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Subcommittee on Western Hemisphere, Civilian Security, and Trade

Assessing the Impact of Cutting Foreign Assistance to Central America

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Central America is Our Problem – and Our Partner

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Mr. Chairman, Mr. Ranking Member, members of the Subcommittee, it is an honor to be with you today to discuss the need for robust American engagement with the nations of Central America, particularly El Salvador, Guatemala and Honduras. This is an issue that is not well understood among the American public, and I congratulate you for your efforts to promote a more nuanced understanding through this hearing.

I have submitted a full statement for the record but would like to offer brief comments now and will welcome the opportunity to respond to questions or comments you might have.

The George W. Bush Institute is perhaps not well known outside the Dallas “beltway.” We are designed to engage communities in the United States and around the world by developing leaders, advancing policy, and taking action to solve today’s most pressing challenges. The Economic Growth Initiative, which I lead, works to advance policies that promote economic growth and strengthen our competitiveness in the global economy. Our major areas of focus over the past several years have been North American economic integration and competitiveness; immigration reform; the role of cities and localities in creating the conditions for growth, innovation and social mobility; and the conditions for growth in Central America.

Mr. Chairman, Mr. Ranking Member, the heartbreaking images that we have all seen over the past months of desperate children and families from Central America fleeing violent crime and risking their lives to enter the United States have produced an unsatisfying debate among Americans. There are those who seem to believe that the poverty and violence in the region are the fault of the United States and it is our responsibility to fix it. And there are those who seem to believe that the corruption and social dysfunction of the region are entirely the fault of the Central Americans themselves, and they have only to reform their countries’ policy environment if they want to prosper.

As usual, the truth is more complicated than these caricatures. The good news is that the United States is not alone in wrestling with this problem; in fact, we have willing and capable partners in the Central Americans themselves to address it.

All of the Central American countries have been sovereign nations for two centuries, and all have had functioning democracies with market-driven economies for three decades or more. As a result, they bear ultimate responsibility for social, political, and economic conditions in their countries.

At the same time, the United States has been deeply engaged in those countries for decades. The first trip outside the United States by a sitting American president was to Panama in 1906, when Theodore Roosevelt went to inspect the construction of the canal. We used development assistance to coax the Central Americans away from communism in the 1960s. We fought proxy wars against Cuba and the Soviet Union there in the 1970s and 1980s. We used development assistance again to encourage full implementation of post-conflict and post-Cold War reconciliation in the 1990s. And we used the prospect of access to the U.S. market to encourage the region to commit to free trade in the 2000s. More recently, we have deported thousands of young men who had served jail time in the U.S. In so doing, we transplanted notorious street gangs like MS-13 from the U.S. to the region, where they have metastasized into a threat to public order.

Over the years, we also have given safe harbor to hundreds of thousands of Central Americans fleeing civil war and natural disasters. Those people in most cases worked hard, obeyed the law, and became members of the American community, as immigrants have done in this country for over two centuries. Today, they, their children, and their grandchildren are citizens and taxpayers – and voters.

The region's embrace of free trade is especially important. The core premise of U.S. trade policy since the Reagan administration has been that trade, including freer trade among developing countries, is a better tool for economic development than aid. The Dominican Republic – Central America Free Trade Agreement, known as CAFTA, negotiated by President George W. Bush's administration, is the most fully developed effort by the U.S. to put this idea into practice. All the partner countries have worked hard to reform their economies in order to fully implement the agreement. But their continued poverty challenges the American approach – and creates an opening for those promoting other approaches. We must prove that our approach works.

As a result, it doesn't really matter whether the problems facing the countries of Central America are our "fault" or their "fault." The fact is that the security of our borders and our communities, and the credibility of the concept of trade-led development, are at stake in whether and how they are resolved.

The challenges are daunting. The region remains trapped in a cycle of political uncertainty, institutional weakness, and persistent poverty. Crime has risen to intolerable rates due to a vicious cycle of poor educational opportunities, unemployment, family disintegration, and a weak culture of rule of law. Competitiveness has been impacted because of bureaucracy,

corruption, and insecurity. This instability on our extended security perimeter drives immigration and reduces growth opportunities for the U.S.

Driven by this recognition, the United States has offered strategically focused assistance to the region. Under the Alliance for Prosperity since 2014, U.S. appropriated assistance to the Northern Triangle countries has exceeded \$2.5 billion, including over \$1.2 billion for citizen security initiatives, about 0.47% of total U.S. government spending on foreign assistance during that period.

