

**THE STRATEGIC IMPORTANCE OF THE WESTERN
HEMISPHERE: DEFINING U.S. INTERESTS IN THE REGION**

HEARING BEFORE THE U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON FOREIGN AFFAIRS
SUBCOMMITTEE ON THE WESTERN HEMISPHERE
FEBRUARY 3, 2015

ERIC FARNSWORTH
VICE PRESIDENT
COUNCIL OF THE AMERICAS

*** As Prepared for Delivery ***

Good morning, Mr. Chairman, Mr. Ranking Member, and Members. It is a pleasure to join you and the other distinguished panelists for today's discussion on the strategic importance of the Western Hemisphere and U.S. interests in the region. Thank you for the opportunity to testify on such a timely and important topic as you launch your oversight activities in this new Congress.

May I first congratulate you, Mr. Chairman, on taking over the leadership of this Subcommittee, and also thank Mr. Salmon for his previous Chairmanship. May I also thank you, Mr. Sires, for your continued commitment to these issues as the Ranking Minority Member both in the previous Congress and going ahead. On behalf of the Council of the Americas, we are looking forward to working with you and the other members of this Subcommittee to promote U.S. national interests during this very intensive and fluid moment in hemispheric affairs.

Mr. Chairman, Mr. Ranking Member, I would submit to you that strategic U.S. interests in the Western Hemisphere are as profound as our interests almost anywhere else on the globe. The region is directly connected to our own day-to-day economic well-being and national security, from economic prosperity and growth to energy security, personal security, and the promotion of our most fundamental values.

North America

Let's be clear-eyed about this: our most immediate neighbors have the greatest impact on our strategic interests. It is significant and consequential that we have a northern neighbor, Canada, which is both our top trade partner and top energy supplier, and which is stalwart in working with us to address the toughest global challenges. At the same time, North America including Mexico—our second largest export market and also third largest energy supplier—is becoming a fully integrated production platform, with tightly-knit supply chains and ever-deepening commercial ties. As China and other nations have emerged to

challenge the pre-existing global economic order, the ties that bind us within North America have had the effect of increasing the size of our own internal markets, thus creating economic efficiencies, building competitiveness, and directly contributing to the economic growth our citizens both desire and deserve. The challenges that Mexico continues to face on the security side are also our concern, because they undermine the rule of law, vacuum up resources, and have the potential to spill over onto us. It is therefore critically important that we get relations with our two most immediate neighbors right. In that regard, I would note the positive trilateral meeting of North American foreign ministers that took place over the weekend in Boston. We also look forward to the next meeting of North American leaders in Canada at some point later this year, and urge that it be used to advance concretely the trilateral agenda.

A Deeper Association with Growing Economies

Beyond North America, as Vice President Joe Biden first said during a speech to the Council of the Americas in 2013, and I concur, it is profoundly in the self-interest of the United States to see a hemisphere where every nation is “middle class, democratic, and secure.”

Economies with strong and growing middle classes tend to be more stable economically and politically, and vested in working within the prevailing global order rather than undermining it. They have higher expectations of good governance, transparency, and anti-corruption, and demand effective property rights and the rule of law. They begin to demand better opportunities for themselves and their children, emphasizing education, healthcare, and job creation in the formal economy, while also developing a greater sensitivity to environmental issues and a responsibility for sustainable economic development. And, of course, they have growing purchasing power and the desire and ability to procure the products we design and sell. These are precisely the characteristics that define our best, longest-lasting, and most effective bilateral partnerships, and why the dramatic reduction in poverty across the region is of such importance to us here in the United States.

That is also why we believe so strongly that trade and investment expansion in the Western Hemisphere is a strategic issue. In the first instance, trade and investment supports our own economic strength and security, as the President noted during his State of the Union address in January. Almost one third of the entire U.S. economy is built on trade, while over 45 percent of overall goods exports went to Western Hemisphere nations in 2013, with 34 percent of our imports coming from there. At the same time, trade and investment also support efforts to build and strengthen middle classes abroad, breaking down traditionally restrictive patterns of economic organization and offering greater opportunities to grow and innovate supported by the rule of law. Formal trade agreements reinforce these activities, while linking our economies closer together on a more permanent basis consistent with U.S. values. We have seen these positive results over more than 20 years of North American integration under NAFTA, as well as free trade agreements with Central America and the Dominican Republic, Peru, and Chile, and, most recently, with Colombia and Panama. We can do more, and we should, including the prompt conclusion and passage of the Trans-Pacific Partnership which includes Canada, Mexico, Peru, and Chile; the rapid incorporation of Colombia and perhaps certain Central American nations

into a completed TPP and also APEC; the incorporation of both Canada and Mexico into Trans-Atlantic Trade and Investment Partnership negotiations with Europe; active support for the Pacific Alliance which currently includes four of our free trade partners; consolidation of existing hemispheric trade agreements under one omnibus umbrella to the TPP or other high standard approach; and heightened efforts to engage Brazil and other MERCOSUR nations toward expanded, freer trade.

