



## CARIBBEAN-CENTRAL AMERICAN ACTION

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Subcommittee on the Western Hemisphere

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### **Issues and Opportunities in the Western Hemisphere**

Chairman Duncan, Ranking Member Sires, and Members of the Subcommittee, thank you for the opportunity to appear before you today in this hearing on “Issues and Opportunities in the Western Hemisphere”.

The countries of the Caribbean and Central American region make up the United States’ “Third Border”, and while they do not always figure front and center in discussions on hemispheric policy, they include twenty-two of the hemisphere’s thirty-five independent nations and are therefore of significant strategic importance to the United States. With limited exceptions, the countries of the region have strong and long-standing relationships with the U.S., and share common values, intertwined histories, and, often, common challenges. The important thing about challenges, however, is that solutions and opportunities for all partners are found in collaboration, clear priorities, and shared commitment.

It is important to note that in covering multiple nations in two sub-regions, it is easy to generalize and ultimately not provide meaningful insight to the real issues that are at stake in individual countries.

First of all, I consider the Caribbean fortunate. At the end of 2016, the bi-partisan bill, the “United States-Caribbean Strategic Engagement Act of 2016<sup>1</sup>” was passed into law. I

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<sup>1</sup> H.R.4939 is directed at the fifteen nations of CARICOM and the Dominican Republic.

would like to go on the record thanking Congressman Engel and Congresswoman Ros-Lehtinen for their co-sponsorship of this bill and ongoing support to the region. H.R.4939 calls on the State Department and USAID to develop a strategy to strengthen engagement with the Caribbean, and has immediately afforded an opportunity for regional stakeholders to dialogue with counterparts in the United States on areas of mutual importance.

Where Central America figures in the United States' foreign policy, and what this means for tackling areas such as crime and corruption in a volatile environment, is particularly important, and ongoing commitment and partnership is necessary. There is a lot at stake in Central America, particularly for the countries of the Northern Triangle<sup>2</sup> where uncertainty could have repercussions across the social, political, and economic fronts, including the vibrant trade relationship that must be nurtured.

For both sub-regions, however, many of the issues being confronted are (perhaps not surprisingly) similar. And, as noted earlier, many of the challenges in the region reflect some of the same priorities playing out here in the United States: those of the economy, security, and migration.

CCAA's focus is on trade and investment, so the majority of my remarks will stay in that lane, but I will touch on the more politically fraught areas of crime and migration, as these have profound implications for the regional economies.

It would be remiss not to establish immediately that the United States has consistently had a trade surplus with both sub-regions for the trade of goods. While the balance of trade in goods with the hemisphere overall shows the United States running a deficit of \$36.9 billion in 2014<sup>3</sup>, the balance of trade with CBI countries recorded a surplus of \$3.6 billion<sup>4</sup>, and a surplus of \$5 billion with DR-CAFTA countries in 2015<sup>5</sup>. This trade supports hundreds of thousands of jobs here in the United States, and has a correlated effect of creating and supporting hundreds of thousands of jobs in the region. The trade relationship has deep rooted economic and social benefits.

There has been mixed performance among regional economies over the past year, with some of the most striking contractions occurring in the commodities-exporting countries. ECLAC has forecast some growth for the region in 2017, linked to overall global growth, with Central America, the Spanish-speaking Caribbean, and Haiti forecast to grow by about

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<sup>2</sup> The Northern Triangle countries are El Salvador, Guatemala, and Honduras

<sup>3</sup> <https://ustr.gov/countries-regions/americas>

<sup>4</sup> Eleventh Report to Congress on the Operation of the Caribbean Basin Economic Recovery Act December 30, 2015. Prepared by the Office of the United States Trade Representative.

<sup>5</sup> <https://ustr.gov/trade-agreements/free-trade-agreements/cafta-dr-dominican-republic-central-america-fta>

3.7% and the English-speaking Caribbean growth projected at around 1.7%<sup>6</sup>. It should be noted, and as was previously presented to this Subcommittee in July, 2016<sup>7</sup>, the debt burden in some of the Caribbean countries is an impediment to sustainable economic growth.

