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**DEMOCRACY IN CENTRAL AMERICA:  
HOW STRONG?**

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**KEYNOTE:**

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JAIME DAREMBLUM: Ladies and gentlemen, I'm Jaime Daremblum, director of the Hudson Center for Latin American Studies. And it's my pleasure to welcome you to today's discussion on democracy and its challenges in Central America. This event is being made in partnership with the Institute for Foreign Policy Analysis and thanks to this report of the Lynde and Harry Bradley Foundation.

As you all know Central America is back in the news, and unfortunately this is good news is no news. The headlines catching the attention of the press nowadays cast an unwelcome shadow over the many positive achievements of the region over the last couple of decades. Democracy, the rule of law, market-oriented reforms and free trade are being overtaken by challenges in several of our Central American neighbors.

To analyze what's happening with democratic and economic institutions in Central America, we're privileged to have with us today an extraordinary team of specialists whose accomplishments are well-known. They will speak in the order which are listed in the program and afterwards we will open a period of questions, answers and discussion with the public. I call now on Professor Robert Pfaltzgraff, president of the Institute for Foreign Policy Analysis for some remarks, Bob.

ROBERT PFALTZGRAFF: Hi folks, we'll be very brief. We all know that, except for those of us in this room who are otherwise inclined, that most people pay very little attention to these Latin American issues. And therefore it was with great pleasure that when the opportunity arose for the Institute for Foreign Policy Analysis that I represent to work with the Hudson Institute and in particular with Ambassador Jaime Daremblum on this series, we literally leaped at the opportunity.

We have of course over the last two years been engaged in a project that, as you know, is focused on democracy in Latin America which has had over the years as we know also its ups and downs. And we've focused on populism and radical movements and challenges to democracy in Latin America. So I would simply like to say that it is with great pleasure that I joined with Ambassador Daremblum on behalf of the Institute for Foreign Policy Analysis in helping to organize this series and express my thanks to the Bradley Foundation for its sustained support for what is really a very important effort in a part of the world that is all too often much neglected and I believe to our peril it will be neglected in the years ahead.

So anything that we can do to lift the veil of ignorance that has existed for so long and place Latin America more fully on our strategic and security radar screens is to be welcomed. So with that in mind I simply wanted to make these brief remarks, thank you.

MR. DAREMBLUM: Thank you, Bob. Thank you very much. (Applause.) Our first speaker is Dr. Jorge Vargas from Costa Rica who is one of the outstanding social scientists in Latin America and what the program doesn't say is that in addition to his many credentials in the field of the social sciences, he is also an accomplished musician and at one point he had to

choose between becoming a social scientist or become a concert pianist. Well, obviously he was inclined more to do this, we welcome Mr. Vargas.

(Applause.)

JORGE VARGAS: Thank you, Ambassador Daremblum. My assessment on the strength of democracy in Central America will avoid focusing on the burning issue of the day. Instead I will assess the structural and institutional underpinnings of democracy. I will deal with these questions such as what is the breadth and scope of democratization, what risks emerged, what list of these dilemmas did democracies face in Central America. Before addressing these issues I will quickly overview Central America to provide a context for my analysis.

Central America is a narrow strip of land connecting two huge land masses. Its geographical location is strategic. Not only from a hemispherical perspective, but also because key commercial routes go through it. The region is small indeed, roughly six percent of Continental U.S. It comprises seven highly intertwined countries. Up to 10 percent of its 42 million inhabitants have emigrated recently, mostly to the U.S. and the region hosts diverse multicultural societies.

Central American output is less than 1 percent of U.S. GDP; it is a backward developmental performer. Close to 60 percent of its inhabitants are poor and 72 percent lack of any kind of Social Security; that's our reality. Finally in spite of its tiny size and poverty it is an extremely rich region from an environmental perspective; one of the world's richest.

It is a mistake to think of Central America as a homogenous unit. There are increasing asymmetries between countries. GDP per capita of Panama and Costa Rica is currently four or five times larger than Nicaragua's and of Honduras. The former are middle income nations whose GDP is close to the Latin American average and the gap has been widening over time. Asymmetries within countries are staggering and larger except for Costa Rica and partially El Salvador, the rest of the countries rank among the most unequal in Latin America, which in fact is the most unequal region in the world.

Ten million people out of the 42 have no access to any kind of health services; public, private or charity, 10 million people. No natural hegemon exists in the region and Central America has complex collective action problems to deliver regional responses to challenges. Here are some basic indicators broken down by country. I will not go into details but just note some basic facts.

Costa Rica and Panama, as you see, the more developed countries account for less than 20 percent of the region's population. In Guatemala, El Salvador, Honduras and Nicaragua over 80 percent of the people have no access to Social Security and up to 40 percent to health services. Areas where – (inaudible) – malnutrition is intense and the dark red spots indicate counties where close to 50 percent suffer malnutrition, those dark red spots, are the most densely populated territories in the whole region and all host indigenous populations.

Now, in spite of all these things Central America should not be pictured as incompetent, static, sleepy societies; quite the contrary. In the past fifty years or so the region has experienced multiple intense and even dramatic change. Central America has gone through five transitional processes. The first one is a transition from war to peace. Twenty years ago, three countries had civil wars and one was invaded by the U.S. With the event of peace came a new challenge: how to build a social and economically sustainable peace.

The second transition was from authoritarianism to democracy. Thirty years ago all countries but Costa Rica were dictatorships, none today. Nowadays we have electoral democracies but the qualifier there is to indicate that, as we shall see, this is an unfinished business. With democratization came a new challenge: how to impose the rule of law in accountability of those who are governing the region.

The third transition is developmental; we went from – (inaudible) – closed import-substitution economies to open economies, deeply tied to the international system. Here of course the challenge is bringing about higher level of development. The fourth transition is societal. Central Americans are no longer rural societies but urban ones and with that comes a challenge usually associated with urbanization which is how to deal with population with rising expectations.

And the fifth transition is demographic; in the next decade the region will face a growing and aging population and large cohorts of young people flooding the labor markets. The region needs to dramatically increase productivity to provide for these changes. Here is a multiple transitional process that Central America has and is experiencing, broken down by country. I have no time to go into detail but please note that the less developed countries: Guatemala, El Salvador and Nicaragua and Honduras tend to be those going through the most complex processes.

They are managing four or five transitions at the same time; that's quite difficult to do. As you can see the evolution of Costa Rica and Belize for very different reasons is in sharp contrast to the prevailing trend. Now, for the rest of my time I will focus on assessing democracy. I shall start with regime democratization, the establishment of electoral democracy; how far has Central America gone.

Regime democratization has been the area where change has been more dramatic. In most of the regions you have functioning electoral democracies. More than 30 elections have been held in this decade alone. But even there, the area where we have been more successful, we face serious unfinished business. The last election in Nicaragua, November 2008, municipal, was basically fraudulent: the first fraudulent electoral process since authoritarianism was vanquished in the region; that's a bad omen.

In most countries, even the ones that have not dared to practice such fraud, a key democratic guarantee is missing; institutions in charge of organizing elections are – (inaudible) – and partisan. And, once again, the situation is worse in Nicaragua, red – (inaudible). But El Salvador should be watched closely in this effect. All countries have weak or inexistent regulations for private funding of political parties and – (inaudible) – public subsidies; and this is

an open door for penetration by the political system by legal actors as it is happening as I speak now.

Everywhere in the region political parties are in deep troubles; the worst case is Guatemala in red, where we have a polarized non-structure multi-partism which is a recipe for weak governance. In Nicaragua one finds a polarized and non-structured bi-partism (ph) and in El Salvador, although the party system is more institutionalized, it is also polarized. In both cases Nicaragua and El Salvador the potential for confrontation and gridlock is high.

Finally Costa Rica and Panama experience party systems in transition and; therefore, face quite difficult and trying times; party systems in Central America are not delivering. Even if in most Central American countries electoral democracies are fragile, as we have seen, this is so far the best part of the story. Democratization's weakest part in the region is the inability to show substantial progress in establishing the institution of the democratic rule of law and accountability over political power failures.

