shake hands while saying good-bye. Women often greet each other with a kiss on the cheek, and men may greet female relatives or close female friends in the same way. Mexicans commonly make eye contact with and smile at strangers passing by.

Common verbal greetings include *Buenos días* (Good morning), *Buenas tardes* (Good afternoon), *Buenas noches* (Good evening/night), and *¿Cómo está?* (How are you?). A casual greeting is *Hola* (Hello). Some Mexican males, especially blue-collar ones, make *piropos* (pick-up lines or sexually suggestive comments) in passing to females, to which the females generally do not respond.

Mexicans commonly have more than one given name and two last names (e.g., *José Luis Martínez Salinas*). The next-to-last name comes from the father and functions as the official surname, while the final name is from the mother. Coworkers address one another by professional title followed by the first surname (e.g., *Doctor Martínez*). Acquaintances or coworkers without a title are addressed as *Señor* (Mr.), *Señora* (Mrs.), or *Señorita* (Miss), followed by the surname. Respected elders often are addressed as *Don* or *Doña*, followed by a given name. Mexicans use *usted*, the formal version of “you,” when greeting a person of higher rank and the more casual *tú* with those of their own age or social position.

### Gestures

Mexicans typically stand close to each other while talking. While conversing, eye contact is customary. They often use hand and arm gestures in conversation. Indigenous peoples may be more reserved around foreigners or Mexicans from big cities.

To get someone's attention, Mexicans usually wave and often whistle. A person can indicate “no” by shaking the hand from side to side with the index finger extended and palm outward. The “thumbs up” gesture expresses approval. Pointing an index finger just below one's eye is a warning to be careful, but pointing at others with an index finger is considered rude in most situations. A person may show that something is expensive by making a fist and extending the index finger and thumb to form a C-shaped gesture. To indicate stinginess, a person may bend an elbow and tap or rub it with the hand. Tossing items is considered offensive; one hands items directly to another person.

If someone sneezes, a person may say *Salud* (Health). If passing between conversing individuals is unavoidable, it is polite to say *Con permiso* (Excuse me). It is considered important to say *Gracias* (Thank you) for any favor or

commercial service rendered. Men will often open doors, carry heavy items, and give up their seats on public transportation for women.

### Visiting

Mexicans have a reputation for being very hospitable. Unannounced visits are fairly common, but visitors may call ahead to ensure the hosts are home. Visitors usually are welcomed and served refreshments. Refusing refreshments may be considered impolite. Guests will often bring drinks, desserts, or flowers. On special occasions, gifts are important, and in some areas serenading is still popular. Guests are expected to relax and do not offer to help the host unless it is evident some help is needed.

Mexicans tend to enjoy conversing and socializing with relatives or friends. At a dinner party, the meal might not be served until after 8 p.m. because people work late and enjoy socializing before eating. Guests stay for conversation rather than leave directly after the meal. It is considered rude to depart without taking leave of the hosts through handshakes, kisses on the cheek, and (for close relationships) embraces.

### Eating

Although schedules vary, Mexicans typically eat three main meals daily: a hearty breakfast, a main meal in the afternoon (between 2 and 4 p.m.), and a light snack called a *cena* or *merienda* in the evening. The main meal may consist of soup or salad, a main dish, and dessert (*postre*) or coffee.

Eating as a family is common. Urban professionals eat many of their meals at restaurants or street-side stands. Families are more likely to eat at restaurants only on the weekends. *Cocinas rapidas* are small restaurants that offer diners a filling meal for an inexpensive price. Food purchased on the street usually is eaten at the stand where the item is bought. It is usually inappropriate for adults to eat while walking on the street. Fast food is a popular option for low-income Mexicans. Tips of 10 to 15 percent are customary in restaurants that have servers.

People are expected to wait until everyone is served before eating. When eating, Mexicans keep both hands above the table. Some foods are eaten with utensils, while others (such as *tacos*, for example) are eaten by hand or by using pieces of tortillas to scoop food. Meals usually are not rushed and may last up to two hours. One should generally ask to be excused when leaving the table.

## LIFESTYLE

### Family Structure

Whereas several decades ago seven children used to be the average, today most Mexican families—especially those in urban areas—have around two. Rural parents usually have more than three children. A household often includes members of the extended family, though nuclear families are becoming more common among younger people in urban areas. A majority of Mexican children are born out of wedlock.

Immigration of one or more family members to the United States or elsewhere to work is common and has mixed effects on the family unit. While many families benefit materially from remittances sent to Mexico, long absences from loved ones, unstable work, and sometimes poor living conditions abroad often weaken family relationships.

### Parents and Children

Family unity and responsibility are high priorities, with family ties representing lifelong commitments of mutual support. Mexican children generally have few responsibilities outside of studying. Mothers sometimes help their children with homework. Even though most Mexican parents are generally lenient with their children, corporal punishment is not uncommon and is socially accepted. Children generally live with their parents until they marry and sometimes after they marry.

Adult children are expected to take care of their elderly parents, as nursing homes carry a stigma. The eldest male child in particular is expected to care for his parents in old age and support his siblings if parents cannot do so. Specifically, this may mean providing housing for his parents and financing his siblings' educations by paying their university tuition or purchasing their books and uniforms. Because male children—especially the oldest son—are seen as carriers of their families' legacies, they are often favored during childhood.

### Gender Roles

In many families, the father is the leader and provides economic support, while the mother and daughters are responsible for the domestic duties of cooking, cleaning, sewing, and childcare. Additionally, female family members often encourage the use of native indigenous languages in the home, keep cultural traditions alive, and participate in religious ceremonies. The father represents masculine sensibilities and often strives, through example, to instill moral character in his children. Girls are often encouraged to display femininity in their dress and disposition, while boys are encouraged to play sports and spend time with male role models. In some ethnic groups, the mother is the leader, and more women from almost all groups are entering the formal workplace: about 46 percent of women now work outside the home. Rural men and women often work together in the fields.

Though women in urban areas of central and northern Mexico have long enjoyed access to education, their rural counterparts—especially those in the south of the country—have only recently been able to do so. Women throughout the country are still struggling to achieve social equality and access to positions of power. Activists and government organizations strive to provide women with the skills necessary to compete with men in political and social arenas. But even though Mexico may appear to be a dominantly male-run society, behind the scenes, women play important roles in facilitating the progression of government, business, science, and technology.

### Housing

#### Exteriors

Most Mexican dwellings, especially in urban areas, are

box-like, rectangular buildings with few frills and little greenery. People try to make up for the lack of lawn outside their homes by hanging lots of flowers and plants on their exterior walls. Some rural dwellings are made from adobe or stone, materials ideally suited to the Mexican climate, but urban-style cement and brick buildings have become more common in rural areas.

Because of earthquakes, people in both urban and rural areas now build houses that do not exceed two storeys and that are constructed of cement blocks and steel bars, which are often left protruding out of the roofs. In urban centers, especially Mexico City, complexes called *vecindades* contain 10 to 12 small one- to two-storey low-income housing units connected by a shared patio. In deeply impoverished areas, houses may be made from cardboard and other found materials.

### **Interiors**

Houses usually have one to three bedrooms, though in poorer urban homes and in many rural ones, the sleeping area may be separated from the rest of the house with only a curtain, if at all. A multipurpose room used for visiting, cooking, and dining is common. Virtually all homes have electricity and most have indoor plumbing.

Standard furnishings include a couch, dining table, refrigerator, television, and music player. Mexicans typically decorate their walls with pictures of ancestors, wedding and graduation photos, and religious art, especially of the Virgin Mary.

## **Dating and Marriage**

### ***Dating and Courtship***

Because young people usually spend most of their academic careers in the same group, they tend to form deep relationships—some romantic—with their peers in school. Couples might also meet at community social events, cafés, clubs, and bars. When dating, a young man often meets the young woman at a prearranged place rather than picking her up at her home. However, parental approval of the activity and of the boyfriend is important.

In some rural areas, it is considered a mark of poor character for a young woman to go out alone after dark, so a young man may call on her at home. Elsewhere, couples frequent movies, beaches, bars, and nightclubs. They may also spend time strolling in a central plaza or park. Public displays of affection are the norm when family members are not present.

At the beginning of a romantic relationship, small tokens such as flowers, candles, stuffed animals, or poems are often exchanged to express interest or love. Some men express a deeper commitment to a love interest by hiring a *mariachi* band to perform love songs to his girlfriend (and her family and neighbors) outside of her home.

### ***Marriage in Society***

Getting married is an important goal for most Mexicans, especially women. On average, men and women usually marry in their mid-twenties, though in rural areas they may be much younger. Most men still follow the tradition of asking the woman's parents for permission to marry. An engagement period allows the bride and her family to prepare for the

wedding.

Common-law marriage is recognized, though it is not commonly practiced. Those involved in such a relationship have some parental duties and financial obligations toward each other if the union is dissolved.

Same-sex marriage is explicitly legal in Mexico City and in several states. In June 2015, the Mexican Supreme Court ruled it discriminatory for states to deny same-sex marriages, effectively legalizing the practice throughout the country. Same-sex couples who are denied marriage licenses in their states must seek injunctions from district judges, who are now required to grant them. The federal Mexican government is seeking to officially legalize same-sex marriage nationwide.

The divorce rate is relatively low, partly because of the dominance of the Catholic faith, which does not approve of divorce. Teen pregnancy is common, and unmarried women tend to keep and raise the child with the help of their parents.

### ***Weddings***

Many people marry first in a civil ceremony and then in a church, following Catholic traditions. These two events usually occur within days of each other, with the civil ceremony generally attended by immediate family members only and the church ceremony open to both family and invited guests.

Because marriage is a major milestone for Mexicans, many families spend a great deal of money on the wedding reception, which typically includes food, music, dancing, and games. Traditionally, the bride's family pays for the reception and the "post party," an informal celebration that is usually held the day after the wedding. The groom usually pays for the wedding ceremony (such as flowers, church fees, etc.), the rings, the bride's dress, and the honeymoon. Less affluent families may conduct a civil ceremony only and forgo costly festivities.

## **Life Cycle**

### ***Birth***

Friends and family members hold parties for expectant mothers a few weeks prior to the woman's due date. Here they provide gifts, food, and entertainment to celebrate the impending arrival of the baby. Some traditional Indigenous midwives believe that pregnant women should not be exposed to extremes in temperature, spicy food, or physical activity because doing so will hinder the birthing process. These midwives, often found in southern Mexico, use holistic practices to assist the woman in labor. Women living in urban areas or rural regions where such facilities exist usually give birth in modern hospitals. A nurse will typically pierce a baby girl's ears the day of her birth. Grandparents play a key support role during a baby's early days.

Most Mexican babies are baptized. The performing of this religious ritual is the focus of a major social event attended by the child's *padrinos* (godparents) and numerous family members and friends.

### ***Milestones***

Although legally a Mexican girl does not reach adulthood until she turns 18, her *quinceaños* (15th birthday) has traditionally marked that transition. Often an extravagant and costly event, the *fiesta de quince* (15th birthday party) is part

religious ceremony, part big party. It begins with a special Mass, after which family and friends gather to celebrate with food, music, and dance. The birthday girl wears an elaborate gown and what is often her first pair of high-heeled shoes. She is escorted by a group of young men with whom she dances after one waltz with her father.

### **Death**

After the death of a loved one, most Mexicans do the bulk of their mourning in funeral homes or in small chapels, though some rural Indigenous Mexicans may mourn in their homes. Typically, the body is buried within two or three days of death. On the way to the cemetery, female mourners dressed in black carry white flowers. In rural communities, a band composed of guitars, trumpets, drums, and harps may accompany mourners to the cemetery. Nine days of community prayer in the home of the deceased follows the burial. When these days are over, a cross is carried to the cemetery and placed on the deceased's grave.

*Día de los Muertos* (Day of the Dead, 1–2 November) is a holiday celebrated each year to honor the spirits of deceased family members. In the home or at the graveside, altars for the dead are adorned with food, beverages, and the relative's favorite objects. These offerings are left out for the spirits to sample from as they pass by on their yearly tour of earth. The holiday is not only a time to pray and reflect but also one to drink, eat, laugh, and share stories about deceased loved ones.

### **Diet**

Staple foods include corn, beans, rice, and chilies. These typically are combined with spices, vegetables, and meats or fish. Some foods and dishes are regional, but others are common throughout the nation. Cornmeal or flour tortillas are eaten everywhere.

Common dishes include *tortas* (hollow rolls stuffed with meat, cheese, or beans), *quesadillas* (tortillas baked or fried with cheese), *mole* (spicy or sweet sauce served with meat), and *tacos* (folded tortillas with meat or other filling). Popular soups include *pozole* (pork-and-hominy soup), *birria* (goat soup), and *menudo* (spicy tripe soup). *Enchiladas* are tortillas filled with meat and covered in a chili sauce. *Tamales* are cornmeal dough stuffed with meat, cheese, fruit, or other filling; they are wrapped in a corn husk or banana leaf and steamed. People often make homemade fruit drinks, but commercially produced soda is everywhere.

### **Recreation**

#### **Sports**

*Fútbol* (soccer) is Mexico's most popular sport; the national team has competed in several World Cups. Bullfighting draws the next highest number of spectators. Professional wrestling (*la lucha libre*) has a large following. Popular participation sports include baseball, basketball, tennis, and volleyball. Other activities vary by region: surfing, diving, and swimming are popular in coastal areas; hiking in mountainous ones; and horseback riding in northern ranch states. Mexicans enjoy their own form of rodeo called *charreada*, which is often accompanied by a fair-like atmosphere.

#### **Leisure**

Watching television is a favorite leisure activity, especially in

urban areas. *Telenovelas* (soap operas) are popular, and men often gather on weekends to watch televised soccer games. Women throughout the country enjoy making various crafts. In the southern states, young girls embroider designs on tablecloths, dresses, and quilts, sometimes selling these goods in central markets. Listening to music and dancing is popular among Mexicans of all ages.

On weekends, families and friends enjoy gathering at home or in restaurants. Meeting for a chat in the *zócalo* (town square) in the evening or on Sunday is popular among older rural men. Daylong *fiestas* (parties) and weeklong festivals nearly always feature fireworks, feasts, and bullfights.

Urban youth enjoy spending their free time in shopping malls, where they go to movies or chat with friends. Many young people also like to exercise at the gym. Young children enjoy outdoor activities such as riding bikes, going to nearby parks, and playing hide-and-seek; popular indoor activities for children include playing video games, browsing the internet, and dancing to music.

#### **Vacation**

Full-time employees usually receive up to two weeks of paid vacation. When official holidays fall on Thursdays, Fridays, or Mondays, Mexican workers enjoy *puentes* (literally "bridges"), or extended weekends, that are often used to vacation or visit relatives. Middle- and upper-class families often vacation along the beaches of the Pacific and Caribbean. Archeological sites such as Teotihuacán, Monte Albán, Uxmal, and Chichén Itzá attract many vacationers, as do the colonial cities of Morelia and Oaxaca. Oaxaca is home to a popular cultural festival, Guelaguetza. Many Mexicans also visit the International Cervantes Culture Festival, in Guanajuato, and the Morelia International Film Festival.

### **The Arts**

#### **Song and Dance**

Song and dance are integral to Mexican society. Originating in Mexico, *mariachi* music has found many international audiences. *Mariachi* bands vary in size but generally consist of a singer, violins, trumpets, and various guitars. *Corridos*, songs that tell stories, and *ranchera* are other forms of traditional music. Mexico has become a major music recording and distribution center for the Americas. Dances, such as the *Jarabe Tapatío* (Mexican Hat Dance), often accompany traditional music and *fiestas* (parties).

In Mexico City, the Palacio de Bellas Artes (Palace of Fine Arts) features the famous Ballet Folklórico de México (Mexican Folklore Ballet), and the National Autonomous University of Mexico hosts a philharmonic orchestra that has been performing classical music since 1936.

#### **Visual Arts**

Revolutionary themes dominated all types of art the first half of the century and remain important today. For example, brightly colored murals commissioned by the government in the 1920s and 1930s decorate many public buildings. Diego Rivera and other Mexican artists inspired muralist movements worldwide, and the muralist tradition continues in Mexico today.

Museums feature the art of ancient civilizations as well as fine art. Textiles, pottery, and silverwork are popular and can

be seen in many markets.

### Film

The period spanning the 1930s to the 1950s was known as the Golden Age of Mexican Cinema. Notable directors such as Emilio Fernández and Luis Buñuel influenced filmmaking during this time.

In the 1990s, Mexican film again flowered. This era, dubbed the New Mexican Cinema, saw directors like Alfonso Arau and Alfonso Cuarón create important films such as *Like Water for Chocolate* (1992) and *Y tu mamá también* (2001). In recent years, Cuarón, Guillermo del Toro, and Alejandro González Iñárritu have directed successful films within the American and British film industries as well; in 2014 Cuarón became the first Latin American director to win an Oscar, awarded for his film *Gravity* (2013).

### Holidays

Holidays include New Year's Day (1 January); Constitution Day (5 February); Birthday of Benito Juárez (third Monday in March); Labor Day (1 May); Independence Day (16 September), which is marked by a presidential address and *El Grito* (the cry of freedom) on the evening of 15 September; *Día de la Raza* (Day of the Races), which celebrates Indigenous heritage (12 October); Revolution Day (20 November); and Christmas Day (25 December). Many offices close for a half day on Mother's Day (10 May), when schools sponsor special festivities.

Major religious holidays include Saint Anthony's Day (17 January), when children take their pets to church to be blessed; *Semana Santa* (Palm Sunday to Easter Sunday); Corpus Christi (May or June); and Assumption (15 August). During the period known as *Día de los Muertos*, or Day of the Dead (1–2 November), families gather to celebrate life while they honor the dead. Day of the Virgin of Guadalupe (12 December) and *Noche Buena* (Christmas Eve, 24 December) are so popular that most offices and businesses honor them as public holidays. Christmas celebrations begin on 16 December with nightly parties, called *posadas*, and end on Day of the Kings (6 January), when most children in central and southern Mexico get their presents.

Each town also has an annual festival that includes a religious ceremony, meal, and dance. Many people try to return home for these events.

### Carnaval

*Carnaval*, the week of parties and parades that precedes Lent, is a favorite holiday in Mexico. It is a time of indulgence before the solemn religious holiday that follows. The most popular place to celebrate is in the tropical port city of Veracruz, where thousands of dancers, musicians, and other performance artists gather to parade along the city's seaside boardwalk in elaborate masquerade. At the end of a weekend filled with parties, a king and queen of *Carnaval* are crowned.

### Semana Santa

Mexicans look forward to time off school and work during *Semana Santa*. Many who live in big cities and the central states flock to the coast. Towns also hold *ferias* (fairs), complete with amusement-park rides, games, and food stands stocked with snacks such as *empanadas* (meat, vegetable, or cheese turnovers) and *quesadillas* (tortillas baked or fried

with cheese).

### Christmas

The *posadas* held during the Christmas season (16–24 December) are another favorite time of celebration. During these nightly parties, families reenact the night when Mary and Joseph searched for lodging (*posada*). The hosts act as innkeepers while their guests act as lost pilgrims seeking shelter. The tradition holds that guests are initially turned away until a pregnant Mary—a woman dressed as the Virgin or a statue of her—is recognized in the crowd. All are then invited into the home to pray and celebrate with song, dance, and food, as well as piñatas for the children.

## SOCIETY

### Government

#### Structure

Mexico is a federal presidential republic of 32 states operating under a central government led by a president. The president is the head of state and head of government. The president is directly elected by popular vote to serve only one six-year term.

The legislature is composed of a 128-seat Senate and 500-seat Chamber of Deputies. Members of congress are elected directly and through proportional representation to serve terms of either six years (senators) or three years (deputies). Forty percent of party candidates are required to be women.

Though the Supreme Court has become more independent in recent years, as a whole the judicial system lacks transparency and is prone to corruption.

#### Political Landscape

Mexico has four main political parties: the right-wing National Action Party (PAN), the centrist Institutional Revolutionary Party (PRI), the left-wing Party of the Democratic Revolution (PRD), and the left-wing National Regeneration Movement (MORENA). From 1929 to 2000, Mexico's political landscape was dominated by the authoritarian style of the PRI. However, Mexico has since transitioned into a competitive multiparty system.

Mexico faces some major challenges, including violence, the illicit drug trade, and widespread corruption. Political parties have been accused of voting fraud, decreasing the legitimacy of the country's democratic system. Though many Mexicans blame the government for these problems, they also expect the government to fix them.

#### Government and the People

While states are autonomous, the central government controls education, security, and national industries, among other sectors. The constitution provides for many freedoms, including speech, association, and assembly, which are generally upheld. However, political and social activists and journalists sometimes face threats and violence from the government and criminal organizations.

Few Mexicans have confidence in their government. Corruption is widespread, and efforts to curb it have been slow. Bribery is considered necessary when interacting with Mexico's underpaid public servants and intricate bureaucracy;

the practice costs the economy a significant portion of its gross domestic product (GDP) yearly. Yet despite these challenges, most Mexicans are politically engaged and regard their political affiliation as an important part of their identity.

Past elections have generally been considered free and fair, though election fraud, including vote-buying and unbalanced media coverage of parties, has been reported. Mexico has no law against giving voters gifts, though the gifts are not allowed to be used to influence one's vote. Violence against electoral candidates by political opponents or gangs, consisting of threats, intimidation, and killings, is common. Voting is considered a duty for adults 18 and older but is not enforced.

## Economy

### *Economic Sectors*

Service industries employ the highest proportion of Mexicans and create the largest part of the gross domestic product (GDP), although heavier industries such as mining, manufacturing, and petroleum are also important. Pemex, owned by the Mexican government, is one of the world's largest oil companies, but as production has lagged, the government has opened the oil sector to foreign investment and foreign bidding on exploration rights. Tourism brings in several billion dollars each year. Remittances from Mexican emigrants working in the United States are an important source of income. More than half of the Mexican workforce is part of the informal economy.

### *Free Trade*

Since 1994, when the North American Free Trade Agreement (NAFTA) with the United States and Canada came into effect, the economy has increasingly relied on a growing manufacturing sector. NAFTA lowered trade barriers and increased the number of *maquiladoras* (border industries), where U.S. investment employs Mexican labor. Economists are divided on how much NAFTA has helped Mexico's economy. Although some sectors have grown, others, such as agriculture, have been harmed by competition from duty-free, heavily subsidized products from the United States. In addition, *maquiladoras* have drawn some criticism for not meeting typical U.S. guidelines for wages, safety, and environmental regulations. In 2018, the leaders of Canada, Mexico, and the United States agreed to a deal, the United States–Mexico–Canada Agreement (USMCA), that would revise important areas of NAFTA, including agriculture, auto manufacturing, and labor rights.

Mexico also has entered free-trade agreements with the European Union, much of Central America, Japan, and Israel, making its economy one of the most open and globalized in the world. Mexico was one of four founding members of the Pacific Alliance with Peru, Colombia, and Chile, enabling the free movement of goods, people, services, and capital among member nations and allowing the regional group to compete more successfully with China, Europe, and NAFTA countries.

### *Personal Economies*

Mexico is home to a growing middle class, and most Mexicans have access to at least basic resources. However, economic opportunities are fewer among the Indigenous, rural, and southern populations. About 42 percent of

Mexicans live in poverty. Income distribution is highly unequal.

Urban residents buy basic goods in supermarkets and smaller neighborhood stores. Street vendors and open-air markets are common and often open to bargaining. In small towns, weekly market days provide food and other goods. The currency is the Mexican *peso* (MXN).

## Transportation and Communications

Some Mexicans own personal cars, especially in urban areas, but the majority of people rely on public transportation. Buses and minibuses are plentiful and relatively inexpensive. Mexico City has a subway system. Taxis are numerous. The highway system has grown steadily in recent years, and Mexico has an extensive system of roads, although many remain unpaved or semi-paved. Most people use the private bus system for intercity travel. There are several domestic airlines and numerous international airports, including those in major cities like Mexico City, Guadalajara, and Monterrey as well as those serving tourist hubs like Acapulco, Cancún, and Cozumel. To help reduce traffic congestion and pollution, Mexico City officials have tried to promote biking by instituting a public bike rental program and closing one of the city's major avenues to cars on Sundays.

Communications are generally well developed, and cellular phones have become common. High-speed internet is available in major cities and towns. Rural areas have internet access, but internet service remains prohibitively expensive for many people in these areas. Numerous radio and television stations and daily newspapers serve the public. Although freedom of the press is constitutionally protected, it is not respected in practice. Journalists routinely face harassment, intimidation, and violence from corrupt government officials and members of criminal organizations. Mexico is one of the world's deadliest countries for journalists, a problem that has worsened in recent years.

## Education

### *Structure*

Education is compulsory for fourteen years. After six years of primary education and three years of basic secondary education, students enter one of two tracks: a technical education program or a preuniversity program. Those who choose a preuniversity program then specialize further.

### *Access*

Most students attend public schools. Attendance is not enforced, and schools may require that students pay some fees. Students who do attend regularly face class sizes of about 30 students, poorly maintained buildings (which may lack drinkable water and electricity), and low-quality state textbooks. Though resources vary by region, access to technology tends to be limited in primary and secondary grades. Some students, mostly ones from middle- and upper-income families, attend private schools, which usually have better facilities and educational outcomes.

Mexico has enacted educational reforms aimed at improving the quality of teaching and curbing corruption. Nevertheless, Mexico continues to have one of the most corrupt education systems in the world. A huge portion of its



education budget is siphoned off by administrators and teachers who are not actually working.

**School Life**

Curriculum used to be dominated by rote learning, but collaborative group projects that involve hands-on learning and community engagement have become the norm. Common courses include English, Spanish, indigenous languages, mathematics, science, history, geography, civics, art, technology, and physical education. Midterm and final exams are used to test student knowledge. Cheating is widespread among Mexican students and usually goes unpunished.

Generally speaking, students and teachers have close relationships. They may attend parties at each other's houses to celebrate special events, play on the same intramural sports team, or go on academic trips outside of the classroom together. Nevertheless, students show respect by using the academic titles *licenciado/a*, *maestro/a*, or *professor/a* to address teachers with bachelor's, master's, or doctorate degrees.

Amiable relationships are not only expected between students and teachers but also among security guards, cleaning staff, cafeteria workers, and other school employees, as socializing and maintaining a pleasant environment are integral to Mexican academic culture. Students often bring guitars to their campuses, and it is not uncommon to hear singing and laughter fill outdoor courtyards.

**Higher Education**

Obtaining a university degree takes two to six years. The mostly free National Autonomous University of Mexico (UNAM), in Mexico City, is prestigious, though few applicants pass its entrance exams. Other public and private universities are located throughout Mexico. Tuition at public schools is lower than that at private schools. Enrollment has increased rapidly in recent decades, and a growing number of women are entering institutes of higher education.

**Health**

By law, all citizens have access to medical services free of charge at government-operated facilities. Medical facilities are good in large cities but limited in remote areas. Traditional remedies and the use of herbs are common in rural areas. Sanitation and access to safe water are problems in some regions. Air pollution is a serious problem in big cities.

About 30 percent of Mexicans are overweight or obese, conditions that have contributed to quickly rising rates of heart disease and type 2 diabetes, which are the leading causes of death in the country. Mexicans drink more carbonated beverages than any other citizens in the world. In 2014, Mexico implemented higher taxes on sugary drinks and junk food to discourage dietary choices that have contributed to these lifestyle diseases.

In late February 2020, Mexico reported its first cases of COVID-19, a serious respiratory illness that had previously spread in China and around the world. President Andrés Manuel López Obrador was criticized for downplaying the threat early in the country's outbreak, failing to quickly require social distancing, and reopening the economy even as infections continued to rise.

**AT A GLANCE**

**Contact Information**

Embassy of Mexico, 1911 Pennsylvania Avenue NW, Washington, DC 20006; phone (202) 728-1600; web site [embamex.sre.gob.mx/eua](http://embamex.sre.gob.mx/eua). Mexico Tourism Board, web site [www.visitmexico.com](http://www.visitmexico.com).

**Country and Development Data**

Capital	Mexico City
Population	130,207,371 (rank=10)
Area (sq. mi.)	758,449 (rank=13)
Area (sq. km.)	1,964,375
Human Development Index	76 of 189 countries
Gender Inequality Index	74 of 162 countries
GDP (PPP) per capita	\$17,900
Adult Literacy	96% (male); 95% (female)
Infant Mortality	12 per 1,000 births
Life Expectancy	72 (male); 78 (female)
Currency	Mexican Peso

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## Mexico - Military

Last updated: 16 Jan 2023

### Armed forces

Last updated: 28 Oct 2022

### Executive summary

Last updated: 26 May 2023

	<b>Total strength</b>	<b>Army</b>	<b>Air force</b>	<b>Navy</b>	<b>Marines</b>
<b>Active personnel</b>	274,000	205,100	7,900	44,700	16,300
<b>Reserves</b>	92,800	87,300	0	5,500	0

- The Mexican Armed Forces are focused primarily on the fight against organised crime and drug trafficking, and are likely to remain so in the long term. The military is mostly deployed to augment the capability of the police to tackle criminal groups. The Mexican Armed Forces' heavy focus on internal security over external threats is evidenced in the number of effectives deployed in operations across the Mexican territory. According to data reported in the Joint Monthly Report of the Armed Forces, between 2021 and 2022 the army, the air force, the navy, and the national guard, had an average of 85% of the total of effectives deployed in operations across the Mexican territory (army and air force 80%, navy 85%, national guard 89%).
- The armed forces' conventional fighting capabilities have long been neglected and rely on obsolete armour, artillery, surface, and combat aircraft fleets. The exception is the naval forces, which are likely to undergo a significant modernisation of their conventional warfare capabilities. However, it is unlikely that armoured, artillery, and combat aircraft fleets will be rebuilt soon, given the limited funding available.
- The army is primarily a light infantry force with a robust light armoured vehicle fleet. The air force primarily serves as a transport and fire support service for the army. The navy possesses a large fleet of ocean and coastal patrol vessels, mainly to intercept drug trafficking vessels.
- While former president Enrique Peña Nieto (2012–18) initially pledged to increase defence spending to 1% of the GDP by 2018, Mexico's economic situation prevented this, and only limited investments in new technology, infrastructure, or benefits for military personnel are

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taking place. President Andrés Manuel López Obrador established the National Guard in 2019, a paramilitary body that focuses on combating narco-trafficking.

## Threat environment

Last updated: 26 May 2023

Mexico is not facing any external conventional threats. As a result, its armed forces are primarily focused on supporting internal security and providing post-disaster assistance and relief to the civilian population.

In the remote hypothesis of a conventional war with neighbouring countries, *Janes* assesses that Mexico's armed forces could successfully overcome the Guatemalan or Belizean armed forces, but could not oppose a US intervention. In the extremely unlikely case of a US intervention, the military would conduct a guerrilla campaign.

The principal threats faced by Mexico and its armed forces are those posed by non-state actors, namely organised crime groups.

Since the early 2000s Mexico's military has mainly tackled drug trafficking organisations and organised crime structures, deploying tens of thousands of troops countrywide to support police forces in restoring security. Despite some successes, the threat remains unabated and has evolved. Some criminal organisations have disappeared, while others have emerged and violence has increased.

There was renewed debate about the deployment of the armed forces for internal security as homicides reached a record high in 2018 and as wars for territorial control between fragmenting drug cartels intensified. The government will not withdraw the armed forces from certain states, as local police lack the experience and resources to provide security. President Andrés Manuel López Obrador (AMLO) reconfirmed this approach and has created a National Guard to address the situation. However, he faces strong opposition to the project.

*Janes* assesses that the military will remain primarily engaged in tackling the criminal threat for the immediate future. The weaponry available to organised crime groups has increased in power and sophistication, and criminals wield similar arms to those used by the military and can engage military helicopters and armoured vehicles. Criminal groups' counter-intelligence capabilities have also improved, complicating the task for military intelligence and increasing reliance on US intelligence support.

## Doctrine and strategy

Last updated: 26 May 2023

The Mexican Armed Forces have been influenced by Spanish, French, and US doctrine, but have developed as a unique institution, widely borrowing operational and tactical doctrines from foreign

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models. These hybrid doctrines are not directly comparable to any others in the region or, indeed, elsewhere.

Mexican doctrine is contained in the Political Constitution of the United Mexican States (1917). The current missions assigned to the armed forces are:

- **Defence of national sovereignty against an external aggressor (DN-I).** This doctrine is concerned solely with war on Mexican territory and can include decentralisation of the army into a guerrilla force when the enemy force is stronger. Only the president has the authority to deploy troops after war is declared. Congress must approve any declaration of war. This doctrine is inactive, and has been only exercised in May 1942 during the Second World War against the Axis powers. The National Defence Secretariat (Secretaría de la Defensa Nacional: SEDENA) and the Navy Secretariat (Secretaría de Marina: SEMAR) prioritise the defence of national territory.
- **Defence against an internal aggressor (DN-II).** This doctrine applies to internal actors that threaten to destabilise the constitutional order after public security forces are overwhelmed. It justifies military action against rural insurgents, such as in Guerrero state in the 1970s and again since 1996, and in Chiapas state since 1994. Defence against internal aggression also encompasses military support in the war against drug trafficking and includes maritime law enforcement.
- **Defence of the civilian population during natural disasters or an emergency (DN-III).** This doctrine includes environmental protection, civic activities, and search and rescue (SAR) operations. SEDENA names this as DN-III-E, while SEMAR has its own directive known as PLAN MARINA.

*Janes* assesses that the military's current doctrine is adequate, as the armed forces are entrusted with an internal security role and constitutionally cannot perform power projection operations beyond Mexico's borders. It is highly likely that the armed forces will continue to be used in this role.

## **Military capabilities assessment**

Last updated: 26 May 2023

Mexico capability assessment.

1527578

Mexico capability assessment. (Janes)

Capability assessment methodology.

1644417

Capability assessment methodology. (Janes)

## **Joint forces interoperability**

Last updated: 26 May 2023

Army, air force, and navy personnel and their military equipment are regularly deployed alongside federal police in support of operations against organised crime. This has led to operational problems, as each agency operates under different protocols and with varying equipment. For example, tactical radios have sometimes been exchanged to enable interoperability.

## **Tri-service interoperability**

In February 2013 former president Enrique Peña Nieto ordered both SEDENA and SEMAR to work together on a joint defence policy and a joint national defence plan that concluded in 2019 and led to the National Defence Programme 2020-2024. Further structural changes are not planned, but de facto co-operation between both ministries has significantly expanded. Army and navy units often deploy simultaneously on anti-organised crime operations.

## **Multinational interoperability**

The Mexican Armed Forces have strong ties with the US military. Notably, the Mexican Navy co-operates closely on intelligence with several US intelligence and law enforcement agencies. The navy undertakes interdiction operations with the US Coast Guard (USCG) and US Navy (USN) to strengthen maritime interdiction capabilities. Likewise, the army and air force have increased co-operation with their US counterparts, although this is mainly training and not intelligence sharing.

In late August 2013 Mexico and Guatemala agreed to increase co-operation along their shared border, aiming to disrupt drug trafficking. The agreement included personnel exchanges, greater co-operation between units on either side of the border, and combined patrols.

In February 2018 Mexico and Honduras signed a memorandum of understanding (MoU) to improve co-operation in military education, technological development, cyber-defence, cybersecurity, and internal security.

## **UN peacekeeping deployment**

Mexico's contribution to UN peacekeeping missions is limited, given the military's focus on domestic security and combating organised crime. Mexican involvement in UN missions only began in 2015, and the armed forces have struggled to provide equipment and logistical support to their small deployments. However, Mexico's continued hesitance about participating in global peacekeeping does not reflect its military and economic status.

The Mexican constitution specifically prohibits the non-combat foreign deployment of Mexican Armed Forces, so large-scale troop contributions to peacekeeping missions would likely require a constitutional amendment. Civilian and military opponents of increased peacekeeping contributions fear higher operational costs for larger deployments.

## Defence structure

Last updated: 26 May 2023

Historically, Mexico's armed forces have been divided between two separate defence secretariats: SEDENA and SEMAR. SEDENA comprises the army and air force and SEMAR the navy. There has been little progress towards creating a joint General Staff and joint ministry; although, the SEDENA and SEMAR chiefs of staff have held periodic meetings since 2007 and have signed joint logistics, training, and procurement co-operation agreements.

In 2019 the National Guard (Guardia Nacional: GN) was created as a civilian institution to replace the Federal Police in public security tasks when the latter was disbanded in October 2019. The GN falls under the responsibility of the Secretariat of Security and Citizen Protection (Secretaría de Seguridad y Protección Ciudadana: SSPC), a civilian ministry. However, elements of the GN are trained in the Military Education System, and have been conducting operations in conjunction with the armed forces since 2019. According to SEDENA, by late 2022 the number of GN personnel exceeds 100,000.

## Chain of command

Last updated: 26 May 2023

<b>Secretary of National Defence (SEDENA):</b>	General Luis Cresencio Sandoval González
<b>Commander-in-Chief, Army:</b>	Division General Celestino Ávila Astudillo
<b>Commander-in-Chief, Air Force:</b>	Division General José Gerardo Vega Rivera
<b>Commander-in-Chief, National Guard:</b>	General (ret.) David Córdoba Campos
<b>Secretary of the Navy (SEMAR):</b>	Admiral José Rafael Ojeda Durán

As the commander-in-chief of the armed forces, the president has far-reaching powers to declare war, with congressional authorisation; to mobilise forces; to suspend constitutional guarantees; and to promote officers above the rank of colonel or commander. The president exercises daily control of the army, and its subordinate air force, through SEDENA, and of the navy via SEMAR. Both ministers form part of the chain of command and the respective force commanders report directly to them. Each of the armed forces have its own General Staff, but there is no joint General Staff.

The secretariats are headed by a general and an admiral, who are appointed by the president and therefore usually change with every six-year presidential term. Long-term planning is therefore restricted to six years. The air force commander usually changes every six years, but not

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necessarily coinciding with the change in administration. The notion of a civilian heading the ministries is not welcomed by the officer corps.

The SEDENA is responsible for the army and air force. In February 2022, the post of army commander was created. The commander of the army is the senior serving officer. Subordinate to the commander are the chief of staff and two deputy chiefs of staff, one being responsible for operations and the other for administration. All institutions, units, and territorial commands report to the chief of staff.

## **Strategic forces**

Last updated: 5 Jul 2022

### **Ballistic missiles**

Last updated: 9 Nov 2022

Mexico does not have any ballistic missile systems.

### **Assessment**

Last updated: 9 Nov 2022

Mexico has no strategic weapons and has been the major diplomatic proponent in advancing the notion of a Latin American nuclear weapon-free zone (NWFZ) through the Treaty for the Prohibition of Nuclear Weapons in Latin America and the Caribbean (also known as the Treaty of Tlatelolco).

### **Missile defence**

Last updated: 9 Nov 2022

Mexico has no missile defence assets or a need to procure such systems. There has been some discussion in the US about expanding the North American Aerospace Defense Command (NORAD) to include Mexico, thereby enhancing North America's aerial and maritime surveillance capability. However, there are no indications that this is being officially considered.

### **Information warfare**

Last updated: 9 Nov 2022

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The National Defence Secretariat (Secretaría de la Defensa Nacional: SEDENA) and the Navy Secretariat (Secretaría de Marina: SEMAR) have set up cyber defence capabilities as part of their information technology (IT) networks.

In July 2012, it became known that SEDENA had invested some MXN5 billion (USD247 million) in procuring a variety of cyber-security solutions. The Cyberspace Operations Centre (COC) was created in June 2016 with the responsibility to oversee cyber defence and cyber-security operations to protect and secure SEDENA's IT network and national critical infrastructure. Likewise, SEMAR has its own Cyber Security Unit and has established cyber defence co-operation agreements with Canada, France, and the United States.

## Space warfare

Last updated: 9 Nov 2022

Mexico does not have any space warfare programmes, although it uses satellites for its military communication networks. The Mexican Space Agency, established in July 2010, supports SEDENA and SEMAR satellite communications, but it is otherwise a civilian agency.

In 2010, Mexico awarded a USD1 billion contract to Boeing for the production and eventual launch of three new military-grade telecommunication satellites under the Mexican Satellite System (MEXSAT) programme. MEXSAT includes the three telecommunication satellites, two ground sites, network operations systems, and reference use terminals. The MEXSAT network provides L- and Ku-band secure communications for Mexico's national security forces – linking aircraft, vessels, land vehicles, and helicopters – as well as augment civilian telecommunications capability. The first of the satellites, an Orbital Sciences Corporation GEO Star-2, was launched in December 2012. The second, a Boeing 702hp, was launched in May 2015 but the rocket transporting the satellite into orbit exploded, destroying the satellite. The third satellite, also a Boeing 702hp, was launched in October 2015.

SEMAR has established a Very High Resolution Satellite Imaging Virtual Station (EVISMAR), which receives satellite images from the commercial GeoEye-1 earth observation satellite.

Also of note, SEMAR receives real-time satellite images from the US Northern Command and via the Canadian Radarsat-2 radar satellite through the Bluehawk system to assist in its surveillance operations, particularly against organised crime and international trafficking.

## Nuclear capabilities

### Stated government policy

Mexico ratified the Nuclear Non-Proliferation Treaty (NPT) in 1969. Its first safeguard agreement came into force in 1968.



Mexico has signed the Treaty for the Prohibition of Nuclear Weapons in Latin America (Treaty of Tlatelolco), to establish a nuclear-weapons free zone in Latin American and the Caribbean, and on 16 January 2018 Mexico ratified the Treaty on the Prohibition of Nuclear Weapons.

#### **Actual capabilities**

Mexico does not have nuclear weapons.

#### **Biological capabilities**

##### **Stated government policy**

Mexico is a state party to the Biological and Toxin Weapons Convention and ratified the Cartagena Protocol on Biosafety in 2002.

On 12 August 2013, Mexico formally joined the Australia Group, grouping of countries who work to counter the spread of materials, equipment and technologies that could contribute to the development or acquisition of chemical and biological weapons (CBW).

#### **Actual capabilities**

There is no record of Mexico having any interest in or involvement with biological weapons.

#### **Chemical capabilities**

##### **Stated government policy**

Mexico acceded to the 1925 Geneva Protocol on 15 March 1932.

Mexico signed the Chemical Weapons Convention (CWC) on 13 January 1993, ratifying the agreement on 29 August 1994.

#### **Actual capabilities**

Mexico has no chemical weapon capabilities.

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## Country Report

# Mexico

**Generated on June 8th 2023**

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## **Symbols for tables**

"0 or 0.0" means nil or negligible; "n/a" means not available; "-" means not applicable

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# Briefing sheet

Editor: **Michelle Campbell**

Forecast Closing Date: **May 17, 2023**

## Political and economic outlook

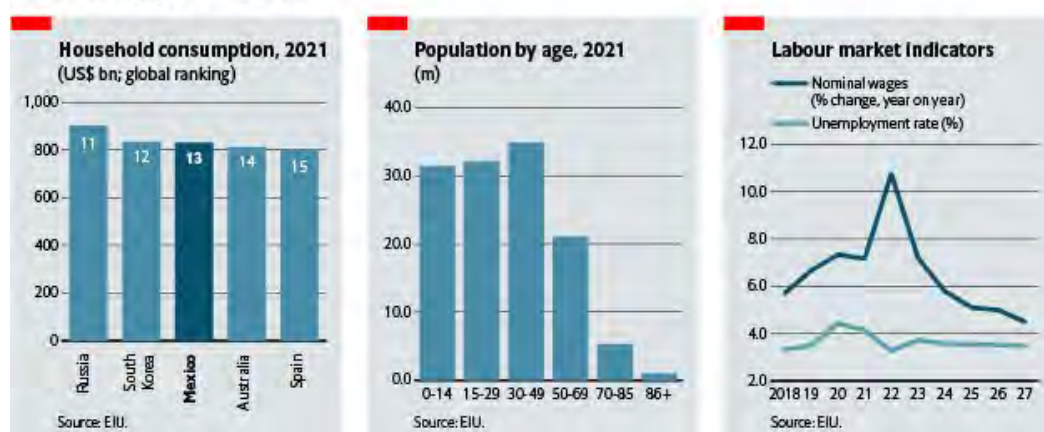
- The Mexican economy is the second largest in Latin America and among the most open in the world, with 13 free-trade agreements (FTAs) covering more than 50 countries. It is highly integrated with the US economy, leaving it vulnerable to shifts in the US business cycle.
- The president, Andrés Manuel López Obrador, and his leftist party, the Movimiento Regeneración Nacional (Morena), will continue to dominate the political scene as a fractious, unwieldy opposition fails to capitalise on the government's policy missteps. EIU believes that Morena is likely to retain power at the 2024 general election.
- The policy environment under the current government will continue to impede growth, owing to a preference for state-led development, a lack of regulatory predictability and concerns about contract rights. The energy sector will be especially susceptible to interventionist moves, given Mr López Obrador's fixation on energy sovereignty.
- We expect the Mexican economy to slow in 2023, as external headwinds will mean that a rising import bill outstrips growth in exports. Although real GDP will bounce back in 2024-27, overall growth potential will be constrained by low levels of domestic investment and a dearth of productivity-enhancing structural reforms.
- The Mexican peso will strengthen in 2023 reflecting macroeconomic stability, wide real interest-rate differentials with the US and a fairly low level of political risk. A widening productivity differential with the US will cause modest depreciation in the medium term.
- The domestic economy will suffer from a lack of competitiveness that structural reforms in areas such as banking and telecoms have failed to address in full. Nonetheless, nearshoring trends will bring benefits for Mexico's dynamic manufacturing industry.
- Mr López Obrador will be at odds with the US president, Joe Biden, on issues including energy policy and food biotechnology. On balance, however, we expect US-Mexico trade and investment linkages to remain strong.

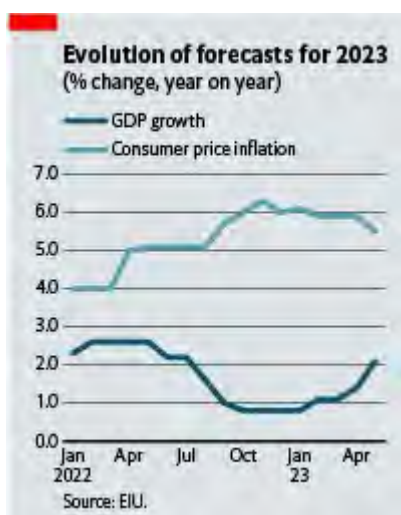
### Key indicators

	2022 <sup>a</sup>	2023 <sup>b</sup>	2024 <sup>b</sup>	2025 <sup>b</sup>	2026 <sup>b</sup>	2027 <sup>b</sup>
Real GDP growth (%)	3.1	2.1	2.2	2.3	2.0	2.4
Consumer price inflation (av; %)	7.9	5.5	3.9	3.6	3.5	3.2
Government balance (% of GDP)	-3.3	-3.7	-3.6	-3.2	-3.0	-2.9
Current-account balance (% of GDP)	-0.9	-1.1	-1.1	-1.0	-1.0	-1.0
Short-term interest rate (av; %)	7.9	11.1	10.3	8.8	8.3	8.1
Unemployment rate (%)	3.3 <sup>c</sup>	3.7	3.6	3.5	3.5	3.5
Exchange rate Ps:US\$ (av)	20.13	19.05	20.52	21.15	21.79	22.45

<sup>a</sup> Actual. <sup>b</sup> EIU forecasts. <sup>c</sup> EIU estimate.

### Market opportunities





## Key changes since March 23rd

- We have revised our end-2023 inflation forecast from 5% to 4.5% (just above the central bank's target range), as disinflation is accelerating faster than we had expected amid tight monetary conditions and an easing of import prices.
- We have also revised our monetary policy rate forecast for 2023 to reflect our expectation that the central bank will hold rates at the current level of 11.25% until early 2024, when inflation will be converging towards the target range, allowing monetary easing to begin.

## The month ahead

- **May 26th—GDP growth data (Q1):** We expect data from the national statistics institute to show that economic activity accelerated sharply in the first quarter on the back of strong services demand and solid manufacturing growth.
- **Ongoing—Electoral reform:** In a serious setback for the government, the Supreme Court voided the first part of its electoral reform on May 8th, ruling that legislators had been given insufficient time to debate the bill. We expect the second part of the reform (which curbs the electoral authority's staffing, purview and budget) to be struck down as well.

## Major risks to our forecast

Scenarios, Q1 2023	Probability	Impact	Intensity
Dealing with organised crime activity becomes costlier for businesses	Very high	High	20
The government introduces reforms that foster monopolistic practices in favour of state-owned companies, dealing a blow to private firms	High	Very high	20
An energy policy dispute leads to a trade and investment row with the US	High	High	16
Political polarisation worsens, undermining stability and increasing unrest	High	Moderate	12
The government's ongoing push to hobble independent institutions degrades the system of checks and balances, and overall institutional quality	Moderate	High	12

Note. Scenarios and scores are taken from our Operational Risk product. Risk scenarios are potential developments that might substantially change the business operating environment over the coming two years. Risk intensity is a product of probability and impact, on a 25-point scale.

Source: EIU.

# Outlook for 2023-27

## Political stability

EIU believes that the president, Andrés Manuel López Obrador of the left-wing Movimiento Regeneración Nacional (Morena), will spend the rest of his six-year term (which ends in 2024) pushing through far-reaching reforms that expand the power of the executive while weakening core institutions. These reforms are likely to trigger legal challenges from critics who have already voiced concerns about the erosion of Mexico's democratic standards. Nonetheless, Mr López Obrador is unlikely to encounter any serious political challenges, as he remains popular despite his failure to address the structural problems that encouraged many voters to support his presidential campaign. Mr López Obrador's robust popularity reflects his populist leadership style and the failure of the opposition Va por México (VxM) coalition—comprising the centrist Partido Revolucionario Institucional (PRI), the centre-right Partido Acción Nacional (PAN) and the left-wing Partido de la Revolución Democrática (PRD)—to exploit the government's missteps or offer a viable alternative to Morena.

Mr López Obrador benefits from strong governability, as Morena's coalition with several smaller, ideologically diverse parties gives it a legislative majority in both houses of Congress, which allows it to pass legislation that requires a simple majority without risk of obstruction by the opposition. However, the coalition has lost the two-thirds supermajority required to pass constitutional reforms, meaning that the opposition can veto controversial parts of its agenda.

Throughout his presidency, Mr López Obrador has sought to centralise power and concentrate it in the executive. This has caused conflict with his opponents, including the leadership of the federal courts, state institutions, business groups and journalists who have criticised him. Although we expect the president's efforts to dismantle autonomous agencies to be unsuccessful, he will continue to undermine them. In this vein, we believe that Mr López Obrador will be undeterred following a Supreme Court ruling on May 8th, which voided the first part of his electoral reform (passed in February). The reform sought to make drastic changes to the administrative functions of the electoral institute (INE) and to its responsibilities in regulating political communications. We expect Mr López Obrador to continue trying to weaken the INE after the upcoming Supreme Court ruling on the second part of the reform, which seeks to curb the INE's staffing, purview and budget. The first ruling has substantially increased the likelihood that the second part of the reform will meet a similar fate.

While eroding the independence of Mexico's autonomous institutions, Mr López Obrador has expanded the scope of the military. The armed forces now play a prominent role in the administration of public services, construction of major infrastructure projects and law enforcement. However, without reforms that target the state actors responsible for tolerating and sometimes perpetuating criminal networks, efforts to improve security by increasing the military's role will achieve little. Meanwhile, continued attacks on independent institutions will erode the rule of law.

## Election watch

In the near term, electoral politics will focus on state elections, which are due to be held in Estado de México and Coahuila on June 4th. Morena is seeking to consolidate its dominance at the state level with a likely win in Estado de México; this would be a noteworthy result, as the state has been governed uninterrupted since 1929 by the PRI and is one of just three PRI-controlled state governments in Mexico (another is Coahuila). Moreover, taking control of the country's most populous state (of 17m people) would give the ruling coalition a larger electoral apparatus for the July 2024 general election, increasing its already-strong prospects of victory. Meanwhile, in the Coahuila election, Manolo Jiménez, who represents a PRI-led alliance, has a wide lead over the Morena candidate, reflecting difficulties that the ruling coalition has had in winning support in the north, which is considerably more conservative than the centre (where Estado de México is located) and especially the south. Although the state elections will not significantly alter the balance of power at subnational level, they will still provide important insights into political momentum in the run-up to the next presidential and legislative elections.

We still believe that Morena is well positioned to retain the presidency in 2024. As the constitution prevents Mr López Obrador from running for a second term, several Morena hopefuls have voiced an intention to stand. Claudia Sheinbaum (the mayor of Mexico City, the capital) and Marcelo Ebrard (the foreign affairs minister) have emerged as early favourites. By contrast, the field of potential contenders within the opposition is highly fragmented; there is no front-runner in sight. The eventual opposition candidate will face an uphill battle to unite ideologically diverse parties, mobilise voters disillusioned by the failures of past PRI and PAN governments, and counter Morena's incumbency advantage.

## International relations

Foreign policy will remain subordinate to domestic policy under Mr López Obrador. Maintaining strong ties with the US will be his main foreign policy priority, given that country's importance to Mexico's economy. Mexico will welcome US efforts to localise supply chains, which will support a nearshoring boom that has begun in Mexico. However, the US has requested consultations with Mexico under the US-Mexico-Canada Agreement (USMCA) regarding a ban on imports of genetically modified (GMO) corn for human consumption that is due to come into force in Mexico in January 2024. Similarly, the US has begun consultations under the USMCA on elements of Mexico's energy policy, arguing that a recent reform is discriminatory and puts US firms at a disadvantage. Our baseline view is that Mexico will eventually roll back some of the more contentious aspects of its policies to avoid a lengthy, economically damaging trade and investment dispute.

Although security and immigration will remain thorny issues for Mexico and the US, Mexico recently co-operated with the US by beefing up its border security in order to prevent a surge in asylum seekers trying to enter the US ahead of the expiry on May 11th of Title 42 (a pandemic-related measure that allowed the US to quickly remove migrants on the basis of public health concerns). A new Bicentennial Framework, which includes joint initiatives relating to violence, illicit drugs, illegal firearms and human-trafficking, should also improve bilateral co-ordination over time.



## Policy trends

Making progress with infrastructure plans and maintaining price stability will be at the top of the government's near-term policymaking agenda. On a positive note, fiscal performance remains fairly good: we estimate that the public debt/GDP ratio declined in 2022, and the deficit widened only moderately. We expect the government to maintain its tight fiscal stance in 2023 to contain fiscal slippage as real GDP growth slows. The government has also implemented various measures to control inflation, including temporary price controls on some basic staples, as well as fuel tax exemptions and fertiliser subsidies. We expect these measures to remain in place for the rest of 2023, although a sharper easing of prices more recently means that inflation will end the year closer to the upper bound of the 2-4% target range set by the Banco de México (Banxico, the central bank) than we had previously anticipated.

One of Mr López Obrador's main goals is to develop some of Mexico's poorest regions—especially in the south—by expanding public infrastructure investment; we expect plans in this area to advance largely unimpeded. Although most have suffered from budget adjustments and operational challenges, there has been recent progress on the Interoceanic Corridor (IC), a logistics hub in south-eastern Mexico that connects the Pacific and Gulf coasts. In an effort to attract investors to the IC, the government has announced considerable tax breaks for companies that set up operations in ten planned industrial parks, in exchange for creating a specified number of jobs there. Businesses will also benefit from an agreement last year by the Inter-American Development Bank to provide up to US\$2.25bn in financing and mobilised resources over three years to support relocation to the IC. Meanwhile, private investment in infrastructure (and in several other sectors, such as energy) will remain limited, reflecting the government's antagonism towards the private sector.

Mr López Obrador's administration has offered few new strategies for tackling Mexico's long-standing problems of crime, corruption, poverty and income inequality, or for promoting long-term development. Weak rule of law, bias towards state-owned enterprises (SOEs) and policies that harm the private sector will continue to weigh on the business climate. We expect little progress on tackling poor educational outcomes, low banking penetration, weak domestic competitiveness and high informal employment. In the long term, weak revenue-raising capacity will limit the government's ability to address a rising pension burden and to improve the financial health of Pemex (the state-owned oil firm), which will need regular investments and capital injections to remain financially viable. Although Mexico has been benefiting from increased nearshoring investment, the absence of policies to unlock potential gains will keep related investment below (its huge) potential.

## Fiscal policy

We expect Mexico's fiscal accounts to remain in good shape throughout 2023-27. Mr López Obrador has made it clear that his pursuit of statist policies will not result in fiscal profligacy. Although it will broadly maintain fiscal discipline, the government's plan to temporarily loosen its purse strings will result in a slightly wider fiscal deficit in 2023, of 3.7% of GDP, compared with 3.3% of GDP in 2022. New spending will be channelled into infrastructure projects, safety-net schemes, transfers to subnational governments and various subsidies to help with the high cost of living. The government expects to fund the bulk of these outlays through increased revenue collection, but in the absence of tax rises, and amid an economic slowdown, it is unlikely to meet its revenue targets. Given its aversion to taking on new debt, we believe that the government will ultimately trim its spending goals to prevent fiscal slippage.

In the medium term, assuming that the economy is on a better footing, budget consolidation will be driven by cuts to current expenditure (notably subsidy retrenchments and the streamlining of social assistance programmes). Although there will be efforts to combat tax evasion and simplify the tax code, revenue gains from these will be modest. On that basis, we expect the fiscal deficit to narrow to 2.9% of GDP by 2027. This will keep the public debt/GDP ratio stable throughout the forecast period, at about 50%. Ample sources of domestic financing and easy access to global capital markets will enable the government to cover the financing requirement comfortably.

## Monetary policy

We expect Banxico to hold its policy rate at the current level of 11.25%, where it has been since a 25-basis-point rise in March, until early 2024. Given that the Federal Reserve (Fed, the US central bank) is unlikely to relax policy before the third quarter of 2024, we believe that Banxico will decouple from the Fed and initiate a 50-basis-point cut in the first quarter of 2024 (assuming that there are clear signs of disinflation). We anticipate that disinflation will continue, allowing Banxico to continue its easing cycle, taking the rate to 7.75% by end-2027.

## International assumptions

	2022	2023	2024	2025	2026	2027
<b>Economic growth (%)</b>						
US GDP	2.1	1.0	1.0	2.1	2.2	2.0
OECD GDP	2.8	0.9	1.5	1.9	2.0	1.9
World GDP	3.1	2.1	2.4	2.7	2.7	2.7
World trade	4.2	2.1	3.2	3.5	3.7	3.8
<b>Inflation indicators (% unless otherwise indicated)</b>						
US CPI	8.0	4.2	2.2	1.9	2.0	2.1
OECD CPI	8.9	5.8	2.9	2.3	2.1	2.1
Manufactures (measured in US\$)	-0.4	7.0	4.4	3.3	2.4	2.3
Oil (Brent; US\$/b)	99.8	85.9	84.0	79.0	73.1	66.4
Non-oil commodities (measured in US\$)	14.6	-8.6	-2.7	-0.9	-1.5	-1.5
<b>Financial variables</b>						
US\$ 3-month commercial paper rate (av; %)	2.1	5.2	5.0	3.9	2.9	2.6
Exchange rate: ¥:US\$ (av)	131.5	125.0	110.5	108.3	110.3	108.8
Exchange rate: US\$:€ (av)	1.05	1.10	1.13	1.15	1.17	1.18

## Economic growth

We have revised our real GDP forecast for 2023, from 1.4% to 2.1%. The resilience of the economy in January-March suggests that an increase in Mexico's share of US imports is helping to compensate for weaker US demand amid an economic slowdown in that country. In addition, disinflation will bolster households' purchasing power and reduce input costs for businesses. Costs will decline further next year as Banxico cuts interest rates, lifting private-sector credit.

Looking to the medium term, weak public investment and high poverty levels will constrain GDP growth to an annual average of 2.2% in 2024-27. Mr López Obrador has rolled back the previous administration's structural reforms in education and energy on ideological grounds, to the detriment of medium- and longer-term growth. He has kept other structural reforms in banking and telecoms intact, but inefficient implementation has prevented them from fulfilling their potential.

On the supply side, export-oriented manufacturing will remain one of Mexico's most dynamic sectors, supported by a relatively skilled workforce, deep integration into US value chains and low wages (by North American standards). An ongoing shift towards nearshoring provides some upside risks. The mining and energy sectors will benefit from elevated commodity prices, but low investment (reflecting uncertainty among private investors) will limit the gains. Services performance will be sluggish, given weak competition and regulation, although there are brighter prospects for some emerging sectors, such as fintech.

### Economic growth

%	2022 <sup>a</sup>	2023 <sup>b</sup>	2024 <sup>b</sup>	2025 <sup>b</sup>	2026 <sup>b</sup>	2027 <sup>b</sup>
GDP	3.1	2.1	2.2	2.3	2.0	2.4
Private consumption	6.1	1.9	2.8	2.2	2.2	2.2
Government consumption	1.0	1.2	1.0	1.1	1.2	1.2
Gross fixed investment	6.0	0.8	0.9	2.0	2.5	2.5
Exports of goods & services	7.5	3.8	4.4	4.1	4.5	4.8
Imports of goods & services	8.9	4.2	4.6	3.7	4.1	4.3
Domestic demand	5.4	1.5	2.4	2.1	2.1	2.1
Agriculture	2.8	1.8	2.2	2.3	2.0	2.4
Industry	3.3	3.8	2.3	2.3	2.0	2.4
Services	2.8	1.3	2.2	2.3	2.0	2.4

<sup>a</sup> Actual. <sup>b</sup> EIU forecasts.

## Inflation

We expect inflation to ease from 7.9% at end-2022 to 4.5% at end-2023 as price spikes in 2022 fall out of the index and the full effect of tight monetary policy materialises. We expect inflation to return to the 2-4% target range in 2024, but there is a risk that it will come in above our forecasts, particularly if the effects of the Russia-Ukraine war take longer to dissipate than we expect.

## Exchange rates

The Mexican peso has been one of the strongest emerging-market currencies so far this year. Macroeconomic stability, Mexico's attractiveness as a nearshoring destination and Banxico's tight monetary policy stance have afforded the peso significant protection from global market volatility. However, the end of monetary tightening, followed by loosening from 2024 as disinflation sets in, will bring moderate currency weakening. Moreover, a non-negligible portion of demand for Mexican assets is being driven by hot money, which leaves the peso exposed to a sell-off should investor sentiment sour. Looking ahead to the medium term, we expect currency movements to be driven by fundamentals; a widening productivity differential with the US will cause the peso to depreciate moderately, to Ps22.8:US\$1 by end-2027.

## External sector

The main risks to the Mexican economy are domestic, rather than external. However, a slowdown in the US and global economy, combined with fairly strong import demand supported by high inflows of remittances, will mean that the trade balance acts as a drag on economic growth in 2023. As a result, we forecast that the current-account deficit will widen from 0.9% of GDP in 2022 to 1.1% of GDP in 2023. Barring unforeseen shocks, we expect the current-account deficit to narrow modestly over the rest of the forecast period, to 0.9% of GDP in 2027. This assumes that Mexico's terms of trade gradually improve, export dynamism increases and workers' remittances from abroad hold firm.

Inflows of foreign direct investment (FDI) will average 2.6% of GDP in 2023-27 and cover the current-account deficit comfortably. However, this is weak by historical comparison (inflows averaged 3% of GDP in 2015-19), reflecting the government's ambivalence towards foreign investment. Should capital flows underwhelm, Mexico's reserves cushion, which stood at US\$198.7bn as at end-April (more than three times short-term external debt due), will help to mitigate balance-of-payments risks.

## Forecast summary

### Forecast summary

(% unless otherwise indicated)

	2022 <sup>a</sup>	2023 <sup>b</sup>	2024 <sup>b</sup>	2025 <sup>b</sup>	2026 <sup>b</sup>	2027 <sup>b</sup>
Real GDP growth	3.1	2.1	2.2	2.3	2.0	2.4
Industrial production growth	3.3 <sup>c</sup>	1.3	2.1	2.4	2.6	2.6
Gross fixed investment growth	6.0	0.8	0.9	2.0	2.5	2.5
Unemployment rate (av)	3.3 <sup>c</sup>	3.7	3.6	3.5	3.5	3.5
Consumer price inflation (av)	7.9	5.5	3.9	3.6	3.5	3.2
Consumer price inflation (end-period)	7.9	4.5	3.4	3.3	3.4	3.5
Lending interest rate	8.2	11.3	10.5	9.0	8.5	8.3
Budgetary public-sector balance (% of GDP)	-3.3	-3.7	-3.6	-3.2	-3.0	-2.9
Exports of goods fob (US\$ bn)	578.7	609.9	634.6	654.6	678.6	701.1
Imports of goods fob (US\$ bn)	605.3	631.4	651.9	672.8	699.7	724.4
Current-account balance (US\$ bn)	-13.4	-17.6	-17.7	-16.5	-17.8	-17.9
Current-account balance (% of GDP)	-0.9	-1.1	-1.1	-1.0	-1.0	-1.0
External debt (end-period; US\$ bn)	607.8 <sup>c</sup>	612.1	617.7	625.3	633.5	644.5
Exchange rate Ps:US\$ (av)	20.13	19.05	20.52	21.15	21.79	22.45
Exchange rate Ps:US\$ (end-period)	19.41	20.21	20.83	21.46	22.12	22.76
Exchange rate Ps:€ (av)	21.21	20.88	23.14	24.37	25.39	26.50
Exchange rate Ps:€ (end-period)	20.71	22.54	23.85	24.90	25.99	26.86

<sup>a</sup> Actual. <sup>b</sup> EIU forecasts. <sup>c</sup> EIU estimates.

## Quarterly forecasts

### Quarterly forecasts

	2022				2023				2024			
	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr
<b>GDP</b>												
% change, quarter on quarter	1.2	1.1	0.9	0.5	0.9	0.3	-0.5	0.3	0.6	0.8	1.1	1.1
% change, year on year	1.9	2.3	4.4	3.7	3.4	2.6	1.2	1.1	0.8	1.3	2.9	3.7
<b>Private consumption</b>												
% change, quarter on quarter	2.9	0.9	0.3	0.5	0.5	1.4	-0.4	-0.6	1.1	1.0	1.9	1.2
% change, year on year	6.9	6.4	6.6	4.6	2.1	2.6	1.9	0.8	1.5	1.1	3.4	5.3
<b>Government consumption</b>												
% change, quarter on quarter	0.7	1.2	0.7	-0.5	1.2	0.1	-2.0	2.6	0.6	0.9	1.2	-6.8
% change, year on year	0.1	-0.4	2.3	2.2	2.7	1.5	-1.2	1.8	1.2	2.0	5.3	-4.3
<b>Gross fixed investment</b>												
% change, quarter on quarter	2.4	1.8	0.5	3.0	-2.2	0.9	-0.1	-1.8	0.7	0.7	0.8	2.1
% change, year on year	5.7	6.3	4.1	7.9	3.1	2.1	1.5	-3.3	-0.4	-0.6	0.3	4.4
<b>Exports of goods &amp; services</b>												
% change, quarter on quarter	2.5	1.1	1.8	-5.0	0.2	2.7	7.0	3.0	-1.3	0.3	-2.0	0.7
% change, year on year	10.2	9.7	11.0	0.2	-2.1	-0.5	4.6	13.4	11.8	9.2	0.0	-2.3
<b>Imports of goods &amp; services</b>												
% change, quarter on quarter	2.3	4.6	1.6	-2.6	2.2	1.6	0.7	1.5	0.8	1.0	1.4	1.4
% change, year on year	6.5	11.7	11.3	6.0	5.8	2.7	1.8	6.1	4.8	4.2	4.9	4.7
<b>Domestic demand</b>												
% change, quarter on quarter	2.3	1.2	0.4	1.0	-0.3	1.2	-0.5	-0.4	1.0	1.1	1.6	0.5
% change, year on year	5.9	5.4	5.3	4.9	2.3	2.3	1.3	-0.1	1.2	1.1	3.3	4.2
<b>Consumer prices</b>												
% change, quarter on quarter	2.1	1.9	2.0	1.7	1.6	0.6	0.6	1.1	1.7	0.4	0.8	0.9
% change, year on year	7.3	7.8	8.5	8.0	7.5	6.1	4.6	4.0	4.1	3.8	4.0	3.8
<b>Producer prices</b>												
% change, quarter on quarter	2.6	2.2	1.0	0.1	0.0	0.4	1.8	0.9	0.7	0.9	0.7	0.6
% change, year on year	10.0	10.4	9.3	6.0	3.3	1.5	2.2	3.0	3.8	4.3	3.2	2.9
<b>Exchange rate Ps:US\$</b>												
Average	20.52	20.04	20.25	19.70	18.70	18.37	19.20	19.95	20.29	20.44	20.60	20.75
End-period	19.99	19.98	20.31	19.41	18.53	18.78	19.57	20.21	20.37	20.52	20.67	20.83
<b>Interest rate (%; av)</b>												
Short-term interest rate	6.0	7.1	8.5	10.0	10.7	11.2	11.3	11.4	11.1	10.6	10.1	9.6
Long-term bond yield	7.4	9.0	9.9	10.8	11.5	13.1	12.6	12.6	11.6	11.7	11.7	11.8

# Data and charts

## Annual data and forecast

	2018 <sup>a</sup>	2019 <sup>a</sup>	2020 <sup>a</sup>	2021 <sup>a</sup>	2022 <sup>a</sup>	2023 <sup>b</sup>	2024 <sup>b</sup>
<b>GDP</b>							
Nominal GDP (US\$ bn)	1,222.6	1,269.5	1,089.5	1,273.4	1,414.7	1,647.8	1,615.8
Nominal GDP (Ps bn)	23,529	24,455	23,409	25,814	28,474	31,393	33,155
Real GDP growth (%)	2.2	-0.2	-8.0	4.7	3.1	2.1	2.2
<b>Expenditure on GDP (% real change)</b>							
Private consumption	2.6	0.4	-10.3	7.6	6.1	1.9	2.8
Government consumption	2.9	-1.8	-0.3	-0.6	1.0	1.2	1.0
Gross fixed investment	0.8	-4.7	-17.7	10.5	6.0	0.8	0.9
Exports of goods & services	6.0	1.5	-7.3	7.1	7.5	3.8	4.4
Imports of goods & services	6.4	-0.7	-13.7	15.6	8.9	4.2	4.6
<b>Origin of GDP (% real change)</b>							
Agriculture	2.6	-0.3	0.7	2.5	2.8	1.8	2.2
Industry	0.4	-1.8	-9.4	5.4	3.3	3.8	2.3
Services	2.9	0.6	-7.4	4.3	2.8	1.3	2.2
<b>Population and income</b>							
Population (m)	124.0 <sup>c</sup>	125.1 <sup>c</sup>	126.0 <sup>c</sup>	126.7 <sup>c</sup>	127.5 <sup>c</sup>	128.5	129.4
GDP per head (US\$ at PPP)	20,452	20,232	18,505	19,587 <sup>c</sup>	21,115 <sup>c</sup>	22,340	23,144
Recorded unemployment (av; %)	3.3	3.5	4.4	4.1 <sup>c</sup>	3.3 <sup>c</sup>	3.7	3.6
<b>Fiscal indicators (% of GDP)</b>							
Public-sector revenue	21.7	22.0	22.8	23.1	23.2	22.6	23.0
Public-sector expenditure	23.8	23.7	25.6	26.1	26.5	26.3	26.6
Public-sector balance	-2.0	-1.7	-2.8	-3.0	-3.3	-3.7	-3.6
Net public debt	46.8	46.7	53.1	52.3	50.0 <sup>c</sup>	49.1	50.0
<b>Prices and financial indicators</b>							
Exchange rate Ps:US\$ (end-period)	19.68	18.85	19.95	20.58	19.41	20.21	20.83
Consumer prices (end-period; %)	4.9	2.9	3.2	7.4	7.9	4.5	3.4
Producer prices (av; %)	6.6	2.5	3.1	7.1	8.9	2.5	3.5
Stock of money M1 (% change)	5.4	4.7	20.1	13.0	8.6 <sup>c</sup>	10.3	5.6
Stock of money M2 (% change)	5.0	5.8	11.3	10.0	9.7 <sup>c</sup>	10.0	7.5
Money market interest rate (av; %)	8.0	8.3	5.7	4.6	7.9	11.1	10.3
<b>Current account (US\$ m)</b>							
Trade balance	-13,768	5,168	34,151	-10,915	-26,620	-21,559	-17,270
Goods: exports fob	451,082	460,940	417,323	495,090	578,681	609,855	634,597
Goods: imports fob	-464,850	-455,772	-383,172	-506,005	-605,302	-631,415	-651,867
Services balance	-12,886	-10,296	-15,472	-15,020	-14,839	-8,566	-12,157
Primary income balance	-32,695	-36,583	-36,688	-33,619	-30,032	-48,496	-48,264
Secondary income balance	33,252	36,133	40,796	51,345	58,068	61,045	60,021
Current-account balance	-26,098	-5,578	22,787	-8,209	-13,424	-17,576	-17,670
<b>External debt (US\$ m)</b>							
Debt stock	606,454	610,189	605,052	605,699	607,813 <sup>c</sup>	612,109	617,721
Debt service paid	58,914	69,892	71,586	77,412	79,677 <sup>c</sup>	97,516	101,243
Principal repayments	32,563	43,638	47,814	53,654	49,056 <sup>c</sup>	53,421	57,208
Interest	26,351	26,254	23,772	23,757	30,621 <sup>c</sup>	44,095	44,035
<b>International reserves (US\$ m)</b>							
Total international reserves	176,343	182,552	198,602	207,720	201,074	224,067	228,791

<sup>a</sup> Actual. <sup>b</sup> EIU forecasts. <sup>c</sup> EIU estimates.

Source: IMF, International Financial Statistics.

## Quarterly data

	2021			2022				2023
	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr
<b>Non-financial public sector (Ps bn)</b>								
Revenue	1,367.0	1,391.0	1,638.6	1,717.2	1,588.0	1,582.3	1,715.3	n/a
Expenditure	1,531.2	1,513.4	2,027.8	1,804.7	1,710.8	1,747.5	2,291.2	n/a
Balance	-164.3	-122.4	-389.1	-87.6	-122.7	-165.1	-575.9	n/a
<b>Industrial production (2003=100)</b>								
General	97.5	98.2	98.2	100.4	100.7	101.7	101.2	102.8
Manufacturing	112.4	112.4	113.7	116.4	118.2	120.5	118.5	119.5
Mining	74.0	73.8	72.9	77.4	73.9	73.1	73.1	78.7
<b>Employment, wages and prices</b>								
Employment (% change, year on year) <sup>a</sup>	23.5	9.9	6.6	5.9	3.9	2.9	3.1	n/a
Unemployment rate (% of the labour force)	4.2	4.3	3.7	3.5	3.2	3.4	3.0	n/a
Consumer prices (Jul 16th-31st 2018=100; seasonally adjusted)	112.5	114.1	116.6	119.0	121.3	123.8	125.9	n/a
Consumer prices (% change, year on year)	6.0	5.8	7.0	7.3	7.8	8.5	8.0	n/a
Producer prices (Jun 2012=100; seasonally adjusted)	108.4	110.6	114.1	117.1	119.7	120.9	121.0	n/a
Producer prices (% change, year on year)	6.0	6.5	9.7	10.0	10.4	9.3	6.0	n/a
<b>Financial indicators</b>								
Exchange rate Ps:US\$ (av)	20.02	20.01	20.75	20.52	20.04	20.25	19.70	n/a
Exchange rate Ps:US\$ (end-period)	19.80	20.31	20.58	19.99	19.98	20.31	19.41	n/a
Deposit rate (av; %)	0.5	0.6	1.0	1.5	2.1	3.1	3.6	n/a
Lending rate (av; %)	4.5	4.8	5.5	6.3	7.4	8.8	10.2	n/a
3-month short-term interest rate (av; %)	4.3	4.6	5.2	6.0	7.1	8.5	10.0	n/a
M1 (end-period; Ps bn)	5,759	5,881	6,377	6,352	6,460	6,437	6,926	n/a
M1 (% change, year on year)	11.3	12.6	13.0	11.6	12.2	9.4	8.6	n/a
M2 (end-period; Ps bn)	10,609	10,767	11,410	11,373	11,642	11,886	12,516	n/a
M2 (% change, year on year)	4.9	6.4	10.0	8.1	9.7	10.4	9.7	n/a
BMV stockmarket index (% change, year on year)	54.7	51.7	17.2	23.3	-6.4	-13.2	-3.5	n/a
<b>Sectoral trends</b>								
Crude oil production (m barrels/day)	1.74	1.74	1.75	1.75	1.76	1.76	1.78	n/a
Crude oil production (% change, year on year)	3.8	4.9	4.5	2.3	1.1	1.4	1.8	-
<b>Foreign trade and payments (US\$ m)</b>								
Exports fob	124,410	123,179	135,217	132,053	148,719	149,513	147,910	n/a
Manufacturing <sup>b</sup>	109,776	108,889	119,239	114,932	128,993	132,642	131,866	124,702
Oil	7,059	8,067	8,271	8,869	11,730	10,400	8,213	7,565
Imports fob	121,628	133,245	137,459	136,940	156,775	161,866	149,034	n/a
Intermediate goods <sup>b</sup>	97,243	106,708	108,104	108,621	123,897	126,816	116,811	111,935
Trade balance	2,782	-10,066	-2,243	-4,888	-8,057	-12,353	-1,124	n/a
Services balance	-3,899	-3,128	-3,491	-4,257	-3,462	-4,001	-3,119	n/a
Primary income balance	-6,915	-4,882	-7,268	-15,291	-4,079	-4,135	-6,527	n/a
Net transfer payments	13,255	13,938	14,460	12,705	15,187	15,659	15,718	n/a
Current-account balance	4,974	-4,424	1,137	-12,068	-780	-5,151	4,576	n/a
Reserves excl gold (end-period)	192,775	205,282	200,775	202,087	196,580	195,673	194,125	n/a

<sup>a</sup> Registered with the Mexican Social Security Institute. <sup>b</sup> Including maquila.

