

CONVERSATIONS WITH EXPERTS ON THE FUTURE OF CENTRAL AMERICA

Summary Report

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Introduction

Between May 2011 and March 2012, four public events on trade and insecurity, migration and remittances, infrastructure and energy, and climate change and natural disasters took place at the Brookings Institution, thanks to a partnership with the Central American Bank for Economic Integration (CABEL, or BCIE in Spanish). Experts from the region brought their perspective on challenging subjects and engaged in spirited discussions both with fellow panelists and the audience.

The most challenging issue is how to develop the physical and human infrastructure to enhance growing intra-regional trade and exports to the hemisphere, as well as the traditional U.S. market. Preferential export regimes and expanding *maquiladoras* have produced double-digit export growth in most Central American countries. But this growth is accompanied by increased criminal violence and gang warfare that depletes citizen's trust in their respective governments and is estimated to cost 8-9 percent of GDP per year. If Central America can work as a region to stimulate trade, surely it can develop regional projects to counter trans-national criminal organizations and protect the young men and women whom they prey on.

Despite economic growth, the push to migrate northward remains. In 2010, 3 million Central Americans resided in the United States with widely different

legal situations. They remitted a large portion of their salaries back home, providing 20.2 percent of GDP in Honduras and 17.5 percent in El Salvador. These remittances have provided major economic and social support for Central Americans, as well as a safety valve permitting the young to escape unemployment and underemployment in their own nations.

The economic potential of Central America will not be realized until infrastructure in ports, roads, electrical grids, and broadband connectivity is accomplished. Greater use of bond markets and means to access long-term capital finance is needed to pay for much needed infrastructure. Currently, less than 2 percent of GDP is dedicated to physical infrastructure. At 5 percent of GDP and with international financing from multilateral organizations and public-private partnerships, prospects improve for accomplishing regional infrastructure projects with close oversight to ensure effective and transparent use of funds. The private sector is an indispensable player in this area, providing investment, technology, management, and training.

An electrical grid exists among six Central American nations, permitting the transmission, sale and purchase of electrical energy under the supervision of the Regional Operating Entity. This permits the sale of excess energy supply to areas with a deficit of electricity. Currently missing is the agreement of

participating governments to enter into long-term contracts. In 2012, with the extension of the electrical grid to both Mexico and Panama, the private sector has greater incentive to participate in a more robust and larger market with economies of scale. This should benefit an effective regional energy market.

Finally, situated between the Pacific and Atlantic oceans, hurricanes, earthquakes, floods, and volcanoes have led, in recent years, to more than 50,000 deaths and the displacement of over 10 million people in the seven Central American countries. Central America is not to blame for the rise of CO₂ because it produces less than 5/1000 of green house gas emissions. However, it bears the brunt of climate change brought about by large industrialized emitters. Regionally, the intensity of climate change-related disasters has increased by 5 percent a year. To meet this challenge, a scientific and technical perspective is needed. Also, governments need to develop comprehensive strategies which take into account tourism, coastal projects, shelter management, and erosion. The creation of Early Warning Systems (EWS) in Guatemala are applauded to bring scientific and management skills to the problems of food shortages, hazardous materials and natural disasters. From

national to regional, the EWS demonstrates the need to address the problems of the isthmus at a regional level with outreach to experts from around the world.

The Brookings Institution wishes to express its gratitude to CABEI for its partnership in bringing these important issues before a Washington audience and stimulating the exchange of ideas among policy makers.

This report contains the principal points and conclusions from four events on the politics, and economic and social development of Central America held at the Brookings Institution in partnership with the CABEI in 2011 and 2012. The ideas contained here, although not attributed in the text to individual experts, came from the panelists, moderators and keynote speakers of these events. Their remarks are their own and do not reflect the opinions of CABEI. This report is organized by event and identifies three areas: general overview of the topic, main challenges, and policy recommendations.

Below is the list of events summarized in this report, including the names of participants, arranged in alphabetical order.¹ To listen to the event recording, visit the links provided.

“A Conversation on the Future of Central America: The Challenges of Insecurity and Trade”

Date: May 20, 2011

Time: 8:30 AM - 1:00 PM EDT

Location: The Brookings Institution, 1775 Massachusetts Ave., N.W., Washington, DC

Participants:

Mauricio Cárdenas, Senior Fellow and Director of the Latin America Initiative at Brookings

Laura Chinchilla, President of the Republic of Costa Rica

Nick Rischbieth, President of the Central American Bank for Economic Integration

Kevin Casas-Zamora, Senior Fellow at Brookings

Carlos Castresana, Attorney General of the Supreme Court of Spain and Former Head of the United Nations International Commission against Impunity in Guatemala

Diana Villiers Negroponte, Nonresident Senior Fellow at Brookings

Brian Nichols, U.S. Deputy Assistant Secretary of State at the Bureau of International Narcotics and Law Enforcement Affairs at the U.S. Department of State

Albert Ramdin, Assistant Secretary General at the Organization of American States

Event website: <http://www.brookings.edu/events/2011/05/20-central-america>

¹ Listed here are the participants' titles and institutional affiliations at the time when the event took place.