This threatens progress at the electoral front because democratic electoral regimes can be easily encroached upon by states with a history of authoritarian legacies in whose world they exist. In most Central America the law is used as a political weapon, quoting Getulio Vargas' dictum, "For my friends, everything; for the neutrals, indifference; for my enemies, the law."

As a result one encounters rampant corruption, politization (ph) and mismanagement of public resources everywhere; let me present some evidence. One indicator of the weakness of the rule of law are the meager resources for the judiciary, except for Costa Rica and El Salvador, expenditures per capita are around \$10 or less per year for the whole judiciary; you see the red arrows. From a comparative perspective this is extremely low and, in contrast, the new public expenditures are much higher.

In most countries legal operators are few and overloaded: You see in that table. In countries where more than half of the population is poor – in the rows in red – there are only two or less public defenders per 100,000 inhabitants. This indicates deep-seeded problems in access to justice and the underlying factor; poor people are also legally poor. In most countries, prosecutors outflank public defenders by margins of three-to-one or more – (inaudible) – imbalance also bias against the poor.

Finally, take notice that countries with the weakest judiciary are also those with the weakest and most politicized general controllers. You know that a strong and robust general controller is a fundamental institutional requirement for legal oversight and accountability of public resources and that is missing in all the countries in red or light orange.

A third dimension for assessing democracy in Central America is the extent to which citizen – the extent of citizen effective enfranchisement. Nowadays – (inaudible) – universal citizenship for adults is the standard; one person, one vote; one person, one standard bill of legal rights. This basic standard is not met at least in two Central American countries; in Nicaragua and especially in Guatemala, around 20 percent of the people, substantial segments of adults, do

not have a legal identity card, a basic requirement like that. They cannot prove who they are, they cannot enter a formal dealing and of course they cannot vote.

In addition these – (inaudible) – is skewed against the poor. In countries where these form a prerequisite is near universal, social conditions do not matter, Honduras and Costa Rica. In three countries, see the orange and red columns, those suffering from dismal social conditions have less access to a legal identify. As should be expected those socially excluded show far less interest on politics than the rest; around 20 to 30 percentage points in less interest than the average.

What are the prospects of change? Not many. What you see here are social expenditures per capita by two tier of income. The countries where regime and state democratizations are weaker are those with dismal levels of expenditures; are less than \$50 per year per person. In addition, in some cases these expenditures are actually regressing; and the most affluent are the largest per capita recipients of public funds. We invest very little and a substantial share of that little portion is going to the wrong people. So citizen enfranchisement, effective citizen enfranchisement, is a pending task.

In spite of all the weaknesses I have already pointed out of democratization in Central America, citizens are not walking away from democracy. These are good news considering the circumstances. When – (inaudible) – fought for democracy, only a very small fraction of the citizenry are vouching for regime replacement. In the red cell indicates that only 3 percent want a non-elected leader with extraordinary powers; comparing this with the 28 percent in the green box that want an elected leader with some democratic checks.

The bad news – and you see the shades of orange – is that a majority wants an elected leader with extraordinary power; a thinly disguised caudillo that once in power through elected means encroaches on democracy. And that's a bad news from 60 percent of the population in the pooled Central American sample. Dysfunctional democracies as in Central America also chose for a perverse choice between effectiveness and liberty. People are waiting to trade some liberties, a chunk of liberties, for an effective leader. By the way the data is from the Latin American Public Opinion Project from the Vanderbilt University.

Finally, in this respect, it's worth noting that elective participation is rather healthy. Except for Costa Rica we do not find regional – (inaudible) – to lower levels of participation and it turns out this decade has been about the Latin American average, which is the straight line there. So, citizens, in spite of all the pitchforks of democracy, citizens are still not walking away from democracy. They have doubts; they want more effective democracies but they are not ready for regime replacement.

This is a summary overview of my assessment on the strengths and weaknesses of Central American democratization along the four dimensions I reviewed. As before I used the semaphore metaphor: green for okay, yellow for caution, red for problem. Costa Rica, the oldest and stablest Latin American democracy has particularly strength along the four dimensions. Although its political system shows signs of gridlock and lack of effectiveness, these problems stem from other causes.

In contrast, Guatemala and Nicaragua, democratization has progressed the least along all dimensions reviewed. Regime and state democracy are weak and flawed. Universal citizen enfranchisement is pending. These are extremely fragile semi- democracies. Honduras and El Salvador are mixed cases. For sure, their regimes have serious problems, but not to the extent seen before. Nonetheless, the rule of law and accountability are weak, particularly in Honduras, and pose risk to democratic governance.

And in this context, close elections, as we're going to have in El Salvador and Honduras, can create serious problems. And, even if not, government without an effective rule of law and accountability can also try to become, like this caudillo, much of Latin American caudillos. Finally, Panama is rapidly evolving, although once again state democratization is lagging far behind. So far, I have been assessing democratization on its own merits, however, this is only part of the story.

In the final minutes, I want to comment on challenges to democratic stability that stem from outside the political system. The first of these challenges has a geopolitical nature. Nowadays, Central America is immersed in the geopolitics of drug trafficking. The region is located between the main producing area, South America, and the main consuming market in the U.S. However, that's not our only problem. Other illegal actors plague the region, for example, arms dealers, illegal traffickers of persons.

And in the past two decades, we have seen the emergence of gangs – the so-called Maras – in the main urban centers, and their exponential explosive and criminal activity. In the – (inaudible) – for this host of political actors have penetrated deeply the economies and politics of the region, although they have not coalesced into an organic force – none of them seem interested in grabbing political power – they do pose a strategic challenge to democracy, democratic stability, because they have become de facto political power players. They have built reserve domains for themselves.

On top of everything, our big neighbors – and that's a big problem – our big neighbors are in big trouble. Mexico's worsening situation is seeing criminal activity throughout the region. Hugo Chavez is trying to become the regional hegemon. Colombia's conflict, in spite of progress, is a continuous source of instability.

It is in Central America northern triangle – Guatemala, El Salvador and Honduras – where you have a convergence of factors in which the security situation most threatens stability. You have climbing levels of crime, cities in perception – very high cities in perception of insecurity, weak rule of law and strong arms policies. It's a recipe for problems. So there is a serious threat for security. And Nicaragua is also a case to be watched closely, although for very different situations.

The second challenge to democracies springing from outside the political system is an economic crisis. No doubt that all Central American countries will be, will be hard-hitted, all are – (inaudible) – economies and all the export markets and sources of badly needed foreign

investment are in recessions. But even before the crisis, the region was facing strategic problems. China's competition in textiles was wiping out a key industry in the region and the U.S. efforts to close its borders create new hurdles for migration, thus affecting macroeconomic stability by affecting remittances.

However, Central American countries sharply differ in their capacity to – capacity to cope with the crisis. Not surprisingly, those with the least capacities are the less-developed countries – Honduras, Nicaragua, Guatemala and partially El Salvador. Their developmental style has been a combination of agri-exports, textiles and particularly the exportation of people and then waiting for remittances. These are the countries in which, to varying degrees, unfortunately, democratization has been weaker in the new political challenge is more acute. So you have like a perverse convergence of factors there. In countries, Panama has a better cushion given the massive influx of foreign investments tied to the modernization of the canal in the petrochemical industry.

So in closing, democracy in Central America – how strong? Well, the Central American political system has shown its unexpected resilience to serve multiple transitions. My answer is that democratization, it has grown, is not quite strong, and particularly is fragile. As I told you before, we have very vulnerable semi-democracies in Guatemala and Nicaragua. We have fledgling electoral democracies with thinly democratized states in Honduras and, to a lesser extent, El Salvador, which are also vulnerable.

Central America polities face two types of complex threats: those stemming from within the democratization process from its pitfalls and those stemming from outside, particularly the geopolitical challenge in the weathering of the crisis. As the first decade of the 21<sup>st</sup> century closes, the region faces real risk of state failure, in some cases. Geopolitical overrun by big brother's problems and of regional fracture. One of the possible is Panama and Costa Rica building a small fortress, a G-2 if you wish, for defensive property – purposes, but then fracturing the whole region. And as a Central American, I am bracing myself for 10-years' time. Thank you.

