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POLITICAL AND ECONOMIC DEVELOPMENTS IN LATIN AMERICA AND OPPORTUNITIES FOR U.S. ENGAGEMENT

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POLITICAL AND ECONOMIC DEVELOPMENTS IN LATIN AMERICA AND OPPORTUNITIES FOR U.S. ENGAGEMENT

THURSDAY, JANUARY 21, 2016

U.S. SENATE,
COMMITTEE ON FOREIGN RELATIONS,
Washington, DC.

The committee met, pursuant to notice, at 10:47 a.m., in Room SD–419, Dirksen Senate Office Building, Hon. Bob Corker, chairman of the committee, presiding.

Present: Senators Corker [presiding], Gardner, Cardin, Menendez, Udall, Murphy, and Kaine.

OPENING STATEMENT OF HON. BOB CORKER, U.S. SENATOR FROM TENNESSEE

The CHAIRMAN. The Foreign Relations Committee will come to order. We want to thank our witnesses for being here on a snowy day.

This morning, we are going to look—we are going to be looking for a different take on the Western Hemisphere. It seems like every time we have hearings relative to the Western Hemisphere, what grabs our attention is threats to democracy or problems like drug trafficking. However, recent political and economic developments in Latin America suggests there may be opportunities—I know you all are going to talk about those today—for the U.S. to ramp up our engagement in constructive ways.

The Western Hemisphere is a region largely at peace and increasingly integrated in the global supply chains where the tools of democracy are available to resolve conflicts and fostering economic growth, education, and the rule of law, our shared interests. More importantly, it is the region where our neighbors are exercising leadership, particularly on the economic integration front.

This hearing will explore where we stand and hopefully allow us to identify concrete steps that we can take as a Nation to influence outcomes in our mutual interests. We welcome our witnesses, and we will now turn to the distinguished ranking member, Senator Cardin, for any comments he may wish to make. And I would say to you it is my understanding that all three of these witnesses are Democrats, so this ought to be a very good.

STATEMENT OF HON. BENJAMIN L. CARDIN,
U.S. SENATOR FROM MARYLAND

Senator CARDIN. Well, I really want to welcome this very distinguished panel that we have. [Laughter.]

Senator CARDIN. I am glad to see the chairman chose wisely the witnesses that we have before us today. So thank you for being here, and I appreciate your input on the Western Hemisphere. This is obviously an extremely important hearing dealing with our own neighborhood.

2015 has been a year of major change with the dramatic changes in U.S. relations in Cuba, to the elections to Argentina, to the arrival of bold new leadership in the Organization of American States. This hearing is a space to analyze these changing dynamics and identify how the United States can take advantage of opportunities in a region that is fundamentally important to our economy, our national security, and our national interests.

As we review the region's advances over the last year, one that cannot go unnoticed is how civil societies, from Guatemala to Brazil, raised its voice against corruption. I mention that because, to me, one of our fundamental global problems is how do we get more attention to the spread of corruption. I was in Central America, democratic countries, but to deal with the problems of corruption has been very, very challenging.

So we saw a renewed Latin America leadership regarding the critical situation in Venezuela where an alarming level of economic hardship and criminal violence prompted voters to elect the democratic opposition to a legislative super majority. It will be interesting to follow that particular circumstance. In Colombia, and I know the Colombian president will be here this year, a potential peace agreement would end a half a century of conflict and provide an opportunity to promote a new era of broad-based sustainable development.

Additionally, I want to recognize the Mexican government's recent capture of El Chapo Guzman, and the decision to extradite him to the United States. I must say, though, and all due respect, Mr. Chairman, that our policies with Mexico would be much more effective if we could confirm our ambassador, Roberta Jacobson. It is very difficult without having a confirmed ambassador, and I appreciate the chairman's cooperation in trying to get that done.

I want to note the steady progress being made by Mexico, Colombia, Peru, and Chile to advance the Pacific Alliance Trade Block, which is demonstrating the advantages of strong democratic institutions and responsible economic policies. We have several trade agreements in our hemisphere, and they are critically important to us.

But despite these opportunities, our hemisphere is not without its difficulties, and I put at the top of that the concerns in Central America for the safety of its population. I had a chance to visit Central America and saw firsthand the challenges of people, families, trying to grow up with the influences of gangs and the protection of their people. It is a humanitarian crisis, and we have to be engaged.

I was disappointed, Mr. Chairman, at the actions of the Obama Administration on recent enforcement actions, on full enforcement

of our laws. But these children need to be—have due process. These children need to be understood because they—if they are forced to leave our country, their fate is very much in doubt, and their safety is very much in doubt. And I think we need to make sure that particularly children, that their rights are fully protected, and I would urge us to pay more attention to the humanitarian crisis in our own hemisphere, as well as, of course, the global challenges that we saw—that we see in Syria and other countries.

Finally, we cannot ignore the looming challenges surrounding Sunday's elections in Haiti. Once again political brinkmanship is jeopardizing Haiti's chance for broad-based economic growth and the Haitian people's efforts to continue rebuilding their country.

So you can see we have a lot of things to talk about, and we look forward to hearing from the witnesses.

The. CHAIRMAN. Well, thank you, Senator Cardin. I think you know I support Roberta Jacobson's nomination, and I hope that at some point both sides of the aisle candidly will release that to be voted on.

But with that, I would like to introduce our distinguished witnesses. Our first witness is Mr. Mack McLarty. He served in the White House as chief of staff in the Clinton Administration and helped shepherd the North American Free Trade Agreement through Congress. We thank you for being here. Our second witness Eric Farnsworth. He is vice president of the American Society and Council of the Americas here in Washington. Thank you so much for lending your expertise. And our third witness is Dr. Shannon O'Neil, the senior fellow for Latin American Studies at the Council on Foreign Relations. We thank you so much, all three of you, for being here.

Without objection, your written testimony will be entered into the record, so if you would, summarize in about five minutes what you would like to say. And why do you not just go in the order that I just introduced you, if you would.

STATEMENT OF HON. THOMAS F. McLARTY, III, CHAIRMAN, McLARTY ASSOCIATES, AND FORMER WHITE HOUSE CHIEF OF STAFF AND SPECIAL ENVOY TO THE AMERICAS IN THE CLINTON ADMINISTRATION, WASHINGTON, DC

Mr. MCLARTY. Chairman Corker, Ranking Member Cardin, distinguished members of the committee, and staff, I am honored to appear before you today to discuss the political and economic developments in Latin America, and the opportunities, as both of you noted, for engagement of the United States in the region.

I have indeed been engaged for the past 25 years in trying to build cooperation between our country and Latin America in both the public and the private sector. Serving almost two decades ago as special envy of the Americas, I am more convinced than ever that we have a shared future with the region.

The decision by President Obama to normalize relations with Cuba dominated the headlines in the region in the recent Summit of the Americas meeting, and understandably so. It was a historic moment, but it should not overshadow the rest of the continent. As both of you noted, we have a huge stake in the entire region, an area of 600 million people, with a broad range of issues from trade,

to immigration, energy, education, narco trafficking, and certainly underscoring democracy.

Overall to be fair, we face a pretty complicated situation in the region, but in my view, the positives and opportunities largely outweigh the negatives. To be realistic, several countries in the region are facing the most serious economic times that they have seen since 2008, and that comes after years of robust growth, which dramatically increased the size of the middle class, and moved a third of the country out of poverty.

Those are positive developments, but they were driven in some measure by commodity prices, and now we see a fall in commodity prices, which are hitting many countries very hard. A couple of countries will have growth, but most will be flat to down, and so the real issue is whether this will have a ripple in the politics. Will it cause instability? We are already seeing some of that in Brazil where President Rousseff faces growing opposition, in Venezuela, as Senator Cardin noted, after a stunning victory in the polls where the opposition did indeed claim majority in the parliament for the first time in 17 years. And in Argentina, Mauricio Macri swept aside a dozen years of Peronist rule by winning the presidency, and has a much more pro-United States stance.

But I would be careful to say there has been an ideological shift in the region. The truth is the region, like our country, is pretty equally divided in their politics, and in many ways they are non-ideological. Somehow voters there and the citizens there, are focused on jobs, and education, and healthcare, and the environment, issues very familiar to you and all the constituents that you represent. Security is certainly a major issue in the region. It is good news in Colombia with the peace accord. I think it reflects the bipartisan and multi-administration support of Plan Colombia, and President Santos, whom I have known for over two decades, will be indeed coming here early in February to celebrate that.

The $750 million package of support for Central America under the Alliance for Prosperity was critical in stabilizing conditions there. I think the sharply-drawn conditions of that agreement are important to combat the violence, corruption, and poverty that are sending thousands of desperate migrants on the southern border. Vice President Biden's leadership and engagement, I think, has been critically important.

The United States meets Latin America at our border with Mexico. It is a powerful symbol, frankly, of what unites us and what divides us. Building on President Pena's reforms there, I think the United States should grasp firmly the concept of a North American platform which was written about in a thoughtful, serious way by General Petraeus and Ambassador Bob Zoellick at the Council on Foreign Relations.

Trade and energy are at the heart of that, but I would underscore that commerce should go hand-in-hand with the support of democracy, human rights, and the strengthening of civil society. There is a natural linkage in the region with the growing Hispanic population in our country, and that will certainly help shape U.S. relations in the region in years to come.

Finally, I would say that Article 1 of the Inter-American Democratic Charter states that "Peoples of the Americas have a right to

democracy." Firm commitment to the—to that promise will be a measure of U.S. credibility in the region. The United States' relationship with Latin America is a critically important one, in my view. Developments across the region indicate indeed there is an opening, an opportunity, for the U.S. to engage in a purposeful, proactive, thoughtful way, and it is a moment we should seize.

Mr. Chairman, thank you very much.

[Mr. McLarty's prepared statement follows:]

PREPARED STATEMENT OF THOMAS (MACK) MCLARTY

Chairman Corker, Ranking Member Cardin, members of the committee, I'm honored to appear before you today to discuss political and economic developments in Latin America and opportunities for engagement by the United States.

I've devoted much of the last 25 years to building cooperation between the United States and Latin America in both the public and private sector. Almost two decades after serving as Special Envoy for the Americas, I am more convinced than ever that despite important differences, the countries of the Western Hemisphere are bound together by common interests and a shared future.

The decision by President Obama to normalize relations with Cuba dominated headlines about the region last year, and deservedly so. It was an historic moment with far-reaching consequences, as I'll discuss below. But it shouldn't overshadow the rest of the continent. We have a huge stake in the entire region, an area of 600 million people, on issues ranging from trade, drugs and immigration to energy, education and certainly democracy.

Overall, we face a complicated picture in the hemisphere. But, in my view, the positives are larger than the negatives.

Several countries in Latin America are facing the most serious economic headwinds since the global economic crisis of 2008. For many, the hardships follow an era of robust growth—during which the size of Latin America's middle class doubled and the percentage of people living in poverty dropped by one-third—thanks in large part to worldwide demand for commodities.

Today, a declining commodities market has hit these countries hard. Brazil's economy is in the midst of its worst economic performance in decades, with no relief in sight. In Venezuela, with the world's largest oil reserves, $30 a barrel oil is compounding the government's incompetent management and the economy is in free-fall.

While Peru and Panama are expected to have healthy growth (Panama leading the region at 6.3 percent and Peru projected at 3.6 percent), other countries in the region can expect growth to be modest at best. The slowdown is raising questions about how far the ripple effects will extend. Will economic hardship increase social unrest, shake up politics and undermine stability? In some countries, this has already occurred or is unfolding now.

In Brazil, President Rousseff faces growing opposition and impeachment proceedings in Congress.

In Venezuela, after a stunning victory at the polls, the opposition claimed the majority in parliament for the first time in 17 years of autocratic rule.

In Argentina, Mauricio Macri swept aside a dozen years of Peronist rule by winning the presidency. One of President Macri's priorities is better relations with the United States.

These developments have led some commentators to see the eclipse of leftist, populist politics in Latin America. While there may be truth in this, it is also true that voters across the region seem decisively non-ideological. They want results. Much like in the United States, the electorate overall in Latin America—from Chile to Argentina, from Brazil to Mexico—is divided when it comes to ideology. Polls show their priority issues are those of many U.S. voters: jobs, education, equality, trade, energy, health and the environment.