Energy Security and Growth

Nonetheless, while regional economic progress over the past decade is noteworthy, continued success is not guaranteed. The dramatic fall in oil prices is already straining regional economies and the growth on which continued poverty reduction depends. Hydrocarbons are plentiful across the Western Hemisphere, directly supporting the reliability and security of the U.S. energy supply. Our ability to meet our energy needs through regional trade and investment relationships is crucial, while a fall in prices helps the U.S. consumers who have been the drivers of economic recovery. But the impact also goes in the other direction. Petroleum-dependent nations like Venezuela and its client states in the Caribbean Basin are now in deep economic trouble, having squandered immense wealth generated during the past decade of high energy prices. We may see the situation deteriorate further before it improves. Other nations including Mexico, Argentina, Brazil, Colombia, and Ecuador, which have been anticipating continued high energy prices as an engine of growth, are also now facing a potential new reality. More broadly, nations that depend on the sale of primary commodities are often prone to booms and busts. This has significant political implications: the ability of nations to meet the growing expectations of their expanding middle classes is circumscribed when available resources are constrained. And there is perhaps nothing more motivating for dramatic, even radical political change that fosters populism—or potentially worse—than fear and prospects for economic stagnation or retrenchment. One needs look no further than the late January 2015 elections in Greece to reinforce the point. It is precisely this reason why it is in U.S. strategic interests to help build broad-based, inclusive, value-added regional economic growth.

Strengthening National and Personal Security

And it is also in our strategic interests to find ways to help Central America and the Caribbean develop economically, and there is a significant role here for Congress. The administration has just announced a \$1 billion dollar assistance program for Central America for FY2016, which we hope will be actively and favorably considered. As we were starkly reminded by the summer 2014 crisis of unaccompanied minors on our Southwestern border, most who came from Central America, families will take desperate measures when their livelihoods are at stake and their personal security and the rule of law cannot be guaranteed. These issues are interconnected, significantly exacerbated if not caused by the illegal drug trade and gang culture in a number of countries. As increasing attention is being paid to help Central America address these issues, we are also seeing these same concerns infecting the Caribbean as well as the urban centers of South America. That's one reason why it is so important that we have full economic and security cooperation with both the drug transit and drug producing nations, including across the full

range of cybercrime law enforcement, and why it is so harmful when such cooperation breaks down. A more comprehensive approach to development is required.

Beyond the pressing need to improve dramatically the personal security profile in parts of the region, however, the Western Hemisphere is, thankfully, a region largely at peace, with only the last vestiges of guerrilla conflict ongoing in Colombia. With that nation actively involved in a peace process, which the United States has done so much to enable through our active policy and financial support for the Colombian people on a bi-partisan basis, we must now begin to think in terms of supporting the peace, once an agreement is struck. This will not be easy or inexpensive, but Colombia has proven itself through the years to be a reliable partner for the United States in South America, and in my view it will be equally important to offer tangible support for the implementation of potential peace accords in order to support our own strategic hemispheric goals.

A Changing Americas

Finally, Mr. Chairman and Mr. Ranking Member, let me offer a word about Latin America and the Caribbean in the overall global environment. In short, the region is in play. No longer can we assume that we can engage solely on our own terms. We must increasingly contend for the region in a manner that we have traditionally not had to do. China's growing presence and long term commitment, amplified by President Xi Jinping's promise during the January 2015 China-CELAC meeting to promote investments valued at \$250 billion over the next 10 years, is changing the economic and political dynamic. At the same time, Brazil's rise has been universally and appropriately praised, but with its interest in developing an increasing global profile, for example in the BRICS context, coupled with an increased capacity to realize greater ambitions, we must also recognize that Brazilian pursuit of its own foreign policy interests does not always coincide with our preferences. That's ok—competition is good in both politics and business. But it does mean that we have to engage meaningfully with the region on a sustained and creative basis, finding ways to promote our interests effectively by working closely in partnership with others wherever we can, while recognizing the rapidly changing nature of hemispheric relations.

In April, the next Summit of the Americas in Panama will be an important opportunity to lay out a concrete vision for regional engagement. Much work has already occurred, but the ground has shifted even from the previous Summit in Colombia and the competition to set and implement the regional agenda has increased. Promotion of strategic U.S. interests should guide our approach at the Summit in April and beyond. If it does, we can indeed look forward to the day when the hemisphere is middle class, fully democratic, and secure.

Thank you again Mr. Chairman and Mr. Ranking Minority Member for the opportunity to appear before you today. I look forward to your comments and questions.