(Applause.)

MR. DAREMBLUM: It's my pleasure to invite Professor Anne Krueger in for her presentation.

ANNE KRUEGER: Well, I should start by explaining that I am not a specialist on Central America, and indeed when I was invited here, I e-mailed them back immediately, said you've got the wrong person, I don't know that much about it. So I'm here under protest. There is an old story in development economics, you know, sort of if you go to a country and you're there one day you're an expert; stay as long as three days, you're a specialist, and by two weeks, you're as confused as everybody else. I qualify, I think, as an expert, so maybe I've been two days in one of the two countries.

But my assignment is to talk a little bit about the economies of Central America, and once again, please remember that there are lots of particulars which I'm sure the other members

of the panel and many members of the audience could do a better job on than I. But this is a stand-out fact for Central America, is that its economic performance in terms of growth, development, poverty alleviation and what have you, has been sluggish. It has not been terribly good; per capita incomes have risen, but they've risen very slowly. Two of the Central American countries now have per capita incomes below India, which is quite an improvement. That doesn't come easily. And that tells you something about what's going on.

Now, they are all small, but that's not necessarily a disadvantage. Their populations are around five million, three, four, five, six, seven, right in that range. If you think about New Zealand, its population is three-and-a-half million. It's more distant from markets than Central America, it has no obvious economic advantages in the physical, geographical location kind of sense. It's a rich country. If you want to think about other countries that started out poor, you could think about: Hong Kong, population of about 7 million now, but 3 million when it started; Singapore, population now 3.5 million.

These are small countries, it hasn't stopped them. Smallness by itself, and even distance by itself, is not particularly a good excuse. In fact, many large countries think that being small is an advantage, and if you're large you get lots of things you've got to worry about that in a small country come more easily. So I guess I don't want to accept that as a reason for what's going on in Latin America.

To prepare for today, given I knew nothing, I decided that being an economist, my best thing to do would be to look up some numbers and see what I could figure out. And based on the numbers – and this is a numbers exercise – I have three basic comments I would like to make.

The first is that in 1990, except for Panama and Costa Rica, only about 40 percent of the adult population had finished primary school. Now it's higher. No, according – I can give you sources. I did check my numbers, at least. But in any event, even those it's higher, that means for the labor force as a whole, it's still relatively low because the older people don't have the education that some of the younger people do.

Quite clearly, educational attainments in each of the country – each of the four countries, anyway, of the sixth, has been well below that of most other developing countries, with the exception of sub-Saharan Africa, some Central Asian countries whereas the other ones that aren't doing well aren't doing well because their education attainments are also not very satisfactory. So there is certainly an education deficit based, as I said, on the numbers that I was able to get a hold of. But that's only number one, but it's surely a factor.

The second one was one that surprised me a little bit more, and that is that basically, the conditions for doing business – i.e. encouraging private-sector development in Central America – are, by and large, very poor. The World Bank puts out a lovely publication called "Ease of Doing Business." It puts it out each year for, this past year, 180 countries, okay? It ranks all countries on a huge variety of things. It goes and seeks someone who has just built a warehouse and checks all kinds of data – how many permits did you use; how long did it take you to get to that; how did you import this and that, and so on.

And then it goes through other dimensions. It finds people who've had some kind of a contract dispute – how long did it take to resolve this; how did you do it, and so on and so forth. The results for Central America were truly discouraging. Panama was the best of the lot, ranking 81<sup>st</sup> out of 180 countries. It fell from 76<sup>th</sup> the year before. It had two really negative achievements, or whatever. One is that the labor market is terribly restricted and out of 180 countries, Panama is 172<sup>nd</sup> – i.e. it's as bad as any. And this includes ease of hiring, ease of firing, disputes with unions and all of the sorts of things that we think of that make a labor market function.

And also in paying taxes, Panama is very bad. The tax regime takes a lot of time; there are a lot of taxes; the tax rate is high – except for businesses' – and so on. Nicaragua, surprisingly enough, was the next best, but only by a little bit. It was 107<sup>th</sup> out of 180 countries and 96<sup>th</sup> last year, so it's also going down. It was 134<sup>th</sup> in terms of the ease of getting a construction permit, which takes time and money. In paying taxes, it was 152<sup>nd</sup>, and in as of trading – i.e. the open border – it was 99<sup>th</sup>. In fact, one of the things that surprised me was that I shared the impression that was given earlier that all of the Central American colonies had opened up.

And if I'm to believe the World Bank statistics, they may have opened up – I'm sure things aren't as bad as they were – but they've got a long way to go. And the small economies, such as these are, the characteristics of the ones I mentioned earlier who are doing well – they are all open economies and they all ranked much more highly than not only New Zealand and Chile, but Korea, Singapore and so on. They're much, much better on all of these characteristics.

Guatemala was 112<sup>th</sup>. It ranked very badly on starting a business – it takes all kinds of permits and all kinds of time delays to do so. It did very badly on construction permits and in ease of trading, it was 123<sup>rd</sup>. Interestingly enough, the cost of a container shipment overseas from each of these countries, either importing or exporting, was well over \$1,000. It was as high as 15 to 1600 (dollars) and as low as 1,000. In New Zealand, which is further away from any major market, it was \$800. Guess where New Zealand has an advantage over Central America? Geographic distance insofar as it's an economic concept, because it's cheaper.

Why is it cheaper? Because they've got more efficient ports and they've got fewer procedures and so on and so forth. To my surprise, Costa Rica was ranked 117<sup>th</sup> and is not progressing at all. It was ranked very badly on starting a business – 123<sup>rd</sup> – construction permits – 110<sup>th</sup> – in protection for investors, 164<sup>th</sup>, which is a terrible thing. In taxes, 152<sup>nd</sup>. Costa Rica has obviously done very well in the past, but quite clearly has fallen back behind in some dimensions where the rest of the world is reforming quite rapidly.

And finally, I come to poor old Honduras, ranked 133<sup>rd</sup>. Starting with business, 146, employing workers 156<sup>th</sup>, ease of enforcing a contract 132<sup>nd</sup>, protecting investors 150<sup>th</sup>, taxes 137<sup>th</sup>, trade 107<sup>th</sup>. With those numbers, no matter how good the world economy is, no matter what else is happening, even if they get education fixed, there is still going to be a problem, and it's a problem, very much one under the control of the individual countries.

Now, other countries have also done badly in the past, and some of them have reformed a lot and some have reformed less, but countries that don't continue are going to fall further behind, and the picture that I paint here of Central America is indeed not a good one. It is one that obviously calls for some, I think, fairly rapid action if Central America is not to become even worse relative to the Western world than it has been.

Now, having said that, there's yet a third dimension. And this is one where the World Bank doesn't rate them, in part because it's the International Monetary Fund's business and party for other reasons, too. But that is that all of the Central American countries have had pro-cyclical fiscal policies. All of the brand fiscal deficits is that Nicaragua in 2006, one year, since 2000 in every good year of the world economy. The world economy never had it better than from 2002 to 2006. Those are years in which – (inaudible) – policy, which the United States also didn't follow, would have been to have fiscal surpluses in the good years so that there would be some buffer for the bad years.

Some countries did it. Chile is that way, the Mexicans are talking about having enough saved up from their oil revenues and other things so they could withstand three years. Central Americans all ran deficits back-of-the-envelope, three to 5 percent of GDP in every year from 2002 to 2006. That means they've got no fiscal space, that means that they've given away what latitude they might have had in coping better with the worldwide economic difficulties we now have. And once again, there's a structural problem that is – would have been correctable.

Now, there's no point in crying over spilled milk, I think, but on the other hand, if one wants to know why Central America is not doing terribly well. I think the answers may have other components to them, but surely these three by themselves would explain a great deal of what is going on. And what's going on is that the region is falling further and further behind.