“The Future of Central America: Challenges and Opportunities of Migration and Remittances”

Date: September 29, 2011

Time: 8:30 AM - 1:00 PM EDT

Location: The Brookings Institution, 1775 Massachusetts Ave., N.W., Washington, DC

Participants:

Kevin Casas-Zamora, Senior Fellow at Brookings

Juan José García, Deputy Minister of Foreign Affairs for Salvadorans Living Abroad

Manuel Orozco, Senior Associate and Director of Remittances and Development at the Inter-American Dialogue

Sonia Pellecer, Professor of Sociology and Migration Studies at the Rafael Landívar University in Guatemala

Ricardo de Puerta, Professor of Sociology at the Catholic University of Honduras

Julissa Reynoso, U.S. Deputy Assistant Secretary of State for Central American and Caribbean Affairs at the U.S. Department of State

Pablo Rodas, Chief Economist at the Central American Bank for Economic Integration

Nestor Rodríguez, Professor of Latin American Studies at the University of Texas, Austin

Neil G. Ruiz, Senior Policy Analyst at Brookings

Audrey Singer, Senior Fellow at Brookings

Aaron Terrazas, Policy Analyst and Project Manager for the Regional Migration Study Group at the Migration Policy Institute

Event website: <http://www.brookings.edu/events/2011/09/29-central-america>

“A Conversation on the Future of Central America: The Challenges and Opportunities of Infrastructure and Energy”

Date: December 1, 2011

Time: 9:00 AM - 1:00 PM EDT

Location: The Brookings Institution, 1775 Massachusetts Ave., N.W., Washington, DC

Participants:

Kevin Casas-Zamora, Senior Fellow at Brookings

Hugo Beteta, Sub-regional Director at the United Nations Economic Commission for Latin America and the Caribbean

Charles K. Ebinger, Senior Fellow and Director, Energy Security Initiative at Brookings

José W. Fernández, Assistant Secretary of State for Economic, Energy, and Business Affairs at the U.S. Department of State

Karla Hernández, Regional Manager at the Central American Electrical Interconnection System, Empresa Propietaria de la Red

Maria Lorena López, Vice Minister of Public Works and Transportation at the Republic of Costa Rica

Johanna Mendelson Forman, Senior Associate, Americas Program at the Center for Strategic and International Studies

Pablo Rodas, Chief Economist at the Central American Bank for Economic Integration

Álvaro Umaña, Senior Research Fellow at the EfD-Central America Tropical Agricultural Research and Higher Education Center and Former Costa Rican Minister of Energy and Environment

Event website: <http://www.brookings.edu/events/2011/12/01-central-america-infrastructure>

“The Challenges of Climate Change and Natural Disasters in Central America”

Date: March 29, 2012

Time: 9:00 - 11:00 AM EDT

Location: The Brookings Institution, 1775 Massachusetts Ave., N.W., Washington, DC

Kevin Casas-Zamora, Senior Fellow and Interim Director of the Latin America Initiative at Brookings

Juan José Daboub, Founding Chief Executive Officer at the Global Adaptation Institute

José E. Deras, Chief Economist at the Central American Bank for Economic Integration

Luis Alberto Ferraté, Senior Advisor at the Instituto Privado de Investigación del Cambio Climático in Guatemala

José María Figueres, Chief Executive Officer at Concordia21 and Former President of Costa Rica

Pascal Girot, Senior Climate Change Advisor at CARE International

Katherine Sierra, Senior Fellow at Brookings

Walter Wintzer, Coordinator, Preparedness and Response Program at the Center for Natural Disaster Prevention in Central America

Event website: <http://www.brookings.edu/events/2012/03/29-central-america-climate>

The Challenges of Insecurity and Trade

Escalating waves of insecurity in Central America, as well as questions on the sustainability and benefits of free trade agreements, continue to pre-occupy the region. While it is too early to discern the long-term consequences of recent trade agreements on the societies in the region, we recognize that U.S. trade in Central America has become more prominent and that some economies have strengthened as a result. The United States exports three times as much to the region as it does to China.

Despite the challenges associated with the global economic downturn, two-way trade between the five Central American countries plus the Dominican Republic grew in aggregate by 37 percent after the Central American Free Trade Agreement (CAFTA-DR) was instituted. The diversification of Central American exports and further regional integration has also increased since the arrangement to open markets. Investment flows continue to rise, and more initiatives to support small- and medium-sized businesses (SMEs) exist.

With the support of the Central American Bank for Economic Integration (CABEI), the Latin America Initiative at the Brookings Institution hosted a discussion with experts on the current and future prospects of Central America as it pertains to citizen security and trade. The program included a keynote address by Laura Chinchilla, President of the Republic of Costa Rica, and other experts.² Panelists offered evidence of rising criminal violence in the region and ways to contain it. They also made recommendations to deepen trade, as well as integrate effectively Central America into the world economy in ways that benefit the citizens of the isthmus.

With the rapid transformation that the region is undergoing in its relations with global trading partners, it is timely to discuss the intersection of trade and citizen security. While Central American citizens are benefiting from expanded intra-regional commerce and travel, their governments are not addressing sufficiently their common security problems.

² See introduction for list of panelist participating in each session.

ISSUES

CAFTA-DR was adopted gradually from 2005 onwards. It remains the region's most contentious free trade agreement due, in part, to U.S. participation. The political storm resulted in Costa Rica holding a popular referendum for the first time in the country's history to decide the fate of this trade agreement. Despite the controversy, panelists recognized that the origin of CAFTA-DR is more Latin than American. CAFTA-DR was not a U.S. idea; it was a Central American idea. The U.S. Congress passed this free trade agreement by only a slim margin, as U.S. lawmakers debated the consequences of imported agricultural and manufactured products on U.S. labor markets.

The impact of CAFTA-DR on Central American economies has yet to be felt. Some countries have not fully implemented the legislation. Nonetheless, most countries in the region have become more prosperous in the past decade. We note double-digit export growth from almost every country in Central America, and even more from Nicaragua to the United States.

CAFTA-DR was built upon the Caribbean Basin Initiative (CBI) of 1983, with its expansion in 2000. The goal is to consolidate the preferential regime of exports and expand the *maquiladora* (assembly) industries. Together, the agreements provide duty-free access to the U.S. market for most agricultural and manufactured products from the region. Some experts argue that the benefits of free trade have not trickled down to all citizens.

Regarding security, the good news is that civil wars in the isthmus have ended. The bad news is that crime is rampant and deteriorating in some countries. According to a recent Brookings report, intentional homicide rates in Belize, Nicaragua, and even Costa Rica, are on the rise. Homicide rates are higher in Honduras, Guatemala, and El Salvador, and there is little to indicate that the violence is under control. In addition to local organized crime and gang violence, efforts to control drug trafficking or-

ganizations in Colombia and Mexico have pushed the cartel wars to Central America. In 2011, President Barack Obama identified a list of countries with the most significant drug trafficking problems in the world. Five of the seven identified countries are found in Central America.