Sources: IMF, International Financial Statistics; Banco de México, Indicadores Económicos; Instituto Nacional de Estadística y Geografía; Secretaría del Trabajo y Previsión Social.

## Monthly data

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
<b>Exchange rate Ps:US\$ (av)</b>												
2021	19.89	20.24	20.79	20.05	19.98	20.04	19.97	20.05	20.01	20.47	20.78	20.99
2022	20.47	20.48	20.61	20.05	20.11	19.97	20.53	20.14	20.07	20.01	19.50	19.58

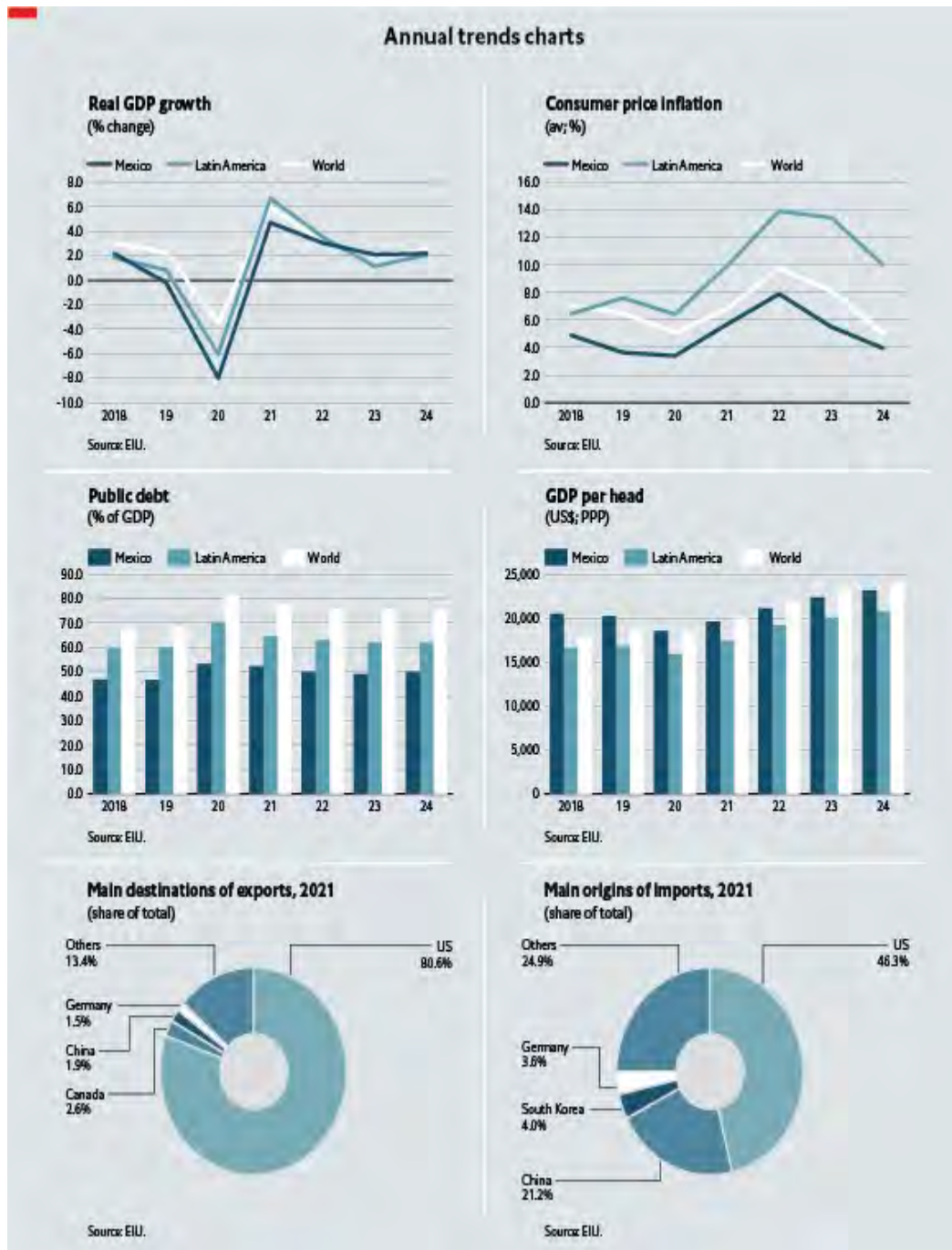
2023	19.04	18.64	18.40	18.09	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>Exchange rate Ps:US\$ (end-period)</b>												
2021	20.22	20.48	20.60	19.97	19.95	19.80	19.95	20.23	20.31	20.19	21.82	20.58
2022	20.74	20.65	19.99	20.47	19.60	19.98	20.51	19.99	20.31	19.84	19.33	19.41
2023	18.79	18.40	18.11	18.10	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>Public-sector budget revenue (Ps m)</b>												
2021	492.5	435.2	636.7	435.8	456.5	474.7	477.8	483.5	429.7	434.5	494.5	709.6
2022	543.2	443.4	730.5	557.2	471.1	559.7	557.4	519.0	505.9	505.1	554.6	655.6
2023	623.0	486.8	633.2	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>Public-sector budget expenditure (Ps m)</b>												
2021	498.7	534.5	630.2	469.5	453.7	608.0	496.5	493.6	523.3	431.4	586.5	1009.9
2022	601.6	566.2	637.0	507.6	497.1	706.1	600.6	541.5	605.3	560.0	673.2	1058.0
2023	638.0	571.2	658.9	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>Public-sector budget balance (Ps m)</b>												
2021	-6.3	-99.3	6.5	-33.7	2.8	-133.3	-18.7	-10.1	-93.6	3.1	-92.0	-300.3
2022	-58.3	-122.7	93.5	49.6	-26.0	-146.4	-43.2	-22.5	-99.4	-54.9	-118.6	-402.4
2023	-15.0	-84.5	-25.8	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>M1 (% change, year on year)</b>												
2021	22.7	21.3	16.8	11.5	10.9	11.3	11.9	11.6	12.6	11.4	13.4	13.0
2022	12.7	14.1	11.6	12.8	12.3	12.2	10.9	10.1	9.4	9.3	8.1	8.6
2023	5.9	4.3	5.1	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>M2 (% change, year on year)</b>												
2021	12.8	10.8	7.9	4.0	4.4	4.9	5.0	5.7	6.4	7.5	9.9	10.0
2022	7.6	9.2	8.1	9.4	9.6	9.7	10.4	9.7	10.4	10.4	9.2	9.7
2023	10.1	8.6	9.3	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>Industrial production (% change, year on year)</b>												
2021	-5.6	-4.6	0.1	33.0	34.7	12.5	7.1	4.0	0.4	0.8	0.4	1.8
2022	3.9	2.4	2.4	2.8	3.3	3.8	3.7	3.0	4.2	3.3	3.2	3.0
2023	2.3	3.2	1.5	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>Retail sales (% change, year on year)</b>												
2021	-6.9	-3.4	1.8	29.7	28.8	17.3	10.0	7.3	6.3	6.4	4.6	5.7
2022	6.7	6.0	3.5	4.4	4.5	4.2	5.6	4.4	3.2	3.9	2.6	2.9
2023	5.0	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>Unemployment rate (% of the labour force)</b>												
2021	4.7	4.4	3.9	4.7	4.0	4.0	4.4	4.3	4.2	4.0	3.7	3.5
2022	3.7	3.7	3.0	3.0	3.3	3.4	3.4	3.5	3.3	3.3	2.9	2.8
2023	3.0	2.7	2.4	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>Deposit rate (av; %)</b>												
2021	0.6	0.5	0.5	0.5	0.5	0.5	0.6	0.6	0.7	0.8	1.0	1.1
2022	1.3	1.5	1.7	1.9	2.0	2.3	2.9	3.1	3.4	3.3	3.6	3.9
2023	4.2	4.4	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>Lending rate (av; %)</b>												
2021	5.0	4.8	4.6	4.5	4.5	4.5	4.7	4.8	4.9	5.2	5.4	5.8
2022	6.0	6.4	6.6	7.1	7.3	7.7	8.4	8.9	9.1	9.7	10.2	10.8
2023	10.9	11.2	11.5	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>Stockmarket index (BMV; end-period, October 1978=0.78)</b>												
2021	42,986	44,593	47,246	48,010	50,886	50,290	50,868	53,305	51,386	51,310	49,699	53,272
2022	51,331	53,401	56,537	51,418	51,753	47,524	48,144	44,919	44,627	49,922	51,685	48,464
2023	54,564	52,758	53,904	55,121	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>Consumer prices (av; % change, year on year)</b>												
2021	3.5	3.8	4.7	6.1	5.9	5.9	5.8	5.6	6.0	6.2	7.4	7.4
2022	7.1	7.3	7.5	7.7	7.7	8.0	8.2	8.7	8.7	8.4	7.8	7.8
2023	7.9	7.6	6.8	6.3	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>Producer prices (av; % change, year on year)</b>												
2021	5.5	6.8	6.2	5.0	6.0	7.0	6.3	6.1	7.2	8.4	10.0	10.5
2022	9.9	9.9	10.1	10.5	10.4	10.3	10.0	9.3	8.7	7.1	5.8	5.2
2023	4.8	3.4	1.8	1.4	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>Total exports fob (US\$ m)</b>												
2021	32,716	36,213	43,030	40,945	40,846	42,619	40,953	40,471	41,755	41,859	45,652	47,706
2022	33,907	46,239	51,906	47,480	50,005	51,234	46,505	50,670	52,338	49,275	49,311	49,323
2023	42,591	44,934	53,558	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>Total imports cif (US\$ m)</b>												
2021	33,911	33,486	45,975	39,260	40,459	41,909	44,951	44,216	44,079	44,658	45,699	47,103
2022	40,185	44,953	51,802	49,364	52,221	55,191	52,464	56,168	53,233	51,287	49,407	48,339



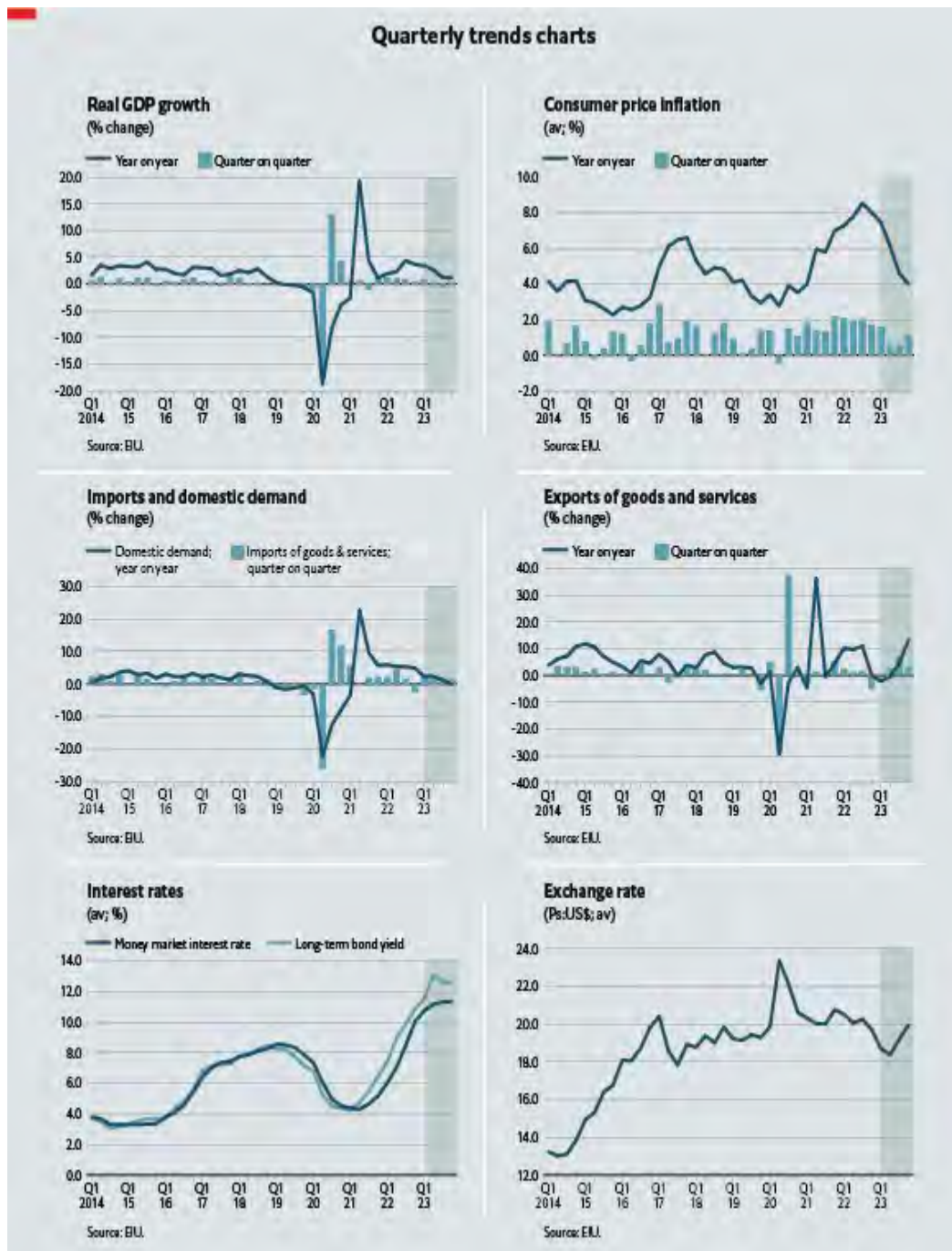
2023	46,716	46,779	52,389	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>Trade balance fob-cif (US\$ m)</b>												
2021	-1,195	2,727	-2,945	1,685	387	710	-3,998	-3,744	-2,324	-2,799	-47	603
2022	-6,278	1,286	104	-1,884	-2,215	-3,957	-5,960	-5,498	-895	-2,012	-96	984
2023	-4,125	-1,844	1,169	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>Foreign-exchange reserves excl gold (US\$ m)</b>												
2021	195,996	193,500	192,784	195,087	192,802	192,775	193,419	204,670	205,282	204,768	205,806	200,775
2022	202,806	202,639	202,087	199,740	198,957	196,580	196,787	198,478	195,673	194,915	195,474	194,125
2023	198,899	197,619	198,636	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Sources: IMF, International Financial Statistics; Haver Analytics.

## Annual trends charts



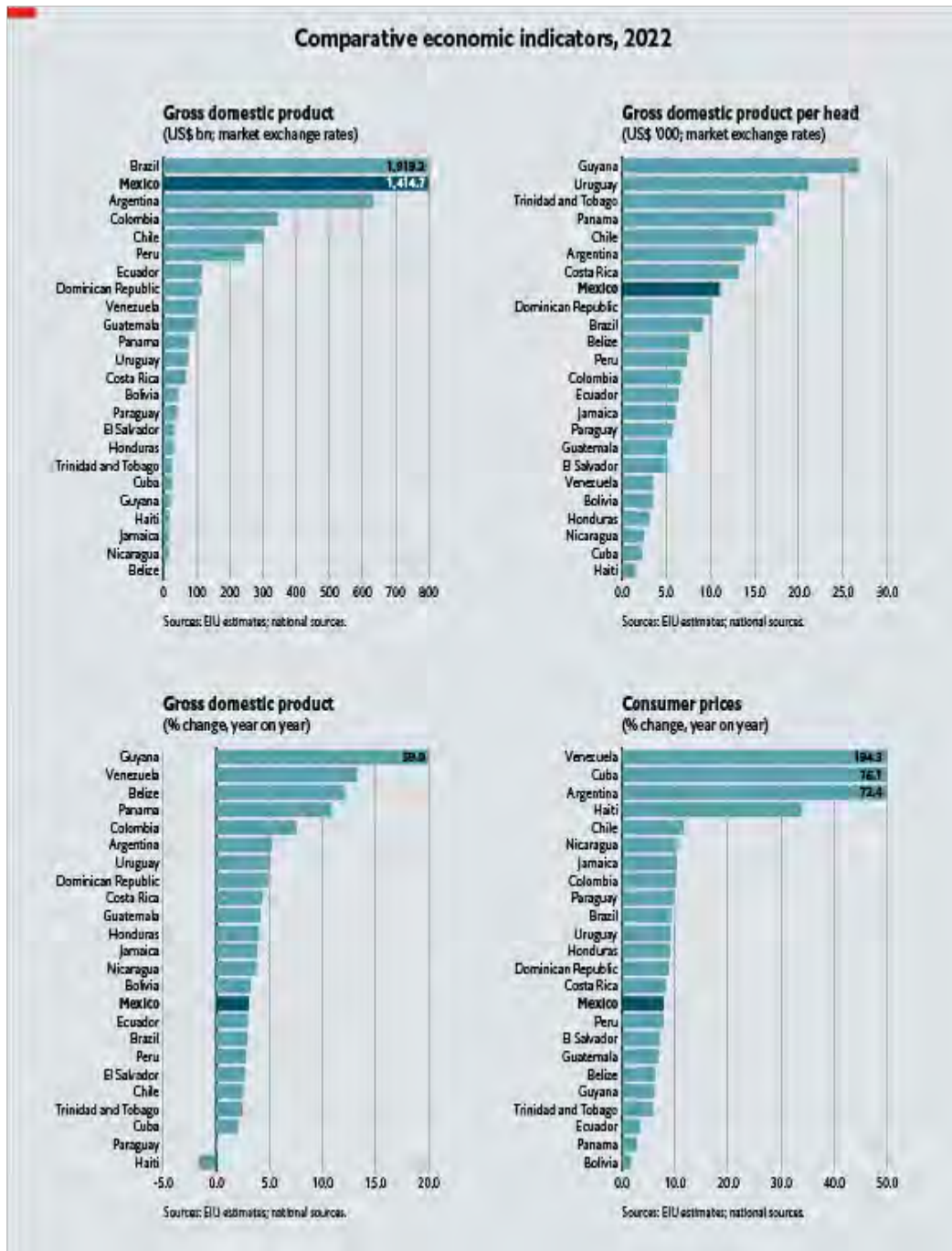
# Quarterly trends charts



# Monthly trends charts



# Comparative economic indicators



## Basic data

### Land area

1,964,375 sq km

### Population

127.6m (2021, national estimate)

### Main towns

Population in m (2010, government data for metropolitan areas)

Mexico City (capital): 20.1

Guadalajara: 4.4

Monterrey: 4.1

Puebla: 2.7

## Climate

Tropical in the south, temperate in the highlands, dry in the north

## Weather in Mexico City (altitude 2,309 metres)

Hottest month, May, 12-26°C (average daily minimum and maximum); coldest month, January, 6-19°C; driest month, February, 5 mm average rainfall; wettest month, July, 170 mm average rainfall

## Languages

Spanish is the official language. More than 60 indigenous languages are also spoken, mainly Náhuatl (1.2m speakers), Maya (714,000), Zapotec (403,000) and Mixtec (387,000)

## Measures

Metric system

## Currency

Peso (Ps). Average exchange rate in 2022: Ps20.13:US\$1; end-2022 rate: Ps19.41:US\$1

## Time

Mexico City is six hours behind GMT

## Public holidays

January 1st (New Year's Day); February 5th (Constitution Day); March 15th (Benito Juárez); April 6th (Maundy Thursday); April 7th (Good Friday); May 1st (Labour Day); September 16th (Independence Day); November 20th (Mexican Revolution); December 25th (Christmas Day)



## Political structure

### Official name

United Mexican States

### Political divisions

32 states including the capital, Mexico City; states are divided into municipalities

### Form of government

Presidential, with a constitutionally strong Congress

### The executive

The president is elected for a non-renewable six-year term and appoints the cabinet

### National legislature

Bicameral Congress: 128-member Senate (the upper house), elected for a six-year term, with 64 seats elected by first-past-the-post (FPTP), 32 using the first minority principle and 32 by proportional representation (PR); 500-member Chamber of Deputies (the lower house), elected for a three-year term, with 300 seats elected by FPTP and 200 by PR

### Regional governments

State governors are elected for six-year terms; each state has a local legislature and has the right to levy state-wide taxes; municipal presidents are elected for three-year terms

### Legal system

There are 68 district courts and a series of appellate courts with a Supreme Court; federal legal

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system, with states enjoying significant autonomy

## National elections

Presidential and congressional elections were held on July 1st 2018, with congressional mid-term elections on June 6th 2021. The next general election is due in June 2024

## National government

The president, Andrés Manuel López Obrador of Movimiento Regeneración Nacional (Morena), holds majorities in both houses of Congress

## Main political organisations

Government: Juntos Haremos Historia coalition, between Morena, the Partido del Trabajo (PT) and the Partido Verde Ecologista de México (PVEM)

Opposition: Partido Acción Nacional (PAN); Partido de la Revolución Democrática (PRD); Partido Revolucionario Institucional (PRI); Movimiento Ciudadano (MC)

President: Andrés Manuel López Obrador

## Cabinet members

Agrarian, territorial & urban development: Román Meyer Falcón

Agriculture & rural development: Víctor Manuel Villalobos

Attorney-general: Alejandro Gertz Manero

Communications & transport: Jorge Arganis Díaz

Culture: Alejandra Frausto Guerrero

Economy: Raquel Buenrostro

Energy: Rocío Nahle García

Environment & natural resources: María Luisa Albores

Finance & public credit: Rogelio Ramírez de la O

Foreign affairs: Marcelo Ebrard

Health: Jorge Alcocer Varela

Interior: Adán Augusto López Hernández

Labour & social welfare: Luisa María Alcalde

National defence: Luis Sandoval

Public administration: Irma Sandoval-Ballesteros

Public education: Delfina Gómez Álvarez

Public security: Alfonso Durazo Montaña

Tourism: Miguel Torruco Marqués

Welfare: Javier May Rodríguez

## Central bank governor

Victoria Rodríguez Ceja

# Recent analysis

Generated on June 8th 2023

The following articles were published on our website in the period between our previous forecast and this one, and serve here as a review of the developments that shaped our outlook.

## Risk

### Analysis

#### Global operational risk review—mixed signals for 2023

April 14, 2023: Overview

- In the first quarter of 2023 EIU's operational risk score improved for 49 out of 180 countries and worsened for 31.
- The operational risk score quantifies risks to business profitability, accounting for present conditions and our expectations for the next two years.
- Macroeconomic risks have decreased for 45 countries, as many economies have proved resilient against ripple effects from the war in Ukraine.
- Amid [the collapse of two US regional banks](#) in mid-March, financial risks have risen in nine countries (including the US and Switzerland).
- We believe that there is a low likelihood of financial sector contagion, given high levels of banking supervision and solid capitalisation.
- Geopolitical tensions remain high. Russia's suspension in February of a nuclear arms treaty with the US could lead to a new nuclear arms race.
- We do not expect US-China tensions to ease anytime soon. There is a moderate probability that Western democracies and China decouple suddenly during our forecast period (2023-27), notably if a conflict were to erupt around Taiwan.

More than a year has passed since Russia invaded Ukraine, heightening global economic and geopolitical risks. Inflationary pressures have eased since mid-2022, but high interest rates are weighing on growth and investor confidence. On the geopolitical stage, our core assumption is that a protracted war in Ukraine, with no clear resolution, will widen divisions between Russia and Western democracies.



#### Positive scenario: a rapid easing in inflationary pressure could boost global growth

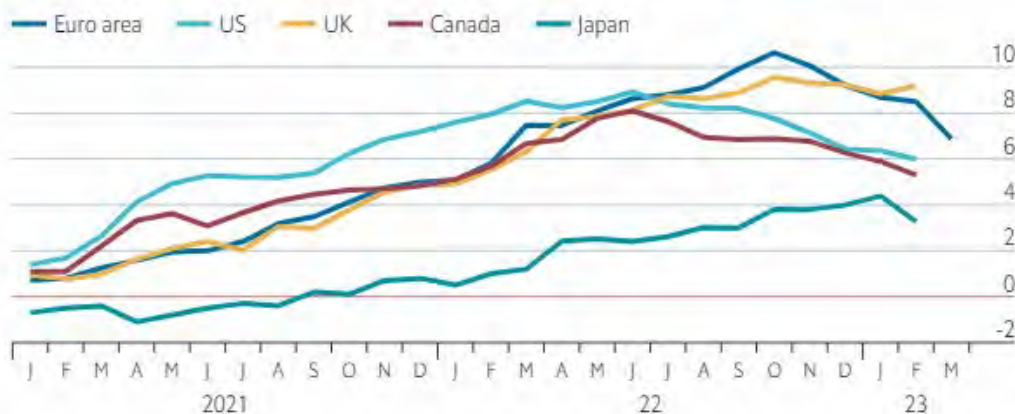


*Low probability; High impact*

Global inflation could drop faster than we expect (we currently expect it to ease from 9.3% year on year in 2022 to 7% in 2023). The war in Ukraine has put a floor under global energy prices, but mild winter temperatures in Europe have made it easier for the region to restock its energy reserves. Moreover, the region continues to improve its capacity to import liquefied natural gas. If European energy demand is lower than we expect in 2023/24, owing to a combination of warm weather and improved energy efficiency, crude oil prices could fall. This would affect prices along the supply chain and could prompt a faster fall in inflation, which in turn would boost growth in Europe and other regions, as businesses would benefit from greater consumer demand, and trade in goods and services would grow.

### Mild winter temperatures in Europe helped to ease inflationary pressures

(consumer price inflation, % change year on year; seasonally adjusted)



Source: EIU.

## Negative scenario: persistent investor jitters may trigger financial sector contagion

*Low probability; Very high impact*

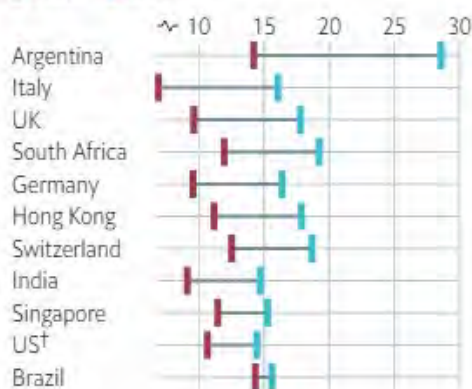
The collapse of two US regional banks in March prompted major central banks to boost the availability of liquidity in an effort to stem market concerns and diminish the risk of contagion. The massive concerted effort helped to reassure investors, but volatility will persist in the coming months. If bank customers and investors remain jittery, there could be other runs on commercial banks, triggering a global financial crisis. Small, regional US banks (which are not subject to the tight reporting standards implemented after the 2008-09 financial crisis) would be most at risk of capital flight and failure if they were unable to meet capital and liquidity requirements. Systematically important financial institutions could see significant losses to their balance sheets through takeovers or suffer from a run on deposits, weighing on investor confidence and leading to a stockmarket crash. In the near term, central banks would lower interest rates, but given still-firm consumer spending in developed economies, this would fuel inflation. The combination of asset losses, poor market sentiment and deteriorating purchasing power would prompt a recession in the US and Europe that could last into 2024.

## The banks are alright

(%)

### Tier 1 capital to risk-weighted assets

■ 2008 ■ 2022\*

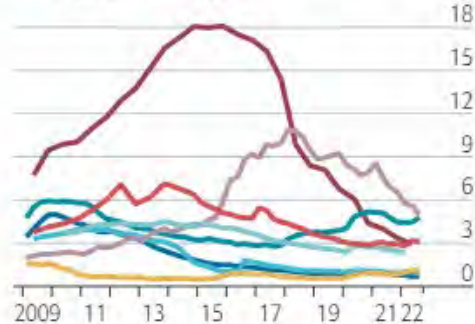


### Non-performing loans to total gross loans

■ US ■ UK ■ Hong Kong

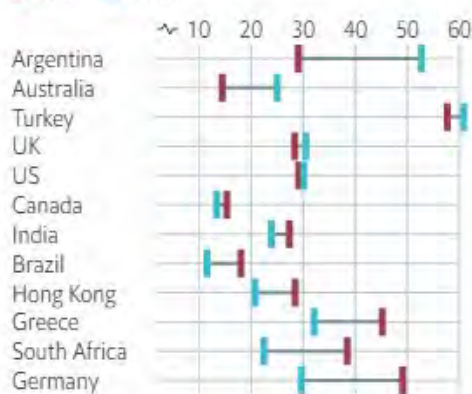
■ Italy ■ South Africa ■ India

■ France ■ Spain



### Liquid asset ratio

■ 2009 ■ 2022\*



Sources: IMF; EIU.

### Return on equity

■ Q2 2009 ■ Q3 2022



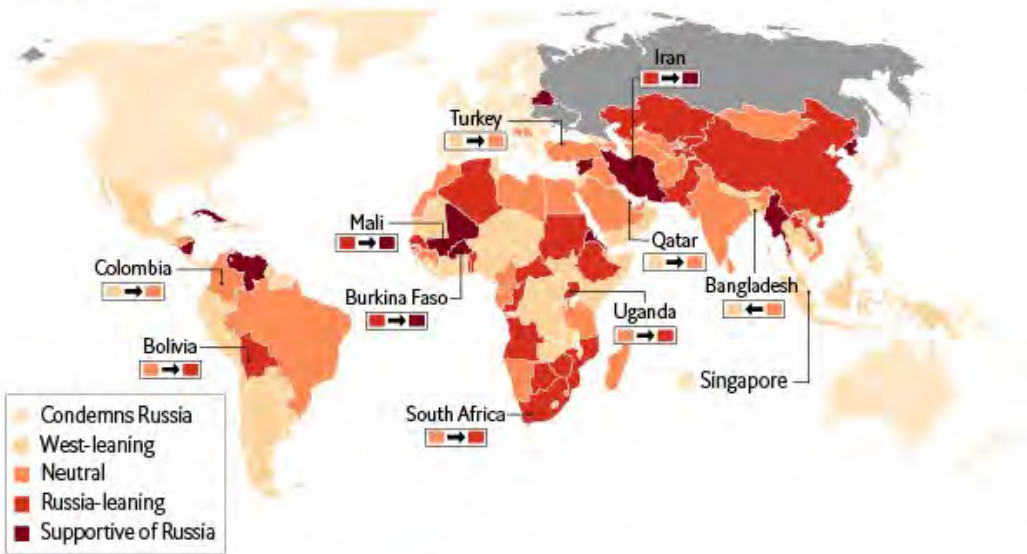
\*End of period; Q3. †Q1 2009.

## Negative scenario: geopolitical tensions could reignite a nuclear arms race

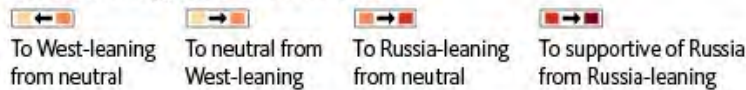
*Low probability; Moderate impact*

In early 2023 Russia suspended its participation in a bilateral nuclear arms control treaty with the US and announced plans to station nuclear weapons in Belarus. Since the start of the war the Russian government has also made thinly veiled threats to use nuclear weapons in Ukraine. Meanwhile, Iran is enriching uranium to close to the level needed to make nuclear weapons (this is in no small part due to the collapse of the nuclear deal following the US's unilateral exit from the agreement in 2018). Finally, North Korea (a Chinese and Russian ally) is likely to respond to planned large-scale US-South Korea joint military exercises with nuclear tests. Over the past 30 years governments have cut nuclear warhead stockpiles, but political grandstanding and fractured global governance could prompt a new nuclear arms race. Unlike during the cold war, the higher number of nuclear-capable countries increases the risk of a miscalculation.

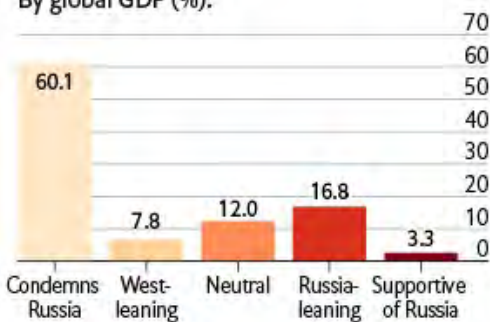
## One year after the start of the war, an increasing number of countries are siding with Russia



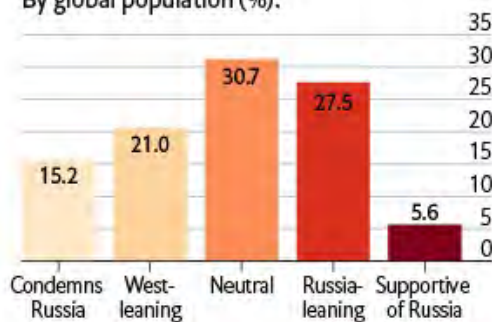
### Notable country position shifts since 2022



### By global GDP (%):



### By global population (%):



Source: EIU.

## Negative scenario: military manoeuvres by China could force a full decoupling of the global economy

*Moderate probability; Very high impact*

Western democracies, notably the US and the EU, have been concerned about China's tacit support to Russia since that country invaded Ukraine. In parallel, China is apprehensive of US-Taiwan relations and of US efforts to convince other democracies to pressure it using restrictions on trade, technology and finance. Meanwhile, the EU has become more vocal in criticising China for its human rights abuses in Xinjiang and the unequal treatment of EU firms in China's market. In an extreme scenario, China could initiate military manoeuvres in Taiwan or provide direct military aid to Russia, exacerbating tensions and pushing Western countries to unite in imposing sweeping trade and investment restrictions on China. This would force all markets (and companies) to "choose" between China and Western economies. In retaliation, China could block exports of raw materials and goods that are crucial to Western economies, such as rare earths. Such a step would have disastrous economic effects and would force companies to operate two supply chains and endure disruptions.

# Politics

## Forecast updates

### Tensions between the president and judiciary rise further

April 20, 2023: Political stability

#### What's happened?

The Supreme Court has rendered void part of a law passed in 2022 that sought to shift control of the National Guard from civilian leadership (as prescribed by the constitution) to the defence ministry. The court's decision is a blow to the president, Andrés Manuel López Obrador, who has sought to expand the role of the military in providing public security. **We expect tensions between the president and the Supreme Court to intensify in the coming months** as he continues to pursue far-reaching reforms to core government functions, including public security, even if they are likely to trigger strong legal challenges.

#### Why does it matter?

The ruling stymies the president's drive to militarise public security and expand the purview of the military. Under the current government, the armed forces' responsibilities have expanded to include administration of public services, construction of major infrastructure projects and law enforcement. Despite this, high crime levels still pose a significant challenge to the government, in a clear indication that [its public security policy is ineffective](#). Moreover, the government's increasing reliance on the military has led to criticism that scrutiny and transparency are being undermined. Nevertheless, **we expect the president to continue along this path of expanding the mandate of the military, particularly given that this policy has so far proven popular with voters.**

In turn, **the Supreme Court will continue to demonstrate its [willingness to reverse key government policies](#) as it emphasises its independence from the executive.** We expect future rulings, including a pending decision on the legality of the government's controversial electoral reform, to reflect the determination of the court's president, Norma Piña, to uphold its independence in the face of accusations by Mr López Obrador that the body caters to the country's conservative elites.

#### What next?

We believe that **the president will now pursue alternative means of placing the National Guard under the defence ministry.** We do not, however, think that he will be able to push through the constitutional changes that bring about the desired result. Moreover, we anticipate that legal challenges to new reforms will be brought if the proposed changes are not constitutional.

## Morena poised for big win in Estado de México election

May 5, 2023: Election watch

### What's happened?

The ruling Movimiento Regeneración Nacional (Morena) is looking to consolidate its dominance at the state level with a likely win in Estado de México's gubernatorial election on June 4th. A victory in Mexico's most populous state will give Morena a broader electoral apparatus ahead of the 2024 general election, raising its already-significant odds of success.

### Why does it matter?

Given Estado de México's population of 17m—including over half of the population of the metropolitan area of the capital, Mexico City—**taking control of the state will give Morena a powerful new bastion for its electoral ambitions in 2024**. The state has been governed uninterruptedly since 1929 by the Partido Revolucionario Institucional (PRI); it is one of only three PRI-controlled state governments in Mexico (another is Coahuila, which will also elect a state governor on June 4th).

We expect Morena's candidate, Delfina Gómez, to maintain her current wide lead over her main rival, Alejandra del Moral, who leads an opposition coalition that includes the PRI, the Partido Acción Nacional (PAN) and the Partido de la Revolución Democrática (PRD). According the most recent poll by *El Financiero*, a newspaper, Ms Gómez leads with 58% support, against 42% for Ms del Moral. Other polls give Ms Gómez an even greater margin of about 20 percentage points. These results suggest that the PRI and its allies are very unlikely to hold onto the state, barring, for instance, a major scandal that affects Ms Gómez or an unexpectedly poor performance in the second debate, which will be held on May 18th (the first was largely inconclusive).

The situation in the northern state of Coahuila is considerably less favourable for Morena, however. There, Manolo Jiménez, who represents a PRI-led alliance, has a double-digit lead over Morena's Armando Guadiana. **This reflects difficulties that Morena has had in winning support in the north, which is considerably more conservative than the centre (where Estado de México is located) and especially the south**. Morena's declining support among the middle classes is also playing a role, considering that northern states generally have above-average incomes and levels of socioeconomic development. Nevertheless, Coahuila's population of 3.2m is relatively small, making Estado de México a much more valuable prize. **Control of that state government will give Morena important benefits in 2024**, as it will be able to mobilise state resources (such as social assistance programmes) for campaign purposes and benefit from the high media profile that such a large state commands.

### What next?

We expect Morena to win the Estado de México governorship in June. This likely victory reinforces our view that the 2024 general election is Morena's to lose.

## Supreme Court deals blow to electoral reform

May 10, 2023: Election watch

### What's happened?

On May 8th the Supreme Court rendered void part of the government's electoral reform—dubbed "Plan B" by the president, Andrés Manuel López Obrador—which was passed in late February. The part of the reform in question sought to make drastic changes to the administrative functions of the electoral institute (INE) and to its responsibilities in regulating political communications, and was deemed unconstitutional on the basis that legislators were not given sufficient time to debate the measures proposed. **The Supreme Court's decision significantly raises the odds that the whole of Plan B will be struck down eventually.**

### Why does it matter?

**The verdict is a sign that the president will continue to run up against a resolutely independent Supreme Court.** The court will hear challenges to the second part of the Plan B reform (which seeks to curb the INE's staffing, purview and budget) in the coming months; based on the recent ruling, those objections are also likely to be successful. Plan B is a diluted version of [a package of far-reaching electoral reform laws that Congress rejected](#) in December 2022. The president has long argued that the INE, which is responsible for organising elections, is corrupt, expensive and in need of change, but critics have cast his reforms as a serious threat to democracy, given that they could pave the way for the president's party to secure a supermajority in upcoming elections.

We expect the Supreme Court to rule along similar lines on the second part of the electoral reform, maintaining that legislators did not have enough time to comprehensively consider and debate the proposed changes to the INE and their implications for the electoral process. In doing so, the court will once again demonstrate its [independence of the executive](#). **The Supreme Court will come under increasing pressure to stand firm** on this front in the lead-up to the next general election, scheduled for July 2024, as the president seeks to extend the executive's control over Mexico's institutions.

### What next?

**The ruling and the potential annulment of the whole of Plan B are unlikely to deter the president, who will not waver in his determination to implement controversial and far-reaching reforms** of important institutions and core government functions before leaving office. Nevertheless, we expect the Supreme Court to continue to demonstrate its independence by thwarting the president's attacks on independent institutions.

## Analysis

### Bukele's draconian policies gain traction in Latin America

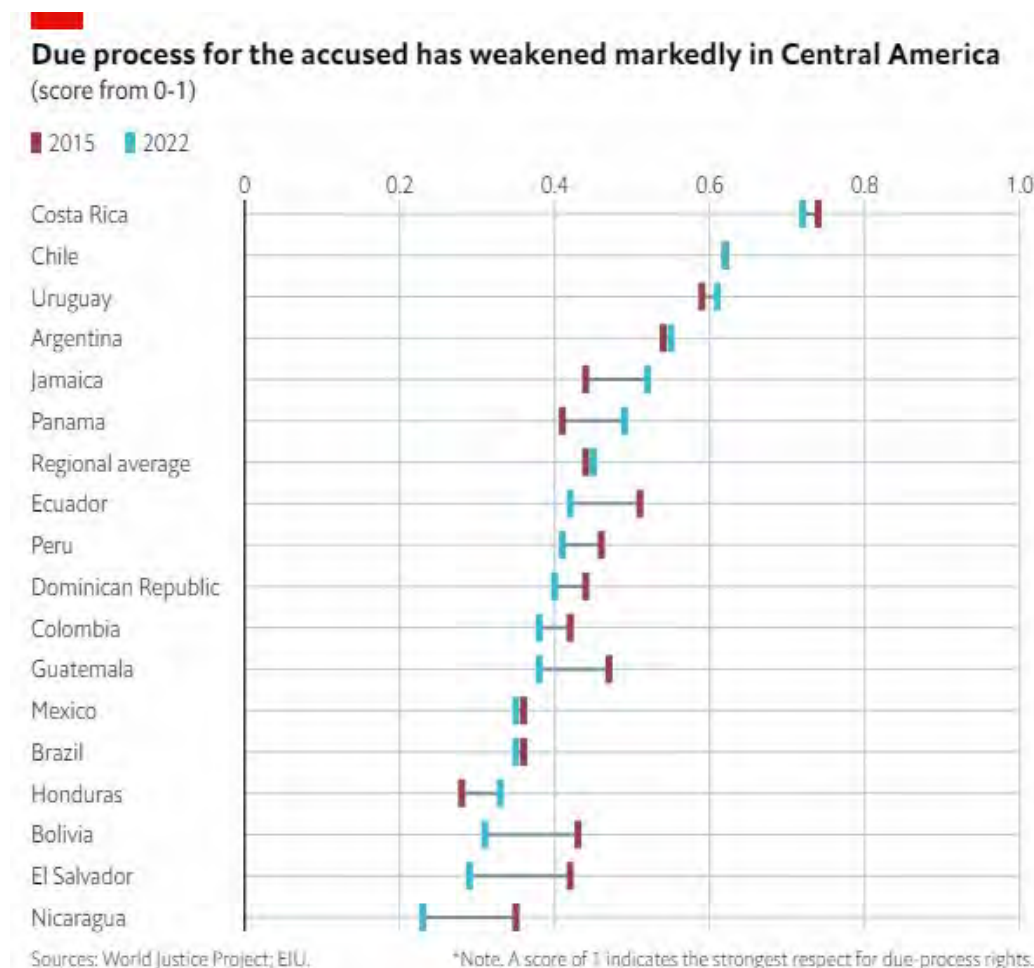
April 14, 2023: Democracy index

- **The success of El Salvador's president, Nayib Bukele, in rapidly reducing crime rates has improved the quality of life and the business environment in the country, winning him many followers throughout Latin America and the Caribbean.**
- **Voters and businesses alike are reaping the short-term benefits of Mr Bukele's draconian anti-crime policies, but his creeping authoritarianism—especially his politicisation of the judiciary—has undermined the rule of law, and many of the social and economic advantages that El Salvador currently enjoys are likely to fade in the medium to long term.**
- **Despite the clear risks of authoritarian overreach, political leaders throughout Latin America and the Caribbean have expressed interest in replicating all or parts of Mr Bukele's strict approach in their own efforts to address persistently high crime rates.**
- **In this article, we explore the emergence and potential diffusion of a "Bukele model", and consider how this could fuel the region's democratic backsliding, raise operational risks for firms and weaken the region's already-poor business environment.**

EIU's Democracy Index shows that there has been a [pronounced trend of democratic backsliding](#) in Latin America and the Caribbean in recent years. El Salvador, which is classified as a "hybrid regime" in our model (meaning that it has some democratic features and some features of authoritarian regimes), has suffered one of the sharpest declines in its score, owing to Mr Bukele's increasingly punitive efforts to address high levels of crime, especially organised crime. For example, he has used tactics that [trample on civil liberties](#) to target notorious violent gangs such as MS-13 and Barrio 18. This has brought about a dramatic fall in the homicide rate which, alongside a savvy social media strategy, has boosted his standing among voters and politicians on both the left and right throughout the region; as a result, **there is a growing risk that his blunt anti-crime policies spread, further weakening the region's already-ailing democracies.**

## The Bukele model

Voter frustration with crime and corruption, which Mr Bukele is tackling with ultra-hardline anti-crime policies, is prevalent elsewhere in Latin America. Given the success so far of Mr Bukele's policies in El Salvador, there is a strong possibility that other governments in the region seek to emulate them. The core element of Mr Bukele's strategy is a clampdown on civil liberties: the president implemented a [state of emergency](#) in March 2022 (and has since extended it multiple times) that has sent the [imprisonment rate soaring](#). His government has also introduced [criminal penalties that restrict freedom of expression](#). In February of this year Mr Bukele opened the largest prison in the Americas with a capacity of 40,000 inmates, who are kept in inhumane conditions, according to media reports. Owing to a lack of due process, many innocent people have been caught in the government's dragnet and are left with little recourse to seek justice.



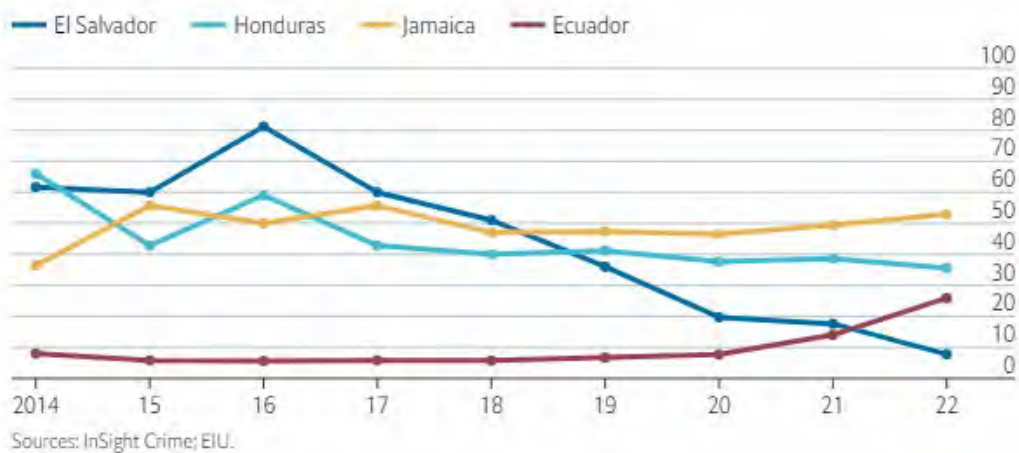
Although Mr Bukele's anti-crime policies have restricted civil liberties, they have delivered results on crime. Since he came to power El Salvador has gone from having one of the region's highest homicide rates to one of its lowest, according to InSight Crime (a regional security think-tank). The president's success in reducing crime rates early in his term gave him [extremely high approval ratings](#), which he has maintained. Despite the erosion of human rights and the rule of law that his

policies entail, it therefore appears that voters are still willing to back him in this trade-off between democracy and security. However, in the medium term, public support for Mr Bukele and his draconian policies may sour as the downsides of authoritarian rule—particularly the use of arbitrary arrests to target political opponents and a widening clampdown on civil liberties in a bid to quash expressions of anti-government sentiment—become more apparent. Moreover, it remains to be seen whether the government can keep crime low, especially if it does not make important investments to improve social inclusion, for example by reducing poverty and raising levels of educational attainment.

At the same time, another factor that is feeding into Salvadorans' continued support for Mr Bukele is the positive impact that his anti-crime policies are having on the economy. Lower crime rates have bolstered consumer and business confidence, and have reduced operational costs and risks for firms. Moreover, vastly improved security conditions have encouraged members of El Salvador's large expatriate community to visit and invest. Inbound tourism has benefited too, growing significantly in recent years. **However, these gains for the business environment are likely to be outweighed in the medium to long run by Mr Bukele's consolidation of power, which we expect will lead to erratic policymaking, given that there are few constraints on his power.** His politicisation of the [judiciary](#) poses a significant risk to the rule of law, especially as regards private property rights. In addition, arbitrary arrests and a lack of due process will raise risks to staff working for firms that operate in the country, hindering investment and growth.

### Murders have declined dramatically in El Salvador

(homicides per 100,000 population)



### All that glitters is not gold

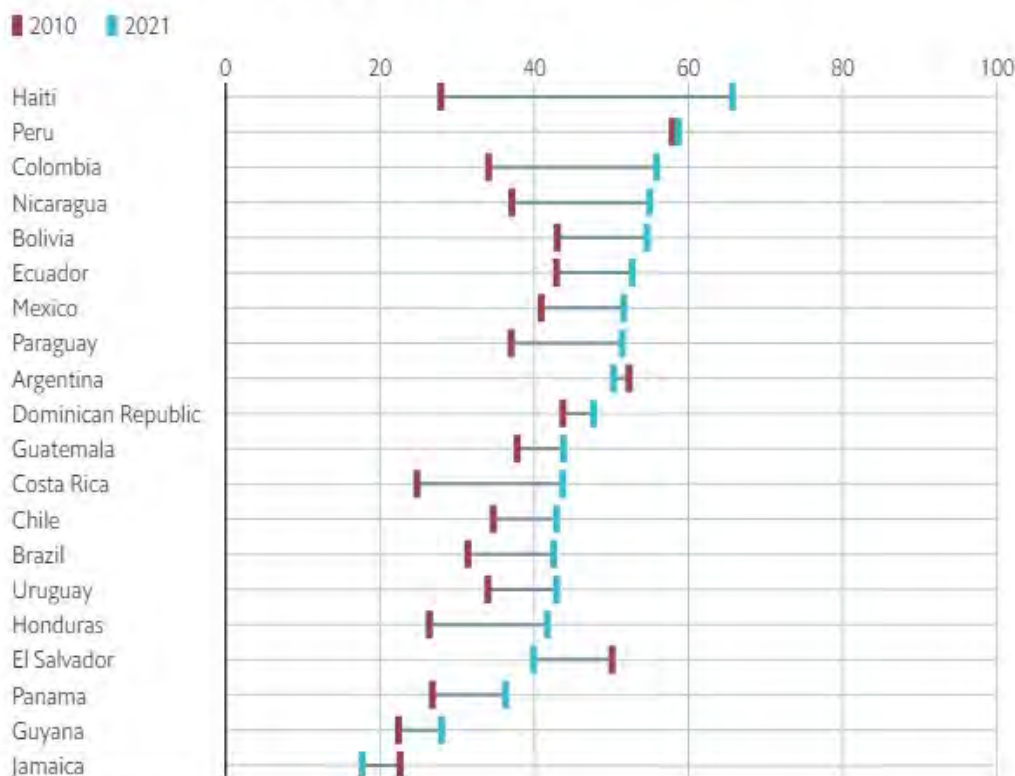
Mr Bukele's anti-crime policies have piqued the interest of leaders throughout the region.

**Policymakers are coming under increasing political pressure amid citizen perceptions that crime is rising;** the regional average of those who characterised their neighbourhood as very or somewhat unsafe increased from 36% in 2010 to 46% in 2021, according to LAPOP (a regional pollster). One tactic that policymakers seem to have borrowed from Mr Bukele's playbook is the use of states of emergency to tackle crime: these have been implemented in [Ecuador](#), [Jamaica](#) and [Honduras](#) in the past year. Politicians in other Latin American countries are also speaking favourably of Mr Bukele's policies.



## People in most of Latin America think that their neighbourhood has become more unsafe since 2010

(very unsafe or somewhat unsafe; % of respondents)



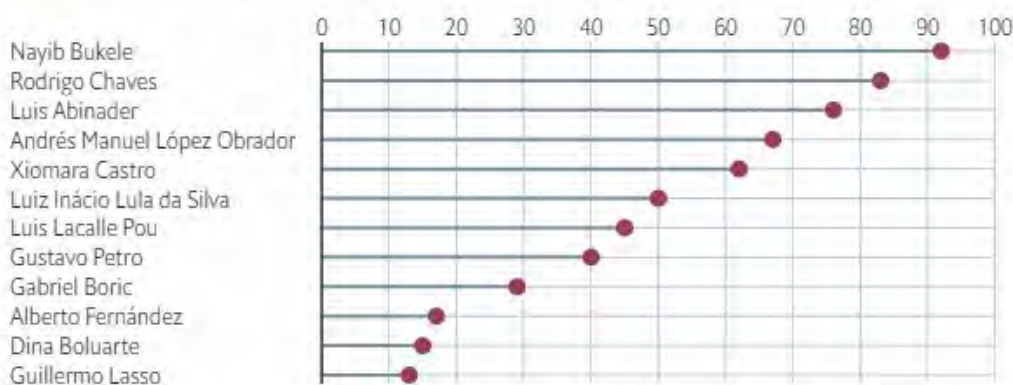
Sources: LAPOP; EIU.

Guatemala and Honduras (which both neighbour El Salvador) suffer from high levels of gang-related crime and are weakly institutionalised democracies, making them likely candidates for adopting core elements of Mr Bukele's policies. The current front-runner in [Guatemala's upcoming presidential election](#), Zury Ríos of the conservative Valor-Unionista coalition, says that she sees Mr Bukele's policies as a model to emulate. In Honduras, meanwhile, the president, Xiomara Castro of the leftist Libertad y Refundación (Libre), has now extended for a third time a state of emergency that was introduced last year to address crime.

Mr Bukele's policies are having a growing political impact further afield, too. Crime rates in Costa Rica, one of Latin America's strongest democracies, have soared in recent years, as turf wars over the port of Limón have heated up and consumption of hard drugs has increased, fuelling violence between gangs vying for territory. Against this backdrop, Costa Rica's security minister, Jorge Torres, recently lauded Mr Bukele's tough-on-crime approach. The strength of Costa Rica's democratic institutions means that Bukele-style policies are unlikely to be implemented, but if crime levels remain high, public demands for action could still lead to the imposition of harsher security policies.

## Bukele is Latin America's most popular president

(approval rating; % of respondents)



Sources: Cadem; CID Gallup; Equipos Consultores; Instituto de Estudios Peruanos; Invamer; Morning Consult; Perfiles de Opinión; Universidad de San Andrés.

Chile, another of Latin America's strongest democracies, is also experiencing a wave of crime that is putting the left-wing president, Gabriel Boric, under pressure to empower the security forces. However, policies like those implemented in El Salvador are unlikely to be introduced in Chile; Mr Boric has in fact been an outspoken critic of Mr Bukele, and the Chilean judiciary is independent. Nevertheless, Chileans say that [crime is the most important issue facing the government and give the government low marks for its handling of crime](#). Owing to mixed messaging from the government—far-left factions of the ruling coalition oppose giving the police greater powers—Mr Boric is unlikely to address crime in a way that will win voters' approval. We believe that this increases the likelihood that a tough-on-crime, right-of-centre government wins the next presidential election, due in 2025.

## Democratic backsliding likely to continue amid elevated crime levels

Widespread public frustration with the inability of many of the region's governments to reduce crime is opening the door for leaders who promise to emulate Mr Bukele's policies. **The countries that are most susceptible to the emergence of populist authoritarian leaders like Mr Bukele are those that not only have high crime rates, but that also score poorly in EIU's Democracy Index for the quality of their democratic institutions and political culture.** These countries include Guatemala, Honduras, Peru and Ecuador, all of which fall into the same "hybrid regime" bracket as El Salvador. Countries that have more robust institutions are likely to avoid introducing Mr Bukele's extreme policies, but if persistently high crime remains a serious issue, even the region's strongest scorers may see an erosion of civil liberties that would weigh heavily on the quality of their democracies.

In the short run, voters and businesses may be willing to trade weaker civil liberties for increased security, as governments that implement policies similar to Mr Bukele's may manage to bring about a rapid reduction in crime that boosts the quality of life and the business environment. However, to the extent that authoritarian anti-crime measures go hand in hand with the consolidation of power in the executive, a deterioration in checks and balances, and arbitrary policymaking (all of which undermine contract rights and the rule of law), the implementation of Bukele-style measures will be bad for business over the long term. Although a reduction in crime will certainly ease one element of operational risk, legal and regulatory risk will increase in countries where Mr Bukele's model is replicated.

## Economy

### Forecast updates

### Saudi Arabia spearheads surprise OPEC+ oil production cuts

April 3, 2023: Policy trends

## What's happened?

Saudi Arabia, its Gulf allies and several other members of the OPEC+ alliance surprised the market on April 2nd by announcing output cuts totalling about 1.1m barrels/day (b/d) from May until year-end on top of existing, group-wide curbs, as a "precautionary" reaction to recent downside price volatility.

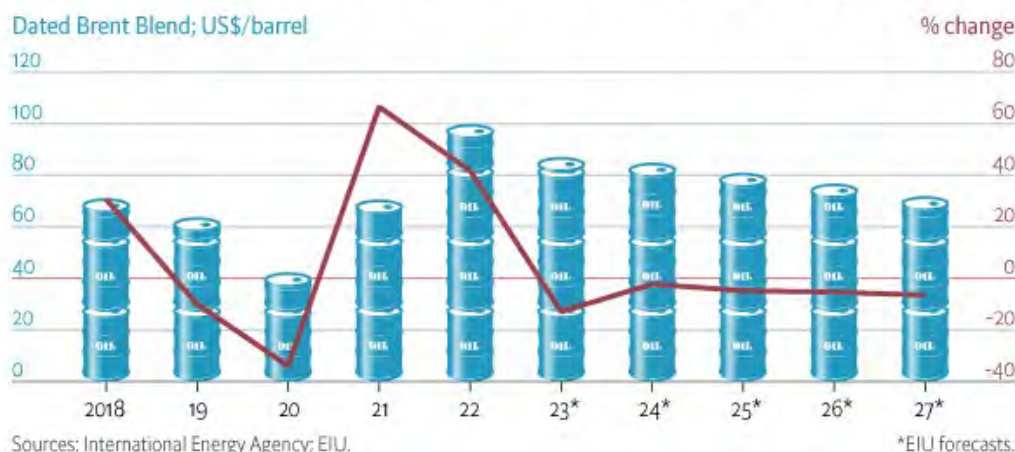
## Why does it matter?

The move, which triggered an immediate price spike, highlights the kingdom's determination to defend the higher prices necessary to fund its vast economic development programme.

**We expect oil prices (of dated Brent Blend) to continue to settle in the US\$80-85/barrel range as traders weigh up the impact of the OPEC+ cut against an increasingly uncertain global economic outlook.**

The cuts were largely expected, in the context of signals from Saudi Arabia and other producers ahead of the formal OPEC+ meeting on April 3rd that new, lower ceilings imposed in November (nominally reducing collective production by 2m b/d) would be subject to further cuts, given the global recessionary risks. As with the November cuts, likewise led by Saudi Arabia in defiance of US pleas, the kingdom (which will reduce output by a further 500,000 b/d) is showing willingness to pre-emptively defend prices comfortably above US\$80/b to meet its own budgetary needs. The continued co-ordination with Russia, which announced the extension until December of a 500,000-b/d output reduction imposed in March in retaliation for EU sanctions, also sends a deliberately bullish market signal while shoring up a mutually valued alliance.

### International oil prices in 2023-27 will fall steadily from 2022 peak



The move is set to have a larger impact on actual oil supply than has the OPEC+-wide cut already in place, which has been undermined by the inability of several producers, primarily Angola and Nigeria, to meet even pre-existing ceilings: collective production in February was only 570,000 b/d less than in October. Iraq's output fell to well below its quota towards the end of March, as a legal ruling forced offline about 450,000 b/d of production from the Kurdistan Region (potentially explaining the federal government's uncharacteristic willingness to join the "voluntary" cuts), but its resumption is expected imminently, after a provisional settlement in early April.

## What next?

**Although the net effect of the cuts will be much smaller—maybe half or less—owing to the inability of numerous members to actually hit previously agreed targets, it is still considerable.**

As Brent crude is now firmly back in the US\$80-85/b range, it supports our forecast for oil prices to average US\$86.8/b in 2023. However, prices are expected to remain volatile on both the up- and downsides, owing to prevailing global economic and geopolitical uncertainty.

## Banxico follows Fed with small rate rise in March

April 5, 2023: Monetary policy outlook

### What's happened?

The Banco de México (Banxico, the central bank) raised the monetary policy rate by 25 basis points, to 11.25%, at its March 30th meeting. In doing so, it followed the Federal Reserve (Fed, the US central bank), which raised rates by a similar magnitude a week earlier. Banxico's decision suggests that the tightening cycle was close to its peak, now that inflation expectations for the rest of the year are easing.

### Why does it matter?

It appears that **the tightening cycle is approaching its end, given that Banxico has been matching the Fed's rate rises closely** in order to maintain interest-rate differentials with the US. However, risks are tilted towards further tightening; in its accompanying press release, Banxico indicated that it is still keenly aware of risks stemming from elevated global inflation and the Ukraine war. Moreover, the US and European banking systems have recently been hit by the collapse of the California-based Silicon Valley Bank and New York's Signature Bank, leading to fears of contagion. Banxico noted that recent volatility in the peso (which had been appreciating steadily for months until mid-March) was largely related to the added risk aversion caused by those incidents.

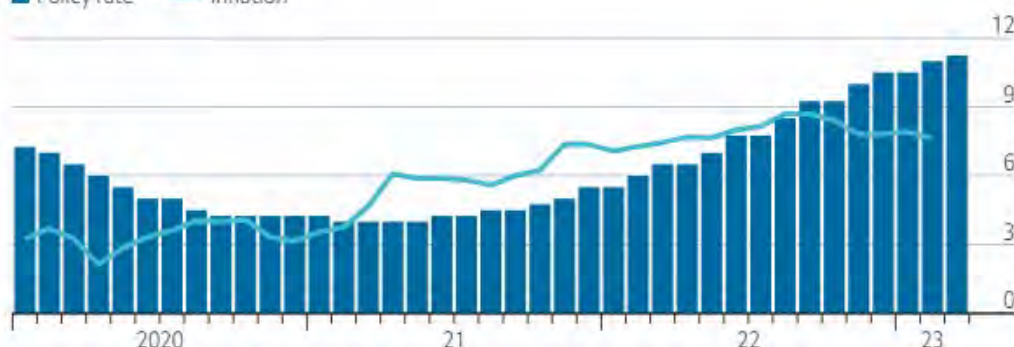
Banxico maintains its view that inflation will not converge to its target rate of 3% until the third quarter of 2024. Core inflation (which reached 8.2% in the first half of March) is still high; the recent easing of the headline inflation rate (to 7.1% in the same period) was driven mainly by slower growth in non-core prices. Nevertheless, Banxico believes that inflationary risks are receding, which will allow it to bring the tightening cycle to a close. Notably, all monetary policy committee members voted for a 25-basis-point rise at the March meeting—a departure from occasional dissent at recent meetings at which rates were raised more aggressively.

Although inflation remains high, the strength of the peso (notwithstanding its recent volatility) remains a strong asset to the credibility of monetary policy and confidence in the economy. As such, **Banxico is unlikely to carry on tightening for longer than the Fed, and will probably be eager to ease rates** once there are signs that inflation is converging towards the target.

### Easing inflationary pressures suggest that Banxico's tightening cycle is nearing its end

(%)

■ Policy rate — Inflation



Sources: Banco de México; Instituto Nacional de Estadística y Geografía; Haver Analytics.

### What next?

We expect Banxico to continue tightening until mid-2023, bringing the policy rate to 11.75%, and that it will hold the rate at that level until early 2024. Inflation will be slow to return to Banxico's 2-4% target range, only easing to 5% at end-2023 as price spikes in 2022 fall out of the index.

## Government purchases electricity assets from Iberdrola

April 11, 2023: Policy trends

### What's happened?

The president, Andrés Manuel López Obrador, announced on April 4th the purchase of 13 electricity plants from Iberdrola, a Spanish energy firm. The purchase does not add any new electricity-generating capacity, which means that its impact on prices is likely to be limited. **The announcement is notable mainly for demonstrating the president's continued desire to prioritise state-led development.**

### Why does it matter?

Despite the failure of the 2022 electricity reform, which was derailed in the legislature, **Mr López Obrador appears committed to fulfilling the reform's spirit of increasing the domestic market share of the Comisión Federal de Electricidad (CFE, the state-owned electricity firm),** which will be in charge of operating the plants. The deal, valued at US\$6bn, will put the CFE in control of an estimated 55.5% of electricity production in Mexico, almost equal to the 56% target that was set in the failed reform.

The purchase also seems to be intended by the president to ramp up political support, as evidenced by his description of the deal as a "new nationalisation". This makes reference to the 1938 nationalisation of the oil industry, which has long been used as a rallying cry for Mexico's nationalist left. In fact, however, it is questionable whether the deal amounts to an actual nationalisation, given that the funds used for the purchase are off-budget and come from a private fund known as Mexico Infrastructure Partners (MIP), although one with majority public financing from the Fondo Nacional de Infraestructura (Fonadin, a national infrastructure trust fund). The 13 plants will therefore remain under nominally private ownership by MIP, even though the CFE will be running the plants.

Mr López Obrador described the deal as necessary to maintaining price stability in electric power, but the lack of any additional generation means that little is changed in terms of existing supply dynamics. The government does, however, inherit something of a problem, which is the need for further investment to keep the plants in shape (two of the three have already been in operation for 10-25 years). In this context, there has been some criticism that the purchase was unwise and an unnecessary one for the government to take on, bearing in mind that the CFE already "owned" the plants in practice by virtue of their status as Productores Independientes de Energia (independent energy producers), which automatically sell their output to the CFE, which then resells it to end-users.

### What next?

The deal will do little to change Mexico's existing electricity market or reduce electricity prices, and is therefore largely symbolic. **We continue to forecast considerable uncertainty in the Mexican energy market, which also largely explains the willingness of Iberdrola to sell off these assets.**

## Mexico's auto industry rolls ahead in Q1

April 12, 2023: Economic growth

### What's happened?

Mexico's auto industry has got off to a good start in 2023; sales were 24.4% up on year-earlier levels in the first quarter, according to the national statistics institute (INEGI). Given that this strong performance was driven by domestic demand (rather than exports), **the momentum behind firm production is likely to continue for the remainder of the year.**

### Why does it matter?

Mexico's auto production is typically driven by exports, but **the sector's strong first-quarter outturn actually reflected firm domestic demand, which we think will go some way towards offsetting weaker demand from the US amid an economic slowdown there.** To some extent, the strong quarterly result was partly due to a weak base of comparison, as domestic sales in the first quarter of 2022 were 2.9% down on year-earlier levels. Nevertheless, sales growth in the first quarter of this year was still faster than the recent trend, even accounting for the weaker base.

### Auto sales approach pre-pandemic levels in Q1 (units sold)



Sources: Instituto Nacional de Estadística, Geografía e Informática; EIU.

Mexico produced 922,117 vehicles in January-March—a year-on-year increase of 8.6%. On the basis of current growth rates, vehicle output will surpass more than a million per quarter next year. As is usually the case (owing to different inventory levels), production figures were mixed among the major automakers. BMW (Germany), Mazda (Japan), Nissan (Japan) and Stellantis (France/Italy/US) led the pack, with sales growth of more than 40%. These strong increases made up for double-digit declines at Ford (US), Honda (Japan) and Mercedes-Benz (Germany). Meanwhile, exports grew at the same pace as production, with sales abroad up by 8.9% year on year.

Firm growth in domestic auto sales (which account for about a third of total car production) is helping to compensate for slower external demand amid less favourable market conditions, as higher interest rates are putting pressure on US consumers. Nonetheless, although export growth is likely to cool this year, we expect growth in auto production to remain firm, which will support continued growth and investment in the auto sector in 2023-24.

### What next?

Although sales growth is likely to decelerate in the coming quarters, it will still remain robust. This will help to offset a slowdown in other sectors of the economy and therefore supports our forecast for GDP growth of 1.4% this year.

## Declining freight rates point to worsening trade picture

April 21, 2023: External sector

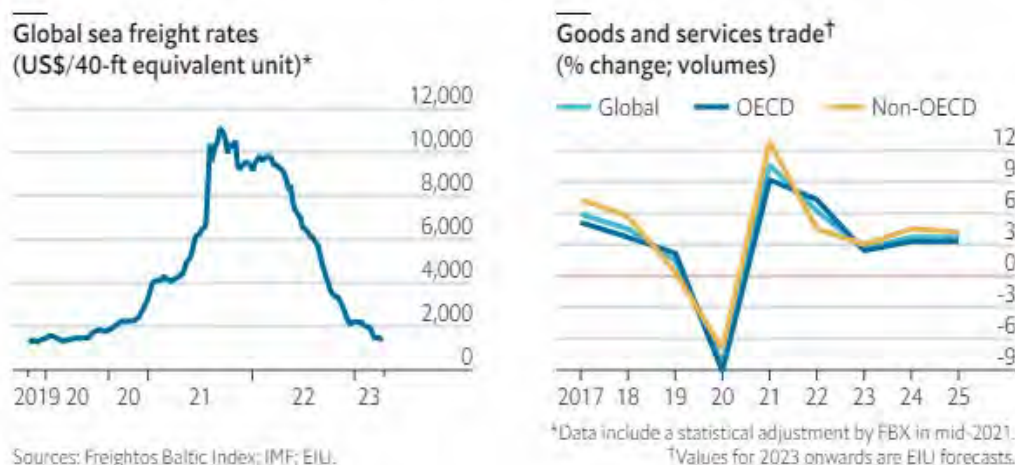
## What's happened?

By early March global sea freight rates (measured in US dollar terms, for 40-ft equivalent units) had approached (or even fallen below) pre-pandemic levels, according to the Freightos Baltic Index, a daily freight container index. **The declining price trends suggest that global trade activity will slow further over the second and third quarters of 2023.**

## Why does it matter?

Shipping rates are traditionally an early indicator of trouble. The surge in sea freight rates since late 2020, for example, ushered in a period of rapid trade growth (and supply-side disruptions, as exporters and logistics firms struggled to match soaring consumer demand) over 2021 and early 2022. **After surging to record-high levels, shipping rates have now declined sharply, suggesting an impending downturn in global demand.** Recent data confirm this view, providing early signs in [the US](#) and [the EU](#) of slowing consumer and business spending.

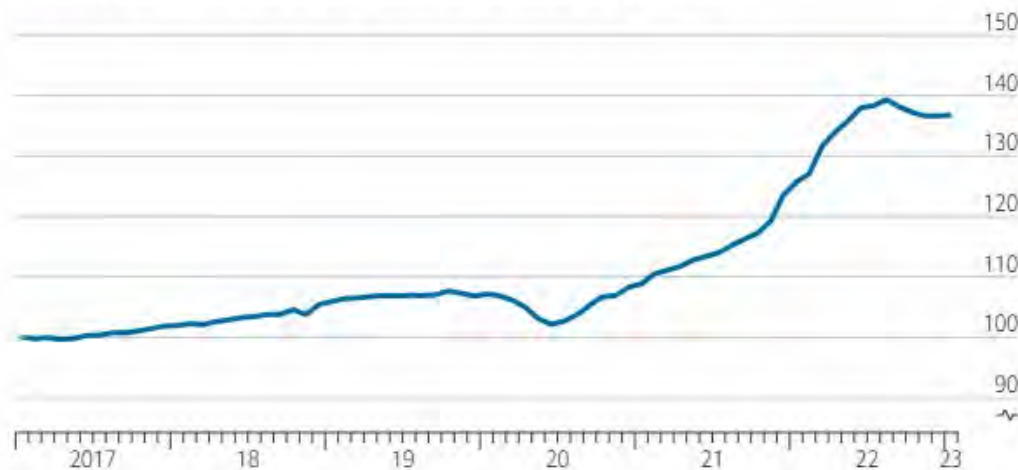
### Global trade growth is set to soften in 2023



**A recovery in global trade is unlikely in the near term.** Our forecasts already assume slow growth across most major European economies through the remainder of 2023, with a technical recession (that is, two consecutive periods of negative quarter-on-quarter growth) likely in the US in the second and third quarters of the year. **China's upside growth surprise in January-March was driven by a recovery in domestic demand, but persistent weakness in goods imports affirming our view that China's post-covid economic rebound will have limited regional spillover.** The downturn in the global electronics cycle suggests that the boom in semiconductor demand since late 2020 is largely over, weighing on the outlook for Asian exporters like [Singapore](#), [South Korea](#), [Taiwan](#), Malaysia and [Vietnam](#).

### US non-auto retail inventories are now well stocked

(monthly retail inventories in US\$, seasonally adjusted; Jan 2018=100)



Sources: EIU; US Census Bureau.

High levels of inventories in Western markets are also depressing new export orders from overseas manufacturers. **It is likely that some recent export figures, particularly from some Asian markets, represent a rundown of these inventories rather than new export-oriented production.** This may carry negative consequences for some manufacturing jobs and wages, suggesting wider economic shocks to some trade-reliant economies that may have benefited from the pandemic-fuelled trade boom in 2020-22.

### What next?

**We expect global trade growth to recover starting from late in the third quarter of 2023 as global economic activity starts to firm by the fourth quarter.** Nevertheless, a recovery in global trade is contingent on the economic performance of the US and the EU, and there is a risk that the depressive effects of monetary tightening in both markets persist beyond our current expectations.

### China is now one of the top automotive exporters, but it lags behind major exporters in value terms

(2022)



Sources: International Trade Centre; China Association of Automobile Manufacturers; Japan Automobile Manufacturers Association; South Korean Ministry of Trade, Industry and Energy; Association of German Automakers; US Department of Commerce; EIU.

Trade pressures are not even across all industries, and we expect some sectors to navigate the current downturn better than others. **For example, Chinese car exports are surging, but this will also worsen trade tensions with some economic partners, including the US and the EU.**

## Mexican government moves ahead with Interoceanic Corridor



May 16, 2023: Policy trends

## What's happened?

The government has recently unveiled plans to encourage businesses to establish operations and create jobs in the Interoceanic Corridor (IC), a logistics hub in south-eastern Mexico that connects the Pacific and Gulf coasts. The president, Andrés Manuel López Obrador, has been prioritising government infrastructure projects like this one, that favour Mexico's poorer, less developed southern states, in a bid to reduce inequality and promote economic development there. However, his preference for regional investment indicates that returns on government infrastructure spending will be sub-optimal from a national perspective over the rest of his term, which ends in September 2024.

## Why does it matter?

Of all of the government's southern infrastructure projects, **the IC, which is being touted as an overland alternative to the Panama Canal, has the greatest potential to spur regional development.** The project involves rehabilitating or modernising existing railways, transport networks and ports in Veracruz and Oaxaca (those states border the Gulf of Mexico and the Pacific Ocean respectively and are home to the isthmus of Tehuantepec, Mexico's narrowest point). Train lines linking the isthmus with the Guatemalan border will also be upgraded, meaning that the project's benefits will spread beyond the isthmus itself.

The government is clearly keen to encourage firms to relocate to the south. Considerable tax breaks in ten planned industrial parks will help to attract investors by offsetting some disadvantages, including distance from the US border. Companies will benefit, too, from an agreement last year by the Inter-American Development Bank to provide up to US\$2.25bn in financing and mobilised resources over three years to support relocation to the IC. Moreover, investor agreements to create a specified number of jobs in exchange for tax advantages—including reductions in value-added tax (VAT) and income tax—will help the president to achieve a long-term goal.

