

# CENTRAL AMERICA

AMERICA'S ROLE IN THEIR  
ECONOMIC GROWTH



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## WHAT'S NEXT

POLICY RECOMMENDATIONS FROM THE BUSH INSTITUTE



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# REINFORCING AMERICA'S SECURITY THROUGH ECONOMIC GROWTH IN CENTRAL AMERICA

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by Matthew Rooney and Andrea Durkin

## *Our recommendations:*

- CONGRESS SHOULD ENCOURAGE THE U.S. GOVERNMENT TO ENLARGE STAKEHOLDER INVOLVEMENT IN U.S. ASSISTANCE TO IMPLEMENT THE NORTHERN TRIANGLE CUSTOMS UNION
- CONGRESS SHOULD ENSURE THAT TAILORED TRAINING OF GOVERNMENT PROCUREMENT OFFICIALS IN THE NORTHERN TRIANGLE IS A KEY PRIORITY FOR U.S. ASSISTANCE PROGRAMMING
- LEGISLATORS NEED TO ENSURE THAT LENDING FOR PROJECTS IN THE NORTHERN TRIANGLE IS A PRIORITY OF THE NEW U.S. INTERNATIONAL DEVELOPMENT FINANCING CORPORATION
- THE ADMINISTRATION AND CONGRESS SHOULD ENSURE THAT ANTI-CORRUPTION ASSISTANCE TO THE NORTHERN TRIANGLE COUNTRIES IS A HIGH PRIORITY FOR U.S. ASSISTANCE PROGRAMMING

Central American countries are small economies and societies. However, their proximity and the presence of Central American communities in the U.S. means the region impacts our security and prosperity. Criminal violence rooted in drug trafficking, particularly in the Northern Triangle of El Salvador, Guatemala, and Honduras, has metastasized into a challenge undermining governance, hobbling economic growth, and driving emigration. This crisis demands an immediate response focused on law enforcement, but ultimately only thriving economies that provide opportunity for all Central Americans can solve this problem once and for all.

Central Americans have implemented important structural economic reforms and achieved greater openness to global trade over the last two decades, in part through implementation of the Central America Free Trade Agreement (CAFTA) with the United States. The agreement was designed to reinforce rule of law, support well-governed institutions, promote nondiscriminatory regulation, and reduce barriers to regional economic integration. However, its full benefits have not been realized, due to uneven implementation of key reforms across the region and setbacks in good governance in the region.

The next wave of pro-market reforms should be supported by the United States to

reduce current constraints to growth in Central America. These constraints drive entrepreneurs and legitimate businesses out of the region in search of stability and opportunity. Targeted initiatives by Congress would use U.S. assistance and expertise to overcome the hurdles to success.

## CONGRESS SHOULD ENCOURAGE THE U.S. GOVERNMENT TO ENLARGE STAKEHOLDER INVOLVEMENT IN U.S. ASSISTANCE TO IMPLEMENT THE NORTHERN TRIANGLE CUSTOMS UNION

In July 2018, the United States Agency for International Development (USAID) awarded a \$17.5 million 5-year grant to a U.S. contractor to execute programs to support the Northern Triangle Customs Union. Adopting best practices at customs borders, including fully electronic and interoperable documentation systems, would generate efficiency gains and support higher GDP growth through trade.

Congress should make clear its expectation that USAID and its contractors provide processes for multistakeholder involvement in this critical infrastructure project. Involving private local and U.S. stakeholders in diagnosing and prioritizing the project's objectives will produce a stronger and more effective program. Implementing the processes would help ensure the project meets the needs of customs users. This will ensure commercial benefits to local and U.S. stakeholders while fostering cooperation with U.S. Customs to combat illicit activities.

The project also represents an opportunity, through digitized border controls, to combat corruption and reduce trade-related money laundering, making the participation of the U.S. interagency indispensable.

## CONGRESS SHOULD ENSURE THAT TAILORED TRAINING OF GOVERNMENT PROCUREMENT OFFICIALS IN THE NORTHERN TRIANGLE IS A KEY PRIORITY FOR U.S. ASSISTANCE PROGRAMMING

The U.S. government already implements government procurement training that could be further tailored to meet the needs of the Northern Triangle countries. Congress should direct the U.S. Trade and Development Agency, and other relevant implementing agencies, to target officials in the Northern triangle responsible for government procurement. This would stimulate greater private investments in important infrastructure and improve government auditing and accounting. Doing so could also help them qualify for additional grants through the Millennium Challenge Corporation.

## LEGISLATORS NEED TO ENSURE THAT LENDING FOR PROJECTS IN THE NORTHERN TRIANGLE IS A PRIORITY OF THE NEW U.S. INTERNATIONAL DEVELOPMENT FINANCING CORPORATION

The Northern Triangle countries require additional private investment in infrastructure from transportation to energy to financial services. The new U.S. International Development Financing Corporation (USIDFC) can play an important role in making U.S. investments less risky. This can be done through equity investing and loan guarantees. Congress should work with USIDFC directors to promote U.S. participation in regional energy integration and infrastructure projects.

## THE ADMINISTRATION AND CONGRESS SHOULD ENSURE THAT ANTI-CORRUPTION ASSISTANCE TO THE NORTHERN TRIANGLE COUNTRIES IS A HIGH PRIORITY FOR U.S. ASSISTANCE PROGRAMMING

Underlying all elements of economic life, corruption is a threat to the Northern Triangle countries' long-term economic growth and stability. Addressing these issues is necessary for the Northern Triangle countries to pass the Millennium Challenge Corporation's (MCC) Control of Corruption indicator and qualify for additional funding. An MCC compact — especially if coordinated on a regional level — could help implement the next wave of pro-market reforms and solidify the economic gains achieved under CAFTA.

Congress should direct USIDFC and the U.S. Department of Justice to target anti-corruption training and capacity-building funds to the Northern Triangle to address this foundational issue, as well as support Central America's efforts to become eligible for an MCC compact.

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Ultimately, of course, Central America's success or failure rests in the hands of its citizens. Still, as long as Central Americans are attempting to move to the United States, we have a stake in the region.

The United States has a long history dealing with international organized crime. Our capabilities in terms of equipment, technology, procedure, and the infrastructure of justice can strengthen the hand of the Central American authorities. We can provide training, equipment, sharing of information, and cooperation in investigations and prosecutions that ensure Central American law enforcement succeeds in fighting crime before that crime reaches our homeland.

On the economic front, CAFTA is already a significant contribution by the United States to Central American prosperity. That contribution would be greater to the extent we can help the region create the conditions for its entrepreneurs to thrive and succeed:

regulatory transparency, enforceability of contracts, improved infrastructure, training in entrepreneurship — programs like this do not cost very much and go a long way to unlocking Central America's own entrepreneurial creativity.

A more prosperous Central America will further stabilize our southern border and consume more American exports, making our country more robust and secure.

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