The security crisis puts at risk the achievements that the region has made over the past two decades, namely an end to civil wars, modest economic growth and advancements in building democratic institutions.

KEY CHALLENGES

Distinct challenges exist regarding security and trade, as well as those in which the two issues interact.

Citizen Security

The panelists noted that violence within the region pre-dates the explosion of drug trafficking-related crime. However, both trans-shipment of illicit drugs and increased local consumption have exacerbated the problem. Plan Colombia and the various counterinsurgency campaigns in Colombia opened the door for Mexican cartels to take over the business that Colombians once ran. The Merida Initiative in Mexico, as well as the armed confrontation of the Mexican state against drug lords has forced traffickers to reorient efforts to Central America. Today, according to U.S. government sources, 70 percent of the drug supply to the United States goes through Central America and this percentage increases to over 80 percent if you exclude drug flows to Europe.

According to a 2009 Brookings report, the nations of the Northern Triangle have weak rule of law institutions, which exposes them to the cycle of violence and impunity. El Salvador, Guatemala, and Honduras suffer serious problems with juvenile gangs, a history of impunity, excessive use of force by the police and military, and trans-national drug cartels that take advantage of the minimal state presence in the Honduran region of La Mosquitia and the Guatemalan region of the Petén.

Compounding the problem is the fact that certain legal systems are not structured to protect citizens from criminals and non-state actors. For example, due to a history of civil war and state repression, the Guatemalan Constitution protects civilians from the state, not from criminal non-state actors. Due to persistent impunity and its history of civil war and state repression, the Guatemalan government sought the intervention of the United Nations and the creation of a U.N. Commission against Impunity in Guatemala (known by its Spanish acronym, “CICIG”). In its reports, CICIG recognized that courts and justices are politicized and only a few police departments and military units have yet been professionalized. CICIG reports that a corrupt, ineffective, underfunded, and politicized police force has earned the distrust of the population. It is therefore necessary to strengthen democratic institutions and the rule of law. The U.N. stands ready to help when invited by the respective national governments and legislatures.

A second and related structural problem is the lack of opportunity. Idle youth are prime targets for criminal gangs and drug trafficking cartels that lure them with money and other resources. Frustrated and bored young men, and some women, provide a virtually unlimited source of recruits. According to a 2011 World Bank report on insecurity in Central America, the low quality of public education, along with few job opportunities, contribute powerfully to the crisis of insecurity.

There are significant political costs to citizen insecurity. According to CICIG, authoritarian attitudes entrenched in society may surface, especially in places where democracy lacks deep roots. Citizens skeptical of their law enforcement agencies may take a cavalier attitude toward the rule of law, consequently weakening basic civil liberties. The proliferation of private security firms with scant state regulation is another byproduct of the government’s sometime erroneous response to rising insecurity. Furthermore, drug traffickers have infiltrated both policymaking and the delivery of goods and services, previously provided by the state.

Finally, insecurity presents a substantial challenge for economic development. The vast majority of victims of violent death in Central America are young men between the ages of 15-29. It is estimated that the loss of human potential costs approximately 8-9 percent of GDP in several Central American countries.

Trade

Serious challenges exist to spur more and better quality trade:

Inadequate infrastructure limits trade significantly, and free trade agreements alone cannot overcome this hindrance. States need to invest in roads, ports, and broadband technology to make their products more accessible to the outside world as well as to intra-regional commerce. For example, even though Costa Rica receives relatively high levels of foreign direct investment (FDI) compared to its neighbors, it is competing with countries with more infrastructure and human capital, namely Israel and Ireland.

Insufficient development of human capital is another obstacle to more and better trade in Central America. A 2006 Inter-American Development Bank report indicated that educational attainment in reading and mathematics are among the lowest in the world. This has resulted in too few engineers and technical staff who are able to fulfill the tasks of the 21st century knowledge economy. Call centers have difficulty finding proficient English speakers in many Central American countries. These deficiencies will take a generation to overcome, but focus on education must be given greater priority and resources. Together, the lack of infrastructure and human capital interact to produce perverse challenges.

Relatively low levels of FDI tend to concentrate on high-priced commodities and less on diversifying the economy.

Protectionist policies have also hindered trade. Some governments favor traditional agricultural and manufacturing sectors, and use trade as an

export platform rather than a two-way highway. Protectionist policies are based on a fear of external competition that could destroy major sources of income for the country and ratchet up unemployment.

POLICY RECOMMENDATIONS

A. Regional Security Cooperation

The security challenges that Central America confronts cross borders and require a regional response. Scaling up the U.S. government's Central American Regional Security Initiative (CARSI) would be positive, but these funds should not be spread too thin. Instead, they should focus on a few projects with catalytic effects. Also, any increase in U.S. counter-narcotic assistance should be done in tandem with an increase in Central American tax contributions.

At the same time, the United States should rethink its counter-narcotics strategy. The war on drugs has failed and the region, along with the U.S. government, need to engage in an honest conversation about options. A U.S. policy of enlightened self-interest is needed for the region. U.S. support through CARSI and the broad range of programs dedicated to El Salvador are among the most positive regional efforts. Colombia and Mexico can also help by providing their expertise and lessons learned. It is also beneficial to coordinate with the EU, Canada, and other multilateral organizations.

The professionalization of the police and strengthening the capacity of law enforcement agencies should be a top priority for Central American governments. These efforts take time and funders, both domestic and international, need to remain committed to the long-term process of reform. Reformed police forces should carefully calibrate the balance between prevention and punishment in addressing drug trafficking. Also, improved use of intelligence and effective investigative police work is needed, while respecting human rights. In the opinion of the panelists, the use of *mano dura* (hard line) policies has proved to be counterproductive.