### The government pushes ahead with the Interoceanic Corridor



Nonetheless, **it will be several years before returns on the IC materialise fully.** Despite the IC's considerable potential to facilitate the interoceanic transport of goods, the capacity to handle major container traffic is a distant prospect. Indeed, the government projects that it will take another six years before the IC can attract even 10% of the cargo that passes through the Panama

Canal. Moreover, by prioritising this project over investment in port and energy infrastructure in more productive regions (the industrial clusters in the centre and the northern border regions), **the government will prevent national returns on infrastructure spending from fulfilling their potential.**

## What next?

The IC could well spur development in Mexico's south, and tax breaks will offset some of its disadvantages. However, the government's ideological approach to infrastructure investment suggests that spending will not be allocated to the more dynamic economic regions, limiting returns on investment.

## Analysis

### Global business environment improves











April 13, 2023: 5-year summary

- **Singapore, Canada and Denmark will be the three countries with the best business environment over the next five years, according to EIU's latest business environment rankings.**
- **Several west European countries plus the US, Hong Kong and New Zealand make up the remaining top ten geographies in our ranking largely supported by strong levels of economic and political stability.**
- **The biggest improvements over the past year are in the business environments of Vietnam, Thailand, Belgium, Sweden, India and Costa Rica. The biggest deteriorations are in China, Bahrain, Chile and Slovakia.**
- **Two major trends stand out. First, the outlook for China's business environment has deteriorated as a result of greater policy uncertainty, US-China tensions and a more challenging longer-term outlook for growth.**
- **In our latest rankings China is behind markets such as Malaysia, Thailand, Vietnam, Mexico and India, which are seeking to attract manufacturing investment away from China.**
- **Second, east European countries have been badly hit by the fallout of the war in Ukraine, resulting in reduced market opportunities. By contrast, western Europe has weathered the situation well.**

The changes in our business environment rankings (BER) over the past year illustrate the impact on global operating environments of the war in Ukraine; the ensuing spike in inflation and cost-of-living crisis; and the current combination of fiscal loosening, monetary tightening and an economic slowdown. The BER measures the attractiveness of the business environment in 82 countries on a quarterly basis, using a standard analytical framework with 91 indicators. Our ranking for the second quarter of 2023 shows that North America and western Europe continue to be the best places in the world to do business. Asia ranks third, ahead of eastern Europe, while Latin America marginally outperforms the Middle East and Africa (MEA).

#### Top 10 geographies by business environment score

(10 represents the best possible score)

Geography	Total score	Rank
 Singapore	8.70	1
 Canada	8.45	2
 Denmark	8.45	3
 US	8.37	4
 Switzerland	8.34	5
 Sweden	8.30	6
 Hong Kong	8.25	7
 Germany	8.25	8
 New Zealand	8.21	9
 Finland	8.11	10

Source: EIU.

## North America and western Europe: best in the world for business

Canada ranks second in the BER and the US ranks fourth, unchanged from a year ago. The fact that ten of the top 20 countries in the global ranking are in western Europe reflects the region's political stability, large and competitive domestic markets, and openness to world trade. Many west European countries were able to roll out significant fiscal support for citizens and businesses during 2022 as rising inflation raised the cost of living. The short-term economic outlook for the region is subdued, given rapid monetary tightening. However, in the medium term greater spending under the €750bn EU recovery fund will support business-friendly investment in the digital sector, the green agenda and the transition away from reliance on Russia in the energy sector.

**Biggest winners:** Compared with one year ago, **Belgium** improves its ranking by seven spots and Sweden by six. Belgium's improvement reflects a more open foreign direct investment (FDI) policy, with a new federal mechanism providing a clearer framework from January 2023. Belgium's robust institutional framework, pro-business policy orientation, high-quality network infrastructure and location at the heart of the EU support its ranking. **Sweden** also improves its ranking on the back of better scores for political and economic stability. Sweden is one of the world's most digitally advanced economies and has progressed further than many of its peers in decarbonisation, meaning that it is well placed to respond to transformative trends in technology and the environment.

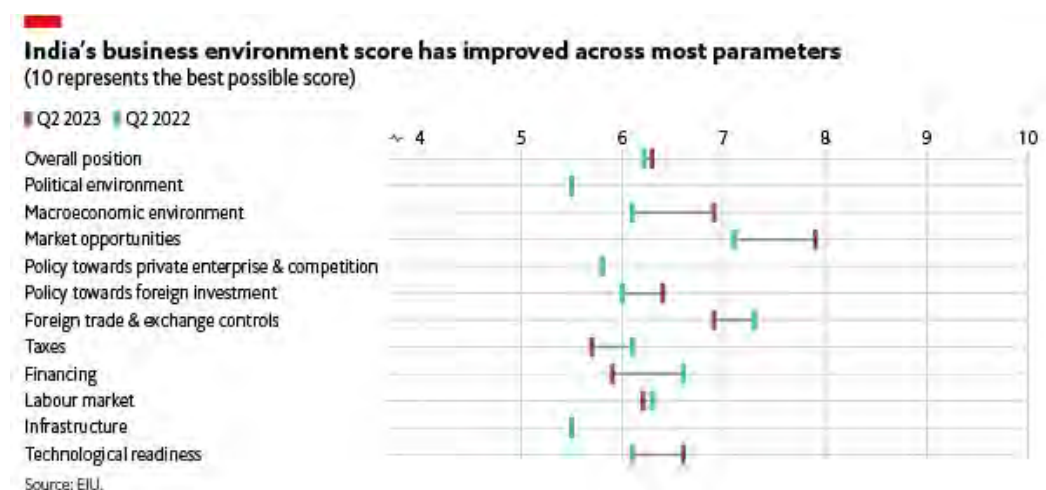


**Biggest losers:** **Slovakia** falls by seven spots. As elsewhere in the region, monetary tightening has weighed on financing opportunities. In addition, Slovakia's market opportunities score has deteriorated sharply, with growth in foreign trade set to slow amid continued supply-chain disruptions and elevated input costs for its energy-intensive manufacturing sector. **Latvia** drops by six places, driven by deteriorating scores for financing and the labour market—it has a shrinking labour force, persistent emigration of young workers, and skills shortages. **Serbia** also drops by six spots. Serbia's labour-market score is deteriorating owing to low digital skills levels and one of the lowest labour-force participation rates in Europe.

## Asia: reorienting away from China

Singapore will retain the world's best business environment in the forecast period, with Hong Kong, New Zealand, Australia, Taiwan and South Korea also ranking in the global top 20. As a region, Asia's score for policy towards foreign trade is improving. This partly reflects the impact of regional free-trade agreements (FTAs) adopted in the past five years, the effects of which will be felt in our five-year forecast period (2023-27).

**Biggest winners:** the Asian countries that have improved their ranking the most over the past year are Vietnam, Thailand and India. Vietnam is our overall biggest mover worldwide, climbing 12 spots, while Thailand improves by ten places and India by six. **Vietnam** and **Thailand**, which have favourable policies for foreign investors, are benefiting from firms pursuing a China+1 policy of having supply chains in both China and another Asian market. This reflects China's zero-covid policies, which have constrained business operations, and also allows firms to mitigate geopolitical risk associated with the US-China relationship. Vietnam's score rises on the back of an improving economic outlook, and Thailand's as a result of greater economic stability. **India** has historically struggled to attract manufacturing investment but is now well placed to benefit from similar trends. A strong, stable economy and access to a large labour supply form the basis of its appeal to investors. Policy reforms are making it easier to do business in India, and we expect major improvements in areas such as infrastructure, taxation and trade regulation, boosting investment.



**Biggest loser:** **China** is our biggest loser globally, falling by 11 spots in the second-quarter rankings compared with a year earlier. Although the end of the zero-covid policy is positive for firms operating in China, regulatory changes stemming from the statist direction of economic policy, as well as rising local costs, weigh on its business environment and limit opportunities for international investors. China now ranks below Malaysia, Thailand, Vietnam and India.

## Latin America: narrowly outperforming the Middle East and Africa

Latin America scores poorly for political effectiveness, reflecting problems with corruption, crime, weak institutions and often incoherent policy towards business. Inflows of FDI—mainly to commodity-related sectors, but also to services (such as commerce, restaurants and finance) and manufacturing—boomed in 2022 in many Latin American economies. This FDI mini-boom could continue into 2023. Improvements will be recorded in countries that are undergoing reforms, but these will be slower than in other emerging-market regions, reflecting governability difficulties. By global comparison, Latin America's tax policy stands out as being particularly poor, reflecting costly and unwieldy systems in most countries. Moreover, the tax burden is now set to rise, reflecting the need to narrow fiscal deficits after the pandemic.

**Biggest winner:** **Costa Rica** improves its global ranking by six spots, driven by higher infrastructure and technological readiness scores. Broad political consensus on maintaining a market-friendly, open economy has helped the country to secure a wide network of FTAs and has made it attractive to investors. This, along with accession to the OECD in May 2021, supports Costa Rica's strong score for policy towards foreign investment.

**Biggest losers:** **Chile** drops by nine spots compared with last year, and **Colombia** by six, with scores for the political environment and policy towards foreign investment declining for both. In Chile this reflects policy uncertainty associated with an unresolved constitutional reform process that creates uncertainty and hurts political effectiveness, as well as the left-wing government's plans to expand the role of the state in the economy. That said, Chile remains Latin America's top-ranked country in the BER, at 30th in the global ranking. In Colombia economic policy under the

left-wing president, Gustavo Petro, will become more interventionist and state-driven, involving stricter regulations for the oil sector.

## Middle East and Africa: the lowest-ranking region

MEA's overall score in the BER is the lowest of any region. The ranking for the MEA region continues to be weighed down by poor governance and endemic insecurity, including the spillover from the conflicts in Syria, Yemen and Libya, alongside political unrest in a number of countries, including Iraq and Lebanon. Cuts in capital spending in the context of post-pandemic fiscal tightening have constrained the region's macroeconomic score, but on the positive side, this has pushed countries to support business-friendly reforms, such as improved frameworks for public-private partnerships and foreign investment. Israel and the Gulf states are the highest-ranked countries in the region, with the latter's scores improving in recent years in line with rising oil prices and growing absorptive capacity for new investment. Qatar, Saudi Arabia and the United Arab Emirates will improve further in 2023-27. Both the Middle East and Africa typically suffer from weak corporate governance and regulation, as well as poorly trained labour forces and, in countries such as Angola, Nigeria and the Gulf states, an overreliance on hydrocarbons. Nonetheless, rates of return can be high for firms that master the region's complicated political and regulatory climate.

**Biggest winner:** No countries in the Middle East or Africa see improvements in our ranking of the scale recorded in other regions. **South Africa** sees a modest rise, up by four spots, but this reflects improvement from a low base given the disruptions to critical public services such as power supply that characterise the business environment at present.

**Biggest losers:** **Bahrain** falls by nine spots, and **Kuwait** by six, both owing to deteriorating market opportunities scores as a consequence of falling (albeit still comparatively high) global oil prices, which represent a large share of fiscal and export receipts. Lack of progress on regulations and reforms also weighs on these countries' business environment scores.

## EIU Global Outlook—a summary of our latest global views

April 21, 2023

**Despite strong headwinds, which are mostly related to the ripple effects from the war in Ukraine and high global inflation, the global economy has proven resilient so far in 2023. Europe avoided a recession in the winter of 2022/23, in part owing to warmer than usual temperatures and to the rapid switching to alternative energy sources following Russia's decision to turn off gas flows. US consumer spending has also held up better than we initially expected, with the labour market and consumer spending strengthening further in early 2023. Finally, China's exit from the government's zero-covid policy has also supported global activity. We therefore expect global growth to stand at a modest—but not anaemic—2.1% in 2023 (revised up from 2% in our previous forecasting round).**

## Global GDP growth is still expected to slow sharply in 2023

Despite the brighter outlook, growth of 2.1% this year would still represent a slowdown amid major headwinds related to global monetary tightening and the war in Ukraine. The war is affecting the global economy via higher commodity prices, supply-chain disruptions and Russia's weaponisation of energy supplies. This situation will persist throughout 2023 (and probably beyond), as we expect the war to become a protracted conflict with no clear resolution. The economic impact of the war is felt especially strongly in Germany and central Europe, where energy-intensive industries will struggle to remain competitive. The UK economy is being disproportionately hit by the cost-of-living crisis, given its reliance on private consumption, and we expect it to be one of the few economies in the region (alongside Germany) to register a full-year contraction in 2023. In the US, we still expect annual growth to slow sharply this year, to 1%, as the pace of consumer spending becomes unsustainable in the face of high inflation and a steep rise in interest rates. In China, the initial rebound in consumer activity after the lifting of the government's zero-covid policy has been strong, and we expect it to pick up even further in the coming months.

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## **The war in Ukraine will keep a floor under commodity prices**

We expect global commodity prices to continue easing from their 2022 peaks this year, but to remain well above pre-war levels. However, China's reversal of its zero-covid policy will put upward pressure on oil prices in the medium term, keeping them above US\$80/barrel until 2025. The decision by OPEC+ members in late March to cut production, an EU ban on seaborne Russian oil imports and China's reopening will all exacerbate market tightness. We expect European gas prices to ease gradually in 2023-24 but to remain above 2019 levels, weighing on households and businesses. The possible tightening of Western sanctions (for instance on refined Russian oil) will fuel price volatility.

## **Global inflation will remain high in 2023**

We expect global inflation to ease slightly, from an estimated 9.3% in 2022 to 7% in 2023. High global commodity prices, continued supply-chain disruptions from the war in Ukraine and, in some parts of the world, the still-strong US dollar will keep annual inflation well above 2019 levels. However, we expect inflation to lose some momentum as global demand softens and commodity prices start to ease back from their 2022 peaks. We expect central banks to maintain their aggressive policy stance in an effort to bring inflation under control, even as global growth slows. Interest rates in most major economies will peak by mid-2023, and in most cases will then stay on hold until 2024.

## **Risks to the global economy abound**

Several potential scenarios could derail our forecasts, the most impactful of which include: an escalation of the Russia-Ukraine war (there is little prospect for an end to the hot war this year); social unrest arising from high inflation (especially given that high levels of public indebtedness constrain emerging countries' room for manoeuvre to mitigate the impact on households); an escalation of tensions around Taiwan (following China's military manoeuvres around the island in early April); financial contagion following the collapse in March of two US regional banks and turmoil at a Swiss banking giant, Credit Suisse; the emergence of a new variant of covid-19 that is especially aggressive and escapes immunity; and extreme weather events that further fuel global inflation. If one (or several) of these scenarios were to materialise, a global recession this year or next would be likely.

## **Fears about global food supplies are high**

Fears about global food supplies remain high amid risks to grain exports from Russia and Ukraine (together, these countries account for around one-third of global wheat trade). Fears of a war-induced shortage of fertiliser have proven overblown; however, Russia's willingness to hold up its end of a deal that allows the passage of grains out of Ukraine remains in doubt. In addition, food prices remain high and are still rising (owing to extreme weather events and high energy and transport costs), fuelling the risk of social unrest.

## Over half a billion people live in countries that rely heavily on Russian and Ukrainian wheat

(% of total wheat imports from Russia and Ukraine, 2021)



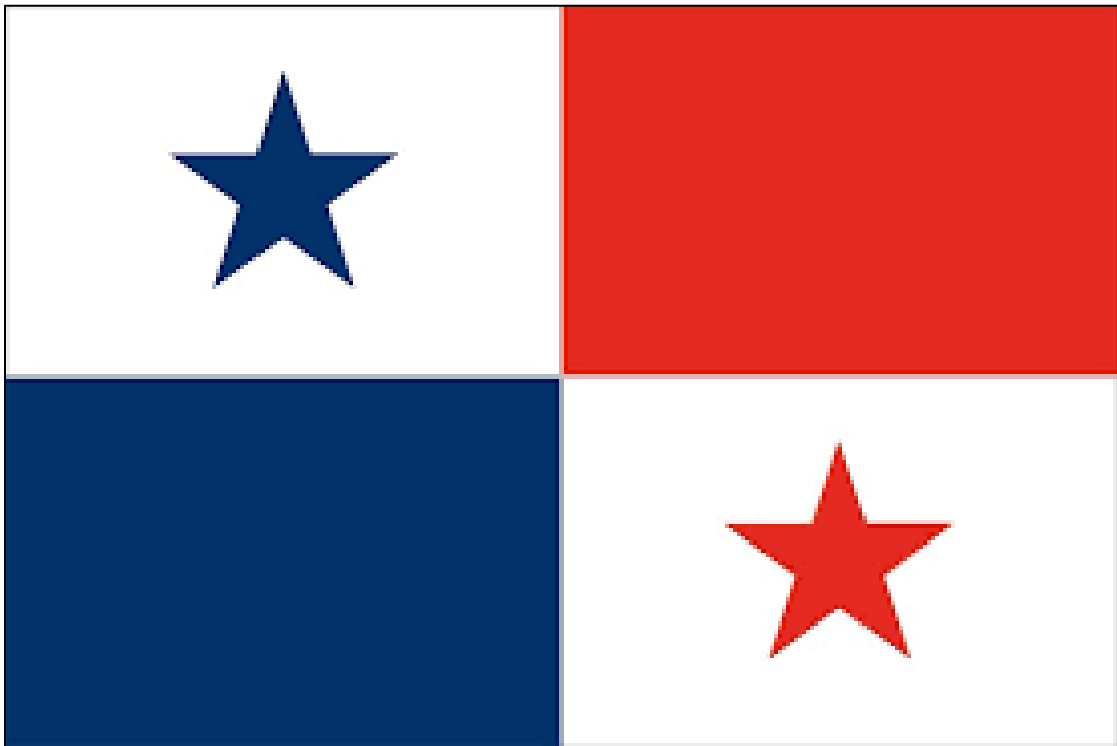
### World economy: forecast summary

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
<b>Real GDP growth (%)</b>										
<b>World (PPP<sup>a</sup> exchange rates)</b>	<b>3.6</b>	<b>2.7</b>	<b>-2.7</b>	<b>6.3</b>	<b>3.4</b>	<b>2.8</b>	<b>3.0</b>	<b>3.3</b>	<b>3.3</b>	<b>3.3</b>
<b>World (market exchange rates)</b>	<b>3.0</b>	<b>2.3</b>	<b>-3.5</b>	<b>5.9</b>	<b>3.1</b>	<b>2.1</b>	<b>2.4</b>	<b>2.7</b>	<b>2.7</b>	<b>2.7</b>
US	2.9	2.3	-2.8	5.9	2.1	1.0	1.0	2.1	2.2	2.0
Euro area	1.8	1.6	-6.4	5.3	3.5	0.7	1.5	1.7	1.6	1.6
Europe	2.2	1.8	-5.6	5.9	3.1	0.7	1.7	2.0	1.9	2.0
China	6.8	5.9	2.2	8.4	3.0	5.7	4.7	4.3	4.1	3.9
Asia & Australasia	4.5	3.5	-1.3	6.2	3.3	4.0	3.8	3.6	3.6	3.5
Latin America	0.8	-0.7	-6.7	6.7	3.7	1.3	2.1	2.2	2.2	2.3
Middle East & North Africa	1.7	1.4	-3.6	4.3	5.6	3.0	3.1	3.1	3.3	3.7
Sub-Saharan Africa	2.6	2.3	-2.9	4.6	3.3	2.9	3.5	3.8	4.0	4.1
<b>World inflation (%; av)<sup>b</sup></b>	<b>3.5</b>	<b>3.6</b>	<b>3.3</b>	<b>5.3</b>	<b>9.3</b>	<b>7.0</b>	<b>4.5</b>	<b>3.4</b>	<b>3.2</b>	<b>3.1</b>
<b>World trade growth (%)</b>	<b>3.9</b>	<b>0.2</b>	<b>-5.0</b>	<b>10.8</b>	<b>4.2</b>	<b>2.1</b>	<b>3.2</b>	<b>3.5</b>	<b>3.7</b>	<b>3.8</b>
<b>Commodities</b>										
Oil (US\$/barrel; Brent)	71.1	64.0	42.3	70.4	99.8	85.9	84.0	79.0	73.1	66.4
Industrial raw materials (US\$; % change)	2.2	-8.6	-3.2	40.4	4.6	-6.7	2.2	0.8	-0.2	-0.1
Food, feedstuffs & beverages (US\$; % change)	1.6	-4.4	7.8	36.1	22.0	-9.8	-5.9	-2.1	-2.5	-2.4
<b>Exchange rates (av)</b>										
¥:US\$	110.4	109.0	106.8	109.8	131.5	125.0	110.5	108.3	110.3	108.8
US\$:€	1.18	1.12	1.14	1.18	1.05	1.10	1.13	1.15	1.17	1.18

<sup>a</sup> Purchasing power parity. <sup>b</sup> Excludes Venezuela.

Source: EIU.

# PANAMA







# Integrated Country Strategy

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## PANAMA

**FOR PUBLIC RELEASE**

Originally Approved: March 21, 2022  
Reviewed and Updated: November 9, 2022

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Reviewed and Updated: November 9, 2022

## 1. Chief of Mission Priorities

The United States and Panama enjoy a special relationship based on long historical ties and the importance of the Panama Canal to global economic security. Our shared commitment to democracy, prosperity, and security have helped Panama lead the region in economic growth and emerge as one of its most stable democracies. Two and a half years into his administration, President Laurentino Cortizo continues to emphasize that the United States is Panama's primary strategic partner. Bilateral cooperation with Panama's security forces has produced successful efforts to combat illicit trafficking and finance, take down criminal gangs, tackle transnational criminal organizations, enable humanitarian assistance, and confront irregular migration. Panama is also a key partner in combatting climate change. However, record numbers of irregular migrants entered Panama through the Darien jungle from Colombia in 2021, increasing economic, political, and environmental concerns. The COVID-19 pandemic has ravaged the country, causing an economic downturn and exacerbating income inequality. Additionally, corruption continues to poll as the top concern among Panamanians, higher than the pandemic, the economy, jobs, and security. If we want Panama to be a strong partner aligned with our U.S. interests, we must invest in helping it address its many challenges.

Mission Panama's top priorities to advance U.S. national interests include:

- Protecting U.S. citizens and businesses;
- Strengthening the security of the United States, Panama, and the region;
- Promoting sustainable economic growth;
- Enhancing democratic institutions and improving the rule of law; and
- Maintaining the United States' position as Panama's preferred partner.

Pursuing the goals and objectives articulated throughout this strategy will strengthen U.S. national and economic security, protect U.S. citizens residing or doing business in Panama, and promote mutual prosperity. Panama also will become a stronger partner by effectively

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managing migration, ensuring the long-term operability of the Panama Canal, promoting regional integration, countering narcotics trafficking and illicit finance, and creating a level playing field for U.S. businesses. Risks to achieving these goals include the ongoing pandemic and sluggish economic recovery, Panama's questionable political will on some issues, and Panamanian presidential elections in 2024 that have the potential to impact both Panama's international reputation and our bilateral cooperation.

Panama suffered a nearly 18 percent contraction in gross domestic product (GDP) – one of the largest declines in the world – and an 18.5 percent unemployment rate in 2020, up from just seven percent before the pandemic. The pandemic exacerbated troubling trends like increased sovereign debt, which means lean budgets for the foreseeable future. Panama also suffered a heavy human toll during the pandemic. However, its vaccine program, which included a sizeable U.S. vaccine donation, is making significant progress, with 66 percent of Panama's total population fully vaccinated as of January 2022. These steps have kept the economy open and ushered in strong economic growth in 2021.

Strong political will in Panama is essential to achieving our goals and objectives. Panama will need to take strong measures to reverse unsettling trends, such as worsening corruption, money-laundering, and social and political divisions caused by income inequality and unemployment. Panama will need to address the significantly expanded irregular migrant issue, where over 130,000 migrants entered Panama from Colombia in 2021 enroute to the United States. Panama has also struggled to address the high numbers of undocumented migrants living in the country. Equally troubling is that Panama remains on the Financial Action Task Force (FATF) grey list for systemic deficiencies in deterring and combatting money laundering and other illicit financial transactions.

Protecting U.S. citizens is a top priority for the Mission. The U.S. resident community in Panama is an estimated 60,000, with more than 10,000 U.S. visitors estimated to be in the country at any one time. Crime and a lack of transparency in commercial and judicial matters have adversely affected the resident U.S. community. Our programs are geared to improve

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Panama's security situation, encourage community policing, increase successful prosecutions of criminals, and promote transparency, all of which will benefit U.S. citizens. Through increased outreach from the Consular section and a new "Embassy on the Road" program designed to strengthen engagement with local officials and community leaders, we will reinforce the ties between the U.S. government and Panamanian society, to our mutual benefit.

Strengthening the security of the United States, Panama, and the region by building Panama's capacity to address current and emerging transnational threats is a strategic priority for the Mission. The annual bilateral High-Level Security Dialogue (HLSD) aligns our strategic priorities and preserves our position as Panama's partner of choice in the security space. Our programs have helped Panama become a regional leader in countering narco trafficking and taking down transnational criminal organizations. Panama continues to make significant progress in limiting the transit of illegal drugs, leading all other Central American countries in narcotics seizures. Estimates for drug seizures in 2021 exceeded Panama's 2019 record seizure rate by nearly 60 percent. With the dramatic rise in irregular migration flows, we will help the Government of Panama (GOP) strengthen Panama's borders while exploring options to support its efforts to streamline its process for assessing migrants' protection needs, as well as to adjust policies and enact legal reforms to allow it to remove individuals without protection needs or another legal basis to remain in Panama. To reduce the uptick in homicides, Post will prioritize citizen security, community policing, and prevention programs. Cyber-attacks and crime are also on the rise, affecting all citizens, including U.S. citizens and businesses. Robust support, including development of a joint cybercrime unit and training for Panama's Computer Security Incident Response Team (CSIRT), will help address this emerging threat.

Expanding economic growth and mutual prosperity is a Mission priority. The United States is Panama's largest trading partner and source of foreign direct investment. The free trade agreement with Panama contributes to our mutual prosperity. To work against authoritarian influence and ensure that U.S. businesses continue to operate on a level playing field, we will focus our efforts on improving the trade and investment climate through tools such as advocacy, training, government financing, and engagement of like-minded stakeholders. We

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will promote transparency, international best practices, and high labor standards, including the prevention of child labor. We will support technology solutions that bolster equitable growth, inclusiveness, and innovation. Our health diplomacy and assistance will support Panama on a range of issues, especially as it emerges from the pandemic. We will partner with Panama to address the challenge of climate change in order to build resilience and conserve biodiversity.

Enhancing democratic institutions so that they deliver for the citizenry, respect the rule of law, hold corrupt actors accountable, and reduce the level of impunity is a critical mission for the embassy. Corruption and weak institutions continue to be systemic challenges in Panama at all levels of government. Panama ranked 105th out of 180 countries in the 2021 Transparency International Corruption Perceptions Index. A 2021 Gallup poll showed that 37 percent of Panamanians viewed corruption as Panama's primary challenge, up from 26 percent in 2019. Two former presidents are barred from leaving Panama because of charges of corruption and money laundering. Corruption, opaque electoral and legislative processes, and a political system that excludes marginalized voices have structurally weakened Panama's democratic institutions. Panama's status as a regional financial hub, coupled with weak regulatory institutions, have allowed illicit funds to move through the country. Although Panama has made strides to address these problems, FATF still notes significant deficiencies and has yet to remove Panama from the grey list. Through U.S.-funded programs such as the Anti-Money Laundering/Anti-Corruption Task Force and other support for legislation and capacity building, we have already made progress toward helping Panama strengthen its institutions. Mission Panama will aim to increase support for transparency and government reform measures, as well as outreach to underserved communities to advocate for increased participation within government institutions and processes. We also will increase measures to assist Panamanian civil society and independent media through capacity building and support.

Renewing U.S. leadership by increasing Panamanians' conscious recognition of our shared values with respect to global challenges is paramount in the face of the growing influence of autocracies around the world, including in Latin America. Mission Panama will build upon shared U.S.-Panamanian history using active engagements at the sub-national level to establish

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strong, consistent relationships with local government officials, and educational, community, and opinion leaders. Mission Panama will also counter disinformation campaigns by promoting independent journalism and launching comprehensive messaging campaigns centered around factual issues that matter to both Panama and the United States.

Since Panama's unexpected establishment of diplomatic relations with the People's Republic of China (PRC) in 2017, the PRC has moved rapidly to build political and economic ties throughout the country. All five goals articulated in this ICS will strengthen the United States standing in Panama and contribute to ensuring – regardless of PRC efforts – that the United States remains Panama primary economic, security, and people-to-people partner.

Mission Panama's seven Management units and subunits and their partners in RSO are united in providing, optimizing, and securing the operational ecosystem that enables mission-focused U.S. diplomacy in Panama and the region, as many of our operations are regional.

Management echoes and upholds our strong commitment to advance Diversity, Equity, Inclusion, & Access (DEIA) throughout our Mission. We are giving voice to all community-members. We are united in our commitment to reduce bias and inequities, and our efforts are already fostering greater understanding. Mission Panama Management is increasing our climate resilience through awareness campaigns, multi-tiered energy savings measures, and prudent infrastructure investments, like renewables and electric cars. Management units are invested in modernizing technology using data analytics and Power platforms and user-friendly tools that reduce inefficiencies and streamline processes. These practicalities are minimizing staff's administrative burdens, enabling our employees to concentrate on advancing Mission Panama's five comprehensive ICS goals.

Mission Panama is also looking forward to the return of our Peace Corps volunteers to contribute to Panama's identified priorities in health, education, agriculture, environment, and pandemic response by serving communities, organizations, and institutions.

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## 2. Mission Strategic Framework

**Mission Goal 1:** Strengthen the security of the United States, Panama, and the region by helping Panama successfully address current and emerging transnational threats, advance bilateral interests, and resist authoritarian influences.

- **Mission Objective 1.1:** By 2026, Panama's improved capacity to strengthen its borders, maritime domain, citizen security, and cyber security and cybercrime regimes reduces irregular migration, drug trafficking, contraband, illicit networks, instability, and violence that threaten U.S. national interests.
- **Mission Objective 1.2:** By 2026, Panama and the Panama Canal are more resilient to authoritarian influences that threaten U.S. national interests.

**Mission Goal 2:** Panama attains a sustainable, inclusive, equitable, and innovative economy that promotes growth and mutual prosperity.

- **Mission Objective 2.1:** By 2026, Panama secures ambitious climate mitigation and adaptation outcomes that build societal resilience and ensure energy, food, health, and water security and conserve biodiversity.
- **Mission Objective 2.2:** By 2026, Panama fosters equitable growth and innovation, including through fair trade, new technologies, and a transparent and improved investment climate.
- **Mission Objective 2.3:** By 2026, business opportunities for U.S. firms improve, U.S. exports and foreign direct investment increase, and U.S. national security and economic interests in Panama advance.

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**Mission Goal 3:** Panama's democratic institutions are strong, transparent, inclusive, and deliver for its citizens, respect the rule of law, hold corrupt actors accountable, and reduce the level of impunity.

- **Mission Objective 3.1:** By 2026, Panama's democratic institutions respect open and competitive political processes, are more transparent and inclusive of underserved communities, and promote racial and gender equity.
- **Mission Objective 3.2:** Panama's institutions to combat money laundering, human rights abuses, and corruption are strengthened with net gains recognized by international organizations, and are held accountable by empowered civil society and independent journalism.

**Mission Goal 4:** U.S. citizens and businesses are secure in their persons and property and have timely access to U.S. citizen services.

- **Mission Objective 4.1:** By 2026, documentation of U.S. citizens increases, cooperation with and capacity of local authorities to aid U.S. citizens in crisis or hardship improve, and collaboration with local government officials and U.S. based businesses grows, improving security awareness.

**Mission Goal 5:** Panamanians recognize shared values and place greater trust in the United States, influencing the Panamanian government to cooperate with the U.S. Government on multilateral and regional issues.

- **Mission Objective 5.1:** By 2026, the Embassy establishes strong and consistent relationships with sub-national institutions and opinion leaders that strengthen pro-U.S. sentiment among Panamanians.
- **Mission Objective 5.2:** By 2026, the Embassy effectively prioritizes and facilitates Panamanians' understanding of global, regional, and multilateral issues of importance to the Panamanian government, opinion leaders, and people so they better understand their relevance for Panama and cooperate with the U.S. Government on multilateral and regional issues.

**Management Objective 1:** Provide and optimize the operational ecosystem that enables mission-focused U.S. diplomacy in Panama and the region.

**Management Objective 2:** Infuse a genuine commitment to diversity, equity, inclusion, and accessibility (DEIA) throughout the Mission to give voice to all employees, reduce bias, foster understanding, neutralize discriminatory language, and broaden talent acquisition.

**Management Objective 3:** Increase climate resilience through awareness, energy savings measures, and prudent infrastructure improvements.

**Management Objective 4:** Deliver an optimized, resilient, and technologically up-to-date security infrastructure to ensure continuity of Mission operations.

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### 3. Mission Goals and Objectives

**Mission Goal 1** | Strengthen the security of the United States, Panama, and the region by helping Panama successfully address current and emerging transnational threats, advance bilateral interests, and resist authoritarian influences.

**Description** | A crossroads of the Americas, Panama is a major transit hub for both legitimate commerce and travel and malicious goods and people. As such, Panama is an essential partner in ensuring hemispheric security. The Panama Canal and its direct contribution to the United States' national and economic security differentiate Panama from its neighbors. The United States is the largest user of the Panama Canal, with more than two-thirds of all transits originating in or destined for a U.S. port. Nearly half of U.S. liquefied natural gas (LNG) exports pass through the Canal. A preferred transit route, the Canal can save up to fourteen days travel on open-water for vessels transiting the region. The Canal is also a critical security chokepoint, with an average of more than 100 Department of Defense (DOD) and U.S. Coast Guard vessels transiting it annually. Panama is a point of convergence for irregular migration and human smuggling to and through the Americas. Transnational criminal and drug trafficking organizations use Panama, its borders, and the Canal to prosecute illicit businesses, export illicit goods to the United States and other nations, and corrupt local officials, thereby jeopardizing the stability of Panama's democratic institutions. The Canal's expansion in 2016 doubled its capacity, further increasing the need for strategic trade controls to detect, deter, and prevent activities by autocratic state and non-state actors that threaten U.S. interests. Authoritarian states are active in Panama at the national and local levels, working to increase investment opportunities for state-owned enterprises and gain political influence for strategic purposes. Emerging transnational threats, including cybersecurity attacks, are also on the rise.

The United States is Panama's preferred security partner. This provides the United States with an advantage in supporting Panama's efforts to secure its borders, its ports, and the Canal; to

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be more resilient to authoritarian influences that threaten U.S. national interests; and to successfully address current and emerging transnational threats. Embassy Panama will use International Narcotics Control and Law Enforcement (INCLE) and security sector assistance via Foreign Military Financing (FMF), International Military Education and Training (IMET), and Nonproliferation, Antiterrorism, Demining and Related Programs (NADR) funds as integral components of our strategy to advance U.S. national security goals; promote human rights and long-term relationship building; enhance regional security; and strengthen the professionalism of Panamanian law enforcement agencies. A secure Panama will contribute to U.S. national and economic security, U.S. State Department and interagency goals, and other Mission goals, including strengthening democratic institutions, socio-economic development, and sustained growth, while reducing corruption, autocratic influence, illicit trafficking, and irregular migration.

**Objective 1.1** | By 2026, Panama's improved capacity to strengthen its borders, maritime domain, citizen security, and cyber security and cybercrime regimes reduces irregular migration, drug trafficking, contraband, illicit networks, instability, and violence that threaten U.S. national interests.

- **Justification** | Over 130,000 migrants crossed into Panama from Colombia in 2021, nearly 100,000 more than the previous record set in 2016. Although Panama is the regional leader in biometrically identifying irregular migrants, we need to help Panama to better secure its borders and deter irregular migration flows. On the illicit narcotics front, up to 30 percent of cocaine produced in neighboring Colombia passes through Panamanian waters, transported by transnational criminal organizations (TCOs) and their associates off both the Pacific and Caribbean coasts. TCOs also use Panama's logistics center and the Canal to export illicit narcotics and contraband, including WMDs, CBRNE weapons, and dual-use goods. In 2013, Panama detained the Chong Chong Gang, a North Korean cargo ship notorious for illicit activities and sanctions violations. The cargo manifest aimed to proliferate weapons systems, including military

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vehicles, missile parts, explosives, night vision instruments, and RPG anti-tank warheads. Bolstering Panama's capacity to deter such activities in the Canal and elsewhere remains critical to U.S. national security. The U.S. and Panamanian governments cooperate extensively to interdict illicit goods and dismantle TCOs. With strong U.S. support, in 2020 Panama experienced the lowest level of suspected cocaine shipments into its territory in the last five years and Panama is no longer the first-stop country for cocaine flows from Colombia. Official figures for 2021 show Panamanian authorities seized at least 145 metric tons (MT) of narcotics, breaking the 2019 record of 91 MT. However, more work is needed in the ports, which handle millions of shipping containers each year. Additionally, we will work with Panama to address the issue of rising illegal, unreported, and unregulated (IUU) fishing. Homicides and violent attacks in broad daylight at public venues have increased year on year, creating insecurity and weakening Panama's investment climate. The U.S. and Panamanian governments seek to develop a citizen security strategy that expands community policing programs and provides a whole-of-government response to reduce violence, especially gender-based violence, through the use of crime prevention programs. Cybersecurity and cybercrime are the newest threats in Panama, evidenced by major cyberattacks on three Panamanian government agencies in 2020. The Government of Panama (GOP) welcomes U.S. security assistance, which has provided the Embassy with opportunities to assist Panama in fields directly related to U.S. national interests. The U.S. - supported aviation nationalization program, for example, has provided Panama the means to strengthen its borders, counter narcotrafficking in the dense jungles bordering Colombia, provide humanitarian assistance, and monitor irregular migration routes. Additional assistance, however, is required to bolster Panama's efforts to address these continuing and emerging threats. The U.S. - Panama security relationship is centered around an annual High-Level Security Dialogue (HLSD). The four HLSD pillars are Citizen Security, Maritime Security, Border Security, and Cyber Policy. The annual HLSD has

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helped forge a consensus across Panamanian institutions and shape ongoing activities in a manner that advances U.S. and Panamanian interests

- **Linkages** | National Security Strategy, Joint Strategic Plan (JSP) Goal 1, 3, 4; WHA Bureau Joint Regional Strategy (JRS) Goal 3; INL Bureau Functional Bureau Strategy (FBS) Goal 1, 3; ISN Bureau FSB Goal, 2, 3, 4; PM Bureau FBS Goal 2; United States Southern Command Strategy; National Defense Strategy.
- **Risks** | Due to the historically strong U.S. – Panama security partnership, the risks associated with this objective are primarily external. Those factors include natural disasters or a dramatic rise in COVID-19 that causes increased deaths and subsequent movement restrictions, which could hamper or even stop progress on several key bilateral activities. A change in government in neighboring countries, such as Costa Rica or Colombia, could adversely affect Panamanian and U.S. security activities if new government leaders are not sympathetic to U.S. or Panamanian interests. A continuing risk is the influence of authoritarian states and their ability to exercise influence and provide untrusted technologies to the GOP. Internal risks include a change in administration in 2024 that brings to power a government not aligned with U.S. interests. Changes in leadership within the GOP, and particularly among the security and judicial sectors, could stymie U.S.-Panama security cooperation. Legal rulings, by either domestic or international courts, could prevent progress on several initiatives. The GOP's constrained fiscal situation also presents a risk, as it hinders the GOP's ability to fund its ministries adequately.

**Objective 1.2** | By 2026, Panama and the Panama Canal are more resilient to authoritarian influences that threaten U.S. national interests.

- **Justification** | According to the Joint Strategic Plan, autocracies are now home to 68 percent of the world's population. Central America is not exempt from this phenomenon. Authoritarian competitors seek to challenge democratic institutions and societal cohesion, subvert sovereign decision-making, and discredit U.S. global

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leadership. The National Security Strategy notes China, in particular, has rapidly become more assertive and is the only competitor potentially capable of combining its economic, diplomatic, military, and technological power to mount a sustained challenge to a stable and open international system. The GOP switched recognition from the Republic of China to the People's Republic of China (PRC) in June 2017. Panama and the PRC publicly highlight the strength of their commercial relationship, with PRC officials often underscoring China's position as the largest supplier of the Colon Free Trade Zone and a primary user of the Panama Canal. As noted in other Mission goals, the Panama Canal contributes directly to the United States' national and economic security. The Mission, therefore, actively engages the Panamanian government, business community, and citizens to preserve the United States' standing as Panama's preferred security and economic partner. It is in the U.S. government's interest to preserve and increase U.S. influence in Panama to ensure U.S. national and economic security, support other Mission goals, and protect the neutrality and uninterrupted operations of the Canal.

- **Linkages** | NSS, JSP Goal 1, and WHA JRS Goal 3; ISN Bureau FSB Goal 3, 4; United States Southern Command Strategy; National Defense Strategy.
- **Risks** | The risks to achieving this objective are significant. Panama's presidential elections are just around the corner in 2024. A new administration could be more susceptible to economic and political enticements from the PRC, which could adversely affect U.S. status as Panama's preferred partner. An economic downturn could also leave Panama vulnerable to authoritarian influences. The PRC embassy has been active in its public diplomacy efforts and seeks to discredit U.S. diplomacy in Panama.

**Mission Goal 2** | Panama attains a sustainable, inclusive, equitable, and innovative economy that promotes growth and mutual prosperity.

**Description** | Panama's location and unique role in global trade, thanks to the Panama Canal, make its stability and success critically important to U.S. prosperity and national security. The United States has a historic and impactful trade and investment relationship with Panama and significantly contributes to the country's economy. Our work together on trade, banking, maritime, digital, health, environment, and agricultural issues fosters economic growth and creates opportunities for citizens of both countries. The U.S.-Panama Trade Promotion Agreement continues to give U.S. exporters a competitive advantage relative to most other countries. The Panamanian government welcomes U.S. investment and has signaled a new openness to innovation in agriculture, energy, and other sectors. This provides an opening to advance USG policy priorities as well as to foster new opportunities for U.S. businesses. Panama was hard-hit by the COVID-19 pandemic, suffering an 18% decline in GDP in 2020, one of the worst in the world. This and ongoing corruption issues leave it vulnerable to investment from unreliable sources. Therefore, it is important that the United States maintains its position as Panama's top economic partner and continues to support Panama's recovery and future economic growth. Mission Goal 2 furthers the priority of advancing U.S. prosperity by fostering sustainable, inclusive economic growth and improving the investment climate in Panama.

**Objective 2.1** | By 2026, Panama secures ambitious climate mitigation and adaptation outcomes that build societal resilience and ensure energy, food, health, and water security and conserve biodiversity.

- **Justification** | Panama is home to two global assets threatened by climate change: the Panama Canal, which facilitates global trade; and its forests, which are a carbon sink contributing to Panama's status as a carbon neutral country. Panama has strong political and public support for its climate mitigation and adaptation goals, including maintaining its carbon-negative economic growth and protecting terrestrial and marine

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areas. Panama has a plan for energy transition and ambitions to build on its maritime and logistics strengths to develop regional pharmaceutical, energy, and digital hubs. The government has signaled a new openness to innovation in agriculture, energy, and other sectors. This provides an opening to advance USG priorities on climate, renewable energy, and biotechnology and creates opportunities for investment. Panama will showcase its leadership on energy and environmental protection as the host of the Energy and Climate Partnership of the Americas (ECPA) ministerial in 2022 and the Our Ocean Conference in 2023. Natural resource management, climate change mitigation and adaptation, biodiversity conservation, and energy and health security in Panama are critical to its long-term sustainable economic development and an improved climate for U.S. shareholders and investors. U.S. government engagement and assistance to Panama supports environmental protection, water management, renewable energy, health security, technology, science, and entrepreneurship.

- **Linkages** | JSP Goal 1 Obj. 1.1; WHA JRS Goal 5, Obj. 5.1, 5.2, and 5.4; EB Obj. 2.4, 3.4; ENR Goal 1, Obj. 1.1, 1.2, 1.3, Goal 2 Obj. 2.1, 2.4, Goal 3, Obj. 3.1.,3.3., 3.4, Goal 4, Obj. 4.2, 4.33.4; OES (pending); APHIS Strategic Plan Objective 2.1.
- **Risks** | Panama is already a carbon-negative country but must work harder to achieve sustainable and inclusive economic growth. Climate change threatens economic growth and livelihoods, especially for small and medium-sized farmers. Water scarcity exacerbated by climate change and underinvestment could undermine Canal operations and livelihoods. Global fossil fuel price volatility has an outsized economic impact on Panama. Increases in illegal mining, fishing, wildlife trafficking, and deforestation hamper sustainable development. The fiscal situation remains constrained, impacting the Panamanian government's ability to achieve some of its stated goals, including implementation of environmental conservation programs. Rapid economic development, including new infrastructure projects and increased movement of people and materials through the Darien region, as well as encroachment by agricultural production on the borders of the Darien National Park, pose a risk for the

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introduction and dissemination of exotic agricultural pests and diseases of economic significance known to exist only in South America. If not addressed, this will impact agricultural health in Panama and move northward to Central and North America. Human health challenges include one of the highest rates of growth in HIV/AIDS in Central America and uneven access to medical services, especially for indigenous communities.

**Objective 2.2** | By 2026, Panama fosters equitable growth and innovation, including through fair trade, new technologies, and a transparent and improved investment climate.

- **Justification** | The U.S.-Panama bilateral economic relationship is strong: the United States is the largest source of FDI in Panama and is Panama's top trading partner, with a bilateral Trade Promotion Agreement (TPA) in place since 2012. The government supports trade and open markets and encourages foreign direct investment. Nonetheless, economic inequality is problematic and creates vulnerabilities for Panama. This calls for attention to equitable growth for all Panamanians, supporting entrepreneurship, STEM education, and an investment climate that welcomes diverse economic activity and provides opportunities for prosperity in rural areas. Mission Panama will invest in exchanges and programming to support education and training across Panama's provinces and provide technical assistance to help Panama make the investment climate more transparent and predictable, and in line with the TPA.
- **Linkages** | JSP Goal 2, Objectives 2.1, 2.2, 2.3. WHA JRS Goals 2 and 4, Objectives 2.1, 2.2, 2.3, 4.3; EB Strategy Goal 1 Obj. 1.1, 1.3, Goal 2, Goal 3 Obj. 3.2, 3.3, ENR Goal 3, Objective 3.4, Goal 4, Obj. 4.1, 4.2; OES (pending); ISN Bureau FSB Goal 3.3, 4.3.
- **Risks** | If the United States does not help Panama as it continues to develop an economy that is entrepreneurial, innovative, and welcoming to investment, Panama could lose investment to other markets and/or attract unreliable partners, risking additional unemployment, inequality, and social unrest. Panama is one of the most unequal countries in the world, with the 17th highest Gini Coefficient, a national

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poverty rate of 18 percent, and pockets of 90 percent poverty in indigenous regions. Most provinces have experienced net out-migration as more of the population moves to urban centers, primarily Panama City, where the country's economic growth is concentrated. An undereducated workforce may deter investment and limit employment opportunities, and economic divisions between rich and poor -- and between Panama City and the rest of the country -- could become starker. Moreover, some barriers to investment and trade persist, such as late payments by the public sector, land titling disputes, irregularities in tender processes, and occasional legislative actions or regulations that lean protectionist or violate international trade commitments.

**Objective 2.3** | By 2026, business opportunities for U.S. firms improve, U.S. exports and foreign direct investment increase, and U.S. national security and economic interests in Panama advance.

- **Justification** | Panama's dollarized economy, a stable democratic government, the Panama Canal, the world's second largest free trade zone, a network of free trade agreements, and a strategic geographical location make it an attractive destination for U.S. trade and investment. The United States remains Panama's largest source of FDI. However, lack of transparency in Panama's public procurement framework discourages investment by some U.S. companies. Corruption concerns and Panama's difficult economic and fiscal climate, exacerbated by the COVID-19 pandemic, create vulnerabilities that unreliable actors can exploit. The United States must remain engaged with Panama on a policy and programmatic level to maintain a level playing field for U.S. firms wishing to invest in or trade with Panama. Through a variety of U.S. mechanisms, including technical assistance, we will seek opportunities to help the Panamanian government implement a more transparent regulatory environment that creates an investment climate that continues to attract reliable firms.

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- **Linkages** | JSP Goal 2, Objective 2.1; WHA JRS Goal 4, Objective 4.1; EB Strategy Goal 1 Obj. 1.2, Goal 2 Obj. 2.2, 2.3, 2.4, Goal 4, ENR Goal 4, Obj. 4.1.
- **Risks** | Panama suffered an 18 percent GDP contraction in 2020 and will need to make a concerted effort to attract additional investment from legitimate partners to recover economically. Transparency, dispute resolution, and slow payments may lead to hesitancy from U.S. companies and investors, limiting U.S. foreign direct investment and weakening opportunities for U.S. economic growth and job creation. The ongoing COVID-19 pandemic could affect outreach moving forward, e.g., our ability to conduct in-person trade promotion events such as trade missions/shows that showcase U.S. goods and services. Tighter U.S. foreign assistance budgets will reduce the ability of U.S. agencies to offer Panamanian institutions the resources, technical expertise, and substantive knowledge needed for them to focus on U.S. and joint priorities. Likewise, a difficult fiscal situation will impede the GOP's ability to fund its own objectives and projects.

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**Mission Goal 3** | Panama's democratic institutions are strong, transparent, inclusive, and deliver for its citizens, respect the rule of law, hold corrupt actors accountable, and reduce the level of impunity.

**Description** | The strength of Panama's democratic institutions correlates directly with the strength of the U.S.-Panama relationship. Panama's democratic institutions have weaknesses that harm the government's efficacy and credibility, such as endemic corruption, opaque electoral and legislative processes, and a political system that excludes marginalized voices. Such weaknesses hamper Mission Panama's ability to advance U.S. priorities, including on the economy, national security, and combatting criminal activity. Mission Goal 3 furthers the priority of strengthening partner capacity and advancing U.S. institutional values. The Government of Panama has emphasized its interest in strengthening its own institutions and often looks to Mission Panama for support. Through U.S. programs such as the Anti-Money Laundering/Anti-Corruption Task Force and other U.S. support for legislation and capacity building we have already made progress in helping Panama strengthen its democratic processes. Advancements through 2026 will strengthen Panama's democratic institutions further, an important contribution to regional stability as Panama runs national elections in 2024.

**Objective 3.1** | By 2026, Panama's democratic institutions respect open and competitive political processes, are more transparent and inclusive of underserved communities, and promote racial and gender equity.

- **Justification** | Corruption, opaque electoral and legislative processes, and a political system that excludes marginalized voices have structurally weakened Panama's democratic institutions. Recent Government of Panama actions such as blocking public access to information regarding government decision-making and modifying an electoral reform bill exacerbated public distrust. Underserved communities, especially indigenous Panamanians, face challenges in participating in the political process. Mission Panama aims to increase support for transparency and government reform

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measures, as well as outreach to underserved communities to advocate for increased participation within government institutions and processes. Mission Panama also plans to increase measures to assist Panamanian civil society and independent media through increased capacity building and support.

- **Linkages** | JSP Goal 3, Objectives 3.1 and 3.3; WHA JRS 3.1, 3.2, and 3.3; DRL FBS Goal 1, Objectives 1.1, 1.2, 3.3.3; U.S. Strategy on Countering Corruption Pillar 5
- **Risks** | The risk to accomplishing this objective is rooted in the strength of the status quo's appeal to many actors. Panamanians largely distrust the government and its institutions and are often apathetic about participating in the political process. Journalists continue to face lawsuits or political pressure intended to discourage them from providing independent coverage. Civil society remains weak, and in many areas, there are few if any NGOs to effectively advocate on behalf of underserved communities. Meanwhile, many politicians have little incentive to change institutions that are already working in their favor. The judicial branch is rumored to have ties to criminal organizations and has been unable to bring corrupt officials to justice. This, combined with a lack of legal protections for civil societies and the media, could result in less scrutiny of government actions and less motivation to prosecute bad actors.

**Objective 3.2** | By 2026, Panama's institutions to combat money laundering, human rights abuses, and corruption are strengthened with net gains recognized by international organizations, and are held accountable by empowered civil society and independent journalism.

- **Justification** | Although Panama has made progress in combatting corruption and money laundering, it still has deficiencies in supervision, information sharing, risk management, prosecutions of white-collar criminals, and implementation of its 2019 beneficial ownership law. The Financial Action Task Force placed Panama on its grey list for systemic deficiencies and it could be well into 2023 before Panama makes enough progress to be removed. Moreover, weak institutions risk failing to prosecute, or

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missing altogether, human rights abuses that occur in country, including human trafficking, gender-based violence, and child labor. Underserved communities, such as LGBTQIA+ persons, racial minorities, and indigenous groups, face challenges in equal access to GOP resources. The GOP has shown a willingness to cooperate with Mission Panama in relevant capacity building through joint programs with U.S. agencies. Promising developments include the establishment of the INL-supported, FBI-led Anti-Money Laundering/Anti-Corruption Task Force (AML/AC TF), which has led to a significant increase in investigations of money laundering and corruption. Mission Panama will continue to support these programs by expanding technical assistance as well as identifying and assisting with relevant legislation.

- **Linkages** | JSP Goal 3, Objectives 3.1, 3.2, and 3.3; WHA JRS 3.1, 3.2, 3.3 and 3.4; President's Equity Agenda; INL FBS Goals 2 and 3, U.S. Strategy on Countering Corruption Pillars 2 and 3
- **Risks** | Many Panamanian leaders do not have a sincere interest in fighting corruption, which perpetuates its negative impacts throughout all levels of society. Furthermore, a weak civil society means there are few empowered organizations that can effectively advocate on behalf of underserved communities. Additional gains are needed in order to further the progress already made through USG cooperative efforts. Increased corruption and money laundering could worsen an already weakened economy, decrease government efficacy, and as exacerbate public discontent. Government failure to deliver on promises made regarding inclusion and resourcing of underserved communities would further exacerbate public distrust and weaken otherwise constructive institutions by diluting their credibility and legitimacy.

**Mission Goal 4 |** U.S. citizens and businesses are secure in their persons and property and have timely access to U.S. citizen services.

**Description |** Protecting U.S. citizens and the U.S. business communities is at the core of our work and presence overseas. The U.S. resident community in Panama is large and growing rapidly, with an estimated 60,000 residents and more than 10,000 U.S. visitors at any one time. There is a large population of both retirees coming from the United States and U.S. citizens who worked in the Panama Canal Zone and then remained in Panama for retirement. Many U.S. retiree communities are outside of Panama City, some of the largest more than six hours away by land, and in geographic areas that are more difficult for Embassy personnel to access, including some islands accessible only by plane or boat. This population is particularly vulnerable to criminal, medical, and legal problems. Crime has adversely affected the resident U.S. community. There is a lack of transparency in commercial and judicial matters, and U.S. citizens have been involved in numerous disputes that involve lost property, broken contracts, fraud, and occasionally threats of violence. Although tourism has been depressed by the pandemic, Panama has a vibrant tourism sector that appeals to U.S. visitors; however, the national tourist police and other sectors in Panama do not have sufficient English speakers to meet demand. Over 5,500 American veterans and other U.S. citizens are interred at Corozal American Cemetery in the former Canal Zone, which the Embassy maintains and where it holds commemorative services and helps educate future generations on the legacy of those buried there.

**Objective 4.1 |** By 2026, documentation of U.S. citizens increases, cooperation with and capacity of local authorities to aid U.S. citizens in crisis or hardship improve, and collaboration with local government officials and U.S. based businesses grows, improving security awareness.

- **Justification |** COVID-19 has decreased Post's ability to provide passport and other citizenship services to U.S. citizens, leaving them vulnerable to problems with identification and secure travel, as well as complicating documentation after extensive time has elapsed. Local and tourist police do not always have training to deal properly

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with foreign nationals or sufficient English language skills to communicate with U.S. visitors, leading to inequitable treatment and overall confusion about how the legal process works. U.S.-based businesses are interested in receiving security information from the Embassy; however, there needs to be more two-way collaborative information sharing on security threats. The Embassy assists U.S. citizens by providing routine passport, citizenship, and other services, liaises with Government of Panama when appropriate, and provides emergency assistance in cases of death, destitution, illness, arrest, and general welfare problems.

- **Linkages** | National Security Strategy, Joint Strategic Plan (JSP) Goal 5, WHA Bureau Joint Regional Strategy (JRS) Goal 3.1, Bureau of Consular Affairs Functional Bureau Strategy (FBS) Goal 1 and 2.
- **Risks** | There are several risks that could undermine efforts to achieve this objective, including significant outbreaks of COVID-19 variants, budget shortfalls, and a worsening security situation. Although the GOP has implemented a successful vaccination program, there is still a risk of new variants that could overcome the vaccine's defenses, causing the government to reimpose movement restrictions and even broader lockdowns. Internal State Department budget shortfalls could prevent the Embassy from providing full consular services in a timely manner. Homicides are on the rise, as well as the perception of insecurity among the population, due to brazen, violent attacks at public venues in broad daylight. A worsening security situation could elevate the level of crime against the U.S. resident population and strain consular services, reducing our ability to achieve the objective.

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**Mission Goal 5 |** Panamanians recognize shared values and place greater trust in the United States, influencing the Panamanian government to cooperate with the U.S. Government on multilateral and regional issues.

**Description |** President Cortizo has signaled that the United States is Panama's primary strategic partner. Panama has cooled relations with the PRC after the whirlwind romance that followed reciprocal diplomatic recognition in 2017, but China continues to exert influence through soft power, particularly at the sub-national level. We will counter these soft power initiatives by reaffirming strong U.S.-Panama educational, cultural, economic, and health sector links through a variety of Public Affairs and Foreign Commercial Service programs and events, and by reinforcing and amplifying shared cultural and historical ties. Furthermore, as Panama continues to rise as a leader in the region, our diplomatic and public engagement on policy matters of mutual importance will encourage Panama to enact policies on regional and multilateral issues that are consistent with U.S. policies.

**Objective 5.1 |** By 2026, the Embassy establishes strong and consistent relationships with sub-national institutions and opinion leaders that strengthen pro-U.S. sentiment among Panamanians.

- **Justification |** Panama and the United States have a shared history dating back to the United States' central role in Panama's founding as an independent nation in the early 20th century. While normally close, the relationship has been marked by periods of deep tension and even violence, the nadir being a U.S. invasion in 1989. The Panamanian people actively voice their opinions and perspectives on political and other matters, directly influencing their government. By establishing strong and consistent relationships with sub-national institutions and opinion leaders, the U.S. Embassy can maintain and promote pro-U.S. sentiment among Panamanians, countering PRC soft-power initiatives and encouraging government cooperation with the United States.

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- **Linkages** | Joint Strategic Plan Goals 3.2, 3.3, 3.4; Joint Regional Strategy Objectives 2.3, 3.4, 4.1, 4.2, 4.3; Public Diplomacy Strategic Plan Subobjectives 2.2.4, 2.2.5; USDA Animal and Plant Health Inspection Service (APHIS) Strategic Plan Objective 2.1
- **Risks** | While the United States has longstanding cultural, economic, and educational ties with the people and government of Panama, we cannot rely on our shared history alone. The PRC's presence in Panama is large and well-funded. In a recent PAS-funded focus group, participants named both the United States and China as strategic partners. While anti-U.S. sentiment still exists, the numbers of those speaking out has continued to decline. Malign actors could use small but vocal anti-U.S. elements – particularly in the ruling party – to their advantage, amplifying their messaging to spread misinformation and disinformation about the bilateral relationship. Risks internal to the Mission include an inability to sustain various outreach programs due to personnel or budget constraints. Additionally, the pandemic continues to hamper in-person programs and outreach, a critical component for achieving this goal. As Panama's profile as a regional leader rises, it may encounter pressure from other countries to vote or act in international fora in ways inimical to U.S. interests. The government of Panama may expect additional support from the United States to counter influence from strategic competitors, which would put additional pressure on limited budgets.

**Objective 5.2** | By 2026, the Embassy effectively prioritizes and facilitates Panamanians' understanding of global, regional, and multilateral issues of importance to the Panamanian government, opinion leaders, and people so they better understand their relevance for Panama and cooperate with the U.S. Government on multilateral and regional issues.

- **Justification** | The more than 4 million Panamanians are swiftly becoming more connected to the internet and social media, with over 4.86 million mobile phones in use and almost 2 million users of social media. When issues of importance to the Panamanian government, opinion leaders, and broader population arise, they are often discussed through media that allows for the sharing of ideas quickly, converting average

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citizens into opinion shapers. By promoting the understanding of issues that are important to the Panamanian and U.S. governments, and by ensuring shared messages are coherent, consistent, and prioritized through multiple channels, the Embassy can encourage greater bilateral cooperation on global, regional, and multilateral issues.

- **Linkages** | Joint Strategic Plan Goals 3.2, 3.3, 3.4; Joint Regional Strategy Objectives 2.3, 3.4, 4.1, 4.2, 4.3; Public Diplomacy Strategic Plan Subobjectives 2.2.4, 2.2.5; USDA Animal and Plant Health Inspection Service (APHIS) Strategic Plan Objective 2.1.
- **Risks** | As Panama's profile as a regional leader rises, it may encounter pressure from other countries to vote or act in international fora in ways inimical to U.S. interests. The Government of Panama may expect additional support from the U.S. to counter the influence of strategic competitors, which would put additional pressure on limited budgets. As Panama becomes more visible on the international stage, malicious outside actors may attempt to influence Panama's democratic processes via targeted misinformation and disinformation campaigns.

## 4. Management Objectives

**Management Objective 1** | Provide and optimize the operational ecosystem that enables mission-focused U.S. diplomacy in Panama and the region.

- **Justification** | In concert with the State Department's Enterprise Data Strategy, Mission Panama should adapt to an ever-evolving global landscape, the need for data-driven insights, and an increase in technological innovation. To best serve the embassy community, we must empower the Management section with the skills and tools to derive actionable mission insights from data, as well as offer those same skills to other embassy sections to enable data-informed diplomacy. By 2026, Embassy Panama will have a data-centric workforce that fully utilizes enterprise-wide analytics tools and products.

Our customers continue to spend too much of their work time focused on Management issues. They expend significant effort learning, re-learning, and asking questions about often recurrent processes. By leveraging available products, we can present them with the data and resources they need to be successful without needing to become Management experts as a side job.

- **Linkages** | JSP Goal 4, Obj 4.2; WHA JRS Obj 7.
- **Risks** | Risks that could potentially derail this objective include changes to enterprise systems or redundancies among current systems. The regular turnover of both USDH officers and LE staff threatens institutional knowledge. Further, the worldwide pandemic and related supply-chain issues may cause delays and gaps in technology and hands-on training at Post.

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**Management Objective 2** | Infuse a genuine commitment to diversity, equity, inclusion, and accessibility (DEIA) throughout the Mission to give voice to all community members, reduce bias, foster understanding, neutralize discriminatory language, and broaden talent acquisition.

- **Justification** | Our Mission places enormous emphasis on racial and gender equity and social inclusion in the conduct of our foreign policy (externally), as well as DEIA in our workforce (internally). The entire Federal Government is pursuing a comprehensive approach to advancing equity for all, including for the historically underserved, marginalized, or disadvantaged by poverty or inequality. The Department is working to integrate the President's equity agenda into our foreign policy and strategic planning. Mission Panama cultivates a workforce that draws from the full diversity of the population, both Panama's and the United States'. Each of us must model respect for DEIA and treat all our community members with dignity.
- **Linkages** | JSP Goal 4, Obj 4.1; WHA JRS Obj 7, Executive Order (E.O.) 13985.
- **Risks** | Risks associated with this objective include confronting resistance to cultural change and to correcting institutional inequities that exist among the various personnel categories in the community.

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**Management Objective 3 |** Increase climate resilience through awareness, energy savings measures, and prudent infrastructure improvements.

- **Justification |** In a tropical climate, the largest residential energy consumers are air conditioners. Most residents have some form of air conditioner running around the clock. GSO and FAC are implementing a residential energy consumption review for all residences with the goal of raising awareness of this cost and eventually lowering A/C use in embassy residences.

Post's motor pool is currently comprised of 65 combustible-engine vehicles. By phasing out fossil-fuel reliant vehicles and replacing them with hybrid and fully electric vehicles, Post will reduce its carbon footprint and simultaneously lead by example for other organizations in the country and the region.

Landfill waste can be reduced by repurposing end-of-life equipment and donating it to non-profit organizations that can benefit from used IT equipment. By reducing the number of printers, the Mission can reduce energy consumption. AQI monitoring can promote pollution awareness.

- **Linkages |** WHA JRS Goal 5, E.O. 14008: Tackling the Climate Crisis at Home and Abroad.
- **Risks |** An all-electric embassy fleet is yet to be proven sustainable. The cost of electricity is extraordinarily high in Panama, casting doubt on the financial viability of electric vehicles.

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**Management Objective 4** | Deliver an optimized, resilient, and technologically up-to-date security infrastructure to ensure continuity of Mission operations.

- **Justification** | The potential for natural disasters, civil unrest, and pandemics highlights the need for continual emergency planning. Without maintaining appropriate and relevant security standards worldwide, our people, property, and interests are vulnerable.
- **Linkages:** Link to JSP Goal 4, Objective 4.2 and 4.4; WHA JRS Objective 5.
- **Risks** | Risks include budget shortfalls, inaccurate data input accuracy and/or inadequate upkeep, and a dearth of up-to-date security infrastructure.

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Boundary representations are not necessarily authoritative.

## BACKGROUND

### Land and Climate

Panama is a fairly rugged, mountainous country connecting Central and South America. Panama's total land area is just bigger than Sierra Leone and just smaller than the U.S. state of South Carolina. Volcanic activity has made the soil very fertile in some areas, and over half the country is forested.

The man-made Panama Canal runs from Panama City to Colón through Lago Gatún (Lake Gatún). The Canal Zone (*la zona*) stretches between and includes the two cities. Areas outside *la zona* are collectively referred to as the interior (*el interior*).

The Cordillera Central (Tabasará Mountains) forms a spine down the center of the western interior; there are also mountains in the eastern interior. The tropical climate is hot and humid except at higher elevations. The average annual temperature is 80°F (27°C). In the mountains, the average is about 55°F (13°C).

### History

#### Early Peoples

Beginning at least 10,000 years ago, several dozen Indigenous groups are thought to have lived on the isthmus that is now Panama. Between 2500 and 1200 BC, Indigenous peoples settled the coast of present-day Parita Bay, fishing in the nearby waters and becoming one of the first communities in the region to grow maize and craft pottery. Evidence of later ancient groups includes elaborate burial pits, monolithic sculptures, and gold ornaments and jewelry. By the early 16th

century AD, an estimated one to two million Indigenous peoples lived on the isthmus; the Cuevas and Coclé were the largest tribes to inhabit the area by this time.

#### European Contact

Panama's strategic location between the Atlantic and Pacific oceans made the area appealing to foreigners and has played a significant role in shaping the country's history. In 1501, Spanish explorer Rodrigo de Bastidas was the first European to discover the isthmus; soon after, Spain established colonies in the region. Within a decade, disease, massacres, and enslavement had largely decimated the Indigenous population, although some Indigenous people fled inland or to nearby islands and established remote communities. About a decade later, Spanish explorer Vasco Núñez de Balboa transported enslaved Africans to Panama; those who escaped and their descendants—known as the Maroon community—led uprisings against the Spaniards, forming an alliance with British buccaneers by 1580 and participating in raids of Spanish holdings.

Balboa's 1513 expedition across the isthmus and his discovery of the Pacific Ocean, which he claimed for King Ferdinand II of Spain, helped establish Panama as a useful link between the oceans. By the 16th and 17th centuries, Panama served as a major route for shipping Incan treasures to Spain, becoming an important center for Spanish commerce in the Americas and a frequent target for buccaneers and pirates.

#### Independence and the Panama Canal

Panama did not join other Spanish-American colonies during their war for independence in 1810, but when the Spanish Empire was defeated, Panama seceded from Spain and

became part of the Republic of Colombia in 1821. The United States took an interest in Panama around this time, funding a transcontinental railroad that helped travelers heading westward during the California Gold Rush. It was completed in 1855. Enthusiasm grew for building a canal across the isthmus, and Colombia awarded a contract to a French company. Construction began in 1880. However, planning and financing were poor, and yellow fever claimed more than 20,000 lives before the project was abandoned in 1889.

Panama declared independence from Colombia in 1903, and the United States—which had been negotiating for the right to build the canal—sent troops to support the new government. Canal rights were sold to the United States that same year, and the country was eventually given complete control over the canal and its surrounding area. U.S. construction of the Panama Canal began in 1907 and was completed in 1914. The canal quickly became an important passage for ships traveling between the Atlantic and the Pacific. In 1978, the U.S. Senate narrowly ratified a treaty signed by U.S. president Jimmy Carter and Panamanian president Omar Torrijos that would allow Panama to assume control of canal operations in 1999; the United States would continue to guarantee the canal's neutrality.

#### **Torrijos Rule**

Following decades of an oligarchic government and political and economic unrest, Torrijos, commander of Panama's national guard, seized control of the country in 1968 and brought it under military rule. He turned daily government powers over to a civilian administration in 1978 and allowed free, multiparty legislative elections in 1980. After Torrijos died in a suspicious 1981 plane crash, his defense minister, Manuel Antonio Noriega, became the leader of the Panama Defense Forces and de facto leader of the nation. Eric Arturo Delvalle became president in 1985 but was ousted in 1988 for trying to fire Noriega, who had effectively suspended the constitution.

#### **The Fall of Noriega**

Noriega ruled Panama as a dictator, declaring a state of emergency and controlling the National Assembly. Following the 1989 presidential elections, he used his power to nullify the results, and his rule became increasingly repressive, leading to worsened relations with the United States. Several months later, a coup attempt against Noriega failed, prompting the United States to invade Panama in response to growing concerns about corruption, violence, and Noriega's threats against U.S. interests. Noriega's troops were defeated, and he was extradited to the United States and sentenced in 1992 to 40 years in prison. He was also wanted in France and Panama: in 2010, the United States extradited Noriega to France, where he served a year in prison; the following year, France extradited him to Panama to serve a 20-year sentence. Noriega died while in Panamanian custody in 2017.

#### **Free Elections**

After toppling Noriega, the United States installed President Guillermo Endara. Although Endara's efforts to rebuild the nation were hindered by social unrest, poverty, and corruption, subsequent presidents have made headway. Since 1994, when Ernesto Pérez Balladares was elected president, Panama has had free and fair elections and peaceful

transitions of power between political parties, although corruption has remained a major problem.

#### **Panama Today**

Despite challenges, Panama has one of the fastest-growing economies in the Western Hemisphere. The Panama Canal has been a major source of revenue for the country since Panama assumed full control of its operation in 1999. A project to expand the canal to meet growing maritime demands was completed in 2016 and is expected to continue bolstering Panama's economic growth.

That same year, the country's reputation and offshore financial industry were damaged by the hacking and release of 11.5 million documents, dubbed the Panama Papers, that exposed tax evasion and other abuses perpetrated by a Panamanian law firm for wealthy clients. Since the scandal, Panama has worked to improve transparency. The nation has also worked to expand its international connections. In 2017, the Panamanian government cut long-standing diplomatic ties with Taiwan and established diplomatic relations with China, the stronger economic partner. Since Panama's economy is firmly grounded in the service sector, the nation was significantly impacted by the coronavirus pandemic, which increased poverty and unemployment. While the economy has rebounded, Panama continues to struggle with government corruption and drug trafficking.

## **THE PEOPLE**

### **Population**

Next to Belize, Panama has the smallest population in Central America. About 65 percent of Panama's citizens are mestizos (people with mixed Indigenous and European heritage). About 9 percent of Panamanians are Black. Most Afro-Panamanians are descendants of enslaved Africans who were brought to the country in the 1500s and laborers from the Caribbean who came to work on the canal in the early 1900s. Almost 7 percent of Panamanians identify as mixed-race, having some combination of Indigenous, African, and European heritage; 7 percent of the people are white, having European ancestry. The rest are members of various Indigenous groups, who have their own rich cultural heritage and often have chosen not to integrate into Panamanian society. The largest groups are the Ngöbe-Buglé, Guna, and Emberá.

Most of the country's urban population lives in Panama City, in Colón, or along the canal somewhere between. Most of the rest of the population lives as *campesinos* (farmers) in the rural interior of the country.

### **Language**

Spanish is the official language of Panama. Although some people speak English as a native tongue, many others speak English as a second language. However, English is rarely spoken outside of Panama City. Many Black Panamanians speak creole English. Indigenous peoples speak various languages, according to their ethnic background. Most prevalent are Ngäbere, Emberá, Buglere, and Kuna. Ethnic minorities usually speak their native tongue and Spanish.

## Religion

About 49 percent of the population is Roman Catholic. Most of the rest of the population is Evangelical. There also are small numbers of Muslims, Jews, Hindus, and Baha'is in Panama.

Although the Catholic Church has great influence on the lives of the people, Panamanian law maintains freedom of worship and separation of church and state. Many Catholics are critical of local ecclesiastical authorities but remain loyal to the pope. Mothers and grandmothers are often the most religious members of the family and steer younger generations toward church attendance.

## General Attitudes

Although society is stratified in traditional social classes and there is some tension between different groups, including discrimination against Indigenous peoples, most Panamanians consider all people to be of worth. As a whole, they believe people should be treated with dignity and respect, regardless of their class. This value for the individual is also evident in Panamanians' respect for personal strength and charisma. Tradition, family loyalty, stability, and wealth are all important values in Panamanian society. Men are expected to be polite. However, *machismo*, the defining of a man as forceful, daring, and virile, is a large part of Panamanian culture. The ideal woman is well-bred, understanding, and feminine. People in large urban areas are more cosmopolitan in their approach to these traditions.

Nationalism is strong in Panama, a reflection of the country's strategic position in the world and the service it provides to all nations. Most citizens, including interior *campesinos* (farmers), are well informed on topics relating to national and international politics. Panamanians are also aware of and may resent their country's historically unequal association with the United States; however, today most people have positive attitudes toward the country. Panamanians appreciate their Spanish heritage and, to a lesser extent, their Indigenous roots.

## Personal Appearance

Most people dress in styles similar to those worn in the United States. Bankers and other executives typically wear dark suits and ties. Many rural men wear collared, button-down shirts with four pockets called *guayaberas*. Many Panamanians, especially women, pay careful attention to public appearance. They admire a polished look and rarely wear sloppy clothing. However, styles may seem informal to U.S. observers, and sandals are common footwear.

Traditional costumes are worn on special occasions. For women, this includes a *pollera* (full-length dress with embroidery). For men, it is the *montuno* (baggy shorts and matching embroidered top), *cutarras* (leather sandals), and palm-fiber hats. Guna women wear *mola* (appliquéd) shirts, Ngöbe-Buglé women wear *naguas* (colorful dresses), and Emberá women wear skirts but no top. Indigenous men usually wear Western-style dress.

## Greetings

When greeting, many women (and sometimes members of the opposite sex) give an *abrazo* (hug). That is, they clasp hands as in a handshake, lean forward, and press cheeks. Men shake hands with one another, often while patting the other on the shoulder. *Campesinos* (farmers) usually shake hands but do not normally hug when greeting. Verbally, they may also "howl" a *saloma*, a personally styled cry used to express friendship, break the monotony of fieldwork, and show joy at *fiestas* (parties).

The most common verbal greetings include *Buenas* (Good day), *¿Cómo está?* (How are you?), *¿Qué tal?* (What's up?), and *¿Qué hay de bueno?* (What's good?). *Buenos días*, *Buenas tardes*, and *Buenas noches* (Good morning/afternoon/evening) are used more formally or with the elderly. Inquiring about the welfare of one's family members is polite after an initial greeting. For "goodbye," one says *Hasta luego* (See you later) or *Que le vaya bien* (May things go well for you). In the cities, one says *Chao* (Good-bye). *Adiós* is rarely used because it is considered a fairly permanent farewell.

In formal situations among the educated, it is important to address people by educational title, such as *Maestro/a* (teacher), *Ingeniero/a* (person with a bachelor of science degree), or *Doctor/a* (Dr.). These titles usually are followed by the person's given name, not surname. Other titles include *Señor* (Mr.), *Señora* (Mrs.), and *Señorita* (Miss). *Don* and *Doña* are used for respected or elderly men and women. Informally, people often greet one another by given name or nickname. Nicknames may be a shortened version of a name or based on a physical characteristic, such as *flaco* for a skinny person. Using someone's nickname is not polite unless he or she is a close friend. Panamanians often address one another by terms of relationship: *hermano/a* (brother/sister), *amigo/a* (friend), *tio/a* (uncle/aunt), and so forth.

