

IMMIGRATION: RESPONDING TO A REGIONAL CRISIS

HEARING BEFORE THE SUBCOMMITTEE ON THE WESTERN HEMISPHERE OF THE COMMITTEE ON INTERNATIONAL RELATIONS HOUSE OF REPRESENTATIVES ONE HUNDRED NINTH CONGRESS

SECOND SESSION

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JULY 26, 2006
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Serial No. 109-235

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Printed for the use of the Committee on International Relations



Available via the World Wide Web: <http://www.internationalrelations.house.gov/>

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U.S. GOVERNMENT PRINTING OFFICE

28-968PDF

WASHINGTON : 2006

For sale by the Superintendent of Documents, U.S. Government Printing Office
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IMMIGRATION: RESPONDING TO A REGIONAL CRISIS

WEDNESDAY, JULY 26, 2006,

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON THE WESTERN HEMISPHERE,
COMMITTEE ON INTERNATIONAL RELATIONS,
Washington, DC.

The Subcommittee met, pursuant to notice, at 2:10 p.m. in room 2172, Rayburn House Office Building, Hon. Dan Burton (Chairman of the Subcommittee) presiding.

Mr. BURTON. Good afternoon. A quorum being present, the Subcommittee on the Western Hemisphere will come to order. I ask unanimous consent that all Members and witnesses' opening statements be included in the record, and without objection, so ordered.

I ask unanimous consent that all articles, exhibits and extraneous or tabular material to be referred to by Members or witnesses be included in the record, and without objection, so ordered.

I ask unanimous consent that any Member who may attend today's hearing be considered a Member of the Subcommittee for the purposes of receiving testimony and questioning witnesses after Subcommittee Members have been given the opportunity to do so, and without objection, so ordered.

Today we will tackle perhaps one of the most difficult issues facing our hemisphere, immigration. From the beginning of its "New World" roots until this very day, the United States has served and continues to serve as a dream destination for countless millions. As a nation of immigrants, our culture, dreams, economic prosperity, and our many other strengths come from the people who have landed on our shores throughout the centuries, whether by choice, necessity, or coercion.

Today the Subcommittee on the Western Hemisphere will examine immigration from a different perspective than we have seen to date. We do not intend to discuss building walls or deploying troops. Instead we intend today to engage our neighbors in the hemisphere in an effort to better understand the immigration problem and hopefully convince our neighbors that they too have a dog in this fight.

On February 16, 2006, the Mexican Congress unanimously adopted a resolution entitled "Mexico and the Migration Phenomenon." This historic resolution represented the first public acknowledgement by the Mexican Congress that they too are responsible for curbing illegal immigration into the United States.

Within the February 16 resolution is the commitment of the Mexican Congress to improve border security on their side and to

ensure that everyone who leaves the country does so through legal channels. It also commits the Mexican Government to secure its southern border where migrants from South and Central America are crossing into America on their way to the United States.

These principles and the other accompanying recommendations represent a sharp departure from past practices in Mexico. We commend the Mexican Congress for this new approach. We must now build on this commitment with the new Government in Mexico as well as to engage the governments in all of Central and Latin America.

In my experience, I have found that the majority of work-seeking illegal immigrants come from Mexico, Guatemala, El Salvador, Honduras and other nations throughout Latin America. They are looking for better paying jobs than those available in their home countries. If these economies were in better shape and the local population was able to find jobs with more competitive wages, they would not want to leave, and the number of illegal immigrants looking to come here would shrink dramatically.

We can help these countries stimulate their economies through free and fair trade agreements, and we already are off to a great start. Congress passed the Central American Free Trade Agreement in 2005, integrating the economies of five of the Central American nations as well as the Dominican Republic with our own and greatly expanding their access to foreign direct investment. We have pending agreements with Colombia and Peru, and I think we have one that we are hoping to work out with Haiti, which should be taken up in Congress very soon.

As Chairman of the House International Relations Subcommittee on the Western Hemisphere, I have seen the progress being made by many of our friends in Latin America. In many countries, jobs are being created and economies are being strengthened, but such progress is not enough.

We should work with the leaders of these countries, many of whom I have come to know well and admire, to build on the economic strength that comes from these agreements and redouble our efforts to close the development gap. I have every hope and expectation that they will work with us in this endeavor.

Today we will hear from witnesses from the State Department and the Department of Homeland Security, which are responsible for current U.S. immigration policy and enforcement. These agencies will implement the final immigration bill that will come out of Congress very soon. I look forward to hearing your testimony and asking you some questions in the not too distant future after we hear from my colleagues.

And now, Ms. Napolitano, we will hear from you since Mr. Engel is on the Floor handling another bill right now.

[The prepared statement of Mr. Burton follows:]

PREPARED STATEMENT OF THE HONORABLE DAN BURTON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF INDIANA, AND CHAIRMAN, SUBCOMMITTEE ON THE WESTERN HEMISPHERE

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Ms. NAPOLITANO. Thank you, Mr. Chair, and as you have asked, we will submit his opening remarks for the record.

Mr. BURTON. Without objection.

Ms. NAPOLITANO. Thank you, sir. Mr. Chairman, immigration reform is a totally important, critical subject for many of us, and I welcome the opportunity for Congress to continue the discussion, open discussion, frank discussion, and transparent discussion.

For the record, I would rather have some discussion also with the different entities on how we can have a conference so that we can move the bill on this side of the House and move on with what we need to do and provide a fair reform immigration bill before we leave on break.

Americans, as you well know, are very concerned about what is happening in the United States, and they are looking for us to develop a solution with everybody at the table, not stalling, not ignor-

ing, not placing blame but actually getting together and coming forth with a solution.

We are here today of course to talk about the international aspects of migration. I was born and raised in a border town and the fact that the focus it is going to take will allow us to discuss some of the main reasons for the migration, not just from Mexico but from the other countries south of the border, our neighbors.

And I must state, Mr. Chairman, that everybody talks about Mexicans. They are also Americans because it is the Americas that we talk about. We all live in the United States. Any country in the Western Hemisphere is part of the Americas.

As you well know, the primary drive of the migration to the United States is the lure of good paying jobs or at least jobs that they can send money home to be able to survive. That is where we failed, Mr. Chairman. We have not worked consistently with our neighbors south of the border to allow them to work on developing their economy to where there are working men and some women crossing the border to be able to maintain their family.

Mexico, I believe is number three in remesas, which is remittances to that country. That is what sustains the economy. Now if they had the economy built up, if we were able to help them and the other countries, they may not have the labor that we hypocritically want in the United States, and not willing to get the employers to provide sanctions against those who would hire undocumented.

It is a significant gap. It is an international issue that I am hoping that we would be able to discuss with the new coming President, the President-elect, whoever it may be, so that we can determine what Mexico can do, as you well say, to help us control the border on both sides.

Considering that the per capita income in Mexico is less than one-sixth of the United States, it is very reasonable people come seeking a better future for themselves and their families. And, of course, as we all know, in 1994, NAFTA, which had a profound effect on Mexico's economy, was not as beneficial to Mexico as everybody would have us think.

Five million Mexican farmworkers lost their livelihood and were forced off their lands as our United States corn was dumped on their Mexican market. And despite the political promises from both sides of the border, the economy in Mexico failed to create the new jobs promised. The average Mexican wages have fallen, not risen. So half of the workforce now makes less than \$8 a day, which is not even enough to sufficiently sustain their family.

The vast majority of Mexican workers have not benefitted, and it is widely believed that the employed farmers and agricultural workers of 10 years ago have become the undocumented immigrants of today.

In comparison, our economy is in dire need of new workers entering the labor market in order to keep growing. It is a wonder, Mr. Chairman, that the Mexican workers are compelled, or is it any wonder that they are compelled to seek their fortune in the United States to provide for their families? I do welcome the witnesses, and as a daughter of a Mexican mother and a Mexican father born in the United States, I have a great interest in this.

I believe I still have relatives south of the border. Conditions are not getting any better, and I think notwithstanding the politics of the countries in the elections and other areas, I think we can play an important role, and I think we need to start talking turkey with Mexico at a level that we need to make those changes. So, with that, Mr. Chair, I thank you for allowing me to have these comments and look forward to the testimony, although I will have to leave as soon as Mr. Engel arrives. Thank you, sir.

Mr. BURTON. Thank you, Mr. Paul.

Mr. PAUL. Thank you, Mr. Chairman, and I want to thank the Chairman for calling these hearings. I think these are very important hearings. As most of you know, I advocate very minimal Federal Government. I think that our Government generally speaking does a lot of things that it should not be doing, and in the other sense, I think they do the things that they are responsible for rather poorly, and I would put border patrol into that category.

And I think there are several reasons for this. The fast track to citizenship I think is a tremendous incentive, and if you give incentives or subsidies to anything, you get more of it. I do not believe we will ever be able to solve our problem on the immigration and the borders without dealing with the welfare state issues, because I think the welfare ethic both contributes to our employment type of problems here where jobs go begging and there are job needs.

At the same time, if there are social service incentives for people to come over as well as citizenship, it is a tremendous incentive which none of us could resist if we were in the same set of circumstances. But the emphasis on border protection here I think is very proper. We have a problem. We need to deal with it.

I would like to make just one other point, and that is that we deal with borders continuously, but for the most part, we deal with borders overseas, and I think more importantly we should be dealing with our own borders. But because we get so involved in borders outside of our responsibility, we spend a lot of money and use a lot of personnel, and then we come up short where our responsibilities lie.

So not only will it require eventually to solve this problem a reassessment of the welfare ethic, I actually think that the way we spend our money and we run up our deficits in our foreign policy will also have to be addressed if we really want to do a good job in providing border security. And I yield back the balance of my time.

Mr. BURTON. Thank you. The Chair recognizes the gentleman from Massachusetts for an opening statement.

Mr. DELAHUNT. I have nothing.

Mr. BURTON. Thank you. Let us see. Ms. Ros-Lehtinen.

Ms. ROS-LEHTINEN. Thank you so much, Mr. Chairman. I would like to thank the Committee, the Subcommittee, for holding this important hearing. I would also like to thank our witnesses for coming here today to share your perspectives.

Immigration has been a highly visible issue this year with much of the discussion focused on securing our borders. However, not much has been said about the implications of this issue within the context of our bilateral relations with our partners. This issue cannot be viewed in a vacuum, but rather a broader more integrated

approach needs to be taken that examines the interrelationship between our foreign policy, the response of the governments in the region, and the conditions that drive immigration from the Western Hemisphere into the United States.

The United States has worked closely for years with our hemispheric neighbors to develop programs to address these conditions and focus on the ultimate goal of sustainability and prosperity for each of the countries involved. However, as the continuing increase in immigration has shown, we are falling short of our overarching goals.

As such, the United States must make its assistance programs more effective to bring economic growth, success, and lasting viability to our neighbors and to ensure that recipient governments are meeting the requirements and conditions that we have set, conditions that will reap benefits for the people in these countries and for the security here in the United States.

Implementing this method, we are able to transition our assistance efforts into a constructive partnership with the eligible democratic countries in the Western Hemisphere. This will also serve as antidotes to the frustration and the conditions that can breed Islamist extremist groups and other terrorist entities such as the FARC.

In addition, our approach must include a strong law enforcement, counternarcotics, and counterterrorism component. Currently our local law enforcement officers have the ability, for example, to arrest illegal aliens or other aliens in violation of immigration status. This is of particular importance as three of the four hijackers from 9/11 who were stopped by law enforcement officers for traffic violations were in civil violation of their immigration status but sadly our law enforcement officers did not have the tools to detain for these civil violations.

In response to the grave lost opportunities, the Department of Justice issued a directive permitting state and local police officers to arrest deportable illegal aliens with either criminal or civil offenses. Unfortunately, included in the Senate immigration bill is a provision which will strip our local law enforcement officers of this authority. This would be a grave mistake that would effectively diminish the capacity of our law enforcement personnel to help keep our country secure and safe from Islamic extremists, other terrorist groups such as FARC, their enablers and their financiers.

We must concern ourselves with gang activity also in the Western Hemisphere. According to a document prepared by the Congressional Research Service, the migration of working age men and women has created an imbalance in the society where children are often raised by family members other than their parents. This has led to a marked increase in gang involvement by these displaced children. These gang members create an environment of civil unrest, therefore undermining prospects for lasting stability and security in the region.

This again reflects the need for a comprehensive, multi-tiered, interagency approach. We must continue to work with our counterparts in the Western Hemisphere so that we can gain partners with a shared vision on vital issues affecting our world. And I thank the Chairman for his time. Thank you.

Mr. BURTON. The Chair thanks the gentlelady from Florida. The Chair recognizes the gentlelady from California, Ms. Lee, for an opening statement.

Ms. LEE. Thank you very much, Mr. Chairman. I want to thank our witnesses for being here and just wanted to very briefly mention a couple things. One is the gentlelady from California, Congresswoman Napolitano, touched on NAFTA. And, of course, I come from California, but I was raised in a border city, El Paso, Texas, and have seen the impact of NAFTA. Unfortunately it has only really increased the race to the bottom and has continued to destabilize border communities.

Loss of livable wages and jobs have forced many into lives of crime and gangs, really quickly replacing the drug cartel of the 1990s. Unfortunately, the lawlessness is quickly spreading throughout Central America, where of course crime and poverty see no end. So I hope the witnesses will address how all of this is related and what you see as NAFTA's responsibility or role in this increasing lawlessness and increasing rates of poverty and crime that we see in our border cities especially.

Also, it is quite disturbing that in recent immigration debate where many tried to equate immigrants with terrorists, and I would like to hear from you what you think that is about. What do you see as the whole issue and how that weighs out when we try to look at some really reasonable immigration policies. Please explain the comparison of terrorism to immigration or terrorists to immigrants.

And, finally, many of you know that we believe or some of us believe that the United States' Haitian and Cuban immigration policies present a double standard for many of us. Haitians do not have immediate political asylum when they reach the United States, although many, including myself, would argue that the political and safety challenges are quite frankly much greater in Haiti than they are in Cuba.

And so, as we look at immigration today, I would like to understand this whole rationale in terms of temporary protective status to Haitians who are currently here and why we will not make these immigration policies equal or why there is not a push to equalize both immigration policies as it relates to Cuba and to Haitians. Thank you very much.

Mr. WELLER [presiding]. The Chair thanks the gentlelady from California for her opening statement and recognizes himself for a brief opening statement.

First, let me just begin by commending Chairman Burton for his leadership in holding this hearing today on the international aspects of illegal immigration which I believe will focus on our own hemisphere today.

Clearly the United States must have secure borders. We must improve our capabilities of preventing illegal immigration, and we must ensure that those who wish to do us harm are denied entry to our country. This issue for the United States is more than about illegal immigration. It is about our security, which cannot be ensured with a porous border.

But this issue is also about our friends and partners in the hemisphere. At the core of illegal immigration is poverty and lack of eco-

conomic opportunity. The best solution for illegal immigration is a job for would be immigrants at home, and that really must be everyone's goal, building economic opportunity across Mexico, Central and South America, and throughout the Caribbean.

The United States is working in partnership with our neighbors toward this end. The partnership for prosperity is a public/private alliance of United States and Mexico Government and business leaders that promotes economic development in Mexico, focusing on areas with high immigration rates.

The United States is also working to build investment in Latin America through President Bush's innovative Millennium Challenge Account, which will encourage countries who govern justly and work to build their economies by providing development assistance that furthers economic growth and prosperity.

In seeing USAID's work firsthand, I visited sites where we are empowering people to build goods suitable to the export market, such as furniture manufacturing in Honduras or projects in Colombia to encourage coca growers to switch to growing coffee as a profitable alternative to growing coca, an illicit crop. These are success stories. Our policies must continue to encourage providing economic opportunity at home to reduce immigration to the United States.

Finally, we must continue to pursue our trade partnership with the Americas. The passage of the Dominican Republic/Central American Free Trade Agreement last year is bringing new economic investment to that region, which will create new jobs, again helping to stem the tide of immigration. But our work on the trade agenda is far from complete.

In our Congress, we have begun the process of deliberations over the Peru Trade Promotion Agreement. The current trade preferences for Peru expire at the end of this year, so it is imperative that we pass the Peru Trade Promotion Agreement to sustain and build the jobs created under the Andean Trade Preference Drug Enforcement Act. The Association of Peruvian Exporters estimates that 2.2 million jobs could be lost in Peru without ratification of the Peru Trade Promotion Agreement. We must ensure this does not happen.

Again, the United States must have secure borders, but we must also have solid policies that will encourage good governance, economic development, and job creation in our hemisphere if we are going to really stem the tide of illegal immigration. I look forward to our witnesses' thoughts today on how best to accomplish this goal by working with our friends in our own hemisphere.

At this time, I would like to introduce our first panel, the panel that is before us, beginning with Ambassador Crescenio Arcos, who is Assistant Secretary, Office of International Affairs with the U.S. Customs and Border Protection at the Department of Homeland Security. Our other witness on the first panel is Elizabeth Whitaker, who has served as Deputy Assistant Secretary for Mexico, Canada, and Public Diplomacy in the Bureau of Western Hemisphere Affairs at the Department of State since September 2005. She has served in Costa Rica, Honduras, Nicaragua, and has joined the Foreign Service in 1984 as a public diplomacy officer with the U.S. Information Agency. I do want to ask the witnesses to stand and raise your right hand to take the oath.

[Witnesses sworn.]

Mr. WELLER. Thank you. I would like to begin and ask the witnesses to summarize their written statement if they would, and they have 5 minutes. And, Ms. Whitaker, if you will begin.

TESTIMONY OF MS. ELIZABETH A. WHITAKER, DEPUTY ASSISTANT SECRETARY, BUREAU OF WESTERN HEMISPHERE AFFAIRS, U.S. DEPARTMENT OF STATE

Ms. WHITAKER. Mr. Chairman, Members of the Subcommittee, thank you for the opportunity to meet with you today to discuss the United States Government's efforts with Mexico to address immigration issues. Today's United States/Mexico relationship is marked by common values and interests, which allows us to work in close cooperation on the many issues that affect the well-being of our citizens.

Recent years have seen an unprecedented level of bilateral cooperation in areas such as democracy, free trade, counterterrorism, law enforcement, the environment, energy, and transportation, some more challenging than others. Additionally, and most relevant to this hearing, we work together closely to keep our shared border secure while facilitating the flow of legitimate goods and people across it. With more than 1 million people crossing the United States/Mexico border daily, you have some sense of the dimension of the challenge.