B. Trade Integration

On the trade and economic fronts, the long-sought effort to deepen sub-regional integration is taking place. CAFTA-DR has reinforced regional integration with rules of origin that allow greater accumulation of production between Central American producers using U.S. inputs. With increased harmonized rules of origin, the region has become globally more competitive by increasing co-production relationships, reducing delays at the border, and allowing for greater economies of scale in production. This relationship is evident in the production of integrated circuits, automobile parts, and apparel in which the U.S. ships parts for all these industries to the region for further processing. After assembly in Central America, these goods are later exported to the United States and elsewhere in Latin America. Unlike previous commodity-driven export growth, much of the region's trade reflects global supply chain manufacturing related to U.S. production and global consumption.

Nevertheless, the need to become more globally competitive and take fuller advantage of CAFTA-DR and CBI requires increased productivity and the adoption of complementary trade regulations within the region.

C. Smart Trade

Central American countries should consolidate their trading relationships by building strong bilateral relations with the countries with which they exchange goods and services. Enhancing competitiveness through promoting exports and investment incentives are key mechanisms to increase the benefits of free trade. Export diversifications, greater participation in global supply chains, and incentives for SMEs are among the policies that Costa Rica implemented with great success.

The growth in the export of agricultural goods and machinery, such as medical instruments and electrical goods from the five Central American countries, requires large scale and long-term investment

in infrastructure, containment terminals, the expansion of the telecommunications sector, and the digital agenda. An increase in electricity generation capacity and streamlined regulatory procedures would allow Central American countries to take full advantage of their geographical position and proximity to the world's largest market.

Also, beyond manufacturing for export, Central Americans should expand their participation in the service industry, such as call centers, and consolidate links with suppliers in the United States.

At the same time, it is important to question whether it is necessary to continue creating free trade agreements (FTAs). Why do we need more FTAs if countries can do well with trade promotion agreements? Or have we reached a plateau in terms of the number of FTAs? Will the next "path to prosperity" require the integration of all of these FTAs, knitting them together to make them more effective?

D. Labor Rights

The full protection and enforcement of labor rights is important to ensure the sustainability, political viability, and commitment to spur economic activity in the countries engaged. A good example was the U.S.-Colombia FTA. The efforts of President Juan Manuel Santos and President Barack Obama to develop a plan that expands the protection of union leaders and streamlines the judicial process to punish those who violate labor laws finally gained U.S. Congressional approval.

President Ricardo Martinelli of Panama negotiated a similar provision for the U.S.-Panama FTA. The agreement extended full collective bargaining rights to labor groups and other progressive labor policies. Moving forward on labor agreements within FTAs is very important for the U.S. administration as they level the playing field for U.S. workers and help achieve President Obama's goal of doubling U.S. exports by 2014. In order to make the benefits of FTAs more tangible for the people, the Department

of Commerce has created a web tool, <http://export.gov/FTA>. This site enables interested parties to look at any FTA partner and calculate the benefits in terms of tariff reduction, what year they take effect and other useful information. The Department of Commerce has also instituted a process of dialogue with various stakeholders, i.e. corporations, NGOs and civil society groups, to see what is working and what should be amended. Use of this website and dialogue should benefit Central American countries.

E. Societal Involvement, Education, Domestic Revenues, and Sustainability

Trade may facilitate economic development, but more is needed to solve problems such as rural poverty, governance, crime, and inequality. The panelists remained aware of the limitations of markets and judged their performance by national accomplishments. To ensure societal benefits from increased trade and open markets, business leaders, academics and policymakers need to be involved in the formation of public programs. Also, governments need to plan, initiate, and sustain sound programs. Sustainability is key.

Social investment in human capital, particularly youth education, is essential. The examples of Bogotá and São Paulo are notable. Both have insisted upon zero tolerance for crime and zero tolerance for social exclusion. While each nation and city must design projects that meet the cultural needs of their respective citizens, the models from Colombia and Brazil can help to design, develop, implement and monitor local programs of security and social inclusion.

Increases in fiscal revenue and tax collection are of utmost importance. Presently, Central American governments are not asking their wealthy citizens to contribute sufficiently, with the result that there are insufficient funds for the necessary public policies to protect citizens, raise educational levels, and promote economic growth. International aid, and specifically U.S. funds, can and does help, but the

principal political and economic investment should come from fiscal revenues within the countries.

Strengthening the rule of law and trusted democratic institutions is essential. Furthermore, avoidance of wholesale personnel turnover every time a new President and his political party enter into office is necessary to allow for nations to sustain key public policies. A degree of political and social stability

is needed. It is no surprise that Costa Rica is doing better with increased commerce and economic integration. The nation had a head start of 30 years investing in the critical factors of production—labor, education, research, and effective public institutions. Intel Corporation moved to Costa Rica before CAFTA-DR and Hewlett-Packard followed. Costa Rica exemplifies the competitiveness that other Central American countries need to develop.

The Future of Central America: Challenges and Opportunities of Migration and Remittances

The recent history of Central America is marked by both the positive and negative consequences of migration and the ensuing remittances. Migration increased significantly during the 1980s as a consequence of the internal, armed conflicts in three countries of the region. After the countries achieved peace, migration continued at an even greater pace. The “American dream” and the precariousness of work in most of Central America created the pull-and-push factors that resulted in a stream of migrants to the north.

With the cooperation of CABEL, the Latin American Initiative at Brookings conducted a study on current and future prospects of Central American migration to the United States, the regional implications of the U.S. domestic debate on immigration, and the impact of remittances to the Central American isthmus.

More than 3 million Central Americans reside in the United States, holding distinct legal status. For sending nations prone to weak governance, public insecurity, natural disasters, and anemic economic growth, remittances sent by Central American migrants play a decisive role in driving economic dynamism and social change in their countries of origin.