Security remains a major concern across the hemisphere. There is some promising news, such as in Colombia. After three years or arduous negotiations, President Juan Manuel Santos is poised to complete a peace process with the FARC. President Santos is scheduled to visit Washington next month to commemorate the launch of Plan Colombia, the bipartisan U.S. effort that was essential to turning the tide against the FARC.

Congress's approval in December of $750 million for the Alliance for Prosperity in Central America is on a smaller scale than Plan Colombia, but its goals are no less urgent. This assistance to Guatemala, Honduras and El Salvador, with strongly

drawn conditions, is designed to combat the violence, corruption and poverty that are sending thousands of desperate migrants to our southern border.

The security and humanitarian catastrophe in the Northern Triangle of Central America is far from over. There has been a surge in recent months of women and children migrants seeking to enter the United States. Vice President Biden, who visited Guatemala again last week, has been critical to leading U.S. efforts to address this crisis.

The United States meets Latin America at our border with Mexico. The border is a powerful symbol of what unites and divides us. It also underscores the pre-eminent position of our southern neighbor as a crucial partner of the United States. Few international relationships are as important for our security, prosperity and our future.

Since taking office in 2012, President Enrique Pea Nieto has pushed through dozens of major reforms. New laws have brought competition to telecommunications and the financial and banking sectors. Most notably, he navigated what had been the "third rail" of Mexican politics for nearly 80 years, ending a state monopoly on the oil industry and opening the energy sector to private and foreign investment. This was an historic achievement.

President Pea Nieto faced setbacks in 2015 with a stagnant economy and high-profile episodes of drug-related violence. This year is off to a better start. The capture of Joaquin "El Chapo" Guzman closed an embarrassing chapter. The economy seems poised to grow. To the government's credit, Mexico is a more stable country than it was a generation ago. Its key challenge today is translating stability into growth.

The United States should lead in creating a North American platform for manufacturing, energy, environment and security. A report authored by Gen. David Petraeus and Robert Zoellick for the Council on Foreign Relations called for a regional strategy that would build on Mexico's reforms and lead to "free and unimpeded movement of goods and services across North America's common borders."

Energy is just one opportunity for the United States to seize the moment to deepen ties with Latin America while advancing our mutual economic interest and universal values. With Latin American economies slowing, leaders have strong incentives to expand trade and integration with the north, which can also benefit the U.S. economy.

Trade remains an engine for progress. U.S. exports and imports from the rest of the hemisphere have grown 50 percent during the Obama administration. The United States has free trade agreements with 11 countries in Latin America. Five countries in the hemisphere -Canada, the United States, Mexico, Peru and Chile—have a direct stake in the Trans-Pacific Partnership with Asian countries. Chile in particular has been a key partner to the U.S. on the environment and rule as law, as well as a defender of economic liberalization.

Commerce should go hand in hand with support of democracy, human rights and the spread of civil society. This is a natural linkage fueled by immigration, technology and commerce. Integration is altering both Latin America and the United States. As the Economist magazine pointed out, nearly one million Latinos reach voting age in the United States each year. Increasingly, they will help shape U.S. relations with the region.

Traditionally, two frequent laments about Washington in Latin America are that it is either dangerously disengaged or overly meddlesome—sometimes at the same time. Bernard Aronson, President Obama's special representative to the Colombian peace process, has used the analogy of a telescope to describe how each side has seen the other. To Latin Americans looking through the small end of the telescope, the United States can loom larger than life. To North Americans looking through the wide end of the telescope, Latin America can seem faintly visible, if at all.

I believe this distortion effect, so true for many decades, is becoming a thing of the past. Latin American countries operate in a global context in which the United States is not the only major actor. Business and cultural ties—and, yes, changes in U.S. Cuba policy after 50 years—demonstrate that the United States is a dynamic force in the region.

In Cuba and elsewhere, the United States should be a champion of openness and stronger civil society across Latin America. It should be a relentless, reliable and constructive ally of Venezuelans and others seeking to express their political rights.

Article 1 of the Inter-American Democratic Charter states that "the peoples of the Americas have a right to democracy." Firm commitment to this promise is a measure of U.S. credibility in the region.

The U.S. relationship with Latin America is a critically important one. Developments across the region indicate an opening for the U.S. to engage in a proactive and thoughtful way, and it is a moment we should seize.

The. CHAIRMAN. Thank you very much. Mr. Farnsworth?

STATEMENT OF ERIC FARNSWORTH, VICE PRESIDENT, AMERICAS SOCIETY AND COUNCIL OF THE AMERICAS, WASHINGTON, DC

Mr. FARNSWORTH. Well, good morning, Mr. Chairman, Mr. Ranking Member, members. Thank you for the opportunity to appear before you on such an important topic.

This hearing today is timely. Latin America is a region very much in flux. Hopeful indicators, as we look ahead, are mixed with real challenges, both political and economic. Citizens' expectations have grown significantly as economies have expanded and personal circumstances have improved, while a generation of democratic reforms has provided the means to register demands and affect governance.

Latin America today looks nothing like it did even 20 years ago, and we cannot forget that. At the same time, 2015 was a year of recession for many and slow growth for all, and 2016 looks to be equally difficult economically. The question now is whether leaders will be able to show the continued progress their people demand and under what conditions. As recent elections across the region have shown, voters are seeking pragmatic solutions, rejecting ideology and excess, as Mr. McLarty has just indicated.

In this context, Washington has as important and relevant a role to play today as we have had this century. Judicious U.S. focus on a bipartisan basis this year could have a lasting impact in strengthening and supporting positive impulses and trends, while promoting a vision that draws the region more closely together toward a shared future of healthy democratic governance, economic prosperity, and security. This I believe to be a fundamental U.S. strategic interest.

Democracy across Latin America is broadly accepted. When challenges arise, the United States, working with partners in the region and also multilateral organizations, must find appropriate means to support healthy democracies.

Without U.S. leadership, the international community tends not to coalesce around active support for democracy in the hemisphere.

By now it is clear, for example, that Venezuela faces political and economic difficulties that can only be addressed through political cooperation with the democratically-elected legislature, yet the government has taken a number of steps to undermine the new congress. This threatens to become a full-blown institutional crisis with regional implications.

Mobilizing the OAS and the UN, engaging with like-minded regional partners, and continuing to identify and expose illegal actions, including corruption and drug trafficking, will help hold the government accountable for its actions and decisions. And as an aside, may I just take a moment to congratulate you, Mr. Cardin, for your leadership in organizing the letter signed by 157 legislatures across the hemisphere that put the focus squarely on Venezuelan democracy and helped achieve the results of the December

6th elections that are now having such important consequences in Venezuela.

We have also seen recent elections in Argentina and Guatemala that provide an opportunity to build a new agenda. Since his December inauguration, Argentina's new president, Mauricio Macri, has already taken a number of actions to liberalize the economy, and has also spoken in support of democracy issues at home and abroad. His mandate offers the prospect for enhanced engagement with one of Latin America's largest economies, which Washington should actively explore at the most senior levels. In Guatemala, the new president was elected on a wave of popular revulsion against corruption, and can serve as an example, with U.S. support, of transparency and inclusion going forward.

Corruption issues have also touched Latin America's largest democracy, Brazil, and will play out to their conclusion over time. The good news is that Brazilian judicial institutions are strong and meaningfully responding. Economic growth will also be a challenge for Brazil this year as the country looks for ways to generate new growth.

This is exactly why, in my view, now is the time for Washington to lean into this bilateral relationship. The United States and Brazil share a significant interest in agriculture, education, energy, healthcare, the list goes on. In the wake of the visit last June of President Dilma Rousseff to Washington, we should be working purposefully together now in support of each of these agenda items when Brazil is, in particular, in need of economic growth.

From a U.S. economic perspective, North America should be a priority, requiring us to be work intensively with our Canadian and Mexican partners to develop an even more competitive, unified economic space. This will require greater collaboration on trade and investment relations, supply chains, energy integration, and borders. Given our close interconnectedness, we should also be thinking bigger about North America, working collaboratively as a region on the issues that impact our citizens the most.

Further, North America can be the foundation on which we build out the broader hemispheric economic agenda. For example, the Trans-Pacific Partnership, once passed and implemented, will include all three North American nations and also Chile and Peru. The Pacific Alliance is an exciting regional economic initiative that includes Mexico, Chile, Peru, and Colombia. Let us bring all these U.S. free trade partners together, inviting Pacific Alliance and North American leaders to join together to develop a broader agenda for regional economic engagement. As a strategic matter, this would change the game in the Americas.

We also have to note the seismic shifts that energy markets are having in the Americas and note the technology, and know-how, and management expertise that the United States can offer to countries who desire that.

Let me briefly say one final word about security issues, if I may. Building a secure society, including cyber-related issues, is fundamental to maintaining the gains that I have been talking about in terms of economics and democracy. Mr. Chairman, this year offers a historic opportunity to essentially conclude the longest-running final guerilla conflict plaguing the hemisphere in Colombia.

As you know, President Juan Manuel Santos will be in Washington in two weeks acknowledging the support of the American people on a bipartisan basis in Colombia's ongoing transformation, while seeking new funding for implementation for peace accords that his government is working to finalize with the main guerilla group, the FARC. Like the initial support for Plan Colombia, follow-on funding from the United States and other international donors to build peace will be crucial to solidify the gains that put Colombia on a path to development.

And finally, working with partners in Mexico and Central America to address the regional security crisis in the northern part of Central America will help restore communities there that are being torn apart by criminal gangs. The appropriation of some $750 million to address these issues is a valuable contribution. Increasing security must go hand-in-hand with economic development, competitiveness, and job creation. And the United States will also need to remain diligent in support of and working with the Caribbean base of nations to address their growing security concerns as well.

The agenda is large, but trends for cooperation are very favorable, and perhaps more favorable now than they have been in some time. Mr. Chairman, Mr. Ranking Member, thank you again. I look forward to your questions.

[Mr. Farnsworth's prepared statement follows:]

PREPARED STATEMENT OF ERIC FARNSWORTH

Good morning, Mr. Chairman, Mr. Ranking Member, and members. Thank you for the opportunity to testify on such an important topic. It is an honor to appear before you and the full committee today, and a particular pleasure as well to join the other witnesses of such stature and prominence.

This hearing is timely. Latin America is a region very much in flux. Hopeful indicators as we look ahead are mixed with real challenges, both political and economic. Citizens' expectations have grown significantly as economies have expanded and personal circumstances have improved, while a generation of democratic reforms has provided the means to register demands and affect governance. Latin America today looks nothing like it did even 20 years ago and we cannot forget that. At the same time, 2015 was a year of recession for many and slow growth for all, and 2016 looks to be equally difficult economically. The question now is whether leaders will be able to show the continued progress their people demand, and under what conditions. It is in our interests to support these efforts.

LATIN AMERICA IS UNDERGOING SIGNIFICANT CHANGE

By now the story is well-known. More than a decade of relatively easy growth fueled by historically high global commodities markets brought millions of citizens out of grinding poverty and created a new middle class with increased purchasing power and rising expectations. Leaders found their voices globally and intentionally sought to diversify relations away from the United States elsewhere, most notably toward China—which is now the top trade partner of several South American nations—and other rapidly growing emerging economies. Talk of Latin America "decoupling" from North America was amplified by the strident exhortations of a new generation of populist leaders, supporting a proliferation of regional institutions that excluded the United States and Canada while decreasing the effectiveness of existing multilateral organizations such as the Organization of American States. Washington's focus was elsewhere, given numerous global crises as well as a historic economic recession.

Of course, not all countries pursued exactly the same path; geographic proximity to the United States and the relative importance of commodities versus manufactured products in individual economies proved to be important variables. So too did the conclusion of freer trade agreements with the United States and the development of integrated supply chains among trade partners. On the whole, however, the commodities supercycle, increasing alternatives, and a less robust U.S. economy con-

strained the ability of the United States to develop and promote a regional narrative beyond support for basic development activities and goals and an appeal for partnership.