## Gestures

People in the interior use nonverbal communication more often than those in urban areas. For example, they pucker their lips to point or to indicate "over there" or "time to go." One might ask "What's up?" by shrugging with the palms facing up. "No" can be expressed by wagging the index finger from side to side. Using a finger to draw a circle in the air means one is coming right back. Wrinkling a nose can mean "What's going on?" or "I don't understand." Politeness is important and chivalry common. On public transportation, men offer their seats to women or the elderly. Deference to elders in any situation is important. Personal space generally is limited, and people sit or stand close to each other when they converse. Eye contact is important. It is polite to cover one's mouth when yawning.

## Visiting

Many Panamanians enjoy hosting friends in their homes. In rural areas, families are quick to host people they have only just met as well. They tend to be open, generous, and informal with their guests. Hosts customarily do not establish an ending time to a visit, as that might indicate to the guests that they are not as important as the hosts' schedule. It is polite for

## CUSTOMS AND COURTESIES

guests to allow their hosts to take care of them. That is, guests do not help with dishes, they take any offers of the best seat or food, and they graciously accept any good-bye gifts. When invited to dinner, guests usually do not take gifts to their hosts; this would imply the hosts are not expected to be thorough in providing hospitality. Rather than giving a gift, guests generally expect to return the favor of a dinner invitation.

A visit is considered a compliment in Panama, and friends and relatives visit one another often. Unannounced visitors are common and welcome. In the interior, relatives see each other almost daily, depending on their relationship and how far they live from one another. People in cities often enjoy Sunday visits. All visitors are offered refreshments, such as a fruit drink. A full meal is also often offered.

### Eating

Urban residents generally eat three meals a day. People from the interior often have a big breakfast early, a main meal at midday, and a small dinner around 5 p.m. *Campesino* (farmer) families usually follow the same schedule, but sometimes eat only breakfast and dinner. They may have snacks before or during work. Breakfast virtually always includes coffee, which is served with some combination of bread, oatmeal, *hojaldras* (fry bread), or *empanadas* (stuffed savory pastries). Lunch foods are soup, rice, meat, *tajadas* (fried yellow plantain), and salad. Families make an effort to gather together for dinner, which is usually composed of sandwiches or salads.

Hands generally are kept above the table during a meal, and diners engage in light conversation. Any guests present are served first, followed by the men, children, and women and/or cooks. The cook or hostess usually prepares a plate for each person. Extra food might be put out for second helpings. Guests compliment the cook verbally and by finishing their food. City dwellers eat out often, but *campesinos* rarely do. Urban diners usually leave servers a tip of 5 to 10 percent.

## LIFESTYLE

### Family

#### Structure

The family is the basic unit of Panamanian society. Urban parents typically have two or three children, while rural families tend to be larger, with four or five. Because of the changing tempo of modern life, which includes longer work hours and commutes, families tend to spend less time together and nuclear families are gaining prominence over the extended family. Even so, extended families in urban areas often live together for economic reasons, and rural families continue to build houses near each other on family-owned land. Among the Guna, once a couple marries, they move in with the wife's family, as daughters inherit their parents' land. A large number of births take place out of wedlock, but many of these are within stable common-law marriages.

#### Parents and Children

In urban areas, where both parents often work outside of the home, grandparents assist with child care and household

chores. Rural mothers are less likely to be formally employed, but grandmothers still offer hands-on help and childrearing advice.

In both rural and urban areas, boys have nearly complete freedom. Although rural boys have farm responsibilities, they receive little supervision outside of school and have no domestic duties. Urban boys spend most of their free time playing sports and participating in other activities. Girls do most of the chores, including washing dishes, sweeping the floor, and laundering clothes. They also help care for elderly relatives and younger siblings. In rural areas, girls often help their parents with harvesting as well. Among some Indigenous groups, boys also do harvest work.

Adult children typically remain in their parents' home until they marry or move to a larger city to study or work. Family members who have migrated to urban areas often return to their hometowns or villages on the weekends. Even if adult children no longer live with their aging parents, they still care for them, sending money, visiting, sharing meals, offering transportation, and providing for other basic needs.

#### Gender Roles

In Panama, the mother generally takes responsibility for the home and child care. She is the primary disciplinarian and educator of the children. This traditional role is still quite admired and respected, though young women in particular are increasingly choosing to work outside of the home in fields like education, hospitality, and medicine. As the primary breadwinner, the father's main responsibilities are usually outside the home, but he is still considered the undisputed leader of the family.

Despite the progress that women have made in the workforce, the culture of *machismo* remains prevalent, with men expected to be dominant. Women are often overlooked by men unless being flirted with. Some Indigenous groups, such as the Guna, are characterized by matriarchal structures. Domestic violence is a widespread problem.

### Housing

Homes in rural areas are usually made from cement or dirt. In the provinces of Herrera and Los Santos, dirt homes were traditionally erected in one day by family, friends, and neighbors. These homes were made by mixing water and hay or rice stalks, then plastering the mixture to a wooden frame. Today, homes like this are only rarely built. Modern homes, in both urban and rural areas, are usually made from cement blocks and have cement floors. Apartments are becoming more common in Panama City, but even there most people live in houses. Two to three bedrooms is the norm. Interiors are generally decorated with neutral colors.

The Ngöbe-Buglé and the Emberá live in wooden houses built on stilts, which raise the main structure between four and seven feet off the ground. Such homes do not generally have running water, and occupants use rivers for bathing and washing. The Guna, inhabitants of Panama's small islands, typically live in round homes made largely of bamboo. The homes generally consist of one large open room, in which hammocks are lowered at night for sleeping and then raised out of the way during the day.

## Dating and Marriage

### *Dating and Courtship*

Compared with girls of other Latin American countries or with girls from the interior, urban Panamanian girls enjoy a great degree of freedom; young women in the interior begin dating much later and are subject to parental restrictions. In cities, casual dating is common and marriage is not necessarily the focus of relationships. In rural areas, girls are encouraged to be romantically attached to a single partner, whom they are eventually expected to marry.

Most young people begin dating around age 14. Group dating tends to be the norm, though couples may begin pairing off in later teenage years. Dating couples may exchange rings to indicate their commitment to each other. Youth often meet at local parks or fast-food establishments. University students tend to meet and spend time together on campus at places like coffee shops. Couples also enjoy dancing, going for walks, meeting at the mall, and watching movies.

To become engaged, a man proposes to his girlfriend. The couple then usually discusses the engagement with the woman's father and announces it to their families at a large dinner. Engagements typically last a few months.

### *Marriage in Society*

Having a mate, preferably a husband but even a boyfriend, is especially important to women for the security and status being in a relationship offers. Most Panamanians expect to marry, and unmarried women of a certain age are met with social disapproval. Urban men usually marry in their mid-twenties, while urban women usually marry in their early twenties. In the interior, women often marry by age 20, some as early as 14; men tend to marry when a bit older. Common-law marriages are prevalent in the interior and are generally as well accepted and stable as legal marriages performed by the state.

Infidelity has become more common among husbands working away from home in the tourism industry along the Caribbean coast and among the wives they leave behind. Infidelity and abuse carried out by men is often excused as natural and forgiven, though the same is not true for women. Though divorce happens with some regularity in affluent middle-class homes, divorce is rare in the population as a whole and often reflects poorly on the wife, who is judged as incapable of satisfying and keeping her husband. Separation is easier and more prevalent among those in common-law relationships.

Sexual relations between same-sex partners became legal in Panama in 2007. Same-sex marriage, which a majority of Panamanians oppose, was long illegal; however, Panama has signaled it will comply with the 2018 ruling of an international human-rights court that requires the recognition of same-sex marriage.

### *Weddings*

Couples desiring a church marriage must obtain a license; a registered religious official can then perform the marriage. Church weddings, often lavish ones, are common in urban areas. Brides traditionally wear white dresses, which range from simple to elaborate styles depending on economic class, while grooms usually wear dark suits or tuxedos. According

to Panamanian tradition, the priest blesses 13 gold coins and gives them to the groom prior to the ceremony. The groom then gives these coins to his bride during the marriage.

A celebration typically follows a wedding ceremony. It includes traditional dishes such as *guandu* (garbanzo beans) and rice, as well as a multi-tiered wedding cake. Traditional dances may be performed by women dressed in lacy, ruffled white dresses with beaded flowers in their hair and men dressed in white with straw hats on their heads.

## Life Cycle

### *Birth*

Baby showers are generally thrown for expectant women, with family, friends, and neighbors attending. Many pregnant women are cautious about revealing how far along they are in their pregnancy or exposing themselves to anyone with a grudge, as doing so is believed to put them at risk for birth complications or an ugly child.

Most births take place in a hospital. Many urban-dwelling Panamanians hire a *nana* (nurse) to help care for the baby for a few months after they return home; some *nanas* continue on with a family for years. Otherwise, grandmothers or sisters typically help the new mother during this period with cooking, cleaning, and child care. Employed women are legally entitled to 14 weeks of paid maternity leave.

In larger cities, mothers are discouraged from taking the baby out in public for at least a month after birth. In the interior, babies are taken out much earlier, since women have to travel by public bus to the nearest hospital (usually one to three hours away) to give birth and take the baby for checkups. Rural mothers often place a red ribbon on the wrist or ankle of a newborn to keep bad spirits away. Throughout Panama, new babies are often dressed in red, a color that is thought to ward off the "evil eye" (misfortune believed to be brought on by envy or ill wishes.)

The babies of Catholic parents are baptized and christened soon after birth. According to one folk story, mainly heard in the interior, babies should be baptized as soon as possible to escape being visited by the *Tulvieja*, a woman who is always searching for the baby she killed to avoid the shame of being abandoned by her lover. The first boy in a Christian family is commonly named after his father and is given a Biblical middle name. Among the matriarchal Guna, who prize females, baby girls have their noses pierced with a gold ring when they are between two and four months old in a special ceremony.

### *Milestones*

Panamanian girls have a special celebration on their fifteenth birthday, or *quinceaños*. The day is marked by a party, which is sometimes as elaborate as a wedding. Eating, drinking, and dancing often continue all night. Traditionally, the passage from girlhood into young adulthood occurs when a father removes his daughter's sandals and puts high-heeled shoes on her feet. The legal age of adulthood is 18. Indigenous girls often take part in a coming-of-age ceremony that coincides with the onset of puberty.

### *Death*

When someone dies, relatives close to the immediate family clean, dress, and prepare the body for a wake. One tradition,

now mostly abandoned, involved tying a rope around the deceased's foot to represent a ladder to heaven. The day after the wake, a mass is said in church. After that, members of the community carry the coffin to the cemetery for burial. Mourners return to the family home to share a meal and recite prayers. Prayers are resumed each night of the week after the death and then on monthly and yearly anniversaries after that. The Guna bury loved ones with their belongings and with things they want the deceased to pass on to others in the afterlife.

### Diet

In Panama, it is commonly said that one hasn't eaten if one hasn't had rice. Rice is served with nearly every meal, along with a source of protein (eggs, chicken, sardines, meat, fish, or beans). Corn and plantains are also staples. Fish is often fried. People usually eat vegetables as part of the main dish or in a salad. Fruit is often eaten as a snack. Common dishes in the interior include *sancocho* (chicken soup), *guacho* (rice soup), *bollo* (corn mush that has been boiled in the husk), corn tortillas, and *carne guisado* (stewed meat with tomatoes and spices). *Patacones* is a typical side dish of fried plantain slices. *Arroz con pollo* (rice and chicken) is eaten on special occasions. *Chicha*, a popular drink, is made from fresh fruit, water, and sugar. Coffee is served often throughout the day. A wider variety of international foods are eaten in urban areas, along with traditional foods.

### Recreation

#### Sports

In towns, many participate in team sports. *Fútbol* (soccer) and baseball are the national favorites. Basketball is also popular. In school, children play these as well as volleyball. Soccer balls are ubiquitous, though basketball courts are found only in urban areas and some smaller towns. Sometimes boys may be seen using an orange or grapefruit in place of a baseball.

#### Leisure

Many Panamanians enjoy attending horse races, boxing matches, cockfights, fairs, and movies. Hiking and shopping are also common activities. The twice-weekly national lottery is extremely popular. Socializing on the porch or visiting family and friends is an important leisure activity. Time is often spent by listening to music and playing cards and dominos. Tops and marbles are favorites among young boys.

Leisure time for rural women often revolves around domestic events. Work is usually an opportunity for socializing and is done at a leisurely pace. Women may get together to make crafts or to socialize and make *bollos* (corn mush that has been boiled in the husk) when the new corn comes in. They may also talk while peeling *guandu* (garbanzo beans) or making *chichas* (drinks made of fresh fruit, water, and sugar). Dancing at night clubs—often till dawn—is popular among city dwellers. In smaller towns, bars called *jardines* (gardens) with large open concrete floors are used for socializing and dancing on weekends.

#### Vacation

Middle- and upper-class Panamanians often vacation on the coasts, where they lounge on the beach, go shopping, and enjoy the nightlife scenes. They may also take trips to the

United States or Spain. Germany and Italy are other favored destinations. Panamanians of nearly all economic backgrounds occasionally travel to Panama City to shop.

### The Arts

Indigenous Panamanians create many handicrafts, including textiles, jewelry, baskets, and ceramics. Guna women's *mola* shirts are known for their ornate designs. Poetry incorporates indigenous mythology, and poetry readings are well attended. Dancing is popular, especially the *tamborito*, the country's national dance. The area's traditional music, called *típico*, is played by a band consisting of a singer and players with an accordion, a guitar, and some percussion. *Típico* is more common in rural areas and is joined in cities by reggae, salsa, merengue, and jazz. On the Caribbean coast, drumming and singing to African beats are popular.

### Holidays

Official holidays include New Year's Day (1 January), Day of the Martyrs (9 January), Easter (Friday–Sunday), Labor Day (1 May), Independence from Colombia Day (3 November), Uprising of Los Santos (11 November), Independence from Spain Day (28 November), Mother's Day (8 December), and Christmas (25 December). Each village or city holds celebrations to honor the local patron saint. *Carnaval* celebrations are always held the Saturday to Tuesday before Ash Wednesday (usually in February or March). Most businesses shut down during the holidays, as friends and family gather for parties, drinking, and socializing.

#### Easter

The majority of Panamanians vacation during the Easter holiday, often staying at one of the country's resorts. Even so, during *Semana Santa* (Holy Week), the week leading up to Easter, thousands of people travel to Chiriquí Province to take part in a pilgrimage from the Iglesia del Carmen to the Iglesia Apóstol de Alanje, where a religious icon is kept. As they walk along the street, they pray fervently to the Virgin Mary or to Jesus to forgive them of their sins. Many believe that they or their family members may be healed if their faith is strong enough. On Easter Sunday, Christians attend a church service in the morning and later gather for a meal of chicken or fish, as beef is traditionally prohibited during the holiday.

#### Christmas

Most Panamanians decorate elaborately for Christmas. Nativity scenes, large wreaths on doors, and colorful decorations in front of houses are common. Many school activities revolve around Christmas during this season, and shops are full of customers looking for Christmas gifts. On Christmas Eve, families gather for a feast that usually includes *guandu* (garbanzo beans) and rice and attend a midnight Christmas mass. Santa Claus, who is less commonly referred to as Papá Noel, delivers presents under a decorated tree, and families exchange gifts at midnight. Christmas Day itself is spent relaxing with family and eating.

#### New Year's Eve

On New Year's Eve, people gather to eat traditional foods like *guandu* and rice, pork, turkey, and plantains. At midnight, they ignite life-sized dolls (which are usually made to look unattractive) stuffed with straw, grass, and firecrackers to say

good-bye to all the bad things of the previous year. Kids light firecrackers, and parties may last until dawn.

## SOCIETY

### Government

#### Structure

Panama is a presidential republic. Its president is head of state and head of government. Presidents serve a five-year term and must wait two terms before running for reelection. Members of the 71-seat National Assembly are elected by popular vote to five-year terms. The judicial branch is organized under a nine-member Supreme Court and includes all tribunals and municipal courts. It suffers from politicization and corruption.

Panama is divided into ten provinces and three Indigenous regions; the president appoints governors for each province. At the local level, communities elect a *junta local* (town council) to coordinate events for the town. Each Indigenous group also has its own form of government, and the Guna have autonomy in their province.

#### Political Landscape

Several parties are active in Panama, including the center-right Panameñista Party (PP, formerly the Arnulfista Party); the center-left Democratic Revolutionary Party (PRD), originally formed by Omar Torrijos; and the right-leaning Democratic Change (CD) party. No party is popular enough to govern alone, so larger parties must form coalitions with smaller ones. Challenges that the government faces include an overcrowded prison system and human trafficking.

#### Government and the People

Freedom of religion and assembly are protected in law and practice. Journalists—especially those who criticize the government—face a hostile environment. Corruption is widespread, and dissatisfaction with the government is a routine topic among friends and neighbors. Even so, Panamanians generally see the current government as an improvement over the authoritarian and U.S.-backed regimes of the past. Many see the steady stream of state-funded infrastructure projects and incentives to attract foreigners to visit and spend money in Panama as positive developments.

Indigenous groups, however, have a long history of protesting in an effort to protect their land from government construction and illegal settlement and logging. Other Panamanians also turn to protests to block unpopular government proposals.

All citizens are required by law to vote beginning at age 18. Turnout rates for elections generally fall above 70 percent. The last elections in Panama, held in 2019, were considered free and fair.

### Economy

Panama's economy is primarily based on services such as banking, insurance, tourism, and the operation of the Panama Canal. The canal, a major international trade route, provides vital foreign-exchange earnings. Income earned from the Panama Canal has contributed substantially to the economy and will likely grow now that the expansion project aimed at

doubling the canal's cargo capacity was completed in 2016. Key exports include fruit and nuts, fish, iron and steel waste, and wood. About 17 percent of the labor force is employed in agriculture-related industries.

The economy, which suffered from years of political instability, authoritarian rule, and U.S. economic sanctions (1988–90), has now been enjoying strong growth for multiple years. Government-sponsored infrastructure development projects, growth in transportation services, and foreign investment have fueled this growth. Once high unemployment rates have dropped in recent years.

However, the economy reflects a wide gap, the second largest in Latin America, between rich and poor. About a quarter of Panamanians live in poverty, though the degree of poverty has lessened in recent years.

The official currency is the *balboa* (PAB), which consists mostly of coins and is fixed at a value equal to the U.S. dollar. Bills are U.S. dollars, which are legal tender.

### Transportation and Communications

The highway system is the hub of transportation in Panama. Roads are generally in good condition, especially in and around urban areas. A portion of the Inter-American Highway runs from the Costa Rican border through Panama City, ending at the Darien Gap. The capital is linked to Colón by the Trans-Isthmian Highway. Some revenues from the national lottery help build and maintain roads. Domestic airlines and shallow waterways also provide transportation. Panama has one railroad, which runs parallel to the canal. In 2014, a metro system began operation in Panama City. Buses, *chivas* (minibuses), and taxis are readily available in cities. In the interior, people walk, use *chivas* or buses, or ride horses. The majority of people do not own cars.

The use of cellular phones has grown rapidly, with text messaging the preferred mode of communication for many. Centrally located public telephones are available in the interior. Communications facilities are well-developed. In cities, the internet is accessed at home and in internet cafés. The government has also invested in a nationwide wireless internet initiative that provides access to about 64 percent of the population. The country has many newspapers as well as television and radio stations.

### Education

#### Structure

Education is compulsory and free between ages four and fourteen. Primary education begins at age six and ends at age eleven. The secondary level spans ages twelve to seventeen. After completing the secondary level, a student may go on to one of several vocational schools or prepare to enter a university. An upper-secondary level aimed at college preparation is available, for a fee, from grades ten through twelve.

Private schools offer higher quality education, but only the affluent can afford their tuition. This is especially true of bilingual and international schools, which tend to be very expensive. Religious-based schools also exist.

#### Access

Most school-aged children complete primary schooling and

go on to the secondary level. However, rural families may have difficulty sending children to secondary schools—usually located in larger towns—because of unaffordable daily transportation, uniforms and supplies, or room and board in the city. However, the growing availability of scholarships is expanding the number of opportunities rural students have to get a secondary education. Literacy rates among Indigenous groups tend to be lower than those of the greater population.

**School Life**

In recent years, the government has distributed free laptops to public school students—even those in poorer schools—to promote information technology literacy. Curriculum emphasizes the subjects of math, science, and English. Public school curriculum is not very demanding, and many students lag behind grade level when it comes to skills such as reading. Private schools are more rigorous. In public schools, lessons tend to focus on memorization of facts. Students are assigned projects and assessed with tests. Parents, especially those in the interior, may complete much of their child’s homework themselves in hopes of earning a high score for him or her. Cheating is considered a normal part of school life. Teachers are highly respected. Students attend sporting events and dances at school.

**Higher Education**

After finishing upper-secondary school and taking an entrance exam, students may enter university. Panama has a national university (the University of Panama), established in 1935, as well as the public Technological University of Panama. The University of Santa Maria la Antigua, a private Catholic school, is also important. Most Panamanians see acquiring a degree or certification of some kind as vital to succeeding in the competitive job market. Those who do not attend universities may seek training at a vocational school.

**Health**

Panama has a national public health program that provides such services as free examinations, care for the needy, and health education and sanitation programs. Most people have access to modern medical care of some kind, although the best facilities and personnel are in Panama City and Colón. Some rural health centers are understaffed or poorly equipped. Cases of malaria and yellow fever are mostly confined to rural areas.

**AT A GLANCE**

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**Contact Information**

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**Country and Development Data**

Capital	Panama City
Population	3,928,646 (rank=127)
Area (sq. mi.)	29,120 (rank=116)
Area (sq. km.)	75,420
Human Development Index	67 of 189 countries
Gender Inequality Index	108 of 162 countries
GDP (PPP) per capita	\$25,400
Adult Literacy	96% (male); 95% (female)
Infant Mortality	11 per 1,000 births
Life Expectancy	75 (male); 82 (female)
Currency	Balboa

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## Panama - Military

Last updated: 26 Aug 2022

### Armed forces

Last updated: 26 Aug 2022

### Executive summary

Last updated: 15 Mar 2023

	<b>Total strength<sup>1</sup></b>	<b>Army<sup>1</sup></b>	<b>Air force and Navy<sup>2</sup></b>
<b>Active personnel</b>	7,600	4,000	3,600
<b>Reserves</b>	0	0	0

1. Officially the National Border Service (SENAFRONT). The National Police counts with 19,000 (2018 est.).
2. The navy (including the marines) and air force form a single service.

- Panama has no military per se, as the Panamanian Defence Force was disbanded after the 1989 US invasion. The Panamanian Army was converted into a police force in 1990 and the armed forces were officially abolished by the 1994 Constitution. The Public Force (PF) is the equivalent of the military and is comprised of three elements: Panamanian National Police (PNP), the National Border Service (SENAFRONT), and the National Aeronaval Service (SENAN). These have a similar force structure to the disbanded Panamanian Army. Panama's internal security forces are small, but well equipped and motivated to repel any incursion from non-state armed groups. The creation of SENAFRONT in particular, has yielded some success in countering drug trafficking. However, given the increasing demands on the PF in operations against narcotics and other contraband trafficking - plus increased maritime security demands resulting from the expansion of the Panama Canal - there is an urgent need for radars, maritime surveillance aircraft, multi-role helicopters, and interceptor and maritime patrol craft. These requirements were partially met with donations and acquisitions of new aircraft and craft since 2016.
- The country's conventional fighting capability is virtually non-existent; therefore, it relies on outside help to counter larger threats. Panama's traditional defence needs are guaranteed by the United States and, as long as Panama is actively fighting drug trafficking, the US will

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likely continue to be a guarantor of Panamanian security. Of note, the later formation of SENAN and SENAFRONT has been condemned by critics as a gradual creation of a military force, which contravenes the constitution.

- Panama's military equipment is comprised of US donated equipment and second-hand aircraft and craft obtained through a USD100 million refund from Leonardo for delivering faulty radars. The overall state of the equipment is thought to be adequate since the US facilitates maintenance and upgrading. In March 2020, the US donated three Boston Whaler speedboats, and a radar to equip a Beechcraft King Air 350 aircraft, to improve drug-interception capabilities whilst in 2019, the US donated six UH-1H helicopters to SENAN and SENAFRONT. During 2017 and 2018, Panama also received two DHC-6-400 twin engine utility aircraft, two AW139M helicopters, a King Air 350; J8 armoured vehicles, Boston Whaler fast craft, John Deere tractors, Harris radios, and thermal imaging devices; and four Interceptor 1102 from Taiwan. In 2018 SENAN also commissioned a new Damen Stan Lander 5612 vessel.
- The defence budget is allocated to the Ministry of Public Security which includes the SENAFRONT, the SENAN, the PNP, and the National Immigration Service.

## Strategic forces

Last updated: 26 Aug 2022

Janes does not hold information on Panama Strategic forces.

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## Country Report

# Panama

**Generated on June 8th 2023**

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## **Symbols for tables**

"0 or 0.0" means nil or negligible; "n/a" means not available; "-" means not applicable

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# Briefing sheet

Editor: **Robert Wood**

Forecast Closing Date: **May 26, 2023**

## Political and economic outlook

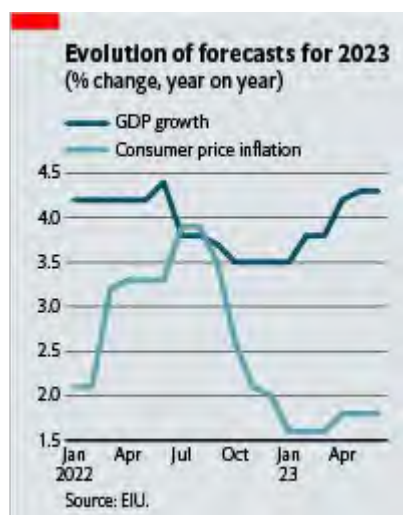
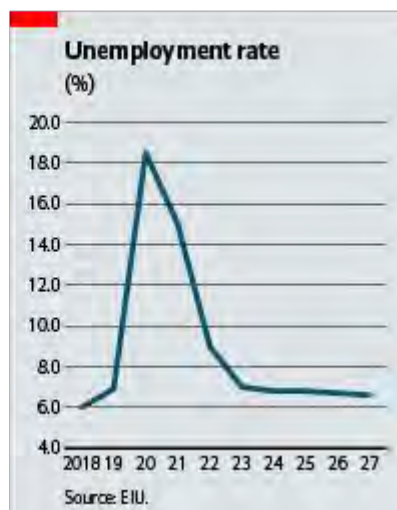
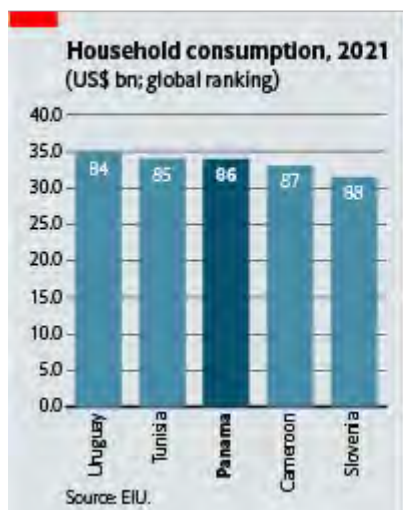
- Panama has the second-largest economy in Central America; it is based on trade and services. The Panama Canal makes the country a logistical hub. Panama also offers an offshore financial centre, but it relies on imports of manufacturing and agricultural goods.
- The popularity of the president, Laurentino Cortizo of the centre-left Partido Revolucionario Democrático (PRD), is low. The PRD's chances of being re-elected in May 2024 will improve once Congress ratifies a royalties deal with a Canadian mining firm. However, Panamanians usually vote out the incumbent, which may give other parties a chance to win.
- In view of electoral spending pressures, EIU forecasts that the government will fall slightly short of its aim to reduce the fiscal deficit to 3% of GDP in 2023 and to 2% of GDP in 2024, barring greater than anticipated cuts in public investment.
- Having recovered fully from the 2020 recession in 2022, Panama's GDP growth will decelerate in 2023, in line with a global economic slowdown. Panama's economic model—centred on trade logistics and the financial sector—will help to deliver average annual growth of 4.1% in 2024-27, supported by rising output from a large copper mine.
- Panama runs a structural current-account deficit, although large copper export earnings mean that this is smaller than in the past. The deficit will ease over our 2023-27 forecast period, given softer oil prices; it will be financed by foreign direct investment inflows.
- Dollarisation makes Panama's offshore financial centre attractive, but the country will need to strengthen its anti-money-laundering regulations and supervision to be removed from the grey list of the Financial Action Task Force, a global financial watchdog.
- The Panama Canal handles 6% of global goods trade, as neutrality is enshrined in its charter. Panama remains open to shipping from all countries, despite the war in Ukraine. Climate change poses long-term risks to water levels, and therefore to canal operations.

### Key indicators

	2022 <sup>a</sup>	2023 <sup>b</sup>	2024 <sup>b</sup>	2025 <sup>b</sup>	2026 <sup>b</sup>	2027 <sup>b</sup>
Real GDP growth (%)	10.8	4.3	4.2	4.1	4.2	4.1
Consumer price inflation (av; %)	2.9 <sup>c</sup>	1.8	2.4	2.2	2.2	2.2
Government balance (% of GDP)	-3.9	-3.0	-2.2	-2.1	-1.9	-1.7
Current-account balance (% of GDP)	-3.9	-5.7	-5.1	-4.1	-3.5	-3.6
Short-term interest rate (av; %)	2.1	4.9	4.7	3.7	2.8	2.5
Unemployment rate (%)	9.0	7.0	6.8	6.8	6.7	6.6
Exchange rate US\$:€ (av)	1.05 <sup>c</sup>	1.11	1.15	1.17	1.19	1.21

<sup>a</sup> EIU estimates. <sup>b</sup> EIU forecasts. <sup>c</sup> Actual.

## Market opportunities



## Key changes since May 16th

- The US National Oceanic and Atmospheric Administration has signalled that there is a 55% risk of a strong El Niño weather event later in 2023. This weather pattern tends to bring drought to Panama and could therefore affect Panama Canal shipping and hydropower.
- At this stage our forecasts do not account for the ramifications of a strong El Niño. We will revise our projections to incorporate agriculture losses, inflation effects and probably the need for fiscal subsidies if the probability of El Niño rises much above 55%.
- We have revised down our global oil price forecasts by an average of about 7% for 2023-27. Given that Panama is a heavy oil importer, we think that its current-account deficit will be narrower than previously forecast.

## The month ahead

- **Mid-June—Consumer price inflation data (May):** Annual inflation slowed to 1% in April on the back of a fuel price freeze and food price controls that were introduced in July 2022. The month-on-month increase in May is likely to be slightly larger than the April result of 0.2%, as the government pared back its subsidies on gas prices late that month.
- **June-July—Party primaries:** Alliances that are likely to be struck following party primaries will influence our view on which candidate stands the best chance of winning the presidency in May 2024.
- **June-July—New deal with First Quantum Minerals (FQM):** In March the government and

FQM, a Canadian mining firm, announced a new royalties and tax contract. The deal will go to a vote in Congress in July. Ratification is highly likely, but political posturing in the debating phase will sustain some uncertainty.

## Major risks to our forecast

Scenarios, Q2 2023	Probability	Impact	Intensity
The extension of fuel subsidies and a potential Panama Canal toll shortfall cause the government to exceed its budget deficit target of 3% of GDP in 2023	High	High	16
Negotiations with diverse groups of protesters over various grievances break down, stoking renewed unrest and roadblocks	High	High	16
Prolonged droughts stymie Panama Canal operations	High	High	16
Political wrangling ahead of the May 2024 general election obstructs the government's legislative agenda	Very high	Moderate	15
After a drop in tax collection, the government imposes discriminatory taxes on foreign businesses to boost revenue	Moderate	Very high	15

Note. Scenarios and scores are taken from our Operational Risk product. Risk scenarios are potential developments that might substantially change the business operating environment over the coming two years. Risk intensity is a product of probability and impact, on a 25-point scale.

Source: EIU.



# Outlook for 2023-27

## Political stability

Politics in 2023-24 will be dominated by the May 2024 presidential election. In particular, the election will influence a debate that is due to start in the unicameral National Assembly (the legislature) in July regarding a mining royalties contract that was agreed in March between the president, Laurentino Cortizo of the centre-left Partido Revolucionario Democrático (PRD), and First Quantum Minerals (FQM), the Canada-based operator of the huge Cobre Panamá copper mine. The deal will generate US\$375m (0.5% of GDP) in government revenue annually, provided that copper prices remain above US\$3.25/lb (as EIU currently forecasts). We assume that the deal will be approved, delivering a political win for the president and his party. However, the debate will also provide a platform for Mr Cortizo's political rivals (both in the opposition and in the PRD), which means that there is likely to be some squabbling over the terms of the deal, for example over whether they are too lenient to FQM. In particular, the National Assembly president, Crispiano Adames (PRD), is positioning himself against some details of the deal in his rivalry with the vice-president, José Gabriel Carrizo, who supports it and is seeking the party's presidential nomination.

Although the approval of the royalties deal will strengthen the government's hand politically—and should therefore boost governability—tensions may emerge later this year, as there will be a hearing in a high-profile corruption case and campaigns for the May 2024 general election will get into full swing. Risks to stability are low, however, as Mr Cortizo enjoys a legislative majority; the PRD has 35 of the 71 seats, and its coalition partner, the Movimiento Liberal Republicano Nacionalista (Molirena), has five. The centre-right opposition is fragmented, as Cambio Democrático (CD) and the Partido Panameñista (PP) have 18 and eight seats respectively

Furthermore, although an easing of inflation has eased social tensions and the approaching election is helping to neutralise anti-government sentiment and steer dissent away from the streets and into electoral campaigns, simmering discontent with precarious economic conditions—especially among low-income Panamanians—means that we do not discount the risk of renewed protests. Nationwide social unrest broke out in mid-2022, triggered by a cost-of-living crisis and pent-up demands from social groups and unions. In response, the government made concessions to the Alianza Nacional por los Derechos del Pueblo Organizado (Anadepo, an umbrella group involved in co-ordinating protesters' demands), including temporary fuel and food price freezes, and an increase in social transfers. Further talks to address broader-based issues never got off the ground.

Last year's protests also amplified dissatisfaction stemming from perceptions of corruption in government and the privileges of the political elite. The three main political parties—the CD (in office in 2009-14), the PP (2014-19) and the PRD (in power since 2019)—have each promised to combat corruption and reform the constitution to raise transparency and accountability in politics, but all have failed to deliver. The issue of corruption is hanging over politics in the form of Panama's largest ever money-laundering case, related to bribes paid by Odebrecht (a Brazilian construction company) between 2002 and 2016. The defendants in the case, which is scheduled to go to a full trial by September, include two former presidents—Ricardo Martinelli (2009-14) of the CD and Juan Carlos Varela (2014-19) of the PP—both of whom deny wrongdoing. If voters perceive that justice is not being done, frustration will rise, possibly fuelling social unrest and improving prospects for outsiders at the general election.

## Election watch

It is still too early to call the outcome of the May 2024 presidential election. Party primaries will take place in June-July, and the alliances that are likely to be struck thereafter will influence our view on which candidate stands the best chance of victory. Mr Cortizo is constitutionally barred from re-election: Mr Carrizo is likely to win the PRD nomination at the party's June primary. Securing the presidency will be much tougher, as Panamanians traditionally reject the ruling party at elections.

Rómulo Roux, the runner-up in the 2019 presidential election, is the favourite to win the centre-right CD's July primary. The CD has the second-largest membership after the PRD; Mr Roux's chances of winning the presidency will improve if he manages to ally with the centre-right PP.

Other hopefuls include two former presidents, Mr Martinelli and Martín Torrijos (2004-09), as well as Ricardo Lombana (Movimiento Otro Camino), who will campaign as an outsider against the political corruption associated with the traditional parties. This means that he will not ally with the PRD, the PP or the CD, splitting the field further in Panama's first-past-the-post system. We do not discount the possibility of a populist challenger emerging, not least because three independent candidates will be allowed to run. However, our current assumption is that whoever wins will maintain orthodox, market-friendly policies and openness towards foreign investors.

## International relations

Mr Cortizo will continue Panama's multi-pronged foreign policy approach of maintaining close ties with the US (the country's largest trading partner) while cautiously cultivating relations with China. Relations with the US president, Joe Biden, are warmer than with his predecessor, Donald Trump (2017-21), but Mr Biden will continue Mr Trump's efforts to counter Chinese influence in Panama by supporting regional infrastructure projects. Relations would cool should Mr Martinelli win in 2024, given that the US designated him in January for alleged involvement in corruption (again, he denies the allegations). Regarding relations with China, Mr Cortizo has been more cautious than Mr Varela, whose government broke off diplomatic ties with Taiwan in 2017, in favour of Chinese recognition. Mr Varela also courted Chinese financing for infrastructure and logistics projects, but Mr Cortizo has put some of these on the back burner. As a carbon-negative country, Panama is trying to carve out a prominent role for itself in global environmental issues; at the 2022 COP27 climate conference it joined a group of developing countries that successfully pushed for a "loss and damage" fund for nations affected by climate change.

## Policy trends

Assuming that the government's deal with FQM is approved following a debate in the legislature (due to begin in July), it will bring in higher royalties from Cobre Panamá, and policymakers will turn their attention to other issues. One of these is the withdrawal of fuel and food subsidies that were introduced last year, after Russia's invasion of Ukraine sent prices soaring. More broadly, the government will have little time left before campaigning for the 2024 general election overshadows its agenda. There is a rising probability of a strong El Niño event later this year, which would bring drought to Panama. A particular risk is that the dry weather intensifies and extends into 2024; this would affect water levels in the Panama Canal (requiring draft restrictions for ship transits) and constrain supply at hydropower plants that currently provide almost two-thirds of the country's electricity (the 670-MW Gatún gas-fired electricity plant is due to come on stream in the second half of 2024). We have not yet factored the ramifications of a strong El Niño into our baseline forecasts, we will do so if the US National Oceanic and Atmospheric Administration revises up the probability of this scenario, from 55% currently.

The Cortizo government will make further progress on agenda items, which include investing in hospitals, constructing Line 3 of the metro system in Panama City (the capital) and improving roads. It will also continue to seek foreign direct investment (FDI)—there are plans for five additional free ports—and to support small and medium-sized enterprises (SMEs). Consensus across the political spectrum should facilitate the approval of policies to strengthen Panama's role as a logistics and financial hub and to promote FDI, both under the current government and the next one.

Even as the 2024 election nears, the government will remain focused on fiscal consolidation to bolster sovereign creditworthiness. Proposals for reforms to the loss-making Caja del Seguro Social (the state agency for pensions and public health) may emerge, but they are increasingly unlikely to be approved before the election. However, the deal with FQM will help to avoid problems in the short term, as the government will be able to channel extra revenue of US\$375m annually (50% of the mine's royalties) into funding pensions.

The government is pursuing reforms to strengthen anti-money-laundering and countering the financing of terrorism (AML/CFT) regulations, which are necessary if the Financial Action Task Force (FATF, a financial watchdog) is to remove Panama from its grey list.

## Fiscal policy

The government will continue to make fiscal consolidation efforts following the hit from the pandemic-related recession. The targets mandated in the Social Fiscal Responsibility Law cap the deficit at 3% of GDP in 2023, 2% in 2024 and 1.5% in 2025. Notwithstanding the deal with FQM, which will provide annual royalties of at least US\$375m over the medium term (pending congressional approval), we still expect there to be some slippage this year and next, on the basis that meeting the deficit targets would require sharper cuts to public investment than will be palatable for the government in an election period.

Low tax rates and coverage make for a fairly weak revenue base, but efforts to tackle the low tax take do not appear to be a priority, as Mr Cortizo has ruled out increasing tax rates (although efforts to improve tax collection will continue). In parallel, the government will try to spur economic growth through capital spending; some of this will come via turnkey projects with private-sector financing, where the government ultimately foots the bill. However, the government will probably curb investment spending this year if growth and revenue disappoint, in an effort to meet fiscal targets. We currently assume that the next government will uphold the tradition of generally sound policymaking and pursue cautious fiscal policies, keeping the deficit at about 2% of GDP.

We expect Panama's public debt/GDP ratio to ease from 58% in 2022 to 52% by 2027 amid moderate growth rates and fiscal consolidation. The sovereign will retain good capital market access, supported by a well-functioning system of dollarisation. The financing outlook will be bolstered by good access to global bond markets. In March Panama issued US\$1bn in bonds maturing in 2054 (yielding 6.85%) and another US\$800m in bonds maturing in 2035 (yielding 6.16%); further issuance over the forecast period is likely.

## Monetary policy

As Panama lacks a central bank and has a dollarised system, US monetary developments are the primary influence on domestic interest rates. We expect the Federal Reserve (Fed, the US central bank) to keep its policy rate unchanged at a target range of 5-5.25% until the third quarter of 2024 (or possibly earlier). Credit from Panama's private banks to the domestic private sector rose by 5.6% year on year in February, reflecting moderate consumption and investment demand. Higher interest rates will weigh on credit growth in the near term, but pent-up demand could drive an acceleration later in the forecast period.

## International assumptions

	2022	2023	2024	2025	2026	2027
<b>Economic growth (%)</b>						
US GDP	2.1	1.0	1.0	2.1	2.2	2.0
OECD GDP	2.8	1.0	1.5	1.9	2.0	1.9
World GDP	3.1	2.2	2.5	2.7	2.7	2.7
World trade	3.9	2.2	3.2	3.6	3.7	3.8
<b>Inflation indicators (% unless otherwise indicated)</b>						
US CPI	8.0	4.2	2.2	1.9	2.0	2.1
OECD CPI	8.9	5.8	2.9	2.4	2.1	2.1
Manufactures (measured in US\$)	-0.4	7.0	4.4	3.3	2.5	2.3
Oil (Brent; US\$/b)	99.8	80.7	76.6	72.9	70.4	67.1
Non-oil commodities (measured in US\$)	14.6	-9.3	-2.3	-0.2	-0.5	-0.5
<b>Financial variables</b>						
US\$ 3-month commercial paper rate (av; %)	2.1	5.0	4.8	3.8	2.8	2.5
US\$:€ (av)	1.05	1.11	1.15	1.17	1.19	1.21
¥:US\$ (av)	131.46	125.45	111.18	108.25	110.25	108.75

## Economic growth

Panama's GDP will grow at just over 4% per year throughout 2023-27—a much stronger rate than the regional average, as the country's strategic location, its openness to trade, its ports and logistics sector, and its financial sector will all bring in investment. Panama is well positioned to benefit from nearshoring trends in the US, although larger markets in Latin America, notably Mexico, are likely to attract the lion's share of such investment.

We expect private consumption and investment to support economic growth. However, private consumption growth will be weaker than in the past. This is because even though unemployment dipped back below 10% in April 2022 (latest data available), it will remain above the 2015-19 average of 6%, reflecting scarring to the productive sector from covid-19. For its part, fixed investment will rise as public works projects gather pace; these include the US\$4.4bn expansion of Panama City's metro, the construction of a US\$1.5bn bridge over the Panama Canal and the US\$1.2bn 670-MW gas-fired power plant at Gatún.

Services will remain a pillar of the economy. Softer global trade will weigh on the key logistics sector this year but should firm up thereafter. Drought conditions from the second half of 2023 related to a potential strong El Niño event could prompt the authorities to reduce ship drafts through the Panama Canal if water levels fall too low. Meanwhile, the mining and construction sectors will benefit from Cobre Panamá (expected to produce 330,000 tonnes of copper this year) and major infrastructure projects; the increase in mining activity will support the diversification of Panama's economy.

### Economic growth

%	2022 <sup>a</sup>	2023 <sup>b</sup>	2024 <sup>b</sup>	2025 <sup>b</sup>	2026 <sup>b</sup>	2027 <sup>b</sup>
GDP	10.8	4.3	4.2	4.1	4.2	4.1
Private consumption	9.0	5.0	4.0	4.0	4.0	4.0
Government consumption	7.0	3.0	4.0	4.0	4.0	4.0
Gross fixed investment	28.0	6.0	4.5	4.0	5.0	5.0
Exports of goods & services	3.1	9.2	5.5	5.4	3.7	3.8
Imports of goods & services	6.7	4.5	4.8	4.6	4.6	4.6
Domestic demand	9.0	5.7	3.8	3.7	4.5	4.4
Agriculture	5.2	8.5	4.3	4.0	4.2	4.1
Industry	12.0	9.0	4.1	4.1	4.1	4.1
Services	13.4	39.5	4.8	4.6	4.7	4.6

<sup>a</sup> EIU estimates. <sup>b</sup> EIU forecasts.

## Inflation

Consumer price inflation eased to 1% in April (from a peak of 5.2% in June 2022) owing to fuel and food price freezes, a normalisation of global supply chains and few signs of domestic demand-side price pressures. Assuming that these subsidies are removed this year as fuel and food prices ease, inflation will accelerate slightly, to nearly 3% at end-2023, but this is still well below the global average for the year of 7%. Assuming that prices and supply normalise over the medium term, inflation will stay below 3%, even when subsidies are withdrawn. However, if commodity prices rise again, inflation could come in higher than our current forecast.

## Exchange rates

Dollarisation is well established and will be retained. The US dollar will stay strong in 2023 as US interest rates rise, before softening mildly in 2024-27 as the Fed moves towards a more neutral stance. The dominance of Panama's services sector in trade reduces the effect of fluctuations in the value of the US dollar. Shifts in the real exchange rate will have a noticeable impact on Panama's re-export trade sector, although the fact that re-exports have high import content will mitigate the effects to some degree.

## External sector

Panama's small, services-oriented and open economy is dependent on global trade and capital flows. The country typically runs moderate current-account deficits, financed by solid capital inflows, and we do not expect this to alter dramatically in the medium term. The current-account deficit will expand in 2023, following import compression in 2020-21, as a surge in oil prices will lift the import bill, although large copper export earnings from Cobre Panamá will offset the widening to some extent. Panama's terms of trade will improve later in the forecast period as demand for copper from the electric-vehicle industry boosts prices and oil prices ease, reducing the current-account deficit. Services income outside trade has been slow to recover from the pandemic, with some sectors (including tourism) picking up only in 2022.

Panama's FDI/GDP ratio will rise after tumbling in 2020-21 but will take time to reach pre-coronavirus levels. Panama will remain attractive to investors, given its role as a regional trade hub and its openness to foreign capital. Nearshoring trends in the US will present opportunities for Panama in manufacturing and services, although Mexico will be the main beneficiary. On this basis, we expect inflows of foreign capital to cover the country's moderate current-account deficits, although the overall outlook for the external position is less sanguine than before the pandemic.

## Forecast summary

### Forecast summary

(% unless otherwise indicated)

	2022 <sup>a</sup>	2023 <sup>b</sup>	2024 <sup>b</sup>	2025 <sup>b</sup>	2026 <sup>b</sup>	2027 <sup>b</sup>
Real GDP growth	10.8	4.3	4.2	4.1	4.2	4.1
Industrial production growth	12.0	9.0	4.1	4.1	4.1	4.1
Gross agricultural production growth	5.2	8.5	4.3	4.0	4.2	4.1
Unemployment rate (av)	9.0	7.0	6.8	6.8	6.7	6.6
Consumer price inflation (av)	2.9 <sup>c</sup>	1.8	2.4	2.2	2.2	2.2
Consumer price inflation (end-period)	2.1 <sup>c</sup>	2.9	2.3	2.2	2.2	2.2
Lending interest rate	6.9	10.0	9.8	8.8	7.8	7.5
NFPS balance (% of GDP)	-3.9	-3.0	-2.2	-2.1	-1.9	-1.7
Exports of goods fob (US\$ bn)	18.1	19.3	20.6	21.8	22.6	23.5
Imports of goods fob (US\$ bn)	22.7	23.9	25.5	27.3	29.2	31.1
Current-account balance (US\$ bn)	-3.0	-4.8	-4.6	-4.0	-3.7	-4.1
Current-account balance (% of GDP)	-3.9	-5.7	-5.1	-4.1	-3.5	-3.6
External debt (end-period; US\$ bn)	117.8	120.8	126.2	132.5	139.3	145.4
Exchange rate B:US\$ (av)	1.00 <sup>c</sup>	1.00	1.00	1.00	1.00	1.00
Exchange rate B:¥100 (av)	0.76 <sup>c</sup>	0.80	0.90	0.92	0.91	0.92
Exchange rate B:€ (end-period)	1.07 <sup>c</sup>	1.14	1.17	1.18	1.20	1.21
Exchange rate B:SDR (end-period)	1.32 <sup>c</sup>	1.38	1.40	1.41	1.42	1.44

<sup>a</sup> EIU estimates. <sup>b</sup> EIU forecasts. <sup>c</sup> Actual.

# Data and charts

## Annual data and forecast

	2018 <sup>a</sup>	2019 <sup>a</sup>	2020 <sup>a</sup>	2021 <sup>a</sup>	2022 <sup>b</sup>	2023 <sup>c</sup>	2024 <sup>c</sup>
<b>GDP</b>							
Nominal GDP (US\$ m)	67,294	69,722	57,087	67,407	76,758	84,702	91,311
Real GDP growth (%)	3.7	3.3	-17.7	15.8	10.8	4.3	4.2
<b>Expenditure on GDP (% real change)</b>							
Private consumption	3.8	6.6	-10.1	5.3	9.0	5.0	4.0
Government consumption	6.5	3.8	11.9	6.0	7.0	3.0	4.0
Gross fixed investment	0.7	-1.3	-48.0	31.0	28.0	6.0	4.5
Exports of goods & services	5.3	1.6	-21.6	29.6	3.1	9.2	5.5
Imports of goods & services	4.5	-1.7	-31.8	34.0	6.7	4.5	4.8
<b>Origin of GDP (% real change)</b>							
Agriculture	3.0	5.6	1.9	4.7	5.2	8.5	4.3
Industry	2.6	1.4	-33.9	30.2	12.0	9.0	4.1
Services	3.8	4.2	-15.4	14.0	13.4	39.5	4.8
<b>Population and income</b>							
Population (m)	4.2	4.2	4.3	4.4	4.4	4.5	4.5
GDP per head (US\$ at PPP)	33,032	34,219	28,459	33,809	39,565	42,504	44,612
Recorded unemployment (av; %)	6.0	6.9	18.5	15.0 <sup>b</sup>	9.0	7.0	6.8
<b>Fiscal indicators (% of GDP)</b>							
Non-financial public-sector revenue	19.0	17.8	17.3	17.3	17.3	17.6	17.8
Non-financial public-sector expenditure	21.7	20.5	27.0	23.7	21.2	20.7	20.1
Non-financial public-sector balance	-2.8	-2.7	-9.7	-6.4	-3.9	-3.0	-2.2
Public debt	38.2	44.6	64.7	60.0	57.7	55.5	54.6
<b>Prices and financial indicators</b>							
Exchange rate B:US\$ (end-period)	1.00	1.00	1.00	1.00	1.00 <sup>a</sup>	1.00	1.00
Exchange rate ¥:B (end-period) <sup>d</sup>	109.7	108.7	103.2	115.2	131.8 <sup>a</sup>	115.7	108.5
Consumer prices (end-period; %)	0.2	-0.1	-1.6	2.6	2.1 <sup>a</sup>	2.9	2.3
Stock of money M1 (% change)	4.5	-9.4	15.2	12.2 <sup>b</sup>	11.6	10.3	7.8
Stock of money M2 (% change)	3.0	2.5	8.0	-6.7 <sup>b</sup>	13.3	10.3	7.8
Lending interest rate (av; %)	6.9	7.1	7.0	6.9	6.9	10.0	9.8
<b>Current account (US\$ m)</b>							
Trade balance	-9,207	-7,532	-2,802	-3,591	-4,662	-4,614	-4,970
Goods: exports fob	14,752	14,645	11,601	16,690	18,080	19,302	20,563
Goods: imports fob	-23,959	-22,178	-14,402	-20,281	-22,742	-23,916	-25,533
Services balance	8,338	8,622	4,979	6,505	6,314	6,662	7,085
Primary income balance	-4,231	-4,908	-2,403	-5,146	-4,837	-7,034	-6,973
Secondary income balance	-206	-207	35	182	191	200	210
Current-account balance	-5,306	-4,025	-189	-2,051	-2,994	-4,786	-4,647
<b>External debt (US\$ m)</b>							
Debt stock	98,923 <sup>b</sup>	104,798 <sup>b</sup>	106,748 <sup>b</sup>	112,997 <sup>b</sup>	117,774	120,820	126,187
Debt service paid	6,901 <sup>b</sup>	7,099 <sup>b</sup>	10,167 <sup>b</sup>	7,484 <sup>b</sup>	8,045	10,026	10,120
Principal repayments	3,313 <sup>b</sup>	3,340 <sup>b</sup>	7,441 <sup>b</sup>	5,103 <sup>b</sup>	4,053	3,814	3,945
Interest	3,588 <sup>b</sup>	3,759 <sup>b</sup>	2,727 <sup>b</sup>	2,381 <sup>b</sup>	3,992	6,213	6,174
Debt service due	6,901 <sup>b</sup>	7,099 <sup>b</sup>	10,167 <sup>b</sup>	7,484 <sup>b</sup>	8,045	10,026	10,120
<b>International reserves (US\$ m)</b>							
Total international reserves	2,121	3,424	9,614	8,832 <sup>b</sup>	6,876	7,938	8,061

<sup>a</sup> Actual. <sup>b</sup> EIU estimates. <sup>c</sup> EIU forecasts. <sup>d</sup> US dollar used as local currency, known as Balboa.

Source: IMF, International Financial Statistics.

## Quarterly data

	2021			2022			2023	
	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr
<b>Government finance (B m)</b>								
Revenue	2,729	2,504	3,984	2,843	2,735	2,627	5,068	2,713
Expenditure	3,855	4,288	4,302	3,984	3,515	4,235	4,546	4,288
Balance	-1,125	-1,784	-319	-1,140	-780	-1,607	522	-1,575
<b>Prices</b>								
Consumer prices (2013=100)	104.7	105.3	105.8	106.8	109.2	108.0	107.7	109.0
Consumer prices (% change, year on year)	1.7	2.4	3.0	2.8	4.4	2.5	1.7	2.0
<b>Financial indicators</b>								
Exchange rate B:US\$ (av)	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Exchange rate B:US\$ (end-period)	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Deposit rate (av; %)	1.8	1.7	1.6	1.6	1.6	n/a	n/a	n/a
Lending rate (av; %)	6.9	7.0	6.9	6.9	6.9	6.9	6.9	7.3
M1 (end-period; B m)	9,434	n/a	n/a	n/a	n/a	n/a	n/a	n/a
M1 (% change, year on year)	14.4	n/a	n/a	n/a	n/a	n/a	n/a	n/a
M2 (end-period; B m)	36,695	n/a	n/a	n/a	n/a	n/a	n/a	n/a
M2 (% change, year on year)	-15.3	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>Foreign trade (excl Canal Zone; US\$ m)</b>								
Exports fob	957	931	967	887	1,026	901	838	n/a
Imports cif	-2,771	-3,010	-3,385	-3,605	-3,861	-3,975	-3,789	n/a
Trade balance	-1,813	-2,079	-2,418	-2,719	-2,835	-3,074	-2,951	n/a
<b>Balance of payments (US\$ m)</b>								
Merchandise trade balance fob-fob	-807	-1,050	-1,274	-1,582	-1,339	-4,500	n/a	n/a
Services balance	1,480	1,842	1,880	2,120	2,369	2,485	n/a	n/a
Primary income balance	-1,021	-1,495	-1,402	-1,226	-901	-949	n/a	n/a
Net transfer payments	25	45	97	0	3	-15	n/a	n/a
Current-account balance	-323	-658	-698	-689	133	-2,980	n/a	n/a
Reserves excl gold (end-period)	9,089	8,407	8,832	9,628	8,818	6,405	6,876	6,882

Source: IMF, International Financial Statistics.

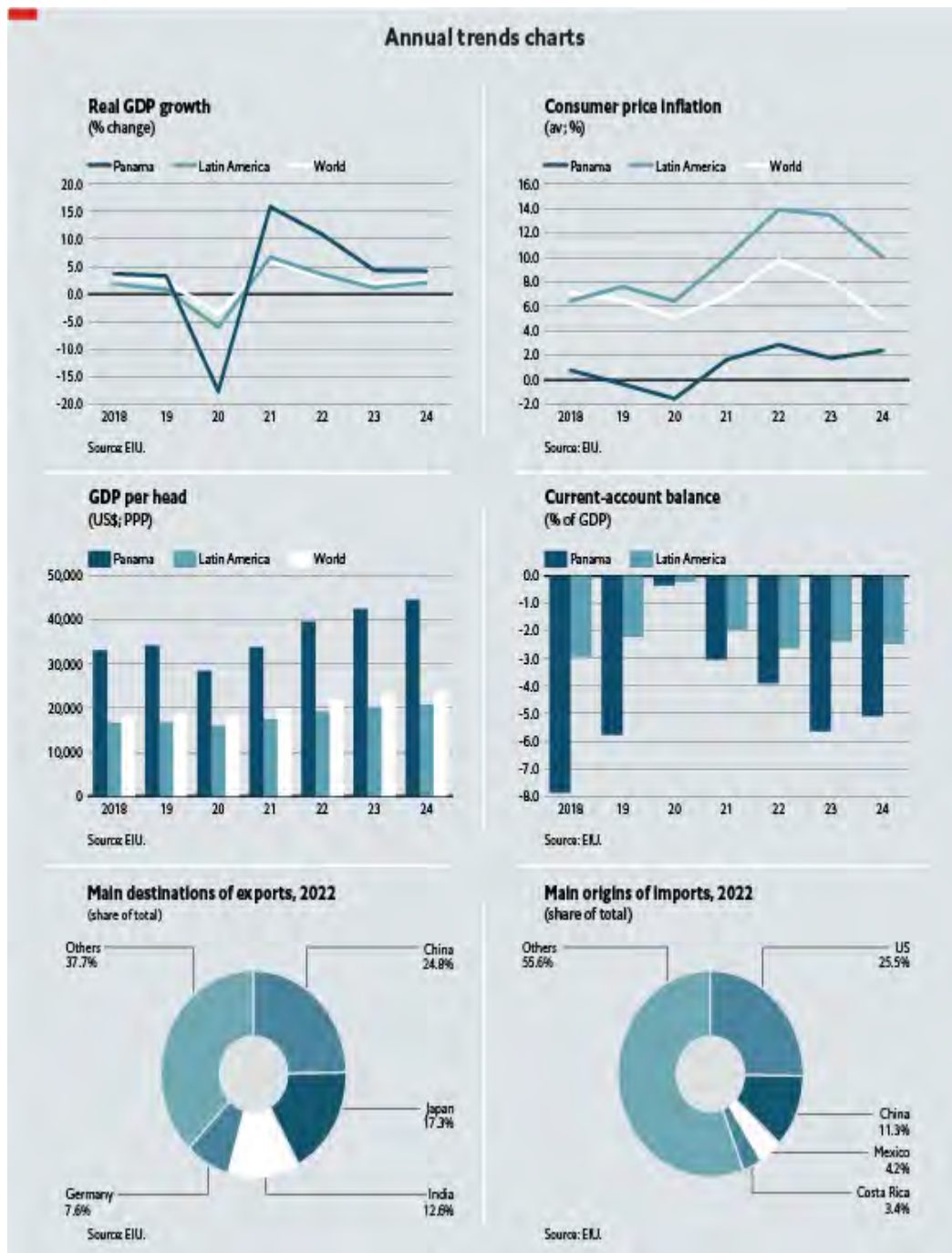


## Monthly data

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
<b>Real effective exchange-rate index (2010=100; PPI-based)</b>												
2021	98.1	98.8	100.7	100.2	101.3	101.4	102.4	97.4	97.4	98.1	98.7	98.4
2022	98.0	97.8	99.0	101.2	103.9	105.6	106.7	104.8	107.2	108.6	106.4	103.2
2023	101.0	102.2	102.7	102.2	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>Deposit rate (av; %)</b>												
2021	1.9	1.9	1.9	1.9	1.8	1.8	1.8	1.7	1.6	1.7	1.6	1.6
2022	1.5	1.6	1.7	1.6	1.6	1.6	1.5	1.5	n/a	n/a	n/a	n/a
2023	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>Lending rate (av; %)</b>												
2021	6.9	7.0	6.9	6.9	6.9	6.9	6.9	7.0	7.0	6.9	6.9	6.9
2022	6.9	6.9	6.9	6.9	6.9	6.9	6.9	6.9	6.9	6.9	6.9	7.0
2023	7.0	7.4	7.4	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>M1 (% change, year on year)</b>												
2021	16.0	16.1	13.7	14.2	13.4	14.4	12.1	12.8	n/a	n/a	n/a	n/a
2022	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
2023	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>M2 (% change, year on year)</b>												
2021	8.1	8.2	8.7	-15.4	-15.3	-15.3	-15.5	-15.3	n/a	n/a	n/a	n/a
2022	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
2023	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>Economic activity indicator (not seasonally adjusted; % change, year on year)</b>												
2021	-11.9	-5.5	-0.5	26.3	41.7	33.0	27.4	31.5	22.4	15.2	12.1	16.6
2022	16.3	14.2	10.0	9.0	9.4	12.2	3.5	12.9	12.2	n/a	n/a	n/a
2023	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>Economic activity indicator (seasonally adjusted; % change, year on year)</b>												
2021	-8.0	-6.3	-4.9	27.1	28.2	28.9	29.0	28.8	28.3	13.4	12.8	12.2
2022	11.7	11.1	10.5	10.1	10.0	10.1	10.3	10.6	11.0	n/a	n/a	n/a
2023	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>Consumer prices (av; % change, year on year)</b>												
2021	-1.4	-0.6	0.3	1.7	1.9	1.6	2.4	2.4	2.5	2.9	3.4	2.6
2022	2.6	2.7	3.2	3.7	4.2	5.2	3.5	2.1	1.9	1.7	1.5	2.1
2023	2.7	2.0	1.3	1.0	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Sources: IMF, International Financial Statistics; Haver Analytics; Dirección de Estadística y Censo.

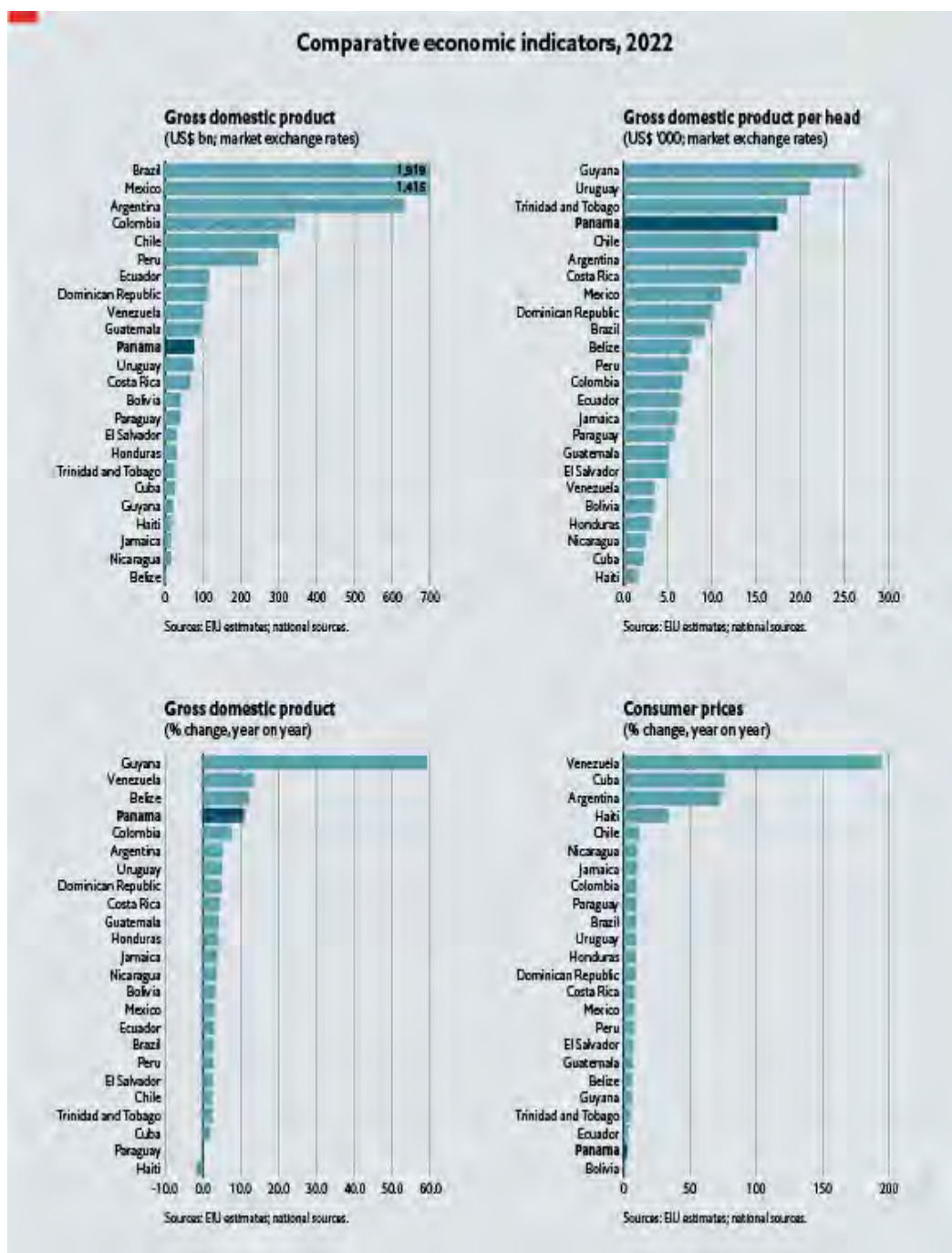
# Annual trends charts



# Monthly trends charts



# Comparative economic indicators



## Basic data

### Land area

75,517 sq km; mainly mountainous, with lowlands along the Pacific and Atlantic coasts

### Population

4.4m (2022, UN estimate)

### Main towns

Population in '000 (2010, national census)

Panama City (capital): 888

Colón: 207

David: 149

## Climate

Tropical

### Weather in Tocumen (altitude 42 metres)

Hottest month, April, 21-36°C (average daily minimum and maximum); coldest month, January, 20-34°C; driest month, February, 5mm average rainfall; wettest month, November, 375 mm average rainfall

## Language

Spanish

## Measures

Metric system

## Currency

1 balboa (B) = 100 centésimos. The US dollar is used as local currency; locally minted coins with the same denominations as US coins are in circulation

## Time

5 hours behind GMT

## Public holidays

January 1st (New Year's Day); January 9th (Martyrs' Day); April 7th (Good Friday); May 1st (Labour Day); August 15th (Foundation of Panama City—Panama City only); November 3rd (Separation Day); November 4th (Flag Day); November 5th (Colón Day); November 10th (Los Santos Uprising); November 28th (Independence Day); December 8th (Mother's Day); December 26th (Christmas)



## Political structure

### Official name

Republic of Panama

### Form of state

Presidential democracy with a National Assembly and an independent judicial system

### The executive

The president is the head of state, elected for a five-year term by universal adult suffrage; a vice-president and a cabinet are appointed by the president

### National legislature

National Assembly; a 71-member unicameral legislature elected directly by universal adult suffrage for a five-year term

### Legal system

The president proposes judges for the Supreme Court; they are approved by the National Assembly and sit for terms of ten years; a system of appeal originates in courts of first instance, rising to the Supreme Court at the apex

### National elections

The most recent elections (legislative and presidential) took place in May 2019; the next elections are due in May 2024

### National government

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Laurentino Cortizo of the centre-left Partido Revolucionario Democrático (PRD) took office on July 1st 2019. Mr Cortizo's party has 35 seats in the National Assembly but has an alliance with the Movimiento Liberal Republicano Nacionalista (Molirena) party, which holds five seats, giving it a workable majority

## **Main political organisations**

Government: PRD and Molirena

Opposition: Partido Panameñista (PP) and Cambio Democrático (CD)

## **Key ministers**

President: Laurentino Cortizo (PRD)

Vice-president: José Gabriel Carrizo (PRD)

Agricultural development: Augusto Valderrama (non-aligned)

Canal affairs: Aristides Royo (PRD)

Commerce & industry: Ramón Martínez de la Guardia (PRD)

Economy & finance: Héctor Alexander (PRD)

Education: Maruja Gorday de Villalobos (non-aligned)

Environment: Milciades Concepción (PRD)

Foreign relations: Janaina Tewaney Mencomo (non-aligned)

Government: Roger Tejada (PRD)

Health: Luis Francisco Sucre (PRD)

Housing & land management: Rogelio Paredes (PRD)

Labour: Doris Zapata Acevedo (PRD)

Presidency: José Simpson Polo (PRD)

Public works: Rafael Sabonge Vilar (PRD)

Security: Juan Pino (non-aligned)

Social development: María Inés Castillo (PRD)

# Recent analysis

Generated on June 8th 2023

The following articles were published on our website in the period between our previous forecast and this one, and serve here as a review of the developments that shaped our outlook.

## Economy

### Forecast updates

#### Dry weather heralds a tricky El Niño for Panama in 2023

May 30, 2023: Policy trends

#### What's happened?

Panama is preparing for the probable arrival of the El Niño climate pattern as it struggles with a delayed start to the rainy season. The Autoridad del Canal de Panamá (ACP, the Panama Canal Authority) has forced large Neopanamax vessels to carry less cargo, and the government has extended support to crop and cattle farmers. According to the US National Oceanic and Atmospheric Administration, there is a 55% probability of a strong El Niño later this year; **if this likelihood rises, we will modify our forecasts to reflect the likely impact, not just on Panama, but on the wider world.**

#### Why does it matter?

El Niño reduces rains in Panama, hitting the agricultural sector and the Panama Canal, which relies on freshwater lakes. The government is working on the assumption that El Niño will begin by July. Financial losses are likely to be limited in the short term; **the potential impact on the (early) 2024 dry season is a greater concern.** In the long term, the ACP is working on solutions, and policymakers are hoping to offset losses from extreme weather by making Panama a green energy hub.

In 2015-16 El Niño caused Panama US\$72m in agricultural losses and put a US\$40m dent in Canal revenue—a relatively limited impact considering that agriculture only accounts for about 2-3% of GDP and that Canal revenue totals about US\$4.6bn. However, a stronger El Niño would also result in water and electricity shortages, as hydroelectric generation accounts for nearly two-thirds of Panama's energy matrix and Canal-feeding lakes supply half of its potable water. Water shortages have already provoked demonstrations, the likes of which the government will want to avoid ahead of the May 2024 election. A state of emergency is possible, albeit unlikely in the short term.

For the longer term, the ACP is developing a US\$2bn water management system due to start operations in 2025. The US Army Corps of Engineers has presented a report on the proposed solutions (including new reservoirs), which the government will consider shortly. Policymakers are also formulating a national water plan and hope to market Panama as a green energy hub, which may offset some losses from extreme weather events. The government has launched a national green energy strategy and is likely to announce significant incentives for investors.

#### What next?

A strong El Niño could lead to water and/or electricity rationing, and would therefore have a more severe impact on businesses than our short-term forecasts currently suggest. A particular risk is that a strong El Niño exacerbates the 2024 dry season, resulting in record-low water levels in lakes and constraining Canal operations next year.



# DOMINICAN REPUBLIC





# Integrated Country Strategy

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## DOMINICAN REPUBLIC

**FOR PUBLIC RELEASE**

Approved: April 22, 2022

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## 1. Chief of Mission Priorities

The United States has deep historic ties to the Dominican Republic and generally enjoys broad support from both the government and the public. The country's location at the crossroads of regional transportation routes, its status as a top American tourist destination, the family connections for over two million U.S. citizens of Dominican descent, and our strong security relationship make its continued development and stability vital to U.S. interests. However, due to the recognition of the PRC in 2018, the United States faces increasing challenges in ensuring it remains the Dominican Republic's partner of choice. Many of the long-standing weaknesses that we have labored for decades to overcome are now entry points for an alternative model of development and governance that would be antithetical to U.S. interests and the democratic values we share with the Dominican Republic.

The Mission's priority therefore is to protect and consolidate our position by helping the Dominican Republic overcome two key challenges: socio-economic exclusion, particularly entrenched and racially-motivated nationalistic sentiment that continues to prevent the full exercise of human rights or economic participation of Haitians and Dominicans of Haitian descent or those that are perceived to be of Haitian descent; and weak governance and institutions, which abet widespread corruption and uneven application of the rule of law. A Dominican Republic that makes progress on these issues will be in a stronger position to remain a close U.S. partner and counter authoritarianism. While Dominican public opinion widely supports our efforts to strengthen institutions and fight corruption, prevailing attitudes oppose our efforts to address socio-economic exclusion.

To achieve the broad range of Mission goals, we will use robust public diplomacy programming to leverage one of our greatest assets here: highly favorable public views of the United States. We also must overcome two years of backlog in Consular work, which has undermined the interpersonal ties that are the bedrock of our strong relationships with Dominicans by preventing us from doing our daily work of reuniting families and facilitating legitimate travel. We will maintain our robust engagement with government, private sector, and civil society

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across the full range of Mission priorities and continue to fund security and development assistance programs and institutional reform efforts.

- **A more inclusive Dominican Republic with strong institutions that stand against authoritarianism**

The Mission will encourage the Dominican Republic to join like-minded partners to combat the deterioration of democracy in the region and promote free and fair elections both within the Dominican Republic, and abroad. The government's participation in the December 2021 Summit for Democracy as well as its efforts via the Alliance for Development in Democracy with Costa Rica and Panama demonstrate the Dominican Republic's desire to play a larger role in shaping regional strategies for promoting democracy in the Western Hemisphere in line with U.S. priorities. The Mission already works closely with civil society organizations and the government to strengthen institutions that provide the foundation for a prosperous democracy, but more needs to be done to ensure the Dominican Republic's growth also benefits socio-economic groups that remain excluded from the formal economy and live on the margins of society. The Mission will continue working with the government to promote respect for human rights of all Dominicans, including groups discriminated against due to race, national origin, disability, gender, or LGBTQI+ identification. The Mission will continue to promote positive and mutually beneficial relations between the Dominican Republic and Haiti, which is both a humanitarian imperative and perpetual source of diplomatic friction that could derail other priorities. This includes continuing to work towards a resolution for the nearly 300,000 Dominicans of Haitian descent who are currently stateless. In addition, we will press for increased democratic participation by all members of society, including LGBTQI+ individuals and Dominicans living in rural communities. Because the Dominican government and the public are largely resistant to a more inclusive society that provides equal protections for both those perceived to be Haitian and LGBTQI+ communities, sustainable change will require a concerted effort to shift public opinion.

- **A secure and healthy Dominican Republic that supports U.S. security**

The Mission's highest priority is safeguarding the safety and security of the estimated 300,000 U.S. citizens who reside in the Dominican Republic and the three million U.S. citizens who visit each year. The Mission also seeks to protect both the Dominican Republic and the United States from illicit drug trafficking, irregular migration, as well as threats to public health and our economy. While the Dominican Republic is a key security partner in the Caribbean region, high crime rates, corruption, weak enforcement of anti-corruption laws with few prosecutions, and a lack of transparency hamper its development. Lack of accountability for public officials has led to wide distrust of public institutions. The current administration has taken steps in the right direction to investigate corrupt individuals, including within its own party, but much remains to be done to overcome an entrenched culture of cronyism. We will continue to provide technical assistance and training to improve the criminal justice system, reform institutions, and counter corruption. Identifying and minimizing the spread of infectious diseases, including COVID-19, HIV/AIDS, and African Swine Fever (ASF) remains a key priority. While the Dominican Republic has weathered the effects of COVID-19 fairly well in global terms, it has struggled to adequately respond to the recent emergence of African Swine Fever which threatens food security and economic stability, both in the Dominican Republic and in the United States. The Mission will work closely with its counterparts in the government to help eradicate ASF and mitigate other public health threats. Eradicating these diseases is critical to the stability and efficacy of the country's health care system, and continued economic growth, particularly of the tourism sector. Failure to eradicate ASF also threatens the U.S. pork sector, a \$20 billion industry with more than a half a million jobs. It also poses a risk to food security and the economic well-being of Dominican farmers, many of whom are small backyard farmers who rely on their pigs for their livelihood.

