



**Statement before the House Homeland Security  
Oversight, Management and Accountability Subcommittee**

***“Call to Action: Private Sector  
Investment in the Northern Triangle and  
Its Impact on Homeland Security.”***

A Testimony by:

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**Virtual**

Chairman Correa, Ranking Member Meijer, and distinguished members of the House Homeland Security Oversight, Management and Accountability Subcommittee, I am grateful for the opportunity to appear before you today to testify on the importance of private sector investment in the Northern Triangle and its impact on homeland security.

My name is Dan Runde, I am a Senior Vice President at the Center for Strategic and International Studies and direct our Americas Program. Among other past roles, I ran the Global Development Alliance public-private partnership initiative at USAID during the Bush Administration. I recently agreed to serve as an advisor to the Partnership for Central America (PCA), convened by Vice President Harris.

### **Brief Overview of Issues in the Northern Triangle**

The Northern Triangle of Central America (NTCA) has experienced overwhelming economic, political, and security challenges in recent years.<sup>1</sup> These include a combination of political challenges, drug-financed criminal gangs that generate high rates of violence, and not enough jobs in the formal economy. All the problems in Central America have had international repercussions, including an ongoing migration crisis at the U.S.-Mexican border.

The best social program is a decent job. The best magnet to curb migration are economic hopes in one's own country. Most people do not want to leave where they grew up. Lack of economic opportunity and insecurities push them to leave. The high rate of informal employment in the Northern Triangle (77% on average) is the most notable factor contributing to the push for migration.<sup>2</sup> Creating attractive investment conditions that contribute to the rule of law in Central America is in the best interest of the U.S.— by creating economic and trade opportunities that benefit people in the region and here at home. Increasing trade with NTCA countries can help foster better economic opportunities in those countries, thus slowing the outflow of migrants. International trade can offer consumers lower price goods as well as augment productivity and increase average income. Such trade can spur innovation within the U.S. and knowledge and technology exchanges with Central America.<sup>3</sup>

The United States remains a major partner for the three countries in the Northern Triangle, with annual funding for the Central America strategy reaching \$505.9 million in FY2021 (although this is a decrease from the \$750 million provided in FY2017).<sup>4</sup> Overall, from FY2016 to FY2021 the U.S. Congress appropriated over \$3.6 billion to carry out the U.S. Strategy for Engagement in Central America.<sup>5</sup>

The U.S. government should take advantage of the potential for near-shoring in Central America. The Covid-19 pandemic has provided an opportunity for the reorienting and nearshoring of U.S. international commerce.<sup>6</sup> While re-centering U.S. supply chains in the Americas would be a positive for multinational firms, it would be transformative for Latin America. Studies have shown

that moving even \$1 billion of U.S. textile trade with China to the Northern Triangle would create hundreds of thousands of manufacturing jobs for workers.<sup>7</sup>

A different future is also possible. For example, policies pursued in El Salvador in the late 1990s and early 2000s serve as an effective example. The Salvadoran government's National Reconstruction Plan (NRP) of 1992 to 1997 culminated in El Salvador achieving investment-grade bond status in 1998.<sup>8</sup> By the early 2000s, El Salvador outperformed Chile, Argentina, South Korea, and Germany in the Index of Economic Freedom, which measures 10 indicators including rule of law, government spending, and market openness.<sup>9</sup> As a result, immigration from El Salvador to the United States was low, and the economy was strong and growing.<sup>10</sup> Job creation drove growth, decreased emigration, and poverty fell from 40 percent of the population in 1996 to 20 percent in 2000.<sup>11</sup> There many positive lessons from this previous era in El Salvador.

### **Improving Conditions and Catalyzing Private Sector Investment in NTCA**

Studies have shown that when countries reach the threshold of \$8,000 GDP per capita, migration largely halts. Mexico surpassed this level of GDP per capita in 2005, which correlates with the beginning of major decreases in Mexican-U.S. migration.<sup>12</sup> Though obviously significant, GDP per capita alone does not seem to be a compelling enough factor to slow migration. Other economic factors include increased trade and employment.<sup>13</sup> In 2020, Guatemala reported per capita GDP at \$4,600, while El Salvador recorded [\\$3,800](#), and Honduras [\\$2,400](#).<sup>14</sup> It is interesting to note that the three countries of El Salvador, Guatemala and Honduras provide \$18 billion per year of trade with the U.S., accounting for 53% of Central American trade with the U.S., and producing 48% of Central America's GDP.<sup>15</sup>

While I am a strong proponent of foreign assistance, the reality is that all foreign assistance (from the U.S., the multilaterals, and others) as a percentage of GDP in NTCA countries is very small, reaching at most less than three percent when one adds up all spigots of assistance from all official donors. Ultimately, dealing with the governance issues, confronting the security issues, and enacting pro-growth economic policies are the most important things to attract private investment. However, foreign assistance can help with these big challenges. Foreign assistance is an important catalyst and can fund things that others cannot: economic reforms that encourage investments, anti-corruption programs, support for judicial reform and other governance programming. Foreign aid is important, but it needs to be focused and it needs to work in partnership with others. It should work particularly closely with the private sector.