On per capita income returns, India comes in right now at about \$4900, El Salvador \$2850, Honduras \$1600, Nicaragua \$980. Okay. Panama and Costa Rica are 5500 (dollars), and they're different, but the other four come in, as I said, and they're now, in per capita income, poorer than India, and India was always thought of as a poor country. Now, India's doing relatively well, and India has of course made many reforms, and on the Openness Index, interestingly enough, India was always regarded as one of the most closed economies, but it ranks better than most of the Central American ones, now.

I mention the comparisons only because I'm using big countries and small countries; size is not the factor. Distance from the markets is not the factor. Education I think is a factor. I'm sure that the controls, regulations governing the doing of business are a factor.

I'm sure some of the drug issues and so on that were already mentioned cannot be improving things, but on the basis of these statistics, an economist looking at it would say, even if you didn't have a drug problem, even if you didn't have those other things, there would still be major bottlenecks to more satisfactory economic performance in the region. Obviously, that would take away one, but it wouldn't take away them all, and my short course in Central American economies this morning did not leave me feeling any more optimistic about the region than I was when I started. Thank you very much.

(Applause.)

MR. DAREMBLUM: It's now the time of Mr. Caleb McCarry, one of the most knowledgeable Washingtonians no Latin American and Central American affairs, and a very dear and old friend.

(Applause.)

CALEB MCCARRY: Mr. Ambassador, thank you very much, it is certainly a privilege to be here with you. Thank you all so very much. I learned a great deal from Dr. Vargas' presentation and Professor Krueger's presentation as well, and it's an honor to be here – (inaudible) – Walters.

It's been awhile since I've been in Central America, and Jaime, you asked me to talk a little bit about politics there, so I'll speak about that. And I became familiar with Central American politics in the 1980s and '90s. At the time, I was working on AID-funded programs in support of several national legislatures in the region. And I went to work for our own Congress in 1997.

A friend warned me that politics on the Hill could be vicious. I realize that my friend had never spent much time in a Central American legislature. Not a place for the politically fainthearted. Politics of course, for all of us, for Central America and the United States, are profitable history. Much, of course, has been said about the weakening and disappearance of traditional parties. This is certainly true in Guatemala, though one wonders if military rule there distorted politics beyond recovery. Shifting political winds and corruption, of course, have taken their toll elsewhere. But many traditional political parties, rather, have not disappeared; others may yet come back.

Looking back, I actually find it notable how durable certain political movements have been in some countries. The liberal and national parties in Honduras still, of course, hold most seats in the national congress. In Nicaragua, where I spent a good deal of time at the end of 10 years of effective one-party rule by the Sandinistas, a liberal party – (inaudible, background noise) – very much alive and divided. In El Salvador, it's remarkable of course that such a lasting party of the right, ARENA, emerged to govern for so long. For their part, parties of the left rooted in the region's internal conflicts have also sustained and asserted themselves in a democratic context. In the end, political durability is based on popular affiliation support.

One thing that I've always found interesting, and of course it's with the particular exception of Costa Rica, is how striking it is that the Social Democratic parties have been stunted, unable to take root firmly in the region. The history of the Christian Democrats in Guatemala and El Salvador come to mind. This of course seems to particularly to be the case for Social Democratic that served as the political wing of armed movements.

Perhaps the most salient feature of the political landscape in the region is the admittedly uneven – and hear Dr. Vargas show it in statistics – a precarious, in some cases, nature, but in

my view, the evolution of institution. Costa Ricans, God bless them, have a very strong commitment to their institutions. And of course, they too have faced some tests. I'm told El Salvador's institutions, for example public-security institutions, have relatively – have become relatively developed. And of course, it's not just the institutionalization of elections in the region.

There are other indicators. Citizens in Honduras recently took an interest in their supreme court, and that institution. Despite the many challenges Guatemala has faced, my personal experience was that there is a strong strain in that society that values institutions. There are also significant regional institutions, such as SICA, that bind the isthmus together. There is no question that avarice, personal ambition and undemocratic politics can, and of course, do undermine important institutions. But speaking as a citizen of a country that has always relied on its democratic institutions, perhaps particularly so at this moment in our history, nurturing and protecting independent institutions is, in fact, the best guarantee of both collective and personal preservation.

Just briefly, to close, our relationship with the region, I believe, looking back on it, has changed in important ways. In our lifetimes, the United States has become the home to the second-largest Spanish speaking population in the world, behind only Mexico. While mindful of past history, we have worked to move beyond the Cold War in significant ways. The Central American Free-Trade Agreement, mentioned here, was actually the product of careful negotiation between our countries. There is strong bipartisan support for initiatives to tackle serious common challenges. The Merida Initiative, that was originally proposed by Mexico and now includes Central America, was a very important development.

Building on these efforts, Secretary of State Clinton has spoken publicly about her commitment to further strengthening the relations with the region. Also, there are leaders in our Congress, and members of both parties, with an abiding interest in good and close relations with the region. I note especially Senator Robert Menendez, who has long worked to fashion bipartisan support for a social investment fund for the Americas.

Finally, a commentary: Geography has made us neighbors. Our shared history is leading us to a place where our sons and daughters will increasingly bind us together in a very real sense as a family with a common destiny. It is in our interest to safeguard institutions that guarantee democratic political rights and see that our children receive an education and help our citizens have access to basic security, health care and economic opportunity to live fulfilling lives. Thank you.

(Applause.)

MR. DAREMBLUM: Thank you, Caleb. We will complete our round of presentations with Secretary Walters. I would ask – Dr. Pfaltzgraff will introduce him.

MR. PFALTZGRAFF: Well, I'm very happy again to have this opportunity, and I would say that John Walters is someone whom I'm sure most of you in this room already know. He has for the last month now been executive vice-president here at the Hudson Institute. He served for

eight years as director of the Office of National Drug Control Policy, which is a cabinet-level appointment in the White House. In this capacity, he had – his office, and he in particular, had responsibility for coordinating all aspects of U.S. federal drug-control policy, including efforts to fight drug trafficking abroad.

And we know that the importance of drug trafficking abroad is highlighted in so much of what we're discussing here today, and therefore his presentation will be of special value as we probe these very important issues of Central America and South America, Latin American democratization and the problems that we face in the security arena in the years ahead.

I might add, as I introduce our keynote speaker, that he was formerly president of the Philanthropy Roundtable, and he has served on the staff of the National Endowment for the Humanities and the U.S. Department of Education. So welcome to the Hudson Institute.

(Applause.)

JOHN WALTERS: Thank you, Doctor. Thank you all, thank you Jaime and all the panelists. And – excuse me – to the Bradley Foundation for the support of this effort. Having come from government, I can tell you that one of the problems that you face in working in Latin America, as I did, and in Mexico and Central America, I want to – as we're all doing fair disclosures here, I want to say that one of the problems is the lack of understanding of kind of basics of what goes on in our own hemisphere.

We are a democracy, we are a country based on consent of the governed, and when you ask people to make sacrifices, to expend money, to throw cash or prestige and support in certain ways, it is difficult to ask for that when there are things at stake, when people don't have a kind of basic understanding of what's going on in these areas. And that doesn't just mean the average person living in a community in places outside Washington, it means even in institutions in Washington. So I think it's very important the work that's being done here, and the scholars and the work of this collaboration with Bradley to get this more in the mainstream.

My own view, and again, what I had worked on a little bit, obviously, is the way in which the drug problem has affected the institutions in the United States, in Latin America and some places, of course, outside this hemisphere as well. It has become a bigger problem, and it has become a bigger problem tied, of course, to terror directly. We saw this obviously in Colombia, where the – both the paramilitaries and the insurgents, the FARC and the ELN, as well as the AUC, were designated terrorist organizations, and we were allowed to use security assistance not only for counter-narcotics but for counter-terrorism efforts.

You see, this also, I think most dramatically and shockingly, in what you see of acts of groups in Mexico. These groups have learned – they were never particularly nonviolent in the past, but they have seen in the world around them the ability to use the most shocking kinds of torture and mutilation as a way of extending power for those who they don't have direct control over or don't have sufficient financial resources or others to intimidate. So they will broadcast executions, beheadings, mutilations. They will put horrifying images before people to both

intimidate those who might be a threat to them and to make others not even think about challenging their power.