- **An economically stable Dominican Republic that remains a strong U.S. commercial partner**

While the Dominican Republic has enjoyed sustained economic growth over the past 20 years, its current debt of more than seventy percent of GDP hampers its economic growth and stability. The Mission will work closely with Dominican authorities and the private sector to

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promote competitiveness, trade, and investment as important engines for economic growth to ensure the United States remains the Dominican Republic's number one trading partner. The Mission will also continue efforts to promote viable paths to critical infrastructure development that do not rely on PRC loans, donations, or non-transparent bids from state-connected firms which are often difficult for the Dominican Republic to refuse given its development priorities despite the strings attached. To continue our strong commercial partnership and help reduce corruption, we will offer technical assistance to develop transparent laws and a level playing field for foreign investment. Additionally, promoting sustainable energy sources and protecting the Dominican Republic from natural disasters and environmental challenges, including environmental degradation, hurricanes, and earthquakes will improve the lives of Dominicans by improving food security and protecting infrastructure. We will also renew our efforts to help the Dominican Republic face the challenge of climate change, to which it is highly vulnerable.

## 2. Mission Strategic Framework

**Mission Goal 1:** A more inclusive Dominican Republic with strong institutions that stand against authoritarianism

- **Mission Objective 1.1:** Strengthened governance institutions protect Human Rights and counter corruption (Links to CDCS IR1.1, 2.1)
- **Mission Objective 1.2:** Decreased socio-economic exclusion and increased democratic participation (Links to CDCS IR1.1,1.2, 2.1, 3.1)
- **Mission Objective 1.3:** Dominican government becomes a leading promoter of democracy in the region (Links to CDCS IR 1.1)

**Mission Goal 2:** A secure and healthy Dominican Republic that supports U.S. security

- **Mission Objective 2.1:** Enhanced Citizen Security (Links to CDCS IR1.1, 2.1, 3.1)
- **Mission Objective 2.2:** Improved consular service delivery and emergency preparedness coordination that supports U.S. citizens and regularized migration patterns
- **Mission Objective 2.3:** Security and defense services disrupt and dismantle TCOs and illicit networks
- **Mission Objective 2.4:** Public health capacity increased and threats from pandemic infectious diseases decreased (CDCS IR1.3, 2.3, 3.3)

**Mission Goal 3:** An economically stable Dominican Republic that that remains a strong U.S. commercial partner

- **Mission Objective 3.1:** Critical infrastructure is protected from capture by anti-democratic actors
- **Mission Objective 3.2:** Threats from climate change and other environmental challenges are countered and disaster resilience enhanced (CDCS IR1.2, 2.2, 3.2)

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- **Mission Objective 3.3:** Rules-based commerce and investment enables mutual prosperity and reduces corruption

**Management Objective 1:** A more equitable, efficient, safe, and healthy workplace for all staff that enables a more effective Mission.

### 3. Mission Goals and Objectives

**Mission Goal 1** | A more inclusive Dominican Republic with strong institutions that stand against authoritarianism.

**Description** | In line with the [Interim National Security Strategy Guidance](#) to deter and defend against authoritarian threats, the Mission will support the Dominican Republic as it works to strengthen democratic institutions and practices in the country and region. The Dominican Republic's aspiration to be a strong democracy that puts its people first and systematizes anti-corruption and transparency measures serves long-held U.S. foreign policy goals. As such, the Mission will continue to support the Dominican Republic on this path as it builds regional ties and alliances that offer multilateral solutions to addressing national and regional challenges to democratic institutions. Specifically, the Mission will support the government's goal to ensure that economic growth benefits all Dominicans. This includes anti-corruption initiatives that bolster government institutions and practices, making public transactions transparent, reducing opportunities for corruption, and applying penalties swiftly and appropriately. The Mission will also support the Dominican government in prioritizing the civic participation of vulnerable populations, including but not limited to women and youth, people with disabilities, LGBTQI+ persons, Dominicans of Haitian descent, and people living with HIV. We will work with our partners in the Dominican government and civil society and address longstanding human rights issues. The Mission will continue to press for a resolution for the nearly 300,000 Dominicans of Haitian descent who are currently stateless. The Mission will also continue to promote positive and mutually beneficial relations between the Dominican Republic and Haiti, the improvement of which would have a net positive effect many bilateral and regional issues we face in the Dominican Republic.

**Objective 1.1 | Strengthened governance institutions protect Human Rights and counter corruption**

- **Justification |** Corruption diminishes public confidence in the government and deepens socio-economic exclusion and inequality. Inequality is a cause of social friction and prevents many from accessing the goods and services they need. The Dominican Republic ranked 137th out of 180 countries in Transparency International's 2020 Corruption Perceptions Index. U.S. interests, both official U.S. government as well as private sector investments, are undermined by the corrosive effects of corruption. U.S. efforts to professionalize Dominican institutions work in parallel with investments in the integrity systems that hold public officials accountable.

The continued marginalization of women, Dominicans of Haitian descent, LGBTQI+ persons, and other underserved groups creates inequity of opportunity and contributes to poverty and exclusion from economic and democratic participation. Underscoring the important role of civil society and community engagement and improving the efficacy and credibility of these entities will reduce reliance on foreign assistance and other interventions for good governance, justice, and the enjoyment of human rights. Mission activities in support of this goal should increase civil society and community capacity to observe and report, advocate for community perspectives, and influence policy.

- **Linkages |** This mission goal supports EO 13985: Executive Order on Advancing Racial Equity and Support for Underserved Communities Through the Federal Government; the Presidential Memorandum on Advancing the Human Rights of Lesbian, Gay, Bisexual, Transgender, Queer, and Intersex Persons Around the World; the Interim National Security Strategic Guidance; JRS Goals 1, 2 and 3; the National Strategy on Gender Equity and Equality; the Presidential Memorandum on Establishing the Fight Against Corruption as a Core United States National Security Interest; and USAID's CDCS IR1.1, 2.1.
- **Risks |** Weak institutions permit human rights violations and corrupt acts to prevail with impunity. Continuing corruption and impunity in the Dominican Republic may result in increased distrust in governing institutions, increased inequality, lack of

equitable access to justice, and reduced economic growth. In turn, these may open windows of opportunities for PRC exploitation. Mission Santo Domingo should mitigate this risk by maintaining the overall favorable public opinion of the United States and our values through FY2022 - FY2023 programs and partnerships and using existing relationships to promote positive, sustainable change.

**Objective 1.2 |** Decreased socio-economic exclusion and increased democratic participation

- **Justification |** Socio-economic exclusion is widespread in the Dominican Republic, stunting economic growth and preventing much of the population from fully realizing the benefits of living in a democratic society. Dominicans of Haitian descent, as well as those perceived to be of Haitian descent, face routine and widespread discrimination. Dominican women earn less than men, despite achieving higher educational outcomes. The Dominican Republic has the highest child marriage rate in the Latin America and Caribbean region. Surveys show that most members of the LGBTQI+ community regularly fear for their physical safety. Legislation aimed at protecting the rights of marginalized groups of Dominican society was stalled as of January 2022. Laws that are intended to guarantee opportunity for individuals with disabilities are poorly enforced, creating a situation in which many struggle to access education, employment, and healthcare. There is also a stark divide between the educational and economic opportunities available to Dominicans who live in rural communities, and those who live in major cities.

Some Dominican leaders in government, business, academia, and the nonprofit sector recognize these divisions and are developing innovative solutions to overcome them. Embassy Santo Domingo will support Dominican entities who are building a more inclusive society by providing targeted support in the form of trainings, educational programming, exchange opportunities, and strategic grants. Embassy Santo Domingo will also work to cultivate a deeper appreciation for the U.S. values of human rights and inclusivity through innovative storytelling and stakeholder engagement.

- **Linkages** | JSP Goal 3 Strategic Objective 3.2- Equity and Inclusion; EO 13985: Executive Order on Advancing Racial Equity and Support for Underserved Communities Through the Federal Government; the Presidential Memorandum on Advancing the Human Rights of Lesbian, Gay, Bisexual, Transgender, Queer, and Intersex Persons Around the World; the Interim National Security Strategic Guidance; and USAID's CDCS IR1.1, 1.2, 2.1, 3.1.
- **Risks** | Failure to achieve Objective 1.2 will result in continued inequity in Dominican society, creating a fertile environment for corruption and authoritarian values to grow, as seen in other countries throughout the region. A perpetual challenge is critics who allege that the United States is hypocritical for promoting equity and human rights overseas while ignoring its own domestic history and present struggles. This could serve as potential messaging space for hostile actors. It can be mitigated by avoiding language that ignores present and historical injustices in the United States and focusing instead on progress and values. We also must contend with the current situation in which most Dominicans do not support fully equal rights for LGBTQI+ individuals or Haitian descent populations. Direct messaging in the promotion of LGBTQI+ and Haitian descent rights is met with hostility by many. The Mission can minimize alienating audiences by empowering local voices who are well versed in the socio-cultural context, and therefore more likely to influence local opinion. The Mission can also focus its own messaging on the value of creating an inclusive society, and generally embracing a positive tone.

**Objective 1.3** | Dominican government becomes a leading promoter of democracy in the region

- **Justification** | Worldwide there is a disturbing trend of democratic backsliding and weakened trust in democratic institutions. This trend has been exacerbated by the challenges of the COVID-19 pandemic and growing influence of non-democratic actors, including China and Russia, on the global stage. Fortifying regional democratic institutions is an urgent priority to ensure respect for human rights and prosperity of the

peoples of our hemisphere. The Dominican government has demonstrated its desire to be a champion for democracy in the Western Hemisphere through recent efforts to fight domestic corruption and strengthen government institutions, its prominent role in the 2021 Summit for Democracy, and through its multilateral efforts via the nascent Alliance for Development in Democracy. This promising trilateral cooperation with Costa Rica and Panama has among its goals the restoration of stability and democracy in Haiti- a shared U.S. priority. Mission Santo Domingo will intensify FY2022 - FY2023 efforts to support the Dominican government in these endeavors. Mission activities will include promoting and facilitating the Dominican government's activities in support of democracy around the region, including in Haiti. Civil society will play a crucial role in legitimizing these efforts as well as ensuring follow-through, and Mission Santo Domingo will facilitate the participation of civil society groups in all phases of these activities.

- **Linkages** | JSP Goal 3, Strategic Objective 3.1: Democracy & Governance; Interim National Security Strategy Guidance; and USAID's CDCS IR1.1.
- **Risks** | The Dominican Republic's potential role in Caribbean, Latin American, and Central American fora make Dominican support an important factor to advance U.S. priorities. Failure to implement Objective 1.3 would hinder U.S. efforts to advance human rights, democracy, and prosperity in the region. Key risks to achieving Objective 1.3 include: 1) Continued instability in Haiti and further deterioration of the economic or security situation, could lead to a mass migration event, and would distract the Dominican government from other priorities. 2) As the 2024 elections approach, some facets of Objective 1.3 could be deemed politically risky or unpopular with the Dominican public causing political instability in the DR. 3) Other actors, such as China, could try to exact competing multilateral commitments from the DR through debt relief or other forms of assistance that could require a weakening government willingness to pursue democratic strengthening and consolidation. To help mitigate these risks, the Mission will support the Dominican government's efforts to align with governments in the region to address regional issues, including instability in Haiti; and will undertake

activities that demonstrate the strengths of pluralism in democratic societies and continued dialogue with the government and citizens.

**Mission Goal 2 | A secure and healthy Dominican Republic that supports U.S. security**

**Description |** U.S. national security is intrinsically linked to the Dominican Republic's ability to address its security challenges given its close proximity and strong bilateral ties with the U.S. Protecting the nearly 300,000 U.S. citizens who reside in the country and the approximately three million U.S. citizen tourists who visit annually is the top priority of Embassy Santo Domingo. Thousands of Dominicans travel to the United States each year, boosting the U.S. economy but also requiring careful measures to protect the United States from irregular travel and the impact of illicit network activities. Most of the illegal narcotics transiting the Caribbean basin pass through the Dominican Republic before being smuggled to the United States. Dominican transnational criminal organizations (TCO) have well-established relationships with South American and Mexican TCOs and maintain their own supply chains, enabling Dominican TCO control of much of the mid-level distribution of cocaine and heroin in the northeastern United States. These criminal networks also participate in illicit financial activities, and human and weapons smuggling, posing additional threats to both regional and U.S. national security. Bolstering the Dominican health system's capacity to minimize the spread of infectious diseases, controlling the spread of HIV/AIDS, and keeping destructive and dangerous invasive species out of the United States are key to protecting the American people and economy. At the community level, organized crime and inadequate criminal justice systems undermine rule of law, enhance citizen insecurity, and disproportionately affect marginalized, underserved, and underrepresented populations. Mission programming directly protects U.S. national security by confronting these threats through capacity building that targets Dominican defense, security, and health services institutions.

This goal supports the Interim National Security Strategy Guidance goal of protecting the security of the American people; the State/USAID Joint Strategic Plan(JSP) Goal 1: renew U.S.

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leadership and mobilize coalitions to address the global challenges that have the greatest impact on Americans' security and well-being; Joint Regional Strategy Objective 3.1: protect U.S. citizens and ensure secure borders; JSP Goal 5: serve U.S. Citizens around the world and facilitate international exchange and connectivity; UNAIDS Global AIDS Strategy 2021-2026; the forthcoming U.S. National Strategy on HIV/AIDS; and the U.S. COVID-19 Global Response and Recovery Framework.

### **Objective 2.1 | Enhanced Citizen Security**

- **Justification |** The public's distrust of the police due to high levels of corruption and disproportionate use of force was exacerbated by several extrajudicial killings of innocent Dominicans by the Dominican National Police (DNP) in 2021. This created a breakdown in the essential cooperation between the police and public that underpins effective public security efforts. Municipal-level violence has notably risen as a result. This situation is made more difficult by the Dominican Republic's standing as a major transit point for illegal drugs, migrant smuggling, and human trafficking to the United States and as a hub for illicit network operations. The Abinader administration responded by launching its National Citizen Security Strategy (NCSS) in March of 2021 to address citizen security and implement needed police reforms. The NCSS called for national level DNP policy and regulation changes that will target 16 municipalities through 2025. The Mission will support the GODR's efforts to enhance citizen security by supporting the NCSS implementation, assisting in the transformation of the Dominican National Police, supporting other government institutions devoted to improving citizen security, engaging with civil society at the municipal level to strengthen working relationships with the police, expand citizen security capabilities to ungoverned spaces to include the Haitian border, and addressing the drivers that push at-risk youth towards criminal activities. Improving citizen security in the Dominican Republic also requires a coordinated, collaborative Mission approach that improves the effectiveness, accountability, and transparency of the criminal justice system as a government response to deter crime.



- **Linkages** | Citizen security and reduced community-level violence is the foundation for improving the livelihood of Dominican citizens, ensuring democratic practices, and improving the investment and business enabling environment. Objective linkages are the State/USAID Joint Strategic Plan Goal 1, Strategic Objective 1.4- Peace and Security; the GODR National Citizen Security Plan, US citizens visiting and residing in D.R; and USAID's CDCS IR1.1, 1.2, 2.1, 3.1.
- **Risks** | Much of the successful consolidation of democratic gains achieved in the 2020 elections and the economic growth the Dominican Republic has generated over the past 20 years rests on the achievement of MO 2.1. Addressing long-standing Dominican citizen security concerns is therefore one of the current government's key initiatives. While cognizant of the difficulties the initiative faces, and despite working more comprehensively with local, national, and international actors than previous governments, underlying factors such as economic and social inequality, socio-economic exclusion of marginalized populations (particularly of Haitians and Dominicans of Haitian descent, public distrust, and endemic corruption can undermine these key efforts. The political environment is also unsettled, a reality manifested in Congress' fragmentation and delays in dealing with fundamental reform legislation to address chronic corruption, cronyism, and inequality. At the municipal/community level, these issues, along with inconsistent application of the law and general distrust of the police handicap coordination with local security forces, undermining efforts to improve livelihoods and citizen security. On a global scale, the Dominican Republic ranks poorly on transparency and corruption indices. At the regional level, the Dominican Republic has low levels of literacy and high risk-factors among youth which lead to crime and violence. Quality data (both type of data and coverage) is limited, impacting the ability of decision makers to make informed decisions. Greater incursion of TCOs at the local level could jeopardize government efforts to improve citizen security. Current GODR investment in citizen security has led to initial success; however, budget challenges could lead to a reduced GODR investment that might diminish the policy's impact.

To mitigate the obstacles to achieving this Mission Objective, the USG must maintain its communication and coordination with all levels of the GODR, Dominican security entities, civil society, and international donors to ensure that this GODR policy priority receives the required attention and funding. Establishing citizen security is a permanent agenda item during the USG/GODR High Level Dialogue will help. Embassy scrutiny of PRC investments in this sector will be necessary to determine diplomatic mitigation approaches.

**Objective 2.2 | Improved Consular service Delivery and emergency preparedness that supports U.S. citizens and regularized migration patterns**

- **Justification |** In 2021, more than 343,000 Dominicans traveled to the United States as nonimmigrant visitors and an average of nearly 50,000 immigrate to the United States each year. As the Dominican Republic's tourism sector rebounds, U.S. citizens continue to account for the highest volume of travelers, visiting the country at above pre-pandemic levels that were approaching 3 million per year. The large flow of two-way travel between the two countries has significant economic benefits to the United States, but also creates a large risk of fraud and other vulnerabilities. Protecting the integrity of the U.S. immigration system through effective and efficient travel facilitation and partnership to enhance host country capabilities prevents harm to the United States and its citizens from criminal activity. Additionally, given the high-level attention consular and migratory issues have in bilateral discussions, timely, consistent, and transparent consular service delivery plays a crucial role in advancing other Mission policy priorities.

The Mission will work to decrease the risks faced by U.S. citizen residents and travelers including crime, natural and environmental disasters, and substandard medical care by preparing for and responding to emergency situations. Additionally, the Mission will help ensure that U.S. citizens are adequately informed of these risks and provide resources to increase their safety and health in the Dominican Republic. The Mission will address the severe consequences of service shutdowns during the pandemic and provide consular services in accordance with highest service standards, pressing for

more resources to facilitate travel, reunite families, and ensure the safety and security of U.S. citizens in the Dominican Republic

- **Linkages** | JRS Objective 3.1 Protect U.S. citizens and ensure secure borders, JSP Goal 5: Serve U.S. Citizens around the world and facilitate international exchange and connectivity.
- **Risks** | COVID-related backlogs in Non-immigrant and Immigrant visa services are untenable. The backlogs already significantly impact the reunification of families of U.S. citizen immigrant visa petitioners, and non-immigrant travel that bolsters economic linkages and U.S. travel and tourism. Not achieving the objective will further compound existing backlogs, exacerbate the economic damage of reduced travel, hamper our ability to assist U.S. citizens during crises, and drive-up irregular travel and the national security vulnerabilities it brings. Should the DR face an economic downturn the pressure for irregular migration could increase dramatically, threatening to undermine progress in reducing overstay rates and combatting- visa fraud and misuse of valid visas.

To mitigate the obstacles to achieving this Mission Objective, the USG must increase the capacity for consular services in the near term. The Embassy will conduct an aggressive review of activities and procedures to maximize efficiency and utilization of new tools and regulatory flexibility, as well as advocate for resources to accelerate backlog reduction. The Embassy will work towards milestones under this Mission Objective through frequent engagement with host government counterparts, the Bureau of Consular Affairs, U.S. Government agencies, and Mission agencies with related equities.

**Objective 2.3** | Security and Defense Services Disrupt and Dismantle TCOs and Illicit Networks

- **Justification** | U.S. law enforcement agencies estimate 90 percent of cocaine trafficked through the Caribbean corridor en route to the United States transits the Dominican Republic. Drugs and other illicit substances bound for Europe also pass through the Dominican Republic in containers transshipped through its ports servicing the European market. TCOs also transport illicit substances through their

migrant smuggling networks. Dominican TCOs have well-established relationships with South American and Mexican TCOs and maintain their own supply chains, enabling Dominican TCO control of much of the mid-level distribution of cocaine and heroin in the northeastern United States. Relatively low levels of violence given the estimated drug flow indicates that systemic corruption remains a significant hurdle to disrupting trafficking and other transnational crime. The GODR seized a record level of drugs in 2021 and oversaw several successful law enforcement actions against TCO networks and their operatives. The USG must capitalize on historically high willingness by the GODR to cooperate with U.S. law enforcement in these joint efforts to accelerate future gains in combating TCO activities. U.S. programming and interagency efforts in the Dominican Republic under the Caribbean Basin Security Initiative (CBSI) focus on combating transnational crime, countering corruption, and strengthening rule of law by bolstering the capacity of the DR security and defense services to disrupt, dismantle, investigate and prosecute transnational criminal organizations and other criminal entities that pose a threat to U.S. national security. Specifically, the Mission aims to combat illicit TCO activities in the areas of financial crimes, cybercrime, narcotics trafficking, weapons trafficking, human smuggling and trafficking, trade fraud, and intellectual property crimes.

- **Linkages** | This mission goal supports U.S. national level strategies prescribed in the U.S. National Drug Control Strategy, Caribbean Border Counternarcotics Strategy, Western Hemisphere Joint Regional Strategy, and the Interagency CBSI Framework – including efforts tied to U.S. Citizen Security Priorities and Programs. Key linkages at the regional/country level include the Caribbean Basin Security Initiative (CBSI) and the State USAID Joint Strategic Plan, Goal 1 Strategic Objective 1.4- Peace and Security.
- **Risks** | Permitting TCOs and illicit networks to operate with impunity in the Dominican Republic would result in increased crime and citizen insecurity and pose a grave threat to U.S. national security by expanding their role as a steppingstone for illicit narcotics, weapons, people, and money in close proximity to the U.S. mainland. The TCOs could exacerbate DR's high levels of corruption, and low governance

accountability and transparency to erode the democratic gains the DR has made. Mexican cartels to date do not have a strong presence in the DR, but if impunity were to continue, their footprint and operations in the DR could increase, to include the introduction of synthetic drugs into the DR drug shipments bound for the U.S. Increased domestic drug use could destabilize societal conventions and security, leading to economic decline and public health challenges. Adversaries could look to align themselves with an increased TCO presence in the DR to destabilize DR's democracy and achieve illicit gains through cybercrime activities. To mitigate the obstacles to achieving this Mission Objective, the USG must build institutional resiliency to corrupt influences by focusing some of its work on internal affairs. Additionally, buttressing the GODR's counter narcotics (CN) investigative and prosecutorial capabilities could impede potential inroads by other TCOs. Continued engagement by the USG with the GODR through tabletop exercises, joint activities, and training and equipment efforts will maintain strong GODR political will. The introduction of U.S.-supported drug demand reduction programming could help address increased drug use in the DR.

**Objective 2.4 | Public Health Capacity Increased and Threats from Pandemic Infectious Diseases Decreased**

- **Justification |** Now two years into the COVID-19 pandemic, health is front and center among global priorities and those of the Dominican Republic. Health system capacity to respond to these threats and mediate their impact is critical to protect the health and well-being of the Dominican Republic's citizens and to prevent spread across borders to the U.S. and other countries. Countries with healthy populations are more likely to be productive, prosperous, and peaceful. Identifying and minimizing the spread of infectious diseases, including COVID-19, HIV/AIDS, and African Swine Fever (ASF) is key to protecting the American people and economy.

In the Dominican Republic and other countries, the U.S. President's Emergency Plan for AIDS Relief (PEPFAR) aims to achieve sustained epidemic control of HIV while also contributing to greater global health security to end the global AIDS epidemic as a public health threat. In the Dominican Republic, PEPFAR will continue to focus investments on providing high quality prevention, care, and treatment services to Haitian migrants and their descendants, who are disproportionately affected by HIV/AIDS and are less likely to access services, to help the country achieve epidemic control. In the Dominican Republic, there is FY2022 - FY2023 stigma and discrimination towards Haitian migrants, Dominicans of Haitian descent, and those perceived to be Haitian that impact access to health services, threatening their human rights and health outcomes. For example, in November 2021, President Abinader announced a resolution to "limit access to public hospitals across the country by illegal immigrants, except in emergency situations." The U.S. Government continues to identify opportunities to understand and address these challenges to ensure achievement of Mission Objective 2.4. The U.S. Government will also support the Ministry of Health to ensure commodity security, effective policy development and implementation, use of strategic information, effective human resource management, and laboratory capacity to advance the country's HIV program.

The U.S. Government will provide technical and financial assistance to strengthen the country's capacity to prevent the spread and minimize the impact of the COVID-19 pandemic, which in turn will support a health system that is more prepared to respond to other public health and global security threats. This includes support to the Ministry of Health to strengthen epidemiological surveillance systems and tools, genomic sequencing, equitable and widespread vaccine distribution, contact tracing, and clinical interventions to detect, manage, and treat COVID-19.

ASF is an animal health emergency in the Dominican Republic and Haiti. While it does not threaten human (public) health, it does threaten economic stability, agricultural trade (estimated to be over 1.6 billion in 2019), and socio-economic and food security. It also risks marginalizing at-risk populations and perpetuating corrupt agricultural practices and policies and presents a severe risk to U.S. agriculture should it enter the

United States. U.S. Government technical and financial assistance for eradication of ASF will mitigate these threats, build increased capacity and resilience for disease and crisis management, and improve the Dominican Government's fiscal accountability.

Mission objective 2.4 supports Mission Goal 3 given the close proximity to the U.S. and global threat of domestic health threats, including HIV/AIDS, COVID-19, and ASF. The direct costs associated with HIV/AIDS and COVID-19 include serious implications for health care budgets, overburdened health systems, and higher medical costs for those with the diseases in addition to the broader pandemic impact of COVID-19 on the Dominican education system, tourism, and the economy. Indirect costs are associated with the losses to the economy, and to patients and their families, including the loss of current wages, the cost of absenteeism, and the loss of household savings due to illness.

- **Linkages** | Mission objective 2.4 will align and support multiple high level strategies and policies, including the Sustainable Development Goal 3 of ending the global AIDS epidemic as a public health threat by 2030, the UNAIDS Global AIDS Strategy 2021-2026, the forthcoming U.S. National Strategy on HIV/AIDS, the U.S. COVID-19 Global Response and Recovery Framework, the Global Health Security Agenda, State-USAID JSP Goal 1, Strategic Objective 1.1: Leadership in strengthening global health security, and USAID's CDCS IR1.2, 2.2, 3.2.
- **Risks** | There are multiple risks the Mission faces in achieving this objective. In the case of HIV/AIDS investments, HIV prevalence, transmission, and mortality could increase significantly, particularly among the highly vulnerable Haitian migrant population in the Dominican Republic – further exacerbating the social and economic exclusion of this marginalized group. As a result, the Dominican Republic would face grave challenges in achieving epidemic control. In the case of COVID-19 and other pandemic threats, transmission and illness could increase, thus impairing the country's health system capacity to respond to those and other health threats and increasing the risk of transmission to the U.S. and other countries around the world. Not only would this impact health outcomes, but it would have rippling effects on tourism, education, and the economy. Failure to eradicate ASF would threaten the US pork sector (a \$20

billion industry supporting more than half a million jobs). It would also provide an opportunity for PRC criticism of USG motivations and methods and an opening for direct PRC assistance, including unsafe vaccines. Further, it would risk the food security and economic well-being of Dominican farmers. GODR federal budget shortages could reduce required GODR investments in the health sector and impact its ability to combat increased disease transmissions.

To mitigate these risks, the USG must ensure that its foreign assistance is targeted and impactful. The Mission has established an interagency sub working group devoted to health-related foreign assistance coordination and the Embassy's Front Office will continue to engage with GODR leadership to encourage transparency, collaboration and investment that is required.

### **Mission Goal 3 | An economically stable Dominican Republic that that remains a strong U.S. commercial partner**

**Description |** Over the last two decades, the Dominican Republic has been one of the fastest growing economies in Latin America. Its strong growth has reduced poverty, facilitated greater volumes of bilateral trade and investment with the United States, led to growing tourism and cultural exchanges between the two countries, and has established the Dominican Republic as a model for the region.

However, the viability of these trends is at risk due to a number of structural shortcomings. Endemic corruption and weak governance damage perceptions of the business climate, hold back the country's development, and disadvantage U.S. firms. These shortcomings create openings for authoritarian actors whose investments lack high-standards, transparency, and competitiveness. Environmental degradation and vulnerability to climate change threaten the country's biodiversity and the sustainability of some of its key industries, notably agriculture and tourism. Fraud and organized crime, including narcotics trafficking, undermine legitimate trade and travel between the Dominican Republic and the United States. Structural inequality and the treatment of workers of Haitian descent, especially in the agricultural sector, raise

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questions about the Dominican Republic's compliance with the letter and spirit of the DR-CAFTA trade agreement.

Mission Goal 3 seeks to identify a range of activities the mission can take to reverse these trends and ensure the country's continued strong growth benefits all its citizens, while maintaining the United States' status as the Dominican Republic's top trade and investment partner.

**Objective 3.1 | Critical infrastructure is protected from capture by anti-democratic actors**

- **Justification |** It is essential that the Mission, in coordination with the Government of the Dominican Republic, takes a proactive approach towards securing critical infrastructure, ensuring that there is limited space for non-market-based actors to gain further ground in controlling and developing these assets. For several years, the People's Republic of China have been aggressive in competing for control of critical infrastructure across the Caribbean. In the Dominican Republic they have already had success expanding their influence into software and ICT through Huawei's dominant role in supplying equipment for the 5G network.

The Dominican Republic is the U.S. Government's most important trading partner in the Caribbean and, if we can succeed in building a robust investment screening process, can serve as an example to the region of the economic and security benefits that come with managing critical infrastructure assets in accordance with market-based principles. Additionally, The Dominican Republic is a key partner in combating illegal trafficking of goods, illegal immigration, and other national security priorities. It is therefore vital to US interests that, in addition to market driven influence for conventional critical infrastructure like roads, bridges, or ports, that modern infrastructure such as port scanners, cyber security hardware and software, and other monitoring equipment be built and developed by market driven, and ideally U.S.-based, solutions. Projects led by anti-democratic actors, such as those offered consistently by companies with links to the PRC, would undercut the security of these operations and lead to diminished USG

ability to work with our local partners to monitor and intercept illegal activity in the region.

- **Linkages |**

- JSP 2.1.1, 2.3.1
- JRS 3.3.2, 4.1.1, 4.1.2, 4.1.3, 4.2.1, 4.2.2
- Interim National Security Strategy, pages 17-18
- July 18, 2021, White House “National Security Memorandum on Improving Cybersecurity for Critical Infrastructure Control

- **Risks |** Allowing non-democratic state actors to exert further influence in critical infrastructure in the Dominican Republic could undercut a variety of U.S. policy positions. Without a sufficient US response, Chinese entities could continue to gain control of key pieces of other critical infrastructure, such as power generation facilities, key transportation assets and nodes, and identity management systems the government relies on to provide citizen services. To mitigate this risk, we will advertise tender processes to U.S. firms and use high-level advocacy, technical assistance, and U.S. Government reporting to promote fair and transparent bidding procedures, in order to ensure U.S. firms operate on a level playing field with their competitors.

Well before the COVID 19 pandemic, anti-democratic actors like the PRC were already providing an alternative stream of resources to developing economies in the region via low interest rate loans or other favorable financing for large public projects; such projects were often also awarded to large Chinese State-Owned Enterprises. These financial mechanisms and direct Chinese investments into key infrastructure projects have often been tied to specific Chinese geopolitical positions, such as favorable treatment of Chinese investments, or change in posture towards Taiwan.

Although the Dominican Republic’s economy was not as heavily impacted as other countries in the region by COVID, it still finds itself in a difficult financial position and is thus unable to fund and adequately manage many needed improvements in Dominican infrastructure, from broadband access to critical ports and other transportation initiatives. Without increased support from the Mission’s interagency team, there is

significant risk that the Dominican Republic will be forced to look more closely to Chinese and other less transparent infrastructure solutions to meet its development needs. To mitigate the obstacles to achieving this Mission Objective, the USG must continue to maintain open avenues of communication with the Dominican government, creatively develop and provide viable favorable options for infrastructure growth and financing, and support increased technical capacity and resilience to disasters that impact infrastructure growth. We will seek to maximize the Dominican Republic's eligibility for financing through U.S.-sponsored entities like the Development Finance Corporation, as well as international finance institutions like the Inter-American Development Bank.

**Objective 3.2** | Threats from climate change and other environmental challenges are countered and disaster resilience enhanced

- **Justification** | The Dominican Republic is one of the fastest growing economies in Latin America, but its economy depends on an energy matrix that is overwhelmingly skewed towards fossil fuels. The government is interested in pursuing more renewable energy but has yet to be convinced of the commercial viability of solar and wind energy. The Dominican government would like to be a regional leader and has shown it can be supportive of U.S. positions in international fora.

As a small island nation, the Dominican Republic is extremely vulnerable to Global Climate vulnerability. According to the German watch 2016 - Climate Risk Index, the Dominican Republic ranks eleventh among the countries in the world most affected by weather events (with neighboring Haiti ranked 3rd worldwide). This vulnerability will only worsen as climate variability continues to bring more extreme storms, landslides, floods, and droughts, as well as slower climate variability effects, such as sea level rise and a gradual reduction in water quality and quantity. In the Dominican Republic, climate variability is already negatively impacting the stability of the freshwater supply, agroecological systems and critical coastal resources important for disaster risk reduction, food security and economic growth, with disproportionate

effects on vulnerable populations and the tourism industry.

In the largest Dominican cities, Santo Domingo and Santiago, climate variability will bring more intense storms and increase flooding risk, endangering the lives and livelihoods of the hundreds of thousands of urban poor living illegally along the cities' riverbanks and negatively impacting already tenuous access to potable water.

Vulnerable coastal populations and tourism investments are also threatened by global climate variability impacts. Coral reefs along the island's coastline are badly deteriorated, with over 60% already dead. With a one-meter rise in sea level (the middle of the range predicted by the end of the century), almost 200,000 people in the Dominican Republic would be affected by permanent flooding. Of more immediate concern, higher intensity hurricanes are likely to cause catastrophic damage to key watersheds and food growing regions, negatively impacting food security for the Dominican Republic and Haiti, and exports to the United States and the EU.

- **Linkages |**

- JSP 1.2.1; 2.3.1; 2.4.1; 2.4.2; 2.4.3
- JRS 4.1.1; 5
- CDCS IR1.2, IR2.2, IR3.2
- Interim National Security Strategic Guidance pages 11-13. 17-18

- **Risks |** It is expected that the FY2022 - FY2023 impacts of the COVID-19 pandemic will be a major risk factor for implementation of Objective 3.2 due to the external shocks (natural, financial, economic) that have adversely affected GODR capacity to advance or finance key programs needed to address priority development issues related to this objective. As the government prioritizes the economic recovery, it could defer on opportunities to transition to clean energy that it sees as in conflict with economic growth. Further, climate change, natural, and environmental impacts or shocks (hurricanes, earthquakes, drought, flood, pests, etc.) will continue to worsen and damage infrastructure and livelihoods. Communities are facing economic and food security impacts due to COVID-19. Also, the instability in Haiti has also slowed down or prevented transboundary collaboration and has exacerbated the migration of Haitians

into the Dominican Republic in search of better safety and better life opportunities. This has created tension in bilateral relations and within communities. To mitigate the obstacles to achieving this Mission Objective, the USG must continue to support increased technical capacity and resilience to the impacts of natural disasters, assist with environmental and natural resources, and maintain strong communication and coordination with Dominican military, emergency operations organizations, and environmental management entities.

**Objective 3.3 | Rules-based commerce and investment enables mutual prosperity and reduces corruption**

- **Justification |** trade and travel linkages. There are gaps in the government’s implementation of DR-CAFTA that disadvantage U.S. exports. Widespread fraud challenges consular officers’ ability to differentiate between legitimate and illegitimate travel, contributing to a high nonimmigrant visa refusal rate. Illegal drugs and proceeds from narcotics trafficking, fueled by corruption, intermingle with legitimate trade. Perceptions of corruption and weak rule of law undermine the investment climate and discourages U.S. foreign direct investment. Meanwhile, while the United States remains the Dominican Republic’s top trade partner, the People’s Republic of China is challenging our position. The PRC – which has already eclipsed the United States to become the top trade partner of most countries in South America – takes advantage of institutional shortcomings like corruption and opaque contracting processes to secure commercial and investment opportunities for its firms.

In order to push back against these trends and remain the partner of choice is to promote clear rules, it is important for the U.S. to take steps to promote a level playing field for U.S. firms, and enforcement to penalize firms and individuals who impede rules-based commerce and travel through criminal activities like fraud, corruption, and narcotics smuggling.

- **Linkages |**
  - JSP 2.1.1, 2.1.4, 2.2.1, 2.2.4, 3.2.3

- JRS 4.1.1, 4.1.2, 4.2.1, 4.2.2, 4.3.1, 4.3.2, 4.3.3
- Interim National Security Strategic Guidance, pages 15-18; 19; 20-21
- April 26, 2021, White House “Executive Order on Worker Organizing and Empowerment”
- October 14, 2021, Statement from Secretary of the Treasury Janet L. Yellen for the Joint IMFC and Development Committee
- **Risks** | Absent meaningful fiscal reform, the Dominican Republic’s large public debt burden could undermine the country’s macroeconomic stability, discourage foreign investment, and leave the country vulnerable to offers of debt relief that come with strings attached that are not in the country’s interests or ours. To mitigate this risk, we will use available assistance and high-level advocacy to promote policies that are fiscally sustainable.

DR-CAFTA has been largely successful, but the liberalization of rice trade could displace Dominican farmers and turn public opinion against the trade agreement. To mitigate this risk, we will encourage the Dominican government to help transition rice farmers to other crops, and we will use public diplomacy to highlight the other benefits of CAFTA-DR, as appropriate.

Higher trade and travel volumes between the Dominican Republic could raise risks of immigration fraud and drug trafficking. To mitigate this risk, consular and law enforcement agencies will continue to work with the Dominican government to increase its capacity to crack down on fraud and illegal activities.

The 2024 election could bring to power a government that is more protectionist and/or hostile to foreign trade and investment. Heightened trade with the PRC could displace U.S. exports and investment and worsen the problem of pervasive corruption. To mitigate these risks, we will work with both the government and with all political factions to explain the benefits of CAFTA-DR and to reinforce the importance of fair, transparent, and predictable regulations governing foreign trade, licensing and permitting procedures, and public procurement.

## 4. Management Objective

**Management Objective 1** | A more equitable, efficient, safe, and healthy workplace for all staff enables a more effective Mission.

- **Justification** | The Mission currently maintains ongoing operations in Santo Domingo and consular agencies in Puerto Plata and Punta Cana. The Dominican Republic is in a Zone 4 seismic area, the highest possible rating for the potential of a severely damaging earthquake. Combined with the island's susceptibility to hurricanes (the season for which generally spans May to December), post's posture must account for an extremely high risk of natural disaster with catastrophic failure of infrastructure. Emergency preparedness activities, including broader utilization of SAFE for accountability, managing exercises that test our responsiveness, and continual upkeep of emergency supplies and training efforts are extremely resource intensive. Post's elevated emergency preparedness workload and chronic under-resourcing (most acutely in the RSO section) constrain post's ability to keep up and remain adequately prepared. Establishing an emergency preparedness coordinator will help to close this chronic gap and improve post's preparedness baseline.

While our Chancery and an OBO-built residential compound meet construction seismic standards, the Mission leases more than 50% of the housing pool, consisting of 160+ residences. After a 10+ year project following the 2010 Haiti earthquake to eliminate seismically unsound housing from the housing pool, post's housing includes a significant number of high-rise apartments that do not meet SHEM fire/life safety standards, documented through the mitigation letter process. Post has determined, in consultation with OBO, to remove and replace high-rise apartment units above the fourth floor or that are otherwise inaccessible to host nation emergency response. However, the housing market in Santo Domingo is exceptionally constrained (as demonstrated in the difficult, decade-long effort to replace seismically unsound properties). Post has been unable – after extensive searches – to locate sufficient off-compound housing to meet its housing needs in a manner that is compliant with both

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seismic and fire/life safety standards. The chronic shortage of available housing is exacerbated by Post's continuing growth (10-12 USDH positions in 2022 alone). Post will work to increase its rental benchmark limits, advertise more broadly for housing via social and traditional media, and use other means to find adequate, appropriate housing, which allows post additional flexibilities in leasing residences that conform to basic fire safety standards.

The COVID-19 pandemic has had a profound effect on our staff and our management, effectively changing the way that many of us work and the way we think about our workplace needs. Viewing the "reset" offered by the gradual return to the physical workplace as an opportunity to reinvent our workplace, we will focus on better incorporating specific staff needs into Mission Santo Domingo. The country team, management section, and post's Inclusivity, Diversity, Equity, Accessibility, and Accountability (IDEAA) Committee are focused on institutionalizing a culture of Diversity, Equity, Inclusion, and Accessibility in our workplace. Internal lines of effort include establishing dedicated resources for DEIA activity, training, education and awareness-building, community-informed reviews to mitigate entry points for bias in internal services and policy-making, and intercultural activities. Post's Talent Care Committee will focus on improving the workplace, including working conditions, staff development and training, policies and processes, communications, new technologies, and other workplace wellness needs. The LE Staff Committee will be reinvigorated with the introduction of bylaws, broader participation, and regular direct access to the Front Office and Management to discuss specific concerns faced by our LE staff.

- **Linkages |**

- JSP Goal 4, Objective 4.1, Sub-Objective 4.1.3., Objective 4.2, Sub-objective 4.2.3., Objective 4.3, Sub-objectives 4.3.2, 4.3.3, 4.3.4
- JRS Management Objective
- E.O. 13985: Executive Order on Diversity, Equity, Inclusion, and Accessibility in the Federal Workforce

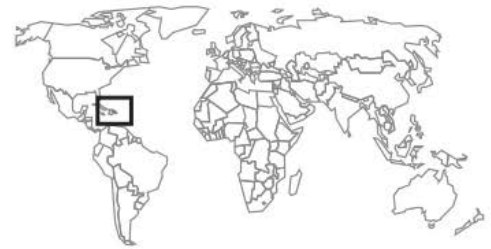


- **Risks |** Inadequate emergency preparedness risks the loss of life and/or property and accompanying significant degradation in mission readiness. High volumes of TDY travelers risk isolation or inability to be served by post emergency response without strong COM accountability procedures. Inadequate stock of supplies to sustain Post's own emergency team would also result in an inability to meet a core requirement to provide assistance to private U.S. Citizens in the event of a major crisis. Post mitigates this risk by reviewing supplies regularly and ensuring supplies are dispersed properly and updated as needed. Annually, staff turnover is around 30 percent, meaning that personnel well-trained in crisis preparedness and management are constantly departing. Post mitigates this risk by drilling regularly and utilizing a variety of exercises to ensure constant training of our team. Creation of the full-time emergency preparedness coordinator position is the most important aspect of how post plans to best mitigate these risks.

Insufficient housing poses a risk to the Mission's ability to meet its foreign policy goals and objectives in Dominican Republic and regionally. Without sufficient housing, personnel needed by agencies at post may not be able to transfer to post or agencies will be forced to house them in hotels at greater expense and lower long-term comfort. Post mitigates this possibility by adjusting its outreach and advertising for residences while seeking mitigation for fire safety requirements through an OBO-approved mitigation letter.

Failure to address inequitable and exclusive workplace practices, or to adapt to late- and post-pandemic workforce realities risks the Mission's ability to fully draw on the diverse talents of our team to further our mission; greater attrition in our workforce; and continued challenges in attracting the highest quality, diverse pool of potential employees. To mitigate these risks, we will invest in our people and workplace flexibilities; including active DEIA programming that addresses policy, community engagement, and education; updating recruitment, hiring, and retention practices; leveraging best practices to expand workplace flexibilities and virtual work options;

promoting improved work-life balance; and supporting continued resilience among our workforces.



Boundary representations are not necessarily authoritative.

## BACKGROUND

### Land and Climate

The Dominican Republic occupies the eastern two-thirds of the island Hispaniola, which it shares with Haiti. It is slightly larger than Denmark, or about twice the size of the U.S. state of New Hampshire. The central mountain range, Cordillera Central, boasts the highest point in the Caribbean, Pico Duarte, at a little more than 10,000 feet (3,048 meters). The Cibao Valley lies in the heart of the country and is the major agricultural area.

The Dominican Republic has a variety of landscapes, from deserts in the southwest to alpine forests in the central mountains. Sugarcane fields spread over coastal plains in the north and east, and coconut plantations cover most of the tropical peninsula of Samaná. Pebble beaches under rocky cliffs afford spectacular views on the southern coast. Elsewhere, white sandy beaches and warm waters dominate the coasts.

Weather generally is tropical, hot, and humid, especially along southern and eastern coasts. Temperatures average above 90°F (32°C) during summer months, with August being the hottest. A dry, desert-like climate, due to deforestation and little rainfall, prevails in western and southwestern regions. The rainy season, when the temperature drops to around 70°F (21°C), generally runs from December to March but may vary in different parts of the country.

## History

### Original Inhabitants and Colonization

In pre-Columbian times, Arawak and Taíno Indians occupied the island. The arrival of Christopher Columbus in 1492 brought colonization, slavery, and disease, decimating the Native population within decades. With the decrease in the Indigenous workforce came the increased demand for enslaved West Africans to provide labor at mines, sugar plantations, and cattle farms. The capital, Santo Domingo, was the first permanent European settlement in the New World and was established by Spain in 1496. In 1586, the British pirate Sir Francis Drake briefly occupied the city of Santo Domingo before collecting a ransom in exchange for its return to Spanish rule.

### Haitian Dominance and Independence

In 1697, the western portion (now Haiti) of Hispaniola was given to France. In 1795, France gained control of the entire island. Enslaved people rebelled and seized control of the island in 1801 and established Haiti as the first independent country in the region. The resulting Haitian domination of the island (1822–44) left a legacy of mistrust and strained relations that still endures.

The Dominicans declared independence from Haiti in 1844 but struggled to form a local government. Spanish rule was restored from 1861 to 1863 but was once again abolished after popular uprisings. To quell civil unrest in the country, U.S. Marines occupied the Dominican Republic from 1918 to 1924, until a constitutional government was established.

### Trujillo's Rule

Military dictator Rafael Leónidas Trujillo gained the presidency in 1930 and ruled for three decades, until he was assassinated in 1961. His merciless persecution and massacre of Haitians in the late 1930s added to the list of grievances between the Dominican Republic and Haiti. His death brought civilian unrest, political revolt, and division within the army. In 1965, U.S. Marines and peacekeeping forces from other countries in the region stepped in. With stability restored, elections were held, and in 1966 the constitutional government was reestablished. Continuing under this system, today's Dominican Republic is the largest and most populous democracy in the Caribbean region.

#### **Political Transitions**

An ally of Trujillo, Joaquín Balaguer, was nominally appointed president in 1961 but did not take office until 1966. For the next three decades, power rested in either his hands or those of his rival, Juan Bosch of the Dominican Liberation Party (PLD). As head of the Social Christian Reformist Party (PRSC), Balaguer narrowly won the 1994 elections and began his sixth term in office. Constitutional reforms required elections two years later and did not permit Balaguer to run for a successive seventh term. Regular democratic elections have been held since then, with subsequent governments implementing economic reform and greater political openness.

#### **Current Challenges**

The relationship between the Dominican Republic and Haiti remains contentious, particularly when it comes to immigration and citizenship; hundreds of thousands of Haitians live and work in the Dominican Republic, and many more cross the border illegally each day seeking employment. In 2013, a controversial court ruling stripped the citizenship of Dominicans born to undocumented foreign parents. The ruling mainly affected some 200,000 Dominicans of Haitian descent, who found themselves unable to access basic services such as education and health care or exercise rights like voting and registering marriages and births. Following an international outcry, the government agreed to allow a path to citizenship, but only a small number of eligible people completed the complicated, expensive process by the June 2015 deadline. This led to mass deportations and statelessness among those who remained. Deportations have increased in recent years, and Dominican troop levels along the Haitian border have grown as a further attempt at preventing the passage of undocumented migrants who continue to flee instability in Haiti and fill the demand for low-wage workers in the Dominican economy.

The country's economy has been robust for several years, thanks in large part to its tourism industry and free-trade zones. However, the Dominican Republic continues to struggle with a high rate of poverty and a dramatic gap between the rich and the poor. Improving the economic well-being of its people remains a major challenge for the government.

## **THE PEOPLE**

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### **Population**

People of mixed race account for about 70 percent of the total population; about 16 percent is Black, and 14 percent is Caucasian. The mixed-race group is a combination of descendants of Spaniards and other Europeans, enslaved West Africans, and perhaps some Indigenous peoples. A Haitian minority is included in the Black population.

About 27 percent of the population is younger than age 15. The rural population is steadily decreasing as people migrate to cities; today, most of the population lives in urban areas. Santo Domingo, the capital city, has roughly 3.4 million residents. Additionally, the largest Dominican population outside of Santo Domingo is found in New York City.

### **Language**

The official language is español (Spanish), but unique phrases, accents, and regional expressions give Dominican Spanish a distinct personality. For example, when eating, people request *un chin* instead of the Spanish *un poquito* (a little bit) of something. The familiar Spanish form of address *tú* (you) is preferred over the more formal *usted*. Many people drop the *s* at the end of words, turning *dos* (two) into *do'*. Cibao Valley residents, or *Cibaños*, and inhabitants of Santo Domingo, or *capitaleños*, may pronounce the *r*, *l*, or *i* differently. Some Haitian creole (a unique mixture of French and African languages) is spoken near the Haitian border and in the *bateys* (sugarcane villages), where many Haitian workers live.

### **Religion**

Nominally, 44 percent of Dominicans are Roman Catholic, but a much smaller number regularly attend church or strictly follow doctrine. Especially in rural areas, Catholic traditions are sometimes combined with local practices and beliefs. Although Dominicans are fairly secular, Catholic traditions are evident in daily life and affect life events, such as weddings and funerals. Catholic priests often attend public events and special occasions to perform a blessing. Many houses contain artwork portraying the Virgin Mary and other saints, thought to protect the home's occupants. Some children are taught to "ask blessings" of their parents and other relatives upon seeing them. They might say *Bendición*, *Tía* (Bless me, Aunt); the response is *Dios te bendiga* (May God bless you).

Evangelical Christian churches, The Church of Jesus Christ of Latter-day Saints, Jehovah's Witnesses, and other denominations are also present throughout the country.

### **General Attitudes**

Dominicans tend to be warm, friendly, and gregarious. They are often curious about others and forthright in asking personal questions. Children are rarely shy. *Machismo*—the desire of men to prove their manliness or superiority—permeates society, especially among rural and low-income groups. A proud, aggressive attitude is admired in sports, games, and business. Many people have a sharp entrepreneurial sense, and business etiquette can be aggressive in tourist areas.

The common expression *Si Dios quiere* (If God wishes)

may make Dominicans appear fatalistic or indifferent but more accurately expresses hope and the attitude that personal power is intertwined with one's place in the family, community, and grand design of Deity. Relationships are considered more important than schedules, so being late for appointments or spending time socializing instead of working is socially acceptable.

Confianza (trust) is highly valued and not quickly or easily gained by outsiders. Borrowing is common, though it is not unusual for an item to be forgotten and never returned. Most people are generous and helpful. Economic, social, and political class divisions, most evident in cities, define individuals and favor historically prominent families.

Tension between Dominicans and Haitians continues on both a national and individual level. The two countries' governments are often at odds, and immigrants from Haiti may be blamed for a lack of available jobs and the resurgence of previously eradicated diseases in the Dominican Republic.

#### **Spanish Saying**

Las oportunidades son caras y hay que agarrarlas por el pelo. ("Opportunities are expensive so you must grab them by the hair.") This saying means that you must make the most of every opportunity.

#### **Personal Appearance**

Most Dominicans take pride in their personal appearance and consider it important to dress well. They tend to draw on international fashions, wearing the latest trends. Clothes are often dressy, and a special event, such as a town meeting, generally requires dressing up. Clothing is nearly always clean and well pressed. People often prefer bright colors and shiny fabrics. Jeans and short skirts are acceptable attire for women. Men often have conservative haircuts and are usually clean-shaven, although beards have become increasingly popular. Men wear long pants and stylish shirts, except when doing manual labor or at the beach. Professional men wear business suits or the traditional *chacabana*, a white shirt worn over dark trousers, and well-shined shoes. Overall, higher-income people tend to dress more conservatively. Children wear uniforms to school and often change into casual pants or shorts after school. Parents dress their children formally for church or visiting.

## **CUSTOMS AND COURTESIES**

#### **Greetings**

Men shake hands firmly when they greet. One offers a wrist or elbow if one's hand is dirty. Friends may also embrace. Most women kiss each other once on the right cheek as a greeting. A man with the *confianza* (trust) of a woman will kiss her on the cheek in greeting.

A handshake and *¿Cómo está usted?* (How are you?) is a common formal greeting. Informally, one may say *¿Cómo tú tá?* (note the removal of the *s*'s) or *Hola* (Hi). After greeting, it is polite to ask about a person's family. Adults, particularly in the *campo* (countryside), often address each other as *compadre* (for men) or *comadre* (for women); both terms mean "godparent" but indicate a close friendship. One might

not greet a stranger on the street, but one would never enter a room without greeting each person. Nor would a person leave without saying good-bye to everyone, using phrases like *Nos vemos* ("See you later"), *Adiós* (Goodbye), or the English *Bye-bye*. Formal introductions are rare, but professional titles are used to address respected persons. Older and more prominent people may be addressed as *Don* (for men) or *Doña* (for women), with or without their first names.

Dominicans often have several first names, and unmarried women have two surnames—their mother's and their father's. When a woman marries, she usually keeps her father's last name and adds "de" followed by her husband's last name. This is her full name and is used in legal and official situations. On a daily basis, she would use only her husband's last name. For example, in the full name *María Ceboya de López*, *Ceboya* is María's father's last name and *López* is her husband's last name.

#### **Gestures**

People tend to be animated in conversation. They usually point with puckered lips instead of a finger. Wrinkling one's nose indicates one does not understand, rubbing one's fingers and thumb together signifies money, and an upright wagging forefinger means "no." To express disapproval, one points (with lips) at the object or person and rolls the eyes. Tapping one's elbow with a closed fist means that someone is cheap. "Come here" is indicated with the palm down and fingers together waving inward. One says "psst" to get another's attention. To hail a taxi or bus, one wags a finger or fingers (depending on the number of passengers needing a ride) in the direction one is going. Numbers are often expressed with fingers instead of words. Personal space is limited; touching is normal and crowding is common.

#### **Visiting**

Visiting is an important form of social recreation, especially in rural areas and poor *barrios* (neighborhoods). Visits in the home are common, but much socializing also takes place in public (while shopping, washing clothes, and so forth). Women often gather in the kitchen or outside as they cook. A visit may be long or short and may occur at any time, usually without prior notice. Some visitors may call ahead, but whether expected or not, company is genuinely welcomed. In rural areas, people keep their doors open and may consider it strange to close them and not accept visitors. Visitors stand in the doorway and shout *Buenos días* (Good morning) or *Saludos* (Greetings), to which the host responds *Entre* (Come in).

To most Dominicans, privacy is unimportant; many perceive the desire for solitude as sadness and equate being alone with being lonely. Nearly all homes have *mecedoras* (rocking chairs), in which people sit while talking or just spending time together. Hosts offer visitors something to drink (coffee or juice) and invite them to eat if mealtime is near. Refusing such offers is not impolite. If guests interrupt someone eating, the person will immediately and sincerely invite them to share what is left by saying *Un buen tiempo* (You've come at a good time). Guests may decline by saying

Buen provecho (Enjoy), or they may sit down and eat.

## Eating

The main meal, *comida*, is served at midday and often lasts two hours. Families prefer eating at home. Urban workers unable to return home may eat at inexpensive cafés or buy food from vendors. In urban areas, *desayuno* (breakfast) is usually light: sweetened coffee and bread. People in rural areas often eat a larger breakfast, which commonly consists of *viveres* (boiled root vegetables), plantains, and eggs. *Cena* (the evening meal) is also usually light: *viveres* and fried salami is very common. Oftentimes, *cena* is not more than juices or fruit milkshakes paired with leftovers from *comida*.

Guests are served first and sometimes separately and more elaborately. Table conversation is often lively. Dining out is popular among those who can afford it. A service charge is typically included in the bill.

## LIFESTYLE

### Family

#### Structure

The average family has two to three children; rural families are generally larger than urban families. Family ties are important. Extended families commonly live together or near one another, and many rural villages are composed of interrelated families. Cousins are often as close as siblings. Smaller nuclear families tend to be more common among the educated urban population. Within the extended family, informal adoption is common. For example, grandparents often take in children whose parents work long hours or are in another country.

Many households are led by women, whether they are widowed, divorced, or married to men who work elsewhere. Single-mother families are common and often receive financial support from children's fathers. Siblings raised by one mother may have different fathers, but all children are cared for equally.

#### Parents and Children

Children generally assist with household chores except in families with household help. In poor families, children may work to help support their families, sometimes shining shoes or selling snacks on the streets. Children from upper- and middle-class families generally do not start working until they finish secondary school.

Young people often live with their parents until well after adulthood, as dictated by both tradition and economic realities, such as low wages and high housing prices. Many young people move out when they marry or move in with a partner; some couples move in with one set of parents while they save for a place of their own.

The elderly are respected in society and within their families. A grandparent's home is often the central meeting point for members of the extended family. Older people generally live with their grown children when necessary; retirement homes are very uncommon.

#### Gender Roles

Men generally support the family financially, while women

are responsible for the home and children. A growing number of women pursue higher education, work outside the home, and earn their own incomes. Many families include two working parents. However, regardless of the other demands on their time, women maintain responsibility for the household. It is very common for middle- and upper-class families to employ maids, nannies, and chauffeurs. Women make less than their male counterparts for the same work, though the gender pay gap has narrowed in recent years.

Violence against women, much of which goes unreported and unprosecuted, is a pervasive and worsening problem. The culture of *machismo*, which expects men to be dominant, contributes to this dynamic.

## Housing

### Urban

Apartments are the most common type of housing in urban areas, where they tend to be more cost effective than houses in terms of maintenance and land use. They range from well-furnished luxury apartments occupied by the wealthy to modest apartments for the middle and lower classes. Many apartment buildings employ security guards.

In urban areas, free-standing houses are usually owned by the wealthy or are handed down through generations of a family. In the latter case, an increasing number of family homes are being sold to developers as older relatives die. It is common for apartment buildings to be erected in their place. The wealthiest people tend to live in isolated, guarded communities. Houses in these areas are large, and the grounds may include swimming pools, tennis courts, basketball courts, and attractive gardens.

### Rural

In the countryside, accommodations tend to be far more basic. People live in houses rather than apartments. Some rural houses are made of plantain leaves, branches, and metal sheets. Houses may also be constructed from wood or concrete and topped with zinc or concrete roofs. The outside of the homes are painted bright or pastel colors. Cooking and washing facilities are often outside the house. Families may use a camping stove for cooking. Polished cement floors are common, but more modest homes may have dirt floors.

### Utilities

All urban areas and many rural communities have electricity; however, electricity pirating has prompted the country's public electricity companies to withhold power for hours at a time. In urban areas, homes may employ *inversores* (inverters) and *plantas* (battery-generated power sources) during these blackouts, sometimes providing enough energy to power the entire home. A limited number of rural families have *inversores* and *plantas*, but most are only powerful enough to run a small fan or a few light bulbs.

Some rural homes lack running water. In such cases, buckets may be positioned to collect rain from pipes installed along the roof, and people may also travel to a communal pump to fill plastic containers with water. Nearly all urban homes have indoor plumbing, and water is often collected in *tinacos* (rooftop water tanks) or *cisternas* (underground water tanks).

### Economic Circumstance

Because homes are often very modest, numerous concessions are made in their appearance. For example, in the most modest of homes, some will paint only the front of their house, and others will settle for dirt floors. Entire families may share a few rooms, and four or five people may sleep in a single bed. Some homes lack solid internal walls. Instead, planks of wood, cardboard, or sheets provide internal separation. Regardless of their living situation, most Dominicans are very proud of their homes and keep them clean, organized, and well maintained.

#### **Ownership**

Homeownership is important and indicates family stability. Most people hope to own a home at some point. Some families build their own homes, which can take years. The family often lives in the most enclosed portion of their house as it is finished.

### **Dating and Marriage**

#### **Dating and Courtship**

Most young people are very social and enjoy going out with friends from their neighborhood, school, or college. On weekend nights, groups of youth park their cars along major roads and turn up their car stereos while socializing with friends.

Young people usually begin dating in the later years of secondary school or the early years of college. People often initially date in groups. Some couples might have a sibling tag along as chaperone on one-on-one dates. Common dating activities include going to movies, concerts, parties, night clubs, dances, baseball games, and parks. Dating is increasingly free of parental control, though parents supervise daughters more closely than sons. Online dating has become more common.

When a couple decides to date regularly and exclusively, the man visits the home of the young woman's parents to be formally introduced to her family. As the courtship continues, couples refer to each other as *novio* (boyfriend) and *novia* (girlfriend). In more traditional families, couples who reach this stage are generally expected to eventually marry.

#### **Engagement**

Engagement is initiated by the man and generally lasts from six months to a year. In urban areas, the man presents his *novia* with an engagement ring and asks her to marry him. He then asks her father for her hand in marriage. In rural areas, the man traditionally asks a woman's father permission before he proposes, but this custom is becoming less common.

#### **Marriage in Society**

In urban areas, people usually marry in their early 20s or later, and some parents may discourage their children from marrying before finishing college. Rural marriages tend to occur at a younger age, often in the late teens.

Cohabitation (*por la ventana*, literally meaning “through the window”) is widespread, particularly in rural areas, and legislation has extended to such couples some rights associated with marriage. Cohabitation can be preferred for a number of reasons: marriage requires a birth certificate (which many do not have), poor families cannot afford an elaborate wedding, or people wish to avoid the costs associated with a divorce if the relationship does not work

out. Some such relationships last a lifetime, while others are entered into and dissolved easily.

Infidelity is common, particularly among men. Though infidelity is not openly accepted, women generally tolerate it. However, men usually expect their wives to be faithful. Some men have more than one partner and family, sometimes in the same town.

Homosexuality is taboo in Dominican society. LGBTQ individuals often face discrimination and harassment. A majority of Dominicans oppose same-sex marriage, which is not legally recognized.

#### **Weddings**

Weddings are usually paid for by the bride's family. If the bride and groom can afford it, they may also contribute to the wedding. Upper- and middle-class urban weddings are often elaborate affairs. In poorer families and in rural areas, celebrations are more modest, but the elements are generally the same. Regardless of the couple's budget, weddings are always important social events for the family and community.

Couples who choose to marry have a civil ceremony or a church wedding. Religious ceremonies are more common and nearly always follow Catholic traditions, regardless of whether or not the couple attends church regularly. The father of the bride walks his daughter down the aisle and “gives her away” to the groom. A priest presides over the ceremony and reads passages from the Bible. The couple exchanges rings, recites vows, and seals the ceremony with a kiss. Some weddings also include a mass.

After the wedding, a reception is held at a hotel, the beach, or a social club. A meal and wedding cake are served, and the bride and groom normally “open” the dance floor by dancing their first dance together as a married couple. The bride then dances with her father and then with her father-in-law while the groom dances with his mother and then with his mother-in-law. After the second dance, the dance floor is opened to all wedding guests.

#### **Divorce**

Government fees associated with obtaining a legal divorce are high. In some cases, the fees can be more expensive than a wedding. People must pay to obtain legal documents, have the divorce processed by the court, and announce the divorce in a local newspaper (which is required by law). Still, divorce is fairly common and carries little social stigma.

### **Life Cycle**

#### **Birth**

The announcement of a pregnancy is a happy occasion. Family members suggest names for the baby and guess the gender. Traditionally, the shape of the pregnant woman's stomach is believed to indicate the gender of the baby: a pointy shape indicates a girl and a more rounded shape indicates a boy. Birthmarks on a newborn are traditionally attributed to the mother's failure to satisfy food cravings (called *antojos*). Tradition also says the birthmark mirrors the shape of the desired food.

The first major celebration in a Catholic child's life—the christening—takes place within the first year. The *comadre* (godmother) and *compadre* (godfather) are announced at the christening. The parents of the newborn choose one or two

sets of godparents for their child, often choosing aunts, uncles, or good friends. Traditionally, the godparents were the child's designated guardians should anything happen to the birth parents, but today it is more of an honorary title. Godparents may attend celebrations for important events in the child's life, give advice, and assist when problems arise. After the christening, a celebration is held at the parents' home and a meal is served.

#### **Milestones**

Between the ages of 8 and 12, Catholic youth have their First Communion. Children prepare for the First Communion in *catecismo* (catechism), classes in which the children are taught scriptures and traditions of the Catholic Church. Large groups of children from a community or school celebrate their First Communion at the same time. Children dress in white, have their first confession, and participate in communion during a mass. Afterward, photos are taken, and a group celebration with food and cake may be held. The family of each child may also hold a separate, smaller celebration at home.

As is the case in many Latin American countries, Dominican girls enjoy big celebrations for their *fiesta de quince* (15th birthday party), after which they are considered adults. At 16, children get their *cédula de identidad* (commonly called *cédula*, a legal identification card). At 18, youth are eligible to vote, get a driver's license, and legally purchase alcohol and cigarettes. Many families consider their children adults when they start working, usually between ages 16 and 19, and begin to establish a degree of financial independence.

#### **Death**

In rural areas, when a person dies, family members, friends, and neighbors congregate at the house of the deceased for a *vela* (candlelight vigil). Near the body, mourners wail loudly. The funeral and burial usually take place within 24 hours of the death. In urban areas, the body is more often kept at a funeral parlor for one or two days. Friends and family come to pay respects and offer their condolences.

Throughout the country, funerals are rarely held in churches. Generally, the priest comes to the home or funeral parlor and leads a mass or prayers in honor of the deceased. In rural areas, the casket is placed into the bed of a truck and escorted to the cemetery site by mourners, who follow on foot. In urban areas, the casket is transported in a hearse and mourners follow in cars. At the burial site, mourners may give short speeches, and the family thanks everyone for their condolences and support.

In rural areas, nine days after the burial, and then every year on the anniversary of the death, more *velas* are held. Urban people are more likely to commemorate anniversaries with masses and prayers.

#### **Diet**

Most meals feature rice, which is often served with habichuelas (beans), as in the dish *moro de habichuelas rojas* (red beans and rice). Yuca (cassava) is another favorite and may be boiled, battered, deep-fried, or baked into rounds of crisp cracker bread called *casabe*. Bananas are plentiful, as are plátanos (plantains), which are served fried as

*tostones* and mashed as *mangú*. Mangoes, papaya, pineapples, guavas, avocados, and other tropical fruits (passion fruit, coconuts, and star fruit) are grown locally and eaten in season.

People commonly eat chicken, beef, pork, or goat. Bacalao (dried fish, usually cod) is eaten in some areas; fresh fish is eaten all along the coast. The national dish is *sancocho*, a rich vegetable-and-meat stew served on special occasions. A meal of rice, beans, and meat is nicknamed *la bandera*, referring to the colors of the national flag. Food is generally not spicy.

Habichuelas con dulce (a dessert similar to rice pudding but made with red beans) is popular at Easter. Dominican coffee is usually served sweet and strong. National beers and rums are highly regarded and widely consumed. Bottled soft drinks, sweetened fruit juices, and fruit *batidas* (milkshakes), especially those made from papaya, are also popular.

### **Recreation**

#### **Sports**

Baseball is the most popular sport, and many Dominicans have become famous major league players in the United States and Canada. The baseball season (October through January) is an exciting time of year for the Dominican Republic's many baseball fans. During this season, people are very active in supporting their teams, flying team flags and wearing team colors. Baseball's popularity has spawned a street form, called *vitilla*, played by children using a plastic bottle cap and a broomstick instead of a ball and bat; bases are often marked with old license plates or anything that can be flattened. Many boys also enjoy playing basketball in parks and on the streets, and both boys and girls often enjoy playing volleyball.

#### **Leisure**

Playing dominoes is a national pastime. Outdoor tables in front of homes, bars, and rural *colmados* (neighborhood markets) are surrounded by men who play for hours, especially on Sundays. Outdoor players are almost exclusively men, but everyone—including young children—plays dominoes at home. Watching and gambling on cockfighting is common, and playing the lottery is massively popular. Women are generally less interested in sports than men and children. They often enjoy table games, like cards and bingo. Women may also watch soap operas while doing household chores.

Dominicans usually prefer activities away from the home, and they do not wait for the weekend to enjoy an evening out. Activities like concerts and other sponsored events take place throughout the week. Dancing at *discos terrazas* (bars with open dance floors), bar hopping, and hanging out with friends at parks or along the major avenues are popular activities. Going to the movies is a very popular pastime, as are cultural activities such as book fairs and carnivals. Young people enjoy going to the beach, movie theaters, bars, restaurants, and night clubs. Lengthy family vacations are rare, but people may take short weekend getaways to a river or the beach or visit relatives.

#### **The Arts**

The average Dominican loves music and dancing. Merengue



is the national dance, and many people, including small children, know the steps. Its fast-paced, rhythmic music is traditionally performed using three instruments: a *tambora* (small drum), *melodeon* (also called the *acordeón*, similar to an accordion), and *guayano* (or *guira*, a scraping percussion instrument). *Bachata* is a popular folk dance accompanied by accordions, drums, horns, and *guayanos*. Salsa and other Latino styles of music are popular, as are U.S. American pop and jazz. Dance clubs are found even in rural communities.

Common crafts include masks for Carnival (a multi-week festival beginning in February), colorful paintings, dolls (often without facial features), and jewelry made from amber or *larimar* (a blue stone unique to the Dominican Republic). Statues carved from wood, coconut shells, and stone are also popular. Literature from the Dominican Republic is well established. Much writing focuses on nationalistic themes, social protest, history, and everyday life.

### Holidays

National holidays include New Year's Day (1 January), Día de los Reyes (Day of the Kings, also called Three Kings Day or Epiphany, 6 January), Nuestra Señora de la Altagracia (Our Lady of High Grace, 21 January), Duarte's Day (26 January), Independence Day (27 February), Labor Day (1 May), Restoration of Independence (16 August), Nuestra Señora de las Mercedes (Our Lady of Mercies, 24 September), Columbus Day (12 October), Dominican Constitution Day (6 November), and Christmas (25 December).

#### *New Year's*

New Year's celebrations are important to most Dominicans. New Year's Eve is often spent with family members, eating a large meal and offering prayers of gratitude for the previous year. People may also attend all-night parties with loud music and dancing. New Year's Day is also spent with the family, eating leftovers from the New Year's Eve party.

#### *Nuestra Señora de la Altagracia*

*Nuestra Señora de la Altagracia* celebrates the patron saint of the Dominican Republic. People make promises of devotion to the saint in hopes of blessings of health and good employment. They may also offer to sacrifice something in their life (such as a bad habit or eating red meat) for such blessings. Devotees make a pilgrimage to the Basilica de Nuestra Señora de la Altagracia, in the city of Higüey

#### *Mes de la Patria*

*Mes de la Patria* (Nation's Month) is a month-long window in January and February in which most of the country's patriotic holidays fall. The month is celebrated by flying the national flag, attending government celebrations and parades, placing wreaths at national monuments, and holding patriotic events in schools. Duarte's Day begins the month and celebrates Juan Pablo Duarte, a founder of the Dominican Republic. *Mes de la Patria* ends with Independence Day celebrations, which include a military parade and a presidential address to the nation.

#### *El Carnaval*

*El Carnaval* (Carnival) is a colorful festival that is celebrated in the Dominican Republic as well as in other countries; it runs through February and into March. The day the festival

begins varies depending upon the city or town. Celebrations feature costume parades complete with masked participants hitting spectators with inflated, hardened pig bladders. *El Carnaval* ends in the first weekend of March, when the *Desfile de Carnaval* (Carnival Parade) is celebrated in Santo Domingo.

#### *Easter Season*

During Lent, which is observed from Ash Wednesday to Easter, Catholics may abstain from meat on Ash Wednesday and Fridays. During Semana Santa (Holy Week)—the last week of Lent—many families take short vacations to the beach or countryside.

On Easter Sunday, devout Catholics attend religious services. Many Dominicans, however, gather on beaches or alongside rivers to celebrate. Drinking alcoholic beverages is common on Easter, resulting in high numbers of drunk-driving accidents and fatalities.

#### *Restoration of Independence Day*

On Restoration of Independence Day, Dominicans celebrate the restoration of their independence following a short period under Spanish rule (called *La Anexión*, from 1861 to 1863) less than a decade after gaining independence from Haiti. The holiday commemorates *La Guerra de Restauración* (the War of Restoration) fought to regain the country's independence. On this day, the president gives an official speech in honor of the holiday.

#### *Christmas Season*

Before Christmas, families decorate their homes with Christmas trees, nativity scenes, and depictions of Santa Claus. Dominicans living outside the country often return to be with their families for Christmas. On Christmas Eve, families have a special dinner, which may include *pasteles en hoja* (beef- or chicken-filled squares of plantain paste wrapped in green plantain leaves and boiled), *puerco asado* (roasted pork), *arroz con guandules* (rice with pigeon peas), potato salad, dates, fruit, nougat, and candy. Many people attend Midnight Mass (called *misa del gallo*).

Gift exchanges were traditionally reserved for *Día de los Reyes*, but today many people also exchange gifts at Christmas. Santa Claus brings presents for many children on Christmas Eve; other children are given gifts in the name of baby Jesus instead of Santa Claus.

*Día de los Reyes* continues to be the most important day for gift exchanges of the holiday season and is associated with the Three Wise Men from the Biblical nativity story. Children receive presents from their parents, grandparents, and godparents. Rum and cigarettes are left out overnight for the Three Wise Men, and water and grass are left for their camels.

## SOCIETY

### Government

#### *Structure*

The Dominican Republic is a presidential republic, divided into 31 provinces and one national district. The president is both head of state and head of government. The president and vice president are elected by popular vote and serve four-year

terms. A bicameral National Congress consists of 32 senators and 190 deputies. Senators are elected by popular vote, while deputies are elected through proportional representation.

**Political Landscape**

Many parties exist in the Dominican Republic's multiparty system. Major parties include the centrist Modern Revolutionary Party (PRM), the center-left Dominican Revolutionary Party (PRD), the center-left Dominican Liberation Party (PLD), and the center-right Social Christian Reformist Party (PRSC). Drug trafficking, violence, immigration, and corruption of officials are serious issues

**Government and the People**

The constitution guarantees individuals many rights, like freedom of press, expression, association, assembly, education, and religion. The government generally respects these rights, though freedom of association is limited for public servants. Past elections are considered to have been free and fair, though cases of vote-buying have been confirmed. A majority of registered voters have participated in recent elections. The voting age is 18.

**Economy**

Among Latin American countries, the Dominican Republic's economic growth has been one of the strongest in recent years. The economy, once dependent on agriculture, has become more oriented toward services, especially construction and tourism. Industrial activity includes sugar refining, mining, textiles, and cement. Assembly plants for various products are located in duty-free zones, as are clothing factories and telemarketing offices.

Although agriculture is not as dominant as it once was, it remains an important industry. Cocoa, tobacco, sugar, and coffee are key crops for both export and domestic use. Fluctuating world prices impact earnings and make the domestic market somewhat volatile. The Dominican Republic exports a large portion of its agricultural products to the United States. In 2007, the Dominican Republic implemented the Dominican Republic–Central America Free Trade Agreement (CAFTA-DR), which reduced taxes on trade between participating countries in the region.

Even though real gross domestic product (GDP) per capita has increased rapidly in the last generation, most people (particularly women) do not have access to economic prosperity. A wide gap exists between rich and poor. About 21 percent of Dominicans live in poverty. Unemployment is high, and underemployment is rampant. Many people depend on relatives living in the United States to send earnings back to them in the Dominican Republic; the money constitutes some 7 percent of the country's GDP. The currency is the Dominican peso (DOP).

**Transportation and Communications**

Main roads are paved and heavily traveled. Rural roads are often unpaved and may be impassable during rainy seasons. Public transportation includes motorcycle taxis, larger buses, or economical vans or buses called guagua, which are used

for local or long-distance trips. Pickup trucks or small vans travel between rural villages, carrying passengers, animals, and cargo in a single load. In addition to using formal taxis, urban Dominicans travel by *conchos*, informal automobile taxis that follow specified routes, and *motoconchos*, informal motorcycle taxis that do not follow specified routes. Santo Domingo has a modern subway system. Private cars are expensive but by no means rare. Motorcycles are more common. Traffic regulations are often ignored.

Cellular phones are common and greatly outnumber landlines. Internet access is available in most places, though service is not always reliable. Daily newspapers are read widely. Postal service is slow and unreliable. Most businesses use private messenger services. Private radio and television stations broadcast regionally and nationally.

**Education**

**Structure**

Free public education lasts 12 years. Attendance is mandatory for 15 years, but this is not strictly enforced. *Educación básica* (basic education) begins at age 6 and lasts 6 years. *Educación media* (secondary school, also called *bachillerato*) lasts from ages 12 to 17. Most upper- and middle-class urban families send their children to private schools, called *colegios*.