With Mexico, we have created institutions and infrastructure to enhance border security while making border transit easier and quicker for legitimate travelers and goods. The United States/Mexico Border Partnership established by agreement of Presidents Bush and Fox in 2002, and now largely incorporated into the Security and Prosperity Partnership, SPP, continues to pursue those goals. That program has established trusted traveler programs for both passengers and cargo, the SENTRI program, FAST lanes, to allow us to focus on real threats at the border.

It is clear that with the trade relationship the dimensions of which we have with Mexico, over \$270 billion per year, second only in size to our trade with Canada, we must continue to make those crossings even more swift and safe, and we are committed to doing even more to achieve that goal.

The rise of border crime and violence largely due to the activities of narcotrafficking organizations remains a significant challenge. The Mexican Government has attacked this problem on its side by sending in military and Federal police forces to take temporary control over security and to purge and revamp local police forces in areas where the violence is acute, such as in Nuevo Laredo.

We continue to strengthen and extend cross-border linkages among law enforcement agencies present on the border so that both sides are able to mount coordinated responses to breaking security events. Our Border Liaison Mechanism meetings, hosted by each of the Department of State's border posts and their Mexican diplomatic counterparts two to four times a year, bring together United States and Mexican diplomatic, law enforcement, and other personnel from all levels of government on both sides of the border to discuss issues requiring operational and policy coordination. These efforts must continue.

Mexico has taken its own measures to stem the flow of illegal immigrants on its southern border, people clearly headed to the United States. In 2005, Mexico deported 235,000 people who had crossed its border illegally. The Government of Mexico has tightened its visa regime to require that nationals from countries that were sending large numbers of illegal immigrants apply for Mexican visas before entering that country. Mexico has signed agreements with Guatemala and Belize to reinforce their shared borders against illegal crossings.

We in the United States Government have supported Mexican efforts to control its southern borders by establishing, training, and equipping three specialized mobile interdiction teams and providing three highly sophisticated mobile inspection vans that can inspect cargo vehicles for contraband and hidden passengers. In addition, the United States Government has sponsored border safety training for Mexican officials in Chiapas. Such cooperation on so many fronts is critical on Mexico's southern border, which is remote, sparsely populated, and essentially porous.

President Fox took office in Mexico making immigration reform in the United States his number one foreign policy priority, but we and he know that immigration has domestic roots. We know that immigration from Mexico to the United States will not be permanently reduced until Mexico's economy is more competitive and produces more jobs and the government improves education and infrastructure in Mexico's poorest states.

Indeed, this was the central thrust of immigration commentary by all of Mexico's Presidential candidates during the recent campaign. The United States Government shares that view, that the best way to reduce illegal immigration is through economic development.

Since NAFTA went into effect in 1994, trade between the United States and Mexico has almost quadrupled, and direct investment between the countries has flourished. There is substantial evidence that trade has played a very positive role in Mexico's development. For example, Mexican firms that export have created more than half of Mexico's new jobs since 1995, and those jobs pay on average 40 percent more than jobs in Mexican firms that do not export.

To help those who have not yet benefitted from NAFTA, however, the Partnership for Prosperity or P4P, a public/private sector initiative, was launched by President Bush and President Fox in September 2001. P4P projects focus existing resources primarily on Mexico's poor migrant-producing states. For example, under it, Mexico and OPIC signed an agreement in 2004 for well over \$800 million in financing for projects such as affordable housing and potable water.

USAID and the Department of Agriculture work with their Mexican counterparts on rural development projects in Mexico and expanding access for small entrepreneurs throughout the country to financial services and markets. All of this P4P activity is with an eye to increasing Mexico's competitiveness, increasing employment and incomes, and decreasing the flow of immigrants.

Mexico's government invests heavily in its own development programs as well. One such program grants funds to indigenous cooperatives and individually-owned businesses for market develop-

ment and export promotion. Mexico's Oportunidades Program, with assistance from the World Bank, provides money to poor families, which ensure that their children attend school and get regular medical checkups.

This year Mexico's national employment service began a program in border states called Deportees At Work, which rehabilitates repatriated Mexicans by giving them training and employment to keep them from migrating again. Mexicans of all political stripes recognize that development, jobs, and opportunities are the best bet for retaining the nation's pool of talent.

Recognizing that a transparent and efficient justice system is needed for business competitiveness, USAID and the Department of State's International Narcotics Control and Law Enforcement Bureau support Mexican initiatives in state and Federal jurisdictions to develop criminal justice reforms, train judges, prosecutors, and public defenders, and enhance the investigative and forensic capabilities of Mexican civil authorities and investigative police.

We are gratified by the number of states that are requesting assistance for such reform, recognizing that it will provide swifter, more equitable justice for all as well as a more level playing field for investors and businesspeople, thereby stimulating economic development.

Mr. Chairman, this concludes my remarks. I would be happy to answer any questions you or other Members of the Subcommittee may have. Thank you.

[The prepared statement of Ms. Whitaker follows:]

PREPARED STATEMENT OF MS. ELIZABETH A. WHITAKER, DEPUTY ASSISTANT SECRETARY, BUREAU OF WESTERN HEMISPHERE AFFAIRS, U.S. DEPARTMENT OF STATE

Mr. Chairman, members of the Subcommittee, thank you for the opportunity to meet with you today to discuss the U.S. government's efforts with Mexico to address immigration issues.

The modern U.S.-Mexico relationship is marked by common values and interests, and that allows us to work in close cooperation on the many issues that affect the well-being of our citizens. Recent years have seen an unprecedented level of bilateral cooperation. We are partners on issues such as democracy, trade, counter-terrorism, law enforcement, the environment, energy, and transportation—some more challenging than others. We share a commitment to democracy, human rights, and free markets in the pursuit of security and prosperity for our people.

Certainly the cornerstone of this North American community was set twelve years ago in NAFTA. Since that agreement went into effect in 1994, trade between the United States and Mexico has almost quadrupled, and direct investment by the United States in Mexico and by Mexico in the United States has flourished. Mexico has passed Japan to become our second largest trading partner and export market, trailing only Canada. Today, value-added manufactured goods account for 90 percent of Mexico's exports, and there is substantial evidence that trade has played a very positive role in Mexico's development. For example, Mexican firms that export have created more than half of Mexico's new jobs since 1995, and those jobs pay on average 40 percent more than jobs in Mexican firms that do not export.

President Vicente Fox took office in Mexico making immigration reform in the United States his number one foreign policy priority. While for us, immigration is largely a domestic, not foreign policy issue, we have discussed the issue with the Mexican government on many occasions. Ultimately, we know that immigration from Mexico to the United States will not be permanently reduced until Mexico produces more good jobs, regains competitiveness, and improves education and infrastructure in its poorer states. Thus, our focus on reducing migration is linked in the long run to economic development and the rule of law.

Despite the enormous success of NAFTA, North America—and Mexico in particular—still face significant economic challenges. The Partnership for Prosperity (P4P) is a public/private sector initiative launched by Presidents Bush and Fox in September 2001 that focuses on developing those parts of Mexico that have bene-

fited least from NAFTA. P4P is a pragmatic dialogue on Mexican development and U.S.-Mexico competitiveness. P4P projects focus existing resources primarily on Mexico's poor, migrant-producing states. Many smaller United States Government (USG) agencies would have had difficulty reaching out to their Mexican counterpart agencies without P4P, and since many do not have an international mandate, P4P gives them a structure within which to collaborate with other USG agencies and Mexican counterparts.

P4P has yielded significant successes. For example, a historic agreement in 2004 allowed the Overseas Private Investment Corporation for the first time to offer its full range of services in Mexico—well over \$800 million in financing for new projects so far. Peace Corps and two Mexican government entities signed agreements in 2003 and 2006 to allow volunteers to work in Mexico, where they are active in information technology, small business development, science, and technology.

Through P4P, the U.S. Agency for International Development (USAID) and the U.S. Department of Agriculture (USDA) work with their Mexican counterparts on rural development projects in Mexico. USDA has focused on sharing best practices on rural development with Mexicans and on bringing in buyer missions. USAID has undertaken a series of activities to increase Mexico's competitiveness, thereby increasing employment and income and decreasing the flow of immigrants. For example, the agency works to expand access for small entrepreneurs throughout the country to the financial services and market linkages that they need to take advantage of economic opportunities.

Also under P4P, a "Quadripartite Competitiveness Group" composed of U.S. and Mexican government and private sector representatives meets regularly to improve Mexico's business climate. The American Chamber of Commerce (AmCham) in Mexico strongly supports this forum, which gives them access to senior Mexican officials, establishes closer ties between the AmCham and the Mexican business community and gives them both an opportunity to weigh in jointly on issues. USAID is working with the Mexican Association of State Secretaries of Economic Development to help Mexican states and cities to improve their regulatory policies and practices.

Recognizing that a transparent and efficient justice system is needed for business competitiveness, USAID and the Department of State's International Narcotics Control and Law Enforcement Bureau (INL) support Mexican initiatives in state and federal jurisdictions to develop criminal justice reforms; train judges, prosecutors, and public defenders; and enhance the investigative and forensic capabilities of Mexican civil authorities and investigative police. We are gratified by the number of states that are requesting assistance for such reform, recognizing that it will provide swifter, more equitable justice for all, as well as a more level playing field for investors and businesspeople, thereby stimulating economic development.

Our ties with Mexico are increasingly framed by a trilateral relationship that includes Canada, as we all share a commitment to enhance the security, prosperity, and quality of life for our citizens. Created in March 2005, the Security and Prosperity Partnership of North America, or SPP, provides a framework for us to advance collaboration in areas as diverse as security, transportation, the environment, and public health. The Partnership has increased our institutional contacts to respond to our vision of a stronger, more secure, and more prosperous region. Indeed, SPP's goals are in many ways a broader version of much of P4P.

Presidents Bush and Fox and Canadian Prime Minister Stephen Harper celebrated the SPP's first anniversary at a meeting in Cancun this past March. The leaders reviewed the progress made on the SPP agenda, and instructed their ministers to continue to move forward. The leaders also agreed on initiatives to strengthen competitiveness in North America (including the creation of a North American Competitiveness Council led by the private sector), to cooperate on managing the threat of avian and human pandemic influenza, to collaborate on energy security, to work toward smarter and more secure borders, and to develop a common approach to natural and manmade disasters.

Let me turn now to our border with Mexico. Facilitating the secure flow of goods and people across our shared border is one of the greatest challenges before us today. We have worked closely with Mexico to create institutions and infrastructure to enhance border security while making border transit easier and quicker for legitimate travelers and goods. The U.S.-Mexico Border Partnership, established by agreement of Presidents Bush and Fox in 2002, and now largely incorporated into the SPP, continues to pursue those goals.

That program has established trusted traveler programs for both passengers and cargo to allow us to focus on real threats at the border. SENTRI lanes (Secure Electronic Network for Rapid Travelers Inspection) at six ports of entry ensure expedited crossings for identified low-risk travelers. Two new SENTRI lanes were

opened at border crossings into Calexico, California and El Paso, Texas in December 2005, and three more are scheduled to open this year.

A similar program of FAST lanes (Free and Secure Trade) for cargo shipments provides expedited crossings for cargo from participating companies who have demonstrated that their facilities are secure and their shipments low-risk. It is clear that with more than 1 million legal crossings every day on our southern border, more must be done to make those crossings swifter and safer, and we are committed to doing even more to achieve that goal.

Our border region has witnessed increased crime and violence, largely due to the activities of narco-trafficking organizations and increased enforcement on both sides of the border. The Mexican government has made a sincere effort to attack this problem on its side, for example, by sending in military and federal police forces to take temporary control over security and to purge and revamp local police forces in areas where the violence is acute, such as Nuevo Laredo. We are continually extending cross-border linkages among our law enforcement agencies along the border deep into the operational level to be able to mount coordinated responses to breaking security events, and there are many examples of ongoing cooperation with the Mexican government on border security.

Foremost among these are the Border Liaison Mechanism (BLM) meetings. These meetings are hosted by each of the Department of State's border posts and their Mexican diplomatic counterparts two to four times a year. They bring together U.S. and Mexican diplomatic, law enforcement, and other government personnel from all levels of government on both sides of the border to discuss issues requiring operational and policy coordination. These meetings allow our diplomats on the border, as well as U.S. law enforcement officers, to get to personally know their Mexican counterparts.

Operation Against Smugglers Initiative on Safety and Security (OASISS) also complements the Customs and Border Protection strategic plan. OASISS is an alien smuggler prosecution program that was included as a priority under the Security and Prosperity Partnership (SPP) between the United States and Mexico. The OASISS program will align itself with the broader Border Safety Initiative, as well as the various enforcement initiatives in the United States focused on combating illegal cross border traffic. The Government of Mexico, specifically the Mexican Attorney General's Office (PGR), is a critical partner in this prosecutions program, which is aimed at increasing safety and reducing migrant deaths, while targeting alien smugglers and human traffickers operating in the immediate border region. OASISS focuses on high-risk areas where migrant lives are in danger due to smuggling organizations utilizing our shared border for their illicit criminal activity. OASISS is operational in California, Arizona, New Mexico and the El Paso area of Texas. Over 250 OASISS cases have been processed since the program began in August 2005.

In addition, for the past three years our government has collaborated with the Mexican government in the Interior Repatriation Program, which returned over 35,000 Mexican illegal immigrants apprehended in Arizona to their hometowns in the interior of Mexico. I know that my DHS colleague has further details on this program.

I would also mention the latest such collaboration between our two governments: On March 3, Homeland Security Secretary Michael Chertoff and his Mexican counterpart signed the Action Plan to Combat Border Violence in Brownsville, Texas to establish operational protocols to govern coordinated, trans-border law enforcement action in response to violent security incidents along the border.

Mr. Chairman, this concludes my remarks. I would be happy to answer any questions you, or other members of the Subcommittee, may have. Thank you.

Mr. WELLER. Thank you, Ms. Whitaker. Ambassador Arcos.

TESTIMONY OF THE HONORABLE CRESCENCIO ARCOS, ASSISTANT SECRETARY, OFFICE OF INTERNATIONAL AFFAIRS, OFFICE OF POLICY, U.S. DEPARTMENT OF HOMELAND SECURITY

Mr. ARCOS. Thank you, Mr. Chairman and Members of the Subcommittee. It is a privilege and an honor to appear before you today to discuss our Government's efforts to address immigration issues in the Western Hemisphere.

As the Assistant Secretary for International Affairs in the Department of Homeland Security, I am particularly honored to de-

scribe the Department's work to contribute to the comprehensive immigration reform that the Administration seeks.

First, though, I want to express my gratitude to the Committee for its support of key initiatives with our Canadian counterparts, Mexican counterparts, and other neighbors in the Caribbean and Latin America. Your contributions have played a valuable role in our efforts to pursue programs of consequence with key partners in the Western Hemisphere.

In the current immigration discussion, there is much talk about how to better secure our borders to prevent illegal immigration, but on its own, a secure border is an incomplete solution. Root causes of illegal immigration often arise from rampant poverty or lack of opportunity in the immigrant's country of origin, and secure borders would hardly begin to address the illegal immigrants already living in the United States.

This is why the Administration supports a comprehensive approach to immigration reform that accomplishes three objectives: Strengthened border security; a comprehensive interior enforcement strategy that includes worksite enforcement; and an established temporary worker program. Mexico has proven to be a critical partner in the last several years through ongoing work at the local level, regional border liaison mechanisms, and national bilateral fora.

DHS has partnered with representatives of the immigration, law enforcement, security, and customs agencies of Mexico as well as many Mexican businesses. To elaborate, I would like to briefly list some of the initiatives and programs currently underway with our Mexican colleagues and other friends in the hemisphere.

The first initiative is the Security and Prosperity Partnership, SPP. This executive partnership was announced by President Bush, Prime Minister Martin, and President Fox in March 2005 in Waco, Texas to enhance security, prosperity, and the quality of life for citizens within North America. Secretary Chertoff is responsible for the security pillar of the SPP. There are 10 security-related goals listed in the testimony I have submitted to the Committee.

I might note that one of the key security goals is a screening of travelers to North America, and we are working with the State Department to coordinate visa policy with Mexico and Canada.

Interior repatriation is another initiative. Interior repatriation of illegal aliens to their place of origin resulted from a 2004 memorandum of understanding between the Department of Homeland Security and the Government of Mexico.

The interior repatriation program seeks to diminish the illegals' attempts to reenter the U.S. immediately across perilous terrain and harsh summer heat while simultaneously limiting their contact with human smugglers who operate near the United States/Mexican border. For the past two summers, the United States and Mexican officials have collaborated to return nearly 35,000 Mexican nationals to hometowns in Mexico's interior. We are also working with Mexican officials to update and implement local repatriation arrangements within DHS and Mexican consulates throughout the United States.

Another initiative is the Border Enforcement and Security Task Force, which is known as BEST. On January 6, 2006, Secretary

Chertoff announced the formation of BEST, which represents an integrated effort to combat border violence. This effort involves DHS components, state and local enforcement agencies, and Mexico's Center for Investigation and National Security, known as CISEN. The first two test sites for it are Laredo, Texas and Tucson, Arizona. The goals are to reduce border violence and disrupt the violent organizations that are its cause.

Another initiative is the United States/Mexico action plan to combat border violence, which was signed March 3, 2006, in Brownsville, Texas between Secretary Chertoff and his Mexican counterpart, Secretary of Governance and Public Safety Carlos Abascal. The action plan commits both governments to combat border violence and improve public safety while sharpening procedures for response to the incidence of violence and illegal crossings across the United States/Mexico border.

Yet another initiative is the Operation Against Smugglers and Traffickers Initiative on Safety and Security, known as OASISS. OASISS ensures that criminal records for smugglers who were previously caught and released are used to detain those who previously escaped prosecution. Through OASISS, we have successfully processed 215 cases in cooperation with the Mexican attorney general's office. OASISS is now operational all along the United States/Mexico border area.

Mr. Chairman, Members of the Subcommittee, I have outlined key initiatives today that the Department of Homeland Security has taken with the Government of Mexico and other nations in the hemisphere to address the challenges to security and prosperity that the so-called immigration crisis presents.

As noted today, our work has hardly begun. Only through comprehensive immigration reform which includes secure border, expanded domestic enforcement of our immigration laws, and the ultimate realization of a temporary worker program will we begin to ensure that legal immigration is regarded as the national boon that it is. Thank you, and I would be happy to answer any questions, Mr. Chairman.