The Biden administration has taken a good step by convening the Partnership for Central America (PCA). PCA convenes a cadre of America's best companies, and it is an excellent start. Since May 2021, the Partnership for Central America has grown from 12 founding members to 75 companies and secured \$1.25B in foreign investment. In just nine months, these projects are delivering

significant results in digital access and financial inclusion with significant and scaled impacts forthcoming.

Engaging the U.S. private sector is a critical initial step, but this must be done in conjunction with engagement of the local private sector in NTCA countries. One of the fastest potential tracks to achieve these aims would be to engage local companies in U.S. multinational company supply chains.

Without painting with too broad a brush, I would argue that most who follow Central America closely in Washington have typically expressed a negative bias towards the local private sector in Central America due to fears of “corrupt actors.” I think we need to collectively rethink this bias in Washington against the local private sector in Central America. I don’t want to be misunderstood: there are some bad actors in the local private sector in Central America just as there are bad actors everywhere, but we have to partner with the local private sector because they have been there the longest and largely make their lives and their livelihoods in the region.

In this context I want to raise a new organization: HUGE, which stands for Honduras, United States, Guatemala, and El Salvador. HUGE convenes many leading local private sector companies and a growing number of multinational companies. The association promotes strategic investments in the Northern Triangle, taking advantage of competitive advantages in these countries.<sup>16</sup> Over the next five years, HUGE aims to facilitate \$10 billion or more in investments between Honduras, the United States, Guatemala, and El Salvador.<sup>17</sup> HUGE’s members and the association adhere to the highest ethical, social, and environmental standards. Thus, HUGE gives strong evidence that it is possible to conduct business responsibly and profitably in the NTCA linked with partners in the U.S. This is encouraging to other companies looking to move supply chains from China to the Americas, which is one of the primary initiatives of HUGE.

### **What can the United States “do”?**

The overarching goal for the U.S. government must be to support policies that create an attractive environment for private sector investment in the Northern Triangle.

So, what can the United States “do”?

*First, answer the mail on Covid-19.*

The great ideas at this hearing will be a bit academic until we address the challenges brought by Covid-19. We must first address the need for vaccines in the region and the economic downturn resulting from the pandemic. A failure to address the vaccine shortage in countries like Guatemala leaves the country open to the influence of malign actors like China. Guatemala recognizes

Taiwan. Unfortunately, Guatemala has a lower vaccination rate for a bunch of complex reasons that result in it waiting for non-Chinese vaccines. El Salvador recognizes the Mainland, and in return, China gave El Salvador approximately 1.5 million vaccine doses, which is significant even if they these vaccines are sub-par.<sup>18</sup> There are large scale vaccine campaigns on the border of El Salvador and Guatemala. The Guatemalan press says, “if we only recognized the Mainland, we would get more vaccines.” The U.S. can fix this by getting more vaccines to Guatemala. This same dynamic has played out in the Dominican Republic, which had initial plans to exclude Huawei from its telecom system. After receiving 20 million doses from China when it couldn’t get Western vaccines for complicated reasons, the DR reversed its position and allowed Huawei to participate in its telecommunications market. The U.S. and our partners need to do more to solve Central America’s Covid-19 problem.

*Second, help close the digital divide accelerated by Covid-19 in Central America*

Additionally, the U.S. needs to focus greater development assistance on closing the digital divide in Central America. The digital divide has been exposed, accelerated, and exacerbated by Covid-19. There are several barriers to increasing investment in broadband and other digital infrastructure including rural access, regulatory issues, and access to electricity. We have a number of soft power tools to help bring the digital economy of the future to more people in the region, helping to close the education gap, develop a more vibrant workforce, attract more private investment and jobs, and stem Northern migration. Either the U.S. and our allies will help close the digital divide in Central America or the Chinese Communist Party and Huawei will.