The drug part of this is frequently talked about as a huge enabler of their power, and it is, because of the wealth involved. But I would say that – and while there's debate about this, and you may want to have – use part of the question period to explore some of the thoughts of others – that money is a source of power, but that these groups have shown a remarkable ability to turn to other kinds of activities when necessary. In Mexico, as we've had declines in the availability of some drugs, primarily cocaine from both South America and, it's a result of the interdictions in the transit area, there's been more resort to kidnapping, as there had been before in Colombia for supporting some of the illegal groups. There's been more resorting to other kinds of extortion, protection rackets and the – they've gone to moving illegal arms and money and people as a way of raising money.

What's interesting in Mexico, along some of the areas of violence along the border is, groups are fighting for territory, for control of those pieces of landscape where movement is necessary and where taxes and – of their kind can be exacted. And they are turning most violently against each other to maintain those sources of revenue, and therefore power.

That's why I think the importance of Merida's inclusion of Central America in the overall effort to try to go after crime and security in the hemisphere is critical. It's also, I think, critical in two dimensions which I wanted to touch on here. One is on the issue of rule of law. As some of the previous panelists, I think, and I agree with them, have pointed out, the basic institutions of justice have been inefficient.

They have not been accessible to many of the people in these countries, and it's not simply the more glaring kinds of violence that we see, it's the fact that when you get robbed, when you have a problem of security in your own community, when somebody is engaged in breaking the law, they're never brought to justice. It takes forever, there are many ways of evading justice, both through corruption and inefficiency, and the institutions of society don't bring protection to individuals when it's most needed, just even for basic street crime and kind of non-gangland type activity.

That's a critical change. Colombia has changed its legal system in the last several years to create an accusatory system, as opposed to an inquisitorial system. And one of the great changes is that people feel for the first time they can go to the courts with basic issues of crime, as well as what Colombia's done against the larger and powerful criminal terrorist organizations.

So I think rule of law, and as kind of basic protection from the kind of violence which has been a problem and has grown as a problem – gangs from Central American countries become more of a point of attention for citizens of the United States because they show up in their city as a threat, and we've reached out to support some of those countries.

Secondly, I think – I think this does also relate to, and I'm not an economist, kind of changes of rule so that economic activity can be conducted in an efficient and effective way. It seems to me, and I'm not an expert on these things, and I want to emphasize that, that in this part

of the world, as in other parts of the world, there isn't a poverty of human resources. Education needs to be better, but the people from these areas are capable of – as, of course, outstanding achievements as others.

There isn't a lack of natural resources. There's both a – the position and the indigenous resources in many of these places is great. But the institutional political structures and economic structures don't work to allow those basic advantages to be – (inaudible, background noise) – there. That's a reform challenge that obviously will also – if carried out effectively – help democracy, and if not effectively, will weaken it.

The other part of rule of law that I think is important – and this gets into the drug issue – is how the United States engages with these powerful groups, with these damaged institutions, with the capacity of criminal groups now to use the financial systems of the world to use international trade as a way of carrying out their criminal activity.

There really is an enormous and a greater advantage to the United States becoming a more aggressive partner with them against these challenges where that can be carried out and where that's appropriate. And what I mean by that is helping to go after corrupt and criminal assets, helping to use cooperative intelligence.

These countries have been more involved with the United States in stopping smuggling and trade through sharing information their existing – particularly maritime military capabilities and coast guards and signing maritime agreements where we can – and where they are involved in trafficking that is serious and affects the United States – extraditing individuals so that powerful and dangerous individuals cannot use weak institutions and courts of prosecution to evade prosecution to become more powerful and to target the efforts at reform.

Colombia has done this as nobody else in the world has with extraditing I think close to 600 or 700 individuals since just the presidency of President Uribe. Mexican President Calderon has been enormously brave in extraditing two large groups of very serious offenders during his presidency.

This is obviously difficult to send your foreign nationals to another country to be tried but the way to break down impunity is through reform and through using, I think, extradition in some of these cases where the crime and the power and the money is tied the United States. I want to close by raising what I think are reasons why the United States will become and has been more involved here and I think that has to do partly with the world situation and terrorism.

I found that in my job that the view was that the global war on terror in the United States was going to make us less effective against threats in this hemisphere from drugs and from criminal activity. That actually wasn't the case. We had a more sustained commitment and saw a greater change. We saw a revolution, I think, in Colombia – I know there's some debate on that.

I think we're seeing an effort to revolutionize our relationship with Mexico, with regard to these threats, for the better. And the reason for that is, I think, a great recognition that

instability and ungovernability are a threat wherever they occur – especially when they’re in our own backyard. That gives us some more immediate reason to be both attentive and I think to be involved with these countries.

I wouldn’t say that I think we’re where we need to be. But it is also true that in a certain way, like we’ve talked about – gangs from Central American communities showing up in the United States, drugs, illegal movement of people, potential weapons, potential use of these individuals who will, obviously, probably do anything if they’re given an opportunity as a potential threat down the line – (inaudible, background noise) – more people and – (inaudible, background noise) – for the need to be proactive here.

It needs to be nurtured, it needs to be managed and supported. But I do think that is a kind of change and involvement for direct security reasons in the United States that offers an opportunity for much greater positive direction and support and kind of an alternate form that the other panelists have touched on in not only Mexico and Colombia but in Central America.

And as we’re successful in those areas, we reduce at least the risk of drugs and powerful criminal organizations on Central America because if the loop can’t be completed from the supply to the consumer, it tends not to have as much – (inaudible, background noise) – to corrupt – (inaudible, background noise) – in between.

I’ll stop there and let – and then I’ll turn to your questions. But thank you. Thank you for having me.

(Applause.)

MR. DAREMBLUM: We’re going to begin a period of questions and answers. And I wonder if any of the panel members would like to make some of these, you know, comments. Jorge, you wanted to say something.

MR. VARGAS: Well, just four remarks. First, after what – one can ask, how I said – is what if a tiny region goes down the tube? Does it matter? And I say, yes, especially because we are where we are – close to the U.S. Also because through the Caribbean, there are – this close oil commerce. A lot of things goes on there. And having failed states in the neighborhood is a huge problem. This means – failed states mean warlords, drug lords – (inaudible, background noise). And that’s not something very good even if you are a world power.

Second, why – if it matters – why should we try to take or to sustain those dysfunctional democracies? Why not go for what Samuel Huntington said 40 years ago – for, you know, political stability or low authoritarian political stability or political unrest. Well, that’s a legitimate question, but would say that history in the past 30 years shows us that authoritarianism costs hundreds of thousands of lives, millions of people displaced and also foreign powers meddling in the region. So it’s not a good bet.

Even if you’re not dysfunctional, it’s better to support democracies than trying to go for an authoritarian stability. Third, of course, the issues of how one approaches a complex region –

a tiny but complex region. I think that one thing that doesn't help is having this Manichean world view where one goes down there and tries to say this is a good guy, this a bad guy, this is a moderate, this is a radical, whatever.

Actually, one finds many times that the good guy is also the bad guy. The democrat is also the corrupt guy. There is a lot of gray in the region I think. One thing is to dispel this very kind of reductionist images of what Central America is and what kind of – (inaudible). I think aiming for complexity is important here.

And what can be done? I would say that's the fourth issue I want to comment on. Sometimes we say, well, very difficult. In fact, I think that many problems – we are going to be living with them for a long time but there are some things that can be done. First, I would say if the U.S. shies away from sustaining democracy that will be a big problem for us.

If U.S. policy toward the region reduces to the war of drugs, we have problems there because many times the war on drugs means just talking to the military and just putting aside the civil actors. And that may be – that makes it a serious imbalance within the Central American politics.