**Access**

The literacy rate is about 94 percent, though the rate is lower in rural areas, where formal education may be less emphasized than in the cities. Many children, particularly girls and those in rural areas, do not complete school. Children may be needed to earn money to support their families, or they may be kept at home to help on the farm or around the house. Families may also struggle to pay the fees associated with education or to provide their children with transport to and from school. While public schools do not charge tuition, parents must provide textbooks, uniforms, and basic supplies, such as pencils and paper. Current textbooks and other teaching materials are scarce.

**School Life**

During *educación básica*, students study Spanish, English, math, science, social studies, history, civics, art, physical education, and religion. Some private schools are bilingual, with classes taught in Spanish and English. Teaching is regulated by the Ministry of Education and based on the textbooks assigned for each subject. Teachers do not often stray from the designated curriculum. Many schools incorporate technology in the classroom, and most students have access to computers. Homework is assigned nightly. Some schools offer *salas de tareas*, after-school programs in which students can receive homework help from a tutor or teacher.

Students in all schools, public and private, are required to wear uniforms. Public-school uniforms consist of khaki pants, light blue tops, and dark shoes. Private-school uniforms vary in style and color.

**Higher Education**

College enrollment is common in cities. A variety of universities and trade schools operate within the country. Some private secondary schools are accredited by educational institutions in the United States and enable students to easily

enroll at U.S. universities, a common choice for those who can afford it. Adults who have not finished *educación media* can attend night school to obtain a certificate, which enables them to get a better job or enroll in a technical school to continue their education.

**Health**

Public hospitals provide free care, but medications and services, such as X-rays, require payment. Private doctors are preferred when affordable. Public institutions tend to be poorly equipped and understaffed; families must provide bedding and food for admitted patients. Clinics are better equipped and staffed but must be paid for by the patient or insurance provider. Village health-care workers have enough training to administer basic services, but rural areas often have no doctors or medicine, and people must travel elsewhere for care. Some people consult curanderos (native healers). Lack of early treatment and preventive care is a major concern, particularly in low-income and rural areas. Vaccination campaigns are helping fight disease, but maladies such as malaria, intestinal parasites, and dengue fever pose serious challenges. In 2010, a cholera epidemic in the aftermath of the earthquake in Haiti spread to the Dominican Republic. The Zika virus is also present in the country.

**AT A GLANCE**

**Contact Information**

Embassy of the Dominican Republic, 1715 22nd Street NW, Washington, DC 20008; phone (202) 332-6280; web site <http://drembassyusa.org>. Dominican Republic Ministry of Tourism, phone (809) 221-4660; web site [www.godominicanrepublic.com](http://www.godominicanrepublic.com).

**Country and Development Data**

Capital	Santo Domingo
Population	10,597,348 (rank=86)
Area (sq. mi.)	18,792 (rank=128)
Area (sq. km.)	48,670
Human Development Index	89 of 189 countries
Gender Inequality Index	104 of 162 countries
GDP (PPP) per capita	\$17,000
Adult Literacy	94% (male); 94% (female)
Infant Mortality	22 per 1,000 births
Life Expectancy	71 (male); 77 (female)
Currency	Dominican Peso

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## Dominican Republic - Military

Last updated: 26 May 2023

### Armed forces

Last updated: 26 May 2023

### Executive summary

Last updated: 31 Oct 2022

	<b>Total strength</b>	<b>Army</b>	<b>Air force</b>	<b>Navy</b>	<b>Marines</b>
<b>Active personnel</b>	60,600	29,400	12,600	18,100	500
<b>Reserves</b>	Unknown	Unknown	Unknown	Unknown	Unknown

- The Military of the Dominican Republic (Fuerzas Armadas de la República Dominicana) is large relative to other armed forces in the region. However, it is still deemed undermanned based on the large number of humanitarian and government functions it must perform, such as prevention of epidemic outbreaks and the administration and protection of state-owned institutions. The two main challenges the armed forces face are the influx of illegal immigrants from Haiti and drug trafficking networks. Both activities are personnel-intensive, which creates overstretch in itself, let alone in combination with the range of tasks outside of national defence that the force has to undertake. Dominican military procurement is geared towards enabling the armed forces to engage in counter-narcotics operations. This type of focus is likely to have a detrimental effect on the ability of the armed forces to engage in a conventional conflict. The trend is likely to continue, particularly given the growing sophistication in which regional narcotics groups are able to operate
- The key operational deployment of the armed forces is on the border with Haiti to prevent human trafficking, drug trafficking, and illegal immigration.
- The 2013 Armed Forces law stipulates that the armed forces organisation, structure, and functions have to adjust to the changing realities of the current international environment. Traditional threats faced by the armed forces include sovereignty violation by an external aggressor, terrorism, drug trafficking, and related crimes. Emerging threats, such as illegal migration and natural or man-made disasters, increasingly require attention from the armed forces

- The Dominican Republic has focused on reactivating a credible air defence and maritime interdiction capability. New combat aircraft, which the air force lacked for almost a decade, entered service in 2010. This has led to a significant decrease of illegal narcotics flights in and around the Dominican Republic. Meanwhile, the United States has donated 12 interceptor craft to the Dominican Navy since 2007, greatly enhancing the ability of that service to carry out security tasks in national waters. In 2020 a Defiant 85 near coastal patrol vessel (NCPV) was donated by the United States to enhance the patrolling capabilities of the navy
- In May 2022 the Ministry of Defence announced that the military budget would be allocated to the acquisition of computer systems and technologies, as well as investment and training programmes, rather than manufacturing weapons for the foreseeable future. After increasing financing between 2009 and 2019, the military budget decreased in subsequent years between 2020 and 2021

## **Threat environment**

Last updated: 31 Oct 2022

The Dominican armed forces have to respond to two types of threats. First, the island is a transit territory for drugs heading into the US and Europe. Most operations, consist of patrolling and interception of illegal vessels or aircraft. Second, political and social instability in Haiti has prompted concerns in the Dominican Republic about large-scale migration across the border. The armed forces are heavily deployed along the country's western border to counter the influx of refugees from neighbouring Haiti, which suffers almost permanent political instability.

## **Doctrine and strategy**

Last updated: 30 Oct 2022

The Dominican armed forces adhere to a doctrine designed to cope primarily with non-conventional threats to the country, including terrorism, narco-trafficking, organised crime, corruption, money laundering, and arms trafficking. There is significant US and Colombian influence on the doctrine, especially on counter-narcotics support operations.

## **Military capabilities assessment**

Last updated: 30 Oct 2022

Dominican Republic capability assessment.

1644433

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Dominican Republic capability assessment. (Janes)

Capability assessment methodology.

1644417

Capability assessment methodology. (Janes)

### Capabilities assessment

- The main assets of the air force are its fleet of EMB-314 Super Tucanos and the Tecnam P2006T surveillance aircraft. These assets enable the Dominican Armed Forces to control their skies to the extent that drug traffickers have shifted focus to transporting their cargo over maritime routes
- The naval fleet relies on over fifteen patrol vessels and a number of donated interceptors, which are insufficient to exert control over the country's exclusive economic zone (EEZ)
- The army is a light infantry force that is principally focused on patrolling the shared border with Haiti. Its capabilities are severely limited, especially so because of the lack of a sufficient number of mobility assets

### Joint forces interoperability

Last updated: 30 Oct 2022

### Tri-service interoperability

Joint doctrine is being implemented and undergoing constant adaptation. Jointness has improved since the establishment of a joint command-and-control centre at the Ministry of Defence (MoD) level. As in several other countries in the region, force transformation is spearheaded by the establishment of a joint doctrine. This has led to the creation of five geographical joint commands (Metropolitan, Northern, Southern, Eastern, and Border Security Specialised Command) and armed forces' high command directorates (intelligence, personnel, planning, logistics, civilian affairs, and communication). All the aforementioned branches are directly subordinate only to the general joint command for the armed forces.

The reorganisation demonstrates a good potential to foster jointness; however, it remains to be seen whether the implementation of the scheme will accomplish the expected objectives. As a further part of this effort, the three services of the armed forces engaged for the first time in a joint exercise in November 2015. The purpose of the exercise was to enable the three services to better co-operate during counter-drug trafficking operations, as well as during protection of critical infrastructure from a terrorist threat. Furthermore, it is probable that the armed forces were interested in targeting

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communication issues that arose during the operations along the border with Haiti.

### **Multinational interoperability**

The Dominican Armed Forces are members of the Central American Armed Forces Conference and the Defence Commission of the Central American Defence Integration System. They also have close links with the US armed forces, specifically forged through the US Southern Command. The Dominican Navy, in particular, routinely undertakes training and limited operations with the US Coast Guard and US Navy.

Colombia also exercises considerable influence and Dominican troops have conducted several exercises and training with the Colombian armed forces, particularly with the air force and navy. The reason for it is that one of the main drug trafficking routes leads from Colombia to the Dominican Republic, therefore the countries strive to co-operate in the aerial and naval domains to increase efficiency of counter-narcotics operations along this route.

### **Defence structure**

Last updated: 30 Oct 2022

The MoD has a General Joint Command for the armed forces, three vice ministries, and one inspector general. The three vice ministries are for military affairs, naval and coastal affairs, and air and space affairs. There is a joint operations centre that co-ordinates the operational commands.

The General Joint Command for the armed forces is chaired by the commander of the army, air force or navy on a rotating basis.

### **Command and control**

Last updated: 31 Oct 2022

<b>Minister of Defence:</b>	Lieutenant General Carlos Luciano Díaz Morfa
<b>Commander of the Army:</b>	Major General Carlos Antonio Fernández Onofre
<b>Commander of the Navy:</b>	Vice Admiral Francisco Antonio Sosa Castillo
<b>Commander of the Air Force:</b>	Major General Carlos R. FebrLeonel Amillet Rodriguez

Under the constitution, the president of the republic is the commander-in-chief of the armed forces and the minister of defence is responsible for the organisation, control, training, and administration of the armed forces. The army, navy, and air force commanders report to the General Joint Command for the armed forces, as do the commanders and directors of the specialised organisations. Specialised organisations include:

- Port Security Specialised Corps (Cuerpo Especializado de Seguridad Portuaria: CESEP)

- Land Border Security Specialised Corps (Cuerpo Especializado de Seguridad Fronteriza Terrestre: CESFRONT)
- Airport and Civil Aviation Specialised Corps (Cuerpo Especializado en Seguridad Aeroportuaria y de la Aviación Civil: CESAC)

## **Strategic forces**

Last updated: 26 Aug 2022

### **Assessment**

Last updated: 28 Oct 2022

The Dominican Republic does not possess any strategic weapons nor has it demonstrated any desire to acquire such a capability.

### **Ballistic missiles**

Last updated: 28 Oct 2022

The Dominican Republic does not possess any ballistic missile systems.

#### **Short-range ballistic missiles**

The Dominican Republic does not possess short-range ballistic missile systems.

#### **Medium-range ballistic missiles**

The Dominican Republic does not possess medium-range ballistic missile (MRBM) systems.

#### **Intercontinental ballistic missiles**

The Dominican Republic does not possess intercontinental ballistic missile (ICBM) systems.

### **Missile defence**

Last updated: 28 Oct 2022



The Dominican Republic does not possess a missile defence programme.

## **Information warfare**

Last updated: 28 Oct 2022

The Office of the President for IT and Communications (OPTIC) co-ordinates cyber security at the policy level.

Dominican information warfare capabilities are administered by the Ministry of Defence Joint Communications and Electronics Directorate (Dirección de Comunicaciones y Electronica Conjunta), the Technology Services (Servicios Tecnologicvos), and the Armed Forces General Directorate for Information (Dirección General de Informática de las Fuerzas Armadas).

The Dominican National Telecommunications Institute (Instituto Dominicano de las Telecomunicaciones: INDOTEL) is in charge of regulating all cyber security programmes in the Dominican Republic. However, INDOTEL does not appear to have any specific cyber defence or cyber warfare programmes other than promoting the safe use of the internet to the general population. In March 2014 the air force-run Airport and Civil Aviation Security Special Corps (CESAC) announced it would introduce IT security into its core functions.

The national police investigate cyber crimes via the High Technology Crimes Investigations Department. This has led to successful operations to arrest local hackers responsible for attacks against the Dominican government's websites.

## **Space warfare**

Last updated: 28 Oct 2022

The Dominican Republic does not possess space warfare capabilities. The military services utilise the space domain only at the most basic level, for example drawing on global positioning systems for naval navigation.

## **Nuclear capabilities**

### **Stated government policy**

The Dominican Republic ratified the Nuclear Non-Proliferation Treaty in 1971. Prior to this, in 1968, it had ratified the Tlatelolco Treaty for the Prohibition of Nuclear Weapons in Latin America and the Caribbean. The Dominican Republic signed the Comprehensive Test Ban Treaty in 1996 and ratified it in 2007. The country is party to the conventions on the Physical Protection of Nuclear Material and the Early Notification of a Nuclear Accident, and has signed the International

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Atomic Energy Agency's Additional Protocol, which entered into force in 2010. The Dominican Republic also signed the UN Treaty on the Prohibition of Nuclear Weapons (TPAN) in 2018.

#### **Actual capabilities**

The Dominican Republic has no nuclear weapons capabilities or programmes. There is no civilian nuclear programme in the Dominican Republic.

#### **Biological capabilities**

##### **Stated government policy**

The Dominican Republic ratified the Biological and Toxin Weapons Convention in 1973.

##### **Actual capabilities**

The Dominican Republic has no biological weapons.

#### **Chemical capabilities**

##### **Stated government policy**

The Dominican Republic signed the Chemical Weapons Convention (CWC) in 1993 and ratified it in 2009. In accordance with the requirements of the CWC, in July 2009 the Dominican Republic designated a national authority within the State Secretariat of the Armed Forces to oversee the implementation of the convention.

##### **Actual capabilities**

The Dominican Republic has no chemical weapons.

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## Country Report

# Dominican Republic

**Generated on June 8th 2023**

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## **Symbols for tables**

"0 or 0.0" means nil or negligible; "n/a" means not available; "-" means not applicable

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# Briefing sheet

Editor: **Lian Lin**

Forecast Closing Date: **April 25, 2023**

## Political and economic outlook

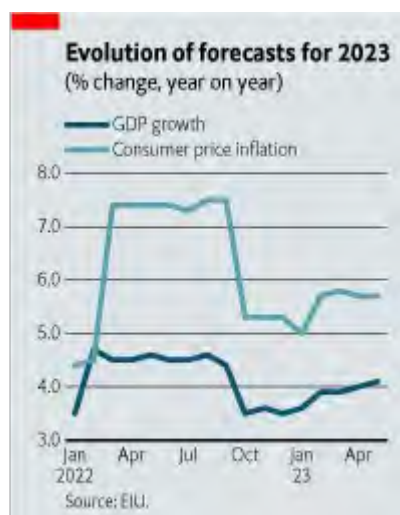
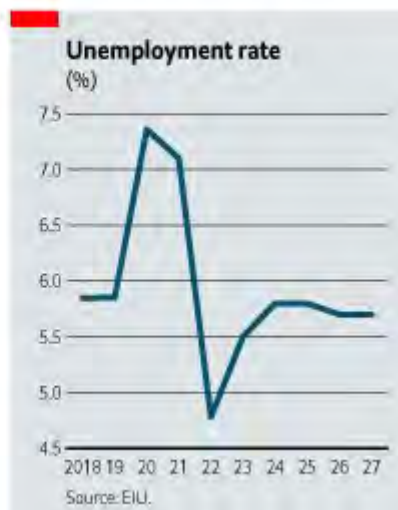
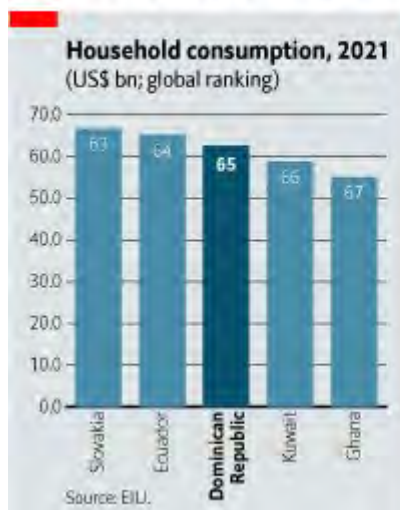
- The Dominican Republic has been one of the fastest-growing Latin American economies since 2010. However, the limited development of its industrial capacity and low levels of investment in skills and innovation constrain its growth potential.
- The president, Luis Abinader of the centrist Partido Revolucionario Moderno (PRM), has a comfortable majority in both houses of Congress, which will support governability until his term ends in July 2024. EIU believes that Mr Abinader will seek re-election for the May 2024 election, with his high approval ratings helping him to win a second term.
- The fiscal deficit will widen slightly in 2023-24 from 2022 levels as a result of election-related spending. It will narrow gradually in 2025-27, owing to spending restraint and marginal increases in revenue. Tax reform will return to the agenda after the election, and we believe that it is likely to pass, supporting the narrowing of the fiscal deficit after 2025.
- Economic growth will moderate in 2023, in line with slowdowns in the US and Europe (the main sources of tourists). Subdued tourism receipts will mute growth in services exports and private consumption, but this should pick up in the medium term as the global economy recovers. Inflationary pressures will ease as commodity prices fall in 2023.
- The current-account deficit will narrow in 2023, as growth in the import bill will slow owing to lower commodity prices amid a weaker global economy. The deficit will narrow in 2024-27 as goods and services exports rebound as the global economy recovers.
- The Dominican Republic's GDP per head is among the highest in the Caribbean. Nevertheless, the country's high inequality and poverty rates limit market opportunities and could become sources of unrest in the medium term if left unaddressed.
- Mr Abinader has adopted a harsh posture on Haiti and migrants. The building of a border wall and the deportation of undocumented migrants (mostly Haitians) have drawn international criticism. If mistreatment of Haitians worsens, there is a risk of sanctions.

### Key indicators

	2022 <sup>a</sup>	2023 <sup>b</sup>	2024 <sup>b</sup>	2025 <sup>b</sup>	2026 <sup>b</sup>	2027 <sup>b</sup>
Real GDP growth (%)	4.9	4.1	4.4	4.1	3.9	3.8
Consumer price inflation (av; %)	8.8	5.7	5.1	4.2	4.1	4.0
Government balance (% of GDP)	-3.2	-3.3	-3.3	-3.1	-2.9	-2.7
Current-account balance (% of GDP)	-5.8 <sup>c</sup>	-4.9	-4.2	-3.7	-3.4	-2.8
Short-term interest rate (av; %)	6.7	8.4	6.9	6.0	5.7	5.7
Unemployment rate (%)	4.8 <sup>c</sup>	5.5	5.8	5.8	5.7	5.7
Exchange rate Ps:US\$ (av)	55.14	56.35	58.51	59.21	59.91	60.62

<sup>a</sup> Actual. <sup>b</sup> EIU forecasts. <sup>c</sup> EIU estimates.

## Market opportunities



## Key changes since March 23rd

- Full-year 2022 GDP data show that real growth was slightly lower than we expected, at 4.9% (compared with our estimated 5.1%). Consumption and export growth was higher than we had estimated, but fixed investment and import dampened real GDP growth.
- Based on the revised 2022 data and owing to the lower base, we have adjusted our real GDP growth forecast for 2023 to 4.1% (from 4% previously), as we expect higher consumption and exports owing to a stronger recuperation in tourism.
- Preliminary tourism receipts came in lower than estimated and the import bill came in higher than estimated for 2022. We are widening our current-account deficit estimate from 4.9% of GDP in 2022 to 5.8% of GDP in 2022.
- Stronger tax revenue produced a narrower fiscal deficit in 2022 than we had estimated. Owing to the higher base, we now assume slower tax revenue growth in 2023, which slightly widens our fiscal deficit forecast to 3.3% of GDP in 2023 (from 3.1% previously).

## The month ahead

- **TBC—Corruption investigations against key opposition figures:** 19 former ministers and officials of the opposition Partido de la Liberación Dominicana (PLD) have been arrested on corruption charges. Protests by PLD supporters have abated, but investigations continue. The risk of social unrest remains elevated while some PLD leaders are detained.
- **TBC—Resubmission of human-trafficking legislation:** EIU expects the president to present a

revised human-trafficking bill (originally scheduled for delivery by end-April) in the coming weeks, after the initial bill provoked a public backlash for allowing undocumented migrants (mostly Haitians) into the country.

- **TBC—US ban on sugar from the Central Romana Corporation:** We expect that the US will lift the ban on the Dominican Republic's largest producer and exporter of sugar this year. The Abinader government is working through diplomatic channels to help the firm, but the ban may remain in place for longer.

## Major risks to our forecast

Scenarios, Q1 2023	Probability	Impact	Intensity
Climate change damages critical infrastructure and raises operational costs for businesses	Very high	Very high	25
The government fails to overcome the electricity crisis	High	High	16
Members of the president's political entourage are found to be involved in corruption	Moderate	Very high	15
Persistent corruption erodes public trust	Moderate	High	12
The banking system suffers another crisis	Low	Very high	10

Note. Scenarios and scores are taken from our Operational Risk product. Risk scenarios are potential developments that might substantially change the business operating environment over the coming two years. Risk intensity is a product of probability and impact, on a 25-point scale.

Source: EIU.



# Outlook for 2023-27

## Political stability

EIU expects the government of the president, Luis Abinader of the centrist Partido Revolucionario Moderno (PRM), to remain broadly stable until Mr Abinader's term ends in 2024 (or in 2028, if he is re-elected, which is our baseline forecast). The government has a solid majority in both houses of Congress and controls most municipalities, bolstering Mr Abinader's position and supporting the implementation of his market-friendly agenda. Corruption scandals will continue to spark protests throughout the 2023-27 forecast period, but large-scale unrest is unlikely, assuming that the government continues to make progress on strengthening the rule of law. Moreover, government efforts to gradually reinforce social security schemes will improve socioeconomic conditions and therefore contain anti-government sentiment. Although inflation—driven by high commodity prices—is easing from its recent peaks, it will remain elevated in 2023, dampening consumer purchasing power, fuelling discontent and, by extension, posing a risk to political stability.

Tackling corruption is a priority for Mr Abinader, particularly as he came to power on an anti-corruption platform. His administration has increased state prosecution of corruption cases, which is a positive sign. However, the fight against corruption has also been a source of instability. Protests ensued after 19 former ministers and public servants with ties to the centre-left Partido de la Liberación Dominicana (PLD), the main opposition party, were arrested on corruption charges on March 18th (all of them deny any wrongdoing). The protests have subsided, but the PLD continues to claim that the arrests were politically motivated, especially given that the next election is just over a year away (scheduled for May 2024). We do not expect wide-ranging anti-corruption reforms—which lack political consensus—to materialise in our forecast period, although the fight against corruption is likely to continue.

Assuming that Mr Abinader is re-elected in 2024, we expect politics to be shaped over the medium term by his plans to reduce red tape, tackle crime and corruption, improve infrastructure and liberalise labour laws, as outlined in his 2020 election manifesto. The president has set aside his plan to raise revenue through a tax reform that would have broadened the tax base, as the lack of public support for the measure made it too politically challenging. We do not expect a tax reform to be passed within the current term, but we think it is likely to pass after the 2024 general election, as it will be a priority for the next term.

Crime (including gun violence, money-laundering and bribery) will remain a policy challenge in 2023-27, largely because of the Dominican Republic's geographical position as a transshipment point in the international drug trade. In mid-2022 Mr Abinader introduced a new strategic plan for the police that emphasises preventive policing, incorporates new technologies into police operations, strengthens education and training for police personnel, and raises salaries and benefits. Although we are optimistic that these measures will engender tangible improvements, there is a risk that they will fail to fulfil their potential because of the difficulties inherent in reducing crime in a society with high income inequality and severe social and economic challenges.

## Election watch

The PRM is in a strong position to retain power at the next presidential election, scheduled for May 2024. A poll in April by Gallup, a regional pollster, suggests that Mr Abinader would win the election in the first round with the support of 54% of likely voters (to avoid a run-off election, a candidate needs to win 50% plus one of the votes). The same poll also shows that the president's popularity is high, with 62% of voters having a favourable opinion of Mr Abinader's administration. Mr Abinader has not yet announced that he will run again, but we believe that he is positioning himself to do so before July, when the pre-campaign season starts and candidates run in their parties' primary elections. By early October all parties should have chosen their nominees. The PLD has already selected Abel Martínez, the mayor of Santiago de los Caballeros (the second most populous city), as its nominee for the 2024 presidential election. Mr Martínez has a hard campaign ahead, not only because of Mr Abinader's popularity but also because many prominent members of the PLD are involved in corruption investigations, weighing on the party's chances. Assuming that Mr Abinader decides to run for re-election, we think that he will win his party's primary election and ultimately be re-elected as president in May 2024.

## International relations

The Dominican Republic's foreign affairs priorities will continue to revolve around its relationships with the US and Haiti. Relations with the US have been warm under the current US president, Joe Biden, but are now being tested. In November 2022 the US banned sugar imports from Central Romana Corporation, the largest producer and exporter of sugar in the Dominican Republic, over allegations that the company had violated workers' rights. The Abinader administration is helping the firm to restore commercial ties with the US through diplomatic channels, but it has so far been unsuccessful. If the company addresses the allegations and implements corrective measures, the US could lift the ban in 2023, but this is far from guaranteed.

The Abinader administration has taken a tough stance on Haiti and migrants, but this has come at the cost of weakening the Dominican Republic's international reputation. In February 2022 the government began constructing a wall between the two countries that is due to be completed in the first half of 2024. The government has also been forcibly deporting undocumented migrants (mostly Haitians) to their country of origin. Although it is not our baseline forecast, there is a risk that the US will impose further sanctions on the country if mistreatment of Haitians worsens.

## Policy trends

For the rest of its term (which ends in 2024) the Abinader administration will focus on implementing growth-enhancing reforms. There will be some attempt to consolidate public finances by reducing non-essential expenditure, but election-related spending is likely to counterbalance these efforts. The economic rebound from the loosening of pandemic-related mobility restrictions supported growth in both incomes and consumption in 2022, and will therefore engender a rise in tax revenue in 2023. In addition, fuel and electricity subsidies that were introduced in 2022 to support domestic consumers in the face of price increases caused by the Russia-Ukraine war are set to be withdrawn, although there is a risk that they will be extended further to bolster the government's popularity ahead of the elections next year (not our baseline assumption). Spending on infrastructure and the police force will keep fiscal consolidation from progressing in 2023-24, with more apparent advances on the fiscal front coming only in 2025 and beyond.

As part of its efforts to support the economy, the government will try to boost consumer and investor confidence by completing infrastructure projects that it outlined in the 2023 budget, which was approved in mid-December 2022. Although it will reduce non-essential spending (for example by lowering the number of public servants) to avoid jeopardising fiscal sustainability, the government will maintain funding for capital projects intended to spur private investment and for schemes aimed at strengthening the social safety net. The government has also relaxed capital requirements for construction sector loans—a targeted measure that, despite running counter to its overall tight monetary policy, will provide an extra boost to construction in the short term.

Other aspects of economic policy will be guided by the framework established by the Estrategia Nacional de Desarrollo 2010-30 (the national development strategy), under which the government forms pacts with civil society groups to agree on goals for educational, fiscal, electricity and labour reform.

Improving the electricity sector is a priority. The government is seeking to reduce losses in the distribution network, promote financial reliability, encourage private-sector participation, and shift the composition of the country's energy matrix away from fossil fuels (which it currently has to import in large volumes) and towards renewables. A long-delayed reform bill for the electricity sector was passed in 2021, bringing into effect a loss-reduction plan for energy distributors (which will remain state-owned in the medium term). However, a tariff increase planned for July 2022 was postponed to provide some relief to consumers and households amid high inflation. We expect tariffs to start to increase gradually in 2023-24, returning to levels that reflect the real costs of distribution; the extra revenue generated will support the sector's finances and lessen the burden on the state. The reform will also engender improvements in the overall management of energy distributors, which will alleviate power shortages.

## Fiscal policy

We forecast that the fiscal deficit will widen slightly, from an estimated 3.2% of GDP in 2022 to 3.3% of GDP in 2023. Election-related spending on infrastructure and the police force will marginally outweigh the increase in tax revenue and the gradual phasing-out of fuel and electricity subsidies. Tax revenue will be limited by a weaker global economy this year, and the phasing-out of the fuel and electricity subsidies introduced in 2022 is at risk of being delayed if inflation picks up again over the course of the year. The government proposes to curb non-priority expenditure across 12 ministries, but we do not think that this will happen as the election nears. We expect the fiscal deficit to stabilise in 2024 owing to the election. Fiscal consolidation will begin to materialise in after 2025; the Abinader government's aim of passing a revenue-raising tax reform to broaden the tax base has been shelved owing to political hurdles, but we assume that tax reform will pass in the next administration, increasing tax collection from 2025 and supporting the narrowing of the fiscal deficit.

Strong nominal GDP growth, coupled with primary surpluses, will help to reduce the public debt/GDP ratio to 46.3% by 2027, from a peak of 72% in 2020. Assuming that progress on debt reduction materialises, as we expect, the government should retain favourable access to global bond markets. In February the government issued two global bonds—one US dollar-denominated bond and one peso-denominated bond—totalling US\$1.8bn. About US\$676m was used to repurchase an existing 2023 tranche of external debt, and the remainder will help to finance the 2023 budget. Owing to tightness in global credit markets, we do not think that there will be other issuances this year, but the sovereign could issue if revenue disappoints. We expect issuances to pick up again, to US\$2.5bn-3bn in 2024, and to increase further over the rest of the forecast period.

## Monetary policy

We believe that the Banco Central de la República Dominicana (BCRD, the central bank) will hold the policy rate at 8.5% until the fourth quarter of 2023, at which point it will embark on an easing cycle to reduce its policy rate gradually, to our estimated neutral rate of 5.75% by end-2025. The tightening cycle that started in November 2021 and lasted until November 2022 aimed to counter inflationary pressures and maintain a wide real interest-rate differential with the Federal Reserve (Fed, the US central bank). The BCRD will begin loosening policy before the Fed, which we expect will start bringing down its own policy rate around mid-2024. The BCRD may start to cut rates before the fourth quarter of 2023 if inflation eases more quickly than expected.

The BCRD will also continue to support liquidity and financial stability in the country's highly dollarised financial sector. The Dominican Republic's large cushion of foreign reserves provides adequate import cover. Assuming that external conditions are broadly supportive of emerging markets in the medium term, exchange-rate volatility will decrease.

## International assumptions

	2022	2023	2024	2025	2026	2027
<b>Economic growth (%)</b>						
US GDP	2.1	1.0	1.0	2.1	2.2	2.0
OECD GDP	2.8	0.9	1.5	1.9	2.0	1.9
World GDP	3.1	2.1	2.4	2.7	2.7	2.7
World trade	4.2	2.1	3.2	3.5	3.7	3.8
<b>Inflation indicators (% unless otherwise indicated)</b>						
US CPI	8.0	4.2	2.2	1.9	2.0	2.1
OECD CPI	8.9	5.8	2.9	2.3	2.1	2.1
Manufactures (measured in US\$)	-0.4	7.0	4.5	3.2	2.4	2.3
Oil (Brent; US\$/b)	99.8	85.9	84.0	79.0	73.1	66.4
Non-oil commodities (measured in US\$)	14.6	-8.6	-2.7	-0.9	-1.5	-1.5
<b>Financial variables</b>						
US\$ 3-month commercial paper rate (av; %)	2.1	5.2	5.0	3.9	2.9	2.6
Exchange rate Ps:US\$ (av)	55.14	56.35	58.51	59.21	59.91	60.62
Exchange rate US\$:€ (av)	1.05	1.10	1.13	1.15	1.17	1.18

## Economic growth

We expect real GDP growth to decelerate from 4.9% in 2022 to 4.1% in 2023 as a global economic slowdown (particularly in the US and Europe) constrains income from tourism and tightening monetary policy in the US makes credit dearer, affecting investment. Private consumption growth will slow owing to weaker tourism performance (which will weigh on incomes), high interest rates and muted inflows of workers' remittances. Although inflows of workers' remittances are higher than they were before the pandemic, growth will be tepid in the context of a weaker US economy. Moreover, government consumption growth will be constrained by increasingly limited fiscal space; authorities are ring-fencing funds to ensure that they can sustainably finance social programmes and public capital projects. Net exports are likely to act as another drag on growth in 2023, largely because the global economic slowdown will constrain exports. In the medium term we forecast that GDP growth in 2024-27 will average 4.1% as consumption and investments bounce back. Headwinds will come from the likelihood of the government raising taxes and cutting public subsidies, which will weigh on domestic demand.

On the supply side, we forecast that agriculture, which accounts for a substantial share of employment, will grow by a solid 3.8% per year on average in 2023-27 as private investment into the sector remains healthy. Free-trade zone (FTZ) manufacturing will benefit from nearshoring trends in the US, and from diversification into higher-value-added, non-textile activities such as pharmaceuticals and medical equipment. However, it will account for a relatively small share of exports and employment. Linkages with the domestic industrial fabric are limited, as FTZ manufacturers are now sourcing less from local suppliers. Meanwhile, local manufacturing will grow, with overall industrial output bolstered primarily by construction and mining (especially of gold and ferronickel). The services sector, particularly tourism, will decelerate in 2023 but should recover in the medium term, as increased investments in the sector will lift demand from developed markets and tourism source countries. In January the Ministry of Tourism announced that it had secured private investments of more than US\$3.6bn that would go towards constructing or renovating hotels and opening new flights to and from Europe. These developments will boost tourism growth over our 2023-27 forecast period.

### Economic growth

%	2022 <sup>a</sup>	2023 <sup>b</sup>	2024 <sup>b</sup>	2025 <sup>b</sup>	2026 <sup>b</sup>	2027 <sup>b</sup>
GDP	4.9	4.1	4.4	4.1	3.9	3.8
Private consumption	5.5	3.9	4.5	4.4	4.4	4.4
Government consumption	3.8	3.2	3.8	3.7	3.7	3.7
Gross fixed investment	4.0	4.5	6.2	6.4	6.4	6.4
Exports of goods & services	13.7	5.4	5.8	5.4	5.3	5.2
Imports of goods & services	15.1	4.7	6.8	7.1	7.6	7.8
Domestic demand	5.0 <sup>c</sup>	4.0	4.8	4.8	4.8	4.9
Agriculture	5.0	3.9	3.8	3.8	3.8	3.9
Industry	1.3	3.9	3.9	3.9	3.6	3.9
Services	6.5	3.3	3.8	3.7	3.6	3.5

<sup>a</sup> Actual. <sup>b</sup> EIU forecasts. <sup>c</sup> EIU estimates.

## Inflation

As in most of the region, supply-side pressures—stemming from elevated global oil prices—will prevent inflation (which ended 2022 at 7.8%) from easing into the BCRD's 3-5% target range in 2023. We expect that inflation will end 2023 at 5.8%. However, tight monetary policy (reflecting more constrained external financing conditions) will help to anchor inflation expectations and lower inflation to within the target band by mid-2024. Downside risks to our forecast include a slower than expected economic recovery; upside risks include a weaker peso and climate-related supply shocks.

## Exchange rates

Although the Dominican peso has been subject to bouts of volatility caused by swings in investor sentiment, it has appreciated since the start of 2022, reflecting strong growth prospects and a wide interest-rate differential with the US. We expect modest, steady depreciation under the heavily managed float in 2023 as policy tightening in the US narrows the interest-rate differential. A larger than expected increase in the import bill is a downside risk, particularly given the Dominican Republic's structural trade deficit. The BCRD is likely to intervene in the event of strong depreciation pressures, given that it has adequate international reserves (US\$16bn, or 5.1 months of import cover, as at March). We expect the peso to weaken to an average of Ps60.6:US\$1 in 2027, as the BCRD is likely to start bringing interest rates down as soon as it can, which will keep the exchange rate competitive in real, trade-weighted terms.

## External sector

The current-account deficit will narrow from an estimated 5.8% of GDP in 2022 to 4.9% of GDP in 2023, driven by slower growth in the import bill, as the global economic slowdown will subdue domestic demand and ease prices of imported goods. Tourism will continue to grow in 2023, after the strong rebound from the pandemic years, although there will be headwinds coming from the economic slowdown in the US and Europe, which are important tourist source markets.

The current account will remain in deficit throughout 2023-27, but the shortfall should narrow steadily as inflows of workers' remittances and tourism receipts offset the trade deficit. Inflows of foreign direct investment (FDI) are likely to rise, averaging 3.7% of GDP per year in 2023-27, as the Dominican Republic will benefit from nearshoring efforts by US-based firms and increased investment in the tourism sector. In addition, a wide interest-rate differential with the US (which the BCRD will maintain through tight monetary policy) should support capital inflows and help to cover the current-account deficit.

## Forecast summary

### Forecast summary

(% unless otherwise indicated)

	2022 <sup>a</sup>	2023 <sup>b</sup>	2024 <sup>b</sup>	2025 <sup>b</sup>	2026 <sup>b</sup>	2027 <sup>b</sup>
Real GDP growth	4.9	4.1	4.4	4.1	3.9	3.8
Gross agricultural production growth	5.0	3.9	3.8	3.8	3.8	3.9
Unemployment rate (av)	4.8 <sup>c</sup>	5.5	5.8	5.8	5.7	5.7
Consumer price inflation (av)	8.8	5.7	5.1	4.2	4.1	4.0
Consumer price inflation (end-period)	7.8	5.8	4.3	4.2	4.0	3.9
Average weighted lending rate	11.9	14.4	14.2	14.1	14.1	14.1
Central government balance (% of GDP)	-3.2	-3.3	-3.3	-3.1	-2.9	-2.7
Exports of goods fob (US\$ bn)	14.0 <sup>c</sup>	15.8	17.1	18.3	19.6	21.0
Imports of goods fob (US\$ bn)	30.7 <sup>c</sup>	31.6	32.7	33.6	34.4	35.1
Current-account balance (US\$ bn)	-6.6 <sup>c</sup>	-6.1	-5.6	-5.3	-5.5	-4.9
Current-account balance (% of GDP)	-5.8 <sup>c</sup>	-4.9	-4.2	-3.7	-3.4	-2.8
External debt (end-period; US\$ bn)	47.2 <sup>c</sup>	48.4	49.0	50.0	51.4	51.1
Exchange rate Ps:US\$ (av)	55.14	56.35	58.51	59.21	59.91	60.62
Exchange rate Ps:US\$ (end-period)	56.41	58.15	58.84	59.54	60.25	60.96
Exchange rate Ps:€ (av)	58.11	61.74	65.97	68.24	69.79	71.53
Exchange rate Ps:€ (end-period)	60.17	64.84	67.38	69.07	70.79	71.94

<sup>a</sup> Actual. <sup>b</sup> EIU forecasts. <sup>c</sup> EIU estimates.

# Data and charts

## Annual data and forecast

	2018 <sup>a</sup>	2019 <sup>a</sup>	2020 <sup>a</sup>	2021 <sup>a</sup>	2022 <sup>a</sup>	2023 <sup>b</sup>	2024 <sup>b</sup>
<b>GDP</b>							
Nominal GDP (US\$ bn)	85.6	88.9	78.8	94.2	113.5	124.4	133.6
Nominal GDP (Ps bn)	4,236	4,562	4,457	5,393	6,261	7,008	7,816
Real GDP growth (%)	7.0	5.0	-6.7	12.3	4.9	4.1	4.4
<b>Expenditure on GDP (% real change)</b>							
Private consumption	5.7	4.6	-3.4	6.6	5.5	3.9	4.5
Government consumption	2.8	6.3	5.0	0.1	3.8	3.2	3.8
Gross fixed investment	13.3	8.1	-12.1	22.0	4.0	4.5	6.2
Exports of goods & services	6.1	1.5	-30.3	36.2	13.7	5.4	5.8
Imports of goods & services	8.5	5.8	-14.6	24.7	15.1	4.7	6.8
<b>Origin of GDP (% real change)</b>							
Agriculture	5.5	4.1	2.8	2.6	5.0	3.9	3.8
Industry	7.9	5.9	-6.7	16.5	1.3	3.9	3.9
Services	5.9	4.4	-7.0	9.9	6.5	3.3	3.8
<b>Population and income</b>							
Population (m)	10.8	10.9 <sup>c</sup>	11.0 <sup>c</sup>	11.1 <sup>c</sup>	11.2 <sup>c</sup>	11.3	11.4
GDP per head (US\$ at PPP)	17,273 <sup>c</sup>	18,273 <sup>c</sup>	17,080 <sup>c</sup>	19,826 <sup>c</sup>	22,028 <sup>c</sup>	23,713	25,051
Recorded unemployment (av; %)	5.8	5.9 <sup>c</sup>	7.4 <sup>c</sup>	7.1 <sup>c</sup>	4.8 <sup>c</sup>	5.5	5.8
<b>Fiscal indicators (% of GDP)</b>							
Central government balance	-2.2	-2.2	-7.9	-2.7	-3.2	-3.3	-3.3
Debt interest payments	2.6	2.7	3.2	3.1	2.8	2.9	2.7
Primary balance	0.4	0.6	-4.7	0.4	-0.3	-0.4	-0.5
Public debt	48.6	52.2	72.0	63.2	60.2	55.4	53.0
<b>Prices and financial indicators</b>							
Exchange rate Ps:US\$ (end-period)	50.28	52.96	58.33	57.55	56.41	58.15	58.84
Exchange rate Ps:€ (end-period)	57.57	59.50	71.57	65.18	60.17	64.84	67.38
Consumer prices (end-period; %)	1.2	3.7	5.6	8.5	7.8	5.8	4.3
Stock of money M1 (% change)	6.6	20.7	28.9	20.8	10.2	9.0	7.8
Stock of money M2 (% change)	4.5	10.4	16.0	15.3	7.0	7.9	6.7
Lending interest rate (av; %)	12.5	12.5	11.0	9.6	11.9	14.4	14.2
<b>Current account (US\$ m)</b>							
Trade balance	-9,559	-9,075	-6,803	-11,681	-16,764 <sup>c</sup>	-15,846	-15,596
Goods: exports fob	10,638	11,193	10,302	12,462	13,977 <sup>c</sup>	15,777	17,111
Goods: imports fob	-20,197	-20,268	-17,105	-24,143	-30,741 <sup>c</sup>	-31,623	-32,708
Services balance	5,497	5,058	1,391	3,649	5,708 <sup>c</sup>	6,575	6,988
Primary income balance	-3,813	-4,234	-3,953	-4,747	-4,782 <sup>c</sup>	-6,262	-6,627
Secondary income balance	6,433	6,898	7,900	10,050	9,205 <sup>c</sup>	9,481	9,655
Current-account balance	-1,322	-1,188	-1,337	-2,689	-6,633 <sup>c</sup>	-6,053	-5,580
<b>External debt (US\$ m)</b>							
Debt stock	31,864	34,165	40,263	43,712	47,170 <sup>c</sup>	48,442	48,991
Debt service paid	2,947	3,759	4,161	2,683	4,192 <sup>c</sup>	6,052	7,791
Principal repayments	1,422	1,849	2,328	717	1,377 <sup>c</sup>	1,862	3,555
Interest	1,525	1,899	1,789	2,603	2,816 <sup>c</sup>	4,190	4,236
<b>International reserves (US\$ m)</b>							
Total international reserves	7,718	8,871	10,845	13,124	14,523	14,125	13,726

<sup>a</sup> Actual. <sup>b</sup> EIU forecasts. <sup>c</sup> EIU estimates.

Source: IMF, International Financial Statistics.

## Quarterly data

	2021			2022				2023
	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr
<b>Central government finance (Ps m)</b>								
Revenue & grants	221,305	213,733	225,305	220,171	251,381	236,661	247,476	n/a
Expenditure & net lending	197,589	240,464	362,128	242,762	253,115	291,249	383,233	n/a
Balance	26,409	-24,981	141,822	-14,081	17,201	-56,179	152,666	n/a
<b>Prices</b>								
Consumer prices (Dec 2010=100)	107.9	109.9	112.3	115.6	118.2	119.8	121.2	123.1
Consumer prices (% change, year on year)	9.8	7.8	8.1	8.9	9.5	8.9	7.9	6.5
<b>Financial indicators</b>								
Exchange rate Ps:US\$ (av)	57.09	57.05	56.80	56.58	55.17	54.04	54.77	55.88
Exchange rate Ps:US\$ (end-period)	57.14	56.41	57.55	55.15	54.92	53.76	56.41	54.69
Deposit rate (av; %)	2.61	2.31	2.19	3.87	5.60	8.30	9.18	n/a
Lending rate (av; %)	9.80	9.52	9.61	9.97	11.14	12.70	13.59	15.03
Monetary policy rate (av; %)	3.00	3.00	3.17	4.83	5.83	7.67	8.42	8.50
Savings rate (av; %)	2.61	2.31	2.19	3.87	5.60	8.30	9.18	9.84
M1 (end-period; Ps bn)	588.3	602.7	681.5	662.5	674.0	664.2	751.3	n/a
M1 (% change, year on year)	22.7	21.0	20.8	16.6	14.6	10.2	10.2	n/a
M2 (end-period; Ps bn)	1,459.1	1,491.3	1,576.5	1,536.9	1,533.3	1,559.9	1,686.8	n/a
M2 (% change, year on year)	17.0	16.1	15.3	9.9	5.1	4.6	7.0	n/a
<b>Sectoral trends</b>								
Tourist arrivals ('000)	1,307	1,589	1,876	1,889	2,013	2,011	2,030	2,297
<b>Balance of payments (US\$ m)</b>								
Exports fob	3,128.0	3,213.2	3,240.1	3,342.1	3,660.3	3,506.0	3,268.5	n/a
National	1,321.1	1,350.0	1,376.9	1,474.5	1,579.3	1,535.8	1,354.5	n/a
Free zone	1,806.9	1,863.2	1,863.2	1,867.6	2,081.0	1,970.2	1,914.0	n/a
Imports fob	-6,030.9	-6,095.5	-7,086.5	-6,948.8	-8,013.5	-8,170.2	-7,610.4	n/a
National	4,893.5	4,936.2	5,838.0	5,621.2	6,657.9	6,889.0	6,316.8	n/a
Free zone	1,137.4	1,159.3	1,248.5	1,327.6	1,355.6	1,281.2	1,293.6	n/a
Trade balance	-2,902.9	-2,882.3	-3,846.4	-3,606.7	-4,353.2	-4,664.2	-4,341.9	n/a
Tourism receipts	1,334.9	1,690.3	1,864.2	2,126.1	2,031.1	2,206.7	2,041.7	n/a
Workers' remittances	2,714.4	2,598.2	2,541.2	2,396.2	2,464.9	2,448.3	2,547.1	n/a
Current-account balance	-370.9	-920.8	-957.1	-1,179.3	-1,910.1	-2,392.3	-845.1	n/a
Reserves excl gold (end-period)	12,671.7	12,991.8	13,091.3	14,649.6	14,507.6	13,858.8	14,489.8	16,068.9

Sources: Banco Central de la República Dominicana; IMF, International Financial Statistics.

## Monthly data

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
<b>Exchange rate Ps:US\$ (av)</b>												
2021	58.31	58.10	57.45	57.10	57.04	57.13	57.20	57.19	56.76	56.51	56.72	57.16
2022	57.83	56.78	55.12	55.20	55.32	55.00	54.72	53.88	53.52	54.05	54.60	55.66
2023	56.71	56.15	54.77	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>Exchange rate Ps:US\$ (end-period)</b>												
2021	58.17	58.00	57.06	57.05	57.09	57.14	57.22	57.10	56.41	56.55	56.90	57.55
2022	57.87	55.06	55.15	55.21	55.31	54.92	54.63	53.16	53.76	54.35	54.97	56.41
2023	56.72	55.70	54.69	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>Real effective exchange rate (2010=100; CPI-based)</b>												
2021	78.48	79.39	81.12	81.53	81.26	81.28	81.76	82.11	82.73	83.25	83.43	83.31
2022	82.38	84.08	87.19	87.52	88.15	88.33	90.17	91.36	92.95	92.48	90.61	88.59
2023	85.97	86.90	87.09	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>Central government revenue (Ps bn)</b>												
2021	63.9	58.5	58.4	85.0	67.1	69.3	78.5	68.6	66.6	75.3	76.8	73.2
2022	81.2	66.3	72.7	87.4	85.2	78.8	76.9	78.4	81.3	81.7	75.9	89.9
2023	85.7	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>Central government expenditure (Ps bn)</b>												
2021	69.6	65.7	69.1	70.3	56.4	70.8	87.5	75.0	78.0	72.5	98.4	191.2
2022	83.7	72.6	86.5	80.9	75.0	97.2	114.6	88.7	88.0	91.7	122.8	168.7



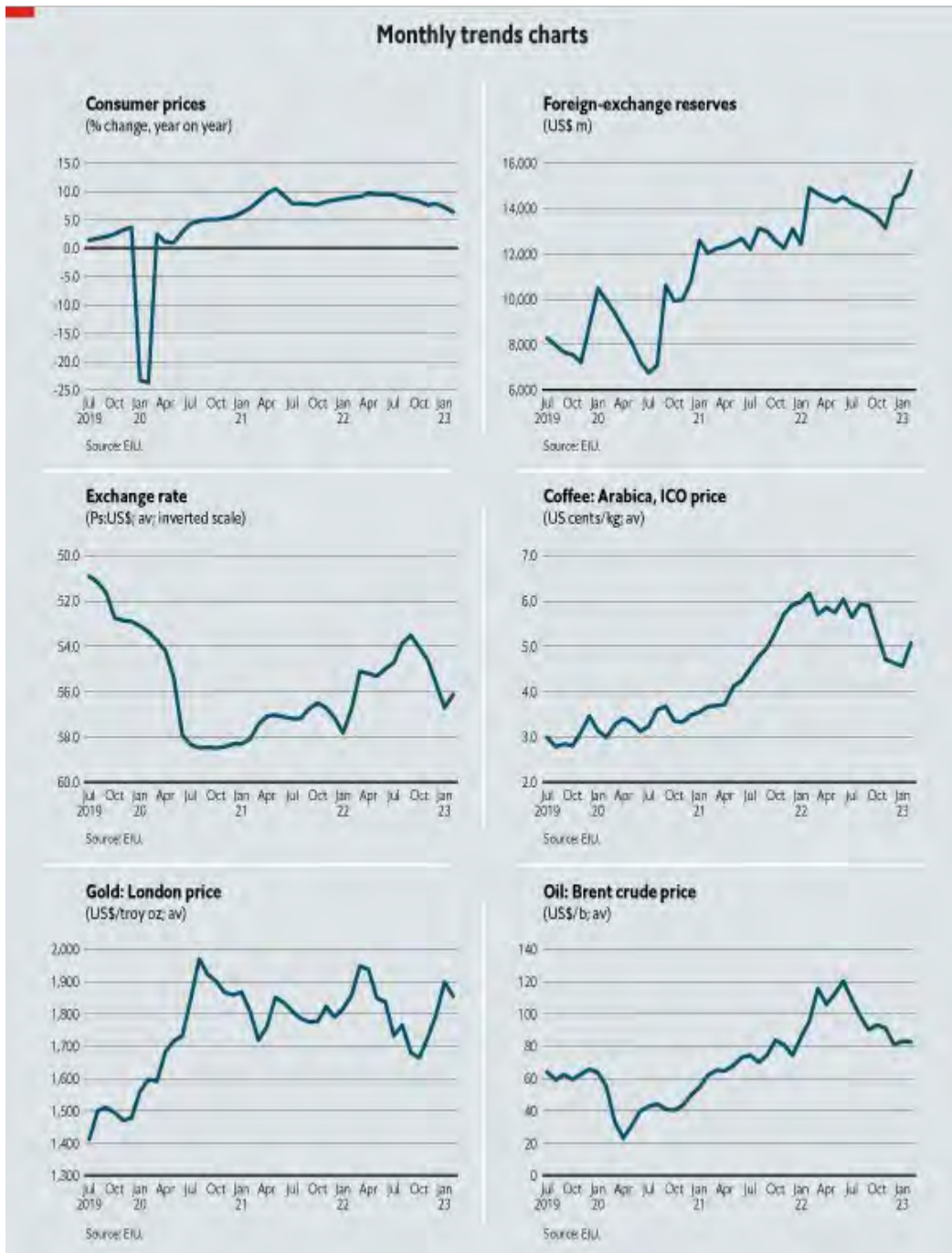
2023	96.6	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>Central government balance (Ps bn)</b>												
2021	5.9	-9.0	-14.5	8.3	20.3	-2.2	-11.8	-5.7	-7.5	7.2	-23.9	-125.1
2022	3.1	-13.5	-3.7	9.6	21.5	-13.8	-46.2	-10.3	0.3	-10.1	-47.9	-94.7
2023	-2.1	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>Consumer prices (av; % change, year on year)</b>												
2021	6.2	7.1	8.3	9.6	10.5	9.3	7.9	7.9	7.7	7.7	8.2	8.5
2022	8.7	9.0	9.1	9.6	9.5	9.5	9.4	8.8	8.6	8.2	7.6	7.8
2023	7.2	6.4	5.9	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>M1 (% change, year on year)</b>												
2021	33.3	33.1	33.4	25.5	26.3	22.7	23.8	20.3	21.0	19.2	22.9	20.8
2022	21.7	18.9	16.6	18.2	12.2	14.6	13.3	12.3	10.2	10.0	8.6	10.2
2023	10.3	10.4	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>M2 (% change, year on year)</b>												
2021	18.0	18.5	19.9	17.7	17.5	17.0	16.9	15.4	16.1	13.5	16.1	15.3
2022	14.7	13.3	9.9	10.1	7.3	5.1	6.0	4.9	4.6	6.1	5.6	7.0
2023	8.3	7.0	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>Deposit rate (av; %)</b>												
2021	3.6	3.4	2.6	3.7	1.9	3.2	1.8	2.9	2.6	2.7	2.7	2.5
2022	1.8	4.1	6.3	5.3	6.2	6.4	9.0	8.8	8.2	8.5	10.2	9.3
2023	10.0	10.4	10.9	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>Lending rate (av; %)</b>												
2021	9.7	9.8	9.0	10.0	10.0	9.4	9.3	9.9	9.3	9.7	9.9	9.2
2022	9.6	10.0	10.3	10.4	11.4	11.7	11.8	12.5	13.7	13.6	13.7	13.5
2023	14.0	15.7	15.5	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>National exports fob (US\$ m)</b>												
2021	789	962	1,155	1,012	1,062	1,042	1,056	1,087	1,071	1,052	1,125	1,051
2022	928	1,123	1,292	1,215	1,216	1,230	1,211	1,218	1,076	1,086	1,139	1,044
2023	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>National imports fob (US\$ m)</b>												
2021	1,499	1,608	1,881	1,935	1,954	2,094	2,098	1,935	2,058	2,339	2,496	2,246
2022	2,249	2,167	2,533	2,426	2,620	2,967	2,628	2,863	2,679	2,633	2,568	2,409
2023	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>Trade balance fob-cif (US\$ m)</b>												
2021	-710	-647	-727	-923	-892	-1,052	-1,042	-849	-987	-1,288	-1,371	-1,195
2022	-1,322	-1,044	-1,241	-1,212	-1,405	-1,737	-1,416	-1,645	-1,603	-1,548	-1,429	-1,366
2023	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>Foreign-exchange reserves excl gold (US\$ m)</b>												
2021	12,582	12,024	12,235	12,307	12,476	12,672	12,201	13,119	12,992	12,564	12,260	13,091
2022	12,430	14,905	14,650	14,463	14,302	14,508	14,224	14,073	13,859	13,599	13,138	14,490
2023	14,650	15,642	16,069	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Sources: IMF, International Financial Statistics; Haver Analytics.

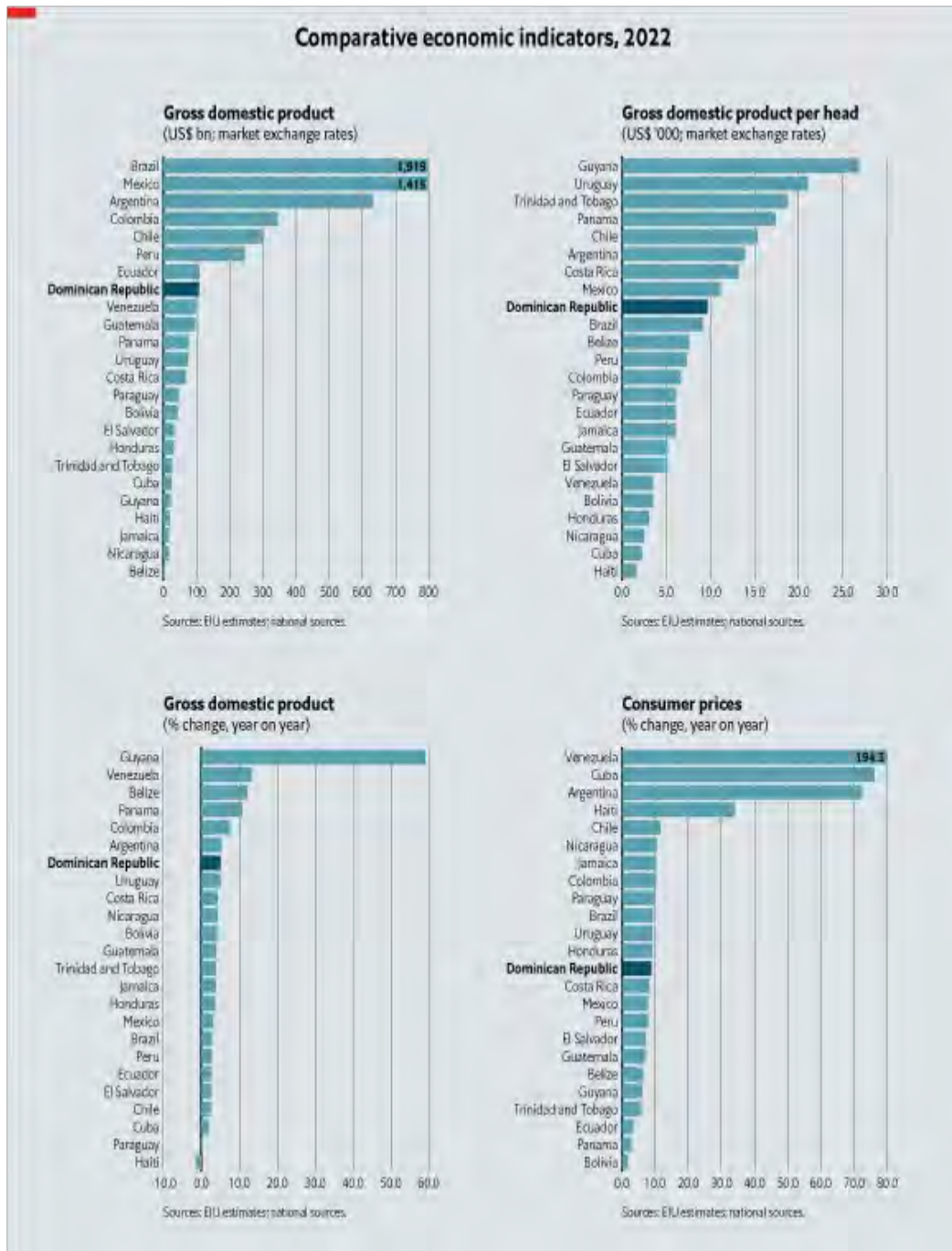
# Annual trends charts



# Monthly trends charts



# Comparative economic indicators



## Basic data

### Land area

48,511 sq km

### Population

10.6m (2018, UN estimate)

### Main cities/provinces

Population in '000 (2010, census)

Santo Domingo national district (capital): 965

Santo Domingo province: 2,374

Santiago province: 963

San Cristóbal province: 569

La Vega province: 394

Puerto Plata province: 322

San Pedro de Macorís province: 291

## Climate

Subtropical

### Weather in Santo Domingo (altitude 14 metres)

Hottest month, August, 23-31°C (average daily minimum and maximum); coldest month, February, 19-28°C; driest month, March, 19 mm average rainfall; wettest month, June, 185 mm average rainfall

## Language

Spanish

## Measures

Metric system, although the tarea is often used: 6.4 tareas=1 acre; 15.9 tareas=1 ha

## Currency

1 peso (Ps) = 100 centavos; average exchange rate in 2022: Ps55.14:US\$1; end-2022 exchange rate: Ps55.98:US\$1

## Time

4 hours behind GMT

## Public holidays

January 1st (New Year's Day); January 9th (Epiphany); January 21st (Our Lady of Altagracia); January 30th (Duarte's Day); February 27th (Independence Day); April 7th (Good Friday); May 1st (Labour Day); June 8th (Corpus Christi); August 16th (Restoration Day); September 24th (Our Lady of Las Mercedes); November 6th (Constitution Day); December 25th (Christmas Day)



## Political structure

### Official name

Dominican Republic

### Form of government

Representative democracy with a US-style Congress and presidency

### Head of state

Luis Abinader was elected in July 2020 and began his term on August 16th

### The executive

The president has executive power, appoints a cabinet and holds office for four years

### National legislature

Bicameral Congress, with both houses directly elected for four-year terms; the Senate (the upper house) has 32 members, one for each province and one for the national district; the Chamber of Deputies (the lower house) has 190 members

### Legal system

There are local justices covering 72 municipalities and 18 municipal districts; each province acts as a judicial district. The 2010 constitution created a new Constitutional Court. A National Council of Magistrates appoints judges to the Constitutional Court, the Supreme Court and the Electoral Court

### National elections

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The last general election was held in July 2020; municipal polls were last held in March 2020. The next general election is scheduled for May 2024

## National government

The Partido Revolucionario Moderno (PRM) and its allies won 93 of 190 seats in the Chamber of Deputies and 18 of 32 seats in the Senate. The Partido de la Liberación Dominicana (PLD) heads an opposition alliance that holds 76 seats in the lower house and six seats in the upper house. Leonel Fernández (a two-time former president) resigned as PLD leader and left the party in 2019; he was followed by dozens of legislators who now support the PRM

## Main political organisations

Government and allies: PRM; Frente Amplio (FA); Alianza por la Democracia (APD); Dominicanos por el Cambio (DXC); Partido Humanista Dominicano (PHD); Partido Revolucionario Social Demócrata (PRSD); País Posible

Opposition: PLD; Fuerza del Pueblo (FP); Movimiento Democrático Alternativo; Unión Demócrata Cristiana (UDC); Partido Revolucionario Dominicano (PRD)

## Key ministers

President: Luis Abinader

Vice-president: Raquel Peña

Agriculture: Limber Cruz

Defence: Carlos Luciano Díaz Morfa

Economy, planning & development: Pável Isa Contreras

Education: Ángel Hernández

Energy & mines: Antonio Almonte

Environment & natural resources: Miguel Ceara Hatton

Finance: Jochi Vicente

Foreign affairs: Roberto Álvarez

Industry & commerce: Víctor "Ito" Bisonó

Interior & police: Jesús Vásquez Martínez

Labour: Luis Miguel De Camps

Presidency: Joel Santos

Public administration: Darío Castillo Lugo

Public health & social assistance: Daniel Rivera

Public works & communications: Deligne Ascención Burgos

Tourism: David Collado

## Central bank governor

Héctor Valdez Albizu

# Recent analysis

Generated on June 8th 2023

The following articles were published on our website in the period between our previous forecast and this one, and serve here as a review of the developments that shaped our outlook.

## Politics

### Analysis

#### Security concerns raise risks to Abinader’s popularity

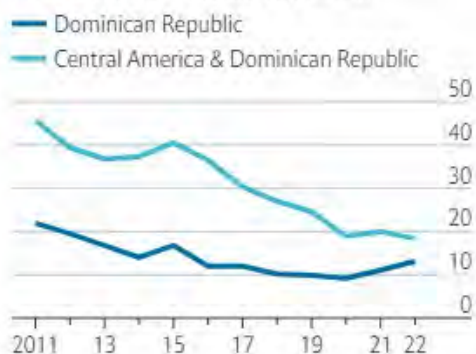
April 12, 2023: Political stability

- **Homicides and drug-trafficking have increased in the last two years, most likely driven by the post-pandemic economic reopening and a crisis in neighbouring Haiti. Should the crime situation deteriorate further, it will hurt the government’s popularity and the re-election campaign of the current president, Luis Abinader of the centrist Partido Revolucionario Moderno (PRM).**
- **Many cases of violent crime in the Dominican Republic can be traced to international drug-trafficking groups, who use the island as a transshipment point to the larger US and European markets. Political instability in Haiti has made the border between the two countries more porous, exacerbating security risks in the Dominican Republic.**
- **The government has presented a plan to strengthen the police force, but EIU believes that it will fall short of curtailing crime. At the same time, the government’s strict immigration and border policies—aimed at curbing arrivals of Haitians—have boosted Mr Abinader’s popularity but have drawn criticism from international human rights groups.**

Public safety in the Dominican Republic has been deteriorating over the past few years, weighing on the business environment and threatening Mr Abinader’s chances of being re-elected in 2024 (he has not yet formally announced his intention to run but is expected to do so soon). According to recent polls, the president enjoys a high approval rating, largely owing to perceptions that he is taking a tough line on immigration from Haiti. The country’s homicide rate remains below the regional average, but it has been rising since 2020 and is now at its highest level since 2014, according to the Centro de Análisis de Datos de la Seguridad Ciudadana (the government’s security data office). Drug seizures nearly doubled between 2020 and 2021, before climbing further in 2022. Moreover, cases of violence have featured prominently in the local media, stoking public concerns about Mr Abinader’s priorities.

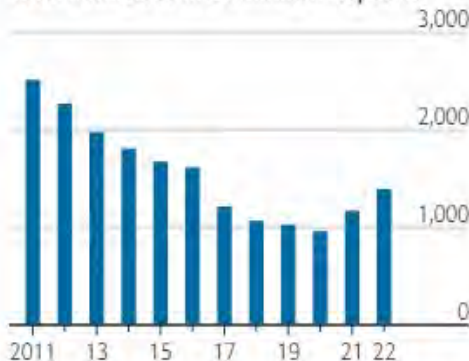
#### Homicides have risen again, having fallen to a low in 2020

Homicides per 100,000 population



Source: Centro de Análisis de Datos de la Seguridad Ciudadana.

Total homicides in Dominican Republic



\*Note. Figures for 2022 are estimates based on data up to September 2022.

Mr Abinader’s public security strategy appears to be too little, too late. The last major police



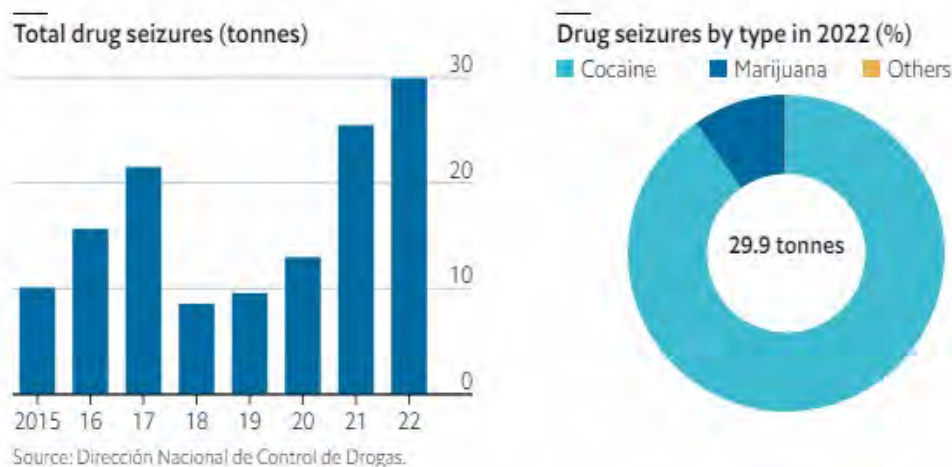
reform was in 2016 and involved efforts to modernise the police services, impose stricter controls on the use of force and tighten penalties for wrongdoing by officers. This seemed to bear fruit, as crime rates fell gradually until 2020, when they ticked up again. Since then, little has been done to improve the country's security forces. Only in August 2022 did the Abinader government introduce a plan to reform the police, which included measures to enhance the institution's administrative structure, its operational systems, and the well-being, training and education of police agents. Although these efforts are likely to foster some positive changes, the plan is not nearly as comprehensive as the 2016 reform. EIU does not believe that it will be sufficient to quell the recent wave of violence; this will sustain security risks and could jeopardise Mr Abinader's popularity ahead of the 2024 election.

## International drug-trafficking feeds criminal activity

One of the main goals of the Abinader administration's police plan is to prevent corruption and the infiltration of security forces by organised crime groups (whose activities are mostly related to drug-trafficking). The government's failure to tackle corruption has hampered attempts to reduce drug-related and general street crime, both of which have grown in recent years.

The Dominican Republic has long been part of an important transit route for illegal narcotics (particularly cocaine) on the way to the US and Europe. The country's prominence as a transshipment hub has been compounded by the situation in neighbouring Haiti, where violent criminal organisations control much of the capital city, Port-au-Prince, and where lax government regulations allow narcotics to get into the country. Because few ships and planes depart from Haiti, narcotics are transported across the border to the Dominican Republic, where they are then shipped out. Data from the Dirección Nacional de Control de Drogas (the anti-narcotics agency) show that drug seizures increased by 84.7% year on year in 2021 and another by 41.2% in 2022, to 29.9 tonnes. This represents about 1.5% of global world seizures, which came in at nearly 2,000 tonnes in 2021, according to the UN Office of Drugs and Crime.

### Drug seizures picked up post-pandemic



Part of the jump in drug seizures in 2021 seems to be related to opportunities for criminal organisations that were created by the crisis in Haiti, which escalated in July that year with the assassination of the president, Jovenel Moïse. However, the rise also coincided with an easing of mobility restrictions enabled by the covid-19 vaccination campaign; the vaccine rollout began in the Dominican Republic in April 2021, and mobility restrictions had been lifted completely by February 2022. We think that both factors together—the crisis in Haiti and the easing of pandemic restrictions—contributed to the rise in drug-trafficking through the Dominican Republic, and with it, the increase in crime.

## Crackdown on Haitians plays well with voters

Although the government has taken some steps to strengthen and improve the police force, the measures introduced have been limited and were only presented in August last year. The government has instead focused its efforts on containing the fallout from the instability in Haiti

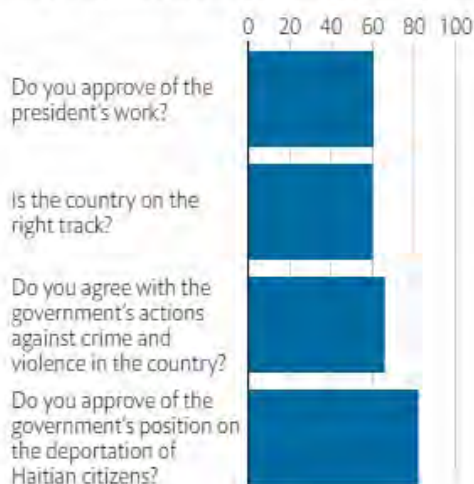
and increased irregular immigration. Strict policies adopted at the border are likely to reduce security risks, but the government has also taken some draconian measures against Haitians and those of Haitian descent that we think are aimed more at boosting its own popularity than at enhancing security.

There has long been prejudice towards Haitian immigrants in the Dominican Republic, but the crisis has heightened it. Against this backdrop, the Abinader government started building a wall along the 392-km border between the two countries in February 2022 (construction is expected to finish in 2024). In October the government also created the Comando Sur de la Fuerza Aérea, a new division of the air force, with the aim of reinforcing security on the Haitian border. Mr Abinader stepped up measures again in November, with a decree to deport Haitians living in the country, as well as those born in the Dominican Republic who are of Haitian descent.

### Most Dominicans approve of the government's policies

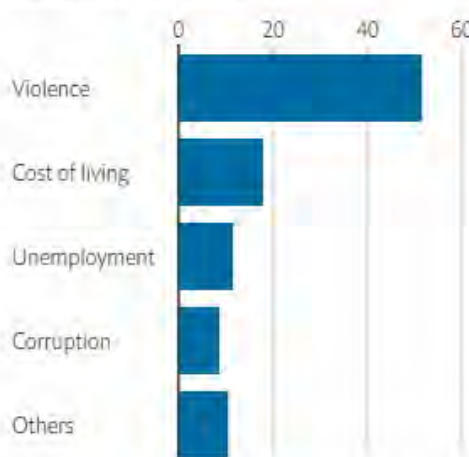
(% of respondents)

"Yes" response to the following questions



Sources: ABC Marketing; EIU.

What is the main problem affecting the country nowadays?



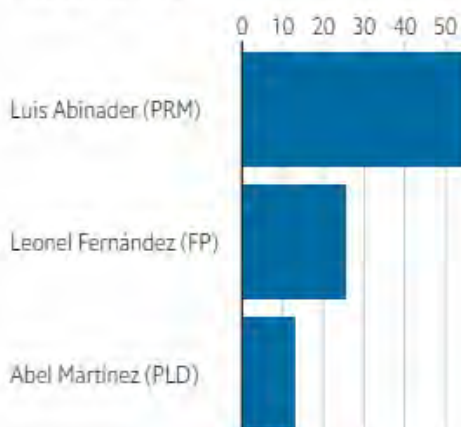
\*Note: Poll conducted in person over January 26th-30th. Margin of error is 2.8 percentage points.

Mr Abinader's migration and border policies have boosted his popularity with voters. A survey by ABC Marketing, a Peruvian pollster, that was published in February found that 82.1% approve of the government's policy regarding the deportation of Haitians. The same poll also showed that respondents considered violence to be the main issue affecting the country. Meanwhile, a survey published in April by Gallup, a US pollster, found that Mr Abinader would win re-election in a first-round vote, with 56% of support. As such, it is likely that the president will stick to his current policies on Haitian immigration. His approach has generated some international criticism; in November 2022 US Customs and Border Protection prohibited sugar imports from Central Romana Corporation (the Dominican Republic's biggest sugar producer and exporter) owing to claims that the firm had mistreated workers, many of whom are Haitians or have Haitian ancestors. However, this seems to be an isolated case, and broader international sanctions are very unlikely.

## Abinader would win if an election was held today

(% of respondents)

### First-round vote



### Scenarios for a second-round vote



Sources: Gallup/RCC Media; EIU.

\*Note: Poll conducted in person over April 1st-5th. Margin of error is 2.8 percentage points.

A greater risk for Mr Abinader's re-election hopes is a further rise in crime. Despite the government's efforts to interrupt the drug trade along the border with Haiti, trafficking through the country is likely to continue. Even with strict border controls, drug organisations will remain keen to exploit the Dominican Republic's geographical location; it is close to the US (home to about 5m cocaine users), it has a long southern coastline and is only separated by a narrow channel from the US territory of Puerto Rico. From there, drugs can be shipped more easily to the US mainland, owing to stronger transport links. If stricter border controls and police reforms do not reduce crime levels, Mr Abinader's popularity is likely to suffer. However, we believe that a more dramatic rise in violence would be needed to seriously undermine his prospects for re-election in May 2024.

## Economy

### Analysis

#### Global business environment improves

April 13, 2023: 5-year summary











- **Singapore, Canada and Denmark will be the three countries with the best business environment over the next five years, according to EIU's latest business environment rankings.**
- **Several west European countries plus the US, Hong Kong and New Zealand make up the remaining top ten geographies in our ranking largely supported by strong levels of economic and political stability.**
- **The biggest improvements over the past year are in the business environments of Vietnam, Thailand, Belgium, Sweden, India and Costa Rica. The biggest deteriorations are in China, Bahrain, Chile and Slovakia.**
- **Two major trends stand out. First, the outlook for China's business environment has deteriorated as a result of greater policy uncertainty, US-China tensions and a more challenging longer-term outlook for growth.**
- **In our latest rankings China is behind markets such as Malaysia, Thailand, Vietnam, Mexico and India, which are seeking to attract manufacturing investment away from China.**
- **Second, east European countries have been badly hit by the fallout of the war in Ukraine, resulting in reduced market opportunities. By contrast, western Europe has weathered the situation well.**

The changes in our business environment rankings (BER) over the past year illustrate the impact

on global operating environments of the war in Ukraine; the ensuing spike in inflation and cost-of-living crisis; and the current combination of fiscal loosening, monetary tightening and an economic slowdown. The BER measures the attractiveness of the business environment in 82 countries on a quarterly basis, using a standard analytical framework with 91 indicators. Our ranking for the second quarter of 2023 shows that North America and western Europe continue to be the best places in the world to do business. Asia ranks third, ahead of eastern Europe, while Latin America marginally outperforms the Middle East and Africa (MEA).