[The prepared statement of Mr. Arcos follows:]

PREPARED STATEMENT OF THE HONORABLE CRESCENCIO ARCOS, ASSISTANT SECRETARY, OFFICE OF INTERNATIONAL AFFAIRS, OFFICE OF POLICY, U.S. DEPARTMENT OF HOMELAND SECURITY

Chairman Burton, Ranking Member Engel, Members of the Subcommittee, it is a privilege and an honor to appear before you today to discuss the efforts of the Department of Homeland Security to deal with immigration issues on a regional basis within the Western Hemisphere.

I want to begin by expressing my gratitude to the Committee for the interest and support you have provided for important initiatives with our Mexican counterparts, and other efforts to increase the security of our homeland by cooperating with our neighbors in the Western Hemisphere.

In the current debate in the United States over immigration, much of the public discussion has been over how we can better secure our borders against illegal immigration. But as you on this committee are well aware, the root causes of illegal immigration often begin in the originating countries, as poverty and lack of opportunity spur many to attempt the dangerous trek to the United States. This is why the Administration supports a comprehensive approach to immigration reform that accomplishes three objectives: strengthening border security, ensuring a comprehensive interior enforcement strategy that includes worksite enforcement, and establishing a temporary worker program.

As the causes of illegal immigration are not solely our own, the solutions are not likely to be either. DHS is now, and must continue to reach out to immigrant-sending nations, beyond just our immediate neighbor of Mexico, to those in Central and South America as well. Human trafficking and smuggling networks are embedded throughout these sending nations, and uprooting them will require international cooperation. Transnational criminal organizations operate where they can establish a foothold and fraudulent documents and alien smuggling provide necessary means of funding; combating these operations requires regional and global partners.

As our closest neighbor to the South, and the source of the majority of illegal immigrants to the United States, Mexico is a critical partner for DHS in controlling illegal immigration. And Mexico has proven to be a good partner in the last several years—through ongoing work at the local level, regional border liaison mechanisms and national bilateral forums. DHS works extensively with representatives of the immigration, law enforcement, security, and customs agencies of Mexico, as well as with many of the leading Mexican businesses. I would like to take this opportunity to describe some of the initiatives and programs that are currently underway with our Mexican colleagues.

Security and Prosperity Partnership (SPP)

On March 23, 2005 in Waco, TX, President Bush, along with Canadian Prime Minister Martin and Mexican President Fox, unveiled the Security and Prosperity Partnership for North America (SPP), a blueprint for a safer and more prosperous continent. The Leaders agreed on an ambitious security and prosperity agenda which will keep our borders closed to terrorists and open to trade. The three leaders instructed each nation to establish ministerial-level Security and Prosperity working groups. Secretary Chertoff chairs the security agenda while Secretary of Commerce, Carlos Gutierrez, chairs the prosperity agenda.

The Leaders met again this year on March 31 in Cancun to review progress and renew commitment to enhance the security, prosperity, and quality of life of the citizens within North America. The leaders announced five priority areas: North American Smart, Secure Borders, North American Emergency Management, Avian and Human Pandemic Influenza, North American Energy Security, and the creation of a North American Competitiveness Council (NACC). The Council will comprise members of the private sector from each country who will meet annually with security and prosperity Ministers and will engage with senior government officials on an ongoing basis to enhance competitiveness in the region and ensure a secure home for our citizens.

The Security agenda consists of ten security-related goals including Traveler Security, Cargo Security, Border Facilitation, Law Enforcement, Critical Infrastructure Protection, and Technology. Last June, Secretary Chertoff together with his counterparts in Canada and Mexico, delivered a detailed work plan for the security agenda. A second annual report will be delivered within the coming month.

We continue to strengthen our ties to our Mexican and Canadian colleagues through a number of working groups that were expanded or established to implement the SPP. These working groups are critical to implementing important bi-lateral programs such as NEXUS and the Secure Electronic Network for Travelers Rapid Inspection (SENTRI), the Customs-Trade Partnership Against Terrorism (C-TPAT), Fast and Secure Trade (FAST), the Operation Against Smugglers (and Traffickers) initiative on Safety and Security (OASISS), the Interior Repatriation program (IR) and other repatriation efforts, and Interagency Border Enforcement Teams (IBETS) on our northern border and Border Enforcement and Security Taskforces (BEST) on our southern border which I will describe shortly.

In addition to these initiatives, through the SPP DHS and the State Department are working on visa policy coordination with Canada and Mexico as an effort to implement policies and procedures that will lead to comparable decisions about travelers destined to North America. The end result of this coordinated work is designed to be that a traveler destined to a Canadian or Mexican port of entry experiences substantially the same screening as a traveler bound for a U.S. port of entry.

Further, DHS and State Department are working with Canada and Mexico to further coordinate the list of countries whose nationals are permitted to travel “visa free” to or within North America. Since September 11th, some notable visa policy changes include Canada’s decision to impose a visa requirement on nationals of Saudi Arabia, Malaysia and Costa Rica while Mexico decided to require citizens of South Africa, Brazil and Ecuador to present a visa to lawfully enter Mexico. The reimposition last year by Mexico of a visa requirement for Brazilians has dramatically decreased the inflow of illegal Brazilians across the southwest border.

Secure Electronic Network for Travelers Rapid Inspection (SENTRI)

SENTRI is a “trusted traveler” program exclusive to the Southwest Border. The “trusted traveler” concept assists law enforcement officials at our nation’s borders in distinguishing low-risk passengers from those who present a higher risk to U.S. homeland security. Working with the Department of State, this concept supports DHS’s strategy of using risk management principles and advanced technology to facilitate the entry of low-risk travelers across the border at selected crossings.

SENTRI provides expedited CBP border processing for pre-approved, low-risk travelers who undergo a thorough biographical background check against criminal, law enforcement, customs, immigration, and terrorist indices; a 10-fingerprint law enforcement check; and a personal interview with a CBP Officer. Approved applicants are issued a Radio Frequency Identification (RFID) card that identifies their record and status in a CBP database upon arrival at Port of Entry. An RFID transponder is also issued for the applicant’s vehicle.

SENTRI participants wait for much shorter periods of time than non-participants to enter the United States, even at the busiest times of the day. Critical information required in the inspection process is provided by the RFID technology to the CBP Officer in advance of the passenger’s arrival, thus reducing the inspection time from an average of 30–40 seconds to an average of 10 seconds. Currently, approximately 75,000 individuals are enrolled in SENTRI, accounting for over 300,000 border crossings into the U.S. per month.

Operation Against Smugglers (and Traffickers) Initiative on Safety and Security (OASISS)

OASISS is a bilateral program between the U.S. and Mexico, which enhances our ability to prosecute alien smugglers and human traffickers on both sides of the border. Too often, smugglers responsible for life threatening behavior, and even deaths, on one side of the border were able to evade justice by escaping to the other side. OASISS is currently operational in all four states along the southwest border.

Working with the Mexican Attorney General’s Office (PGR), we have been able to successfully process a total of 251 cases under the OASISS program. In 2005, the Border Patrol, in California and Arizona alone, assisted in the prosecution of 786 smuggling cases, and the Office of Field Operations assisted in the prosecution of 766 cases, a total of more 1,500 alien smuggling prosecutions.

Interior Repatriation Program (IR)

A 2004 Memorandum of Understanding between the Department of Homeland Security (DHS) and the government of Mexico established the framework for our two nations to work cooperatively for the safe and orderly repatriation of Mexican nationals. For the past two summers, the U.S. and Mexican officials developed and jointly administered the Interior Repatriation program to return nearly 35,000 Mexican nationals who voluntarily agreed to be repatriated from the Arizona-Sonora desert to their hometowns in the interior of Mexico. The goals of the program are to reduce the loss of migrant life in the dangerous desert corridor and to break the human smuggling cycle along the border. The program has served as a model of binational cooperation at all levels.

During summers 2004 and 2005, Customs and Border Protection funded and managed the operations of the Interior Repatriation program. Immigration and Customs Enforcement (ICE) is managing and funding the operations of this summer’s program that began on July 7 and is scheduled to continue until no later than September 30. This three month period typically presents the most severe climate conditions for individuals crossing the Arizona-Sonora desert. Those who volunteer for the program are flown to Mexico City and provided bus transportation to their places of origin in the interior of Mexico.

By quickly and safely returning Mexican nationals to their hometowns rather than releasing them on the Mexican side of our shared border, both nations seek to save lives and discourage additional illegal border crossings through hostile, desert terrain.

Further, we are working with Mexican officials to update and implement local repatriation arrangements between DHS and the Mexican consulates throughout the United States. For DHS, CBP officers—including those at ports of entry and in the border patrol—as well as ICE officials are responsible for the safe, orderly, and effective repatriation of Mexican nationals. At the end of June, the first two local arrangements went into effect in El Paso and Chicago. These local arrangements ensure that DHS officials and their Mexican counterparts have clear agreement on the locations, daily schedule, and advance notification for the secure repatriation of Mexicans, including those who have committed crimes in the U.S. and unaccompanied minors. These local arrangements ensure adequate personnel on both sides

to effect the repatriation. After completion of the pilot program period, and a successful evaluation, the templates will be used to draft similar agreements between each Mexican Consulate within the United States and the local DHS Agencies within their jurisdiction.

Border Violence

On March 3, 2006, in Brownsville, Texas, Secretary of Homeland Security, Michael Chertoff, and his Mexican counterpart, Secretary of Governance and Public Safety, Carlos Abascal, signed a Plan of Action committing both governments to combat border violence and improve public safety. The commitment between our two nations will strengthen procedures between federal law enforcement agencies on both sides of the border to respond to a variety of incidents, including accidental crossings, incidents of violence, or other situations that present risks to those who live, work, or travel at our common border.

Border Enforcement and Security Taskforce (BEST)

On January 6, 2006, Secretary Chertoff announced the formation of the Border Enforcement Security Task Force (BEST) in Laredo, Texas. BEST represents an integrated effort to combat border violence and cross-border crime and involves the DHS components, State and Local law enforcement agencies, and the Center for Investigation and National Security (CISEN) in Mexico. We are working to empower our local officials to assess issues and craft solutions appropriate to local circumstances. Our first two test sites for this concept are Laredo, Texas, and Tucson, Arizona. The principal focus of these groups is to work together to reduce border violence and disrupt those violent organizations. Since their inception, the BESTs have achieved 54 arrests, 22 indictments, and 10 convictions and have removed over 60 aliens.

Border Safety Initiative

This is a joint partnership between the U.S. Border Patrol and the Government of Mexico to reduce border risks and deaths. Immigration officials and the Border Patrol work together with Mexican consuls and Grupo Beta units along the border. This initiative includes training on safety and rescue techniques and information sharing.

In Fiscal Year 2005, southwest border deaths increased by 41% (464 in FY05 vs. 330 in FY04) and southwest border rescues increased by 91% (2570 in FY05 vs. 1347 in FY04). These statistics indicate that a secure border will not only have an important law enforcement component, but also yield the humanitarian benefit of saving lives. Border Patrol Search, Trauma and Rescue units (BORSTAR) are elite special response teams with law enforcement search and rescue, and medical aid rapid response capabilities. In addition to its core focus of supporting Border Patrol operations, BORSTAR has become a highlight of a bilateral training initiative in our relationship with Mexico. In December 2005, BORSTAR conducted its first ever search, trauma, and rescue academy for 25 Mexican officials. The training was conducted in the southern Mexican state of Chiapas.

Other Nations in the Western Hemisphere

In addition to our extensive work with Mexico, we are also working with other countries in the Western Hemisphere to better manage illegal migration in the region. Through our work in several multilateral forums, and on a bilateral basis with specific countries, we continue to press for efficiency in the issuance of travel documents for the repatriation of apprehended migrants, and to better manage the transnational impacts of migration. I will mention only a few of these here.

- *RCM (Regional Commission on Migration)*. DHS, together with our colleagues from the Department of State have participated in the Regional Commission on Migration. The RCM, launched in 1996, brings together migration and foreign policy officials from Belize, Canada, Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, and the United States in a multilateral regional forum to discuss, share experiences about, and engage in collective undertakings in response to the dynamic impacts of transnational migration. Non-governmental organizations from throughout the region work with migrants and advocate for immigrant and refugee rights are also included. The RCM conducts annual Vice-Ministerial meetings, semi-annual working level meetings of the Regional Consultation Group on Migration, seminars, projects and other joint activities. The RCM also provides an important forum for the exchange of information on migration issues and allows members to voice concerns relating to their countries' migration agendas.

- *ICAO (International Civil Aviation Organization)*. The United States, Canada, Mexico and the Central American countries are members of ICAO, an international body that promotes standards and best practices for travel documents and aviation security. Through the ICAO, the United States has successfully pushed for incorporation of machine-readable documents, electronic passports and biometric standards for international travel documents that are now being adopted by many countries in the Hemisphere.
- *U.S.-Mexico Binational Commission (BNC)*. The U.S.-Mexico Binational Commission brings together principal officials of the U.S. and Mexican governments annually to confer on a broad spectrum of issues affecting both nations. Secretary Chertoff co-chairs the Working Group on Consular and Migration Affairs and Border Security.
- *GTIP Program*. The President's \$50 Million Trafficking in Persons (TIP) Initiative was established to assist foreign countries in combating trafficking in persons. The Trafficking in Persons Conference held in Tapachula, Chiapas on June 14–15, 2006 resulted in an overwhelming response from government agencies (local/state/federal), NGO's, civil society, and academia. The participants identified next steps and made specific commitments. DHS has established an excellent working relationship with the Policia Federal Preventiva (PFP), the Procuraduria General de la Republica (PGR), the Instituto Nacional de Inmigracion (INM), other governmental agencies, and several Non-Governmental Agencies (NGO's) and now has two ICE Special Agents to provide technical assistance to the dedicated investigative unit. Additional training will be provided to Mexican Immigration authorities in Tapachula during the first 2 weeks in August 2006.

Mr. Chairman, Members of the Subcommittee, I have outlined a number of initiatives today that we have taken with the government of Mexico and other nations in the Hemisphere to allow us to protect America from the terrorist threat while performing our traditional enforcement and facilitation missions. While all of these initiatives are important and will continue, they are only one facet of the solution to the issue of illegal immigration. I urge Congress to pass comprehensive immigration reform that meets the President's stated objectives. Only through a combination of border enforcement (working with our international partners), expanded enforcement within the United States, including an expanded employment compliance and enforcement program to address illegal employment, and a temporary worker program which will provide a legal avenue for employers to fill their labor needs when U.S. workers are not available, will we begin to change the current paradigm of migration in the region.

Thank you again for this opportunity to testify. I will be happy to answer any questions you may have.

Mr. WELLER. Thank you, Ambassador Arcos. Ms. Whitaker, one of the common themes that I certainly heard from my colleagues on both sides of the aisle and frankly knowing their positions in the so-called immigration debate, one area of commonality I certainly heard was clearly good jobs at home discourages illegal immigration. And I think we would all say that all of us here on this dais would like to see the day that remittances are no longer the primary source of income in many national economies in Central and Latin America.

How would you assess our partners and their efforts in creating the economic climates, particularly in the nations that currently are our source of illegal migrants, their efforts to create the economic climate at home that actually encourages, attracts investment, and creates jobs at home?

Ms. WHITAKER. I am happy to comment on what Mexico is doing and make some general reference to the Central American countries. The Mexican Government has been quite clear both in statements which were mentioned in some of your statements earlier today and during the Presidential election. The campaign rhetoric of all three parties was focused on the need to create opportunities

for Mexicans at home, which we found very much in tune with our thinking.

Mexico is not a middle income country, but it is true that a large number of Mexicans continue to enter the United States illegally, and I think that is certainly because they are looking for better opportunities. The economic opportunities that exist in Mexico, even in a climate of current growth, which is about 3 percent or a little bit more so far this year, are not distributed evenly.

What we are working and discussing with the Mexicans is that to try to broaden the base of opportunities, we are taking a two-part approach. One is the Partnership for Prosperity programs, which we talked about, a private/public sector partnership, to address some of the needs and create opportunities for those who have not been yet lifted up by NAFTA. Also we are working with the Mexican Government and urging them to focus on some additional reforms, whether in fiscal policy, energy policy or labor to try to foster broader-based growth that will give opportunities to all.

Mr. WELLER. How about Central America? What is your assessment there?

Ms. WHITAKER. In Central America, I believe we heard mention of the Central American Free Trade Agreement, the DR Free Trade Agreement, which we like to think will be like NAFTA in beginning to turn the tide in the countries of Central America. That, plus the Millennium Challenge Corporation, which is providing assistance to Honduras and Nicaragua, and I believe El Salvador and Guatemala are working on trying to qualify for some of those grants.

Again, these are programs where we are trying to create economic opportunities. MCC is providing assistance according to plans that have been developed by the countries themselves, according to specific criteria of good governance that the Millennium Challenge Corporation has laid out. These are long-term solutions.

Mr. WELLER. Now, Ms. Whitaker, you mentioned the Millennium Challenge Account and we have seen of course the MCA has generated a number of contracts, and I for one have been a very strong supporter of the goals that President Bush has outlined with the Millennium Challenge Account, and these contracts have been signed, but when are we going to see some concrete poured?

In Honduras there is supposed to be a coastal road from one coast to the other to provide access to markets for farmers and small manufacturers. The same is true for northern Nicaragua. When are we actually going to see some fruit coming from these contracts?

Ms. WHITAKER. I cannot give you a date. I do not have a date off the top of my head as to when we are going to see concrete poured, but I do know that in both Honduras and Nicaragua, we have identified specific projects, and they are indeed focused on infrastructure to bring products to market, I would be glad to try to get a better fix on that date and bring it back to you.

Mr. WELLER. I would ask for a timetable.

Ms. WHITAKER. Certainly.

Mr. WELLER. I am concerned that we are taking a long time to actually see some real results other than contracts being signed.

Ms. WHITAKER. Of course.

Mr. WELLER. USAID has had programs in place, particularly in the rural areas, and if you look at the areas in many of our friends, the countries which are sources of illegal immigration, a lot of these illegal immigrants are coming from the rural areas.

I have seen the USAID programs. I remember being in a rural area in Honduras where USAID had a program and partnership with the Government of Honduras to encourage farmers to replace the traditional crops of corn, maize, and sugar where they really were not able to generate an income and replace them with plantains and tomatoes and other vegetable crops that can be used for exports. What is the direction of these programs? Can you just outline what your plans are? Do you feel this is a good investment? Do you plan to expand it? What direction do you plan to take?

Ms. WHITAKER. My understanding is that indeed these programs will continue, but to give you a thorough and accurate answer as you deserve, I would like to consult with my colleagues at USAID and give you again a more concrete answer, if I may.