I think the free trade agreements are very important right now, but there's something else that should be done – not only free trade, but for example, I think a very interesting dialogue – and I will end on that note, could begin to be implemented with the Central American regional institutions. Central America has an integration process trying to aid numerous cooperations between countries and maybe strengthening the dialogue with these regional institutions where you can have these kind of Central American policies affecting all the associates could be a good idea in many things, like, for example improving business climate and the rule of law; because sometimes bilateral – (inaudible) – is not the good way to go in Central America. There is a lot of intertwining things going under the table.

MR. DAREMBLUM: Very good. Anybody? Please – we have a microphone – please name and affiliation.

Q: Kurt Oberlander (ph). From this discussion, it seems to me the assessments of countries in the region are using measures of relative achievement of democratization standards and goals. (Inaudible, background noise) – developed an – (inaudible) – system in which the Western Hemisphere was primarily subject to the principles of the Monroe Doctrine. This has no longer been the case in about the past decade.

This week, after a long list of agreements in business, development – (inaudible, background noise) – Russia signed an agreement with Bolivia to provide technical and financial assistance, military cooperation to fight the known narcotics – (inaudible, background noise). It seems they are stepping in and taking what, in the media, looks like the high road while we're standing by looking. And absent from the assessments, the measures and the findings and conclusions that I heard today are the details of the disappearance of the Monroe Doctrine – (inaudible).

The competition the U.S. faces from Europe and Asia – including Russia and China – in the region and the commercial and economic – (inaudible, background noise) – and the risk and the ways – (inaudible, background noise) – managing them that we face. In a way, this is some input – (inaudible, background noise) – question: Where are we in this regard?

MR. VARGAS: We field the questions or –

MR. DAREMBLUM: Yes, yes, of course, everybody, yeah. Would you like to address that question, Caleb?

MR. MCCARRY: I can give it go. Thank you – that's a very detailed and thoughtful question. I'll try to get at what you are trying to get at. I actually think that the presentations I heard were trying to be quite – to look at the region of course in a global context, but also taking into account the region itself. And I guess I would make a couple of comments. One is, you know – what you say about other actors – said actors in the region – of course is true.

And, in fact, from the perspective of the United States, we of course – we're in a competition not only for trade, but for ideas as well, and we need to understand that and we need to be mindful of the history, as I said – our own history with the region, the history of the region and to engage and be prepared to have our ideas compete. I mentioned some of the things that we have been doing, which actually, I sincerely believe that the nature of the relationship of the United States with the region has changed significantly and for the good.

It's not that all of the very gritty things that have put on the table here today are not true – they are. But I think that to the positive, that has changed. So I would answer your question in that way – that this is a marketplace not only of goods and service but of ideas and it is incumbent upon all of us to find ways to come together. And I do believe that the United States has done that and I'm hopeful that that will continue.

MR. DAREMBLUM: John?

MR. WALTERS: Yeah, maybe I'll take also – touch on one of the issues that Mr. Vargas raised. In my view, again, from the government, the United States doesn't have a choice anymore of supporting, very often, authoritarian situations for the purposes of stability. We are motivated by a sense of democracy and freedom is what's right. And, frankly, our policy should be directed for what's right, because you may have wanted to see how extreme we should be in that belief, but it is true.

And, if anything, I would say our ability to engage with these countries, having worked especially Colombia and Mexico – even on some of the Caribbean and Central American issues with regard to law, the sensitivity – the problem of context when, yes, there are issues of corruption or there are issues of violence and even individuals with government responsibility being involved in the violence – the ability to try to remain engaged and use that toward a more just or a better environment is extremely difficult, because the black and whiteness of voices in the United States in the government is pretty strong about, we will not work with, we will not change until.

For a number of these countries, the ability to, one, have patience – we don't have patience and, two, be able to explain to people what is progress and what is kind of becoming a colluder with reprehensible behavior that is government. Again, if you want to have change and there is reprehensible behavior and corruption, you have to try to have a plan that is defensible and that can stand the two-steps-forward, one-step-back that we all know is going to be there.

But when it comes time to explain that or to discuss it, it's extremely hard to sustain such policies, as I think you see around the world. So I do think that in these areas – and I agree about, you can't just be about security or about the drug problem. And I think that's why – when you see the example of Colombia – the failure to pass the free trade agreement is a very, very bad signal by the United States.

And the discussion of opening up the free trade agreement with Mexico in this environment without some kind of particular small issues that we need to address, but if the goal is to develop, to expand, to have transparency, to have rule of law, to have integration, I think one of the good things about the Merida court, for example, is there is money in there to have prosecutors, judges, public defenders from both countries work together and begin to try to integrate some of these systems.

I think that that is an enormously powerful example that doesn't cost a lot, is valuable in Central America – it has not been done as much as it could be – and has been incredibly valuable in Colombia with the change that they've seen in their judicial system. Again, they take time, they're not as visible, it's harder to explain to people that when progress is being made that the public cost of standing with a government that has a mixed record is hard, because, you know, Americans naturally think of democracy properly as people run their own country – we don't run their country for them, and if they are going to do mixed things, that's on them, it shouldn't be on us.

MR. DAREMBLUM: Jorge?

MR. VARGAS: Just one quick comment. I think, from a Central American perspective, one of the problems we face now with relation to the U.S. is that the U.S. has a pro-cyclical foreign relation toward Central America. The only way we can catch the wheel – (inaudible, background noise) – that the U.S. – that you have problems. Then the U.S., we see doing a lot of noises and a lot of interventions.

When we are trying – when we have not these kind of big, hot problems, the United States becomes an aloof partner. So, for example, the United States was there for the war. The United States was not there for the peace, which is a big problem – should be there – maybe stealth, maybe not so visible, maybe not so high profile.

But when peace came, institutional building was crucial. Maybe there was not any more hotspots there, in Central America. So for us, it is sometimes very difficult to decipher what's going on in Europe. We don't know if that today, the United States, for the United States, Central America would matter, if tomorrow, if it will continue to have the same attitude. But

anyway, in a nutshell, I think that for us, this pro-cyclical attitude of being there when there is a problem, not being there when the United States thinks that there are no vital interests involved is for us really a problem.

Q: Thank you. Jerry Samora (ph) from AFP, Agence France-Presse. I got a couple of questions, one for Mr. Vargas. It struck me when you talk about this defensive shield, if I understood well, between – among Costa Rica and Panama, I would like you to develop further on that. And another question for Mr. Walter, precisely about what has been commented before: This kind of agreement – (inaudible, background noise) – signing with countries in the region, and again, that struck me, the fact that maybe now they are even talking about partnership against drug – narco-trafficking. But what do you think, coming from your experience? Is that viable, I mean, is that possible, or is that something – is there something hiding behind – below? Thanks.

MR. DAREMBLUM: Jorge?

MR. VARGAS: Well, yes. My comments on Panama and Costa Rica was the following: Panama and Costa Rica are the only bi-national space without a standing army. On developmental levels, they are pretty much the same, although they have complementary economies. Panama basically is a betting for becoming an international logistics center, and Costa Rica is trying to grow for the high-tech exports. But what I meant is that these two countries seem to throw up their arms with the rest of Central America and say, you know, what U.S. or Mexico, whoever, take charge of the problems of Nicaragua, Honduras, we cannot be there; we have our own share of problems.

They hope they can opt out from the Central American region and just simply say it renounces to become failures within this – (inaudible, background noise) – in a meaningful way. And that would be really a disaster, because those – in the internal geopolitics of Central America, Costa Rica and Panama are important players, and they are kind of the most-developed countries, so they can just say, like trying to (build a mini fortress ?) saying, you know what, the United States, United States, take charge of these failed states, we are no longer trying to do anything in the region and we are look – we are going to look after ourselves. And that's a big problem for the – that will create a political – (inaudible, background noise) – in the region, and that will be very dangerous.

MR. DAREMBLUM: John?

MR. WALTERS: Yeah, again, I obviously don't know what the Russians are thinking, but I would say that the history of non-U.S. cooperation on these kinds of counter-narcotics, law enforcement, rule-of-law issues in the – in Latin America from people outside of this hemisphere has been relatively small provinces and virtually no performance. There are a few exceptions; we have cooperation with the U.K., with France, with the Netherlands in terms of interdiction and some law-enforcement cooperations. There have been a few other cases of the U.N., but in other cases, there has been a lot of talk about, we're going to provide support and we're going to provide equipment, we're going to provide – and generally speaking, that's paper and never the reality or just talk.