I said earlier that the situation in Central America had produced an unsatisfying debate among Americans. One of the ways in which the debate over these aid programs is unsatisfying is that Americans implicitly assume that the United States is bearing all or most of the cost of public security in the recipient countries. In fact, U.S. peace and security assistance to El Salvador, which averaged just over two million dollars per year during the fiscal years 2016-2018, represents just 2.1% of Salvadoran spending on security and justice under the Alliance for Prosperity. In Guatemala, average annual U.S. funding of \$1.9 million represented just 1.8% of Guatemala's own spending on public security. In Honduras, the U.S. average annual commitment of \$6.2 million represented just 3.1% of Honduras' own spending. Across the region, dozens of Salvadoran, Guatemalan and Honduran law enforcement officers have lost their lives in the line of duty during this time. The Central Americans are working hard and making sacrifices to address their own problems.

Nonetheless, U.S. foreign assistance, particularly since the inception of the Alliance for Prosperity in 2014, has been instrumental in helping the Central Americans focus their own efforts to address the region's challenges. U.S. assistance encourages the governments of the region to adopt American priorities, in effect extending the reach of our own law enforcement agencies. The presence of U.S. assistance alongside the Central Americans' own resources reduces corruption and enhances transparency, which are the keys to building public trust and strengthening the ability of the Central American nations to govern themselves. In all of these ways, those hard-earned dollars of American taxpayers are leveraged many times over, to the benefit of our own people and communities. As a result, a real cut-off of aid to the region would be counterproductive for our own security and could set back hard-won progress.

At the same time, it is true that, to break this vicious cycle once and for all, the U.S. needs the region to develop and pursue a long-term growth agenda that will boost job creation. In turn, that will help drain support for the gangs, stop migration and family disintegration, and renew support for democracy and free markets. Central America buys \$29.3 billion in American goods and services each year, and American brands of products from hamburgers to cell phones to SUVs are ubiquitous throughout the region. Think of the market opportunities that will result when the region is peaceful and prosperous.

In an effort to encourage the emergence of a growth agenda, the Bush Institute created the Central America Prosperity Project (CAPP) in 2018. At the center of the CAPP approach is a working group that brings together 30 leaders from Guatemala, El Salvador, and Honduras,

including leaders who resolved the civil conflicts, leaders who negotiated CAFTA, and emerging young leaders. Half the group are women, and a third are under the age of 35. Participants represent business, policy, politics, academia, journalism, and civil society.

The group's discussions identified corruption and informality as the region's overarching challenges. Corruption covers the gamut from petty bribery in evading traffic fines to tax evasion – all the way to embezzlement in government contracts. Informality refers to businesses and workers that aren't registered so as to evade taxes and avoid compliance with health and safety regulations, minimum wage requirements, and social security payments.

The group agreed that wider use of digital technologies would curtail corruption by making tax and customs fraud almost impossible. Digital technologies also would reduce informality by making compliance with registration requirements easier and less costly. Further, small and medium-sized businesses would have improved access to global markets, increasing their ability to grow and create job opportunities for Central American workers.

Drawing on these discussions as well as academic and other sources, the Bush Institute in May 2018 urged the three countries' governments, private sectors, and civil societies to work together to develop and implement a regional digital strategy that would promote use of mobile services for access to government and financial services across the region. This proposal was welcomed across the region and by the U.S. government, the Inter-American Development Bank, and other stakeholders. In particular, our working group felt empowered by the mention of digital inclusion as a key element of the strategy called for in HR 2615, The United States-Northern Triangle Enhanced Engagement Act.

In the remaining months of 2019, we are working with our network to organize a series of workshops in the region to bring financial and telecommunications sector investors together with civil society and policy makers to identify the policy impediments to broader deployment of mobile services and develop national implementation plans. We have been encouraged by the commitment of the region's governments, particularly the newly inaugurated Salvadoran government and the team of the Guatemalan president-elect, to make digital development a top policy priority. We believe this represents an area in which Central American leadership is moving in a direction that supports U.S. interests as identified in HR 2615 and elsewhere –.

Of course, the region's challenges go well beyond digital services. The value of the proposed digital agenda is not that it addresses every challenge, and certainly not that it can restore social trust and rule of law all by itself. But the experience of other countries – South Korea and Kenya, to name two – suggests that it can be effective in reducing corruption and informality. And, perhaps more importantly, it represents a commitment by a broad and influential network of Central American leaders to the hard political work of driving reforms that will strengthen the foundation for future prosperity. As such, it is an example of the potential multiplier effect of U.S. foreign assistance when it is well aligned with the region's own economic initiatives

The Bush Institute's objective in launching the Central America Prosperity Project was to build a network of influencers across the Northern Triangle and foster a shared commitment to a policy reform agenda. Over the coming months, we hope to demonstrate that this approach can produce measurable policy reform.

More broadly, we believe that this model – a practical strategy and a network of Central American partners committed to implementing it – can make a down payment on reforms needed to put Central America on a more robust and more inclusive growth trajectory, leveraging U.S. foreign assistance dollars to further promote U.S. interests.

Mr. Chairman, Mr. Ranking Member, members of the Committee: thank you again for the opportunity to be here today. I look forward to your questions and comments, and to supporting the Committee in its work over time.