[The information referred to follows:]

WRITTEN RESPONSE RECEIVED FROM MS. ELIZABETH A. WHITAKER TO QUESTION
ASKED DURING THE HEARING BY THE HONORABLE JERRY WELLER

With regard to the road projects you mention, both Nicaragua and Honduras have suffered from poorly planned and executed road projects. MCC is determined to build roads that last, which will take more time but pay off in the long-run because future generations will benefit from a sustainable transportation network throughout the country.

It can take anywhere from nine to twelve months for study, design, and procurement activities prior to construction in order to build a road that is technically sound. Conducting feasibility studies on these roads is a high priority for MCA-Nicaragua and MCA-Honduras. They are both currently procuring these services and looking for ways to shorten their already aggressive timelines without cutting corners and compromising the quality of the roads. In Nicaragua, the procurement process for the studies and the construction management firm are currently underway, but it is unlikely construction will begin for another 9 to 12 months. Similarly in Honduras, actual road construction is expected to begin in late 2007, but work is already underway in reviewing environmental and social impacts and ensuring a committed budget for future road maintenance. In Nicaragua, MCC was instrumental in working with the Government of Nicaragua and other donors to ensure legislation was passed to fund road maintenance for the first time in many years.

In both countries, important advances will be made on other Compact components in the coming months. In Nicaragua, the Rural Business Development project is already working with small and medium-sized beneficiaries, and early efforts have already yielded export commitments. The Property Regularization component will begin its initiatives to improve management of the titling process and MCA-Nicaragua, jointly with the World Bank project, will be delivering some of the first titles in the next month.

In Honduras, the Millennium Challenge Account office has signed a \$22 million contract with FINTRAC for crop diversification training. The Farmer Training Development (FTD) project is the first such MCC contract in Honduras and one of the first in the world. This contract directly builds on the best practices and farmer training methodology carried out successfully in Honduras through USAID's current Rural Economic Diversification Program (USAID-RED) that you mentioned, which is also implemented by FINTRAC. Both projects aim to train and assist thousands of farmers to improve the production of nontraditional crops for domestic, regional, and export markets. The USAID project is presently reaching more than 16,495 beneficiaries with technical assistance, most of them on a regular basis. USAID assistance is also helping these farmers access formal market outlets and increase their incomes through improved production technologies. Processors benefit from a more secure, consistent supply of high quality produce for their markets and for value added processing, as well as improved marketing techniques.

MCC is quickly streamlining the Compact process to deliver in timely fashion measurable results that contribute to poverty reduction through sustained economic growth, as evidenced by the fact that it will have taken El Salvador only a year

to move from selection to signing its Compact, which it is scheduled to do this November.

Mr. WELLER. Okay. Well, I would welcome some details. While we are on the subject of USAID programs in Mexico, I particularly want to ask about why USAID programs in the areas of anti-corruption, transparency and accountability are being cut, and programs that are promoting competitiveness are being underfunded.

I for one think that programs of this nature are pretty important as we try and encourage economic growth. Transparency of law and eliminating corruption certainly has a significant impact in attracting investment, creating jobs and promoting a stable economy.

And if that our goal is to create jobs at home to discourage illegal immigration, I wonder why this is occurring. Can you explain why these programs have been cut and underfunded? And is this a result of the decision in Fiscal Year 2005 levels of Economic Support Funds, developmental assistance for Mexico being cut in the Fiscal Year 2006 and Fiscal Year 2007 budget? I for one think these programs are pretty valuable tools if we want to discourage illegal immigration. And why does USAID and the Department of State, your agency, not consider these programs essential?

Ms. WHITAKER. I think that we would agree with you that they are very important programs in terms of the anti-corruption and transparency programs that USAID has sponsored along with criminal justice reform, competitiveness, and also supporting a number of State initiatives. I think indeed the USAID programs have been very effective.

My understanding is indeed that the ESF levels for 2006 may well be lower than 2005. I do not have a precise figure on that because we are in the midst of the fiscal year of course. My understanding, in general, of the budget process—and again, I am happy to try to get you more specifics—is that as the State Department looks at its overall foreign assistance planning, indeed this is a much bigger issue, and I think the Secretary is leading an effort to—

Mr. WELLER. No, again, Ms. Whitaker, I am looking for an answer. If these programs are a priority and our goal is to help our friends and allies eliminate corruption, why would we cut these programs?

Ms. WHITAKER. That is a very good point, and what I would like to do is to get you a more concrete answer.

Mr. WELLER. Because, again, it is your administration that is submitting this budget request that recommended the cuts in areas you say are a priority.

Ms. WHITAKER. Yes, sir. I will be glad to get you a more precise answer, sir.

[The information referred to follows:]

WRITTEN RESPONSE RECEIVED FROM Ms. ELIZABETH A. WHITAKER TO QUESTION ASKED DURING THE HEARING BY THE HONORABLE JERRY WELLER

Let me provide the context. Foreign assistance for Latin America has nearly doubled since the start of this Administration, from \$862,452,000 in FY 2001 to \$1,696,841,000 in FY 2007. Though the FY 2007 request for Latin America shows a one percent decrease from the FY 2006 request, it does not reflect a reduced commitment to Latin America. In fact, when new funds being made available via the Millennium Challenge Corporation are factored in, total resources to the region have increased. We have prioritized our foreign policy goals against available resources

and competing demands for assistance. For example, a reduction for middle income countries where the need is not as great allows us to increase assistance in areas such as Africa, where the need is greater.

With regard to Mexico specifically, the President's FY 2007 budget request asks for \$62.882 million in bilateral foreign assistance, the fifth largest bilateral program in the Hemisphere (behind Colombia, Haiti, Peru, and Bolivia). Due to Mexico's ratification of the Rome Statute on the International Criminal Court at the end of FY 2005, it became ineligible for FY 2006 International Military Education and Training funding under the American Service Members Protection Act (ASPA). Mexico's ESF was similarly impacted by the Nethercutt Amendment. However, we will have sufficient funds with the President's 2007 request to achieve our priority goals in partnership with Mexico-targeting the very areas you mention, including good governance, judicial reform at the state level, and competitiveness.

Mr. WELLER. Okay. The gentlelady from California, Ms. Lee.

Ms. LEE. Thank you very much. Okay. Going back to one of the points I made in my opening statement. Ms. Whitaker, United States/Haitian versus Cuban policy, at least immigration policy, continues to remain a double standard. Haitians do not have immediate political asylum when they reach the United States, although I said I would argue that the political and safety challenges are much greater in Haiti than they are in Cuba.

It is clear to me that this policy must change and we must provide temporary protective status to Haitians who are currently here in the United States seeking political asylum. I know there has been a lot of talk about it, but that is all that has happened. It is just a lot of talk.

And I do not know why this Administration continues to uphold an unfair and oftentimes it is perceived as a racist policy against Haitians seeking refuge in the United States. Of course Haitians who come are Black, and for the most part, the majority of Cubans who come are White. I would like to find out why this talk is just talk and you do not move toward granting temporary protective asylum status to Haitians?

Ms. WHITAKER. Again, I am not an expert in either Cuban or Haitian temporary protective status policy. I do know of course that the Cuban policy is the product of many years of deliberations under many different Administrations of both parties, but I would be glad to try to get back to you with a better sense of the status of the conversation over the difference in policy. I do not know if my colleague from DHS would like to add anything to that.

Mr. ARCOS. I would just simply add, Congresswoman, the following, that the Mexicans tend to also complain about the fact that they do not have temporary protective status and some Central Americans do. And these were taken under extreme circumstances in the late 1990s for temporary protective status for some countries. But the fact remains that in terms of Haiti and Cuba, the Cuba Adjustment Act is legal. It is legislation that was made here in Washington years ago and creates for the different treatment.

So it is not just a policy issue. It is a legal issue. And Haitians are treated like all other immigrants, illegal immigrants that do not have a Cuban Adjustment Act to afford them the treatment that is given to them as opposed to the rest of the world.

Ms. LEE. That is the point. Haitians are treated as illegal immigrants, and they are fleeing for the most part political repression, and they land here on our shores, and well, you know what happens. I would think that regardless of the Cuban Adjustment Act

and the history of all this that you would try to equalize some of this at this point, or that this Administration would, given the fact that we have so many Haitians living here, grant temporary protective, political asylum status.

With regard to the issue of the percentage of immigrants who you have found under Homeland Security that you would consider potential terrorists, do you track those that you turn back based on whatever formula you use that would identify immigrants coming across the border as possible threats?

Mr. ARCOS. We have several different mechanisms for that, Congresswoman, and let me just say that when we talk about terrorist versus normal, honest, economic seekers that come to the United States either as tourists or for business or students that seek to emigrate to the United States, the vast, vast majority, 99 percent, are honest people. They are not having anything to do with being criminal or terrorists.

What we do have is different systems in place. We have different watch systems that whenever people apply to a visa in the Embassies around the world, we can figure out who they are as long as we have a record of them. And we have caught many. We have stopped them from coming into the United States, and some of them slipped by, and some are in countries that already maybe they have had a visa and they have been recruited. But they are on our watch list, and we intercept them before they board a plane or we can catch them at the border as they enter the United States. We have different mechanisms for that.

Ms. LEE. Well, Mr. Ambassador, I am very glad that you were very candid with us on your response to that question because maybe you should have weighed in a little bit more on this immigration debate, because you know central to this debate unfortunately was the notion that we needed tough immigration reform because immigrants for the most part could be considered or are considered terrorists, and I think that really took the debate in a direction that it should not have gone when most of us know that is just not the case. And you just said 99 percent are people who want to come and get a job and see their families.

Mr. ARCOS. That is probably true, Congresswoman, but let me just point out one thing. Terrorists have to be right only once. We have to be right 100 percent of the time.

Ms. LEE. I understand that 1 percent. I understand that.

Mr. ARCOS. And basically what we see in illegal immigration in this country right now is a concern because it is a vulnerability to us in terms of a threat.

Ms. LEE. I understand that, but that 1 percent, my question was what percentage of the immigrants that you see coming across that you have to turn back who are undocumented could be potential terrorist threats, and if it is 1 percent, that is a serious 1 percent. But, I mean, if it is 1 percent, it is 1 percent.

Mr. ARCOS. To be exact, I am not sure if it is 1 percent or maybe more or maybe less. I will get back to you.

Ms. LEE. Yes. And our immigration policy should not be just based on that 1 percent is the point I am trying to make.

Mr. ARCOS. But it is a vulnerability because we had 19 to 22 people do what they did on 9/11.

Ms. LEE. Right. It is a huge vulnerability. But when we are talking about immigration reform, that is a huge piece of it, but that should not be the overriding factor to drive immigration reform. Thank you.

Mr. ARCOS. Thank you.

Mr. WELLER. Mr. McCaul.

Mr. MCCAUL. Thank you, Mr. Chairman. I want to thank you for holding hearings on this particular issue and that is economics. I think that when we look at the root cause of illegal immigration into this country—I happen to come from a border state—I think it boils down to jobs and the economy. We do not have this same phenomena with Canada.

When I was down at the United States/Mexico interparliamentary, we talked about this very issue. Their congress actually passed a resolution recognizing that they have a problem and they are exporting their people. They do not necessarily want to do that, and they called for greater cooperation between our two countries, which I think is essential, particularly when it comes to law enforcement, Ambassador.

But one thing I asked them at the conference was the economic policies, because I view a lack of incentive for businesses to invest not only in Mexico but in South America and Central America largely due to the tax policies, the regulatory policies, the level of corruption, and the educational system that I do not think helps either.

My short question, which probably will merit a longer answer, is: How do you view the elections in Mexico bearing in on this, number one? And what can we do in the Congress to help foster or lift up the economies south of the border so we can get to the root cause of the problem?

Ms. WHITAKER. I guess that is my question.

Mr. MCCAUL. I guess it would be. And if I have time, Mr. Chairman, I have a question for the Ambassador if that is okay.

Ms. WHITAKER. At this stage, we, like all of you, await the decision of the Mexican electoral tribunal in making a final determination of who has won the Mexican elections. What we found heartening was listening to the campaign discussion of immigration, which really without exception from all of the three major candidates focused on the things that Mexico had to do to keep its talent at home and to create opportunities for the Mexican people.

The other part of this, of course, was an acknowledgement that any country, the United States, Mexico, or any country has the right to protect its borders and keep its people secure. Mexico, with a 700-mile border to the south, which, as you know, sir, is pretty remote and porous, I think is well aware of the fact that they have many of the same concerns that we do with regard to border security.

Given that, I think we are quite optimistic that whoever is finally declared through the decision of the electoral tribunal—and we indeed believe that we will see free and fair results coming out of the tribunal—that whoever is the new President of Mexico will indeed embrace the rhetoric which all three espoused during the campaign.

I think that points us to a future of Mexican leadership working with the Mexican Congress to continue making some of the difficult decisions on economic reform, energy reform, labor reform, which complement some of the international programs that exist, such as our P4P program and some of the AID programs which are trying to address the pockets of Mexican society where perhaps the benefits of free trade have not yet arrived and create opportunities for the Mexicans who do not yet have them.

Mr. McCAUL. Why the disparity in wealth in Mexico?

Ms. WHITAKER. I think it is the unequal distribution of opportunities. They talk often about the rising tide of NAFTA lifting all boats. I think it is not lifting all of those boats equally, and that is why we have been working with international financial institutions and with our Mexican counterparts and also with the private sector on both sides of the border in P4P to try to create some complements to free trade to address some of the areas that again are not yet lifted up by the benefits of free trade.

Mr. McCAUL. Do you think there is any openness to changing their tax structure, particularly when it comes to foreign investment?

Ms. WHITAKER. I think it is something that certainly any new government will look at. It would be irresponsible of me to try to predict it at this time, but certainly economic growth and reform is an ongoing discussion we are having with our Mexican counterparts.

Mr. McCAUL. We will continue to press that in the Congress.

Ambassador, we met with the Ambassador from Mexico who put together a group of deputy attorneys general for organized crime, the secretary of foreign affairs, and they gave us a briefing on the cooperation with respect to law enforcement. I do believe it is improving, but I wanted to get your thoughts on that. Also if I could ask the question, I agree with you the majority are coming here to work, but it only takes one mistake to be fatal, and that is the 1 percent we are most concerned with.

Can you comment on the level of cooperation both in terms of military, police, and intelligence, and then secondly, comment on the numbers of OTMs and special interest aliens crossing into this country? We talk a lot about OTMs, but really the special interest aliens are really the core of what should be the focus in terms of who is getting in. Is that number rising or going down as we ramp up our enforcement measures?

Mr. ARCOS. Thank you, sir. Thank you, Mr. Congressman. Let me begin by talking a little bit about when I came on board Homeland Security well over 3 years ago with Tom Ridge, and one of the things that we discussed in terms of our southern border and our northern border in terms of comparison is, how do you measure the success at the end of a period of time? And I think that after 3 years, there has been enormous success in terms of dealing with Mexico.

We still have a long way to go I think in terms of the institutionalization of the relationship with the law enforcement community. We have a very established relationship with the Canadian counterpart institutions in Canada with their counterparts in the United States. We would hope at the end of the day when we have

metrics to measure the success with Mexico that we have institutionalized those relationships that are not based just on personality and the given crisis of the moment but that they be truly institutional.

And during the Fox administration for the last 6 years, we have seen tremendous strides in terms of institutionalizing these relationships, particularly with our border patrol, our customs people, and our immigration people, and I think there is plenty of data I can get to you in terms to quantify the specifics of that and how it has improved.

In terms of the OTM, other than Mexicans, clearly that was a concern 3 years ago. The number is not as alarming as it was 3 years ago for one simple reason. We worked very closely with the State Department to unify a North American visa policy, and we worked with both Canada and Mexico in terms of dealing with a visa policy that is more uniform and suits our interests in terms of addressing the concerns that we see in terms of threats, particularly in the case of Brazilians.

We saw that up until about a year ago we were catching thousands of Brazilians a year, and now that number has been drastically reduced, and I can get those numbers to you, but drastically reduced in terms of getting the Mexican Government to do away with visa waiver for the Brazilians, because we were also finding a lot of South Africans and a lot of other ones that had used fraudulent documents to get to South Africa and then get to Brazil and then come on up in through Mexico. So that has been stemmed considerably, and I can get those numbers for you, sir.

Mr. MCCAUL. Special interest aliens?

Mr. ARCOS. I am sorry?

Mr. MCCAUL. In terms of special interest aliens? What about the numbers on those?

Mr. ARCOS. I could get you those numbers as well.

Mr. MCCAUL. Okay. Has there been an increase or decrease?

Mr. ARCOS. A decrease.

Mr. MCCAUL. Okay. Thank you, Mr. Chairman.

Mr. BURTON [presiding]. Thank you. Let me just ask a few questions that I hope have not been asked yet. I have been out of the room for a little bit, and I apologize for that. There are a lot of false or counterfeit passports that are being manufactured in Mexico. Is the Mexican Government doing anything about these illegal or fraudulent passports being manufactured to give to people to cross the border? We are not only concerned about it because of the illegal immigration, we are concerned about it from the standpoint of terrorists. We have been told that there is an industry, if you will, that produces these passports, and we do not want a bunch of terrorists getting in on passports that are fraudulent.

Mr. ARCOS. Mr. Chairman, if I may start that comment, and then perhaps Betsey may have another contribution to make on this issue. We have worked very closely with the Mexican Government as we are working worldwide in Homeland Security with different governments to make sure that we deal with fraudulent, lost, and stolen passports, because this presents an enormous threat to all of us in the community, not just the United States but our partners, our foreign partners.

Clearly with the technology that is available today, it is easy to make fraudulent passports. With Mexico, we have not seen so much in terms of the violation of fraudulent passports. It is basically the illegal crossings but we do know that there have been counterfeit passports in South America and Latin America in general, and we are trying to address that with the negotiations we have in the ICAO, the International Civil Aviation Organization by trying to get biometrics. With good biometrics, we will be able to stem that. Machine readable passports and biometrics, that is a digital facial—

Mr. BURTON. Well, I am concerned about it primarily because of the terrorist threat, and I have been told that there is an industry down there where they are producing these passports. Have you had cooperation with the Mexican Government?

Mr. ARCOS. I do not have personal knowledge of the quantity. I just know anecdotally that there have been counterfeited passports and documentation.

Mr. BURTON. How do you catch them?

Mr. ARCOS. Well, basically through our ports of entry.

Mr. BURTON. I know, but how do you catch a person with a foreign passport or a fraudulent passport? Do you have any kind of a system or any technology?