Obviously – I’m a little surprised when you say that – presume that this is the high road, because it’s a little hard for me to think that even people outside the hemisphere believe that Russia’s selection of Bolivia is simply the high road of benevolent action in the hemisphere. If they are going to do something, then it’s probably not the high road alone, and again, there are real threats from the cocaine that is being – first started as coca in Bolivia and then moves through the southern part of South America and into Europe.

I don’t think it’s the principal supplier for even that relatively lesser problem in Russia, but – so if you were going to try to, you know, say, this is a domestic problem for us, I don’t think the Russians would start with Bolivia. So again, I suspect that what’ll happen, and that maybe the best outcome is that this is a posturing. If it becomes more than posturing, it becomes real, mill-to-mill or intelligence-to-intelligence activity here. It’s obviously designed to do something that’s not the high road from the view of the United States.

Q: Larry Luxner from the Washington Diplomat. What kind of impact will the recent referendum decree of Hugo Chavez in Venezuela have, if any, on efforts to consolidate democracy in Central America, and secondly, what, if anything, can the region’s countries learn from Colombian president, Alvaro Uribe?

MR. DAREMBLUM: Want to field that? Jorge, you want to field that one?

MR. VARGAS: Yes. Well, besides all the rich symbols of the Bolivarian revolution, I think that now this challenged margin of space is much narrower than a few years ago, first because the price of oil is \$40 and not \$150. So Venezuelan – (inaudible, background noise) – is not the same. Secondly because I think that Lula has been really, really pushing very dedicatedly, at a certain constancy, Chavez into a corner. I mean, Lula’s trying to pick up as the regional leader, so – and Chavez is not able to compete with – (inaudible, background noise).

So what we are going to see? Well, you know, maybe some noises in Nicaragua. I don’t know – (inaudible, background noise) – from the elections upcoming in El Salvador, some kind of deal with the government if a FMLN wins. But even then, for example, El Salvador has a privileged relationship with the U.S., and I don’t – I am not very sure that they are going to risk – even a leftist government will risk this privileged relationship with the U.S. they are trying to forge.

So I think that beyond all the celebrations and rituals, I don’t think there would be like a very, very important effects, except that we have a challenge for five, 10 years.

And Uribe? I don’t know, Uribe is kind of – for us in Central America is kind of a difficult equation. On the one side, we celebrate the decrease in the war against the FARC, but on the other hand, there are some ripple effects of those who have unintended consequences that are problematic for us.

For example, some drug lords have moved to Central America because have been very hard-pressed in Colombia. So that’s kind of not quite fortunate for us. That’s kind of an

unintended consequence. But then Uribe, in spite of many virtues, has also certain drawbacks. Uribe has very problematic relationships with the institutional framework, for example with the judiciary and with other institutions.

In a way, Uribe is a Latin-American leader that – is a typical Latin-American leader that has difficulty to accept that there are certain checks upon him, and if you put rhetoric aside, in that sense, sometimes is quite similar to other fellows who have very different ideologies, in the sense that he's kind of this macho leader saying, well, the country should be going this way, and whoever is not in agreement has a problem with me.

So Colombia, Colombia's situation for us is much better, much better. That is improving, we celebrate that. At the same time, there are unintended consequences of that improvement that very, very, were very difficult to estimate, and on the other hand Uribe, well, I mean, sometimes has another, as usually Latin-American politicians have, has many shades of gray that you should account for.

MR. DAREMBLUM: There was a question over there?

Q: I'm Ellen Bernstein (ph) from the – (inaudible) – Development Corporation. My question's for Mr. McCarry. You made reference to the plan that Senator Menendez is elaborating, financial investment for the Americas. And I'm interested just to know if you could say a little more about what that would encompass, and in particular if it would follow a similar model to the transition plan for Cuba that you presided over recently in terms of infrastructure, intervention and social services investment.

MR. MCCARRY: Well, they're two separate things, and I can't really speak for Senator Menendez, I just draw attention to it. I did – was aware of it because when I served on the subcommittee staff of the Western Hemisphere Subcommittee, he was a working member, and he was working on it back then. And it essentially a piece of legislation that's available through Thomas, so you can look it up yourself. It's actually pretty short, but what it does is, as I understand, that is to provide for authorization of funds for social investment both through the U.S. government directly through USAID and through the International Development Bank.

It's intended as a – I think, as I recall, as a way to also complement and support the engagement we've had. And it is significant, the – with developing trade agreements in the region, with investment in the social sector. Which would also, as I – you'll have to look at the legislation to get the exact language, but as I understand, also of course carries with it a counterpart investment by the host governments, as well. But it's – what struck me about the legislation, both in terms of the – I think, that it's an important idea, was that it was something that was passed in the Senate with very strong bipartisan support, including the chairman, the ranking member of the Foreign Relations Committee and the Senate majority leader.

MR. DAREMBLUM: Thank you.

Q: Hi, my name is – (inaudible, background noise) – I work for the InterAmerican Development Fund, and I have two questions. The first one was for – (inaudible, background

noise) – Central American. Actually, I’m more concerned by the relations of Central America with China and Russia. (Inaudible, background noise) – or signing a free trade agreement with China, and it was the first – (inaudible, background noise) – in establishing increased relations with the – (inaudible, background noise) – in detriment of –

MR. DAREMBLUM: One observation: Costa Rica hasn’t signed a free trade agreement. It’s –

Q: No, it’s – (inaudible, cross talk)

MR. DAREMBLUM: It’s negotiating a free trade agreement.

Q: Right. Thank you very much for the –

MR. DAREMBLUM: Sure.

Q: – negotiating. But also, some other countries maybe would like to open – (inaudible, background noise) – economies to this – to these countries. And this is why it’s interesting, because of the long relation of Central America with Taiwan, so I would like to know which are the clues on these – (inaudible, background noise) – relation.

And my second question is, well, I also think that Merida Initiative has been a landmark step in the region – (inaudible, background noise) – against trafficking, but I have the sense that also in Mexico, as in Central American, there was a criticism about, this is not a collaboration, and it should be, because, yeah, we are – (inaudible, background noise) – some things, but also United States have to do things on its side – on their side and – (inaudible, background noise) – countries are – (inaudible, background noise). So which are your points on the collaboration of United States, and also, while in Central America, they felt that Initiative Merida – the amount allocated for Central America was a very reduced in the overall – (inaudible, background noise), and also because the –

MR. DAREMBLUM: Excuse me, for the sake of time, I’m going to ask – Jorge, would you like to tackle the Taiwan-China?

MR. VARGAS: Just to say that –

Q: Thank you very much.

MR. VARGAS: Thanks. Just to say that from a small country’s perspective, open country, relationship with biggest amount, larger amount of countries are welcome. You play their game. I think that Costa Rica is really trying to milk China the most until the rest of Central America will sign up also with China. So it’s the timing, but also that – also on that, I don’t view this as a landmark thing. Whatever you want.

MR. DAREMBLUM: Hillel.

Q: Thank you. Hillel Fradkin of the Hudson Institute. I have two questions, one for Mrs. Krueger and one for everyone generally. First, I was wondering, one has a powerful sense, especially in Washington, that a substantial – some substantial portion of the Central – Central American economy is a form of remittances from the United States. And I was just wondering what – if there's good data on what percentage that is and possibly also what the current economic downturn will mean in that regard.

The second question more generally is this: Professor Vargas made a pretty powerful case for a kind of problem in ongoing relations with – between the United States and Central America, that we only pay attention when there's a lot of trouble, and we buy future trouble by not using, so to speak, the peace and prosperity effort, if there is prosperity, to prepare for the future.