Remittances in El Salvador and Honduras play a significant role in national production. Migration

and the consequential remittances have supported local currencies, lowered interest rates, increased economic liquidity, reduced poverty, and social inequality, as well as increased consumption among the least favored social strata.

2008 was the peak year for remittances in Central America, having reached \$4.3 billion in Guatemala and \$3.7 billion in El Salvador. In Honduras, remittances represented 20.2 percent of GDP. That year in El Salvador, they represented 17.5 percent of GDP. In Guatemala, 17 of 30 migrant households reported that remittances were the primary source of income. For one-third of migrant households, remittances account for 90 percent, or more, of their household income. In short, remittances continue to sustain families in several Central American countries.

The combination of remittances and migration has provided major economic and social support for Central America. Migration has provided a safety valve, permitting the young to escape unemployment and underemployment in their own nations.

ISSUES

Remittances have become the economic life vest for the region by reducing the economic and social problems of the region. For this reason, the nature

and evolution of the U.S. debate on immigration will likely have an outsize effect on Central America's development prospects. How might this debate affect the number of students enrolled in high school and higher learning, employment, and poverty levels? What might occur should the U.S. government terminate its Temporary Protective Status (TPS) which guarantees that a certain number of Central American citizens will not be deported, despite the irregularity of their immigration status?

KEY CHALLENGES

Role of the United States

The United States owes a great measure of its historical dynamism to immigration. According to the 2010 census, 1.2 million Salvadorians; 833,000 Guatemalans; 523,000 Hondurans; and 82,000 Costa Ricans live in the United States. Their earnings and the monies sent home have become the best safety net in Central American countries. Wages would be lower and economic informality, estimated to include more than 50 percent of the labor force in four of the seven Central American countries, would be higher if many workers had not migrated. The combination of migration and remittances has provided significant economic and social support for Central America. The 2008 U.S. recession affected the flow of remittances with a 9 percent fall year on year. This decline was due to the increased rate of Hispanic unemployment which grew from approximately 8 to 19.9 percent. Dependency on working in the United States proved to be risky, and Central American governments were warned against overdependence on the receipt of remittances.

Role of Mexico

Over half of the U.S. immigrants who come from the Northern Triangle of Central America lack legal status. Overwhelmingly, they reach the United States by crossing its southern border. However, these immigrants face extraordinary hardships as they cross through Mexico. Two journeys can be taken:

the shorter route from Tapachula in southwestern Chiapas, to Reynosa in Tamaulipas is approximately 1,700 miles. The longer route from Tapachula to Tijuana on the Pacific Coast is approximately 2,400 miles. Whichever route, migrants are subject to physical and sexual abuse, robbery, and murder from organized crime and drug traffickers who use migrants as donkeys to carry drugs and sell them as human beings to the highest bidder. As organized crime syndicates diversify out of drug trafficking, they impose an even greater risk on terrified, but determined Central American migrants. Their journey has become increasingly visible and bloody.

Furthermore, these migrants are vulnerable to brutality at the hands of several Mexican public security forces. The Inter-American Commission on Human Rights at the Organization of American States has documented the abuses committed to migrants. As a result, a natural "blame-game" arises in which Central American governments blame Mexico, and Mexico blames the United States.

Family Dynamism

Central America does not celebrate the migration of its people. Migrants are usually risk-takers with an enterprising spirit, and consequently their home countries lose vibrant and valuable human capital. The benefits offered by migration and remittances might be financially significant, but they present serious challenges to the region's family dynamics. Undocumented migrants risk everything to provide a better life for their families. Families are inevitably separated, often leaving their children behind. Central American families pay a heavy price as their families are torn apart.

Fathers and mothers living in the United States with little direct contact with their children face considerable challenges in keeping family cohesion. For this reason, many children of migrants have been lured into the youth gangs, known in El Salvador as the *maras*. The *maras* have found a seed-bed in the children of broken families and many of these

young people feel a sense of identity and collectivity by belonging to various illegal and violent groups.

The three countries of the northern Central American triangle—Guatemala, Honduras, and El Salvador—suffer among the highest rates of homicide and criminal violence in Latin America. However, the *maras* are not fully responsible for insecurity and family breakup. The lack of job opportunities, the presence of drug trafficking organizations, and lack of adequate social-safety nets also contribute to criminality and social weakness.

Cultural Dynamics

Today, the rejection of immigrants is a prevalent attitude in many industrialized countries. This attitude dismisses the hardworking and ethical contributions that many immigrants make to the receiving country. When talking of Central American migrants, the assumption arises that everybody from Honduras, Guatemala, and El Salvador is an undocumented immigrant. This opinion prevails, despite the fact that many Central Americans are admitted as legal immigrants.

The majority of Central American migrants contribute to the agriculture, manufacturing, and service sectors of many countries, especially the United States. Migration is a way of economic improvement due to the lack of opportunities within their home countries. Some migrants have lived in the United States for several years and have adapted to the lifestyle, language and U.S. culture. Moreover, many migrants do not return home because the cost of the journey in financial and personal risk is too high. Many have had to sell everything they once owned to pay their smuggler. Despite the negative sentiment that many in the industrialized countries have towards immigrants, it has not dramatically changed the desire of Central Americans to migrate to the United States. The motivation to migrate has not disappeared because the structural forces that generate migration have not gone away.

POLICY RECOMMENDATIONS

U.S. Immigration Policy

Despite widespread agreement that U.S. laws should be changed, there is little agreement within the U.S. Congress on how to achieve comprehensive immigration reform. Abundant and current data demonstrates that the number of police apprehensions is at an all-time low, which indicates that migration is also low. The data indicates that migration levels have slowed during the recession due to lack of jobs in the United States. However, despite the fact that police apprehensions have fallen, deportations from the U.S. are at an all-time high. This signifies the complex cultural attitudes and defensive political postures, if not racism, that exist within U.S. immigration policy. Addressing these vital questions is necessary if the federal government is to move toward a rational and balanced immigration policy.