*Third, let’s get “right” with Guatemala.*

Of the three countries, arguably Guatemala is the most reliable ally. If we want any progress, we need a develop a better relationship with Guatemala. Vice President Harris visited Guatemala. For reasons I do not understand, the Biden administration did not invite Guatemala to the Summit for Democracy. I would note that the Biden administration invited Pakistan (who declined) and India (who attended) while not inviting Guatemala. So, a simple thing would be to “get right” with the Giammattei administration. At the same time, we are mistreating Guatemala, a country that has been a good partner to us, I find it interesting that we are putting so much attention on the new Honduran government. Honduras has a new government that will either be: a reasonable social democracy or an authoritarian government along the lines of Venezuela or Nicaragua. I hope Honduras is a reasonable democracy. I just think we should pay as much attention to countries who are reliable partners.

*Fourth, it's time to revisit and revise CAFTA-DR.*

It has now been more than 15 years since CAFTA-DR first entered into force. The region looks very different today than it did in then. We should modernize intellectual property and digital economy provisions in CAFTA-DR, and we should bring the trade agreement up to standards comparable to those of the USMCA.

*Fifth, let's partner with Mexico and others to repurpose the North American Development Bank to help Central America.*

The U.S. should expand the mandate of the Northern American Development Bank (NADB) to include Southern Mexico and the Northern Triangle. Mexico has expressed openness to pursuing such an expanded mandate. With a new authorization from Congress and a modest sum from the US taxpayers, the NADB could help. The NADB could be considered as an avenue for a potential partnership between Mexico, the U.S., and Canada to work in Central America.

*Sixth, Mexico could be a more important trading partner to Central America*

The level of trade between Mexico and Central America is unusually low. President “AMLO” of Mexico has expressed concern about the lack of development in Central America and Southern Mexico.

In 2019, Mexico exported \$2.2B<sup>19</sup> to Guatemala (making it the Mexico’s 15<sup>th</sup> largest export destination out of 151 countries), \$915M<sup>20</sup> to El Salvador (29<sup>th</sup>), and \$775M<sup>21</sup> to Honduras (33<sup>rd</sup>). These numbers should be seen in the context of Mexico’s trade with countries like Colombia, farther away, to which Mexico exported \$3.7B in 2019, making the country Mexico’s 12<sup>th</sup> largest export destination, and second highest destination in Latin America after Brazil.<sup>22</sup> There must be ways to address this.

*Seventh, The US should support a capital increase at the Inter-American Development Bank under the right conditions.*

Given the upcoming annual Inter-American Development Bank (IDB) shareholders meeting scheduled for next month, the U.S. should announce support for a capital increase for the IDB.<sup>23</sup> The IDB hopes to increase sovereign lending to governments in the region from \$12 billion to \$20 billion per year to respond to the historic needs of the region.<sup>24</sup> The IDB has a significant private sector lending arm that would also expand with a capital increase. With 30 percent of the shares, the United States essentially holds a veto.<sup>25</sup> A capital increase, announced next month in Uruguay, could be a great component to a larger, positive hemispheric agenda that should be announced in June at the U.S.-hosted Summit of the Americas.<sup>26</sup>

In return for a capital increase, the United States should insist on several things. Among other things, the IDB could allocate some grant monies for the Northern Triangle, fortifying the Biden administration's "Root Cause Strategy."<sup>27</sup> Most important, the IDB should offer membership to Taiwan. As a member of both the World Trade Organization and the Asian Development Bank, there is little reason for Taiwan to be excluded from the IDB. Other new potential IDB shareholders should include India and Australia, Singapore, and the Gulf States.

*Eighth, the U.S. should allocate foreign aid to support economic growth, good governance and "lubricate" shifts in global supply chains toward Central America.*

The US will be spending billions over the next couple of years in the region. USAID can spend monies and provide expertise to support pro-growth economic policy reforms. USAID is currently providing \$48 million over three years to increase economic opportunity in Guatemala.<sup>28</sup> This funding aims to increase such opportunities by supporting private sector entrepreneurs and innovators seeking technology-driven solutions to challenges in the region. USAID should expand these kinds of initiatives to other Central American countries. USAID also will spend monies on improving governance and security. Improving these issues are key to encouraging the private sector to invest. Also, the Covid-19 pandemic has provided an unprecedented opportunity for the U.S. to use foreign aid to "lubricate" global supply chains towards Central America, especially the Northern Triangle. Monies that are described as "trade capacity building" and "trade facilitation" come to mind.

Our foreign assistance should be done more intentionally in partnership with the private sector. Perhaps USAID might consider that 30 percent of its monies be leveraged by the private sector. USAID and other 150 Account agencies to do more co-creation with the private sector, especially on initiatives that foster trade, connect local companies to US supply chains, and help close the digital divide.

