



U.S. ASSISTANCE FOR THE NORTHERN TRIANGLE OF CENTRAL AMERICA

HEARING BEFORE THE
SENATE APPROPRIATIONS COMMITTEE
STATE, FOREIGN OPERATIONS, AND RELATED PROGRAMS
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Good afternoon, Chairman Graham, Ranking Member Leahy, and Members of the Subcommittee. It is a privilege to appear before you today to discuss United States assistance for the Northern Triangle of Central America; namely El Salvador, Guatemala, and Honduras. Thank you for the attention that you are bringing to these issues, and for your leadership in addressing them over the years. We very much appreciate your long-term, bipartisan interest in building U.S. policy priorities in Central America.

In three weeks the US Secretaries of State and Homeland Security, together with their Mexican counterparts, plan to host a meeting in Miami of leaders from the Northern Triangle countries and ministerial level representatives from others in the region. This is a serious, well-intentioned effort designed to advance discussions on building prosperity and improving security as a means to address most effectively the national interests of the United States. It is an accumulating body of work, on a bipartisan basis, going back to the conclusion of the vicious civil wars just over 20 years ago, and continuing with significant assistance and support since that time.

Central America Requires Long-Term Development Attention

And yet, as evidenced by the crisis of unaccompanied minors and others crossing the Southwest border of the United States over the past several years, the situation on the ground remains fluid and difficult. Some 50 percent of Central Americans live in poverty, many without access to clean water, electricity, healthcare, and quality education. Malnutrition is widespread in some areas. High unemployment plagues the region, and, with over 60 percent of the population under the age of 30, the high percentage of youth without jobs or going to school full time is a significant concern. To complicate matters further, periodic natural disasters including hurricanes, volcanic eruptions, and earthquakes rock the region, knocking precious percentage points off GDP in those nations least-equipped to cover losses.

Meanwhile, security in the Northern Triangle is fraught, with murder rates well above global averages. Located between the world's largest illegal drug consuming nation and one of the world's largest drug producing regions as well as a Venezuelan regime that allegedly facilitates the narcotics trade, Central America is a prime transit route for illegal activities that both overwhelm and also undermine the capacity of governments to address them. Gang activity and the easy availability of high-caliber and other weapons contribute significantly to insecurity, at times even giving criminals the ability to outgun state actors. The attractiveness of gang membership is exacerbated by the lack of economic opportunity and also the lack of effective policing and judicial process. Impunity is rife, as is corruption. Deep social divisions within countries and deep political divisions between and among countries hamper governance and cross-border cooperation.

It is a potent mix. While the primary responsibility for addressing these issues clearly resides with the nations themselves, the United States is in a position to continue assisting our neighbors and friends in need. Doing so is in our interests, given our history and connectivity with the Northern Triangle and the opportunity to address core US interests at their source.

Working to Create Jobs in the Formal Economy

To be most effective, US commitment must be sustained, and might benefit from another Kissinger-style commission to recommend a high-level, bipartisan, fully-resourced path forward. In the meantime, one of the best ways we can support development effectively is by promoting investment and job creation in the formal economy as a pillar of longer-term development. Generating good, legal, sustainable jobs offering the prospect for a better life and stability at the local and community level in migrant-sending nations is critical.

Regional job creation is not a panacea, but it would provide options for those who might otherwise migrate or get wrapped up with criminal gangs. Freer trade with the United States through the CAFTA-DR agreement was a beginning, but the agreement only establishes a baseline; it does not guarantee results. Without an attractive business climate that includes enhanced personal security, an educated workforce, improved regulatory transparency and the rule of law, investors both foreign and domestic will look elsewhere. And that means foregone access to global supply chains, tax receipts, and job creation, among other deficiencies, providing, along with deep security concerns, a continued push for intending migrants.

As a result, a more focused effort by the United States to help the Northern Triangle nations develop and improve their business climates would be appropriate and meaningful. The good news, at least from the Central American perspective, is that US participation in the Trans-Pacific Partnership has been shelved for now, offering temporary relief from enhanced global competition with their most competitive products and markets. Although important from a strategic US perspective in Asia and Latin America, TPP threatened to divert US trade and investment activities away from the Northern Triangle and others in Central America in favor of nations such as Vietnam and Malaysia. But this is only a reprieve, and nations including the United States should be encouraged to redouble their efforts to focus on improved regional economic competitiveness.

Security and Job Creation Go Hand-In-Hand

US assistance can be used primarily to leverage results. On the security side, which is fundamental to improving conditions for economic growth, metrics employed during Plan Colombia with strong bipartisan support proved beneficial, such as a reduction in murders and the re-establishment of a state presence in all communities. Appropriate metrics on drug trafficking, corruption, and judicial effectiveness can also be employed, and greater regional security cooperation should be actively considered. More importantly, Northern Triangle countries should be incentivized to produce real results by allowing them to claim a greater share of the overall assistance package over time. In other words, rather than dividing assistance co-equally among the three recipients up front, we can be more creative, leveraging improved outcomes by encouraging each nation, either alone or in cooperation with the others, to compete for a larger share of the overall assistance package by committing to concrete actions plans and measurable results that can be tracked and rewarded for successful implementation.

The same approach should be considered for economic development activities that will help create conditions to draw the investment that creates jobs and grows the economy. Taking another page from what has worked in Colombia, the three nations of the Northern Triangle should give priority attention to improving their ease of doing business rankings with the World Bank and also their respective competitiveness rankings with the World Economic Forum. Much like the Millennium Challenge Corporation approach, these efforts would be designed to build economic capacity and a framework for competitiveness.

And, there must also be a more genuine commitment among the three nations to linking their economies more closely together, to increase economies of scale and to reduce production costs. From trade facilitation and customs procedures, to infrastructure development, to common, best standards regulatory, permitting, tax, and commercial frameworks, the simple reality is that until the three nations begin to operate as a regional, more unified economy, they will continue to lack in attractiveness for global investors. Currently, it is said that it is easier to export products to the United States from nations in Central America than it is to export products to each other. This raises costs and dramatically reduces the attractiveness of Northern Triangle countries of participation in the cross-border, market expanding supply chains that increasingly drive global production.

Regional growth has often been consumption-led, fueled by remittances from Central Americans living in the United States and elsewhere. But remittances do not generally build capacity; absent a new commitment to improving business conditions, there will be limited opportunity for investment-led, sustainable growth.

Increasing Human Capital and Improving Peoples' Lives

Of course, job creation also depends on human capital, which requires a new commitment by governments to education and workforce development and training. The cost of labor is relatively attractive in the Northern Triangle but productivity lags. Regional production costs are already high, due to enhanced security requirements, high energy prices, lack of transparency and predictability, judicial and contract issues, and other aggravations. Potential investors report that these issues are significantly compounded by difficulties in finding adequately trained workers with appropriate abilities including math and language skills. The mismatch in labor skills with currently and potentially available jobs is profound and will require sustained attention over time. Migrants returning to the region, many with English language skills, are one pool of workers that could benefit from additional training as they seek to transition back to local communities.

But the bottom line is this: without job creation in the formal economy, prospects for Northern Triangle nations to address effectively the twin security and migration crises that confront them will be next to impossible. And without adequate attention to the factors described about, the domestic and direct foreign investment that creates jobs and builds economies, providing alternatives for men and women alike to build better lives in their own communities, will materialize only unevenly. US assistance can and should be used to prime the pump. But even with US support, the primary commitments and achievements, including enhanced security, reduced corruption, and increasingly job creation in the formal economy, must emanate purposefully from the region itself.