For many years, those who opposed undocumented immigration focused on reducing the push factor in the sending country. Were quality jobs available to people in Central America, there would be less incentive to migrate in search of jobs and a decent livelihood. The U.S. government has made it harder to hire undocumented workers through its E-Verify program, but that has not yet reduced the need of Central Americans to look for work. Despite additional legal controls, migrants still seek work in the informal economy, where little social protection is afforded to them.

Remedial action must be taken at a federal level. In the last five years, the inability of the U.S. Congress to affect reforms has resulted in changes at the state level. Citizens in Georgia, Alabama and Arizona have drafted state laws to restrict the hiring and movement of undocumented migrants. The Supreme Court has since decided that only the federal government has jurisdiction over immigration laws, but to date the U.S. Congress has failed to move toward reform.

Regional Collaboration

It is vital for Central American countries to collaborate with each other, and with Mexico, on migration issues. A successful example has been the joint Guatemalan and Salvadorian consular agency that opened in Acayucan, Veracruz in August 2011. The purpose of this bi-national consular agency is to address the migration issues of both Guatemalan and El Salvadoran citizens through diplomacy and regional collaboration. It also demonstrates wise and efficient use of public resources.

Also, greater collaboration between Mexico and the Central American governments to offer social services and information can provide direct benefit to both documented and undocumented migrants. Mexico's network of consulate-based adult education and health centers are increasingly being opened to Central Americans. Mexico's new migration law seeks to balance respect for human migrants, regardless of their legal status, and to facilitate the international movement of people, promoting labor market competition, and protecting national security. Implementation of this new law has yet to be tested.

Deportee Programs

The creation of reception centers for recently arrived deportees is a positive step. In El Salvador, an umbrella organization called *Bienvenido a Casa* has set up a reception center for deportees at the international airport near San Salvador. Strengthening the quality of these centers and creating new ones in the other Central American countries would orient immigrants on the current situation and laws, as well as the cultural expectations they will encounter. These centers can facilitate the cultural, social, and economic transition that most people face whenever they are deported. Also, they can provide training programs that will facilitate the returning process.

Presently, the majority of these centers are managed and funded by NGOs which often lack the economic means to keep up with the massive number of deportees. The role of civil society is welcome, but additional government funds through USAID will be needed if the U.S. administration resumes massive deportations.

The Future of Central America: The Challenges and Opportunities of Infrastructure and Energy

Central America is a region with great economic potential, but to improve productivity levels and achieve successful integration into the global economy, Central American countries must dramatically increase their investment in infrastructure. The isthmus could see further economic gains from investment in the power grid and the development of clean energy.

With the cooperation of CABEL, the Brookings Latin American Initiative conducted a discussion on the opportunities available in Central America, and the role of the public and private sector in the development of infrastructure and energy projects.

Future infrastructure and energy projects in Central America require comprehension of historical problems. The lack of adequate infrastructure goes back to colonial times and, in good measure, explains why the region has lagged behind other countries.

Perhaps the most valuable asset is the region's prime geographical location with easy access to two oceans and the largest market in the world. Furthermore, the isthmus is endowed with extraordinary bio-diversity and considerable potential for the development of alternative energy sources such as hydropower, geothermal energy, and solar energy.

ISSUES

How might Central America turn its assets into tangible prosperity? How might the region attract significant investments in infrastructure and energy? The region must become more competitive in getting its agricultural and commercial products to market as well as use its energy potential in a sustainable manner. Despite great potential for the generation of clean and alternative energy, the region risks moving in the wrong direction. Today, 45 percent of electricity is generated from oil, compared to two decades ago when 30 percent of the region's electricity was generated from oil. Why is the focus on developing alternative sources of energy relatively weak?

KEY CHALLENGES

Logistics

Among the seven countries of Central America, the logistical costs of generating energy are high, compared to other regions. Planning is conceived and prepared, but problems exist in the implementation, such as developments at Puerto Cutuco in El Salvador and Puerto Champerico in Guatemala.

Costs

Central American ports are, for the most part, inefficient. This may be explained by their small size and fewer ship visits. The result is that the average cost of transporting a container from China to Long Beach, Calif., is an average of \$500 per ton, but the cost of transporting the same container from Guatemala is double. Central American ports are a prime example of how the lack of infrastructure affects competitive advantages despite the fact that regional per-capita income is one-third less than that in Asia. Furthermore, there is little competition to supply energy which cost per unit is relatively high.

Infrastructure

Lack of private sector investment in infrastructure can be explained by the following factors: regional political risks, weak Central American institutions, regulatory instability, and the lack of depth in financial markets. The region, as a whole, is not adequately investing in infrastructure projects. To meet demands for energy, Central American governments must invest 5 percent of GDP to meet the current demands for infrastructure. However, to become a competitive region and catch up with Asia, regional governments should invest 8 percent of GDP on infrastructure. Currently, financial and governmental institutions do not offer sufficient financial tools to spur investment in the region.

It is anticipated that energy demand will increase by 230 percent over the next two decades, but Central American citizens have the least access to energy opportunities, especially those in the rural areas.

Governments need to focus on the software (knowledge and regulations) of infrastructure development. Currently, infrastructure is developed to serve individual nations with capital cities holding political power. However, the national economies are small. Therefore, in order to achieve economies of scale, it is essential to integrate and harmonize regulations and knowledge throughout all countries of the isthmus.

Financial Markets

The recent economic crisis hit Central America hard because of its proximity and dependence on the U.S. economy, thus revealing the vulnerability of countries to a single dominant market. To recover the loss of the region's productivity and income growth, it is essential to focus more on infrastructure development. They should also seek efficiencies and optimize resources, maximizing every cent invested. Greater use of electronic communication would spur this efficiency.

To meet the need for long-term capital finance, the development of bond markets is necessary to develop needed infrastructure.