Now, however, as recent elections across the region have shown, the tide may be turning. Voters are tiring of ideological excesses and corruption, and they are seeking pragmatic results instead. As the easy money from commodities runs out, they want to know where it went, how it was spent, why their roads are crumbling and their public transportation is creaking, why their employment, healthcare, and schooling may suddenly be at risk, and why they can no longer walk unhindered down the streets at night and sometimes even during the day. They have become wary of leaders who promise more of the same. They acknowledge that a full-on embrace of China is not the answer. They seek a different path: protecting social gains while demanding more effective, transparent leadership, and they seek partners to help them do it.

THE UNITED STATES IS A VALUED AND VALUABLE PARTNER

In this context, Washington has as important and relevant a role to play today as we have had this century. Judicious U.S. focus on a bipartisan basis this year could have a lasting impact in strengthening and supporting positive impulses and trends while promoting a vision that draws the region more closely toward a shared future of healthy democratic governance, economic prosperity, and security. This I believe to be a strategic interest.

Support for Democratic Governance

Democracy across Latin America, as espoused in the Inter-American Democratic Charter, is broadly accepted as the underlying principle organizing hemispheric engagement. When challenges arise, the United States, working with partners in the region and also multilateral organizations including the OAS and the United Nations, must find appropriate means to support healthy democratic governance. Without U.S. leadership the international community finds it difficult to coalesce around active support for democracy in the hemisphere. And there are ways to do this without engendering regional pushback. By now it's clear, for example, that Venezuela faces political and economic difficulties that can only be addressed through political cooperation with the democratically-elected legislature, yet the government has taken a number of steps to undermine the new Congress. This threatens to become a full-blown institutional crisis with regional implications. Mobilizing the OAS and the UN (given Venezuela's seat on the Security Council), engaging with like-minded regional partners, and continuing to identify and expose illegal actions including corruption and drug trafficking will help hold the government accountable for its actions and decisions.

We've also seen recent elections in Argentina and Guatemala that provide an opportunity to build a new agenda with both of these nations. Since his December inauguration, Argentina's new President Mauricio Macri has already taken a number of actions to liberalize the economy, and has also spoken in support of democracy issues including Venezuela. His mandate offers the prospect for enhanced engagement with one of South America's largest economies, which Washington should actively explore at the most senior levels. In Guatemala, the new president was elected on a wave of popular revulsion against corruption, and can serve as an example, with U.S. support, of transparency and inclusion going forward. Other elections in 2016 will also bear watching, including Haiti, Peru, and Nicaragua, as well as constitutional reforms in other nations that may further strengthen the hand of various leaders.

Corruption issues have also touched Latin Americas largest democracy, Brazil, and will play out to their conclusion over time. The good news is that Brazilian judicial institutions are strong and meaningfully responding. Economic growth will again be a challenge for Brazil this year and, as almost 50 percent of Latin America's total economy, this will hit the region broadly. When the eyes of the world turn to Brazil in August for the Olympic Summer Games in Rio de Janeiro, they will likely find a nation in recession looking for new ways to generate growth. This is exactly why, in my view, now is the time for Washington to lean in to the bilateral relationship. The United States and Brazil share significant interests in agriculture, education, energy, health care, peacekeeping operations, technology development and global climate change and environmental protection, among other issues. In the wake of the visit last June of President Dilma Rousseff, we should work purposefully together in support of each of these agenda items. More broadly, Brazil should also gain a greater say in existing institutions of global governance, and should be invited to join the G8 now that Russian membership is suspended and the size of Brazil's economy exceeds others in the group.

Strengthening Regional Economies

The U.S. position in the hemisphere comes from our democratic example, but also our economic strength. North America should be a priority, in my view, requiring us to work even more intensively with our Canadian and Mexican partners to develop a more competitive, unified economic space. This will require intensive collaboration on trade and investment relations, supply chains, energy integration, and borders. With the High Level Economic Dialogue in Mexico in February, and the State Visit of Prime Minister Trudeau in March, we are on the right track. But we should also be thinking bigger, in particular turning the North America Leaders Summit into an annual event, and working collaboratively and regionally on global issues including climate change. We can also use North America as the foundation on which to build out a broader hemispheric economic agenda. For example, the Trans-Pacific Partnership, once passed and implemented, will include all three North American nations and also Chile and Peru. The Pacific Alliance is an exciting regional economic initiative that includes Mexico, Chile, Peru, and Colombia. Let's bring all these together, inviting the Pacific Alliance to join with North America to develop a broader agenda for regional economic engagement. To be consistent, we should also be advocating for Colombia's early accession to TPP and, if required, APEC, which will meet this year in Peru, while also holding the door open to others in Central and South America who might be interested and able to meet the high-standards trade and investment requirements that have been negotiated as a new benchmark for global agreements. As a strategic matter, this would change the game.

Economically, we must also note the impact that seismic shifts in global energy markets have had in our hemisphere, and find ways to work with our partners to help diversify their own economies while building countercyclical policies that will reduce market volatility caused by commodities market swings. And we should also be looking for ways to cooperate on new energy technologies, for example by inviting other producers to join a hemispheric Shale Gas Council, to share best practices including clean technology, efficiencies, and environmental protections which could later be expanded more broadly. As the expected opening of the expanded Panama Canal this year reminds us, the United States is a valued partner in providing the capital, technology, and management expertise needed for the infrastructure and other development projects that the region both wants and needs.

Helping to Build a Safe and Secure Region

Of course, a secure society including cyber-related issues is fundamental to these gains. Mr. Chairman, this year offers a historic opportunity to conclude the longest-running, final guerrilla conflict plaguing the hemisphere, in Colombia. As you know, President Juan Manuel Santos will be in Washington in two weeks, acknowledging the support of the American people on a bipartisan basis in Colombia's ongoing transformation while seeking new funding for implementation of peace accords that his government is working to finalize. Like the initial support for Plan Colombia at the beginning of the century which helped get us to this point, follow-on funding from the United States and other international donors to build peace will be crucial to solidify the gains and put Colombia on a path to further development.

Similarly, working with partners in Mexico and Central America to address the regional security crisis in the northern part of Central America will help restore communities that are being torn apart by criminal gangs and desperate efforts to migrate to the United States that we have increasingly seen. The recent re-capture of Joaquin "El Chapo" Guzman in Mexico was just one very prominent example of success that law enforcement cooperation can achieve. But the issues in Central America are equally if not more difficult, and the appropriation of $750 million to address these issues is a valuable contribution. Increasing security must go hand in hand with economic development, competitiveness, and job creation. And, as the program for Central America is implemented and, in reaction, illegal activities potentially migrate again toward the Caribbean Basin, the United States will need to remain diligent and supportive in working with those nations to address their growing security concerns, too.

The hemispheric agenda is large, but trends for cooperation are perhaps more favorable now than they have been for some time. Mr. Chairman, Mr. Ranking Member, thank you again for the opportunity to testify. I look forward to your questions.

The. CHAIRMAN. Thank you. Thank you very much. Dr. O'Neil.

STATEMENT OF SHANNON K. O'NEIL, PH.D., NELSON AND DAVID ROCKEFELLER SENIOR FELLOW FOR LATIN AMERICA, COUNCIL ON FOREIGN RELATIONS, WASHINGTON, DC

Dr. O'NEIL. Thank you, Mr. Chairman, Ranking Member, and members of the committee. I appreciate the opportunity to testify here today.

As the United States grapples with extremism and authoritarianism abroad, Latin America is largely a good news story. The region has changed dramatically over the past few decades, mostly for the better. Today the region is overwhelmingly democratic. It is home to an increasing number of market friendly economies with close ties to the United States, buying over a quarter of all U.S. exports, and so supporting tens of millions of jobs here at home. These more open politics and economics are supported by a sizable middle class, which grew by over a hundred million people in the last decade. And while it does face problems in security, corruption, and economic slowdown, the opportunities outweigh the challenges in the region and for U.S.-Latin America relations.

So in my opening remarks, I would like to talk about two potential areas where I believe the U.S. Congress can advance a positive agenda with the region, and these involve strengthening North America, something that Eric has mentioned, as well as supporting the proliferation of home-grown efforts to combat corruption.

So thinking about North America. Sharing 7,500 miles of peaceful borders, Canada and Mexico now play a vital role in U.S. stability, security, and prosperity. And today, each of these nations is among the other's largest trading partners with inter-regional trade surpassing a trillion dollars each year.

And as important, we form together a growing regional production platform, so the back and forth across the borders of the making of every car, plane, computer, flat screen TV. It means for every item we import from Mexico, on average 40 percent of that value was actually made in the United States, and for Canada, it is 25 percent.

Now, facilitating and deepening this integration and partnership will increase competitiveness, standards of living, and ultimately the ability to shape world affairs for generations to come. To do so, I believe Congress should focus on working towards the free and unimpeded movement of goods and services across North America's common borders. This will require reducing non-tariff barriers, revising rules of origin, mutually recognizing or harmonizing differing regulations, expanding preclearance and other proven programs for trusted travelers, and investing in border infrastructure.

It also means passing the Trans-Pacific partnership, of which our neighbors, Canada and Mexico, are a part. And finally, as has been mentioned here already, it means confirming an ambassador to Mexico. As the several months-long absence of a top in-country diplomat, it slows the resolution of complex problems, it limits our ability to take care of—take advantage of opportunities, and overall hinders our U.S. national interests.

The second area to prioritize involves combatting corruption. And in the wake of the economic downturn, the region has seen a proliferation of corruption scandals. Some, particularly in Guatemala

and Brazil, have led to high-level prosecutions and convictions. Others in Argentina, Chile, Mexico, Peru, have yet to show similar results, though some of these processes are ongoing.

Now, while corruption revelations can undermine government credibility, particularly when they are not followed by prosecutions and convictions, the recent wave reveals significant advances. These include widespread passage of freedom information acts, a movement towards greater public transparency, and expanding press freedoms in the region.

It also reflects an active civil society and the rise in many countries of a true democratic citizenry. And the United States can and should expand its support for these efforts. And it can do so by first making anti-corruption a consistent element of U.S. foreign policy in the hemisphere. So this means encouraging Department of State and other officials to consistently emphasize anti-corruption as a policy and priority. It means calling for better coordination with agencies that actually have the tools to investigate and prosecute offenders, and it means using new tools, things like the new Global Magnitsky Act when it comes into law, using them to deny and revoke visas of corrupt Latin American officials.

Congress should also expand anti-corruption rule of law programming in Latin America. Congress can champion and fund efforts to improve judicial capacity, train law enforcement officials, strengthen and professionalize independent monitoring in anti-corruption agencies, and generally support civil society-led anti-corruption efforts. I believe we should continue to back Guatemala's CICIG, and it can help the new OAS-funded support mission against corruption and impunity in Honduras.

And finally, it can and should support Mexico's judicial reform process. Though scheduled to come online this June, in June 2016, implementing and, importantly, improving the quality of the new justice system will require significant effort, significant resources, and will take many years.

Now, prioritizing North America and supporting the fight against corruption will enable the United States to improve bilateral and multilateral relations in the region. And as importantly, it will improve the lives of citizens throughout the hemisphere, including those here in the United States. Thank you.

[Dr. O'Neil's prepared statement follows:]

PREPARED STATEMENT SHANNON K. O'NEIL

Chairman Corker, Ranking Member Cardin, and members of the committee: Thank you for the invitation to testify today. I am grateful for the committee's interest in Latin America and am pleased to have this opportunity to discuss U.S. opportunities in the region. As always, I am eager to hear your advice and counsel.

As the United States grapples with extremism and authoritarianism abroad, Latin America is largely a good news story. The region has changed dramatically over the past few decades, mostly for the better. Today the region is overwhelmingly democratic. Authoritarian rule is mostly relegated to the past, replaced by competitive parties, vibrant civil societies, and institutional checks and balances.

Latin America is home to an increasing number of market-friendly economies with close ties to the United States. Over the last twenty-five years trade with the region outpaced that with the rest of the world, as U.S. exports to Latin America jumped sevenfold. These nations now buy over a quarter of all U.S. exports, supporting tens of millions of jobs here at home. Many of our products are bought by the region's middle class, which added over 100 million members during the last decade's economic prosperity. In South America, this socioeconomic center comprises a near ma-

jority of the continent's 400 million citizens. Latin America is also resource rich, containing 20 percent of the world's oil reserves, as well as numerous other commodities.