Mr. ARCOS. They have to be machine-readable or they have to have a visa, an American visa, U.S. visa in it which contains biometrics. I have not heard recently of American visas being counterfeited. So if it has an American visa, we are pretty sure that it is the person that is going to—

Mr. BURTON. They cannot counterfeit those?

Mr. ARCOS. No.

Mr. BURTON. The American visas?

Mr. ARCOS. Not that I know of, sir.

Mr. BURTON. Is there any way you could check to see if you have caught any like that?

Mr. ARCOS. I can check to see that with the State Department perhaps.

Mr. BURTON. I would like to find out. Also, is there any progress being made enhancing law enforcement cooperation among Mexico and Canada and the United States through maintenance of some kind of a database that would track suspected terrorists?

Mr. ARCOS. We do share intelligence. We share information at the law enforcement and at the strategic level with both countries, and we work very closely on the Homeland Security with our counterparts in Canada and Mexico and the State Department through their diplomatic channels and the intelligence community through their channels. We are able to disseminate information and share information, as we do with advance passenger information systems on aircraft.

The Canadians let us know who is coming in from other parts of the world into North America, and the Mexicans give us advance notice of who is flying into the United States from Mexico. We get lists and we run them through our databanks. CBP does.

Mr. BURTON. So you do have the cooperation and you are reporting?

Mr. ARCOS. We do. What we need to do is enlarge the databank, and that is why it is important to get as much biometrics as possible and documentation worldwide.

Mr. BURTON. Let me go back to Ms. Whitaker real quickly. You were talking about a disparity in the growth of economic prosperity in Mexico. And you said that there is more money and more trade, but the money is not necessarily reaching the lower or middle classes, if there is a middle class down there.

We have gone from a \$1 billion trade surplus with Mexico prior to NAFTA to a \$50-some billion trade deficit, a very large trade deficit. That money has got to be going someplace because they are benefitting to the tune of \$51 billion a year from the United States since NAFTA was passed. Why is it that industry is not being able to provide more lucrative jobs and helping bring more prosperity if you will to the people in the lower income classes down there?

Ms. WHITAKER. I think to some degree, again, all of the benefits of that trade have not reached every Mexican yet.

Mr. BURTON. I know, but since we were so proud of NAFTA and there were a lot of us who did not like the NAFTA approach, why is it that the money is going down there, the jobs are supposedly going down there, we have opened the border for trade, free trade, and we have got a \$51 billion change, and yet you still have this tremendous amount of poverty? Everybody is coming up here hell bent for leather.

Ms. WHITAKER. I think it is really a question of it has been just 12 years since NAFTA was signed—so we are talking—

Mr. BURTON. 12 years is a pretty long time.

Ms. WHITAKER. Yes, sir, it is. I think the issue is indeed that on the Mexican side they still need a number of structural reforms, economic reforms to try to lubricate the economy so that additional investments can be made and businesses can be started up in a shorter period of time.

Mr. BURTON. Okay. But how do you lubricate the system so to speak so that the jobs are getting to the people that need the income so that we can stop the massive flight and immigration in the United States? I mean, we are getting as many as a million or more people a year coming across that border illegally.

Ms. WHITAKER. Right.

Mr. BURTON. And we have a \$51 billion change in trade. It seems to me something is amiss because we have not slowed down the amount of illegal aliens coming across the border, and yet we have put \$51 billion more into their economy. It does not make any sense.

Ms. WHITAKER. I think it is a question of making some of the very difficult decisions in terms of structural reforms, whether they are labor, economic, or—

Mr. BURTON. Well, where are we on structural reforms, and who is making them? Mexicans? Us? Or are we doing it in cooperation with one another?

Ms. WHITAKER. Well, Mexico did make some structural reforms at the time NAFTA was brought into effect, as you know. There is still certainly more to be done, whether on the fiscal side, the energy side, the labor side, and while those are certainly sovereign decisions for Mexico to make—

Mr. BURTON. Well, I do not want to belabor this point, but are we pressing the Mexicans to make the structural reforms necessary so that the NAFTA benefits that they are getting are going to create more jobs in the middle classes or lower classes?

Ms. WHITAKER. Yes, we are.

Mr. BURTON. We are pushing them on that?

Ms. WHITAKER. Yes.

Mr. BURTON. Well, can I see some manifestation of that in some kind of documentation? Is there anything you can send us on that?

Ms. WHITAKER. I will be glad to get that to you.

[The information referred to follows:]

WRITTEN RESPONSE RECEIVED FROM MS. ELIZABETH A. WHITAKER TO QUESTION
ASKED DURING THE HEARING BY THE HONORABLE DAN BURTON

Both President Fox and President-Elect Calderon have committed to deeper structural reforms that will accelerate economic growth and ensure that its benefits are shared by all Mexicans. We are supporting Mexico's commitment to reform in many ways. Most importantly, President Bush launched the Security and Prosperity Partnership (SPP) together with his Mexican and Canadian counterparts in 2005. A number of trilateral working groups have been set up to implement the SPP's prosperity agenda of providing greater economic opportunity for all our citizens and enhancing the global competitive position of North America as a whole. In response to your request, I would like to submit for the record the 2006 Report to Leaders from Secretaries Rice, Chertoff, and Gutierrez and their Mexican and Canadian counterparts, together with the Prosperity Agenda annex.

In addition to the SPP initiative, Presidents Bush and Fox inaugurated the bilateral "Partnership for Prosperity" (P4P) in 2001 with a focus on bringing foreign investment and development to those areas of NAFTA that benefited least from NAFTA. Under P4P, our governments signed an OPIC agreement, which has brought \$800 million in new financing to projects in Mexico. Through P4P, the U.S. Embassy, the American Chamber of Commerce, the Mexican Business Chamber, and the Mexican government have established a "Quadripartite Competitiveness Committee" that makes recommendations to improve Mexico's "Doing Business" environment. Furthermore, a range of U.S. officials, from Cabinet members and Ambassador Garza to our Assistant Secretary for Western Hemisphere Affairs Thomas A. Shannon and below, have consistently encouraged their Mexican counterparts' efforts to continue down the reform path. Also via P4P, USAID has funded programs in Mexico to expand access to credit for small enterprises and farmers, encourage community-based conservation of energy and natural resources, conduct educational exchanges (known as the "Technology, Internships, Education and Scholarship" or TIES program) for poor and indigenous Mexicans working on development issues, and advance judicial reform. I would also like to submit for the record the USAID-Mexico country profile which discusses these initiatives in greater detail.

Mr. BURTON. Okay. I have a request from the Vice Chairman for one more question, and I think she left. But if you have one more question, go ahead.

Mr. WELLER. Actually, Mr. Chairman, I have two quick questions.

Mr. BURTON. Okay. Stretch it.

Mr. WELLER. Thank you, Mr. Chairman. Ambassador Arcos, I for one have raised concerns regarding the concept of selling economic citizenship where there are certain countries in our hemisphere which to this day for a fee you can go and say that you are going to invest in that particular country and then they will in return give you essentially documentation suggesting that you are a citizen of that particular nation, including passports even under an assumed name. The concerns are obvious. What is the status of your agency's efforts to address this issue?

Mr. ARCOS. Congressman, we are aware that this has happened in a very sizable business type of situation in the 1980s and 1990s.

Increasingly that is not the case with the countries we are talking to in the region. We have manifested our concern about how citizenship—it is not so much the citizenship as passports that were being given to noncitizens of these countries in return for investment, and there was not much due diligence, and that has been a concern for years. Since I was even in the State Department, we were concerned about this back in the 1980s and the early 1990s.

Because what has happened in the last 6 years in the world in terms of terrorism, countries have now begun to tighten up. I can get you the figures in terms of which countries are the ones that still do this.

Mr. WELLER. It is my understanding there are two or three countries that are in the Caribbean that still to this day continue this practice. Is that the case? Is that true?

Mr. ARCOS. My understanding, it is true, but I do not know the numbers or have any specifics on it.

Mr. WELLER. So why would we accept a passport from one of those countries if they were?

Mr. ARCOS. Well, first of all, if they have a passport, it does not mean that they get into the United States. They have got to go get a visa, and then there are different checks. They go through a whole process in obtaining a U.S. visa. So it is not because they have a passport of a certain country in the Caribbean that they are allowed to enter the United States.

Mr. WELLER. Now is this a priority for your agency to seek an end of this practice?

Mr. ARCOS. Certainly it is part of the concern that we get proper documentation, worldwide proper travel documentation.

Mr. WELLER. Okay. Well, you know, Ambassador, I would very much welcome greater details on the status of your efforts—

Mr. ARCOS. Thank you.

Mr. WELLER [continuing]. As well as the current status of who is continuing this practice, and also I would be interested in knowing who has taken advantage of it. It would be interesting to see who are these individuals from elsewhere that are coming to these particular countries and pursuing documentation that would suggest they were a citizen of that particular nation.

Ambassador, one of the other questions I would like to ask you, it was once said to me that we do not station the Coast Guard outside of Baltimore or Washington in the Chesapeake Bay to stop drugs from coming into these cities, but we are concentrating our current immigration enforcement assets pretty much solely on our border.

A lot of us believe that we need to do a better job of engaging the source nations, the source and transit nations, to develop a comprehensive strategy to discourage illegals from making that trek north. Can you tell us what is the status of our partnership on developing a comprehensive strategy and whether or not we are having any success?

Mr. ARCOS. If I understand your question correctly, Mr. Congressman, you are asking a comprehensive strategy to deter smuggling, human smuggling?

Mr. WELLER. Well, I am interested in knowing what are we doing in partnership with our friends in Mexico and Central America and

elsewhere to develop programs which discourage their citizens from making the trek north to come to the United States as illegals?

Mr. ARCOS. Well, from the Homeland Security point of view, we work directly with our counterparts, the law enforcement community, in terms of having public information programs to advise them of the dangers, first of all, if they are coming by sea or coming across deserts or dangerous terrain and the threats that are presented there. We work in terms of closely trying to monitor and cooperate with each other in terms of the information that we get.

And we also have this OASISS program that we have now, as I mentioned in my prepared remarks, with Mexico in terms of addressing the traffickers and smugglers on both sides of the border. And we have gotten very good cooperation from the Mexican attorney general's office in terms of addressing this issue.

Mr. WELLER. Ambassador, can you share some initiatives? There is a famous comic book that many of us heard about about a year ago that suggests the Mexican Government was actually giving people tips on how to cross our border. Have you seen a change? Have there been other materials they have been distributing to actually discourage—

Mr. ARCOS. Well, the biggest change has been that there are virtually no reports of anybody having these comic books anymore, sir, which is encouraging in fact that anybody was putting these comic books out and putting people in danger and basically encouraging them to violate U.S. law.

Mr. WELLER. Thank you, Ambassador.

Mr. Chairman, you have been very generous. Thank you with the time.

Mr. BURTON. Okay. How many questions was that? Was that two?

Mr. WELLER. It was two.

Mr. BURTON. It was two. Okay. Mr. Engel.

Mr. ENGEL. Thank you, Mr. Chairman, and my apologies for not being here at the start of the hearing. I was on the House Floor managing two bills, and although I was told it would come up at least an hour or 2 before our hearing, it came up right as our hearing was starting.

So I do apologize, and I am going to turn it over to Ms. Lee for a minute to ask a question, but I just want to say that I know my opening remarks have been submitted into the record. I am happy about that. And I want to talk a little bit about NAFTA and some of the other things, but I am going to yield to Ms. Lee, who has not completed her questions.

Ms. LEE. Thank you very much. Let me just ask Ms. Whitaker about the correlation between CAFTA and NAFTA and illegal immigration in terms of the trends that you are seeing. Has there been a decrease in illegal immigration from Central America since CAFTA was passed, and has there also been a decrease in illegal immigration from Mexico since NAFTA's implementation?

Ms. WHITAKER. Congresswoman, I do not have those numbers offhand. I would be glad to check. NAFTA, of course, we have 12 years of experience. CAFTA is a more recent phenomenon, but I am glad to see if I can get you some data.

Ms. LEE. Thank you. Mr. Ambassador, would you happen to know just the general trends? I mean, you indicated earlier, Ms. Whitaker, I think that 40 percent of the jobs under NAFTA were higher wage jobs.

Ms. WHITAKER. Higher paying, yes.

Ms. LEE. So you have that information, but in terms of what has happened in terms of illegal immigration, do you have an idea?

Mr. ARCOS. Well, we have figures in terms of what has happened in the last 10 years. Clearly we can get these figures to you, Congresswoman, in terms of NAFTA. In terms of CAFTA, it was just approved this year, and it has not been instrumentalized yet, so it is not really in full force, and there is still one country that has not approved it, Costa Rica.

Ms. LEE. Okay. So you will give us the information on NAFTA?

Mr. ARCOS. Well, ever since NAFTA came on.

Ms. LEE. Yes. Okay. Thank you very much.

[The information referred to follows:]

WRITTEN RESPONSE RECEIVED FROM THE BUREAU OF WESTERN HEMISPHERE AFFAIRS/OFFICE OF MEXICAN AFFAIRS (WHA/MEX), U.S. DEPARTMENT OF STATE, TO QUESTION ASKED DURING THE HEARING BY THE HONORABLE BARBARA LEE

We note that during the hearing Ambassador Arcos replied to Congresswoman Lee that he could get her post-NAFTA immigration numbers, but then pointed out that CAFTA has not yet fully entered into force, thus making post-CAFTA immigration numbers impossible to obtain at this time. Congresswoman Lee took his point regarding CAFTA and confirmed that she would still like to get the post-NAFTA numbers, which Ambassador Arcos committed to do. As a result, WHA/MEX believes State does not need to provide an insert on this subject.

Ms. LEE. Thank you, Mr. Chairman.

Mr. ENGEL. Yes. Thank you. Thank you, Ms. Lee. And I am glad you raised those issues because they are foremost in many of our minds as well as the balance of trade that the Chairman pointed out regarding NAFTA. You know, the bottom line is that if we can do something, and I know it is easier said than done, to create good paying jobs and creating a middle class in the rest of the hemisphere, they will not want to come here illegally because they will have opportunities in their own country.

Everything we are talking about doing from a wall to everything else is really just a stop gap situation, and it is treating what is happening rather than the causes of what is happening. So, you know, we have had a frustration, many of us, that NAFTA has not had more of a positive effect on the average Mexican worker so that there is a greater incentive to pursue employment there rather than here.

I know you have commented on it, but I just wanted to add my voice to the frustration that you have heard from both Ms. Lee and the Chairman, and I do not know if you have any further comments. I would be happy to hear them.

Ms. WHITAKER. I hate to repeat myself. I do not know if you heard me, so stop me, please. I think we have seen some encouraging developments in Mexico's political position. One is, of course, the published statement, bipartisan or multipartisan statement, nonpartisan statement on the part of the Mexican Government, all parties, in which they indicated their understanding of the importance of the immigration issue to any country, the right of any

country to protect its borders, and also in terms of Mexico's own responsibility to create opportunities so that its own talented people will not leave that country.

We have a political position there. And I do not know if you heard me mention that in the most recent Presidential campaign, all of the candidates were not focused on many of the other issues related to immigration, but rather, all were one in saying that indeed Mexico's responsibility is to create opportunities to keep its people employed and at home.

Mr. ENGEL. Thank you. Ms. Whitaker, last time you were here I had mentioned—I am going to mention it again because I would like your comments—my chagrin at the President's Fiscal Year 2007 foreign operations request. His request proposes slashing overall core development spending in the region by 22 percent, which is over \$40 million, from the last 2 fiscal years, which I think continues a shortsighted post-September 11 trend to redirect foreign assistance to other regions.

Given the fact that 25 to 40 percent of the region's population still toils in grinding poverty, how do we justify another consecutive year of drastic cuts in core development accounts in the Western Hemisphere? Given that such cuts certainly undermine U.S. immigration objectives by cutting efforts to promote economic jobs and economic growth elsewhere in the hemisphere, how can the Administration assert that immigration reform is a policy?

Ms. WHITAKER. I remember the question from before, and it is good to hear it again. It is still a very important one. I think the best answer is that we respect the President's budget proposal for the Department of State and foreign assistance, and that guidance, of course, is established by the President.

Within that amount that is set, which is I know a very difficult decision to make, additional decisions are inherent therein as to how to divide up that pie. And while I will speak for myself only as someone who served her entire career in the Western Hemisphere, I have often thought we should be spending more. But I am also well aware of the fact that we have an entire world to assist.

And all I can tell you is I know our leadership has been heard on this. I know the discussions are ongoing as we look into out-years. We continue to try to put forward the accomplishments that the money we have put into the region so far have made with the understanding that we do live within a particular ceiling and that the decisions as to how to apportion that pot are very, very difficult ones indeed. I am happy to take your comments back with me of course to my leadership as well.

Mr. ENGEL. Well, I appreciate that. I am wondering if the Ambassador would care to comment.

Mr. ARCOS. In terms of the resource issue, I do not have much comment to make on that, sir. We are 3 years old in terms of Homeland Security, and we have been up on the Hill many, many times in terms of dealing with resources. In terms of specifically the issue that you raised here, we do not deal with it in terms of Homeland Security.

Mr. ENGEL. Okay. I just think it is just so evident and obvious. And I know resources are scarce all around, but I just think that if we are really serious about trying to stem illegal immigration to

this country that the key is having job development in other countries. And if we are going to cut core assistance, that makes it harder for us to help create those jobs. Then I think we are becoming our own worst enemies, and I think that we really need to have another look at these cuts, and I just would hope that we can restore some of them.

The Congress' immigration debate has prompted, and I think regrettably, some harsh anti-immigration rhetoric by some who have little tolerance for immigrants or appreciation for their contribution. I think surely the present U.S. domestic immigration debate has a diplomatic spillover and I believe in a negative effect.

So I am wondering if you can tell us how has our heightened U.S. immigration debate affected U.S. bilateral relations and public opinions of our country in the hemisphere, and to what extent has the United States immigration debate impacted Presidential campaigns in Mexico and elsewhere?

Ms. WHITAKER. In this age of global interconnectivity and 24/7 news cycle, the Mexicans, of course, are listening and watching the immigration debate here with great interest. While indeed there have been some statements which have been more critical than others in response to some of the harder edge statements on the part of different Americans, the Mexicans with whom we deal on an official basis have been quite clear that they understand this is an internal debate, that this is for the American people and its government, its representatives to decide.