Studies have shown that the difference in income per capita between Latin America and Asia is due, in large part, to the lack of infrastructure. A 2002 study by the U.N. Economic Commission for Latin America and the Caribbean (ECLA) revealed that approximately one-third of the difference in incomes between Asia and Latin America is attributable to poor infrastructure. The study demonstrated the proportion of GDP required to meet Central American current demands and the amount needed to catch up with Asia.

Regional vs. National Interests

One of the major challenges that Central America confronts is the extent to which a regional vision competes with national priorities in the development of physical infrastructure. The development of harmonized rules and procedures has proved challenging. Perennial debate exists over regional versus national investments: If a country has one dollar to invest, will that dollar be invested in regional projects, or in projects which are politically and socially targeted for a specific country?

We should avoid generalizations. Panama is currently investing significant funds in the development of infrastructure; amounts way above the Latin American average. Guatemala and Costa Rica, on the other hand need to upgrade their investment positions. Necessary for regional development are regional investments in ports, roads, and broadband connectivity. These investments may not have immediate political payoff, but they envisage the country's future development and economic growth.

POLICY RECOMMENDATIONS

A. Increased Investment in Infrastructure

Since the 1980s, the average size of Central American investment in physical infrastructure has

eclined from 4 percent to 2 percent. Returning to the higher level is essential to spur productivity, income, and growth. Investment in infrastructure will enable greater specialization and further economic integration. Several Central American nations are not fully integrated into the modern economy. Therefore, to promote social inclusion, as well as competitive enterprises, greater investment in infrastructure is required.

As an integral part of the multi-modal logistic process, Central America must work on a regional logistics strategy and plan for at least one all cargo transport and logistics center. The region also needs innovation, education, and planning with regards to logistics so that a comprehensive multi-modal cargo transport system can succeed.

B. Investment in the Power Grid and Clean Energy

The energy matrix of Central American countries depends excessively on the generation of thermal energy. Studies have shown that geothermal, wind, and solar potential for the region is critical, but largely underdeveloped. For this reason, Central America has the potential to transform its energy matrix. Currently, hydro-electric generation competes with allocation of water for other purposes. Water use is a highly sensitive subject for the communities that lie in areas where dams may be built. As a result, complex negotiations between investors, governments, and communities arise.

C. Public-Private Partnerships

In 2007, the public sector invested less than 0.6 percent of GDP in infrastructure. This inadequate sum requires the development of a holistic approach that involves national banks, development banks and the multilateral banks. The multilateral banks have developed financial instruments that provide satisfactory incentives. Used effectively and in coordination with national banks, integrated financial schemes can be used for the benefit of the Central American region. Previously, leaders in several countries believed that the private sector could provide a

significant share of the direct investment in the energy sector. While the role of the private sector is necessary, it is not sufficient. Governments play a vital role in the development and harmonization of regulations.

The private sector is a key driver of the economy in a few Central American countries, providing investment, technology, management, and training. Costa Rica has successfully demonstrated that development of alternative energy resources, such as the use of biomass, wind, hydro, and solar energy can occur successfully if planned in an intelligent way. The need for private finance makes it necessary for governments to collaborate with multilateral partners and access resources. Private sector participation in transforming the economy and generating growth is necessary. Nevertheless, this should be combined with government's commitment to transparency and its willingness to be held accountable for progress, or lack thereof, through audited and publicly released accounts.

D. The U.S. Role in Developing Energy Resources

Vast shale fields holding both oil and natural gas give rise to new opportunities for the region. The widening of the Panama Canal, due to be completed in 2014, raises new possibilities for trans-oceanic trade in liquefied natural gas (LNG), as well as petroleum products. If, as anticipated, the United

States becomes a major exporter of LNG, the benefits to Central American and Caribbean markets could result in lower energy bills.

The U.S. government should direct greater attention to Central America, beyond that currently given to security issues. Opportunities continue to exist for investment in *maquiladora* and agricultural enterprises based on the complementarities of geography, natural resources and wages. These investments could be expanded, and Central American governments should encourage private U.S. financing in their development of alternative and green energy supplies.

The U.S. government can assist Central American governments in their drafting of voluntary and flexible frameworks for energy and clean fossil fuels. To carry out this task, bankers, entrepreneurs, and development agencies in the region should come together to draft the framework and the implementing regulations. Washington can participate in the creation of new regional instruments focused on energy and renewable resources. The administration can build upon the dense relationships that already exist between the United States and Central America. These relationships, founded on personal and cultural ties, should now grow in a more responsible and flexible manner to address today's infrastructure and energy challenges.

A Conversation on the Future of Central America: The Challenges of Climate Change and Natural Disasters

With the generous collaboration of CABEL, the Latin American Initiative at Brookings conducted a study on the vulnerability of Central America to natural disasters and climate change. The region has a long history of natural disasters, many of which are being exacerbated by extreme climatic events. In a region of small, lesser developed and vulnerable economies, the effects of climate change

can be more severe and visible. This raises practical policy issues, as well as ethical questions.

Climate change is a multiplier, an intensifier, and a magnifier of the existing social, economic, developmental, and territorial problems. Global climatic changes have harmed the quality of human life. It has become a problem for nations and human

security. Extreme weather events pose developmental challenges to many regions, including the isthmus of Central America, geographically positioned between great oceans.

ISSUES

The Central American region lies between, and is affected by, the Pacific and Atlantic oceans. Consequently, shifts in oceanic currents can have devastating effects on nations with small economies and relatively weak government systems. In recent years, earthquakes, floods, and volcanoes have led to more than 50,000 deaths and the displacement of over 10 million people in the seven countries that make up Central America. The disruption of economic activity and costly reconstruction efforts create a heavy economic burden, debt and the exclusion of those living in vulnerable geographic areas.

Regionally, climate change-related disasters have increased by 5 percent a year. In the past 20 years the numbers of hurricanes to hit the isthmus have increased five-fold and floods have trebled. Given the region's propensity to suffer from natural disasters, there is a serious need to improve regional cooperation in risk management.