Finally, the region largely shares U.S. values, providing many current and potential allies for the United States when negotiating complicated global issues in multilateral forums, including financial architecture, climate change, and transnational organized crime. Recent changes, from the normalization of U.S.-Cuba relations to the election of Mauricio Macri in Argentina, further the potential for positive shifts in bilateral and regional relations.

There are, of course, real challenges for the Americas. It remains one of the most violent regions in the world, with homicide rates three times the global average. Robberies, extortion, kidnappings, and sexual assault are all too common. Insecurity has direct reverberations for the United States, as it is one of the driving factors behind the wave of unaccompanied minors and others fleeing Central America.

Latin American growth has slowed with China's and with the larger commodity bust, threatening to send many from the new middle class back into poverty. In the boom years several governments overspent, aggravating their economic challenges today. These nations largely failed to use the commodity largesse to improve the quality of education, boost competitiveness, or diversify their economies. Bad economics at times dovetailed with bad politics and the erosion of democracy, particularly in Venezuela.

In the wake of the economic downturn, the region has seen a proliferation of corruption scandals. In Guatemala, investigations into government kickbacks led to the downfall of the president and vice president. In Brazil, the Petrobras scandal has sent several prominent politicians, public officials, and business leaders to jail. This prosecutorial activism and judicial independence is a welcome juxtaposition to Brazil's current economic recession and political impeachment crisis. Investigations into corruption cases in Argentina, Chile, Mexico, and Peru have yet to show similar results (though many of these investigations are ongoing).

These corruption revelations can undermine government credibility, particularly when not followed by prosecutions and convictions. According to public opinion poll Latinóbarometro, Latin Americans rank corruption one of the region's biggest challenges.[1] Still the wave of cases reveal significant advances in the region: the widespread passage of freedom of information acts, and a move toward greater public transparency and press freedoms. It reflects an increasingly active civil society, and the rise in many countries of a true democratic citizenry.

The United States has supported some of Latin America's corruption investigations and prosecutions, for instance partially funding Guatemala's UN-backed independent investigatory body, the International Commission Against Impunity in Guatemala (CICIG), and at times providing information to investigators and prosecutors building domestic cases against wrongdoing. It also has helped fund a slow and steady process of reforming law enforcement and justice in Mexico through the Mérida Initiative and in Central America through the Central America Regional Security Initiative (CARSI). The recently approved $750 million for the Alliance for Prosperity incorporates programs to improve transparency and accountability, and envisions new mechanisms to combat corruption.

As the United States looks to Latin America, there are important roles it can play to bolster and build upon these many positive trends. It should deepen engagement with its immediate neighbors, strengthening North America. It should prioritize anticorruption efforts within the larger assistance programs to the region. And it should take advantage of conducive changes to further bilateral and multilateral relations in the Western Hemisphere.

Start With North America

Any set of U.S.-Latin America policy priorities should start with North America. Sharing 7,500 miles of peaceful borders, Canada and Mexico now play vital roles in U.S. stability, security, and prosperity.

North America is a global economic powerhouse, home to three democracies and almost five hundred million people. Totaling over $20 trillion, their combined economies account for over a quarter of global gross domestic product (GDP).

Because of geography, markets, and the choices of millions of individuals and thousands of companies, North America has become one of the most integrated and interdependent regions in the world. Regional trade of over $1.2 trillion in 2014 makes the United States, Canada, and Mexico each other's most important commercial partners. Today, the United States exports more than four times as much to

[1] Latinóbarometro, "La Confianza En América Latina, 1995–2015," Latinóbarometro, accessed January 15, 2016, http://www.latinobarometro.org/lat.jsp.

Mexico and Canada as it does to China and twice as much as to the European Union, supporting millions of jobs. The type of trade also differs due to the depth of North America's supply chains. A study by the National Bureau of Economic Research found that, on average, 40 percent of the value of products imported from Mexico and 25 percent of those from Canada actually come from the United States; the comparable input percentage with the rest of the world is 4 percent.[2] This means that of the $294 billion in goods that the United States imported from Mexico in 2014, some $118 billion of the value was created in the United States; for the $348 billion that the United States imported from Canada, the value created in the United States was $87 billion. In comparison, less than $20 billion of the $467 billion of U.S. imports from China came from U.S. workers.

Facilitating and deepening this integration and partnership will increase competitiveness, standards of living, and ultimately the ability to shape world affairs for generations to come. Given the bedrock nature of these relations, Congress should push forward the following policies:

- *Confirm an ambassador to Mexico.* The several months-long absence of a top in-country diplomat has slowed the resolution of complex problems, limited the ability to take advantage of mutual opportunities, and hampered U.S. national interests. Roberta Jacobson is a talented individual and consummate professional with deep knowledge of the bilateral relationship. She will ably serve to further relations if given the chance.
- *Pass the Trans-Pacific Partnership (TPP).* The trade agreement will benefit many Western Hemisphere nations, including our North American partners. Its passage is important to maintain and further the competitiveness of the North American production platform, and to strengthen U.S. geopolitical leadership regionally and globally.
- *Fund border infrastructure.* Today there are many physical barriers at the border. Investment in infrastructure lags far behind the increased flows of people, cars, trucks, and goods, hindering the competitiveness of North America as a region. Congress has an important role to play in making infrastructure investment a priority and passing funding legislation for the auxiliary roads, rail infrastructure, bridges, airports, and ports of entry that enable cross-border flows and connect them to the larger U.S. economy. In addition, it should support the expansion of successful preclearance programs to expedite the movement of trusted goods and travelers across borders.
- *Reduce regulatory and bureaucratic hurdles to trade.* Rules of origin, non-tariff barriers, and multiple customs filings slow or impede regional trade. The U.S. government, working closely with the private sector, should review and revise NAFTA's rules of origin provisions to lower the cost for companies operating in the region. Congress can also push to speed current efforts to reduce expensive and often trivial divergences in regulations, through the U.S.-Mexico High-Level Regulatory Council and the U.S.-Canada Regulatory Cooperation Council. It can encourage accelerating plans to introduce a North American "single window" customs system that eliminates multiple filings. Together these changes would streamline regional commerce further, benefiting producers and workers in all three nations.
- *Strengthen continental energy infrastructure.* From gas and oil pipelines to electricity grids, deeper integration of cross-border infrastructure would make supply more stable and resilient, increasing U.S. energy security. Recent reforms in Mexico opening the sector to private investment enhance the possibilities. Congress can help fund these infrastructure investments, and call for speeding the presidential permitting process.

Prioritize Anticorruption and Rule of Law

Latin America's fundamental challenge today is weak rule of law. It erodes public trust, feeds violence, limits investments, and enables corruption.

Corruption consumes tens if not hundreds of billions of dollars each year throughout the hemisphere. The prevalence of widespread graft discourages entrepreneurship in favor of rent-seeking. And its perverse incentives for public spending lead to underfunding of education, health care, and other goods that underpin the human-capital building vital for creating competitive twenty-first century economies and societies. Recognizing these threats, over the last several years U.S. security

[2] Robert Koopman, William Powers, Zhi Wang, and Shang-Jin Wei, "Give Credit Where Credit is Due: Tracing Value Added In Global Production Chains," National Bureau of Economic Research, p. 38, September 2010, http://www.nber.org/papers/w16426.pdf.

collaboration and assistance in the region broadened from a concentration on drug eradication and interdiction to efforts to enhance citizen security and strengthen rule of law more generally.

These shifts in U.S. policy mirror homegrown efforts in many Latin American countries by courageous prosecutors and judges, policy reformers, and civil society advocates to change their polities and societies for the better. The U.S. Executive Branch and Congress should look for opportunities to bolster the changes underway, working with local reformers in and out of public office to hold governments accountable.

- *Make anticorruption a consistent element of U.S. foreign policy in the Western Hemisphere.* Congress should call on the U.S. Department of State and other U.S. administration officials to consistently emphasize anticorruption as a policy priority in Latin America. Congress should also encourage the Department of State to better coordinate with counterparts in other agencies with the tools to investigate corruption, bribery, and money laundering, and to work with these agencies in expanding its efforts to engage with governments working to address corruption and improve rule of law.
- *Urge the active use of the Global Magnitsky Human Rights Accountability Act in Latin America.* The U.S. House of Representatives should pass this important piece of legislation. Once enacted, Congress should urge the Executive, guided by the Department of State, to actively use this new foreign policy tool, denying and revoking U.S. entry visas and imposing property sanctions for corrupt Latin American officials.
- *Expand anticorruption and rule of law programming in Latin America.* Congress should champion and fund efforts to improve judicial capacity, train law enforcement officials, strengthen and professionalize independent monitoring and anticorruption agencies, and support civil society-led anticorruption efforts. Building on the success of CICIG, Congress should back the OAS-funded Support Mission against Corruption and Impunity in Honduras (MACCIH), and the potential creation of other independent investigatory or prosecutorial bodies where needed to address deep-seated graft.
- *Support Mexico's judicial reforms.* With Mexico, Congress should help fund the ongoing transition to an accusatorial justice system through the Mérida Initiative and other programs. Though scheduled to occur by June 2016, implementing and improving the quality of this new system will require considerable effort and resources over the next several years.
- *Develop anticorruption indicators for future foreign assistance programs.* Congress could include indicators similar to those used by the Millennium Challenge Corporation (MCC) to ensure that foreign assistance programs in Latin America consider country-level corruption when determining funding, and when structuring development and security programs. As with human right protections, Congress could withhold a percentage of funds when violations of these measures occur.

Seek Opportunities for Greater Bilateral and Regional Cooperation

Recent national, regional, and global changes provide openings for greater cooperation with many nations in Latin America.

In part this shift comes from new leadership. Argentina's new government, with its more pragmatic economic and foreign policies, should enable warmer U.S.-Argentine relations. The recent election of Luis Almagro as secretary general of the Organization of American States (OAS) is also an opportunity to revive the at times moribund multilateral institution. The turn away by these and other regional leaders from their populist colleagues raises the possibility of constructing new twenty-first-century partnerships in the Americas, bringing the U.S. significant benefits.

The normalization of U.S. relations with Cuba furthers this potential. The change in policy and tone removed a long-standing controversy in U.S.-Latin American relations. And it has opened an opportunity for current and potential allies in the region to speak out against democratic backsliding and other human rights violations. The change has at times empowered friends, new and old, to call out abuses. These include public statements by the secretary general of OAS, a letter from legislators from Peru, Colombia, Brazil, Chile, Costa Rica, as well as the United States, urging President Maduro to allow international observers for the December legislative election, and calls from Argentina to free political prisoners in Venezuela and repair its democratic deficit.

To take advantage of these initial welcome shifts, the United States should:

- *Revive U.S-Argentine relations.* After weakening under former president Cristina Fernàndez de Kirchner, the U.S. Congress and Executive should look for selective ways to work with the new Mauricio Macri government. These include supporting Argentina if and when it chooses to reengage with the International Monetary Fund (IMF) and other multilateral institutions, and once the nation resolves its legal disputes, its reentry into international credit markets. At that point the Executive should restore access to Export-Import Bank financing for U.S. exporters to Argentina.
- *Support Colombia's transition to democratic peace after decades of war.* This long-standing U.S. ally may be entering a new phase as its decades-long conflict with the FARC (the Revolutionary Armed Forces of Colombia) comes to a negotiated end. Congress should provide funding to help implement the peace deal.
- *Support the Pacific Alliance.* The regional economic and diplomatic block includes like-minded countries and economies; its expansion and deepening would benefit the United States (which currently sits as an observer to the group). Of the founding members—Mexico, Colombia, Peru, and Chile—all but Colombia are members of the TPP, and that nation has expressed interest in joining as soon as possible. The United States should facilitate this process.
- *Reengage with Brazil by strengthening economic ties.* To recover from its current severe recession, Brazil may implement structural reforms and begin opening its economy to the world. If and when this occurs, the United States can encourage the shift, negotiating on bilateral tax issues to eliminate double taxation and as well as advancing agreements on trade in services (including education, health, transportation, insurance, and financial and other business services) between the two nations. Both would stimulate investment and sales, benefiting U.S. and Brazilian companies alike.