The government itself has done nothing to encourage any kind of protest on the part of Mexicans who are disaffected with the rhetoric they are hearing. What we have found encouraging is the number of nonpartisan statements from various parts of the Mexican Government which have indicated an understanding based on their own southern border and based on an understanding of the depth and breadth of our relationship, that this is a very complicated question and one for the Americans to decide.

I do know also that the Mexican representatives here, the Ambassador and company, are quite active in speaking with you all and providing their perspectives and providing information on the kinds of things that they have done to try to stem the flow of illegal immigration.

Mr. ENGEL. Well, I would add that immigration problems we have is not obviously just a Mexican issue.

Ms. WHITAKER. Yes.

Mr. ENGEL. It is more than that, and anything that impedes our ability to establish good bilateral relations with other countries worries me.

I have a final question, and it is not all that much connected to immigration, but it is. And it is a concern that both the Chairman and I share, and we in fact had a meeting last week discussing it, and that is the international criminal court, Article 98.

Ms. Whitaker, when you testified this spring about United States/Mexican relations, we discussed the negative impact of the international criminal court sanctions against countries that have not exempted U.S. citizens. And today 11 or so countries in the Western Hemisphere have not signed the bilateral immunity agree-

ment with the U.S., thereby triggering U.S. economic, political, and military sanctions.

Do United States sanctions impede our ability to assist Mexican law enforcement efforts to stem immigration? And again, how do the sanctions impact our ability to support programs that address, and we talked about the root causes of immigration, such as poor governance, poverty and issues like that?

Ms. WHITAKER. Indeed Mexico has made it clear that it will not sign an Article 98, and I do not know that we have a final determination on what funding will be in terms of Economic Support Funds.

According to United States legislation, the Foreign Operations, Export Financing, and Related Programs appropriations acts for 2005 and 2006, the Nethercutt Amendment, Economic Support Funds can no longer be provided to Mexico. Those funds indeed were used to support the reform of the criminal justice system in six Mexican states and to help implement anti-corruption, government transparency, and competitiveness measures at the state level.

As I said, my understanding is that we do not have a final determination as to how this will be implemented. I understand this is being discussed at the highest levels at this particular time, but it is certainly on our screen, and if indeed ESF is suspended, it will cut off many of the sources of funds that we were using to support law enforcement, criminal justice reform, and a number of the anti-corruption measures that we discussed earlier.

Mr. ENGEL. Let me just conclude by saying that in terms of the Article 98, Secretary Rice has said that in essence, we are cutting off our nose to spite our face, and I would agree with that statement. And I believe that Congress inevitably may have to step in to change the policy if we cannot get it changed any other way. So I thank both of you, and I thank the Chairman.

Ms. WHITAKER. Thank you.

Mr. BURTON. Well, I have a number of questions I would like to submit to both of you for the record, but before you go, Ms. Whitaker, I cannot understand. It has been 12 years since we passed NAFTA. I would like to just go through this one more time in my mind, and you can make a final comment if you would like. We have gone from a \$1 billion trade surplus to over \$50 billion in trade deficit, and I believe you are going to find and we are going to find when you send us the figures that we are probably still getting well over a million people we estimate coming across that border.

I do not think there has been an appreciable change, and if there has been a change, it is probably on the negative side. And so we are putting all that money in the industry down there. The Maquiladora Program we came up with was designed on the border to create industry on the Mexican side so people would stay there and work. So we put a Maquiladora Program in.

Now we put NAFTA in. We have got a \$51 billion trade at least, maybe \$53 billion, trade deficit that has been created, which is a pretty large one, not the largest in the world, but it is pretty big, and they are still coming across the border in droves. And you are

telling me that the money is not really getting down to the people in poverty down there. It is staying up near the top.

It seems like there ought to be some way that our Government in concert with the Mexican Government can say hey, look, if we are encouraging industry to go down there and we have got a free trade agreement that is really helping, and because of your lower wage structure over there, people should be able to get jobs, you guys have to do something to make sure that the money is filtering down to the people that really need the jobs and they are getting the jobs so they do not come to the United States.

I mean, I just do not get it. And the deficit continues to go up, and the immigration continues to remain constant or go up, and Maquiladora did not help much. NAFTA did not help, not much. What are we going to do? Throw the kitchen sink down there next and still have the problem? I mean, you guys that are the experts need to come up with some kind of an answer for us, because I do not know if anybody in Congress is looking at this as closely as I am, but I just do not understand it.

Ms. WHITAKER. I agree with you absolutely, sir. I mean, more needs to be done.

Mr. BURTON. I know. I know you agree. You said that before, but that is not cutting it. I mean, I really would like to know what are we going to do about it? We are putting the money and the industry and everything else down there and they are still coming, and we need to find out why.

Ms. WHITAKER. I would, as I said, come back to the point that while indeed Mexico I think—and I am not an economist, so let me, you know, just warn you there. I am happy to try to get you a better economic explanation of all of this, but my understanding is that while Mexico did make some structural reforms at the time it acceded to NAFTA, there is still lots more to be done.

There is still lots more to be done in terms of the investment climate, in terms of making Mexico as competitive as other countries. There are still areas of structural reform, labor reform, fiscal reform that need to be taken on, and as you know, those are very difficult questions. Am I saying that it should have taken 12 years?

Mr. BURTON. Well, are there ongoing negotiations with the Mexican Government and their industry, their commerce people, down there to discuss this problem?

Ms. WHITAKER. Absolutely. Absolutely. We again are coming presenting issues, presenting the situation, and again, I think the Mexicans are quite well aware of this. They have, as you know, a very sophisticated business community that is aware of the various points of competition from many different nations around the world, in particular China, and trying to determine what they need to do to make themselves more agile to create more opportunities. They do have a terrific labor source there. The question is, how do they create the opportunities to do that? And we need to continue to press that.

Mr. BURTON. Well, if NAFTA and other mechanisms are not working, they are going to end up with a labor force that is all up here before too long, and then they are not going to have to worry about Mexico.

Ms. WHITAKER. No, I hear you. And I think that is why we also have things like P4P and we have international financial institutions trying while we are still waiting for a number of those reforms to be made to try to fill in some of the gap.

Mr. BURTON. Okay. Well, we will submit a number of questions for the record. We appreciate you and Ambassador Arcos for being here.

Mr. ARCOS. Thank you, sir.

Mr. BURTON. And we will see you again before too long. Thank you very much for being here.

Our next panel—where is our next panel? Okay. You have to forgive me. I have to fight my way through all this. Our next panel consists of—where is my next panel? Okay. The Honorable Robert Charles, President of the Charles Group. He has served as Assistant Secretary of State for International Narcotics and Law Enforcement, the INL, under Secretaries Colin Powell and Condoleezza Rice from 2003 to 2005, and he has served as Staff Director and Chief Counsel for the National Security International Affairs and Criminal Justice Subcommittee and as a chief staffperson on the Speaker's Task Force on a Drug-Free America. It is nice to see you again.

Eric Farnsworth is Vice President of the Council of the Americas with over 170 corporate members. The Council has promoted a policy in commercial interests in the Western Hemisphere for over 40 years, and he has testified before the Subcommittee before, and we welcome him back.

And Manuel Orozco is a Senior Associate at the Inter-American Dialogue specializing in remittances and rural development. He is Chair of the Central American and Caribbean at the U.S. Foreign Service Institute and a senior researcher at the Institute for the Study of International Migration at Georgetown University. Would you please rise so I can swear you in like we usually do?

[Witnesses sworn.]

Mr. BURTON. Okay. Let us see. We will start with Mr. Charles. What happened to your arm?

**TESTIMONY OF THE HONORABLE ROBERT CHARLES,
PRESIDENT, THE CHARLES GROUP, LLC**

Mr. CHARLES. Shoulder operation, sir.

Mr. BURTON. Rotator cuff?

Mr. CHARLES. I could tell you it is the result of my opinions, but I will hold off.

Mr. BURTON. But is it rotator cuff?

Mr. CHARLES. It is rotator cuff and a tendon sewn back.

Mr. BURTON. Yes. I have had two of those on each side, so you will be all right. It is just a matter of going through the rehabilitation.

Mr. CHARLES. Yes. Thank you.

Mr. BURTON. Keep plugging. Do not let it freeze on you.

Mr. CHARLES. Right. Thank you. Mr. Chairman and Members of this distinguished Subcommittee and Committee, thank you for inviting me to testify today. Please know that sitting before you on a topic as vital as this one, immigration, is a distinct privilege. I

want to just make four quick observations, and then I will be very eager to hear questions.

First, we live in a land of laws, as John Adams and some of the founding fathers were quick to put into writing and to say, not of men, but of laws. When we choose to depart from fidelity to these laws, we lose something more important than votes. We lose the integrity of the law.

As inconvenient as it is to enforce the law when there are those who violate it with impunity, our own experience in this country and the experience of democracies worldwide reinforce the importance of abiding by the rule of law.

If we choose to water down cornerstone norms and enduring established practices long viewed as fair because it is convenient to do so, we lose the very thing we are seeking. We lose the content of citizenship, of being an American.

So, on the homefront, we cannot diminish the process of legal immigration and naturalization without diminishing the sacrifice of those who over some 20 generations have hoped, struggled, and assimilated and worked for their citizenship. If we fail to secure our borders or fail to hold high the standards of American citizenship, we diminish the meaning of citizenship and the sacrifice of those Americans who have defended this country over generations.

Second, the rule of law is not a principle that applies to Americans alone. No democracy can sustain the will of its people, the protection of lives, liberty, or property without a serious commitment to the rule of law.

John Locke in his Second Treatise made clear that a democracy's social contract involves first securing the nation. When security has been established and there is an expectation that laws will be honored and enforced, people begin to mix their labor with the land, his words, or in modern terms, they invest themselves with confidence in the future of their country.

In short, establishing the rule of law in a representative democracy and maintaining fidelity to it are the foundation stones on which greater economic prosperity and political liberty are built. Full stop.

Nations which have struggled with violence but which have leaped the pit to land on the side of representative government like Panama and El Salvador, Poland, the Czech and Slovak Republics, former East Germany, Romania, Russia and of course the CIS states, all have found that consistently protecting the individual leads to greater investment by that individual in his or her society.

Nor do all good and democratic things come in the packaging of a democratic revolution. Allies in this hemisphere, in Europe, Africa, the Middle East, and Far East have often by degrees evolved toward greater reinforcement of democratic institutions. Required has been a strong political will internally in that country and at times stronger U.S. support, which leads to the third observation.

Our allies, rich and poor, admiring and envious, dependent and independent, near and far, sources of legal and illegal immigration, all of them have within their own borders the same inherent potential for self-determination, greater economic prosperity, widening circles of political contentment, and a future built on pride in their own sovereign status, flag, and fellow citizens as much as we do.

Too often recently what has been missing is the leadership necessary to keep people from fleeing their own home countries, the leadership necessary to unify and secure, solidify and build, attract and maintain the allegiance of people to the country in which they were born. In short, the problem of so-called brain drain from these countries must be addressed at least in part by the home country.

Far easier it has been to allow them to bleed north or south, east or west into another country's thriving economy, to send remittances back, a poor second best to self-sufficiency, pride in one's own economy, or holding onto one's citizens by the appeal of a prospering state.

When a nation encourages illegal immigration, they encourage the leaching of their own body politic. They lose their best and brightest, the ones with the entrepreneurial spirit, the work ethic, the commitment, courage, intelligence, and ambition to succeed.

Those who dare to succeed elsewhere by definition have chosen not to dare to succeed at home. The loss is all to the country that has not invested itself in retaining, attracting, inspiring, and affirming their future on its own soil.

So what is needed? A mutual commitment from our allies to invest and commit, encourage and appeal to the best in their own people, to get them to stay and build stronger states, economies, and political systems at home rather than giving that talent and energy to another nation.

Finally, because all nations are not equal, even if all people are equal in the eyes of their creator, Americans do have an obligation to help those who labor to help themselves. Here we can get more concrete.

At the State Department's nearly \$2 billion Bureau of International Narcotics and Law Enforcement, we often underwrote institution building, capacity creation, the writing of laws, the implementation of those same laws, the creation of well trained law enforcement forces, prosecutors, judges, and even defense counsel.

We worked to reinforce the best efforts of nations that struggled to tamp out public corruption, kidnapping, homicide, drug trafficking, and terrorism on their own soil. We began programs that seeded democratic values such as the Culture of Lawfulness, which has taught tens of thousands of kids worldwide in places like Colombia and elsewhere in this hemisphere the respect for law.

We taught human rights and restraint, proportionality and non-lethal riot control even as we also taught counterterrorism and the ways in which the rule of law must be retrieved when it has begun to slip away. We believed in and we still believe in our allies, in their peoples, in the men, women, and children who want to have a better, safer, and more prosperous life.

Most of all, we encourage those who work to restore the ballast of their own economies and political systems, securing individual rights, trying to establish those conditions, as John Locke said, which permit a safe and secure democracy to thrive.

We do that today, but what is now needed more than ever is a collateral commitment, a mutual commitment, a rejoined commitment by many of our closest allies to reflect on what it will take to keep their own best and brightest from leaving.

When we round that corner, we will be on the home stretch. When we round that corner, this hemisphere and those outside this hemisphere will have recalibrated themselves to truly and sustainably succeed. Thank you.

[The prepared statement of Mr. Charles follows:]

PREPARED STATEMENT OF THE HONORABLE ROBERT CHARLES, PRESIDENT, THE CHARLES GROUP, LLC

Mr. Chairman and Members of this distinguished subcommittee and committee, thank you for inviting me to give testimony today. Please know that sitting before you on a topic as vital to our national security as immigration is a distinct privilege. While there is much to say, I will limit my remarks to four short observations this afternoon. Within that four-cornered frame, details can be debated. Without that frame, it seems to me that meaningful debate is lost, or at least left aimlessly wandering.

First, we live in a land of laws. Not of men, but of laws. When we choose to depart from fidelity to these laws, we lose something more important than votes. We lose the integrity of the law. As inconvenient as it is to enforce the law when there are those who violate it with impunity, our own experience in this country, and the experience of democracies worldwide, reinforce the importance of abiding by the rule of law. If we choose to water down cornerstone norms and enduring, established practices, long viewed as fair, because it is convenient to do so, we lose the very thing we are seeking. We lose the content of citizenship, of being an American. So, on the home front, we cannot diminish the process of legal immigration and naturalization, without diminishing the sacrifice of those who—over some 20 generations—have hoped, dreamed, loved, aspired, struggled, learned, assimilated and worked for their citizenship. If we fail to secure our borders or fail to hold high the standards of American citizenship, we diminish the meaning of citizenship, and the sacrifice of those Americans who have defended this country over generations.

Second, the rule of law is not a principle that applies to Americans alone. No democracy can sustain the will of its people, the protection of lives, liberty and property, without a serious commitment to the rule of law. John Locke, in his Second Treatise, made clear that a democracy's social contract involves first securing the nation. When security has been established and there is the expectation that laws will be accepted, honored and enforced, people begin to mix their labor with the land—or in modern terms—invest themselves with confidence, in the future of their country . . . They begin to believe that all they work for is not in vain, that property can be fairly earned, protected and passed to their children.

In short, establishing the rule of law in a representative democracy and maintaining fidelity to it are the foundation stones on which greater economic prosperity and political liberty are built. Nations which have struggled with violence, but which have leaped the pit to land on the side of representative government—nations like Panama and El Salvador, Poland, the Czech and Slovak Republics, former East Germany, Romania, and of course Russia and the CIS states, all have found that consistently protecting the individual leads to a greater investment by the individual in his or her society, and in time to greater economic growth and political freedom.

Nor do all good and democratic things come in the packaging of a revolution. Allies in this hemisphere, in Europe, Africa, the Middle and Far East have, often by degrees, evolved toward greater reinforcement of democratic institutions, generally designed to protect the individual from an oppressive government, with the salutary effect that they have seen both growing economies and widening circles of political contentment. So, in short, the promise of fighting for, establishing, and maintaining the integrity of self-government and rule of law is not confined to any one nation, but is available to all.

Which leads to the third observation. Our allies—rich and poor, admiring and envious, large and small, dependent and independent, near and far, young and ancient, approving and disapproving, populous and spare of people, sources of legal and illegal immigration, those always at the ready or reluctant to stand by us—all of them . . . have within their own borders the same inherent potential for self-determination, greater economic prosperity, widening circles of political contentment and a future built on pride in their own sovereign status, flag and fellow citizens—as we do.

Moreover, whatever the economic conditions at any given time, there is always room for improvement of those conditions—providing the rule of law exists and can be maintained—by the collective dedication of a people to their own future. Aside from natural disasters and the scourge of war, both of which challenge the very ex-

istence of an economy and a nation, there is always the great potential of a unified commitment to the nation and its future.

Too often, recently, what has been missing is the leadership necessary to keep people from fleeing their home countries—the leadership necessary to unify and secure, solidify and build, grow, inspire, attract and maintain the allegiance of people to the country in which they were born. In short, the problem of the so-called brain drain from these countries must be addressed at least in part by the home country. Far easier it has been to allow them to bleed north or south, east or west, into another country's thriving economy, and to send remittances back—a poor second best to self-sufficiency, to pride in one's own economy, or to holding onto one's citizens by the appeal of a prospering state. When a nation encourages illegal emigration, they encourage the leaching of their own body politic; they lose their best and brightest, the ones with the entrepreneurial spirit, work ethic, commitment, courage, intelligence and ambition to succeed. Those who dare to succeed elsewhere, by definition have chosen not to dare to succeed at home. The loss is all to the country that has not invested itself in retaining, attracting, inspiring and affirming the future on its own soil. So, what is needed? A mutual commitment from our allies to invest and commit, encourage and appeal to the best in their own people—to get them to stay and build stronger states, economies and political systems at home, rather than giving that talent and energy to another nation.

And then, the last side of the frame. Because all nations are not equal, even if all people are equal in the eyes of their Creator, Americans do have an obligation to help those who labor to help themselves. Here we can get more concrete. At the State Department's nearly two billion dollar Bureau of International Narcotics and Law Enforcement, we often underwrote institution building, capacity creation, the writing of laws, the implementation of laws, the creation of well trained law enforcement forces, prosecutors, judges, even defense counsel. We worked to reinforce the best efforts of nations that struggled to tamp out public corruption, kidnapping, homicide, drug trafficking and terrorism on their own soil.

We began programs that seeded democratic values, such as the Culture of Lawfulness taught to tens of thousands of kids worldwide, in places like Colombia and elsewhere in the hemisphere. We taught human rights and restraint, proportionality and non-lethal riot control, even as we also taught counter-terrorism and the ways in which the rule of law must be retrieved when it has begun to slip away.