The strength of the U.S. economy, of course, has a significant effect on the region. In the area of tourism for example, in 2016 14.6 million visitors moved by air from the United States to the Caribbean<sup>8</sup>. Strong U.S. trade, specifically in shipping, drives revenue in the Panama Canal region. Therefore, the performance of the economy and related policies here, will be an important factor in regional growth.

Observers in both Central America and the Caribbean point to a number of issues today that have broad implications for growth in the region. The weight of each factor varies by country, but I will point to some areas that have general resonance, and are often related:

1. Crime and insecurity: In both sub-regions, crime is one of the most pervasive issues that governments and society are confronting. The tentacles of drugs, gangs, and violence bleed into politics and the economies in ways that many of the countries are unable to address in isolation. A timely study by the Inter-American Development Bank measures the economic and social costs of crime in Latin America and the Caribbean<sup>9</sup>. In the hemisphere, Central America registers the highest costs, with an average of approximately 4.2% of GDP, with the Caribbean average at approximately 3.7% of GDP. Related to the ability to manage crime in many of the countries is the weak nature of the judicial process. The court systems are often bogged down, and people who are arrested are often held without trial for extended periods of time; not to mention those who are in and out of the system after pay-offs. Strengthening the judicial system is often pointed to as a priority for addressing insecurity.

Collaboration on security programs in the region can have a positive impact on the cost of managing border security in the United States. The last time I was before this Subcommittee<sup>10</sup>, I spoke about customs and immigration pre-clearance facilities, where justified by volume of traffic, as an instrument for building mutually beneficial partnerships for protecting borders.

2. Corruption: Transparency International recently released their “Corruption Perceptions Index 2016”<sup>11</sup> and only seven of the nineteen regional countries covered

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<sup>6</sup> Economic Commission for Latin America and the Caribbean (ECLAC), *Preliminary Overview of the Economies of Latin America and the Caribbean, 2016* (LC/G.2698-P), Santiago, 2016

<sup>7</sup> <http://docs.house.gov/meetings/FA/FA07/20160714/105222/HHRG-114-FA07-Wstate-BernalH-20160714.pdf>

<sup>8</sup> Source: Caribbean Tourism Organization ([www.OneCaribbean.org](http://www.OneCaribbean.org))

<sup>9</sup> *The costs of crime and violence: new evidence and insights in Latin America and the Caribbean* / editor, Laura Jaitman. 2017. Washington, DC: Inter-American Development Bank

<sup>10</sup> <http://docs.house.gov/meetings/FA/FA07/20160714/105222/HHRG-114-FA07-Wstate-YearwoodS-20160714.pdf>

<sup>11</sup> [http://www.transparency.org/news/feature/corruption\\_perceptions\\_index\\_2016#table](http://www.transparency.org/news/feature/corruption_perceptions_index_2016#table)

in the survey are in the top half of the perception index<sup>12</sup>. This has different implications, depending on the type and scale of the corruption, but it is important to note that there are significant efforts being undertaken throughout the region to combat corruption and increase transparency and accountability. These are yielding important results, and ongoing support from international partners, including the United States, will serve to strengthen political will and have lasting results.