### Top 10 geographies by business environment score

(10 represents the best possible score)

Geography	Total score	Rank
 Singapore	8.70	1
 Canada	8.45	2
 Denmark	8.45	3
 US	8.37	4
 Switzerland	8.34	5
 Sweden	8.30	6
 Hong Kong	8.25	7
 Germany	8.25	8
 New Zealand	8.21	9
 Finland	8.11	10

Source: EIU.


## North America and western Europe: best in the world for business

Canada ranks second in the BER and the US ranks fourth, unchanged from a year ago. The fact that ten of the top 20 countries in the global ranking are in western Europe reflects the region's political stability, large and competitive domestic markets, and openness to world trade. Many west European countries were able to roll out significant fiscal support for citizens and businesses during 2022 as rising inflation raised the cost of living. The short-term economic outlook for the region is subdued, given rapid monetary tightening. However, in the medium term greater spending under the €750bn EU recovery fund will support business-friendly investment in the digital sector, the green agenda and the transition away from reliance on Russia in the energy sector.

**Biggest winners:** Compared with one year ago, **Belgium** improves its ranking by seven spots and Sweden by six. Belgium's improvement reflects a more open foreign direct investment (FDI) policy, with a new federal mechanism providing a clearer framework from January 2023. Belgium's robust institutional framework, pro-business policy orientation, high-quality network infrastructure and location at the heart of the EU support its ranking. **Sweden** also improves its ranking on the back of better scores for political and economic stability. Sweden is one of the world's most digitally advanced economies and has progressed further than many of its peers in decarbonisation, meaning that it is well placed to respond to transformative trends in technology and the environment.

## Change in business environment rankings

(from Q2 2022 to Q2 2023)

Geography	Change in rank	Direction
 Vietnam	12	↑
 Thailand	10	↑
 Belgium	7	↑
 Sweden	6	↑
 India	6	↑
 Costa Rica	6	↑
 Latvia	-6	↓
 Serbia	-6	↓
 Colombia	-6	↓
 Kuwait	-6	↓
 Slovakia	-7	↓
 Chile	-9	↓
 Bahrain	-9	↓
 China	-11	↓

Source: EIU.

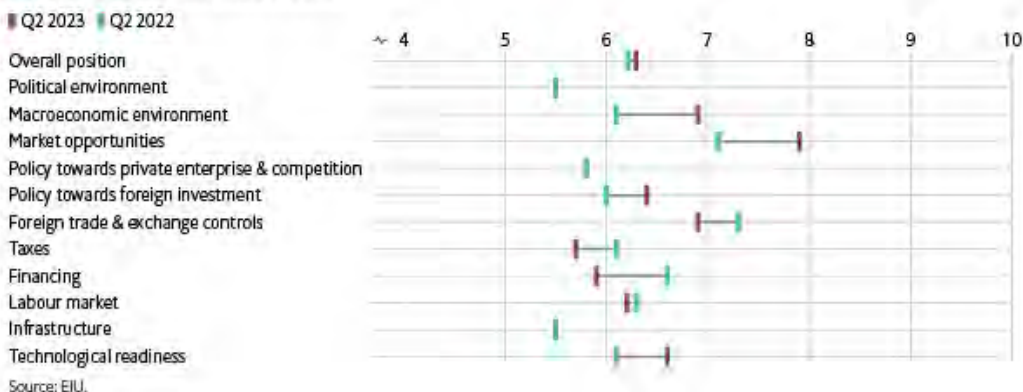
**Biggest losers: Slovakia** falls by seven spots. As elsewhere in the region, monetary tightening has weighed on financing opportunities. In addition, Slovakia's market opportunities score has deteriorated sharply, with growth in foreign trade set to slow amid continued supply-chain disruptions and elevated input costs for its energy-intensive manufacturing sector. **Latvia** drops by six places, driven by deteriorating scores for financing and the labour market—it has a shrinking labour force, persistent emigration of young workers, and skills shortages. **Serbia** also drops by six spots. Serbia's labour-market score is deteriorating owing to low digital skills levels and one of the lowest labour-force participation rates in Europe.

## Asia: reorienting away from China

Singapore will retain the world's best business environment in the forecast period, with Hong Kong, New Zealand, Australia, Taiwan and South Korea also ranking in the global top 20. As a region, Asia's score for policy towards foreign trade is improving. This partly reflects the impact of regional free-trade agreements (FTAs) adopted in the past five years, the effects of which will be felt in our five-year forecast period (2023-27).

**Biggest winners:** the Asian countries that have improved their ranking the most over the past year are Vietnam, Thailand and India. Vietnam is our overall biggest mover worldwide, climbing 12 spots, while Thailand improves by ten places and India by six. **Vietnam** and **Thailand**, which have favourable policies for foreign investors, are benefiting from firms pursuing a China+1 policy of having supply chains in both China and another Asian market. This reflects China's zero-covid policies, which have constrained business operations, and also allows firms to mitigate geopolitical risk associated with the US-China relationship. Vietnam's score rises on the back of an improving economic outlook, and Thailand's as a result of greater economic stability. **India** has historically struggled to attract manufacturing investment but is now well placed to benefit from similar trends. A strong, stable economy and access to a large labour supply form the basis of its appeal to investors. Policy reforms are making it easier to do business in India, and we expect major improvements in areas such as infrastructure, taxation and trade regulation, boosting investment.

**India's business environment score has improved across most parameters**  
(10 represents the best possible score)



**Biggest loser: China** is our biggest loser globally, falling by 11 spots in the second-quarter rankings compared with a year earlier. Although the end of the zero-covid policy is positive for firms operating in China, regulatory changes stemming from the statist direction of economic policy, as well as rising local costs, weigh on its business environment and limit opportunities for international investors. China now ranks below Malaysia, Thailand, Vietnam and India.

**Latin America: narrowly outperforming the Middle East and Africa**

Latin America scores poorly for political effectiveness, reflecting problems with corruption, crime, weak institutions and often incoherent policy towards business. Inflows of FDI—mainly to commodity-related sectors, but also to services (such as commerce, restaurants and finance) and manufacturing—boomed in 2022 in many Latin American economies. This FDI mini-boom could continue into 2023. Improvements will be recorded in countries that are undergoing reforms, but these will be slower than in other emerging-market regions, reflecting governability difficulties. By global comparison, Latin America's tax policy stands out as being particularly poor, reflecting costly and unwieldy systems in most countries. Moreover, the tax burden is now set to rise, reflecting the need to narrow fiscal deficits after the pandemic.

**Biggest winner: Costa Rica** improves its global ranking by six spots, driven by higher infrastructure and technological readiness scores. Broad political consensus on maintaining a market-friendly, open economy has helped the country to secure a wide network of FTAs and has made it attractive to investors. This, along with accession to the OECD in May 2021, supports Costa Rica's strong score for policy towards foreign investment.

**Biggest losers: Chile** drops by nine spots compared with last year, and **Colombia** by six, with scores for the political environment and policy towards foreign investment declining for both. In Chile this reflects policy uncertainty associated with an unresolved constitutional reform process that creates uncertainty and hurts political effectiveness, as well as the left-wing government's plans to expand the role of the state in the economy. That said, Chile remains Latin America's top-ranked country in the BER, at 30th in the global ranking. In Colombia economic policy under the left-wing president, Gustavo Petro, will become more interventionist and state-driven, involving stricter regulations for the oil sector.

**Middle East and Africa: the lowest-ranking region**

MEA's overall score in the BER is the lowest of any region. The ranking for the MEA region continues to be weighed down by poor governance and endemic insecurity, including the spillover from the conflicts in Syria, Yemen and Libya, alongside political unrest in a number of countries, including Iraq and Lebanon. Cuts in capital spending in the context of post-pandemic fiscal tightening have constrained the region's macroeconomic score, but on the positive side, this has pushed countries to support business-friendly reforms, such as improved frameworks for public-private partnerships and foreign investment. Israel and the Gulf states are the highest-ranked countries in the region, with the latter's scores improving in recent years in line with rising oil prices and growing absorptive capacity for new investment. Qatar, Saudi Arabia and the

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United Arab Emirates will improve further in 2023-27. Both the Middle East and Africa typically suffer from weak corporate governance and regulation, as well as poorly trained labour forces and, in countries such as Angola, Nigeria and the Gulf states, an overreliance on hydrocarbons. Nonetheless, rates of return can be high for firms that master the region's complicated political and regulatory climate.

**Biggest winner:** No countries in the Middle East or Africa see improvements in our ranking of the scale recorded in other regions. **South Africa** sees a modest rise, up by four spots, but this reflects improvement from a low base given the disruptions to critical public services such as power supply that characterise the business environment at present.

**Biggest losers:** **Bahrain** falls by nine spots, and **Kuwait** by six, both owing to deteriorating market opportunities scores as a consequence of falling (albeit still comparatively high) global oil prices, which represent a large share of fiscal and export receipts. Lack of progress on regulations and reforms also weighs on these countries' business environment scores.

# JAMAICA







# Integrated Country Strategy

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**JAMAICA**

**FOR PUBLIC RELEASE**

Approved: March 31, 2022

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## 1. Chief of Mission Priorities

Located at the center of trans-Caribbean trading routes and home to the largest English-speaking population in the Caribbean, Jamaica has emerged as a critical strategic partner to U.S. security and economic interests. The United States was one of the first countries to recognize Jamaica's independence in 1962 and the two countries have deepened their bilateral relationship. Millions of Americans have family connections on the island and are a crucial source of remittances for the Jamaican economy. Similarly, numerous U.S. companies have invested in Jamaica's economy and the U.S. trade surplus with Jamaica exceeds \$2 billion annually. An upwards of 40 percent of Jamaica's economy is dependent on the United States. Jamaica's current government charts a pragmatic foreign policy, seeking closer cooperation with the United States on issues ranging from counternarcotics to cybersecurity while simultaneously maintaining friendly relations with Cuba, China, and the 15-member Caribbean Community (CARICOM). Jamaica was among the first in the hemisphere to recognize China and maintains close relations, along with significant Chinese loans and investment in key infrastructure, bauxite, and telecommunications sectors. Jamaica generally votes with CARICOM members in multilateral organizations but has voted with the United States on U.S.-backed resolutions at the Organization of American States on Venezuela and Nicaragua.

Jamaica is a successful democracy characterized by a robust civil society, independent judiciary, and largely free and fair elections. However, the island has struggled with high crime, corruption, and anemic economic growth. Burgeoning numbers of at-risk youth and a shortage of economic opportunities have contributed to extraordinary levels of narcotics and firearms trafficking, money laundering, organized crime, corruption, and other illegal activities such as financial scamming that directly target U.S. citizens. Despite robust government efforts, including targeted States of Emergency, gang violence continues to fuel a homicide rate that consistently ranks among the highest in the world. A lack of institutional capacity and frequent delays in the judicial process often allow crimes to go unpunished.

Despite Jamaica's many assets – including an educated population, agricultural fertility, bauxite deposits, and a first-rate tourism sector – its economy had been stagnant for over three

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decades, with an average annual growth rate of less than 1 percent. Jamaica stabilized its economy through a series of International Monetary Fund-guided economic reforms in 2019. Nevertheless, challenges with poverty, unemployment, security, and health remain and were significantly exacerbated by the COVID-19 pandemic. To address these challenges, the government seeks to promote economic recovery, infrastructure development, and reduce violent crime. These issues, along with a lack of preparedness for natural disasters, high energy costs, and continuing discrimination against LGBTQI+ and other vulnerable populations elevate the risk environment for foreign investments.

The Mission's top priority is to harness the diverse ties binding the U.S.-Jamaica partnership to advance our values and interests in the region. Maintaining a robust platform for people-to-people ties and diplomatic engagement with the government that would continue to look at the United States as its most important partner will promote American values, serve our geopolitical, humanitarian, and economic interests, and enable the Mission to provide security for U.S. citizens.

The Mission's first goal is to provide safety and security for U.S. citizens residing in and visiting Jamaica and the Cayman Islands. To achieve this goal, the Embassy will conduct regular outreach and provide immediate response to protect U.S. citizens throughout Jamaica and the Cayman Islands. The Embassy will develop plans to enhance the protection of U.S. citizens during global pandemics and other disasters. Through their combined efforts, the U.S. law enforcement and development agencies represented in the Mission will work to counter threats from transnational criminals, support preventative measures to stop youth from joining criminal enterprises, and support victims of violence. Post will use diplomacy and programs to help the Jamaican government address root causes of violence (including violence against women and children, discrimination against the LGBTQI+ community, and the disproportionately high rates of murders and school dropout rates faced by boys and young men).

Our second goal is to increase Jamaica's healthcare system capacity to manage existing and emerging threats. Post will use assistance and diplomatic engagement to work with the

Jamaican government towards accelerating control of the HIV epidemic and managing COVID-19.

The third goal is to build greater space for the United States and U.S. firms to contribute to a robust and diversified Jamaican economy that would enable increased U.S. exports and investment to the benefit of both Jamaica and the United States. While the Jamaican economy has remained relatively strong in the face of the COVID-19 pandemic compared to others in the region, U.S. assistance in Jamaica's economic recovery must emphasize greater diversification and resilience, particularly in transformative sectors such as renewable energy and digital economy technologies. This will require encouraging Jamaica's choice of trusted vendors and other partners while growing its digital workforce and infrastructure. As a small island developing state, Jamaica is on the front lines of dealing with climate change. U.S. support for advancing climate change goals, including financing to promote renewable energy, and encouraging investment in climate-smart infrastructure, will be critical to help Jamaica mitigate climate challenges while increasing its resilience to natural and manmade disasters.

The Management Objectives enhance the management platform in support of Mission Goals by improving the quality of life, productivity, and morale of the entire Mission, as well as ensuring that work and living environments allow personnel to achieve Mission Goals safely and securely. In addition, the Management Objectives will advance Diversity, Equity, Inclusion, and Accessibility while ensuring the Mission is fully and appropriately staffed.

## 2. Mission Strategic Framework

**Mission Goal 1:** A More Safe, Just, and Secure Jamaica for U.S. Citizens and Jamaicans.

- **Mission Objective 1.1:** Enhanced bilateral, interagency, local partners, and regional cooperation along with consular operations to increase border security and disrupt and deter transnational and domestic crime that threaten U.S. security and U.S. citizens in Jamaica.
- **Mission Objective 2.2:** Strengthened institutions and government to promote the rule of law, fight corruption, and improve conditions that drive crime and violence.

**Mission Goal 2:** Increase Jamaica's healthcare system capacity to manage existing and emerging threats.

- **Mission Objective 2.1:** Accelerate HIV/AIDS Epidemic Control to ensure Jamaica meets its 2025 goal of 90 percent of People Living with HIV (PLHIV) knowing their status, of whom 90 percent on treatment, and of those, 90 percent virally suppressed.
- **Mission Objective 2.2:** Government of Jamaica increases its resiliency to COVID-19 and develops COVID-19 mitigation strategies.
- **Mission Objective 2.3:** Jamaica increases contributions to Global Health Security Agenda.

**Mission Goal 3:** A more diversified Jamaican economy that also reflects U.S. competitive advantage in ICT and promotes climate resiliency.

- **Mission Objective 3.1:** Jamaica's economy becomes more sustainable, digital, energy efficient, and inclusive. Identify U.S. trade, investment, and public-private partnerships to promote a more sustainable, digital, energy efficient, and inclusive economy.
- **Mission Objective 3.2:** Implement effective strategies to counter foreign power influence that is adversarial to US economic and national security interests.

**Management Objective 1:** Build a cost-effective and agile management platform that allows personnel to achieve Mission goals safely and securely, while promoting wellness and community.

**Management Objective 2:** USDH and locally employed staffing efforts increasingly advance Diversity, Equity, Inclusion, and Accessibility to cultivate a fully and appropriately staffed mission able to advance Mission goals and Objectives.

### 3. Mission Goals and Objectives

**Mission Goal 1** | A More Safe, Just, and Secure Jamaica for U.S. Citizens and Jamaicans.

**Description** | Jamaica is a tourist destination for U.S. citizens and is located in a region critical to the U.S. government. Jamaica has one of the highest homicide rates in the world, and 70 percent of the homicides are gang related. Therefore, the U.S. government will continue to provide security related assistance to the Government of Jamaica to decrease its linkages to transnational organized crime which threaten the United States, Jamaica, and the region.

**Objective 1.1** | Enhanced bilateral, interagency, local partners, and regional cooperation along with consular operations to protect U.S. citizens, as well as increase border security and disrupt and deter transnational and domestic crime that threaten U.S. security and U.S. citizens in Jamaica

- **Justification** | Due to Jamaica's geographic position in the western Caribbean, its expansive and difficult to patrol coastline with over 150 unmanned seaports, high volume of tourist travel, and status as a major containerized cargo transshipment hub, the country is used for the trafficking of illicit items such as drugs, firearms, and bulk currency. Over 70 percent of homicides in Jamaica are gang related. These gangs use financial scams bilking U.S. citizens of over \$1 billion which is then used to fund their criminal operations. The Government of Jamaica has a poor record of responding to violent crimes committed against U.S. citizen tourists, especially those sexual in nature.
- **Linkages** | The objective links to Joint Strategic Plan (JSP) Goal 1 "Protect America's Security at Home and Abroad" by undertaking efforts to "Counter instability, transnational crime, and violence that threaten U.S. interests by strengthening citizen-responsive, governance, security, democracy, human rights, and rule of law."



- **Risks** | The risk of not achieving this objective is the increase in the number of U.S. citizen victims of violent crime in Jamaica. Furthermore, given Jamaica's geographic location transnational organized crime will increase, including the proliferation of illicit trafficking in narcotics, firearms, and bulk currency which finance criminals and threaten U.S. security and U.S. citizens in Jamaica.

**Objective 1.2** | Strengthened government and independent institutions to uphold the rule of law, fight corruption, and improve conditions that drive crime and violence.

- **Justification** | Jamaica suffers from high rates of violent crime and violence—much of which is linked to transnational crime that affects the United States. While law enforcement is important, it is not sufficient on its own to resolve this issue. Corruption, inconsistent application of the rule of law, poverty, and limited opportunity create conditions that allow criminal activity to thrive. The Jamaican government, private sector, non-profit sector, and institutions (such as universities) must strengthen their capacity to uphold the rule of law, reign in corruption, and address societal issues (including those pertaining to male youth) that fuel crime and violence. As Jamaican criminal networks conduct criminal activity in the United States and throughout a region essential to U.S. national security, the U.S. government has an interest in helping Jamaican entities increase this capacity, develop, and deliver programs that support vulnerable communities, and make investments in its citizens' futures. As such, the United States will provide development assistance to support the achievement of this objective.
- **Linkages** | Efforts under this objective support the Caribbean Basin Security Initiative (CBSI), a major USG effort to decrease crime and violence in the region. Furthermore, the objective links to Joint Strategic Plan (JSP) Goal 1 "Protect America's Security at Home and Abroad" by undertaking efforts to "Counter instability, transnational crime, and violence that threaten U.S. interests by strengthening citizen-responsive, governance, security, democracy, human rights, and rule of law." Its focus on root causes, working with communities and various Jamaican bodies also links with

JSP Objective 2.2: “Promote healthy, educated and productive populations in partner countries to drive inclusive and sustainable development, open new markets and support U.S. prosperity and security objectives”.

- **Risks |** The risk of not achieving this objective is the continuance or increase of high rates of crime and violence in Jamaica. Jamaica’s domestic crime and violence is linked to transnational criminal organizations whose activities target and negatively affect U.S. domestic security. Furthermore, crime and violence sap the Jamaican economy’s potential, as well as its citizens’ potential. Failure to address underlying issues will require the U.S. to commit even more resources to fight crime at home and in the region. To mitigate this risk, programming works directly with the GoJ and other stakeholders to ensure U.S. efforts are operating on common ground, that programming is coordinated and based on local expertise, and that sustainability is factored in at the outset.

**Mission Goal 2 |** Increase Jamaica’s healthcare system capacity to manage existing and emerging threats.

**Description |** Jamaica’s health care system has made significant strides since independence. Nonetheless, ongoing epidemics such as HIV/AIDS and recent crises such as COVID-19 have exposed the limitations of Jamaica’s health care system to manage and respond to health threats. In addition to helping Jamaica address the HIV/AIDS epidemic and mitigate COVID-19, investments can also be made to strengthen Jamaica’s health systems so that they are better poised to identify, prevent, and respond to health threats. In helping Jamaica address HIV/AIDS, COVID-19, and gaps in its health system, the United States is investing in its own health security—limiting the effects of existing diseases on its own population and building the partnerships and network to manage future threats.

**Objective 2.1** | Accelerate HIV/AIDS Epidemic Control to ensure Jamaica meets its 2025 goal of 90 percent of People Living with HIV (PLHIV) knowing their status, 90 percent on treatment, and 90 percent virally suppressed. (Lead: PEPFAR)

- **Justification** | Outside of sub-Saharan Africa, the Caribbean has some of the highest infection and prevalence rates. HIV/AIDS has a demonstrated potential to undermine a country's stability—generating massive human and economic costs. Achieving epidemic control throughout the region requires epidemic control in Jamaica, which has the highest number of cases in the English-speaking Caribbean.
- **Linkages** | This ICS objective is directly linked to the President's Emergency Plan for AIDS Relief (PEPFAR). PEPFAR's goal is to achieve epidemic control in the countries where it operates. Epidemic control is best gauged by a country's ability to achieve the UNAIDS "95-95-95" cascade. U.S. assistance programming supports Jamaica's efforts to reach "95-95-95." It also links with JSP Objective 2.2: "Promote healthy, educated and productive populations in partner countries to drive inclusive and sustainable development, open new markets and support U.S. prosperity and security objectives." By focusing on epidemic control in Jamaica and preventing it from affecting the United States, assistance also links with JPS objective 3.4: "Project American values and leadership by preventing the spread of disease and providing humanitarian relief."
- **Risks** | Not achieving epidemic control in Jamaica will undermine efforts to reach epidemic control in the region. While assistance faces programmatic risks such as host-country capacity and resources constraints, assistance activities mitigate this risk through inclusive strategic development with Jamaican stakeholders, partnerships with the GoJ, NGOs, and the private sector, emphasizing sustainability, and adhering to a learning and adapting approach to program implementation.

**Objective 2.2** | Government of Jamaica increases its resiliency to COVID-19 and develops COVID-19 mitigation strategies. (Lead: CDC and USAID; Contributors: DOD, State, PEPFAR)

- **Justification** | COVID-19 has taken an extreme toll on the Jamaican population and its economy. While the GoJ has been aggressive and focused on its efforts to mitigate COVID-19, the capacity of the country's health system has been breached, with hospital bed capacity oversubscribed and periodic episodes of hospitals having to admit only emergency non-COVID-19 cases. Meanwhile, vaccination rates remain stubbornly low. (As of 2022 Jamaica had the lowest vaccination rate in the Caribbean outside of Haiti.) The U.S. has interest in helping Jamaica mitigate the effects of COVID-19. Doing so will provide greater stability to a key ally in the region and strengthen the United States' own health security. Thus, the United States is aiding strengthen Jamaica's ability to identify, prevent, treat, and care for COVID-19. It also is helping Jamaica with its vaccination efforts by providing commodities (vaccines), implementation assistance (logistics, planning, cold chain development), and supporting efforts to understand and decrease vaccine hesitancy.
- **Linkages** | COVID assistance links directly with goals and objectives of the American Rescue Plan Act (ARPA) and supplemental legislation that proceeded it. It also links with JSP Objective 2.2: "Promote healthy, educated and productive populations in partner countries to drive inclusive and sustainable development, open new markets and support U.S. prosperity and security objectives." By focusing on epidemic control in Jamaica and preventing it from affecting the United States, assistance also links with JPS objective 3.4: "Project American values and leadership by preventing the spread of disease and providing humanitarian relief."
- **Risks** | As the pandemic has shown, what affects one country can affect another. Failure to support Jamaica's ability to mitigate COVID-19 could expose the United States to new strains of the virus. Furthermore, if Jamaica is unable to manage COVID-19, its economic and social stability could be gravely impaired. As with HIV/AIDS assistance, programmatic risks such as host-country capacity and resources constraints exist. COVID-19 assistance activities will also mitigate this risk through inclusive strategic

development with Jamaican stakeholders, partnerships with the GoJ, NGOs, and the private sector, emphasizing sustainability, and adhering to a learning and adapting approach to program implementation.

**Objective 2.3** | Increase Jamaica's Contributions to Global Health Security (Lead: CDC, USAID, and State.)

- **Justification** | By working with partner countries, the United States can increase their abilities to manage and mitigate the outbreak and spread of deadly infectious diseases. In doing so, this decreases the chances that such outbreaks will affect the United States, decreases the potential strains on the U.S. health care system, and decreases the potential for a disease to devastate and destabilize valued allies.
- **Linkages** | Efforts under this objective will directly link the United States Global Health Security Agenda. They also link to JSP Objective 2.2: "Promote healthy, educated and productive populations in partner countries to drive inclusive and sustainable development, open new markets and support U.S. prosperity and security objectives." By investing in Jamaica's health systems' ability to manage disease threats, it will also be investing in the United States' health security, which is in line with JPS objective 3.4: "Project American values and leadership by preventing the spread of disease and providing humanitarian relief".
- **Risks** | Funding is required for Post to support Jamaica and to help it become a GHSA partner. Failure to secure this funding will limit Post's ability to achieve this objective and will leave a gap in the region's GHSA network. To mitigate this risk, Post will invest political capital to make Jamaica a bilateral partner in the GHSA. Furthermore, Post employees will use their diplomatic and technical expertise to help Jamaica understand the value of GHSA and Jamaica's role within it.

**Mission Goal 3** | A more diversified Jamaican economy that also reflects U.S. competitive advantage in ICT and promotes climate resiliency.

**Description** | This goal seeks to leverage U.S. competitive advantages in technology, geographic proximity, logistics, and product support to strengthen commercial ties and contribute to a diverse Jamaican economy. This is to maintain the U.S. as the preferred trade partner. This would also increase U.S. exports, bilateral trade, and U.S. investment to the benefit of both Jamaicans and Americans. The U.S. will assist Jamaica in its transition to a digital economy through embracing U.S. technology and educational resources to create a digital workforce. With the support of U.S. technical assistance, Jamaica will adopt more renewable energy and reduce its carbon footprint to advance global climate goals. Finally, Jamaica will develop its climate resiliency to respond to natural disasters and provide regional leadership on mitigating the impact of climate change.

**Objective 3.1** | Jamaica's economy becomes more sustainable, digital, energy efficient, and inclusive. Identify U.S. trade, investment, and public-private partnerships to promote a more sustainable, digital, energy efficient, and inclusive economy.

- **Justification** | Increased economic ties with Jamaica support U.S. businesses further contributing to the trade surplus with Jamaica. Trade, investment, and inclusive economic growth also contribute to the stability of Jamaica, an important regional partner. Jamaica's use of energy-efficient technologies reduces carbon emissions and increases partnerships with U.S. renewable energy providers.
- **Linkages** | This goal links directly to USAID Development Objective – Self-reliance gains protected by increased resilience to natural disasters.
- **Risks** | Global supply chain disruptions, a slow recovery from the COVID-19 pandemic due to low vaccination rates, corruption, and crime and violence all pose risks to growing Jamaica's economy.

**Objective 3.2** | Implement effective strategies to counter foreign power influence that is adversarial to U.S. economic and national security interests.

- **Justification** | Given Jamaica's proximity to the United States, its large diaspora community, and history of aligned interests on geopolitical issues, it is critical to reinforce our role as the country's closest economic and national security partner and counter the growing influence of authoritarian countries. The United States can reinforce this role by expanding commercial engagement with Jamaica based on leveraging U.S. technological and logistical competitive advantage and governed by the principles of fairness and transparency applicable to open market competition, and in keeping with the rule of law.
- **Linkages** | Joint Strategic Plan 1.4 - Increase capacity and strengthen resilience of our partners and allies to deter aggression, coercion, and malign influence by state and non-state actors.
- **Risks** | Geopolitical rivals continue to exert growing influence on Jamaican government and public. Untrusted vendors already comprise part of Jamaica's technological networks and, left unchecked, could shape the future of Jamaica's digital economy. Geopolitical rivals continue to exert growing influence on Jamaican government and public. Untrusted vendors already comprise part of Jamaica's technological networks and, left unchecked, could shape the future of Jamaica's digital economy.

## 4. Management Objectives

**Management Objective 1** | Build a cost-effective and agile management platform that allows personnel to achieve Mission goals safely and securely, while promoting wellness and community.

- **Justification** | The U.S. government presence in Jamaica has expanded from 76 USDH authorized positions in 2010 to 104 in 2021 with multiple new agencies represented and corresponding LE staff growth. A stagnant Management platform has not kept pace with this growth, hampering service provision to support our diplomatic mission. Persistent issues contribute to morale challenges among both American and Jamaican staff. The Management sections will focus on providing agile, modern tools to support diplomacy, with personnel well-versed in the use of technology for information sharing and collaboration across sections and agencies in furtherance of overarching Mission goals. Post will develop Quality Management and Customer Service protocols aligned with the Department's Collaborative Management Initiative (CMI) that facilitate regular feedback from mission customers with the goal of improving service. For a medium-sized mission, Embassy Kingston operates significant infrastructure including a NEC, a large and challenging housing facility, and three government-owned residences. This requires a constant focus on physical infrastructure that promotes operational efficiency, greening goals, and quality of life, all in an operating environment that is subject to disruption by natural events. Post must enhance its capacity to maintain and develop these facilities by ensuring it has adequate resources and that the workforce is invested and able to execute projects in a timely manner.
- **Linkages** | Links directly to WHA Diversity and Inclusion Strategic Plan Priority 2.2: Assess, redesign, and reengineer organizational structures and business processes to promote teamwork, collaboration, cross-functional operations, and transparency and to deconstruct organizational siloes that lead to exclusive cultures and to flawed decision making.”

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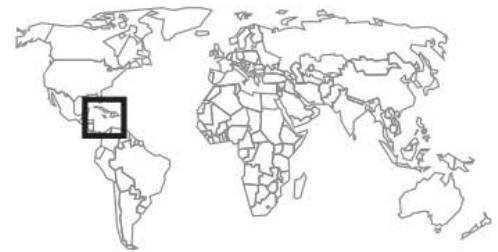


- **Risks** | Over focus on technology could lead to the loss of face-to-face interaction. With more remote access work, customer service standards will need to be monitored to ensure they are still being met. Management will need to balance analytics with customer service.

**Management Objective 2** | USDH and locally employed staffing efforts increasingly advance Diversity, Equity, Inclusion, and Accessibility to cultivate a fully and appropriately staffed mission able to advance Mission Goals and Objectives.

- **Justification** | Post has historically received low interest in State Department positions. Post must increase interest in serving at U.S. Embassy Jamaica to attract bidders from all stages of their career while advancing DEIA goals. Post will focus on recruiting, training, and retaining employees who best support our mission, while fostering diversity and inclusion across the mission through targeted recruitment. In addition, the Management platform is not adequately staffed to support the growing medium-sized mission. Specifically, Post currently does not have a USDH Medical Provider to provide medical support to over 200 American employees and their family members. Also, Human Resource support is regional. Post needs an on-site USDH Human Resource Officer.
- **Linkages** | Links to National Gender strategy. It also links to WHA Strategic Plan Priority 1.3: “Leaders shall develop and implement broad outreach strategies to attract leaders from a variety of sources to the organization, consistent with merit system principles, through strategic partnership with affinity organizations...” and Priority 2.1: “Foster a culture of inclusion and engagement by employing culture change strategies such as the New Inclusion Quotient (New IQ) Initiative and Diversity and Inclusion Dialogues. Provide training and education on cultural competency, inclusion and unconscious bias, for all employees.”

- **Risks** | Managers will need to learn and focus on ways to conduct fair and balanced interviews and implement recruitment strategies that reach a diverse population to ensure that diverse candidates apply for positions.



Boundary representations are not necessarily authoritative.

## BACKGROUND

### Land and Climate

Jamaica is part of the Greater Antilles, a chain of islands that forms the northern boundary of the Caribbean Sea. Its nearest neighbor is Cuba (about 90 miles, or 145 kilometers, to the north). Only 51 miles (82 kilometers) across at its widest point, Jamaica is just smaller than The Gambia or the U.S. state of Connecticut. Eighty percent of the island is mountainous. Only 11 percent is suitable for cultivation. A natural port on the southern coast is home to Jamaica's capital, Kingston.

Jamaica has a tropical maritime climate, but rainfall varies depending on the region. The rainy seasons occur in May and October. Hurricane season lasts from June through November. The tropical island climate prevents extreme temperature variations; temperatures generally are 80 to 90°F (26–32°C).

### History

#### *Early Inhabitants*

Jamaica's original inhabitants were the Taíno (Arawak), who called the island *Xaymaca*, meaning either "land of wood and water" or "land of springs." Columbus landed on the island in 1494. The Taíno were decimated within several decades by exposure to European diseases, warfare with colonizers, and enslavement by colonists.

#### *Colonization*

The Spanish occupied the island until 1655, when it was captured and colonized by the English. By the late 17th century, the English had established sugarcane plantations and brought large numbers of enslaved Africans. Some managed to escape enslavement and establish settlements in the mountains, some of which remain today; called Maroons, descendants of these enslaved runaways enjoy some political autonomy. Although slavery was abolished in 1838, life for the free Black people remained difficult.

In 1865, Paul Bogle led the Morant Bay Rebellion, a protest that demanded fair treatment and justice for all Jamaicans. The protest was pivotal in Jamaica's fight for more autonomy and made Bogle a national hero. In 1866, Jamaica's status was upgraded from colonial possession to British crown colony, affording the island additional autonomy. During the 1930s, people began calling for self-determination. In 1938, serious social unrest was stirred up by long-standing injustices and labor problems. Alexander Bustamante, aided by Norman Manley, championed labor's cause, sparking important social change. The two also formed today's major political parties. A new constitution in 1944 ended rule by the British crown colony government and granted adult suffrage. However, Jamaica remained under nominal British rule until it gained full independence in 1962.

#### *Independence and Political Transitions*

Since independence, political power has been dominated by Jamaica's two major political parties: the center-left People's National Party (PNP), founded by Manley, and the

center-right Jamaica Labour Party (JLP), founded by Bustamante. In the decade after independence, under the leadership of the JLP, Jamaica experienced rapid economic growth. During the 1970s, the PNP headed a social-democrat government that concentrated on social issues and help for the poor. However, severe economic problems led to a 1980 victory for Edward Seaga and the JLP, which dominated the government throughout the decade.

Most elections in the 1980s and 1990s were marked by fraud and violence, as political parties strove to maintain control over communities known as *garrison constituencies*, in which political parties joined forces with urban gangs to force citizens to vote for certain candidates. National elections in 1989 brought the PNP to power once again. After 14 years as prime minister, PNP leader Percival James Patterson stepped down in 2006 and was replaced by Portia Simpson-Miller, Jamaica's first female prime minister. Political power has continued to alternate between the PNP and the JLP, with the JLP returning to power in 2016.

### Current Challenges

In recent years, Jamaica has implemented initiatives that improve access to education, provide economic assistance to poorer households, and target mothers and children with special programs of support. Nevertheless, much work remains to be done to address crime, the economy, and migration. Corruption, drug trafficking, and violent crime—including one of the world's highest murder rates—pose major problems. While the economy benefits from tourism and agriculture, it is negatively affected by natural disasters and characterized by high inflation, poverty, and unemployment rates. Many Jamaicans emigrate in search of work, contributing to a "brain drain" of skilled labor, though remittances from those living abroad do help support those who remain in Jamaica. Strengthening healthcare infrastructure is important for the welfare of those living on the island.

## THE PEOPLE

### Population

Most Jamaicans are Black (92 percent). About 6 percent of the population claims mixed heritage, which reflects the various groups that have come to the island over the centuries, including Europeans, East Indians, Chinese, and Middle Easterners, in addition to the Indigenous Taíno (Arawak). This mixed heritage is reflected in Jamaica's national motto: "Out of Many, One People." The rest of the population is made up of people of European descent, East Indians, Chinese, and other groups.

More than half of the population lives in urban areas. Kingston is the capital and largest city. Because many people leave to seek greater opportunity, nearly as many Jamaicans live outside of Jamaica as on the island, according to some estimates. Most expatriates live in the United States, Canada, and the United Kingdom.

### Language

English is the official language of Jamaica and the primary

language of business, government, and the media. Most Jamaicans understand Standard English; however, a Jamaican's ability to speak Standard English may vary depending on the person's level of education. *Patois* (an English-based creole with West African influences) is commonly used in everyday conversation. Jamaican speech, whether in English or *patois*, has a distinctive rhythmic and melodic quality.

### Religion

Most Jamaicans are Protestants

(around 65 percent), and many major denominations are represented on the island. The largest Protestant group is made up of various denominations of the Church of God (26 percent), followed by Seventh-day Adventists (12 percent), Pentecostals (11 percent), and Baptists (7 percent). Roughly 2 percent of the people are

Roman Catholic. Jamaicans commonly use the term *Christian* to mean baptized and practicing members of a Protestant church. Non-Christians may practice ceremonies and rituals that have roots in India, China, or Africa but that have become uniquely Jamaican. There is also a long-standing Jewish community, whose first members arrived with Columbus as ship hands to escape the Spanish Inquisition.

The political, cultural, and religious Rastafarian movement originated in Jamaica. Only a small percentage of Jamaicans practice Rastafarianism, but it has had a profound impact on Jamaican and Caribbean culture. Adherents generally believe that they should not forget their African identity and should separate themselves from the negative effects of colonialism and white dominance. They regard Africa as their motherland and the promised land. They consider Ethiopia's late ruler Haile Selassie I to be a messenger of God. Many also observe Old Testament laws, including dietary restrictions, and regard marijuana (*ganja*) as a sacred herb that brings divine experiences and enlightenment. However, Rastafarians tend to view their belief system and philosophy as a way of life rather than an organized religion.

Religion plays a central role in society through the spiritual values and social opportunities it provides. Religious education is included in school curricula at all grades in both private and public schools. At the beginning of every school day, Christian hymns are sung and Bible verses are read. At work, it is common to begin and end business meetings with prayer. In everyday conversation, references to God and the devil are common. The vast majority of Jamaican churchgoers are women and children.

### General Attitudes

Jamaicans tend to enjoy spending time together and having lively conversations. People are generally outgoing, warm, and hospitable; however, they may be reserved with strangers. Jamaicans tend to live in tight-knit neighborhoods, so it is considered important to be thoughtful, neighborly, and charitable. Selfish or standoffish behavior is looked down upon.

Jamaicans generally appreciate honesty, hard work, education, and professionalism, although one's socioeconomic status also has significant bearing on how Jamaicans view one

another. Jamaicans tend to have a strong entrepreneurial spirit and are increasingly building a strong business atmosphere in urban areas. Many Jamaicans strive for financial security and prestige. Homes, properties, and vehicles are valued possessions. Men who provide well for their families are referred to as *boss* by other men; women who do so are similarly treated with respect. Those who willingly leave the physical needs of their families unmet, especially while taking care of themselves, face strong social disapproval.

Jamaicans typically have a fairly flexible approach to life and tend to be good-natured in dealing with life's challenges, even if there is no solution to the problem at hand. Flexibility is also evident in attitudes toward time and schedules, especially those related to social events. A common phrase is *Soon come*, which can mean anything from five minutes to next week. Events and meetings often begin late, although people tend to be more punctual in urban areas, especially when work-related matters are involved.

Most Jamaicans have a strong sense of individuality, which is manifest in their dress and speech. Creativity and expression are considered important, and strong personalities are common. As a whole, Jamaicans are proud of the contributions their country has made to the world in areas such as sports and music and have a well-developed sense of patriotism.

### Personal Appearance

While Jamaicans may dress in a variety of ways, women generally try to keep themselves and their children well dressed, especially at church. Older women usually wear dresses or skirts. Professional women typically wear business suits or skirts. Jeans or linen or tailored pants are the norm among women for social events. Institutions such as banks and insurance companies usually provide employees, particularly women, with uniforms. Children also wear uniforms for school. Men usually wear casual clothing for most occasions. This may include jeans or khakis with a cotton button-up shirt or T-shirt, accompanied with sandals, loafers, or sneakers. Youth fashions are often brightly colored and commonly follow trends from the United States and the music industry.

Clothing and accessories worn throughout the island often feature Rastafarian colors (green, red, and gold). Some Jamaicans may wear their hair in dreadlocks, particularly Rastafarians, who do not cut their hair. Professional men typically cut their hair short, though long hairstyles are slowly starting to gain more acceptance in the professional world. Women's hairstyles vary; many sport relaxed (straightened) hair of varying lengths. Those who leave their hair naturally curly wear it in twists, cornrows, and locks, among other styles. Women also wear a wide range of wigs and weaves to enhance or change their look. Overall, well-groomed hair is considered a source of pride, while unkempt hair is viewed negatively.

Most women wear more muted makeup during the day, applying brighter colors more liberally for social events. Costume jewelry (jewelry made from non-precious stones and metals) is common among women who wear jewelry.

## CUSTOMS AND COURTESIES

### Greetings

Jamaicans consider it important to recognize and greet others and to be recognized in return. Greetings range from a nod to a slap on the back to a kiss—depending on the people involved and the occasion. Strangers being introduced usually shake hands and say *Good morning*, *Good afternoon*, *Good evening*, or *Good night*.

It is considered rude not to greet someone properly before beginning a conversation or asking a question. Friends and acquaintances passing on the road often call out greetings. A common phrase is *Whap'am?* (What's happening?) or *Alright, alright* (as if responding to "How are you?"). Common parting phrases include *Later*, *Likkle more* (See you later), *Tomorrow then*, *Next time*, and *God bless*.

When addressing coworkers or acquaintances, Jamaicans use professional or formal titles (*Mr.*, *Mrs.*, *Miss*). Children usually refer to adults who are not family members as *Sir*, *Mr.*, *Mrs.*, or *Miss*. They often refer to close adult family friends as *Auntie* or *Uncle* followed by the person's first name (for example, *Auntie Karen*).

In casual situations, people often use nicknames, which are common in Jamaica. Jamaicans (particularly men) might have many nicknames given them by various friends or groups. The nickname often refers to a physical trait or station in life. Examples include *Fatty* (a fat person; it is a compliment because it indicates life is treating that person well) or *Juicy* (a man who sells juice on the street). Some parents may give their children nicknames at a young age. Family members may also call one another by a *pet name* or *yard name*, which often is a shortened or slightly altered version of a person's given name (*Nicky* for Nicholas).

### Gestures

Jamaicans can be very animated when speaking and tend to use hand gestures to help make a point. People sometimes greet one another or show approval of shared ideas by touching fists. They emphasize greetings by holding on to an initial handshake or by touching the person's arm or shoulder. To hail a taxi, one keeps the hand down between thigh and shoulder height (rather than holding it above the head) and waves in a fanning motion.

To get someone's attention, one may clap hands or tap on a grill or gate of a home. Some people say "psst" to attract another's attention, but this can be considered rude. Sucking air through the teeth may express exasperation or the idea of "Give me a break," but it also may be considered a rude way to say "You don't impress me."

Traditional Western social courtesies are common. Men offer seats on a bus to older women, women with young children, or pregnant women. Seated passengers commonly offer to hold packages or children for standing passengers. Men open doors for women in urban areas. Kissing extensively is not common in public.

### Visiting

Informal visits take place at the house gate. Visitors simply

knock, ring a buzzer, or otherwise call attention to themselves. Only close friends or relatives of the home's occupants will approach the door before being greeted and invited past the gate. Conversations held on the street are called *meet-and-greet* activities.

Visitors inside homes usually are offered a drink and sometimes a meal. Guests sometimes bring their hosts a small gift (fresh produce, garden flowers, a bottle of wine). Families and friends get together often. In rural areas especially, visits commonly are unannounced. Surprise guests nearly always are welcome.

### Eating

Rural families tend to eat dinner together each day after 5 p.m., while urban families may eat together only on weekends because of work and school schedules. Many Jamaicans say a prayer of thanks before or after meals. Meals are usually sociable and not overly formal when guests are present. Buffet meals are popular, as is eating outdoors. Jamaicans eat in the continental style; the fork is in the left hand and the knife remains in the right. While family meals may be casual, good table manners in public are considered an important social refinement.

Restaurant bills usually include a service charge, but if not, one leaves a tip of 10 to 15 percent. Caterers, restaurants, and street vendors often sell *take-away* (take-out) meals served in boxes. Roadside stands or carts commonly feature pineapples, melons, and water coconuts sold as quick snacks or thirst quenchers. Because eating while walking is considered inappropriate, people often eat snacks on the spot.

## LIFESTYLE

### Family

#### Structure

The family structure varies in Jamaica according to several factors, including one's social standing and location. For example, families in lower socioeconomic groups and in rural areas usually are larger than those in the middle or upper classes and in cities. In addition, some women in lower-income groups have several children by different men, known as *baby fathers*. The fathers refer to these women as *baby mothers* (as opposed to "wives" or "girlfriends") and are generally expected to provide financial support for children they father. Fathers who do not support their children face social disapproval. Although *baby mothers* are common, many women prefer the social approval that comes with being married to their children's father. It is becoming more common for both men and women to have more than one relationship, though it is considered more acceptable for men than it is for women. Having children prior to marriage is common.

In rural areas, extended families often live together, and child rearing tends to be a collective endeavor. Rural homes often lack fathers, who are forced to live away from their families in order to find the work necessary to support them. In these cases, the oldest child (whether male or female) often takes on the role of an authority figure, as do adults in the

extended family and in the neighborhood.

### Parents and Children

Parents are expected to ensure their children's general well-being and access to education. Children are expected to offer their parents respect and assist in household duties. From a young age, around nine years old, they begin helping with the cleaning and laundry. Girls also help with cooking.

Grown children typically live with their parents until marriage or until they are able to save enough to afford a place on their own, since housing is generally expensive. Adult children strive to ensure the comfort of their aging parents. Many take pride in providing them with material support, even purchasing them a home if they were never able to buy one themselves. As parents become unable to care for themselves, an adult child takes them in, though rest homes accommodate those whose children live abroad.

### Gender Roles

Caring for children generally is seen as a serious responsibility and financial commitment. Men are expected to fill the roles of breadwinner and primary disciplinarian. Women assume primary responsibility for housework and child care, but children often live with grandparents, relatives, or godparents when the mother works outside the home.

Women work in a variety of fields, as teachers, doctors, lawyers, bankers, domestic laborers, and more. They may also be found in non-traditional sectors such as construction or engineering. Women are more likely to pursue higher education than are men, and many hold respected leadership positions throughout the economy and government. For example, Portia Simpson-Miller was elected prime minister in both 2006 and 2011. Even so, domestic violence against women is common, especially in urban areas.

### Housing

#### Economic Circumstance

The quality and style of housing vary considerably in Jamaica. Luxurious mansions of the upper classes, complete with separate quarters for domestic employees, swimming pools, and huge parcels of land, contrast with the basic shacks of the poor. These shacks, located in both urban and rural areas, are almost always erected in defiance of stringent building codes put in place to protect against severe weather like hurricanes and natural disasters such as earthquakes. They are made of zinc (usually used for roofs but sometimes walls as well), wood, and concrete and may lack amenities such as running water, electricity, and indoor bathrooms.

The vast majority of Jamaicans live in accommodations that fall somewhere between the extremes. In cities, many middle-class families live in two- to four-room houses or narrow two-storey condominiums made of cinderblock. Some families live in apartments, particularly in Kingston. Apartment buildings are generally two to three storeys tall and gated. Security precautions, including guard dogs and iron bars over windows and doors, are common.

#### Rural

Rural homes tend to be larger than urban ones, with three to four bedrooms and two bathrooms. Most are constructed from cinderblock, though wood may also be used. Interiors are decorated with abundant plants, figurines, and trinkets. Many

of these homes have verandas, which tend to be used for entertaining visitors. Houses with yards are usually fenced in. Many people grow fruit trees in their gardens. Water storage tanks catch rain water for use in the household.

#### **Home Life**

Children may share a bedroom, while parents nearly always have their own. Families that have more than one living room usually reserve the more formal one for special occasions. Bright paint colors are popular, and wooden furniture is common. Mirrors, Caribbean-style paintings, family pictures, and certificates adorn walls. Middle-class homes are often equipped with the latest electronics, including televisions, sound systems, and computers.

#### **Ownership**

Home ownership is common, including among members of the working class, and is a nearly universal goal in Jamaica. The National Housing Trust provides low-interest mortgages to those who pay into the program, though it is difficult to secure a mortgage large enough to cover the cost of most houses; therefore, individuals often resort to private lenders for a second mortgage. Families may own several homes over the course of a lifetime, sometimes using an additional home to generate rental income.

### **Dating and Marriage**

#### **Dating and Courtship**

Though there is no set age at which dating begins in Jamaica, youth tend to begin forming relationships around age 16. Young people meet at school, work, parties, or on the street. They socialize at dances, movies, sporting events, church functions, and the market. Youth tend to socialize in groups that often include neighbors, cousins, and close friends.

#### **Marriage in Society**

Wealthier Jamaicans and observant Christians (who generally abstain from cohabitation and premarital sex) often marry in their 30s, before children are born. Others move in together in their mid- to late 20s. Among those who marry, engagements may last from six months to a year or longer.

Marriage ceremonies often are prohibitively expensive; therefore, lower-income couples may marry only after years together as a couple, usually after children are born. Others never marry, maintaining a common-law relationship instead. A couple automatically enters into a common-law marriage, which offers all the benefits of formal marriage, after cohabitating for five years. Though such relationships are socially acceptable, marriage does carry prestige for women, and most aim to marry eventually if they can.

Although tolerance has increased, homophobia remains widespread in Jamaican society. Members of the LGBTQ community often fear for their physical safety because many have been victims of violence, though such violence has decreased somewhat in recent years. Sexual relations between same-sex partners are illegal.

#### **Weddings**

When couples marry formally, they generally do so in a church ceremony that is followed by a celebration held in a hall or garden. It features music, drinks, and a meal. The food is often catered and may include chicken, fish, goat, pork, and rice and red peas. A multi-tiered cake is common. Newlyweds

typically honeymoon at all-inclusive resorts in Jamaica, often on the north shore. Family and neighbors may help pay for the wedding. A formal marriage is sometimes associated with giving up vices and leading a responsible life.

#### **Divorce**

Devout Christians, who make up a significant portion of the population, tend to disapprove of divorce, though even the most conservative of churches sanction it when domestic abuse is involved. Among the rest of the population, divorce is common and divorced individuals are not stigmatized.

### **Life Cycle**

#### **Birth**

To a large extent, life-cycle rituals are a function of a family's religious affiliation and socioeconomic standing. Pregnant women are generally thrown a baby shower, where they receive gifts to help care for the baby. Rastafarians tend to give their children creative names (for example, *Profile*). Among Protestants and Catholics, baptism or christening typically occurs soon after birth. A couple's close friends may be named godparents of the child. Women are often cared for by their mothers or sisters after giving birth and tend to refrain from their normal household duties for about six weeks. Employed women are entitled to eight weeks of paid maternity leave.

#### **Milestones**

The 16th birthday is considered a significant coming-of-age milestone, especially for girls, and is celebrated with a big party, to which family and friends are invited. Birthday gifts at this age often include cash, giving teenagers the opportunity to make their own purchases. The 18th birthday is also cause for a large celebration and marks the age at which Jamaicans receive the right to vote and consume alcohol. Socially, young people are considered adults when they move out of their parents' house or when they become parents themselves. The age of retirement in Jamaica is 65.

#### **Death**

When a person dies, the body is taken to a funeral home. Most Jamaican funerals are highly elaborate affairs. After a memorial service in a church, synagogue, or mosque, the burial or cremation takes place. After that, there is usually a large meal for the mourners that includes traditional dishes such as *mannish water* (a soup made with goat parts), rice and *peas* (any one of a variety of legumes), and chicken. Often, people close to the deceased will deliver lengthy commemorative speeches. Mourners typically wear formal dress. For men, this means suits, and for women, it means dresses in the traditional mourning colors of black, mauve, lavender, or lilac. Many Jamaicans reserve an outfit that is worn primarily, if not exclusively, at funerals.

In rural areas or poor towns, it is common for a *nine night* or *set-up* (wake, or period of time when people "sit up") to be held the night before the funeral service. A meal is served, and music is played by a *mento* band (a traditional band commonly composed of a banjo, tambourine, acoustic guitar, and handmade instruments) from evening until sunrise. Some families may hold the wake for eight days before the *nine night* celebration as well. In larger cities, candlelight services are often held instead of wakes. They may occur at the place

of death rather than in the home of the deceased.

## Diet

Jamaican food generally is spicy. Breakfast often includes *ackee and saltfish* (a meal of yellow fruit served with salted, dried cod), which is the national dish. Fish may be eaten two or more times a week. Stews and curries (such as curried goat or chicken) are popular. *Jerk* (spicy barbecued pork or chicken, roasted in open pits or on makeshift grills) is often served with bland, hard bread or with yams. *Bammy* (cassava bread), a staple food, is still prepared in the style of the Native Taíno (Arawak): the cassava is peeled, grated, sifted, and juiced; the juice (which is mildly poisonous) is discarded, and the grated cassava is placed in circular molds and baked to form thick, hard cakes. It is often served with fish or other meats.

Many people enjoy Indian and Chinese dishes. *Box food* (food eaten out of a box when away from home) generally consists of fish, chicken, or goat served over rice and *peas* (any one of a variety of legumes). Boiled green bananas, boiled or fried plantains, yams, avocados (called *pears*), and fried dumplings are popular side dishes. Fruits (mangoes, bananas, papaya, pineapples, grapefruit, oranges, tomatoes, breadfruit) are plentiful, and one or more types of fruit usually are in season. Vegetables also play an important role in the diet. A typical salad includes lettuce and tomatoes or cabbage and carrots.

Coffee, herbal teas, fruit juices, drinks made from boiled roots, and a variety of alcoholic beverages are common. All hot drinks (coffee, cocoa, green tea, etc.) are called tea. Popular drinks include *Milo*, a brand of hot cocoa, and *Malta*, a brand of nonalcoholic beer. Beer and white rum are especially popular. Women usually drink less than men and do not generally drink alcohol directly from the bottle.

## Recreation

### Sports

Cricket and *football* (soccer) are the most popular sports in Jamaica. *Football* is the most accessible sport, as it requires little equipment. Many people also enjoy table tennis, field hockey, and tennis, though lower-income families often lack access to the facilities needed for these sports. *Athletics* (track and field) plays a significant role in Jamaican culture. High schools across the country compete in a yearly *athletics* event called *Champs*, and some of these champions go on to compete in the Olympics. Jamaican track-and-field athletes are top performers in world competitions such as the Olympic Games. Girls often play netball (a game similar to basketball) in school.

### Leisure

Dominoes and *ludie* (called *ludo* elsewhere, a dice-based board game) are favorite games among men and may be played indoors or outdoors. Many people attend discos, community centers, and clubs. Many young people attend dance clubs, street dances, and street parties; *liming* is a general word for partying but also refers to relaxing and visiting with friends. Other leisure activities include going to movies, plays, and other cultural events as well as enjoying spectator sports such as boxing or team competitions. Various

festivals, church activities, and community events provide entertainment and recreation. Many Jamaicans also take advantage of the outdoor activities their island offers, such as hiking and swimming. Television shows featuring local music, cuisine, and attractions are popular, as are sporting events and news programs.

### Vacation

Vacations are considered important. People of all economic backgrounds usually take them—sometimes saving all year in order to spend time with their families in this way. In the past, that meant traveling overseas; however, today more people are exploring local attractions instead. These include the island's beaches and all-inclusive resorts. The average Jamaican gets two weeks of vacation time off work, which they usually take in July or August.

## The Arts

An annual festival commemorates the birthday of the most famous Jamaican musician, Bob Marley, in early February. Reggae is seen as an older, though still popular, form of Jamaican music, while *dancehall* (which incorporates elements of reggae, disco, and rap) is seen as the new Jamaican music. Many Jamaicans are also fond of jazz, calypso, and gospel. Many young people enjoy *soca* (a mixture of soul music from the United States and calypso), which is especially popular during Carnival.

Theatrical comedies performed in *patois* (an English-based creole with West African influences) are popular. Galleries throughout the island display local fine art, and open-air markets sell folk art. These folk arts are produced primarily for tourists and include basketry, pottery, and textiles.

## Holidays

Jamaican holidays include New Year's Day (1 January), Ash Wednesday, Easter (Friday–Monday), Labor Day (23 May), Independence Day (6 August), National Heroes Day (the third Monday in October), Christmas (25 December), and Boxing Day (26 December). Boxing Day is a day to visit family and friends. Maroons celebrate 6 January as their independence day. Carnival is a springtime festival involving parades, costumes, and parties.

### Easter and Carnival

Christians begin Easter celebrations on Good Friday, which is marked as the day Jesus Christ was crucified. On Easter Sunday, they celebrate Christ's resurrection. The weekend is spent attending church and relaxing with family. An *Easter bun* is the traditional food eaten during this holiday; it consists of a sweet bread prepared with spices and dried fruit and is served with cheddar cheese. Some Jamaicans may celebrate Easter by going to the beach, attending parties, and visiting with family and friends.

Carnival takes place over the Easter holiday as well, but it tends to be a much smaller celebration in Jamaica than in other Caribbean nations. The parties and parade held during this time draw mostly college-aged students.

### Labor Day

Another spring holiday, Labor Day, is devoted to community improvement projects, such as road repair, pruning, community center improvement, and the like. Charitable



organizations contribute to various causes on this day. The Labor Day holiday was created in 1961 to commemorate the 1938 labor rebellion headed by Alexander Bustamante that led to Jamaican independence; it replaced Empire Day (24 May), which celebrated Queen Victoria's emancipation of enslaved people in Jamaica.

### **Independence Day**

Late summer brings Independence Day, which marks the end of British rule in Jamaica and is one of the country's major holidays. Numerous cultural activities are held on the days leading up to the holiday, culminating in a parade and celebration at the national stadium that includes music, dancing, poetry, and other cultural highlights.

### **Christmas**

Christmas is another important holiday. Significant effort is devoted to cleaning and redecorating homes at this time. Tree trunks and stones making up walkways and walls are often painted white in a practice that is referred to as *white washing*, which gives exteriors a bright, clean appearance while also suggesting the look of a "white Christmas." Stores and businesses are decorated for the season as well.

Christmas Eve night features the busiest shopping event of the year—Grand Market Night, when stores remain open all night and vendors sell their wares in the street until morning. There is also music, food, and festivities. Youth and children are allowed to stay up all night to shop, eat, listen to music, and enjoy themselves.

The typical Christmas dinner includes rice and *peas* (any one of a variety of legumes), chicken, baked ham, roast beef, curried goat, and salad. A drink made from ginger and the sorrel plant is a favorite during this time. Dessert consists of ice cream and *Christmas cake*, a dark brown cake made of dried fruits and rum or wine.

## **SOCIETY**

### **Government**

#### **Structure**

Jamaica's government is based on the British model of parliamentary democracy. Although Jamaica is independent, it is part of the Commonwealth of Nations and recognizes King Charles III of the United Kingdom as its head of state. He is represented in Jamaica by a governor-general. The governor-general appoints the leader of the majority party or coalition as prime minister, who is head of government.

Parliament consists of an upper house (a 21-member Senate) and a lower house (a 63-member House of Representatives). Representatives are elected by popular vote to serve five-year terms. The prime minister appoints 13 members of the Senate and the opposition appoints 8. The cabinet, led by the prime minister, holds executive power. Elections must be held at least every five years.

#### **Political Landscape**

While Jamaica has a number of political parties, very few ever gain representation in Parliament. The center-right Jamaica Labour Party (JLP) and the center-left People's National Party (PNP) are the two major political parties. A key government challenge is reviving the country's economy,

which struggles with inflation and unemployment. Corruption, drug trafficking, and violence are other serious problems affecting the country's development.

#### **Government and the People**

Jamaica's constitution protects freedom of association, assembly, and expression. Despite efforts by the government and many women's groups to discourage violence against women and young girls, the problem persists. Crime and murder rates are high, especially in the slums. In recent elections, voter turnout has hovered around 50 percent of registered voters. In some poorer urban areas, criminal gangs control voter turnout in exchange for political favors, affecting the legitimacy of elections. The voting age is 18. Average voter turnout is 51 percent.

### **Economy**

Tourism is a key element of the economy, as are remittances, which are primarily sent from the United States, Canada, and the United Kingdom. Bauxite (an ore processed to make alumina) is a major export. Other important exports include sugar, rum, coffee, and yams. Agriculture employs around 16 percent of the population.

Jamaica's economic challenges include high unemployment and a massive amount of public debt. However, Jamaica has initiated a series of reforms that in recent years have reduced the country's public debt and modestly improved the economy. Still, poverty remains a challenge, with about 17 percent of the population living below the poverty line.

Jamaica is part of the Caribbean Basin Trade Partnership Act (CBTPA), a program designed to improve economic relations between Caribbean nations and the United States. It is also a member of the Caribbean Community and Common Market (CARICOM), a regional economic association. The currency is the Jamaican dollar (JMD).

### **Transportation and Communications**

Cars and buses are the most common form of transportation. Following the British tradition, traffic moves on the left side of the road. The majority of the roads are paved but are often in poor repair. Buses serve all parts of the island and are often crowded; schedules are generally unreliable. *Route taxis* follow set local routes with set fares. Regular taxis, with negotiated fares, are plentiful.

Jamaica's communications system is modern and adequate. Cellular phones are nationally ubiquitous, and many Jamaicans access the internet at home, at internet cafés, or on their smartphones. There are several radio and television stations as well as various daily newspapers. The press is free in Jamaica, and most broadcast media and newspapers are privately owned. They offer a range of news and opinions.

### **Education**

#### **Structure and Access**

Schooling is mandatory from ages 6 to 11, but attendance is not strictly enforced. Some children attend preschool (called *basic school*) up to age 5 before beginning primary school, which lasts from ages 6 to 12. Secondary schools, for youth ages 12 to 16, include high schools as well as technical,

comprehensive, and vocational schools.

When and where children attend school may depend on their economic background. The majority of students in Jamaica attend public schools. A lack of money for fees, uniforms, books, supplies, meals, and transportation makes attendance at public schools difficult for some. Though some government aid is available, it is not easily accessible. Those who are wealthy enough to afford private schools, called *preparatory schools*, enjoy higher-quality educations, in part because of the smaller class sizes and better access to supplies and extracurricular activities at private institutions.

Most students finish primary school. High school enrollment is lower, and admission is determined by the competitive Grade Six Achievement Test, a comprehensive exam covering the entire primary school curriculum.

**School Life**

English, Spanish, math, and science are subjects emphasized in school. In 2012, the government instituted a civics program focused on the life of political leader Marcus Garvey. Classroom methods tend to focus on memorization of knowledge taught in lectures and through textbooks and photocopies. Cheating is rare and considered a serious offense. Relationships between students and teachers are formal; teachers are addressed as *Miss* (even if married) or *Sir*. Opportunities for socializing at school include annual banquets and barbecues.

At the end of high school, students take the CSEC (Caribbean Secondary Education Certificate) examination, which is administered by the CXC (Caribbean Examinations Council); they must pass at least five of eight subjects in order to enter institutions of higher education. Passage of five CSEC subjects, including English and math, is also the precondition for many government and private sector jobs. Students may also take the GCE (General Certificate of Education) examination, which is common in the United Kingdom and some British Commonwealth countries. Parents often enroll their children in extra lessons, outside of school, to ensure their success on standardized tests.

**Higher Education**

Higher education is strongly encouraged in many Jamaican families, though it is more attainable for higher socioeconomic classes because of tuition costs. More young women than young men attend higher education. Higher education is provided at teacher-training colleges; community colleges; vocational schools; a college of agriculture, science, and education; a college of physical education and sports; and schools of music, art, dance, and drama.

Several universities are also present in Jamaica; the major ones include Northern Caribbean University (NCU), University of the West Indies (UWI), University College of the Caribbean (UCC), and the University of Technology (UTECH). Several foreign universities offer satellite campuses on the island as well. University graduates who fail to find work in Jamaica often seek opportunities in North America or Europe.

**Health**

The primary health risks in Jamaica are diseases associated with sedentary lifestyles and poor diets. Sexually transmitted

diseases, including HIV/AIDS, are also significant problems. Most large towns and cities have a hospital. Medical clinics are community-based and available across Jamaica. The public healthcare system covers basic care for all citizens at low cost or for free. Payment might be required in some cases, especially for more complicated care. Jamaica faces a shortage of healthcare providers, as many move overseas, where they can earn more money. Private healthcare facilities are available. Piped water is safe to drink. Life expectancy has risen in recent years.

**AT A GLANCE**

**Contact Information**

Embassy of Jamaica, 1520 New Hampshire Avenue NW, Washington, DC 20036; phone (202) 452-0660; web site [www.embassyofjamaica.org](http://www.embassyofjamaica.org). Jamaica Tourist Board, phone (800) 526-2422; web site [www.visitjamaica.com](http://www.visitjamaica.com).

**Country and Development Data**

Capital	Kingston
Population	2,818,596 (rank=136)
Area (sq. mi.)	4,244 (rank=160)
Area (sq. km.)	10,991
Human Development Index	110 of 189 countries
Gender Inequality Index	80 of 162 countries
GDP (PPP) per capita	\$9,600
Adult Literacy	83% (male); 93% (female)
Infant Mortality	11.17 per 1,000 births
Life Expectancy	70 (male); 74 (female)
Currency	Jamaican Dollar

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## Jamaica - Military

Last updated: 26 Aug 2022

### Armed forces

Last updated: 26 Aug 2022

### Executive summary

Last updated: 28 Jun 2021

	<b>Total strength</b>	<b>Army</b>	<b>Air force</b>	<b>Navy</b>
<b>Active personnel</b>	3,530	3,000	190	340 <sup>1</sup>
<b>Reserves</b>	1,015	950	15	50

1. Estimated.

- The Jamaican Defence Forces (JDF) includes the Jamaica Regiment (comprising two regular and one reserve infantry battalions), a small air wing and the coastguard. The armed forces often operate in support of the Jamaica Constabulary Force for counter-narcotics and anti-crime operations. The Jamaica Regiment is also trained for basic conventional military operations, although it is mainly a light infantry force.
- The JDF upgraded its maritime capabilities in 2017 with the acquisition of two new Damen Stan Patrol 4270s, restoring a degree of capability lost due to the unserviceability of its three Damen Stan Patrol 4207s acquired in 2015. Meanwhile, the army's tactical mobility capabilities were boosted by the delivery of 12 Bushmaster 4×4 protected mobility vehicles between 2014 and 2015 and the creation of a special unit to accommodate them, allowing the replacement of the ageing fleet of V-150 APCs. The air wing's capabilities were also enhanced in 2018 with the commissioning into service of a Beechcraft King Air 350 ER and two Bell 429 helicopters. Additionally, the JDM ordered six new Bell 505 JetRanger X helicopters in February 2021 to be used for civilian support and pilot training operations.
- In March 2018 Jamaica hosted the 5th Caribbean Region Information Operations Council (CRIOC) in Kingston with the support of the US Northern Command (NORTHCOM) and the US Southern Command (SOUTHCOM). The aim of the meeting was to enhance regional collaboration, strengthen relationships and share information operations (IO) techniques and procedures to fight common threats affecting the region, such as organised crime, and support co-ordinated humanitarian relief operations. The session counted with participants from the Bahamas, Bermuda, Canada, France, Great Britain, Jamaica, Haiti, Netherlands, and

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Turks and Caicos. In addition, Canadian assistance has been pivotal in establishing training centers and conducting training exercises.

## **Strategic forces**

Last updated: 26 Aug 2022

Janes does not hold information on Jamaica Strategic forces.

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## Country Report

# Jamaica

**Generated on June 8th 2023**

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## **The Economist Intelligence Unit**

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## **Symbols for tables**

"0 or 0.0" means nil or negligible; "n/a" means not available; "-" means not applicable

# Jamaica

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# Briefing sheet

Editor: **Fiona Mackie**  
 Forecast Closing Date: **March 22, 2023**

## Political and economic outlook

- Jamaica is a highly indebted economy with heavy debt-servicing costs. The government has put fiscal consolidation efforts that were disrupted by the covid-19 pandemic back on track, and EIU expects it to remain committed to bringing debt down.
- We expect the political environment to remain broadly stable. The centre-right Jamaica Labour Party (JLP) is in a dominant position with a solid legislative majority and therefore faces few obstacles to governability. However, its grip on power could be weakening, as recent polls show that the opposition People's National Party (PNP) is making gains.
- Economic policymaking will be guided by balancing fiscal austerity with providing support (where possible) for households whose incomes are being squeezed by high inflation rates. Wage negotiations with public-sector unions are also proving challenging. The government's solid track record on fiscal prudence will help to keep spending in check.
- We expect real GDP growth to remain sluggish in the 2023-27 forecast period. The government has done well to stabilise the economy in what is a challenging external environment. However, it has prioritised fiscal austerity and lacks resources to invest in new divers of growth, which will leave the economy dependent on tourism and mining exports.
- We expect inflation to fall, returning to the central bank's 4-6% target range in the third quarter of 2023. Assuming that global supply problems and the energy crisis ease, prices will stay contained later in the outlook period, but higher inflation is a substantial risk.
- As a share of GDP, Jamaica's public debt stock is one of the largest in the region, at an estimated 85.2% in 2022. However, the public finances are tightly managed, and we expect the public debt/GDP ratio to decline over the forecast period.
- A continued recovery in tourist arrivals and a reduction in the fuel import bill should push the current account from a deficit into a small surplus by the end of the outlook period. We expect remittances to remain firm, generating a strong secondary income surplus.

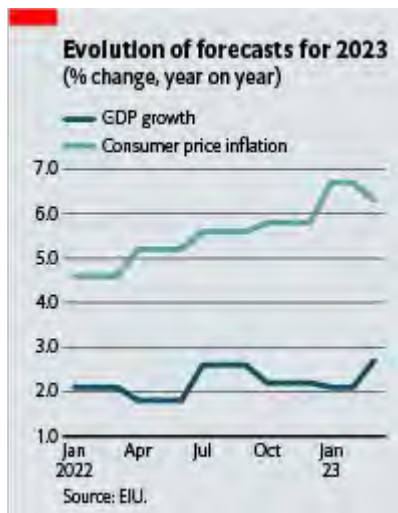
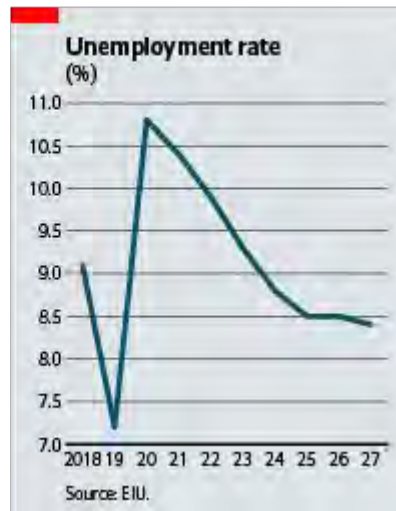
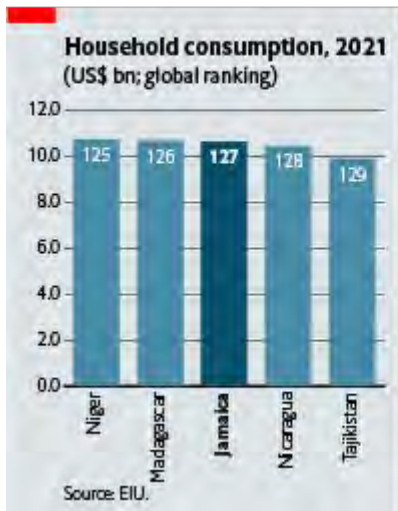
### Key indicators

	2022 <sup>a</sup>	2023 <sup>b</sup>	2024 <sup>b</sup>	2025 <sup>b</sup>	2026 <sup>b</sup>	2027 <sup>b</sup>
Real GDP growth (%)	3.8	2.7	2.1	1.7	2.9	2.3
Consumer price inflation (av; %)	10.3 <sup>c</sup>	6.3	5.3	5.3	5.7	4.6
Government balance (% of GDP) <sup>d</sup>	-1.2	-0.1	0.6	0.7	1.0	1.2
Current-account balance (% of GDP)	-3.3	-1.2	-1.3	-1.0	0.7	1.5
Money market rate (end-period; %)	7.3	8.3	7.0	6.5	5.9	6.9
Unemployment rate (%)	9.9	9.3	8.8	8.5	8.5	8.4
Exchange rate J\$:US\$ (av)	153.4 <sup>c</sup>	157.1	162.7	168.4	174.0	180.0

<sup>a</sup> EIU estimates. <sup>b</sup> EIU forecasts. <sup>c</sup> Actual. <sup>d</sup> Fiscal years beginning in April.



## Market opportunities



## Key changes since January 18th

- The latest polling shows that the opposition PNP has a slight lead over the ruling JLP for the first time in several years. This will not have immediate effects, but it suggests that the JLP's dominance could come to an end in 2025, when the next general election is due.
- The IMF Executive Board has approved a staff-level agreement (SLA) for two new funding facilities totalling US\$1.7bn. This will support the fiscal and external financing outlook in the coming years and reinforces our assumption of only moderate currency depreciation.
- The Bank of Jamaica (BoJ, the central bank) has kept interest rates steady at 7% following a 50-basis-point rise in November 2022. In our view, the November rise marks the end of the 650-basis-point tightening cycle that began in October 2021.

## The quarter ahead

- March 21st—Budget presentation: The finance minister is due to conclude the JLP's budget presentation for the 2023/24 fiscal year (April-March). The most significant new measures include a sharp increase in the minimum wage; the abolition of fees for training courses up to associate degree level; and new infrastructure projects.
- March 29th—Monetary policy meeting: As inflationary pressures are continuing to ease, we expect the BoJ to hold the policy rate at 7% at its March meeting. However, we do not think that the BoJ will be reducing rates in the near term.

## Major risks to our forecast

Scenarios, Q1 2023	Probability	Impact	Intensity
Gang violence worsens, raising costs for businesses	Very high	Very high	25
Climate change hits the Caribbean sooner than expected, causing extensive infrastructural damage in Jamaica	High	Very high	20
Liberalisation and austerity measures trigger social unrest	High	Very high	20
A lack of progress in addressing corruption erodes confidence in the government and public agencies	High	High	16
A financial or currency crisis leads to the imposition of capital controls	Moderate	Very high	15

Note. Scenarios and scores are taken from our Operational Risk product. Risk scenarios are potential developments that might substantially change the business operating environment over the coming two years. Risk intensity is a product of probability and impact, on a 25-point scale.

Source: EIU.

## Outlook for 2023-27

### Political stability

The political dominance of the governing centre-right Jamaica Labour Party (JLP) is starting to wane; EIU expects this trend to continue in the years ahead. The prime minister, Andrew Holness of the JLP, has been in a strong position since the 2020 general election, as his party has 49 of the 63 seats in the House of Representatives (the lower house). However, polls conducted in February gave the opposition People's National Party (PNP), led by Mark Golding, a slim lead in voting intentions for the first time in nearly six years.

Although the political scene will remain stable for now, the February polls raise the possibility that a long period of JLP dominance could come to an end at the next general election (in 2025) as voters become increasingly frustrated with issues including the high cost of living, crime and restive public-sector unions (the teachers' union is currently taking strike action). Nevertheless, we do not expect the PNP to surge ahead, as the party is still grappling with its own problems, namely internal divisions and a failure to rally around Mr Golding as leader. Still, a rise in voting intentions will strengthen PNP cohesion and bolster Mr Golding's position.

Meanwhile, the government will face several challenges in the short to medium term. Although the economic recovery from the pandemic has been stronger than anticipated, inflation will continue to drive public discontent. Consumer price inflation has started to ease but remains high; given that Jamaica is vulnerable to external inflationary shocks, there is a risk that prices rise again, stoking social tensions. The government has introduced welfare support measures to mitigate this risk, but long-standing fiscal constraints will limit their scope. Moreover, many micro and small businesses went bankrupt during the covid-19 crisis or are still struggling. Against this backdrop, the more recent economic shock from the Russia-Ukraine war will sustain risks of public discontent.

Another challenge for Mr Holness is to combat rising levels of violent crime (murders rose by 2% last year). This will not be easy, as the government has limited resources with which to either step up policing capacity or increase social assistance for vulnerable groups who may be more susceptible to joining or colluding with gangs out of necessity. A sluggish economy and a higher poverty rate will also create recruitment opportunities for criminal groups. Elevated levels of crime will harm the government's popularity in the short term (trends in crime are a particularly politically sensitive issue in Jamaica) and will remain an issue into the medium term, reflecting the intertwined nature of insecurity, corruption and poverty. Resolving these issues will require greater budgetary efforts and institutional capacity than the government can provide.