We believed in—and we still believe in—our allies, in their peoples, in the men, women and children who want to have a better, safer and more prosperous life. Most of all, we encouraged those who worked to restore the ballast to their own economies and political systems, securing individual rights, trying to establish those conditions—as John Locke said—which permit a safe and secure democracy to thrive.

We do that today, but what is now needed—more than ever—is a collateral commitment, a mutual commitment, a rejoined commitment—by many of our closest allies to reflect on what it will take to keep their own best and brightest from leaving. When we round that corner, we will be on the homestretch. When we round that corner, this hemisphere and those outside this hemisphere will have recalibrated themselves to truly and sustainably succeed.

Thank you.

Mr. BURTON. Thank you, Mr. Charles. Mr. Farnsworth.

**TESTIMONY OF MR. ERIC FARNSWORTH, VICE PRESIDENT,
COUNCIL OF THE AMERICAS**

Mr. FARNSWORTH. Mr. Chairman, thank you for the opportunity to be with you today and the Members of the Subcommittee. It is a privilege to be here before you again, and I thank you for your kind words of introduction.

Let me go right to the heart of the matter if I might. Migration we believe is not an issue that can be resolved per se. It is only an issue that can be managed in an orderly, safe, and humane manner, and the reason for that is elegant in its simplicity. The perceived economic benefits of migrating from Latin America or the Caribbean to the United States and increasingly Canada outweigh the perceived security and economic risks in addition to the emotional cost of separation from family and community.

It is fairly well established in fact that all other things being equal, many migrants would prefer to remain with their families in their countries of birth where language, customs, and social patterns are well known and comfortable.

It is a matter of the economic desperation that some people feel in their home countries and the lack of economic opportunity at home and the economic opportunities they perceive in el Norte that they will actively seek legal or, if necessary, illegal means into this country.

It is also well established, Mr. Chairman, that migrants do not necessarily have to be unemployed or without any job prospects at home in order to attempt to travel to the United States or increasingly Canada or for that matter from Bolivia to Brazil and Argentina or Nicaragua to Costa Rica or Guatemala to Mexico.

Rather, with the exception of political persecution, which is thankfully no longer a significant issue in Latin America outside of Cuba, it is the prospect for economic advancement that potential migrants perceive for themselves and for their children that weigh heaviest in the minds of intending migrants. Most of the recent migrant community in the United States, for example, is concentrated in low skill, low wage industries, agriculture and meat packing, landscaping, hospitality, construction, and other jobs which tend to be harder to fill at prevailing wages.

On its face, this situation might indeed appear paradoxical. Why would anyone, the thinking goes, leave home and hearth if they already had a job in order to travel north to take work that might be seasonal, episodic, or lacking in job security or may even be subject to law enforcement actions? The answer appears to be that this allows workers the opportunity to send significant support back home in the form of remittances until such time as family members can join the original migrant in the United States.

Once families are reunited in the United States, children of migrants then have the opportunity to improve themselves through education and training unavailable to them in their home countries—and I want to come back to that in the question and answer period if I can—that will allow them to pursue even greater economic opportunity than their parents.

In fact, the Inter-American Development Bank has done some excellent work on remittances and has found that these cash flows make up a significant portion of national accounts in Latin America and the Caribbean. And I give statistics in my testimony submitted for the record, so I will not go into it here, but it is significant.

Ultimately migrants want what we want, the opportunity to make a better life for themselves and even more so the opportunity for the children to move up the economic ladder, which due to social, labor, or political rigidities they may not have at home.

The key question then is how to encourage opportunities for upward mobility in Latin America and Caribbean nations themselves. In reality, there are numerous actions that governments can take with the understanding that there are no magic bullets and there are not any short-term solutions.

Rather, there is only a long-term commitment to economic growth, competitiveness in the global environment, and actions to

reform labor codes, political access, and the rule of law which will improve labor market flexibility, encourage workers to enter and remain in the formal economy, and keep any nation's most valuable commodity, its people, at home.

For its part, the United States has only limited means to address these matters at their source. Fundamentally reforms must be made in the nations themselves. Regional development is the most effective means to reduce and manage migrant flows to the United States, not to eliminate them, which I believe would be impossible and frankly unwise. But trade policy is one of the most effective means to be able to do that, and we had the discussion in the earlier panel about direct assistance and ESF as well, and I think that is also an important element.

But regional development is crying out for a more focused attention to several priority areas that go well beyond trade liberalization, which is a necessary though not sufficient by itself element to engender the long-term sustainable growth that will create those jobs required to keep citizens at home.

In fact, in one particularly chilling statistic that you all have probably already seen, the World Bank recently reported that between 1980 and 2000, Latin America grew in total less than 1 percent. China over the same period of time, 1980 to 2000, grew 8 percent per year, and that is the challenge that Latin America as a whole faces. Clearly the region as a whole must do better.

Latin American and Caribbean nations, as elsewhere, find themselves fighting to excel in a global economy. Foreign and domestic investment that might normally have flowed into the region, one of the most important ingredients of long-term economic growth, now has other options, especially in Asia and eastern Europe. Those nations which do not take direct steps to improve their respective investment climates will fall increasingly behind.

As a start, greater attention must be paid to formal education, which now averages a mere 6 years across the region, worker training and workforce development, personal security and security of property, the rule of law, and social inclusion, which strengthens democracy. These are basic investment climate issues.

I would like to give in the question and answer period perhaps some examples of some countries that are trying to do the right thing and some examples of some countries where there might be room for progress.

Finally, Mr. Chairman, let me make one final point if I might. Beyond investment climate reforms, Latin American and Caribbean nations would do well to take direct steps to liberalize their labor markets in order to create greater incentives for job creation while bringing greater numbers of their people within the framework of a formal economy where they would enjoy greater social protections, job security, and not coincidentally be more fully vested in the success of democratic governance at home.

We have tried to do a lot of work in terms of labor reforms across the region, and there are some interesting facts and figures that are coming out of that, and it really is an area that requires a lot of further investigation. By bringing workers more actively into the formal economy, that is going to create some of these protections

for the labor market which will have the incentive as well of keeping some workers at home.

Mr. Chairman and Members of the Subcommittee, as you know and as we have discussed already, migration issues are complicated, difficult, and longstanding. They cannot be addressed overnight because the solutions are long-term, and in the meantime, migration pressures will likely continue, but that is no reason not to work in conjunction with our hemispheric neighbors, who, to be sure, recognize their joint responsibilities in these matters, to find ways to address the underlying economic calculus facing numerous individuals across the Western Hemisphere.

For our part, we can and should be supportive through trade expansion and other means even as the sending nations more aggressively take steps to improve their respective investment climates, focus significant attention on education reform and social mobility and liberalized labor codes. So, Mr. Chairman, thank you again for the opportunity. I look forward to your questions.

[The prepared statement of Mr. Farnsworth follows:]

PREPARED STATEMENT OF MR. ERIC FARNSWORTH, VICE PRESIDENT, COUNCIL OF THE AMERICAS

Good afternoon Mr. Chairman and members of the Subcommittee. It is a privilege to be with you to discuss a topic of long-standing and growing significance in hemispheric relations. As you know, the Council of the Americas ("Council") is a leading policy voice in Latin America, the Caribbean, and Canada. Our members include over 175 companies invested and doing business every day in the Western Hemisphere. For over 40 years, the mandate of the Council has been to promote open markets, democracy, and the rule of law throughout the Americas. Thank you for the invitation to speak before you today.

Patterns of Migration are Well Established

As you have heard from the government witnesses earlier, migration is not an issue that can be "resolved," per se; it can only be managed in an orderly, safe, and humane manner. The reason is elegant in its simplicity: the perceived economic benefits of migrating from Latin America or the Caribbean to the United States and, increasingly, Canada, outweigh the perceived security and economic risks, in addition to the emotional cost of separation from family and community. It is fairly well established, in fact, that all other things being equal, many migrants would prefer to remain with their families in their countries of birth, where language, customs, and social patterns are well known and comfortable. It is a matter of the economic desperation that some people feel in their home countries, and the economic opportunities they perceive in "el Norte," that they will actively seek legal or, if necessary, illegal means into this country.

It is also well established that migrants do not necessarily have to be unemployed or without any job prospects at home in order to attempt travel to the United States or Canada (or, for that matter, from Bolivia to Brazil and Argentina, or Nicaragua to Costa Rica, or Guatemala to Mexico). Rather, with the exception of political persecution which is thankfully no longer a significant issue in Latin America outside Cuba, it is the prospect for economic advancement that potential migrants perceive for themselves *and for their children* that weigh heaviest in the minds of intending migrants. Most of the recent migrant community in the United States, for example, is concentrated in low skill, low wage industries: agriculture and meatpacking, landscaping, hospitality, construction, and other jobs which tend to be harder to fill at prevailing wages.

On its face, this situation might appear paradoxical. Why would anyone, the thinking goes, leave home and hearth if they already had a job in order to travel north to take work that might be seasonal, episodic, and lacking in job security or may even be subject to law enforcement actions? The answer appears to be that this allows workers the opportunity to send significant support back home in the form of remittances, until such time as family members can join the original migrant in the United States. Once families are reunited in the United States, children of migrants then have the opportunity to improve themselves through education and

training unavailable to them in their home countries that will allow them to pursue even greater economic opportunity than their parents.

The Inter-American Development Bank has done excellent work on remittances, and has found that these cash flows make up a significant portion of national accounts in Latin America and the Caribbean. In 2005, it is estimated that total remittances to Latin America and the Caribbean reached nearly \$54 billion, including over \$20 billion to Mexico, over \$6 billion to Brazil, over \$4 billion to Colombia, over \$2 billion each to Guatemala, El Salvador, the Dominican Republic, Peru and Ecuador, and almost \$2 billion to Honduras and over three quarters of a billion dollars to Nicaragua. These figures are staggering in magnitude, when one considers that the total level of Mexico's exports in 2005, for example, was \$217 billion, while El Salvador's was \$3.6 billion, Honduras' was \$1.7 billion, and Nicaragua's exports are barely \$1.5 billion per year. It also explains why the Temporary Protected Status program for El Salvador, Honduras, and Nicaragua, which covers over 300,000 people, is seen as such a lifeline, and why its continued renewal is always such a priority for affected Central American governments.

Ultimately, migrants want what we would want: the opportunity to make a better life for themselves, and even more so, the opportunity for their children to move up the economic ladder which, due to social, labor, or political rigidities, they may not have at home.

Regional Development is the Key to Better Management of Migration Flows

The key question is how to encourage opportunities for upward mobility in Latin American and Caribbean nations themselves. In reality, there are numerous actions that governments can take, with the understanding that there are no magic bullets, nor are there short-term solutions. Rather, there is only a long-term commitment to economic growth, competitiveness in a global environment, and actions to reform labor codes, political access, and the rule of law which will improve labor market flexibility, encourage workers to enter and remain in the formal economy, and keep any nation's most valuable commodity-its people-at home.

For its part, the United States has only limited means to address these matters at their source; fundamentally, reforms must be made in the nations themselves. Regional development is the most effective means to reduce and manage migrant flows to the United States (not eliminate them, which would both be impossible and unwise), and trade policy is the most effective means we have to impact regional development. As the Council's North American Business Committee showed based on US government statistics, for example, NAFTA has had a moderating impact on the flows of illegal migrants from Mexico. We would anticipate the same to occur with the DR-CAFTA agreement with Central America once that agreement is fully in force.

This linkage, in addition to US counternarcotics policy, has also been at the heart of trade preference programs in the Andean region. Specifically, the Andean Trade Preferences Act and its successor ATPDEA program for Colombia, Peru, Ecuador, and Bolivia were originally designed to help narco-source nations to develop jobs in legitimate sectors to wean workers away from the coca and marijuana fields. This program is set to expire at the end of this year unless re-authorized by Congress in the context of an overall hemispheric trade expansion strategy as a bridge to free trade agreements in the Andean region.

Development and job creation is also at the heart of the Security and Prosperity Partnership for North America that was launched by the three North American governments in Waco, Texas, in 2005 and solidified in Cancun last March. The purpose of the SPP, which the Council fully supports, is to identify and promote specific areas where actions by the three governments can make each nation more competitive globally, thus improving development prospects individually and collectively. This is particularly pertinent for the southern half of Mexico, which is the most underdeveloped region in North America and which, not coincidentally, also voted most heavily in Mexico's recent presidential election for populist candidate Andres Manuel Lopez Obrador. As President Vicente Fox said during the Cancun meeting, the Government of Mexico recognizes that it shares responsibility for security along the border as an element of the overall migration picture, but the economic development of Mexico's southern half will be the most effective element, over time, in moderating the flow of migrants north from Mexico.

Regional Development Goes Beyond Trade

More broadly, regional development is crying out for a more focused attention to several priority areas that go well beyond trade liberalization, which is necessary though not sufficient by itself to engender the long-term, sustainable growth that will create those jobs required to keep citizens at home. In fact, in one particularly

chilling statistic, the World Bank recently reported that Latin America as a whole grew less than one percent from 1980-2000; over the same time period, China grew over eight percent *per year*. Clearly, the region as a whole must do better.

Latin American and Caribbean nations, as elsewhere, find themselves fighting to excel in a global economy. Foreign and domestic investment that might normally have flowed into the region, one of the most important ingredients of long-term economic growth, now has other options, especially in Asia and Eastern Europe. Those nations which do not take direct steps to improve their respective investment climates will fall increasingly behind. As a start, greater attention must be paid to formal education, which now averages a mere six years across the region, worker training and workforce development, personal security and security of property, the rule of law, and social inclusion which strengthens democracy and social stability. In this regard, countries like Bolivia that have recently taken steps to nationalize foreign investment or nations like Ecuador where some investments are subject to a fluid interpretation of the law will find that the international business community will look elsewhere, as indeed is already happening, to make those direct investments that drive job creation and improved economic performance. Countries like Chile, Colombia, the Dominican Republic, and Uruguay which take global competitiveness seriously will continue to reap the benefits of strong investment flows. Ultimately, of course, investment-led development in the region is the key to developing broad-based economic growth, and such growth is the *sine qua non* of moderating regional migration flows.

Beyond investment climate reforms, Latin American and Caribbean nations would do well to take direct steps to liberalize their labor markets in order to create greater incentives for job creation, while bringing greater numbers of their people within the framework of the formal economy where they would enjoy greater social protections, job security, and, not coincidentally, be more fully vested in the success of democratic governance at home.

My colleague at the Council, Dr. Christopher Sabatini, who just testified before the International Relations Committee on the state of democracy in the region, has been doing some outstanding work on labor reforms in Latin America and what it will take to broaden the economic base. This is critical as Latin America and the Caribbean face a demographic time bomb in terms of significant numbers of youth coming of age. Over one third of the population is under the age of 16. In a few short years, this will be the population cohort which tends to be most likely to migrate when good jobs in the formal economy simply do not exist. Conversely, were Latin American job markets liberalized, perhaps in exchange for greater social protections for workers, jobs would be created by the private sector which currently faces perverse incentives in hiring and firing. As a result, additional workers would be drawn into the formal economy, thus decreasing incentives for migration.

Mr. Chairman, members of the Subcommittee, migration issues are complicated, difficult, and long-standing. They cannot be addressed overnight, because the solutions are long term, and in the meantime, migration pressures will likely continue. But that's no reason not to work in conjunction with our hemispheric neighbors, who, do be sure, recognize their joint responsibilities in these matters, to find ways to address the underlying economic calculus facing numerous individuals across the Western Hemisphere. For our part, we can and should be supportive, through trade expansion and other means, even as the "sending" nations more aggressively take steps to improve their respective investment climates, focus significant attention on education reform and social mobility, and liberalize labor codes.

Mr. Chairman, thank you again for the opportunity to be with you today. I look forward to your questions.

Mr. BURTON. Thank you, Mr. Farnsworth. I will have some questions about your statement in just a minute.

Mr. Orozco. I will get that right before we are through.

**TESTIMONY OF MANUEL OROZCO, PH.D., SENIOR ASSOCIATE,
REMITTANCES AND RURAL DEVELOPMENT PROGRAM,
INTER-AMERICAN DIALOGUE**

Mr. OROZCO. That is okay. My boss still calls me Miguel. My name is Manuel. Thank you very much for inviting me to come to speak to you.

Mr. BURTON. As long as your wife does not do it, that will be fine.

Mr. OROZCO. I will not give you the name of my boss of course. Thank you for inviting me to speak to you. I am very encouraged that you want to address the question of how the United States can encourage and assist Latin American countries to address the problem of poverty. What I am going to do is point to three policy recommendations that I think may shed some light as to how we move forward. And before doing that, I think I want to point to three issues that were highlighted by Mr. Farnsworth.

One is the challenge of economic growth in these countries, in Latin America and the Caribbean, are far more greater than we think they are, and in fact, there is a chance that there might be possible economic recession coming up in the next 5 years. But in practical terms, the very low economic growth rate that these countries are achieving, which is about 3 percent, do not meet the necessary growth that it should have, the region, which should be in practical terms about 10 percent for 10 consecutive years.

The second issue is that the cost of living in practical terms does translate to the fact that the cost of living of people living in Latin America is three times greater the average wages that people earn. The average wage a person makes in most of these countries is less than \$200 a month; yet the cost of living is about \$500 or more a month in order to survive. And in fact, when you look at the volume of remittances in terms of the average amount sent by an immigrant, they almost mirror the equivalent to the cost of living in these countries.

For example, take Haiti. The average amount of money that an immigrant sends to Haiti is about \$200, and that is more or less the cost of living in Haiti. The same thing with Mexico. Three hundred and seventy dollars a month are sent by immigrants in the United States, and that mirrors more or less the cost of living in these countries.

The problem is that even though the impact of remittances, for example, and other economic activities of migrants are quite important, the reality is that these are not the solutions for development, but at the same time, we have the reality of migration and remittances.

So I think three policy approaches that we can look into is first of all, at the level of leveraging the already existing economic activities that migrants are having with their home countries and increasing access to financial institutions to increase the savings ratio of the household as well as the country.

The experiences that we have had implementing policy in those fields have been very successful. Basically there has been a transformation rate of a person who does not have an account to a person who have a 30 percent among those people who withdraw their money at the financial institution.

Another area of importance is education. We need to increase the standards of education by providing education services to remittance recipient households, and that can be attached to education loans, education funds, tutoring classes, et cetera.