KEY CHALLENGES

Economic Concerns

The economic costs of natural disasters are colossal. In 1998, Hurricane Mitch, with maximum sustained winds of 180 mph was, arguably, the worst disaster ever to hit Central America, with an estimated cost of close to \$16 billion. The cost of rebuilding basic infrastructure and tackling the social consequences imposes a heavy burden on national governments where close to 50 percent of the population lives in poverty.

At a global level, the cost of adapting to climate change through "adaptation-related techniques" is estimated broadly at \$30 to \$100 billion per year, for

the next 25 years. Of that amount, Central America needs approximately \$1 billion per year for the next 25 years to solve adaptation-related matters. This is beyond the capacity of the regional governments which are characterized by high levels of poverty, as well as scarce access to services and resources. Additionally, many Central American countries suffered from the hemispheric economic crisis which makes it even harder to achieve a balance between what is politically viable and what is economically realistic.

Political Concerns

Central American governments are known for distinct political systems and pervasive insecurity with negative consequences for private investments. Despite a history of political resilience, the region has yet to make its mark with innovation and creativity; necessary motors to overcome national problems. Within governments, the role of science has yet to be fully understood. Few scientists have become part of the Central American decision-making projects. Consequently, a scientific and technical perspective is missing from individual country projections and political outlooks. Furthermore, the distribution of government resources has not been shared in a sustainable manner, and distinct investment regimes exist for investment in coastal projects and tourism.

Social and Ethical Concerns

Food, agricultural land, water, and coastal protection are among the sectors that Central American countries must use efficiently. The misuse of these resources demonstrates civil society's lack of knowledge and tolerance for risky behavior rather than systematic prevention and preparedness.

Central America contributes next to nothing in levels of CO₂. It is a region that has become a victim of climate change by producing less than 5/1000 (five of a thousandth) of green house gas emissions. However, it is a region that bears the consequences

of climate change. Thus, an ethical concern arises among the Central American countries which bear environmental costs caused by large industrialized emitters.

Geographical Concerns

Most of the Central American region has been drastically damaged by hurricanes, earthquakes, volcanoes, and even annual rainy seasons. It lies in one of the most vulnerable geographic areas of the world, exposed to the serious effects of climate change and the hurricanes that initiate in both the Atlantic and Pacific oceans.

POLICY RECOMMENDATIONS:

The Intergovernmental Panel on Climate Change (IPCC) has suggested that rising temperatures are the result of personal consumption habits and exclusionary systems that fail to respect the laws of nature. Disasters are generated by human behavior. The challenge of mitigating and adapting to the effects of climate change offers Central America valuable opportunities to develop new economic sectors.

Public-Private Partnerships (PPP): Regional governments should create an environment for collaboration with the private sector in order to spur investments through the following actions:

- Focus on land-use planning, urban planning and water-saving technology;
- Introduce early warning systems and regional risk-reduction systems;
- Encourage land-use, agriculture, and water management that can reduce the risks generated by climate change and natural disasters;
- Develop water and energy efficiency methods that demonstrate national and regional commitments to mitigate the effects of

natural catastrophes. In turn, these should attract green and sustainable investments in the region;

- Discourage the region's reliance on carbon- and coal-fueled electricity. Improve wood stoves and reduce coal-related energy to produce electricity;
- Encourage investment in alternative energy sources, particularly within the rural areas;
- Introduce water-saving technologies for use in agriculture and the urban sector. Several parts of the region use water in an excessive and inefficient manner. For example, a cross-subsidy system exists for the distribution of water resulting in a state-owned enterprise that improperly exploits water: 70 percent of the water is used for irrigation, 20 percent for industrial purposes, and only 10 percent for human consumption;
- Encourage SMEs to invest in adaptation-related techniques;
- Promote PPPs through concessions for investment in infrastructure and water-energy saving techniques; and finally,
- Introduce correct incentives to attract investments that will minimize the vulnerabilities to environmental degradation.

Education

Improving citizen's awareness and knowledge, at both political and technical levels, in order to harmonize, design, and implement early warning systems throughout the region. This can be carried out through private institutions created to educate both public officials and citizens. The first private Institute for Climate Change Research (ICC) was created in Guatemala in 2011 with the purpose of preparing and educating scientists, journalists, and citizens, including environmental economists. The

Institute has invested in adaptation and mitigation measures, in particular as they affect the sugar and hydro-electric sectors.

The first doctorate in climate change in Latin America was instituted at the Universidad de San Carlos de Guatemala (USAC). A component of the climate change program studies ancestral and traditional knowledge derived from the Mayan indigenous people who withstood more than two periods of drought. By using adaptation techniques, the Mayan people survived one drought lasting 23 years and a second lasting seven years.

Regional Diplomacy

Some regional governments have excessive regulations, others have no regulations, and some have good but insufficient regulations. For this reason, Central American countries must work in a unified way to solve the problems that ultimately affect and threaten the whole region. Governments must encourage citizens, NGOs and the private sector to collaborate and face the issue of climate change together.

In food management, 40 percent of the food in Central America is lost due to inadequate storage

and transportation. Regional government should work together in a multilateral setting to accomplish change and improvements at both the municipal and regional levels.

International corporations worked with the Guatemalan government to create a Mesoamerican Food Security Early Warning System (EWS). This helped to avoid any deaths during the October 2005 hurricane season. This EWS advocated the importance of creating a comprehensive policy for risk reduction management to include humanitarian assistance, warehouse management, hazardous materials, shelter management, and early warning systems. Ideally, this system should be inter-sectorial. Guatemala also established a Conflict Early Warning System between 2006 and 2008. It is to be hoped that these examples of inter-societal and regional cooperation might continue to be funded.

CONCLUSION

Central American governments should support investment opportunities and advocate a climate change strategy at the local, national and regional level with specific policies, plans, and programs.

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