*Ninth, the DFC, EXIM and USTDA (and maybe MCC?) have important roles to play*

The DFC should be providing credit insurance to the private sector to lend in Central America. There is a lot of investment money for the larger region but less for Central America. There are a limited number of bankable projects in Central America which means that the DFC needs to work closely with USAID and others to provide technical assistance to make projects "bankable" for the DFC. If the DFC does not have "deal maker" based in Central America, they should.

EX-IM has a role to play as well.

USTDA is the best kept secret in the U.S. Government and can make contributions in Central America by accelerating and catalyzing investments in the digital, “hard” infrastructure, and energy sectors.

Given the attention from the Biden Administration, does a new government in Honduras merit another look from the MCC? If the Biden Administration wanted to “get right” with Guatemala, would a new partnership with the MCC be a way to signal that?

*Tenth, leverage the flow of remittances to Central America*

Remittances are crucial to the economic health of Central America, have a much greater impact than foreign aid, and remittances to the region are 15 times higher than all forms official development assistance.<sup>29</sup> Therefore, the U.S. should support policies and innovations that leverage remittances.

**Conclusion**

In conclusion, there is neither a “magic bullet” nor an “out of the box” solution to the problems of the Northern Triangle. Most of the solutions are relatively straightforward but politically hard and involve a mixture of economic, development, political, and security reforms. The problems of the region are, in fact, solvable, but they require sustained attention from the United States, political will in these countries, including cooperation from elites in these societies, and ultimately strong and inclusive economic growth to go with strengthened governance. However, this growth can only come about with real citizen security, reduced gang violence, and a new social contract that brings together all sectors of society and government.<sup>30</sup>

Mass migration from the Northern Triangle to the United States will significantly decline when:

- GNP per capita reaches around \$8,000, which is slightly over double the current GNP per capita;
- Transnational crime, drug trafficking, and gang violence and activity are significantly reduced;
- The social contract is reset and basic needs such as jobs, education, health, infrastructure, and power are reliably delivered.

Economic growth is possible in Central America’s poorest countries, but we cannot manage or “solve” the challenges of Central America without the private sector and especially the local private sector.



<sup>1</sup> Daniel F. Runde & Mark L. Schneider, “A New Social Contract for the Northern Triangle,” *CSIS*, May 8, 2019, <https://www.csis.org/analysis/new-social-contract-northern-triangle>

<sup>2</sup> Conor M. Savoy & T. Andrew Sady-Kennedy, “Economic Opportunity in the Northern Triangle” *CSIS*, September 20, 2021, <https://www.csis.org/analysis/economic-opportunity-northern-triangle>

<sup>3</sup> “Stronger Open Trade Policies Enable Economic Growth for All,” *World Bank*, April 3, 2018, <https://www.worldbank.org/en/results/2018/04/03/stronger-open-trade-policies-enables-economic-growth-for-all#:~:text=Trade%20is%20central%20to%20ending,more%20affordable%20goods%20and%20services>.

<sup>4</sup> “U.S. Strategy for Engagement in Central America: An Overview,” *Congressional Research Service*, February 16, 2021, <https://sgp.fas.org/crs/row/IF10371.pdf>

<sup>5</sup> *Ibid*

<sup>6</sup> Juan José Daboub & Daniel F. Runde, “Turning the Covid-19 Crisis into an Opportunity for the Central American Textile Sector,” *CSIS*, June 17, 2020, <https://www.csis.org/analysis/turning-covid-19-crisis-opportunity-central-american-textile-sector>

<sup>7</sup> *Ibid*

<sup>8</sup> Christina Perkins & Erin Nealer, “Achieving Growth and Security in the Northern Triangle of Central America,” *CSIS*, [https://csis-website-prod.s3.amazonaws.com/s3fs-public/publication/161201\\_Perkins\\_NorthernTriangle\\_Web.pdf](https://csis-website-prod.s3.amazonaws.com/s3fs-public/publication/161201_Perkins_NorthernTriangle_Web.pdf)

<sup>9</sup> *Ibid*

<sup>10</sup> *Ibid*

<sup>11</sup> *Ibid*

<sup>12</sup> Erol K. Yayboke & Carmen Garcia Gallego, “Out of the Shadows: Shining a Light on Irregular Migration,” *CSIS*, August 2019, [https://csis-website-prod.s3.amazonaws.com/s3fs-public/publication/190826\\_RundeYaybokeGallego\\_IrregularMigrations.pdf](https://csis-website-prod.s3.amazonaws.com/s3fs-public/publication/190826_RundeYaybokeGallego_IrregularMigrations.pdf)