The. CHAIRMAN. Thank you all for your testimony, and, Mack, you made a comment about the symbolic border between us, and it symbolizing a couple of different things. But to all three of you, we have had net migration between U.S. and Mexico at net zero. And I would like for you to explain, if you will, how that has happened, and what factors have contributed to that.

Mr. MCLARTY. Let me start quickly, and then I am sure my fellow panelists will offer their views as well. I think it is a combination of factors, Mr. Chairman. I think, number one, I had the opportunity to work with former Governor Jeb Bush on a commission on the Council on Foreign Relations on immigration reform, a subject that the Senate has dealt with for many years now.

Border security is absolutely crucial. I think we have strengthened that. I think there are a number of tools from a technological standpoint as well as a commitment and just better coordination with our Mexican counterparts that have to continue to deepen and strengthen. And I think that has been part of it.

But we have also seen, as Dr. O'Neil and Mr. Farnsworth noted, a strengthening of the Mexican economy itself with some of the reforms that I think yet will even improve their economy more. So we have seen a strengthening of economy and jobs availability there, so I think that has helped a great deal. I think particularly with the energy reforms in Mexico, you will see an increasingly competitive environment in Mexico, and I think that will add to the economic—their economic growth in the future.

So I think it is a combination of things. I think it is absolutely crucial. And I appreciate the chairman underscoring that that situation has dramatically changed in the last three years.

The. CHAIRMAN. Go ahead.

Dr. O'NEIL. Let me just add two points to Mack's issues, which are two of the fundamental issues. One is the demographics in Mexico. And so, the number of Mexicans turning 18 each year is

falling dramatically because of declining birth rates in Mexico, which are now very similar to ours, about 2.1, 2.2 kids per family. So compared to the height of Mexican immigration in the early 2000s, today there is somewhere between 100 and 200,000 fewer Mexicans just turning 18 every year and needing to enter the job market, whether in Mexico or here. So one reason is demographics.

Another big shift in Mexico is in education. And today the average Mexican stays in school twice as long as he or she did 20 years ago. And so, the average 15-year-old today in Mexico is thinking about the test they have on Friday, not on whether they will migrate to the United States. And those two factors look to be long-term shifts that will not go back, whatever happens to the U.S. economy or at the border.

The. CHAIRMAN. Yeah. Do you want to anything, Eric, or are we covered?

Mr. FARNSWORTH. I think you have covered it pretty well. I think that to the extent this is primarily driven by economic considerations, the relative strength of the U.S. economy vis-&-vis Mexico is a critically important factor. But I would concur with the comments of my other two colleagues.

The. CHAIRMAN. So how would U.S. foreign direct investment in the region compare qualitatively or quantitatively to what China and/or Europe may be doing?

Mr. MCLARTY. Well, Mr. Chairman, I think one major change in the region from the time that Mr. Farnsworth and I had the opportunity to work together in the White House is the United States is not the only single or dominant actor or player in the region. Brazil's largest trading relationship, for example, is now China.

But I think this is a unique opportunity, and from our family standpoint, led by our older son, we have been investors in Brazil for 16 years in the automotive sector where we have been involved for four generations, and in Mexico. So we believe in the region in terms of opportunities and growth because of the factors that we noted here.

I think this is an ideal time for United States investors, both smaller privately-held companies and large corporations, to increase their foreign direct investment in the region, particularly, frankly, with a strong dollar. So I think it is a unique opportunity.

The. CHAIRMAN. Any other—yes, sir?

Mr. FARNSWORTH. I think it is a critically important question. Thank you for asking it, Mr. Chairman. In my personal view, the entrance of China economically into the Western Hemisphere, particularly South America, has been one of the transformative issues over the last decade, primarily built on the commodities, primarily built on new investment that the Chinese have brought.

But the Chinese have also brought new ways of doing business that in some ways differ from the United States. In other words, there are different standards of public disclosure, transparency, anti-corruption, different standards perhaps of environmental protection, labor laws, et cetera, et cetera.

Chinese investors are learning—we have to remember it has really only been about a decade since you have seen that initial wave of investment into the region, so there is a learning curve. It is not as advanced perhaps as Chinese investment into Africa. And

we are seeing more now of a—of attention to social development issues and job creation on the local economy, not just bringing Chinese workers abroad, but it is a bit of a challenge.

And I think from the United States investor perspective, we still have a very important advantage both in terms of quality, in terms of the ability to interact in terms of a certain value set with our Latin American and Caribbean neighbors and partners. And these are valued issues in the Western Hemisphere.

So I think as China continues to slow and as commodity markets continue to reduce, and that is directly impacting the relationship—the economic relationship with Latin America, I think as Mack said, this is a real opportunity for the United States because now the region is looking for a particular reengagement with the U.S.

The. CHAIRMAN. Dr. O'Neil, you mentioned global supply chains in Mexico. To what degree is the Mexican economy integrated in the global supply chains, and how is that affecting our own competitiveness here in the U.S.?

Dr. O'NEIL. Mexico, especially since NAFTA 20-plus years ago, has integrated into a North American supply chain. So 80-plus percent of Mexican exports come here to the United States. But so do—it is one of our top exporting nations, so the back and forth is really what is happening. Canada is included in this to a lesser extent.

And so, when you see, you know, an average car that goes back and forth, it will go across the border eight times where a part from here comes to the United States, something is added here, it goes back to Mexico. And you will see this back and forth before it becomes a car that is sold in a—in a local dealership whether here in the United States or sold in Mexico.

And that spreads across through a variety of industries, whether it is cars, or aerospace, or electronics, or others. This is sort of the new Mexico, at least a new part of Mexico, and this is the part of the Mexico economy that is booming, the one that is tied to the United States.

And because of these ties, North America, so the United States included, is able to become increasingly competitive in sending those goods around the world. So North American cars increasingly end up being sold not just in North America, but also in South America. So this is a huge transformation, this creation of an underlying economic platform that ties Mexico to the United States that frankly was not the reality just 20 years ago.

The. CHAIRMAN. Any additional comments? Are we covered there?

[No response.]

The. CHAIRMAN. Thank you all very much. Senator Cardin?

Senator CARDIN. Well, let me also join the chairman in thanking you all for your—for your testimony. Dr. O'Neil, I agree completely with your—how you prioritize anti-corruption rule of law issues. I would make an observation. Thanks for the plug for Global Magnitsky. We have passed it in the Senate. It is now in the House. Hopefully we will get action on that.

And in regards to corruption indicators, this committee did take some action this year in a reauthorization in the State Department

bill. It has not been enacted, but it starts down the process of evaluation of corruption, which would very much—could play a role in U.S. development assistance. So we are very much mindful.

But here is the challenge. The challenge is that we have a lot of countries where the leadership really would like to fight corruption, but are they capable of fighting corruption? The Northern Triangle is of particular concern.

And I am going to start on a positive note because I do think Vice President Biden has done an incredible service to the people of the Northern Triangle. I think our programs are working. I have been in the communities in Honduras and El Salvador, and I have seen firsthand the USAID programs for the neighborhoods. I have been with the FBI in their anti-gang activities. All these are very important efforts, and I do not want to minimize it, and I support the $750 million program.

Having said that, the neighborhoods are not safe. You have got corruption. You have got extortion. You have got trafficking. You have got drugs. And the gang cliques control the country's economy on those—many of these countries' economies.

So is there something we are missing as to how we can get more consequential change in the Northern Triangle for the safety of the communities and to fight corruption, because I must tell you. I do not know whether our ultimate policy is for a prosperous, safe, democratic country for its people, or our concern that—of the migration of people from the Northern Triangle to the United States, which I think is misguided that part of our policy.

So is there something more that we are missing, because I must tell you, it is still—I mean, it is very challenging to see all the tools that we are using making a consequential—real consequential change for the people who live in these vulnerable neighborhoods.

Dr. O'NEIL. Let me start, and then I will have you join in. Any place like these Central America nations, the weakness of the institutions, the increase in violence, nothing is going to change overnight. And this will be a long process. And I think there are several aspects to what we and the people who live in these countries would want changed.

And one is, as you mentioned, basic safety. You want to be able to be safe in your home, to be safe on your streets. And here we are helping, but, as important, when you look at other programs, like Plan Colombia, the places that have reduced violence, it is as important that the local governments also step in and participate. So for every dollar we put into Plan Colombia, Colombia put in $10. So part of it is leveraging resources. So we participate, but so, too, do those governments.

Part of it is looking at the programs that we have, and we have a lot of great programs, and actually looking at the evaluations that have been done on some of the programs, particularly the CARSI programs, the previous to the Alliance for Prosperity programs. And the ones that seem to make the biggest difference on violence were prevention programs both for those not to come into gangs, and then also reaching out to those who are already in gangs and trying to bring them out.

So some of the local community prevention programs seem to make a bigger difference in terms of reducing violence and increas-

ing confidence in government and the like, then perhaps providing training enforcement and other types of things. So perhaps moving some of our focus to those types of programs.

Another factor in looking at some of the statistical evaluations that have been done out of Vanderbilt University is education. And while often we think about first stopping the violence and then turning to things like building up education, increasing education had a direct correlation with reducing violence. And so, I think those socioeconomic types of programs we should be prioritizing, starting from the beginning rather than waiting perhaps for safety to improve. That is one side.

The other side of your question is about corruption and transparency. And while violence and corruption are related, they are also two different things. And here I think the challenge sometimes is, one, having government officials that want to focus on these things, but, two, as you say, capacity and how do we build capacity.

And there I do think you start to try to create autonomous independent organizations that can take them on, right, untouchable units. And we have seen this in Brazil. You have seen prosecutors and others actually go after the highest people. We have seen this in Guatemala aided by the UN agency, the CICIG body.

And I would hope that the new body set up by the OAS or with the OAS in Honduras could try to begin to chip away at this impunity that we have seen for so many years.

Senator CARDIN. Mack, what else can we do here?

Mr. MCLARTY. Well, first of all, there are no easy or quick answers, to be realistic and candid. But I would make three quick points, Senator Cardin.

Number one, when I traveled to Colombia during my time in the White House, many thought that was just a hopeless situation. The country was lost. I do think U.S. engagement on a bipartisan basis, not just with dollars, but the engagement itself, and with the leadership and responsibility of the Colombian people, truly achieved a miracle turnaround there. So it can be done, but over time. So U.S. engagement makes a difference for sure.

Number two, you have to have responsible leadership within the countries. It is more difficult likely in Central America than a larger country like Colombia, but it can be done. And number three, I think some of our Latin countries and leaders there are going to have to step up and give their support because it is in their interests as well.

And we are already seeing that. Mexico particularly has a direct interest in Central America, and we are already seeing some of the procedures, processes, practices that were done in Colombia with law enforcement now being—trying to put—to be implemented in some of the Northern Triangle countries. So those would be the three recommendations or three thoughts, suggestions that I would put forward.

Senator CARDIN. Mr. Farnsworth?

Mr. FARNSWORTH. Well, thank you for the opportunity to add to what my colleagues have said. Let me just said one thing that I think will contribute indeed to what both have already said, and that is that, you know, you have to provide alternatives for people. Otherwise, particularly young men of a certain demographic, will

join the gang or try to migrate. I mean, those are really the options.

The third option needs to be a good job. Education is important obviously, but you also need to bring investment. You also have to have a business climate that will stimulate a productive sector. And we already have the Central America Free Trade Agreement with Central America, bipartisan agreement, very, very important. But that is really just getting Central America to the starting line. That does not really guarantee success.

One of the things that I think needs to be emphasized more and more in Central America, indeed across the region, is that corruption, lack of law enforcement or rule of law, gang warfare, these are disincentives to investment. And to the extent you are trying to bring that business and job creation to your country, which is already small, which already have challenges in the global economy, you really need to clean that up and make yourself a model for investment and job creation. I think over time that can—that can help.

I think we also have to recognize—the second thing I would say, however, is some of this is a fact of geography and history. I mean, Central America is on a pathway between the world's largest producer of illegal narcotics and the world's largest consumer, and somehow Central America is going to be a bridge. So that is point number one.