3. Institutional inertia: Reforms that can drive a more productive policy environment for trade and investment are necessary. In a recent publication by the Inter-American Development Bank<sup>13</sup>, it says: “The Caribbean private sector is falling behind because its policy environment hinders rather than promotes dynamic, innovative, and export-oriented businesses.” In both Central America and the Caribbean, a strong business climate, with clear rules (and with rule of law) has implications for job creation and economic growth, and is an area that will impact competitiveness and productivity for the better.
4. Migration: While this is not my area of specialization, I would like to make a few observations: First, there are strong, legal migrant communities from Central America and the Caribbean throughout the United States, and as U.S. policy evolves, there will be concerns about the effects on the region, and one would be about the general economic impact which could be triggered by a drop in remittances. In 2016, Latin America received almost \$70 billion in remittances. Of this, the primary recipient nations in Central America and the Caribbean received approximately \$30 billion<sup>14</sup>. Mechanisms to continue the transparent flows of support, often in small amounts from parties in the United States to this important regional market, need to be identified and strengthened.  
Second is the absorptive capacity. If there is a wave of returning migrants and/or deportees, this could put extreme socio-economic pressure on regional nations unless national or international resources are directed towards managing this influx.
5. Financial sector threats: The correspondent banking crisis in the Caribbean is considered one of the greatest threats to that sub-region’s stability today. Small markets and high costs of compliance with global regulations have led to the de-risking phenomenon: an outflow of foreign banks that manage cross-border transactions. This is a multi-dimensional problem, but fundamentally, the fight to thwart global terrorism and illegal movement of money, is setting some jurisdictions up for a situation where the high cost of banking could eventually lead to a collapse of the formal banking sector. This sets the stage for the creation of shadow markets,

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<sup>12</sup> For the rankings, this would mean a score of more than 50, where “100” is a total absence of corruption, and “0” is totally corrupt.

<sup>13</sup> Ruprah, I. and Sierra, R. 2016 *“Engine of Growth? The Caribbean Private Sector Needs More than an Oil Change”* Washington, DC: Inter-American Development Bank

<sup>14</sup> Orozco, M. 2017 *Remittances to Latin America and the Caribbean in 2016*, Washington, DC: The Dialogue

where transactions go underground or through informal channels. The United States, together with other bilateral partners and multilateral institutions, is working with the region to address compliance issues, and the related unintended consequences. This cooperation must continue as a matter of national and regional security.

6. Disaster vulnerability and resilience: The entire region is vulnerable to natural disasters, and the cost of a disaster can reach up to 30% of GDP. Linked to this vulnerability is the impact of rising sea-levels that are threatening the coastlines; in the Caribbean, it is estimated that 90% of economic activity takes place within one mile of the coastline, and 60% of residents live in coastal zones. Resilient infrastructure development is a key to an economically sound and secure region.
7. Energy: It is difficult to capture the importance of regional energy security in a paragraph; Venezuela's relationship with many in the region and the influence of Petrocaribe is its own book<sup>15</sup>. The countries of the region, individually or collectively, must have a strategy for their future energy security. Some current highlights are:
  - the important work on the Central American Electrical Interconnection System;
  - support by the United States and other donor partners for the development of the Caribbean Sustainable Energy Roadmap;
  - Guyana being on the brink of becoming a regional (and global) energy leader; and,
  - the deployment of technology for transportation and delivery systems for natural gas are making this fuel a more accessible and cost-efficient option for small islands.

The United States, along with bilateral and multilateral partners, has been working with the region on multiple fronts, and has hosted the U.S.-Caribbean and Central American Energy Summit, a signature event in the Caribbean Energy Security Initiative. This is an important initiative that would benefit from continuation. A focus on sustainable energy development has had positive results for small economies where the high cost of energy can negatively impact economic activity.

8. Finally, a few words on Haiti: the good news is that the President, Jovenel Moïse, was inaugurated on February 7. There is still no ratified Prime Minister or Cabinet, but we hope that the process will move forward quickly. Haiti's social and economic development will require substantial public and private sector investment into education, health, energy, infrastructure, and the productive sectors (agriculture and manufacturing). The bottom line is that Haiti's stability needs to be secured,

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<sup>15</sup> For more information, a good source is: Goldwyn, D. and Gill, C. 2016 *"The Waning of Petrocaribe? Central America and Caribbean Energy in Transition"* Washington, DC. The Atlantic Council

and it will take well-planned domestic strategies, coupled with targeted, thoughtful international involvement, to achieve this.

**Conclusion:**

Fragile states are unreliable neighbors, so it is valuable to underscore the importance of a strong, collaborative relationship with the countries of our Third Border. This Subcommittee has been very mindful of this fact, and I appreciate the attention that is given to the smaller nations of this hemisphere, and to the issues impacting the systemic challenges to their economic growth.

Thank you, Mr. Chairman, for the opportunity to be with you today.