## Election watch

The next general election will take place in 2025. Local elections were due to be called by February 2023, having already been delayed twice because of the covid-19 pandemic (they were originally scheduled for November 29th 2020). However, the government has delayed them by yet another year, citing the need to focus on the post-pandemic economic recovery. Although it initially appeared that the JLP had little to gain from delaying the vote (given its strong legislative position), recent surveys that point to opposition gains are likely to have caused jitters in the JLP. The local elections are now due to be held by February 28th 2024. If polling trends hold up, the PNP will present the JLP with a much tougher challenge than anticipated, even despite the PNP's internal divisions and questions about Mr Golding's leadership and performance.

## International relations

The JLP government will keep its foreign policy focused on regional efforts to combat drug-trafficking and on maintaining strong ties with the US (Jamaica's main trade partner). Although the US administration led by Joe Biden is more open to multilateralism than the previous administration, the conflict in Ukraine will divert its attention away from regional issues and from relations with Jamaica and the Caribbean Community (Caricom). Even so, there has been some bilateral co-operation on countering the trafficking of weapons and drugs following a five-day visit by Mr Holness to the US in December 2022.

Jamaica will try to accelerate regional integration under the Caricom single market, but we expect little progress on that front. Relations with other countries in the region will generally stay warm, but Venezuela will remain an exception, as a result of the Jamaican government's seizure in 2019 of a 49% stake in the Petrojam refinery (in Jamaica) that had been held by PDV Caribe (a subsidiary of PDVSA, Venezuela's state oil company). Efforts to diversify relations outside the western hemisphere have brought Jamaica into China's orbit. Jamaica joined China's Belt and Road Initiative in April 2019 but has been wary of taking on Chinese finance for infrastructure projects.

## Democracy Index: Jamaica

Jamaica is classed as a "flawed democracy" in EIU's 2022 Democracy Index, ranking 42nd out of 167 countries (its score and position are unchanged since 2020). In recent years rising levels of violent crime—mainly in the capital, Kingston—have prompted the government to impose states of emergency (SOEs) as an enhanced security measure. It ramped up this strategy in 2022, after murders soared by 10% in 2021. This yielded some success; the rise slowed to 2% in 2022, although the homicide rate is still one of the highest globally, at 49.4 per 100,000 population. SOEs threaten freedom and therefore weigh on the civil liberties score, although their impact has been offset in recent years by improved scores for freedom of the press. Reporters Without Borders, an international non-governmental organisation (NGO), ranks Jamaica as one of the countries that most respects freedom of information. No serious act of violence against journalists has been reported in the last decade. Moreover, although the covid-19 pandemic challenged press freedom elsewhere in the world, the Jamaican media played a critical role in ensuring that the population remained informed, without engaging in censorship. Jamaica's score in the Democracy Index is supported by its strong performance in the electoral process and pluralism category, reflecting regular, competitive elections, well-established political parties and smooth political transitions. The country's lowest score is for political participation, a product of wide voter apathy and low citizen engagement with—and confidence in—political parties.

## Despite improvements, confidence in government is low and crime levels are high

Jamaica's score for functioning of government remains low, reflecting weak confidence in the government's ability to solve citizens' problems and the perception among ordinary Jamaicans that they have little control over their economic and political lives. This stems partly from the relatively weak state of the economy, persistently high unemployment and high crime rates. Efforts to combat police brutality have been hampered by Jamaicans' preference for "tough policing". The

ruling Jamaica Labour Party (JLP) is likely to stick to its strategy of enhancing security measures in crime hotspots and giving police forces extra powers to tackle gang violence. Jamaica's government also comes up short in terms of accountability and transparency, which results in problems related to corruption and contributes to persistent voter apathy. In addition, austerity measures and strict fiscal targets aimed at reducing an onerous debt burden have precluded improvements to basic public services and the kind of public-spending increases that would create jobs. There has been no notable social unrest, but there is a risk that discontent with the government's policies will rise.

### Democracy Index

	Regime type	Overall score	Overall rank
2022	Flawed democracy	7.13 out of 10	42 out of 167
2021	Flawed democracy	7.13 out of 10	42 out of 167
2020	Flawed democracy	7.13 out of 10	42= out of 167

## Public bodies are in dire need of reform

Jamaica remains mired in corruption scandals, one of which involves allegations of misspending of public funds in public bodies and unethical hiring practices at Petrojam (the state energy firm). The country's many public bodies impose a large fiscal burden on the government, but these have been allowed to continue functioning because they enable a culture of political patronage. The widespread perception is that high-level positions used to be given as rewards to party loyalists and that successive governments have failed to rationalise the public sector, in part because they fear losing the votes of public-sector employees. The government has responded to the allegations of misspending by taking steps to improve transparency and accountability in the public sector and is scaling down the large number of public bodies in existence.

### Democracy Index 2022 by category

(On a scale of 0 to 10)

Electoral process	Functioning of government	Political participation	Political culture	Civil liberties
8.75	7.14	5.00	6.25	8.53

A free white paper containing the full index and detailed methodology can be downloaded from [www.eiu.com/democracy-index](http://www.eiu.com/democracy-index)

## Note on methodology

There is no consensus on how to measure democracy, and definitions of democracy are contested. Having free and fair competitive elections, and satisfying related aspects of political freedom, is the sine qua non of all definitions. However, our index is based on the view that measures of democracy that reflect the state of political freedom and civil liberties are not "thick" enough: they do not encompass sufficiently some crucial features that determine the quality and substance of democracy. Our index therefore also includes measures of political participation, political culture and functioning of government, which are, at best, marginalised by other measures.

Our index of democracy covers 167 countries and territories. The index, on a 0-10 scale, is based on the ratings (0, 0.5 or 1) for 60 indicators grouped in five categories: electoral process and pluralism; civil liberties; functioning of government; political participation; and political culture. Each category has a rating on a 0-10 scale, and the overall index of democracy is the simple average of the five category indices.

The category indices are based on the sum of the indicator scores in the category, converted to a 0-10 scale. Adjustments to the category scores are made if countries do not score a 1 in the following critical areas for democracy:

- whether national elections are free and fair;
- the security of voters;
- the influence of foreign powers on government; and
- the capability of the civil service to implement policies.

If the scores for the first three questions are 0 (or 0.5), one point (or 0.5 points) is deducted from the index in the relevant category (either electoral process and pluralism or functioning of

government). If the score for question 4 is 0, one point is deducted from the functioning of government category index.

The index values are used to place countries within one of four types of regime:

- full democracies—scores greater than 8;
- flawed democracies—scores greater than 6, and less than or equal to 8;
- hybrid regimes—scores greater than 4, and less than or equal to 6; and
- authoritarian regimes—scores less than or equal to 4.

## Policy trends

The government's short-term priorities will be to mitigate the cost-of-living crisis (where possible) and to boost economic activity. However, the authorities are facing a tricky balancing act between responding to rising prices (which are eroding already-stretched incomes) and maintaining their conservative fiscal consolidation path in order to reduce the public debt/GDP ratio and put the public finances on a sound footing. The government's efforts will be supported by US\$1.7bn in funding that the IMF Executive Board approved in February. The total sum is made up of US\$967m under the precautionary and liquidity line (PLL), which the government expects to draw down, and another US\$763m under the newly created resilience and sustainability facility (RSF). The Fund noted that Jamaica's prudent and orthodox policy framework—and the continuation of those policies—qualified it for the PLL funds. However, it also pinpointed areas for improvement including crisis management; the supervision of financial conglomerates; and the anti-money-laundering and combating the financing of terrorism (AML/CFT) framework. The Fund also recommended that the government develop a roadmap for the adoption of the Special Data Dissemination Standard (SDDS).

In terms of domestic spending, the Holness administration is working to support incomes, as high cost-of-living pressures are emerging as a significant electoral vulnerability. To that end, the JLP has increased budgeted spending for the 2022/23 and 2023/24 fiscal years (April-March) on the back of a stronger than anticipated economic recovery. The government said that expenditure would rise by 2.3% in nominal terms in 2023/24 (which is negative in real terms, given high inflation), to J\$1trn (US\$6.63bn), breaching the trillion-dollar threshold for the first time.

Other areas of emphasis will be tackling crime and corruption, and improving the AML/CFT framework. The government views crime as an area that the opposition could exploit and will therefore continue to use unorthodox methods (such as states of emergency) to crack down on criminal activity. Meanwhile, it is working to improve transparency by reforming the process for making appointments to public bodies following several corruption scandals.

## Fiscal policy

The public accounts registered a small surplus in 2021/22, but as expenditure and debt-servicing costs are rising, we expect the public accounts to return to deficit in 2022/23 and to remain there until the end of 2023/24, averaging 0.7% of GDP across both fiscal years. Containing the fiscal deficit without threatening the economic recovery will be a significant short-term challenge, and ongoing wage negotiations with public-sector unions pose a risk that the government will overshoot its spending projections. However, the government's track record of maintaining tight fiscal policy under "normal" conditions suggests that it will adhere to a prudent stance.

Jamaica has traditionally run extremely large primary fiscal surpluses (of more than 6% of GDP during its IMF arrangement in 2013-19), and we anticipate that fiscal policy will remain tightly controlled in order to keep spending in check and bolster the primary surplus. However, we do not expect the primary surplus to approach 2013-19 levels until later in the forecast period. The introduction of fuel and food subsidies is a growing risk but does not form part of our current baseline scenario. Fiscal consolidation will be driven by spending cuts, although stronger than anticipated economic growth has boosted revenue, allowing the government greater flexibility on the expenditure side. We expect that the fiscal account will start to return to overall balance in 2024/25.

The government projects that overall public debt will decline to 74.2% of GDP by the end of 2023/24, which would be the lowest level since before the country's financial crisis in the 1990s. Our own forecast is that debt will fall, but only to 80.4%, as we are less optimistic than the government as regards GDP growth, revenue and spending restraint. Even so, given the government's commitment to austerity, we expect it to make good progress on reducing the public debt, which should dip below 70% of GDP by the end of 2026/27. We expect the primary surplus to average 6.1% of GDP over the forecast period.

## Monetary policy

Inflationary pressures have continued to ease, declining from a peak of 11.8% in April 2022 to 8.1% in January 2023. This has enabled the Bank of Jamaica (BoJ, the central bank) to hold its policy rate at 7% since November 2022, having raised it by a total of 650 basis points since October 2021. Although inflation will continue to ease, we expect the BoJ to maintain a hawkish bias, both to contain any unexpected price increases and to prevent a sharp depreciation of the Jamaican dollar as the Federal Reserve (Fed, the US central bank) continues its own tightening cycle. Meanwhile, the BoJ will intervene in the foreign-exchange market to support the Jamaican dollar and therefore avoid importing inflation via currency depreciation. In real terms, rates will remain negative and relatively accommodative into the medium term.

## International assumptions

	2022	2023	2024	2025	2026	2027
<b>Economic growth (%)</b>						
US GDP	2.1	0.7	1.2	2.0	2.1	1.9
OECD GDP	2.8	0.8	1.5	1.9	2.0	1.9
World GDP	3.1	2.0	2.5	2.7	2.7	2.7
World trade	4.3	2.1	3.3	3.6	3.7	3.8
<b>Inflation indicators (% unless otherwise indicated)</b>						
US CPI	8.0	4.0	2.2	1.9	2.0	2.1
OECD CPI	8.9	5.7	2.8	2.3	2.1	2.1
Manufactures (measured in US\$)	-0.4	5.6	4.9	3.6	3.1	2.4
Oil (Brent; US\$/b)	99.8	87.0	85.0	81.0	76.7	71.8
Non-oil commodities (measured in US\$)	14.6	-9.0	-2.1	-0.7	-1.5	-1.5
<b>Financial variables</b>						
US\$ 3-month commercial paper rate (av; %)	2.1	5.1	5.0	4.0	3.1	2.6
US\$:€ (av)	1.05	1.09	1.13	1.15	1.17	1.18
¥:US\$ (av)	131.5	123.6	110.6	107.8	110.3	108.8

## Economic growth

The economic rebound from the coronavirus pandemic has been stronger than anticipated, but we expect real GDP growth to slow to 2.7% in 2023 (from an estimated 3.8% in 2022) as squeezed incomes dampen private consumption and a strong rebound in tourist arrivals slows (although visitor numbers will still continue to rise). Thereafter, we expect growth to average 2.2% in 2024-27, which is only moderately stronger than before the pandemic. Growth will remain dependent on tourism, which we expect to return to pre-pandemic levels in 2023 despite the challenging external environment, and on mining exports. Private investment will also support growth, as foreign and domestic firms will continue to invest in expanding hospitality capacity and related infrastructure.

The outlook for the medium term is mixed. The government has done well to stabilise the economy and avert a debt crisis, given the challenging external backdrop of recent years. However, its prioritisation of fiscal austerity and lack of resources to invest in new drivers of growth or job creation will leave the economy dependent on tourism and mining exports. This is likely to damage productive capacity and therefore constrain businesses' income, which will keep growth sluggish. Investment and external demand for Jamaican goods and services will continue to rise, but only slowly, particularly because of the conflict in Ukraine. Meanwhile, private consumption will remain below its 2019 level throughout our forecast period.

On the supply side, we expect Jamaica's tourism sector (which accounts for more than 30% of GDP) to continue to recover. Recent data show that visitor arrivals are returning towards pre-pandemic levels, although rising fuel prices and economic weakness in important markets such as the UK will squeeze incomes and raise travel costs, weighing on growth in the Jamaican tourism sector. We anticipate that mining activity will also start to pick up, as production at the Jamalco alumina plant resumed in July 2022 (following a fire in August 2021) and the Alpart bauxite plant is due to resume operations later in the forecast period once refurbishment work is complete.

### Economic growth

(%)	2022 <sup>a</sup>	2023 <sup>b</sup>	2024 <sup>b</sup>	2025 <sup>b</sup>	2026 <sup>b</sup>	2027 <sup>b</sup>
GDP	3.8	2.7	2.1	1.7	2.9	2.3
Private consumption	2.5	2.2	1.0	1.0	1.2	1.2
Government consumption	1.5	2.0	0.9	1.0	0.1	0.1
Gross fixed investment	3.0	3.5	2.0	2.0	1.0	1.1
Exports of goods & services	21.3	22.5	13.8	5.6	8.5	7.1
Imports of goods & services	15.0	19.6	11.0	4.5	5.0	5.0
Domestic demand	2.4	2.4	1.2	1.2	1.0	1.0
Agriculture	-6.8	2.8	2.0	1.7	18.3	3.3
Industry	-0.6	2.7	2.1	1.7	8.9	3.3
Services	3.2	2.6	2.0	1.6	1.0	3.2

<sup>a</sup> EIU estimates. <sup>b</sup> EIU forecasts.

## Inflation

We expect inflation to continue to ease in 2023 (after peaking at 11.8% in April 2022) but to remain high, only dipping into the BoJ's 4-6% target range late in the year. Assuming that global supply disruptions and the energy crisis ease, we expect average inflation to remain within the target range for the rest of the forecast period. However, inflation could come in higher than we anticipate, considering Jamaica's vulnerability to external (particularly weather-related) supply shocks, as well as the risks of an escalation of the Russia-Ukraine war and a weaker Jamaican dollar than we currently expect.

## Exchange rates

After holding up relatively well in 2022, the Jamaican dollar will come under depreciation pressure in 2023-24, as continued monetary tightening by the Fed will narrow the interest-rate differential with Jamaica (where rates have been on hold since late 2022). In the event of substantial depreciation pressures, the BoJ is likely to intervene with its cushion of international reserves, which stood at US\$4.5bn as at end-2022 (equivalent to about eight months of import cover).

We expect the currency to reach J\$180.4:US\$1 by end-2027, which represents annual average depreciation of just 3.5% per year in nominal terms over the forecast period as a whole. This slow pace of depreciation will keep the currency stable in real, trade-weighted terms relative to its long-term average.

## External sector

Following an estimated deficit of 3.6% of GDP in 2022, we expect the current account to remain in deficit in 2023-25, before shifting to a small surplus in 2026-27 as energy prices ease and tourist arrivals rise. The reserves cushion has stayed healthy in recent years, and that should remain the case even amid a challenging backdrop. Jamaica's external position rests heavily on trends in tourism earnings and remittances from workers abroad. Tourism earnings are recovering, but the global cost-of-living squeeze will weigh on growth in 2023. Remittances inflows will remain firm, helping to offset a widening trade deficit.

In the medium term, the tourism-driven services surplus will remain healthy, assuming that inbound tourism continues to recover. This, combined with a lower fuel import bill, will push the current account into surplus in the final part of the forecast period. Meanwhile, workers' remittances will produce a large secondary income surplus, which will dwarf the primary income deficit and play a significant role in the overall shift from deficit to surplus. After dropping considerably in 2020-21, foreign direct investment (FDI) inflows will remain firm and should cover the current-account deficit fully in 2023-27.

## Forecast summary

### Forecast summary

(% unless otherwise indicated)

	2022 <sup>a</sup>	2023 <sup>b</sup>	2024 <sup>b</sup>	2025 <sup>b</sup>	2026 <sup>b</sup>	2027 <sup>b</sup>
Real GDP growth	3.8	2.7	2.1	1.7	2.9	2.3
Gross fixed investment growth	3.0	3.5	2.0	2.0	1.0	1.1
Unemployment rate (av)	9.9	9.3	8.8	8.5	8.5	8.4
Consumer price inflation (av)	10.3 <sup>c</sup>	6.3	5.3	5.3	5.7	4.6
Consumer price inflation (end-period)	9.3 <sup>c</sup>	5.3	5.5	5.1	5.9	4.1
Treasury-bill rate (end-period)	7.3	8.3	7.0	6.5	5.9	6.9
Central government balance (% of GDP) <sup>d</sup>	-1.2	-0.1	0.6	0.7	1.0	1.2
Exports of goods fob (US\$ bn)	1.7	1.7	1.8	2.0	2.1	2.2
Imports of goods fob (US\$ bn)	5.3	5.8	6.3	6.6	6.7	6.9
Current-account balance (US\$ bn)	-0.5	-0.2	-0.2	-0.2	0.1	0.3
Current-account balance (% of GDP)	-3.3	-1.2	-1.3	-1.0	0.7	1.5
External debt (end-period; US\$ bn)	17.1	18.3	18.4	18.8	19.1	20.0
Exchange rate J\$:US\$ (av)	153.4 <sup>c</sup>	157.1	162.7	168.4	174.0	180.0
Exchange rate J\$:US\$ (end-period)	151.0 <sup>c</sup>	157.0	163.2	168.7	174.2	180.4
Exchange rate J\$:€ (av)	161.7 <sup>c</sup>	171.2	183.1	194.1	202.7	212.4
Exchange rate J\$:€ (end-period)	161.1 <sup>c</sup>	174.3	186.9	195.7	204.7	212.9

<sup>a</sup> EIU estimates. <sup>b</sup> EIU forecasts. <sup>c</sup> Actual. <sup>d</sup> Fiscal years beginning in April.



# Data and charts

## Annual data and forecast

	2018 <sup>a</sup>	2019 <sup>a</sup>	2020 <sup>a</sup>	2021 <sup>b</sup>	2022 <sup>b</sup>	2023 <sup>c</sup>	2024 <sup>c</sup>
<b>GDP</b>							
Nominal GDP (US\$ m)	15,731	15,831	14,132 <sup>b</sup>	14,715	16,509	17,508	18,100
Nominal GDP (J\$ m)	2,027,251	2,110,433	2,012,444 <sup>b</sup>	2,218,851	2,532,857	2,750,127	2,945,282
Real GDP growth (%)	1.9	0.9	-10.0	4.3	3.8	2.7	2.1
<b>Expenditure on GDP (% real change)</b>							
Private consumption	1.0	1.0	-13.2	3.0	2.5	2.2	1.0
Government consumption	-0.2	1.8	11.7	2.1	1.5	2.0	0.9
Gross fixed investment	5.7	1.9	-15.9	-4.6	3.0	3.5	2.0
Exports of goods & services	8.2	3.6	-30.0	26.0	21.3	22.5	13.8
Imports of goods & services	6.0	4.2	-26.7	11.9	15.0	19.6	11.0
<b>Origin of GDP (% real change)</b>							
Agriculture	4.1	0.4	-1.1	7.1	-6.8	2.8	2.0
Industry	4.8	-0.8	-5.5	1.5	-0.6	2.7	2.1
Services	1.1	1.7	-9.4	4.3	3.2	2.6	2.0
<b>Population and income</b>							
Population (m)	2.7	2.7 <sup>b</sup>	2.7 <sup>b</sup>	2.7	2.7	2.7	2.7
GDP per head (US\$ at PPP)	10,712 <sup>b</sup>	10,988 <sup>b</sup>	10,250 <sup>b</sup>	10,968	12,198	13,001	13,521
Recorded unemployment (av; %)	9.1	7.2	10.8 <sup>b</sup>	10.4	9.9	9.3	8.8
<b>Fiscal indicators (% of GDP)</b>							
Public-sector balance <sup>d</sup>	1.2	0.3	-4.3	0.8 <sup>a</sup>	-1.2	-0.1	0.6
Public-sector debt interest payments <sup>d</sup>	6.6	6.7	6.8	6.0 <sup>a</sup>	5.7	5.4	5.2
Public-sector primary balance <sup>d</sup>	7.1	6.9	2.5	6.7 <sup>a</sup>	4.5	5.3	5.8
Public debt <sup>d</sup>	97.3	91.1	104.5	93.7 <sup>a</sup>	85.2	80.4	78.5
<b>Prices and financial indicators</b>							
Exchange rate J\$:US\$ (end-period)	126.80	131.18	141.71	153.92 <sup>a</sup>	151.01 <sup>a</sup>	157.00	163.20
Consumer prices (end-period; %)	2.4	6.3	5.6	7.3 <sup>a</sup>	9.3 <sup>a</sup>	5.3	5.5
Stock of money M1 (% change)	14.6	11.5	18.5	15.5 <sup>a</sup>	10.0	8.0	9.0
Stock of money M2 (% change)	10.2	9.4	18.4	13.5 <sup>a</sup>	10.0	8.5	9.4
Lending interest rate (av; %)	14.1	13.0	12.1	11.5 <sup>a</sup>	14.2	14.5	14.5
<b>Current account (US\$ m)</b>							
Trade balance	-3,515	-4,030	-2,949	-2,826 <sup>a</sup>	-3,599	-4,034	-4,494
Goods: exports fob	1,960	1,654	1,250	1,440 <sup>a</sup>	1,692	1,721	1,837
Goods: imports fob	-5,475	-5,684	-4,199	-4,266 <sup>a</sup>	-5,291	-5,755	-6,331
Services balance	1,424	1,704	380	-222 <sup>a</sup>	-186	472	784
Primary income balance	-594	-442	-456	-419 <sup>a</sup>	-575	-598	-518
Secondary income balance	2,452	2,417	2,962	3,572 <sup>a</sup>	3,811	3,942	3,985
Current-account balance	-233	-351	-63	105 <sup>a</sup>	-549	-217	-244
<b>External debt (US\$ m)</b>							
Debt stock	17,386	17,730	16,872	17,477	17,146	18,293	18,352
Debt service paid	1,227	2,281 <sup>b</sup>	1,612 <sup>b</sup>	1,661	2,195	2,631	2,446
Principal repayments	513	1,495 <sup>b</sup>	888 <sup>b</sup>	980	1,400	1,804	1,693
Interest	714	786 <sup>b</sup>	725 <sup>b</sup>	681	795	827	753
Debt service due	1,228	2,281 <sup>b</sup>	1,612 <sup>b</sup>	1,662	2,196	2,631	2,446
<b>International reserves (US\$ m)</b>							
Total international reserves	3,532	3,631	4,081	4,833 <sup>a</sup>	4,518	4,518	4,653

<sup>a</sup> Actual. <sup>b</sup> EIU estimates. <sup>c</sup> EIU forecasts. <sup>d</sup> Fiscal years beginning in April.

Source: IMF, International Financial Statistics.

## Quarterly data

	2021				2022			
	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr
<b>Government finance (J\$ m)</b>								
Internal debt (end-period)	795.2	783.0	800.5	824.1	810.1	813.2	836.6	845.8
<b>Prices</b>								
Consumer prices (2010=100)	175.6	177.6	184.2	189.9	194.1	197.6	202.4	208.5
Consumer prices (% change, year on year)	4.5	4.4	6.6	7.9	10.5	11.2	9.9	9.8
<b>Financial indicators</b>								
Exchange rate J\$:US\$ (av)	147.16	150.34	151.99	153.67	154.93	153.80	151.71	153.28
Exchange rate J\$:US\$ (end-period)	144.88	146.72	146.35	153.92	153.31	150.54	152.02	151.01
Deposit rate (av; %)	2.5	2.5	2.6	2.8	3.1	3.8	4.5	n/a
Lending rate (av; %)	n/a	n/a	11.5	11.5	11.6	11.4	11.3	n/a
Treasury bill rate (av; %)	1.4	1.6	1.4	3.6	4.9	8.2	7.9	8.3
M1 (end-period; J\$ bn)	1172.8	1221.0	1263.7	1314.3	1352.4	1369.3	n/a	n/a
M1 (% change, year on year)	13.8	15.5	13.0	15.5	15.3	12.1	n/a	n/a
M2 (end-period; J\$ bn)	1449.8	1504.2	1543.2	1603.1	1634.8	1668.3	n/a	n/a
M2 (% change, year on year)	15.0	16.4	12.3	13.5	12.8	10.9	n/a	n/a
JSE share price index (end-period; Jan 30th 1969=100) <sup>a</sup>	394,659	425,564	414,890	396,156	391,232	384,186	361,692	355,897
JSE share price index (% change, year on year)	4.1	10.9	9.1	0.1	-0.9	-9.7	-12.8	-10.2
Foreign currency deposits (end-period; US\$ m)	3,727	3,746	3,895	n/a	n/a	n/a	n/a	n/a
<b>Sectoral trends</b>								
Alumina production ('000 tonnes)	403	389	273	120	103	90	167	n/a
Bauxite production ('000 tonnes)	1,881	1,675	1,427	1,041	958	953	1,036	n/a
Sugar production ('000 tonnes)	24	13	0	1	22	13	n/a	n/a
Rum production ('000 litres)	6,729	7,727	5,165	5,203	8,247	n/a	n/a	n/a
Cement production ('000 tonnes)	246.0	192.0	269.0	253.0	262.0	n/a	n/a	n/a
Petroleum products production (l m)	346.4	343.0	243.5	155.7	287.0	222.5	n/a	n/a
Electricity sales (MWh)	724.0	769.0	796.0	796.0	728.0	789.0	n/a	n/a
<b>Tourism</b>								
Stopover arrivals ('000)	161.3	371.3	437.9	494.0	510.4	660.1	647.3	n/a
Cruise arrivals ('000)	0.0	0.0	8.4	62.4	99.8	186.9	224.3	n/a
Average length of stay (days)	10.6	8.1	8.9	9.3	8.3	7.6	8.1	n/a
<b>Foreign trade (US\$ m)</b>								
Exports fob	360	423	372	286	341	461	466	n/a
Imports cif	-1,008	-980	-949	-1,330	-1,494	-1,655	-1,759	n/a
Trade balance	-647	-557	-578	-1,044	-1,154	-1,194	-1,292	n/a
<b>Foreign reserves (US\$ m)</b>								
Reserves excl gold (end-period)	4,244	4,286	4,835	4,833	4,324	4,390	4,350	4,518

<sup>a</sup> Jamaica Stock Exchange.

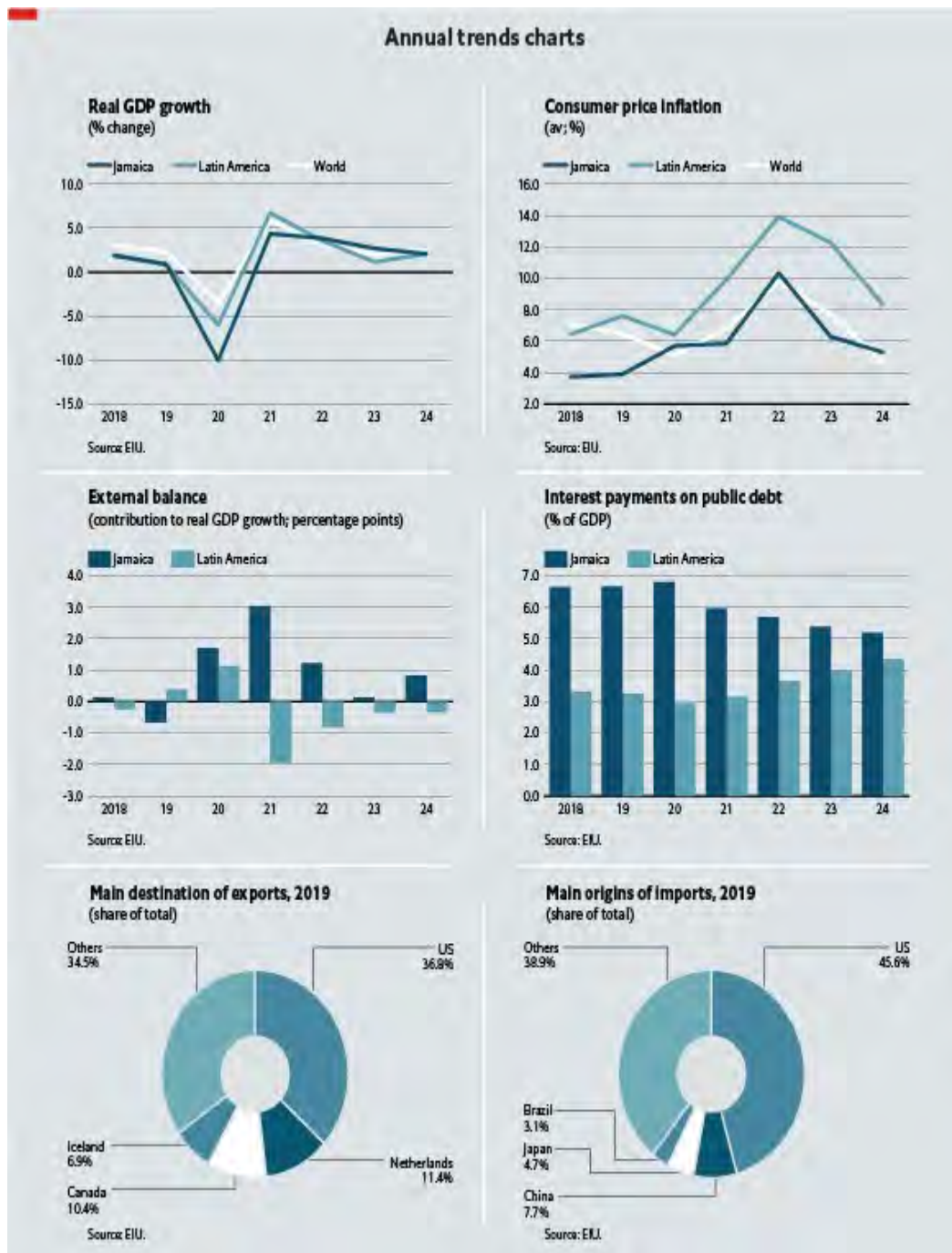
Sources: Bank of Jamaica, Statistical Digest; IMF, International Financial Statistics; Planning Institute of Jamaica, Economic Update & Outlook.

## Monthly data

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
<b>Exchange rate J\$:US\$ (av)</b>												
2020	136.5	140.0	135.3	138.8	145.0	140.6	144.3	149.3	143.4	145.1	147.1	143.4
2021	144.6	149.9	147.0	150.9	150.4	149.7	153.3	153.6	149.0	151.3	155.5	154.3
2022	155.1	156.3	153.4	154.4	154.7	152.3	151.8	151.6	151.7	152.9	153.8	153.1
<b>Deposit rate (av; %)</b>												
2020	2.4	2.4	2.4	2.4	2.4	2.5	2.4	2.4	2.5	2.6	2.6	2.6
2021	2.5	2.6	2.5	2.5	2.5	2.5	2.4	2.6	2.6	2.7	2.8	2.8
2022	2.9	3.0	3.3	3.6	3.7	4.1	4.2	4.5	4.7	4.7	4.9	n/a
<b>Lending rate (av; %)</b>												
2020	12.4	12.3	12.4	12.2	12.1	12.1	12.0	12.0	11.9	11.8	11.8	n/a
2021	n/a	n/a	n/a	n/a	n/a	n/a	11.6	11.5	11.5	11.5	11.4	11.5
2022	11.5	11.7	11.5	11.5	11.4	11.4	11.2	11.2	11.4	11.3	11.4	n/a
<b>M1 (% change, year on year)</b>												
2020	15.1	21.1	17.3	16.2	18.6	17.7	23.7	21.5	25.7	19.1	21.6	17.6
2021	15.8	13.8	16.6	15.9	17.1	17.2	16.3	11.9	12.7	18.0	15.6	20.0
2022	9.9	16.8	14.9	14.1	12.9	11.9	7.8	9.8	12.0	7.6	7.7	7.4
<b>M2 (% change, year on year)</b>												
2020	12.5	15.1	15.0	12.1	14.1	16.3	20.4	19.3	20.6	17.7	17.8	16.1
2021	16.2	16.8	15.2	18.2	16.0	16.5	14.8	12.6	12.1	15.7	14.5	16.8
2022	13.8	14.7	15.1	13.2	13.3	12.0	9.2	8.8	11.6	6.6	7.4	7.3
<b>Consumer prices (av; % change, year on year)</b>												
2020	5.3	6.5	5.9	5.9	5.2	6.8	6.1	5.6	5.4	5.4	4.8	5.6
2021	5.2	3.7	4.5	3.9	5.0	4.4	5.4	6.0	8.3	8.5	7.8	7.3
2022	9.6	10.7	11.3	11.8	10.9	10.9	10.1	10.2	9.2	9.8	10.3	9.3
<b>Total exports fob (US\$ m)</b>												
2020	115	147	126	78	93	90	118	93	88	106	98	110
2021	121	113	133	147	160	130	140	146	105	97	n/a	n/a
2022	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>Total imports cif (US\$ m)</b>												
2020	530	423	405	353	311	346	356	371	376	427	435	415
2021	469	364	495	428	535	465	568	466	493	559	n/a	n/a
2022	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>Trade balance fob-cif (US\$ m)</b>												
2020	-415	-276	-279	-274	-218	-256	-238	-278	-288	-322	-338	-305
2021	-348	-250	-362	-281	-375	-334	-428	-320	-388	-461	n/a	n/a
2022	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>Foreign-exchange reserves excl gold (US\$ m)</b>												
2020	3,561	3,597	3,688	3,582	3,872	3,905	3,740	3,745	3,713	3,860	3,932	4,081
2021	3,938	3,970	4,244	4,252	4,349	4,286	4,258	4,784	4,835	4,741	4,750	4,833
2022	4,336	4,260	4,324	4,357	4,375	4,390	4,243	4,321	4,350	4,319	4,403	4,518

Sources: IMF, International Financial Statistics; Haver Analytics.

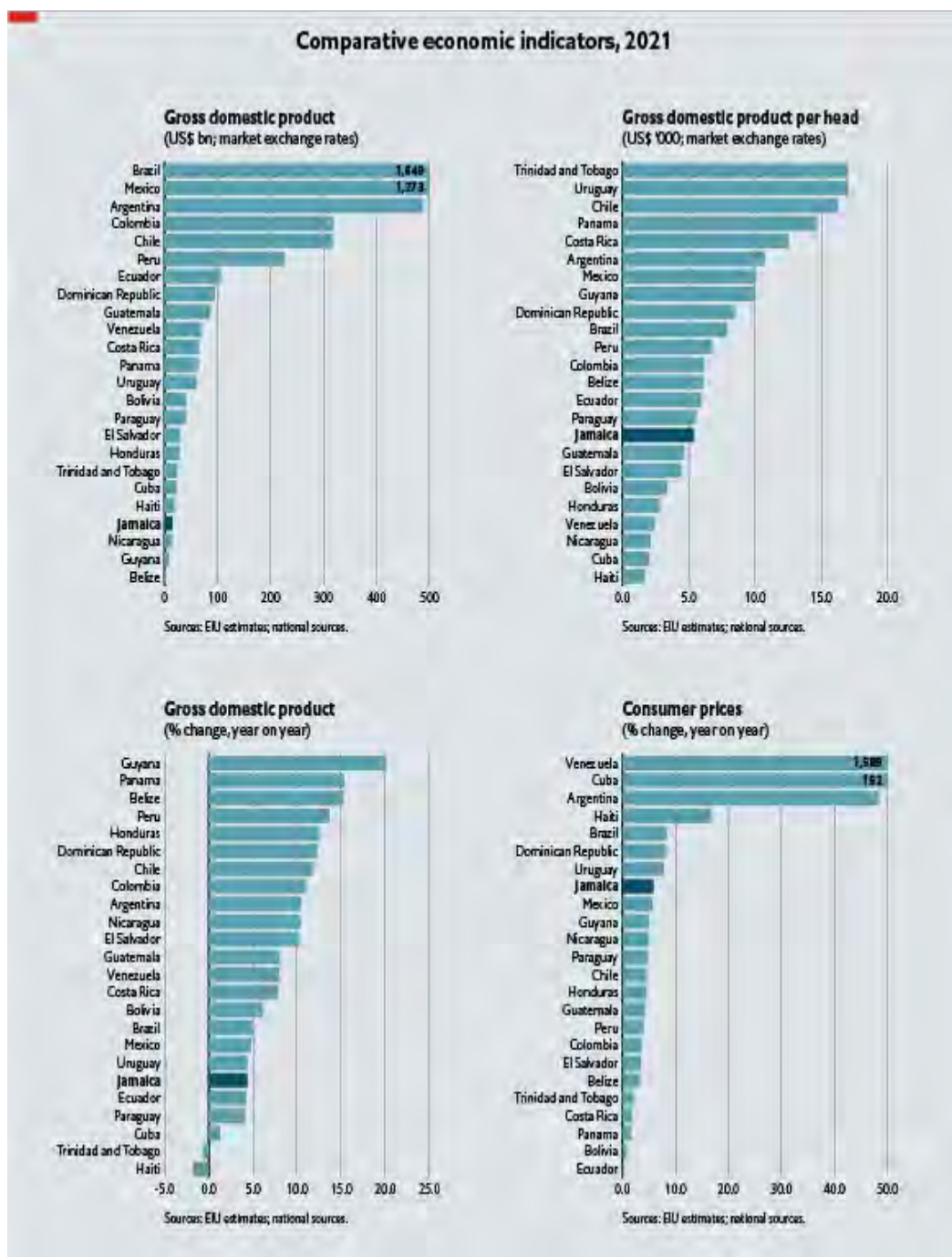
# Annual trends charts



# Monthly trends charts



# Comparative economic indicators



## Basic data

### Land area

10,991 sq km

### Population

2.9m (2018, UN estimate)

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## Main towns

Population in '000 (2012)

Kingston (capital) & St Andrew parishes: 666

St Catherine parish: 518

Clarendon parish: 246

Manchester parish: 190

St James parish: 185

## Climate

Tropical all year; more temperate inland

## Weather in Kingston (altitude 34 metres)

Hottest months, July and August, 26-32°C (average monthly minimum and maximum); coldest months, January and February, 22-30°C; driest month, February, 15 mm average rainfall; wettest month, October, 180 mm average rainfall

## Language

English and local patois

## Measures

UK (imperial system), converting to the metric system

## Fiscal year

April 1st to March 31st

## Currency

One Jamaican dollar (J\$) = 100 cents; average exchange rate in 2022: J\$153.4:US\$1; year-end exchange rate in 2022: J\$151.0:US\$1

## Time

5 hours behind GMT

## Public holidays

January 1st (New Year's Day); February 22nd (Ash Wednesday); April 7th (Good Friday); April 10th (Easter Monday); May 23rd (Labour Day); August 1st (Emancipation Day); August 6th (Independence Day); October 17th (National Heroes' Day); December 25th (Christmas); December 27th (Boxing Day)



## Political structure

### Official name

Jamaica

### Form of government

Representative democracy

### Head of state

King Charles III, represented by the governor-general, who is appointed on the recommendation of the Jamaican prime minister

### The executive

Prime minister, chosen from the majority party in the House of Representatives (the lower house); heads a cabinet of not fewer than 11 members

### National legislature

Bicameral: 63-member lower house directly elected for a five-year term; 21-member Senate (the upper house), appointed for the same concurrent term by the governor-general, with 13 seats allocated on the advice of the prime minister and eight on the advice of the leader of the opposition

### Legal system

UK-style judicial system with the Supreme Court at the apex; the Judicial Committee of the Privy Council in the UK is currently the final court of appeal



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## National elections

The most recent parliamentary elections were held in September 2020. Elections are called at the behest of the prime minister; the next must be called by February 2025. The establishment of a fixed election date is up for debate in the legislature

## National government

The Jamaica Labour Party (JLP) holds 49 seats in the lower house and 13 seats in the upper house; the People's National Party (PNP) holds 14 seats in the lower house and eight seats in the upper house

## Main political organisations

Government: JLP

Opposition: PNP; National Democratic Movement (NDM); United People's Party (UPP)

## Main members of cabinet

Prime minister, defence minister, economic growth & job creation minister: Andrew Holness

## Key ministers

Attorney-general: Marlene Malahoo Forte

Agriculture & fisheries: Parnel Charles Jr

Culture, gender, entertainment & sport: Olivia Grange

Education & youth: Fayval Williams

Finance & public service: Nigel Clarke

Foreign affairs & foreign trade: Kamina Johnson Smith

Health & wellness: Christopher Tufton

Industry, investment & commerce: Norman Dunn

Justice: Delroy Chuck

Labour & social security: Karl Samuda

Local government & community development: Desmond McKenzie

National security: Horace Chang

Science, energy & technology: Daryl Vaz

Tourism: Edmund Bartlett

Transport & mining: Audley Shaw

## Central bank governor

Richard Byles

# Recent analysis

Generated on June 8th 2023

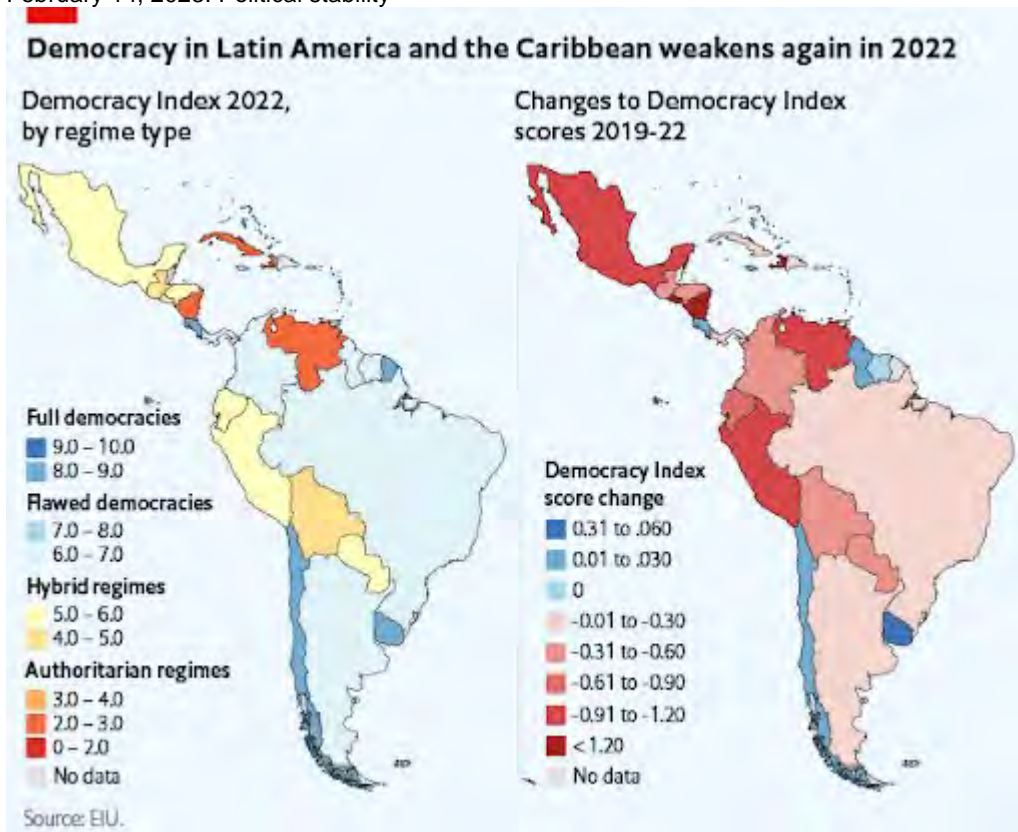
The following articles were published on our website in the period between our previous forecast and this one, and serve here as a review of the developments that shaped our outlook.

## Politics

### Forecast updates

#### Democracy in Latin America weakens again

February 14, 2023: Political stability



- **The score for Latin America and the Caribbean in EIU's Democracy Index weakened for a seventh consecutive year in 2022.** However, the region remains the third most democratic (after Western Europe and North America), and its score (5.79 out of 10) is higher than the world average of 5.29.
- The region's relatively high score is supported by its three full democracies: Uruguay, Costa Rica and Chile. Amid the lifting of covid-19 restrictions, Uruguay rose by two places in the global ranking, to 11th, becoming the most democratic country in the Americas. Meanwhile, **Chile regained its status as a full democracy, again reflecting the end of pandemic-era limitations.**
- However, most countries in the region saw their scores slip, with **the sharpest declines in Haiti and El Salvador.** For Haiti, this reflects a deteriorating political situation—exemplified and aggravated by the assassination of the president, Jovenel Moïse, in July 2021—which is now playing out as a violent collapse of the state. The lower score also reflects the authorities' failure to hold scheduled elections amid the chaos. For El Salvador, the decline can be attributed to draconian anti-crime policies being pursued by the president, Nayib Bukele, and his use of authoritarian tactics to suppress dissent and undermine the autonomy of democratic institutions.

- Democratic backsliding in the region has caused the number of hybrid and authoritarian regimes to rise, from seven in 2019 to 12 this year. **Peru is now classified as a hybrid regime following a failed coup by the former president, Pedro Castillo (2021-22).** Mexico was downgraded from flawed democracy to hybrid regime in 2021, and its score dropped again in 2022, reflecting the expansion of the military's role into formerly civilian areas under the current president, Andrés Manuel López Obrador, as well as the weakening of electoral institutions and a record number of journalist murders in 2022 (with a high level of impunity, indicating weak rule of law).
- Looking ahead, **democracy in Latin America is facing numerous challenges. Among the most significant is the threat of populism in a region disillusioned with politics and, increasingly, with democracy itself.** The appeal of populists in the region poses a threat to the quality of policymaking and to democratic institutions (which populists typically bypass), and risks morphing into authoritarianism (as has occurred recently in El Salvador).
- **Drug-trafficking is another challenge to democracy.** A surge in drug-trafficking is causing crime rates to rise in much of the region; Ecuador, Jamaica and Honduras have all declared states of emergency to address the issue. There is a risk that governments follow Mr Bukele's lead in responding to a spike in violent crime with extreme policies, severely curtailing human rights in the process.

## Local elections are delayed for a third time

March 7, 2023: Political stability

### What's happened?

For a third successive year the governing Jamaica Labour Party (JLP) has moved to delay local elections, passing a new act that now requires them to be held no later than February 28th 2024. On the surface, there appears to be little reason for the JLP to delay the vote—it has been doing well in opinion polls while the opposition People's National Party (PNP) has struggled to cut through with the public or rally around its leader, Mark Golding. However, a recent fraud scandal and low voter turnout pose risks to the JLP, potentially sparking jitters among party leaders.

### Why does it matter?

The delay, which will weaken Jamaica's democracy, has proved controversial, prompting the PNP to walk out of parliament. The opposition party has complained that the democratic process is being undermined. The influential Private Sector Organisation of Jamaica has also opposed the delay, saying that the local elections are essential for the country.

The last local elections were held in November 2016 and were initially due by November 2020, but were delayed as a result of the covid-19 pandemic. They were then delayed again in February 2022 for the same reason, and were supposed to be called by the end of February 2023. This time the JLP cited focusing on the post-pandemic economic recovery as one of the reasons for the postponement. In addition, the government said that it needed more time to establish Kingston's dormitory city of Portmore as Jamaica's 14th parish.

That a further delay was coming became increasingly obvious, given that February passed with no announcement of a date and that the government had not provided a budget for the Electoral Commission of Jamaica (ECJ) to conduct the polls. Although the JLP has dominated the political landscape since the 2020 general election, it has been damaged by its handling of multi-million dollar fraud allegations at Stocks and Securities Limited, a financial services firm. Although it remains in a strong position, a combination of the timing of the fraud allegations and fears over low turnout among JLP supporters risked tipping the vote towards the PNP. This is likely to have spooked party leaders.

### What next?

The biggest loser of the election delay is the PNP, which will lose the opportunity to score a rare victory over the JLP. The JLP may also take a hit if PNP attacks on the undermining of the democratic process start to resonate with the public. Furthermore, **we expect that voters, who are already sceptical about Jamaican politicians owing to previous scandals and well-documented links to criminal gangs, will become more disillusioned with the entire political class.**

## Analysis

### Crime set to dominate Jamaica's February local elections

January 31, 2023: Election watch

- **Local elections are constitutionally due by the end of February, having been postponed twice owing to the covid-19 pandemic. Although the prime minister, Andrew Holness of the ruling Jamaica Labour Party (JLP), has yet to announce an election date, Jamaica's two dominant political parties have been quietly preparing for the polls.**
- **As the pandemic is now fading as a political issue and the economy is recovering, the problem of crime will dominate the local elections. Apart from that, the JLP is trying to use the issue of Jamaica's status to bolster its popularity in the polls (the British monarch formally remains the head of state, but the party has long called for Jamaica to become a republic).**
- **Meanwhile, Mark Golding, leader of the opposition People's National Party (PNP), finds himself on shaky ground; he is losing control of his party, which has so far been unable to convince the public that it is a credible alternative to the JLP.**

## JLP holds its tough line on crime

For much of 2022 the murder rate was running 8% higher than in 2021, and in fact there were five homicides per day on average in September. However, the situation changed dramatically in November, when the government imposed a series of states of emergency (SOEs) that placed about half the island under restrictions and gave the police powers to search premises and detain people without a warrant. This slammed the brakes on the rise in homicides; there were 1,498 murders in 2022 as a whole, making for a year-on-year rise of just 2%. This sharp slowdown in the murder rate following the introduction of the SOEs has lent credibility to the JLP's hardline approach to tackling crime.

Following a visit to the US in December, Mr Holness hammered home the message that he would take a tough approach in order to get crime down. For instance, he said that he had given US law enforcement authorities a list of key figures responsible for directing organised crime on the island. While presenting the JLP as strong and proactive, Mr Holness has sought to paint the PNP as deliberately obstructive, particularly in its refusal to support extending the SOEs. He has called for a bipartisan approach to fighting crime, saying that gangs are relishing the divide between the two political parties.

## Government pins credibility on reduced violence

Mr Holness also used his New Year message to ramp up his tough-on-crime rhetoric, telling Jamaicans to expect a reduction in violent crime. He pointed to an imminent change in legislation that will increase the penalty for murder to over 30 years. This follows the passage of the Firearms Act in 2022, which introduced a minimum 15-year sentence for those convicted of illegal gun offences.

The government has defended these strict policies by arguing that they are changing the risk-reward dynamic for criminal activity. However, SOEs are only a short-term fix for an entrenched culture of violence that stems from the long-running prominence of criminal gangs, turf wars and the impact of drug-trafficking. Moreover, only 50% of murder cases result in an arrest. For its part, the PNP argues that a softer approach—involving increased spending on social interventions and better education and opportunities for young people—is necessary to engender behavioural change and thereby reduce the murder rate over the long term.

Mr Holness has pointed to the example of El Salvador, where a raft of hardline measures—including the suspension of constitutional rights and a doubling of the country's prison population—have reduced the murder rate considerably. Although the Salvadoran strategy has attracted criticism from international human rights groups, it has been popular within the country's own borders, as reflected in the extremely high approval ratings of the president, Nayib Bukele. It is worth noting, however, that despite Mr Holness's hardening rhetoric, we do not expect him to match Mr Bukele's even more draconian approach.

## Jamaican public grows weary of crime issue

Although Jamaican voters have been broadly supportive of the SOEs, they are fatigued by crime overall. According to a poll commissioned in mid-July 2022, 94% replied that they had little or no confidence in the police and 75% had little or no confidence in the army. Despite this disillusionment, the PNP is failing to make inroads on the issue ahead of the imminent elections. An August 2022 poll carried out by Bluedot, a local research company, revealed that 57% of respondents trusted the JLP more than the PNP to manage crime, even though they rated crime as the Holness administration's weakest area.

The JLP, which came to power under Mr Holness in 2016, has consistently polled ahead of the PNP. When asked to choose between Mr Holness and Mr Golding, 65% of survey respondents preferred Mr Holness. He has declared that he is no longer focused on amassing political popularity but rather on his establishing his political legacy, which suggests that he will stick to his hard line in order to reduce crime levels, even if doing so takes the edge off his approval ratings. Nevertheless, a probable strong performance by the JLP in the local elections will reinforce its dominant position in Jamaican politics (it holds 48 of the 63 seats in the legislature). It will also ratchet up the pressure on Mr Golding and could well make his position as PNP leader untenable.

## Ruling JLP starts to slip in the polls

March 28, 2023: Political stability

**Recent opinion polls have put the governing Jamaica Labour Party (JLP) behind the opposition People's National Party (PNP) for the first time in six years. The results were a surprise, given that the JLP has been such a dominant force; indeed, polls in late 2022 still gave it a comfortable lead. Although the economy is recovering and the government has included some measures in the budget for the 2023/24 fiscal year (April-March) that will play well with voters (particularly a 44% rise in the minimum wage), the current cost-of-living crisis is creating hardships for ordinary Jamaicans. This increases the risk that support for the JLP diminishes further ahead of the next general election, which is due by 2025.**

The poll results come as a reality check for the prime minister, Andrew Holness, whose popularity appears to be slipping. Mr Holness has had some notable successes since his term began in 2016. For example, he successfully piloted Jamaica through the covid-19 pandemic and won a large majority in the 2020 general election (the JLP has 49 out of the 63 seats in the lower house). He had also kept JLP ahead of a divided PNP that was struggling to rally around its leader, Mark Golding, and therefore went into the final two years of his term in a comfortable position. However, the tide has begun to turn, and the JLP now finds itself polling slightly behind the PNP.

## Polls suggest rising dissatisfaction with the JLP and Mr Holness

According to a survey by Market Research Services (a local pollster) conducted in February 2023 for the PNP, 28.1% of Jamaicans said that they would vote for the PNP, compared with 27.9% for the JLP. This represents a sharp turnaround from the results of a survey that the same pollster carried out six months earlier, which put the JLP 13 points ahead of the PNP (31% versus 18%). The president has suffered a similar erosion in public support; 37% of respondents to a Nationwide News/Bluedot poll conducted between February and March considered his performance poor (compared with 32% who felt that he was doing a good job)—a much weaker result than in 2021 and 2022, when he scored 43% approval and about 27% disapproval. Mr Holness now finds himself in a much more precarious position than when he won his first term in 2016. He was then seen as a young, culturally savvy figurehead who understood the power of social media, and his promises to bring prosperity to the masses while maintaining austerity measures introduced under an existing agreement with the IMF resonated strongly with the public.

## What's changed?

With just two years until the next general election, the government appears to have been overconfident. It got off to a bad start this year, as a multi-million-dollar fraud was uncovered at Stocks and Securities Limited (SSL, a financial services firm). Many Jamaicans had their savings wiped out, and the government was embarrassed by media reports that it had not adequately responded to warnings about SSL's financial health.

Crime has been a significant weak spot for successive administrations, and the current government is no exception. Critics have accused it of relying too heavily on states of emergency (SOEs) in high-crime areas, on the basis that they involve giving the security forces increased powers and curtailing citizens' rights. Jamaica's already-high murder rate has continued to climb in recent years: 1,498 murders were recorded in 2022, 1,474 in 2021, 1,323 in 2020 and 1,287 in 2019. Although murders fell by 20% year on year between January 1st and March 5th, this improvement may have come too late for the JLP to shake off the perception that it is failing to combat crime.

The Holness administration has become mired, too, in wage negotiations with trade unions that are feeding into concerns about cost-of-living pressures. Although the major unions have now accepted the government's offer of a 20% increase over three years, the process has caused friction with public servants, many of whom have been offended by the "take it or leave it" approach of the finance minister, Nigel Clarke. Comments made by the education minister, Fayval Williams (who comes from a finance background), that teachers should make better investment decisions only aggravated the situation, particularly amid a nationwide shortage of teachers.

Moreover, the government's decision to repeatedly delay local elections has exposed it to claims that it is undermining the democratic process. Local polls were last held in 2016 and were supposed to be held again in November 2020. They were then postponed twice because of the covid-19 pandemic and were then scheduled for February this year, but the government has pushed them back yet again, citing the need to focus on the post-pandemic economic recovery. In response to the latest delay, the influential Private Sector Organisation of Jamaica (PSOJ) said that local elections were essential to a functioning democracy. Actors on the political scene are increasingly calling for fixed election dates.

## **The PNP is getting its act together**

With the JLP in hot water on several issues, the PNP has gained in strength, and the recent polling results are likely to galvanise the party after years of in-fighting. In an attempt to capitalise on the JLP's weaknesses, the PNP has filed a lawsuit against the SOEs on human rights grounds and has positioned itself on the side of public workers in the wage negotiations. In another move that could boost its popularity with low-income voters, the PNP has started legal proceedings on behalf of 65 families who were evicted for squatting on government land. This is consistent with its pledge to regularise land ownership for the many Jamaicans who are living in similar informal communities.

## **The economy is also a factor**

Although the economic recovery from the covid-19 pandemic has been unexpectedly strong, the majority of Jamaicans are not feeling the benefits and have instead seen their incomes eroded by high inflation over the past 12 months. As such, optimistic comments by JLP ministers about the strength of the economy and low unemployment often jar with the everyday realities of price spikes, particularly given that these have come so soon after pandemic-related challenges, particularly lockdowns.

A factor working in the government's favour is that inflation has begun to ease from its peak of 11.4% in April 2022. Moreover, the 2023/24 budget (which was introduced after the most recent polling came out) contains new policies—including a 44% rise in the minimum wage, new infrastructure spending (mainly on housing and water/irrigation) and the removal of tuition fees for certain courses at the national training agency—that will go some way towards shoring up the JLP's popularity. We expect the government to announce further supportive measures in a bid to bolster its position. However, these will be limited in scope, as the government is also committed to prudent fiscal management as part of over-arching efforts to reduce the country's heavy debt burden. As a result, the JLP will struggle to raise spending significantly against a more competitive and challenging political backdrop in the two years leading up to the 2025 general election.

# Economy

## Forecast updates

### Fraud at Jamaican investment house prompts regulatory reform

February 7, 2023: Policy trends

#### What's happened?

A fraud scandal involving about US\$19.5m at Stocks and Securities Limited (SSL, an investment house), the victims of which include the world-famous Jamaican sprinter Usain Bolt, has prompted the finance minister, Nigel Clarke, to take action to protect the credibility of the financial sector.

**Mr Clarke has replaced regulators, announced new rules and asked authorities in the US to investigate the case.**

#### Why does it matter?

The incident has further eroded confidence in the local financial sector following a banking crisis in the late 1990s and a proliferation of "alternative investment" (mainly Ponzi) schemes in the late 2000s. However, **we expect the government's decisive response to limit the damage.**

Given this history of crisis, and partly because of Mr Bolt's high public profile, the latest fraud case has attracted considerable media attention and put pressure on the government to act. Mr Clarke has replaced the leadership of the Financial Services Commission (FSC) with senior figures from the Bank of Jamaica (BoJ, the central bank), whose governor, Richard Byles, will chair the FSC board. The FSC has also obtained a court order against SSL that prevents it from winding up its operations and liquidating assets. The authorities claim that SSL has US\$188m under management; this only represents about 2% of the US\$9.4bn securities market, limiting the risk of a systemic crisis.

Under Mr Clarke's regulatory reforms, which are due to be rolled out over the next two years, the BoJ will assume responsibility for both bank and non-bank financial institutions. The FSC, meanwhile, will be downgraded to a consumer watchdog role. There will be harsher penalties for financial crime, and new reporting requirements will be introduced. However, noting the damage to the public accounts caused by taxpayer-funded bailouts in previous crises, the prime minister, Andrew Holness, said that the government would not bail out failing financial institutions such as SSL. Although the reforms are unlikely to solve all of the banking sector's problems and public confidence will take a hit, the isolated nature of the fraud and the government's decisive stance means that damage been contained so far and that **the risk of the incident spiralling into a broader financial crisis is low.**

#### What next?

Local elections are due by the end of February. Against this backdrop, the governing Jamaica Labour Party (JLP) will want to show that it is taking strong action to shore up the banking sector. To the JLP's benefit, the fraud spans the period when the People's National Party (PNP) was in power, which will limit the opposition's ability to leverage the scandal for its own political gain.



## Historic budget aims to reduce debt to 1990s levels

March 1, 2023: Fiscal policy outlook

### What's happened?

The Jamaican government projects that overall public debt will decline to 74.2% of GDP by the end of the 2023/24 fiscal year (April-March), which would be the lowest level since the country's financial crisis in the 1990s. Given that the economy is still recovering from the pandemic and that the government has carved out a solid reputation over recent years for its management of the public accounts, we consider this a broadly realistic target, although our own forecasts for public debt are slightly higher.

### Why does it matter?

Although the government's projections are more optimistic than our own, the picture for Jamaica's economy is still positive; **next fiscal year will represent the first time that public debt has dipped below levels seen before the FINSAC crisis in the 1990s**, when the government was forced to take on much of the financial sector's debts. **This achievement is also significant in that it will unlock funding that the IMF pledged in December 2022** on condition of continued commitment to fiscal discipline.

The public debt projection was included in the February budget presentation for 2023/24, in which the government also said that expenditure would rise by 2.3% in nominal terms relative to the final estimates for 2022/23, to J\$1.02trn (US\$6.63), breaking the J\$1trn threshold for the first time. The budget comprises non-debt recurrent expenditure of J\$665.7bn (US\$4.32bn), capital expenditure of J\$75.3bn and debt-servicing costs of J\$280.6bn. The finance minister, Nigel Clarke, said that debt-servicing outlays for the current fiscal year (which amounted to J\$155bn) were fully covered by revenue. As such, the government expects overall public debt to fall to 79.7% of GDP by March, before declining further over 2023/24, to 74.2% of GDP.

Public-sector wages will be the largest expenditure item in 2023/24, with an allocation of J\$338bn. This includes recent salary increases for public-sector workers that were agreed under a three-year wage deal. **A possible source of risk to the government's debt projections is an ongoing dispute with the 25,000-member Jamaica Teachers' Association (JTA)**, which is yet to agree to the government's new wage deal. Indeed, Mr Clarke used the budget to increase pressure on the JTA by stating that the new budget did not include the resources to match their demands.

### What next?

We expect public debt fall to 82.9% of GDP by end-2023 and to 80.9% by end-2024, largely owing to more pessimistic economic growth assumptions. However, debt could come in lower than this if Jamaican GDP growth proves stronger than we expect and the government sticks to its spending plans.

## Jamaican tourism is almost back to pre-pandemic levels

March 21, 2023: External sector

### What's happened?

Tourism continued to recover as the busy winter season picked up, according to the latest statistics from the Jamaica Tourist Board (JTB). Stopover arrivals in November 2022 increased by 36% year on year, and in January-November were up by 77.8% compared with the same period in 2021.

### Why does it matter?

The data confirm that the recovery in this important sector, which has been under way since 2021, is continuing. However, despite the rebound, stopover arrivals over the first 11 months of 2022 were still 8% below their pre-pandemic level (2019), reflecting economic uncertainty and high inflation, which are eroding disposable incomes in major markets such as the US, Canada and the UK. **We expect tourist arrivals to finally return to their pre-pandemic level this year.**

According to the JTB, there were more than 207,000 stopover arrivals in November, compared with about 152,000 in the same month in 2021 (when the numbers were still depressed by the covid-19 pandemic). In the first 11 months of 2022 a total of 2.2m people visited Jamaica, according to the JTB, compared with 1.2m in 2021. Just over 75% of stopover arrivals in January-November 2022 were from the US, which over that period saw a 49.7% increase in tourists to Jamaica compared with the first 11 months in 2021.

Officials continue to pin their hopes on the tourism sector to drive the Jamaican economy. The sector is a major source of foreign direct investment into new hospitality capacity and other supporting infrastructure, and it underpins domestic activity and incomes. The minister of tourism, Edmund Bartlett, is also predicting a record-breaking year in terms of income, with foreign-exchange earnings from tourism expected to top US\$4bn—a 13.3% increase on last year. Jamaica's recovery reflects a regional trend, with the Caribbean Tourism Organization reporting a favourable outlook for the region in 2023. The organisation expects an uneven recovery across the Caribbean region, but still expects a 10-15% increase in overall arrivals in 2023, representing 31.2m-32.6m people.

The recovery in tourism is being complemented by an increase in mining, the second of the two main drivers of the Jamaican economy. The Jamalco alumina plant resumed operations in July 2022 following a fire in August 2021 that interrupted production. Although the plant is not back at full capacity, it is reported to be picking up gradually, bolstering activity in the sector.

### What next?

**We expect the economy to continue its recovery in 2023, growing by 2.7%, underpinned by the steady recovery in tourist arrivals, which we expect will return to pre-pandemic levels this year,** despite challenging external conditions such as high inflation in major tourist markets like the UK and the US.

## Analysis

### Latam's financing outlook improves as bond markets reopen

February 9, 2023

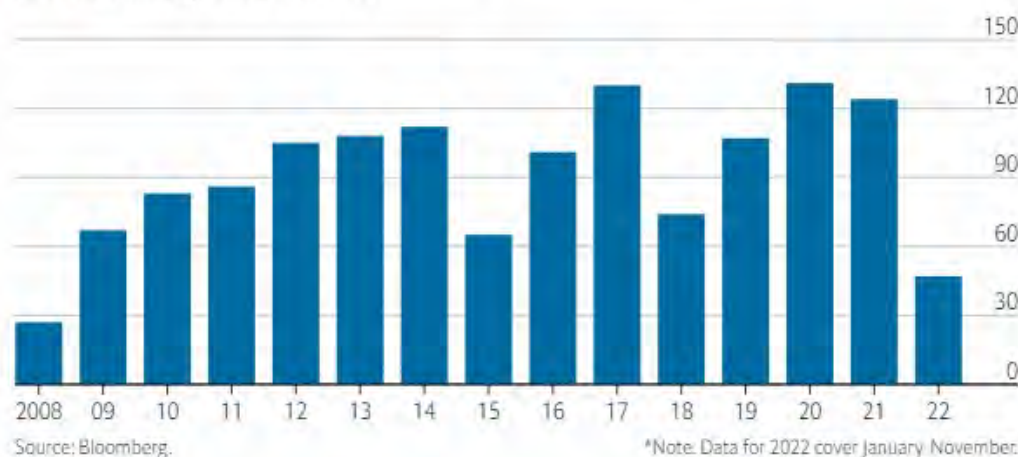
- **Investor appetite for emerging-market bonds surged in January as international financial market conditions improved; against this backdrop, some Latin American sovereigns and companies issued bonds.**
- **Although funding costs are still high compared with pre-pandemic standards, investors are pricing in an end to the US tightening cycle soon. Assuming that there is neither a global recession nor a serious resurgence in inflation (both of which are lingering risks), the rebound in Latin American bond issuance from a 13-year low in 2022 will continue.**
- **A few countries in the region, like Argentina and El Salvador, will remain under financial stress, but the anticipated increase in bond issuance, and an improvement in international**

**financial market conditions more generally, will support the financing outlook for most of the region's sovereigns in 2023. Although rising funding costs will add to the interest payment burden, easier access to external bond issuance will support the region's sovereigns in meeting their funding gaps and will help to reduce concerns about creditworthiness.**

**Capital flows to Latin America plummeted last year as international risk appetite soured, but the outlook appears to have brightened more recently, auguring well for the region's financing outlook.** After aggressive US monetary tightening sent global funding costs soaring in 2022, bringing about a precipitous fall in emerging-market bond activity, conditions have improved in recent weeks. This development has set the stage for a recovery in bond issuance that will provide financing opportunities for Latin American sovereigns and companies this year.

### Latin American bond issuance plunges in 2022

(US\$ bn; sovereign and corporates)



Various factors are behind the more favourable environment this year. Benchmark US ten-year Treasury bond yields have eased, from over 4.25% in October to 3.55% as at end-January, reducing the global base cost of capital. Many Latin American countries have benefited, too, from higher commodity export prices and recorded reasonable growth performances last year, narrowing yield spreads. Although the region's economies are slowing, the global outlook appears less sombre than it did a few months ago, owing to China's sudden abandonment of its zero-covid policy (which is [boosting Chinese economic activity](#)) and a mild winter in Europe (which has [reduced demand for gas](#) amid a supply crunch). Taken together, these factors suggest that most developed markets will now avoid a recession. Nevertheless, there are still risks, mainly around whether the US economy undergoes a soft (or a hard) landing, as well as a possible resurgence in world inflation, but on balance, the global economic environment is beginning to look more supportive for emerging markets this year than it did last year. By extension, prospects for the financing outlook for 2023 are now more positive, as illustrated by recent bond issuance.

### Rapid bond issuance at the start of 2023

Fuelled by institutional investors' usual January cash piles, a flurry of bond activity in Latin America after last year's hiatus bodes well for 2023. There have been sovereign bond issuances by Mexico and Colombia, as well as corporate issuance from companies in Costa Rica (Liberty) and Panama (Multibank). The region's multilateral banks—the Development Bank of Latin America (CAF) and the Central American Bank for Economic Integration (CABEI)—have also got in on the act, raising funds that can now be distributed to member countries.

However, issuance by other emerging-market regions was stronger still. This partly suggests that they were better prepared for the reopening of the window in January, but also reflects the reality that sovereigns and firms in Latin America are not wholly dependent on bond issuance, given that they have other financing channels at their disposal. On that basis, Latin America is unlikely to outstrip other emerging-market regions (such as Asia) in terms of bond activity this year. A contributory factor here is the deepening of Latin America's capital markets, which in some cases prompted companies to switch out of external debt and into domestic debt in 2022.

Bond issuance nevertheless remains important for some sovereigns, such as Colombia. Hot on the

heels of a US\$2bn issue in November 2022 (with ten-year notes yielding 8.125%), the sovereign issued US\$2.2bn in January on better terms as conditions improved (with ten-year notes yielding 7.6%) and the state-controlled oil company, Ecopetrol, tapped the markets for US\$2bn. Mexico also tapped the markets in January, with a five-year bond yielding 5.4% and a ten-year US\$2.75bn bond at 6.35%.



### Latam issuers are getting used to higher funding costs

Having enjoyed many years of rock-bottom funding costs, many Latin American sovereigns balked at high single-digit yields last year, causing issuance to fall to a 13-year low. Now, however, many are coming to terms with the new reality—not just for 2023, but for the medium term—that global funding costs will remain higher than during the easy-money years between the 2008-09 global financial crisis and last year's inflation shock. **This means that more sovereigns initially, and eventually corporates later in the year, will increasingly tap the bond markets for their financing needs.**

EIU expects several sovereigns to tap the bond markets within the next few months, including Costa Rica, Chile, the Dominican Republic, Guatemala, Jamaica and Peru. Brazil may also seek ESG-related bond issuance later this year as its new president, Luiz Inácio Lula da Silva, seeks to burnish his environmental credentials. Mexico is also expected to issue ESG-linked instruments later this year. [ESG issuance gained traction among emerging markets in 2022](#), as demonstrated by innovative issuance from Chile and Uruguay. **Given the region's energy transition journey and its stewardship of the Amazon rainforest, ESG is a segment to watch, not only for sovereigns but for companies too.**

For many sovereigns—such as Colombia, Panama and Costa Rica—global bond issuance will make up a substantial chunk of the public-sector financing requirement. **Although market access is fairly good, the higher cost of finance implies an increased interest-payment burden that will pose risks to the fiscal and financing outlook.** Countries with particularly high interest payment/revenue burdens include Costa Rica (35%), El Salvador (21%) and Honduras (16%); for comparison, the regional average is just over 10%. For some sovereigns—namely Argentina and El Salvador—even in a risk-on atmosphere, access to bond finance will be prohibitively expensive or will not be forthcoming at all. For these countries, lower-cost multilateral lending may also be an increasingly attractive external financing option—if they can access it.

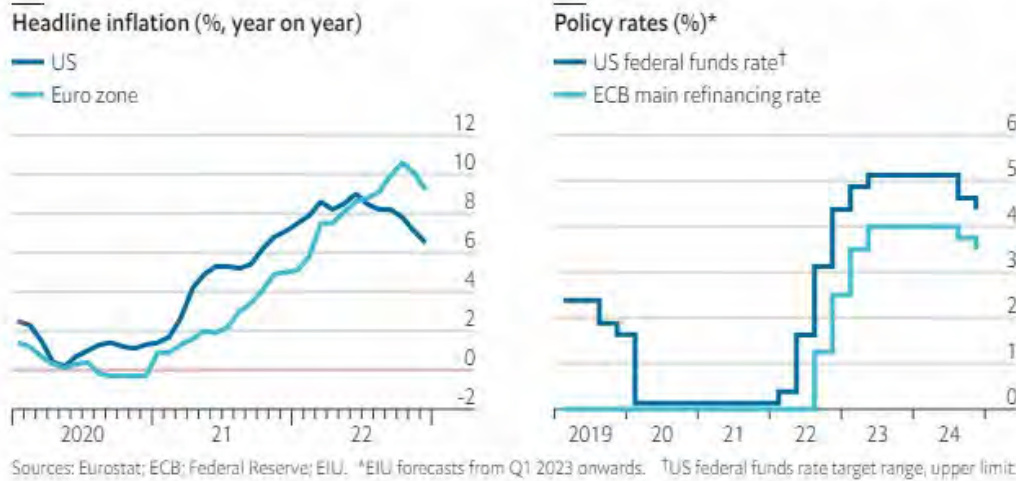
The IMF has already increased its lending to the region dramatically since the pandemic: it currently has US\$34.4bn in lending programmes with Latin American countries (Argentina accounts for most of that sum, but small Caribbean and Central American countries receive funding too) and has just wrapped up a successful US\$6.5bn lending programme with Ecuador. In addition, it has extended US\$60.8bn in flexible credit lines (which have not been drawn down) to countries with good fundamentals. On top of that, in August 2021 all IMF members received extraordinary allocations of special drawing rights (SDRs) equivalent to 95.8% of their quota, further bolstering their external financing position. Bilateral lending will play less of a role this year, although for some countries—including El Salvador and Nicaragua, which are seeking greater loans from China—this form of financing will provide some relief.

**US close to peak rates, so funding costs should ease later this year**

**For the remainder of 2023, the cost and availability of external finance for Latin America will hinge on global developments, but our baseline scenario is that it should improve.** For now, we

expect monetary tightening by the two major central banks—the Federal Reserve (Fed, the US central bank) and the European Central Bank (ECB)—to narrowly avoid triggering a global recession in 2023. A potential second spike in headline inflation in both the US and the euro zone—possibly driven by another jump in global commodity prices related to the war in Ukraine or China's economic reopening—could result in a more aggressive tightening cycle than we currently expect. In this scenario, risk appetite would sour amid higher funding costs, and turbulence in international capital markets would close the window on bond activity for most issuers (including for Latin America), causing financial stresses.

### Fed and ECB to raise rates until mid-2023 as inflationary pressures persist



Nevertheless, under our baseline (more sanguine) scenario for the global economy, which features neither a recession nor a significant rise in interest rates, we expect Latin American sovereign and corporate bond issuance to remain fairly solid in the rest of 2023 after last year's hiatus as issuers get accustomed to the higher funding costs. Looking ahead into 2024, we expect bond activity to pick up as the Fed begins to ease interest rates. However, funding costs for Latin American (and emerging-market) issuers will be higher than before the pandemic, which will complicate fiscal consolidation efforts in several countries, particularly those with public debt/GDP ratios above 60%. Even so, better access to external bond finance will boost Latin American sovereigns and should help to contain creditworthiness concerns in most of the region this year and next.