Point number two, in terms of history, after the brutal Central American wars of the 1980s and early 1990s, which are thankfully concluded. But there was not enough attention given to the actual implementation of peace accords, so you had demobilized guerillas, who really had no particular skills other than firing a weapon. Well, if you have a weapon and no particular skills, and your political moment is over, what are you going to do? Turn to crime. And that indeed is what many have done in El Salvador, in Guatemala, in Honduras, et cetera. And so, this really has implications in terms of Colombia looking forward to implementation of the peace process. Some ideas to think about.

Senator CARDIN. Thank you. Thank you.

The. CHAIRMAN. Thank you. Senator Gardner.

Senator GARDNER. Thank you, Mr. Chairman, and thank you to the witnesses for your testimony today. I recently had the opportunity to visit in Mexico City with members of their government talking to the minister of—excuse me—foreign affairs, and talking to business leaders and others. And it is clear that the determination whether the Pax for Mexico is successful really does mean a difference between economic success, education success. I think you—when I walked in a little bit late, I believe you were talking about some of the reforms made to the judicial system.

Which of these reforms, though, do you believe is perhaps more important than the others in terms of success? Obviously all of them are very important, whether it is reforms in education and how the unions are handled, whether it is energy reforms and bringing in outside investment. But to me, the judicial reforms and educational reforms seem like two critical keys to this. Could you talk a little bit about the Pax for Mexico, Mack, if you would like to, or Dr. O'Neil, any of you, to talk about which of these do we

really need to see success to build on for success of the other components of the Pax for Mexico.

Mr. MCLARTY. I will start briefly, and then defer to Dr. O'Neil. Senator Gardner, I think you have to do all of the above. And I think with Mexico, the trend line is clearly encouraging. If you look at the building of the middle class, if you look at direct foreign investment, any measure that you—environmental standards and so forth, the trend line is favorable.

Mexico has achieved, I think, a high degree of sophistication and competence in their central bank, for example, and that has been a great stabilizer in their economy, an independent central bank. The reforms by the Pena Nieta administration are historic. They have been across the board. They have not yet taken full effect. You noted the reforms, not just from the economic side, as important as they are because without job creation, you are not going to have that positive trend line, but also in education, reforming some of the tight hold that the unions had in education, for example, in Mexico, across the board.

But the rule of law, the judicial system with Mexico now having a very assertive and free press has got to be strengthened for Mexico truly to move to the next level and continue this positive trend line. I think with the North American platform, which we have all spoken about in our own way, there is a tremendous opportunity not only for our partners and neighbors in Mexico, but for our country and for Canada.

Senator GARDNER. Dr. O'Neil.

Dr. O'NEIL. In echoing some of Max's comments there, I mean, the reform package, there was a set of economic reforms where Mexico, you know, over the last 20 years has opened up its macro side. It has opened up to the world commercially, but it had yet to get through the bottlenecks in its own economy. So its new antitrust laws, its new telecommunication laws, its energy laws were opening up monopolies or oligopolies over there. That is the point of these, which still has yet to do, but I think there are some encouraging signs.

But these other two that particularly you bring up—the education reform and the judicial reform—I think these are fundamental to really changing Mexico. And the education reform is vital because as you look at Mexico, Mexico is not and never will be and should not want to be the lowest cost producer in the world. There are going to be other countries that are going to do that.

But what it does need to do is be one of the most productive in the world. And particularly since Mexico is increasingly linked to our workers, to our economy, to our companies, we want them to be productive so we can present this competitive position vis-&-vis China or vis-&-vis other places around the world.

So how do you do that? Well, you need a 21st century education, right? You need workers who can use robotics, who can invent robotics, who can do the kinds of things that we would like our workers to do as well because they are working together. And education reform at least begins to move the public system towards that.

And an interesting aspect of this is so many Mexicans know education matters for them, that we have seen this movement out of the public system to the private system. So today a quarter of

Mexican students are in private schools, not just the wealthy kids, but middle class, because people know, parents know this is your ticket to the future. So one, this education reform I think is important so you see inclusive growth there. All Mexicans have a chance at better education.

And then, let me just say a thing about the judicial reform because I think this is vital.

Senator GARDNER. Yeah, it is.

Dr. O'NEIL. Mexico is in the process right now of moving from a more inquisitorial system, a written system, to an accusatorial system, an oral system, somewhat like our own. And this should make it more transparent. It should make it less corrupt. It should make it more—and also provide due process and the like for those that are arrested that, you know, are defendants.

But what it will do hopefully, if implemented and works well, is help with the rule of laws issues because the biggest challenge in Mexico, and I hear this when I talk to people who think about investing there, is it is great in terms of workers. It is great in terms of logistics. It is great in terms of access to the United States. But what do you think about security? Can I protect people? Or if I invest there, will my investment will be safe if there is some sort of dispute with partners or others.

And I think if you implement a much stronger rule of law, that is the challenge Mexico has today. And the judicial reform, if implemented, I think will help move it in that direction. It is not a panacea, but will move it in a direction that will be beneficial for that country and to our country as well.

Senator GARDNER. And on judicial reform, I mean, we are talking about going from a system where basically you file a paper complaint with a judge, and the judge kind of goes back behind closed doors and makes a determination in essence, is that correct, to a system where the police officer who may be accusing somebody of a—of a crime is now going to be taking the stand in front of the public? Is that the essence of the reform?

Dr. O'NEIL. It is. Before everything was written out. There were long—you know, things were written out. The prosecuting attorney had a very strong role. The defense attorney had a very limited role. This will be much more like ours where you will have cross examination and you will be able to—all evidence will have to be brought into a court. So it changes—the nature of the judges will change. So before whereas one judge who started from the beginning all the way through, you will have different judges. It is a totally different system.

So one of Mexico's challenges is you need to retrain 30,000-plus court officials in the new system. You need retrain 300,000 police officers to collect evidence that will be admissible in court. There is a lot of big shifts that need to happen. And even if you retrain them, you need to really improve the quality of that. So that is somewhere I do think the United States can continue to help in this aspect of promoting the reform and improving the quality.

Senator GARDNER. Thank you very much. Mr. Farnsworth, I have kind of neglected you. If you have anything to add on this?

Mr. FARNSWORTH. No. I would highlight the energy reforms, which indeed I agree with everything that has been said. But the

energy reforms, in my view, are what the international community is really focusing on because it is the potential in terms of investment and job creation, et cetera, et cetera.

I think we are going to see a very interesting continuation and expansion of that later this year when, as projected, the government of Mexico puts out for bid the deep water licenses, which indeed is what most—has attracted most attention in terms of international investment.

Senator GARDNER. And the first attempt was a little bit of a disappointment. Is that correct?

Mr. FARNSWORTH. Well, that is the impression, yes. I mean, I think that the collapse of energy prices had something to do with the demand, as well as—and, again, this is an iterative process. It is a learning process. The government of Mexico admits that they did a couple of things in terms of profits and this and that that probably were not as attractive to investors as they could have been.

But as energy continues a downward slide and as the bid processes continue, the government of Mexico has changed those terms, and I think you are going to see that improve even further.

Senator GARDNER. Great, thank you. Mr. Chairman, thank you.

The. CHAIRMAN. Absolutely. Senator Kaine.

Senator KAINE. Thank you, Mr. Chairman, and thanks to the witnesses. I share your sense that while there are challenges, it is a—it is a good moment, and it is a good moment for us to focus on what we can do to accelerate advances if the peace deal is struck and there is a ceasefire in Colombia. I mean, you can get into a definitional argument here, but it is not only the end of this long-running guerilla war, but, you know, two continents without war.

I do not know when there has been a time in history that the Americas have been without war. Asia cannot say that now. Africa cannot say that now. Europe really cannot say it with what is going on in the Ukraine. But to have two continents, 37 nations, a billion people without war, that is a pretty big deal, and the U.S. has played a very, very important role in getting to that moment. And I think as we celebrate hopefully with President Santos in a couple of weeks about Colombia's progress, we should also broaden the celebration to include a marking of that moment.

President Obama in his budget submission about a year ago put in the billion dollars for support for the Alliance for Prosperity. And the budget that we passed a month ago, the appropriations was about $750, which was very significant. I was speaking about this with the president of Honduras who was here two days ago, very excited about it.

A danger is what we would do with the $750 million is we would just do what we have already been doing and just plus up, you know, the accounts by a little bit or by a lot. And maybe we would miss an opportunity to take an investment of that magnitude, which is significant, and really rethink it and really do things that really matter. The president of Honduras, for example, thinks that the allocation of how much of that money goes into CARSI versus economic development, things maybe too heavy on the CARSI side

and too light on the development of the education or economic system.

I hope we might think about having a hearing either in this committee or in the subcommittee about what is the best way to use that money, and what are we expecting back. What metrics are we looking for, because that is a big bipartisan commitment that we have all made. And at the front end, maybe get the State Department and others and say what are going to do with this money and how is it going to work.

But as people who love this region, what advice would you give to us about how we should look at using that $750 million in the three Northern Triangle countries to really make a difference?

Mr. MCLARTY. Well, Senator Kaine, I know you have been deeply engaged in this issue, and you have a history to draw from in that regard. I think you are on the right track. I mean, in these times in our country and really at any time, the expenditure or investment of our money in any region, particularly our neighbors, needs to be very carefully evaluated, and there needs to be accountability. In my testimony, I had sharply-drawn lines.

But I think at the same time, you have to get buy-in. We all understand that human dynamic. You have to get ownership from those responsible that really have the most to gain and the most to lose, and that is the people of the countries where we are trying to support. I would not underestimate, and if you talk to any of the Colombian leadership over the past three presidencies, they will say that Plan Colombia has been a major part of that country's history and future. U.S. engagement is equally important to U.S. commitment and dollars, and I think that is another point worth making.

Finally, I think you come up or make a great point that some degree of creativity here—I mean, the world is changing, and how these dollars are allocated, I think is quite important. And I think just to plus up, to use your appropriate term, is likely not the right way to go. So I think accountability is absolutely crucial, but I do commend the Administration. I commend the members of the Senate that supported the Alliance for Prosperity pact.

Mr. FARNSWORTH. Thank you, Senator Kaine. And as a Virginia resident, let me thank you for the opportunity to testify before you as well.

Senator KAINE. Absolutely.

Mr. FARNSWORTH. I think this is exactly the right question. And in my view, we cannot see this as a continuation of business as usual. We have to view this as transformative, and, frankly, the leaders in the Northern Triangle need to view it as transformative as well. And if we do not have that mindset going in, I think we are going to get the same results as generally we have always had.

Let me just add a couple things. One of the challenges of Central America broadly, not just the three Northern Triangle countries, has been cooperation, getting the countries in Central America to work together, to see themselves as allies and partners, not as competitors, not as, in some cases, enemies in the past, but certainly as in competition with each other.

I think one of the challenges of law enforcement in the region is when one country cracks down, the bad guys just go to another

country. There is law enforcement arbitrage. And so, for example, when Nicaragua had some success on law enforcement issues, the bad guys moved north to Honduras. And as Honduras presumably has success, we will see a similar shifting.

We need to have a regional approach where we work together as a region, which will have benefits not just on the law enforcement side, but also frankly on the economic side, because as the world is going to broader markets and global competitiveness, we have to consider that a country with a GDP the size of El Salvador, for example, really needs partners to be competitive in a global environment. Sure, the United States, but also their other friends as well.

And in that regard, let me just say I am a strong supporter of the Trans-Pacific Partnership. I think it should be passed. I think it is a good effort, and it will have an impact on Latin America. However, it will also potentially have a negative impact in Central America, for example, in the textiles and agriculture side. So while this is not an argument to not do TPP, I think it is an argument to look at what we can do to hold harmless those countries in Latin America, and particularly Central America, that might otherwise be negatively impacted, and make sure that what we are doing with one hand to give $750 million is not taken away by the other hand in terms of our trade policy, but rather that we are working together to be mutually supportive.

Senator KAINE. A very important point. My last question is just, members of this committee, other members of the committee, Senator Menendez and others, have really focused a lot on OAS reform. And my sense, not being an expert in the OAS, is it is an institution that is always—that has had possibilities, but it has also been limited in its effectiveness for a variety of reasons. The stalemate over Cuba, a whole series of things have kind of limited its effectiveness.

So as we look at the importance of institutions in this new Latin America moment, what advice would you have for the committee on that?