But part of that, it seems to me, is often that there are so many different things people suppose as projects for American assistance, and I was wondering if the panelists might say what they think is really the most crucial from the point of view of American assistance with respect to Central America, partially because – (inaudible, background noise) – sort of focus on certain things, it's possible to have the patience and persistence to get something done. Is it the judicial, is the improvements in judicial, the judicial situation that several people spoke about, including Director Walters, or is it education, specifically, or is it – is this – (inaudible, background noise) – that's the general question.

MR. DAREMBLUM: Professor Krueger?

MS. KRUEGER: Yeah. On remittances, we do not have all the data. The World Bank has been making an effort to post our data. I worked in Mexico last week, and their estimate is that so far, remittances to Mexico have fallen about 12 percent, from about 24 billion to 22 billion is their rough estimate as of now, and that seems to be an estimate that there's no reason to think it would be greater or less, as far as I know at least, for other countries.

The other interesting thing, though, is that the Mexicans claim, and what seems to be happening, is fewer Mexicans are trying to enter the United States, but also fewer are going back, because they figure that once they go back, they may not find another job. So they're not quite so sure how all of this will come out. It's obviously a work in progress, and a lot depends for everybody, but including, especially I think, Central America, how long we're in the down-phase of this current recession. If the bottom comes fairly soon, then I would guess there won't be much impact. If it goes on much longer, then it could be quite a different story.

So I think it's fine to mention what's critical here, and we really do not have a good fix on the momentum of the downward pressure on the economy, the magnitude of the interests are self-collecting, the things that may come in from the Obama administration, the rest of the world and so on. So there's a lot of uncertainty right now.

As to American assistance to Central America, based on what I was looking up this morning, I guess I'd be at least somewhat pessimistic as to how much assistance there will be. So many of the things that appear to need doing are very much intensely domestic and political.

And I would I think even be a little bit afraid of Americans charging in there in that atmosphere where it is so domestic, politically. Obviously, experts here may have a different view than I do.

MR. DAREMBLUM: I have a follow-up question for Professor Krueger. In view of CAFTA, the Central American Free Trade Agreement, there are a number of requirements concerning the rule of law, the judiciary, the democracy, human rights, and that's – I believe is very important for all the countries. And they have to comply with that, and they committed to do that. I don't know if Professor Krueger or Jorge would like to comment on that and how CAFTA comes into play in what's happening in Central America?

MS. KRUEGER: (Inaudible, background noise) – Jorge.

MR. VARGAS: Just a quick follow-up on the remittances issue. Remittances made up between 10 to 20 percent of GDP in El Salvador, Honduras and Guatemala. They are critical to macroeconomic stability in those countries, and for example critical also for the dollarization in El Salvador.

And if in, for example, the occasion where there is falling in El Salvador – (inaudible, background noise) – that's a real key to their money – all their monetary scheme, based on the dollarization. So remittances is a huge, huge, huge issue in Central America to extent that, for example, is a main issue for El Salvador in the foreign relations this country has with the rest of the world.

U.S. in the region. I think that there are certain things that I hope United States will not do that may be very helpful for us. For example, economic nationalism in the U.S. will be – will prove terrible for Central America, terrible. If you close borders, if you say, well, you know –

MR. DAREMBLUM: Buy American.

MR. VARGAS: Buy American, build, buyers, whatever, that will be a fatal blow for the Central American economy. And it has certain things that you don't know that are actually very helpful. Secondly, there's I think an interesting area to be explored in what we can call the intermestic (ph) issues, things that, although are domestic, they are – they cut through different countries.

For example, migration. That's an intermestic issue. That's from the U.S., Mexico but also Central America, either as a recipient or as an origin of immigration. So maybe we can have a room to explore comparative strategies in the area. For example, dealing with natural disasters, hurricanes, something that goes all the way from Central America to the U.S, that's another field where the cooperation between Central American and the U.S. may create very useful and practical partnerships. Of course – (inaudible) – to have been discussed here. So in sum, I think that for us, it is important not only that thing that U.S. can do but also the things that I hope the U.S. will not do.

MR. WALTERS Can I make one comment on that?

MR. DAREMBLUM: Yes, yes, of course.

MR. WALTERS: I think, from my experience, it's extremely hard to have kind of general principles about how to do this, and that we want that in government, we want equity or we want kind of abstraction, because of categorical, we should invest in this or we should have programs that do that even if they were, you know, rule of law or this or that. It may not be doable or fit into a given context, and it's very hard for us to both have farsighted individuals and them making what appears to be a non-equitable decision to go here or there.

But from my experience, the most important thing in the spending of money and time and support is to have a leader who is remarkably capable. Uribe is a success, and I think he's completely underestimated, even though he's estimated pretty high, in making Colombia a country. I don't think there's a country in the last 10 years that's had the improvement in the rights and security of the citizens that Colombia's had, and yet it's thought of as a mix. But the reduction of the murders, kidnappings, massacres and all the kinds of changes in violence and security, the rule of law, the ability to have institutions, has been dramatic.

He took his own cabinet to communities throughout the country and kind of made the government come to the people, and created a country in places the country didn't exist. Many of the countries of this hemisphere to the south need that kind of welding together. The closest thing I know of in terms of the current time that's – where this is happening is President Calderon in Mexico, where they're willing to kind of – and they have enormous support from their populations which were provided at the beginning and they sustained support over time, different periods of time for that.

And that – and yet, again, there's a mixture, mixture view because of this conflict and also because there is of course an ambivalent view about the relationship with the United States. Countries want independence, democracies want to have the rule of the people. They are not ruled from people afar. On one hand, I understand the point we should be involved earlier when it's nice to – basically our view is, if it's not a problem, you govern yourself. That may not be prudent over the long term, but it is, I think, deeply engrained in every democracy.

MR. DAREMBLUM: One final question, and of course, ladies always have the last question.

Q: Thank you, I am Monique Piguerez (ph) from Costa Rica. A pleasure to be here – thank you for the invitation. I wanted to draw attention to the texture of society in Central America and to the fact that the contraction U.S. and world economies is going to have a huge effect on every country of the world of course, and certainly in these small countries. I say this because they were growing at pretty good, satisfactory rates up to the current crisis – all the countries were, and even making palpable improvements in areas which, as Dr. Krueger said, were still terribly deficient.

But even in areas like business climate and judiciary systems and things that have been mentioned here, progress was being made slowly but surely. All of those concepts, however, were premised growing economies. The Central American Free Trade Agreement could, as

many free trade agreements around the world in the past have done, been used to – (inaudible) – modernization and improvement of the legal framework and better integration into the world economy and even strengthening of human rights – develop an environmental responsibility – (inaudible, background noise).

You can use a free trade agreement to or even admission to the WTO to trigger all kinds of very interesting progressive steps towards a more prosperous society. The probability that this downfall – this shrinking of the world economy persists then – (inaudible) – will be diminished, meaning that the first floor of a lower-middle class and lower-lower class people in these countries will no longer have the income they were receiving. And with reduced trade, the middle class that was emerging with the growth of these economies will also shrink, which is of course happening all over the world, including in this country.

If it's a short-term crisis, then possibly there are enough resources to survive and to go on taking advantage of the Central American Free Trade Agreement and other international agreements having to do with infrastructure and with drugs contravention. But if the economy keeps shrinking, then these economies are left without markets, of course.

If they are left without markets, then this new safe haven that is emerging, which is based on concentration of power, authoritarianism, non-conforming political – (inaudible, background noise) – ostensibly consultative to elections but in fact deceptively authoritarian, which is what is happening in countries in Central America and in South America. That will persist.

So I just want to call attention to the necessity – this sounds like a Marxist defense – of the economy growing in order for these societies to retain their present, even back vague possibility of moving forward. If the economies shrink, then all of the underlying forces that are feeding into narco-traffic, violence and terrorism and certain violation of all free-trade agreements and civil war will get even worse aside from increase of poverty, which is the obvious result.

MR. DAREMBLUM: Thank you, Monique. We always promise here to end by 4:00 in the afternoon because we know people are very busy. Why don't we conclude by expressing a round of applause to our panelists. (Applause.) Thank you very much for joining us this afternoon.

(END)