<sup>13</sup> *Ibid*

<sup>14</sup> “GDP per capita (current US\$) - Latin America & Caribbean,” *World Bank*, <https://data.worldbank.org/indicator/NY.GDP.PCAP.CD?locations=ZJ>

<sup>15</sup> “About HUGE,” *HUGE*, <https://think-huge.org/about/>

<sup>16</sup> *Ibid*

<sup>17</sup> “Think HUGE,” *HUGE*, <https://think-huge.org/>

<sup>18</sup> “China, U.S. to send COVID-19 vaccine doses to El Salvador,” *Reuters*, July 2, 2021, <https://www.reuters.com/world/americas/us-sending-15-mln-doses-modernas-covid-19-vaccine-el-salvador-2021-07-02/>

<sup>19</sup> “Mexico / Guatemala,” *OECD*, [https://oec.world/en/profile/bilateral-country/mex/partner/gtm#:~:text=Bilateral%20Trade%20by%20Products,-%23permalink%20to%20section&text=In%202019%2C%20Mexico%20exported%20%242.15B%20to%20Guatemala.-The%20main%20products&text=Beer%20\(%2467M\).-During%20the%20last%2024%20years%20the%20exports%20of%20Mexico%20to.exported%20%24571M%20to%20Mexico](https://oec.world/en/profile/bilateral-country/mex/partner/gtm#:~:text=Bilateral%20Trade%20by%20Products,-%23permalink%20to%20section&text=In%202019%2C%20Mexico%20exported%20%242.15B%20to%20Guatemala.-The%20main%20products&text=Beer%20(%2467M).-During%20the%20last%2024%20years%20the%20exports%20of%20Mexico%20to.exported%20%24571M%20to%20Mexico).

<sup>20</sup> “Mexico / El Salvador,” *OECD*, [https://oec.world/en/profile/bilateral-country/mex/partner/slv#:~:text=Bilateral%20Trade%20by%20Products,-%23permalink%20to%20section&text=In%202019%2C%20Mexico%20exported%20%24916M%20to%20El%20Salvador.-The%20main%20products&text=\(%2435.7M\).-During%20the%20last%2024%20years%20the%20exports%20of%20Mexico%20to.exported%20%24159M%20to%20Mexico](https://oec.world/en/profile/bilateral-country/mex/partner/slv#:~:text=Bilateral%20Trade%20by%20Products,-%23permalink%20to%20section&text=In%202019%2C%20Mexico%20exported%20%24916M%20to%20El%20Salvador.-The%20main%20products&text=(%2435.7M).-During%20the%20last%2024%20years%20the%20exports%20of%20Mexico%20to.exported%20%24159M%20to%20Mexico).

<sup>21</sup> “Mexico / Honduras,” *OECD*, [https://oec.world/en/profile/bilateral-country/mex/partner/hnd#:~:text=Mexico%20Honduras%20In%202019%2C%20Mexico.Toilet%20Paper%20\(%2433.1M\)](https://oec.world/en/profile/bilateral-country/mex/partner/hnd#:~:text=Mexico%20Honduras%20In%202019%2C%20Mexico.Toilet%20Paper%20(%2433.1M)).

<sup>22</sup> “Mexico Exports By Country,” *Trading Economics*, <https://tradingeconomics.com/mexico/exports-by-country>

<sup>23</sup> Daniel F. Runde, “Decision time for the future of the IDB,” *The Hill*, February 10, 2022, <https://thehill.com/opinion/finance/593629-decision-time-for-the-future-of-the-idb>

<sup>24</sup> *Ibid*

<sup>25</sup> *Ibid*

<sup>26</sup> *Ibid*

<sup>27</sup> *Ibid*

<sup>28</sup> “FACT SHEET: U.S. – Guatemala Cooperation,” *White House*, June 7, 2021,

<https://www.whitehouse.gov/briefing-room/statements-releases/2021/06/07/fact-sheet-u-s-guatemala-cooperation/>

<sup>29</sup> REMITTANCES IN CENTRAL AMERICA: THE ROLE OF CABEL,” *CABEL*, 2021,

[https://www.bcie.org/fileadmin/user\\_upload/Remittances\\_in\\_Central\\_America\\_the\\_Role\\_of\\_CABEL.pdf](https://www.bcie.org/fileadmin/user_upload/Remittances_in_Central_America_the_Role_of_CABEL.pdf)

<sup>30</sup> Daniel F. Runde & Mark L. Schneider, “A New Social Contract for the Northern Triangle,” *CSIS*, May 8, 2019,

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