Dr. O'NEIL. I mean, the OAS is a consensus body, so it will never be sort of a hard-driving leader on many issues. But I do think there is a time here when we can revitalize it and revitalize our role in it. One is because the Cuba issue, which was very complicated in the OAS, is, at least for the moment, taken off the table. That is no longer what many countries just want to talk about in the OAS.

Two, we have new leadership there, and this new leadership seems much more amenable to standing out and calling up particularly democratic deficits in Venezuela. And so, there are incredibly pointed and courageous letters, I would say, from the current Secretary General vis-&-vis the elections in Venezuela. So I think there is a partner there that we can work with.

But the OAS I do think has played and will continue to play an important role as a place to have discussions with those in the hemisphere, so it is an ongoing place for us to talk about some of these worries, whether they are corruption, whether they are how do we—how countries come out of some of the weak institutions? How do we help Central America? How do we bring in other neighbors to help Central America so it is not just the United States

thinking about working with El Salvador, and Guatemala, and Honduras, but how do we bring in the neighbors? The OAS, I think, is a vehicle to begin a lot of those conversations. So I do think there is a time to invest in it again.

The other thing I would say with the OAS that could be very interesting is the new investigative body that the OAS is funding for Honduras. And we have seen some of the success of that the UN-backed one has done in Guatemala, and Honduras has such deep problems today. Hopefully that is something that we can see as a real achievement of the OAS as we look forward five or 10 years from now.

Mr. MCLARTY. The only thing I would quickly add, I think institutions are critically important. The Inter-American Development Bank, I think, has played a vital role. I do think there is promise at the OAS. The potential has generally—has been felt not been fulfilled. I think recent events, particularly in Venezuela, are encouraging.

I would also say that some of the Americas, which I must say I am not objective, but I think that has provided an architecture for continuing dialogue, and discussion, and meetings on a regular basis. And it is critically important, in my view, and I cannot emphasize this point enough, sustained engagement from the United States both form the White House and the Congress is absolutely crucial to our standing and partnership in the region, Republican or Democrat. If you look at Plan Colombia, if you look at others where we have had a continuity of engagement, it has made a real and significant and positive difference.

Senator KAINE. Thank you, Mr. Chairman.

The. CHAIRMAN. Thank you. Senator Menendez.

Senator MENENDEZ. Thank you, Mr. Chairman. As someone who has intimately followed Latin America for the 24 years that I have been in Congress, I share some of your optimism, certainly as a strong advocate for Plan Colombia in the House of Representatives and helping to get the money; certainly when I was the chair of the committee, urging the Administration to look at Central America in a different way than just as a refugee problem. I am glad to see what we are doing there.

But I must say that as I listen to your opening presentations, you had a rather rosy picture, and there are many elements that I would say you are right. But what I do not get a sense from your presentations, and I would like to pursue with you, is the question of democracy and human rights.

So give me a brief thumbnail sketch of your view of democracy and human rights in the hemisphere, and give me where we put it in the order of importance to us in our U.S.-Latin America policy. Mr. Farnsworth?

Mr. FARNSWORTH. Well, thank you very much, and I completely concur. You have been a leader on these issues for many years, and we thank you for that.

What I tried to allude to in my testimony was that indeed I think that the support for democracy needs to take a higher profile in terms of U.S. policy in the region. I think there are challenges to democracy. Broadly speaking, the idea of democracy is accepted across the region as the basic underlying framework for govern-

ance. However, democracy is practiced differently in different ways, and I think we have some real challenges. I referred to Venezuela. We could refer to Ecuador perhaps. There are other countries throughout the region which, you know, we could identify.

I think that one of the things that would be helpful is if the United States, in concert with our friends, allies, and the OAS, for example—I think there is a new opportunity there. There is a new opportunity with the new president of Argentina, for example, which can suggest that there are certain behaviors in the Western Hemisphere that are accepted and expected.

And that when a country democratically elects a legislature, the executive branch simply is not—it is not legitimate for the executive branch to try to undermine that legislature to take away its powers, to reduce its budget, to indeed create a parallel legislature to create laws, to pack the Supreme Court, which will——

Senator MENENDEZ. It sounds a lot like Venezuela.

Mr. FARNSWORTH. It does sound like a lot like Venezuela. And my point is that I think there is a need and an opportunity to raise our voice in support of democracy. We are not anti any government. We are not anti any country. But there are principles that need to be obtained and maintained, and my view is that now is an opportunity, broadly speaking, to really pursue that.

Senator MENENDEZ. It seems to me that that is the Universal Declaration of Human Rights and the OAS Democratic Charter. Dr. Shannon—Dr. O'Neil?

Dr. O'NEIL. You know, I started my remarks saying that the big changes in the region now is overwhelmingly democratic. And I do believe that when you look back 30-plus years ago, and it was many, many countries, authoritarian—pure authoritarianism, and that is no longer the case.

Now, have these countries become perfect democracies? They are not in any country around the world, and many of these do struggle to balance things. But I do see the shifts in many countries moving in a positive direction. I see the returns of checks and balances in some places even where they have disappeared or been eroded returning.

So in the new government in Argentina, I think we will see a return to checks and balances. Even the events in Venezuela over the last month or so, there is a check and balance there. Whether it will stand, it is being contested, but there is a return, and I see those as positive signs.

One other thing that I see in terms of the checks and balances on a positive side is actually in some countries—not all countries—not all countries. In some countries, the growth of an independent judiciary, which had never been there, right? And so, we see this in Brazil. We are seeing this in Guatemala. You are seeing actually the strengthening of that third branch of government that for so many years had been so weak.

So in that sense, it is not perfect, and it is not done. But I think there is the start of a movement in a right direction, and particularly with reference to the OAS and the tools you have there to push forward democracy. I think for many years we were, if not a lone voice, a small group that was thinking about the erosion of democratic norms and human rights in the region.

And I am somewhat hopeful that some of the changes we have seen just over the last year bring more allies and people who will be willing to stand up to some of the erosions. So whether it is the new Macri government in Argentina, or even some of the things that President Rousseff has said in Brazil, showing some limits to what Venezuela can do, I think that is positive when we think about a democracy, pushing forward democracy and deepening democracy.

Senator MENENDEZ. I think many of our Latin American neighbors use the issue of Cuba to excuse the lack of democracy and human rights in many of their countries. So if you are—if you have a view that, in fact, you do not subscribe to raising your voice about democracy and human rights violations in a countries, therefore, it will be reciprocated and you will not have anybody raise their voices as it relates to undemocratic and human rights violations in another country. It is very accommodating if you can do that. Mr. McLarty?

Mr. MCLARTY. Senator Menendez, first, thank you for your long engagement in the region which I have certainly followed with interest, and admiration, and respect. Secondly, I think the trend line is favorable, but we have a long way to go. I tried to emphasize in my opening testimony, temper my remarks about the region. Indeed it is facing some difficult economic headwinds.

My point was I think you stand by your friends in difficult times, and I do think it presents a unique set of opportunities for U.S. engagement in the region in a supportive and appropriate way. I also tried to underscore that in terms of commerce, and trade, and energy, all of which is important, they go hand-in-hand with the support of democracy, human rights, and the strengthening of civil society.

Part of, I think, what has happened in a positive way in the region, but still a long way to go, is a much freer press. I have long been involved, as I know you have, in the Inter-American Free Press Association protection of journalists and so forth. I think we have also seen much more transparent election processes throughout the region. Unfortunately, what we have seen where we have relatively open, fair, and free elections, when someone is elected, then they consolidate power, change the constitution, extend their tenure, and that becomes an authoritarian reign. And that is what goes to my final comments about Venezuela, where we must be a relentless, reliable, and constructive ally of Venezuela and others seeking to express their political rights.

So I think these have to go hand-in-hand. The bottom line, the region will not, in my opinion, develop as it should without strengthening the rule of law and institutions because it will not be able to attract investment in order to build a more secure future.

Senator MENENDEZ. Well, I certainly agree with that. Mr. Chairman, let me just say, maybe it is my desire to make things better that does not always have me look at the rosiest things, because——

The. CHAIRMAN. I do not think you could be—it would be stated that you always look at rosy things. I think that is right. [Laughter.]

Senator MENENDEZ. But you do not make things better by ignoring the things that are not good.

The. CHAIRMAN. I agree with that.

Senator MENENDEZ. And that has been my experience in 42 years of public life that you try to, yes, rejoice in what you can, but the way that you make lives better is by trying to change that which is negative.

The. CHAIRMAN. No question.

Senator MENENDEZ. And I just want to just very briefly just say, you know, I think we give a lower tier category to democracy and human rights, particularly in Latin America. We are willing to look at the economic side of things. And for some, let us just keep people, you know, in their country even though they face gangs, and narco trafficking, and certain death if they stay, and that is why people flee.

They do not flee—those are beautiful countries, but they flee only because they are in a situation where I stay and die, or I take my risk to go north. Changing that dynamic is good for the people of the region. It is good for the United States of America in terms of its interests.

I look at democracy, and I just do not think elections are a democracy. And when you see constitutional changes which permit presidents to run forever, you have to wonder is that democracy. When you see people whose human rights are violated, who are thrown in jail simply because they try to create peaceful change in their country, or who are beaten savagely, like the Women in White in Cuba who just march to church every Sunday in peaceful protest and are beaten savagely, we basically do not hear much about that. If that was in some other country in the world, you know, and I know some of my colleagues are very strong human rights advocates. But it is a whimper there. It is an outcry someplace else.

I think about what is happening in Venezuela, and I am glad to see Mr. Farnsworth speak to that because at the end of the day, there are some who suggested that, you know, we should just keep our hands off and not try to be supportive of the opposition in Venezuela, including the assistant Secretary for Latin America who testified when I was the chairman that the opposition in Venezuela did not want to see the sanctions legislation that we offered, which ended up being an uproar because the opposition said that is never what they said.

So I just—I see that. I see parts of Mexico, and I think Pena Nieta has done a fantastic job in the reforms. But I also realize that when I listen to some of my colleagues along the southern border, and I have met with citizens of the United States who do business in that part of Mexico where the federal government in Mexico really does not have control of elements of that. And so, you have to worry about that in the national interests of the United States.

And I also look at we get beaten in infrastructure investment throughout the hemisphere all the time. I just did a map of every major project, and except for a handful, China or Brazil beat us across the board in infrastructure investment. TPP, I am worried what we are going to do to CAFTA because if you are, on one hand,

trying to strengthen the economies of those countries, rule of law and whatnot, and under CAFTA you are going to—under TPP you are going to basically undermine the benefit they got in CAFTA, that is a problem. I see the Zika virus and increasing health issues in the hemisphere, which know no borders.

So I do rejoice in many of the things, but I cannot allow a hearing go by in which we are largely in applause and have no concerns. And so, there is a lot to do, Mr. Chairman, and I hope both the subcommittee chair and you will continue to look at the region beyond this macro one-shot view because I think there are many things that are not just our interest in being a good neighbor, but in our own interests on immigration, on economic opportunity, and on strengthening democracy, which at the end of the day ends up being in our national interests, as well as the people of those countries, that they can fulfill their God-given potential without being oppressed and seeking to do so. So thank you.

The. CHAIRMAN. Well, I think your long-term involvement, as has been mentioned by the witnesses, but your critical lie and concern is hugely beneficial to all of us. I think one of the things that sometimes also does not happen, though, is for some reason we do not see the potential, that in the event these types of issues are able to be overcome, I do not think there is as much focus here in the United States about the vast potential and the benefit to our Nation if those things can be overcome.

And I know this hearing is focused on that, but I do not think in any way it was meant to diminish some of the problems that exist in the region. And personally, I cannot thank you enough for your incredible depth of knowledge and concern and continually raising those issues.

So anyway, I think there is a tremendous opportunity for us. I think that is what these witnesses are stating. But there is no question these other issues diminish those opportunities, and certainly those opportunities for the individuals whose human rights are being desecrated. So thank you. Senator Udall.

Senator UDALL. Thank you very much, Chairman Corker. And I could not agree with you, and Senator Menendez, and Senator Cardin in terms of democracy and human rights, and what we—what we need to do in the region. I wanted to focus a little bit on, and I thank you for—I have been listening here to a lot of your testimony and waiting in lie to participate. And you have been—you have given some very, I think, thoughtful approaches to us on the challenges in Latin America.

And I would like to focus you on the migration issue in particular, and that is because it really has a direct impact on New Mexico. And I am just going to tell you a little bit about that before I ask a question. Beginning in 2014, as you know, and continuing to this day, there has been an influx of undocumented migrants, many of them women and children from Central America's Northern Triangle, whether El Salvador, Honduras, Guatemala.

As these migrants flee their homes, they face many incredible dangers traveling along the way. Many are claiming refugee statutes, as you well know, to escape gangs in Central America, and other violence, and those kinds of things. And for those who may be refugees, we have an obligation, I think, to adjudicate their

cases carefully. And I think we are trying to do that at the Federal executive level.

But until that happens, these children will be housed in leased property on an Air Force base in New Mexico, Holloman Air Force Base, which is located near White Sands in southern New Mexico. And as a result, as many as 700 of these children may have a temporary home in New Mexico. So there is really a bigger question here. Many Americans are wondering why are children fleeing, and what are the root causes of the children fleeing.

And I am wondering if on this migration issue if there are not some lessons to be learned from the north. My understanding is that the net migration between the United States and Mexico is reported to be net zero. How did this happen? What factors have contributed to this outcome? Is some of that applicable to what happened in the Northern Triangle? And whoever wants to start, I am happy to hear from Mack or Shannon—Dr. O'Neil.

Mr. MCLARTY. I will be very brief because I think Dr. O'Neil spoke to this perhaps a bit, Senator Udall——

Senator UDALL. Yeah.

Mr. MCLARTY.—before you were able to join us. Thank you for——

Senator UDALL. Yeah, and I apologize. I wish I could have been here for the whole thing, I really do.

Mr. MCLARTY. No, no, your engagement and dedication has never been in question I do not think at all. It is good to see you. I think Dr. O'Neil pointed out in Mexico is really what you were talking about.

Senator UDALL. And I know she mentioned this because my staff told me. But what I would add on top also for you——

Mr. MCLARTY. Yeah, go ahead, please.

Senator UDALL.—is Senator Kaine talked about the $750 million.

Mr. MCLARTY. Right, that is where I was going.

Senator UDALL. And the question focusing on my migration, how could that best be used in order——

Mr. MCLARTY. That is it.

Senator UDALL.—to get to our net situation that we have in Mexico. Yeah, please. Sorry to interrupt.

Mr. MCLARTY. Yeah, I think—no, no, no. I think you have got exactly the link of the two issues. I think in Mexico you had a more developed, stronger economy in the country, and, therefore, some of the reforms in education with some help from the demographics and so forth, the job creation with the integration with the North American platform, all of which has helped. Very much more fragile situation in Central America, and that is where the $750 million is going to have to be spent very, very thoughtfully, creatively, and effectively. And those problems, in my judgment, are going to be more difficult to solve, and they will not be solved overnight.

So I think you do have to go, though, Senator, to the root of the issue there in country because otherwise we have a Hobson's choice of humanitarian decisions to make. So with that, Dr. O'Neil, I will let you pick it up from there. But I think you have got the right link, in my view, between what has worked reasonably effectively with Mexico going to the Northern Triangle.

Senator UDALL. Yeah. Dr. O'Neil.

Dr. O'NEIL. Let me add on to Mack's comments. Many of those that are looking carefully at what is happening Central America see sort of three factors that are—three main factors that are driving the influx to our border. One is violence, and in many of these communities, especially young people are given the choice of joining a gang, being killed, or leaving. That is the choice in some neighborhoods and some communities, and so that violence is driving them to our borders.

Another issue is economic opportunity. We have talked a bit about the lack of jobs. We talked a bit about the lack of education. And today, some two million young Central Americans are what they call in Spanish "ninis." They do not work, and they do not study. So there are two million young people who are in this flux. They do not have a sort of legal role to play, nor are they in school, so that is a challenge.

And then the third are the family ties, and there have been some surveys of those that are coming up to the border. And the vast majority of them have, especially the young people, have either their mother or father that actually live here in the United States. So as they are trying to get away from violence, as they are in these desperate straits, they are coming to join their parents, right? And the other parts have close relatives. So those are sort of the three factors.

And one of the other things that we know about the violence in the Northern Triangle countries is it is often very focused. So you will have neighborhoods that are incredibly violent and not that far away from places that are not that violent, so it is not a blanket equal violence. There are some places that are extreme and other places that are not so bad.

And so, I do think as we start thinking about how to use the $750 million effectively, one is to target those areas. It is not a broad-based approach, but target the places that are the most violent, that do have the fewest opportunities, and where these migrants are coming from, and see what we can do those in those localities, those sets of streets even versus just broadly throughout a whole city.

And I think the other thing is we should take the time through the State Department or others to really look at the metrics that we are measuring. What are the programs that are successful, and measuring inputs, how many officers were trained or how many, you know, vehicles did we provide. But I am not those are the most effective measures.

What we care about is reducing violence and creating opportunities. And so, I think those should be metrics that we think about evaluating the programs the programs we might then scale up or expand to other municipalities.

Senator UDALL. And is your judgment right now from what all of you know of the programs that we fund now, are they doing that targeting of the communities where there is the real problem, or would you need to reevaluate or actually target it in a more aggressive way on those communities?

Dr. O'NEIL. My understanding is that there are programs that are doing that, but that not all programs are created equal in terms of the impact they have on the ground. And so, I think a real

evaluation of the programs—we have a widespread evaluation, and then taking the ones that seem to be the most effective and expanding those versus others that may not have sort of the bang for the buck.

Senator UDALL. Yeah. Mack, did you have something?

Mr. MCLARTY. I think very much like in a business, I think—I think the proper people in the government, including the Congress, need to have a very, very vigilant and sharp eye on this major investment to really see what is making a difference. It is not going to be easy, but, again, we have seen examples, in Colombia, for example, where our engagement has made a difference, but only with the responsibility and buy-in of the leadership within the country.

Senator UDALL. Right.

Mr. MCLARTY. So I think intense focus on where the money is being spent in terms of accountability, and also some fresh thinking is needed here.

Senator UDALL. Yeah. Mr. Farnsworth?

Mr. FARNSWORTH. Thank you for the opportunity, and let me just very quickly say one of the things that seems to be a little bit different about migration patterns from Central America versus Mexico is the surge of unaccompanied minors. And, you know, this adds an element of real pain and concern. I have an 11-year-old son. I cannot imagine putting him on a bus from Honduras in the—in the care of a coyote and, you know, maybe to get to Chicago or someplace in the north to visit with an aunt or something like this. It must be so desperate the parents are willing to do that with their unaccompanied children.

And to me that speaks to, you know, it has got to be really bad to be—and whether it is a community, whether it is, you know—but that is the decision families are making. And I think for us to be effective, we have to recognize how desperate it really is and somehow get to that point where people find that it is in their interest to keep their kids at home rather than putting them on a dangerous hundreds of miles journey to the United States.

Senator UDALL. Thank you very much. I just want to say that again because I think you have given us some very, very important testimony today. And I would—I would—Chairman Corker and Senator Cardin, I would echo what Senator Kaine said. I think it is tremendously important that we look at this major investment of $750 million and do some oversight, and maybe call the Administration in in terms of, you know, what are your plans here, and how do you plan to tackle the things like the violence, and the migration, and the root causes that we have been talking about. Thank you very much, and thank you for your courtesies in going over time here.

The. CHAIRMAN. Thank you. Thank you so much. Absolutely. I know Senator Cardin has a follow-up.

Senator CARDIN. Thank you, Mr. Chairman, and to Senator Udall, I could not agree with you more. And I must tell you, I think, you know, we do travel whenever we can because it is useful, and just being there and seeing the communities, it just breaks your heart. And it is not only about making sure they are safe, it is that they have a future. And I think your point about economic issues and education I thought was a very strong point.

I want to just ask a question on Venezuela. You had the elections. Very exciting. What should the United States be doing now in order to deal with the realities of the government of Venezuela, recognize the election, but recognizing who the leader of the country is?

Mr. FARNSWORTH. Well, I would be happy to jump in with a couple of ideas because then I can take the easier ideas, and then my colleagues have to come up with the more difficult ones. But thank you for the opportunity.

You know, first of all, we have to recognize it is a political crisis. It is a challenge to democracy, and I think we have to start from there. Second, I think the United States can play a role and needs to play a leadership role, but cannot do it by ourselves. In the past, we found, whether it was Venezuela or other countries, that to the extent we have been too far out in front, it sometimes becomes counterproductive, particularly if we do not have regional friends and allies together with us.

I think working with the new secretary general of the OAS, Luis Almagro, who has taken a courageous position on the Venezuela issue, as well as some perhaps newly-elected leaders, but also leaders such as the new—not new, but the president of Colombia who will be here in a couple of weeks talking about Colombian issues. But we have a lot of friends in the region, and I think now is the time to really go to them and say together can we not stand up for democracy in Venezuela.

I think there is also an interesting opportunity at the United Nations. The fact is that Venezuela is on the UN Security Council. Why not put together a contact group of interested countries from the United Nations' perspective to try to engage with the executive in a way that will help build political space for the opposition, build political space in Venezuela for the legislature to do what the legislature has been elected to do and what is expected to be done by the Venezuelan people.

I think the final thing is from the United States perspective, we have begun to identify individuals in Venezuela who have been alleged to be engaged in corrupt activities—drug trafficking, what have you. I think that is an appropriate subject to U.S. law based on the fact that this really does create disincentives for people to engage in further behavior to the extent that they might recognize that they will be recognized publicly, and may be subject to law enforcement actions down the road. So it does have a chilling effect in some way in terms of further activities down the line.

Senator CARDIN. Thank you.

Dr. O'NEIL. Let me just add a couple of things and reiterate that I think we should speak out, but it is stronger if it is with our neighbors and it is not just alone, and I think we have some new options there. I mean, we have longstanding allies, like Colombia, but we have perhaps the new government in Argentina. We have others to join with to really push the issue of democratic and the lack of democracy there.

Echoing the sanctions, I think we should go after these corruption cases. And the other thing is anecdotal evidence or rumors suggest that many of the high-ranking military officers and others in the nation have sent their families to the United States to study

to live, and I think we should revoke their visas if we find them to be—you know, having abused human rights, if we find some that undermine democracy. I think we have some mechanisms to do so and should pursue those.

And then I think we should also be talking about, which I know the Administration has been somewhat—those countries that have benefitted from some of Venezuela's largesse in terms of oil, Jamaica and others that—whose economy may have hit very difficult times already because of their worldwide issues, but may have some real issues there. I think there are places perhaps we can reach out and help them deal with a very bumpy or volatile aspect of their economy with the expenses—increasing expenses in terms of energy and the like.

Senator CARDIN. Thank you.

Mr. MCLARTY. Very quickly, two laments you hear about United States policy in Latin America is either that we are dangerously disengaged or overly meddlesome, sometimes at the same time. [Laughter.]

Mr. MCLARTY. And I really think, Senator Cardin, in terms of Venezuela, we have to just exercise exquisite balance in how we deal with this. And I really mean that in a very serious manner. I think the opposition has been very pragmatic. They have been very, very effective in gaining control of the Parliament. Maduro does not come up for election until 2019, unless there is a referendum prior to that, which will be difficult to get with all the impediments in place.

But I do think we can be very assertive in certain situations, whether it be corruption or otherwise, and I think we should do that. I think we have to follow what Senator Menendez talked about in terms of speaking out for human rights and democracy. And this is a clear case where someone was elected and consolidated power. But I think we have got to be very careful not to proverbially overplay our hand here and somehow strengthen or diminish what we are trying to achieve in terms of the overall objectives to help the Venezuelan people.

Senator CARDIN. And that is helpful. I appreciate it. Thank you very much, Mr. Chairman.

The. CHAIRMAN. Thank you all for outstanding testimony. The norm is we keep the record open, and this week it will be until the close of business Monday. If you would answer, as I know you will, promptly, we would appreciate it.

Your insights have been most helpful, and we look forward to continuing to work with you on issues relative to the region. Thank you all very much.

And the meeting is adjourned.

[Whereupon, at 12:15 p.m., the hearing was adjourned.]

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