Second, I think the work that the developing agencies, USAID as well as Inter-American Foundation and other international financial institutions have done, has been very important, and I think

the urgency to work even more in this region is quite critical and imperative.

One of the areas of work that USAID has done is providing financial services to small and medium enterprises. They are the critical linchpin of building a middle class, but unfortunately, in most of Latin America, anyone who has to invest and needs to have a loan that goes between 20 to \$100,000 is unable to get that. You can have access to micro loans or you can have access to the wealthy loans. That explains why, for example, a few people in Mexico have not been able to enjoy the benefits of NAFTA.

Another area is continued deepening strategies of diversifying exports. The Caribbean-based initiative in Central America has been very successful, was very successful in diversifying exports, but still, in most of Central America and the Caribbean, 70 percent of exports to the United States are based on less than 20 commodities.

So the challenges are still remaining there, and that means we need to pay attention to strengthening free trade not just simply by reducing tariffs but also by providing technical assistance to improve the competitive capacity. If you do not improve the competitive capacity, it does not matter how much trade you open because these countries are not going to be able to sell their goods at high quality product.

And, finally, there is the issue of education. Education matters. Most of Latin America has a sixth grade education when in practical terms, in order to compete in the global economy, you need to have a 12th grade education. And in the event that a guest worker program is addressed, I think a program such as that needs to be attached to conditionality, to conditions that those countries participating in it need to perform better economically and need to also invest in a return migration program for those who are returning after the program has been implemented.

And thus policies can be dealing again in issues relating to investment as well as with increase in savings ratios to those who receive remittances. Thank you very much.

[The prepared statement of Mr. Orozco follows:]

**Immigration, remittances and development:
responding to regional dynamics**

Manuel Orozco
Inter-American Dialogue
Washington, DC
www.thedialogue.org

Testimony presented before the Committee on International Relations'
Subcommittee on Western Hemisphere at the hearing entitled,
"Immigration: Responding to a Regional Crisis". July 26, 2006.

Introduction

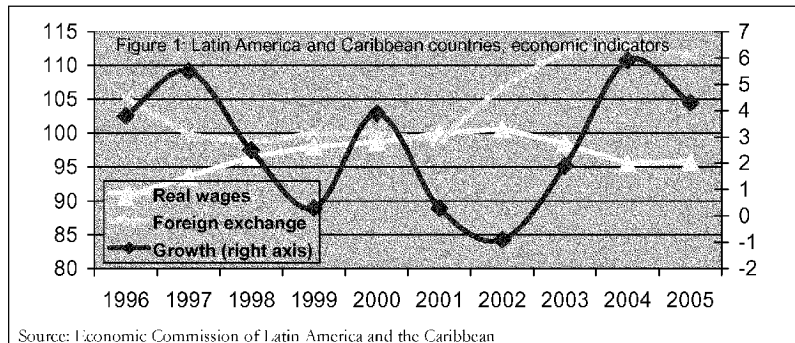
Partly as a result of prevailing inequalities, persistent poverty and the adverse effects of an increasingly globalized world economy, achieving sustainable economic growth and development continue to be major challenges for Latin America and the Caribbean. One critical factor associated with this reality is widespread immigration to the United States, Europe and other wealthier economies in the region itself. This migration has had a substantive impact on development and growth in many parts of the Western Hemisphere, one which merits a closer look.

This briefing addresses the challenges of growth and the impact of remittances and related economic practices on Latin America and the Caribbean; it further explores policy solutions that respond to these realities. Specifically we recommend three areas of policy attention:

- to further leverage existing legal economic practices of immigrants by adopting policy options that have been shown to promote development;
- to accelerate regional and country specific economic reforms with a strong emphasis on enhanced social development, focusing on increasing educational attainment and wealth generation; and
- adopting a guest worker program with conditionality clauses for migrant sending governments about their performance.

1. Poor economic growth

Despite a period of macroeconomic stability since the 1990s after the political transitions in Latin America and the Caribbean, most of these countries continue to struggle to grow and deliver basic social goods and services to their societies. Partly as a result of persistent income disparities, as well as the negative effects of globalization, economic growth and wages rates continue to be low. In addition, local currencies have remained weak. Overall these economies have not been able to grow above 3.5% a year, which is equal or near population growth.



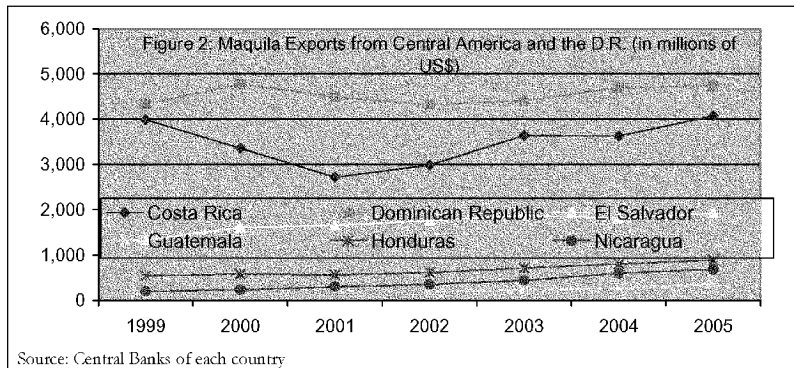
Compounding this situation is the fact that the region has a predominantly young population, bringing its productive force to less than 40%. Moreover, the way in which the region has tried to keep up with the demands of the global economy has not offered opportunities to increase productivity throughout the region, but rather has focused on enclave economies in tourism, non-traditional exports or maquila exports. These sectors are highly vulnerable to external fluctuations that are usually out of the control of these economies and oftentimes exhibit lower distributive effects than other activities with greater value added components.

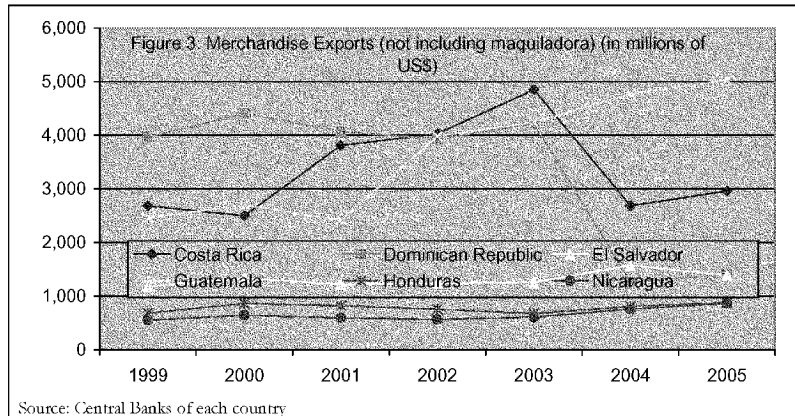
Latin American and Caribbean countries face additional serious difficulties in competing with global markets that are either subsidized in the industrialized economies, oversaturated with similar commodities or have a demand for high quality high technology oriented manufacturing. Thus, the way most of the region has kept its global integration mode has been through a few commodities. A stark example took place in the late 1990's when the value of coffee exports declined, resulting also in the commodity's reduced share of total exports.

Table 1: Coffee Exports as Percentage of Total Exports

	1990	1995	1998
Costa Rica	12.3	12	7.3
El Salvador	40.4	21.8	13.1
Guatemala	26.7	26.8	20.7
Honduras	20.2	23.9	21.5
Nicaragua	21.4	24.9	27.9
Panama	3.1	5.8	3.4

Source: ECLAC





Together these factors have not been conducive to sustainable growth rates. Instead, the productive base of these economies have struggled to cope with increasing costs of living, now more pronounced as energy prices exact a heavy toll on many of these societies.

Many Latin American and Caribbean cities operate on low wages and precarious employment, making them unable to compete even with domestic markets, much less in the global economy. Wages are often one third or one quarter of the cost of living. For example, an agricultural worker in Catamayo, Ecuador, working in sugar cane fields earns US\$150 a month, and a store clerk in Salcaja, Guatemala or Suchitoto, El Salvador earns US\$200 and US\$150, respectively. At the same time, the cost of the basic food basket in these countries ranges between US\$150 and US\$350. This reality makes it difficult for workers to maintain a decent standard of living through their own employment and the gap between earnings and cost of living has been a key factor in the decision to migrate for many people.

Table 2: Monthly Cost of Living, Income and Remittances

	Jerez	Catamayo	Suchitoto	Salcaja
Cost of living . . .				
Food	219	228	209	201
Services (utilities)	60	44	40	43
Education	13	32	29	56
Health	40	41	34	68
Entertainment	27	3	40	35
Income . . .				
Wages	323	303	125	162
Total earnings, remittances included	930	501	622	353
Monthly remittances amount received	637	331	515	181

Source: Survey of 120 remittance recipients and non-recipients

Finally, natural disasters have also had an adverse effect in many of these countries, particularly in those in the Caribbean Basin. A series of events have severely affected the region in the last few years, including the decline in coffee prices, drought, hurricanes, and earthquakes. These events devastated the local populations and economies.

Along with the coffee crisis, Central America was hit with a drought in early 2000 that significantly affected four countries in particular: Guatemala, El Salvador and, even more dramatically, Honduras and Nicaragua. According to the United Nations World Food Program, nearly 1.6 million Central Americans were affected, half of them from Honduras. Many Central Americans faced starvation. In Guatemala, more than one hundred peasants died during the first six months of 2001 as a result of the drought. In other countries the death toll was even higher. The main source that help sustain Guatemala during the coffee and drought were remittance transfers (see chart A2 in appendix).

Table 3: Drought in Central America: Population affected

Country	Population affected
Guatemala	113,596
El Salvador	412,064
Honduras	791,970
Nicaragua	187,645

Source: World Food Program, WFP, UN.

Following the drought in 2001, two earthquakes in El Salvador affected the economic and housing infrastructure of more than one hundred thousand households. Five years later, the country is still recovering and rebuilding from that disaster. Between 2002 and 2006, the region has also faced other natural disasters, which have added to the strains on the economy and increased flow of migrants.

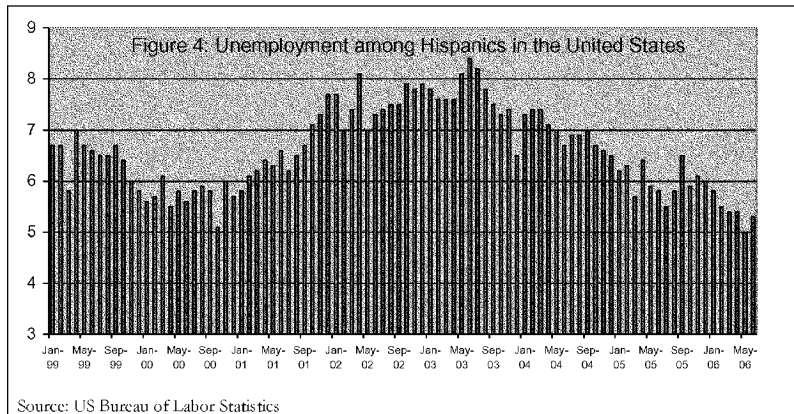
Foreign labor market's demand for immigrant workers coexists with the push factor of poor economic performance in Latin America. That is, migration has also been shaped by a foreign labor market demand among industrialized countries facing their own challenges in meeting the demands of a competitive global economy. This foreign labor force works in service industries that are intrinsically connected to the global economy, demanding cheap labor and activities that other players in the economy are not prepared to carry out. This is a labor force that often lives under poor conditions and works in various labor intensive industries such as hospitality, cleaning, construction, and retail.

Andrade-Eckhoff¹ argues that this process of labor "integration" suffers relatively high levels of exclusion and marginalization due to the undocumented nature of many of its migrants who respond to economic push-pull and transnational networks and linkages. For example, migrants in the poultry industry in the US South working for Tysons Foods² live under

¹ (Andrade)-Eckhoff, Katharine. Globalization of the periphery: The challenges of transnational migration for local development in Central America. El Salvador: I-LACSO Programa, April 2003.

² Fink, Leon, The Maya of Morgantown: work and community in the Nuevo new south, Chapel Hill: The University of North Carolina Press, 2003, p. 200. and Striffer, Steve, "We're all Mexicans Here: Poultry

precarious circumstances, working long hours with a limited social safety net. Similar conditions can also be found among foreign part time workers in the so called 'logistics sector', such as FedEx, delivering packages on time from all over the world.³ Interestingly, this demand for this kind of foreign labor in the United States has not changed dramatically over the past seven years. For example, the decline in unemployment rates among Hispanics suggests that a demand for foreign labor has increased in the economy after the 2000-2002 economic recession.



Moreover, one can not ignore the political events that influenced the emigration of many in the eighties and created transnational family ties. The repression and civil wars of the seventies and eighties led to mass migrations. Guatemala, El Salvador, Honduras and Nicaragua experienced brutal forms of political repression directed by a ruling class formed by praetorian guards, conservative oligarchies, and conformist elites. The end result in each of these countries was civil war, each lasting over ten years and forcing millions to flee. Haiti and Colombia have also faced fates similar to that of Central America, brought on by violence or repression. Finally, there are also the latest emerging neopopulist movements that discouraged many citizens from remaining in countries like Bolivia, Ecuador or Venezuela.

2. The impact of transnationalism in Latin America and the Caribbean

All of these factors combined have helped sustain and create transnational families—defined as groups that maintain relationships and connections with home and host societies.⁴ Their

Processing, Latino Migration, and the Transformation of Class in the South” in *The American South in a Global World*, edited by James Peacock, Harry Watson, and Carrie R. Matthews, Chapel Hill: The University of North Carolina Press, 2005.

³ Smith, Barbara Ellen, Marcela Mendoza and David H. Ciscel, “The World on Time: Flexible Labor, New Immigrants, and Global Logistics” in *The American South in a Global World*, edited by James L. Peacock, Harry L. Watson and Carrie E. Matthews, Chapel Hill: The University of North Carolina

⁴ There are a range of definitions of transnationalism, for example, “groupings of migrants who participate on a routine basis in a field of relationships, practices and norms that include both places of origin and destination”

cross-border engagements encompass a range of activities including but not limited to remittance sending, social networks, economic relationships, cultural practices, and political participation.

Money transfers, tourism, transportation, telecommunication, and nostalgic trade, together known as the 5Ts, have had a significant impact on the economies of these countries and pose important policy questions about the relationship between transnationalism and development. In practical terms, a typical immigrant's economic linkage with their home country extends to at least four practices that involve spending or investment: family remittance transfers; demand of services such as telecommunication, consumer goods or travel; capital investment; and charitable donations to philanthropic organizations raising funds for the migrant's home community (see box below).⁵

Remittances, the first of these linkages, are the most widespread and important migrant economic activity. While the determinants of sending do not vary between nationalities, the frequencies and quantities of money sent fluctuate across groups. For example, Latinos and Filipinos in the U.S. send an average of US\$300 a month, whereas Southeast Asians in Japan send \$671, Filipinos US\$600 and Ghanaians in Europe send US\$400 every six weeks.⁶

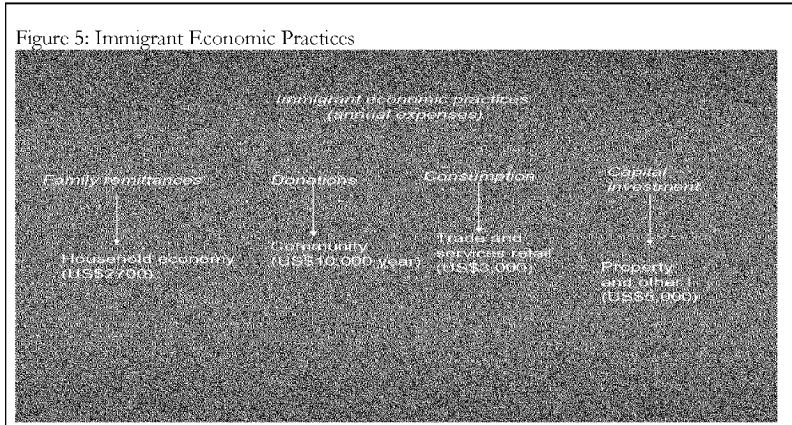
Migrants also maintain links with their home countries by staying in touch with friends and family by calling and visiting their homeland. They purchase and consume foodstuffs from their home country such as tortillas, beef jerky, cheese, rum and coffee, and spend money on phone cards to call their families. Eighty percent of Latinos buy phone cards and speak to their relatives by phone for an average of two hours a month. This exchange creates important revenue for U.S. firms.

The final two transnational activities involve donations and investments. In the case of donations, migrants raise funds to help their hometowns through organized civil society groups. Belonging to a hometown association (HTA) is an important migrant activity that can provide substantial economic resources for the communities of origin. Individual donations may amount to between US\$100 and US\$200 a year per person, and in some countries, like Mexico, donations on aggregate may translate to more than fifty million dollars. Finally, migrants often have a desire to invest in a property or a small business, devoting between US\$5,000 and US\$10,000 to that activity.

(Lozano 1999). The trend of ties is spreading everywhere north-south, as well as south-south with significant regional migration patterns.

⁵ For an in-depth analysis of the 5Ts, see Manuel Orozco *Transnational Engagement, Remittances and their Relationship to Development in Latin America and the Caribbean*. Institute for the Study of International Migration, Georgetown University, July 2005.

⁶ Orozco, Manuel with Rachel Fedewa, "Regional Integration? Trends and Patterns of Remittance flows within South East Asia." Inter-American Dialogue, Washington, DC, August 2005. South East Asia report, 2005



These practices generate significant revenue and benefits for many. Take, for example, the cases of Salvadorans in the United States. This migrant community has been established for more than thirty years in the U.S. and has maintained its associations with the homeland at different levels. The table below shows estimates of the number of transnational activities that keep these migrants connected with their home country. The highest amount of money spent is on remittances (from which earn average companies revenues of 10%); however, other activities are also important relative to their impact on the two economies, such as phone calls.

Table 4: Percent of Salvadorans who . . .

Percent of people who...	(%)	Number	Annual Cost /expense (US\$)	Volume (US\$)
Call on average 120 minutes	41	340,300	288	98,006,400
Send over \$300	32	265,600	4200	1,115,520,000
Buy home country goods	66	547,800	200	109,560,000
Travel once a year	24	199,200	700	139,440,000
(& Spend over US\$1,000)	61	506,300	1000	506,300,000
Have a mortgage loan	13	107,900	7000	755,300,000
Own a small business	3	24,900	7500	186,750,000
Helps family w/ mort.	13	10,790	2000	215,800,000
Belong to a hometown assoc.	5	41,500	200	1,500,000

Note: Number of Salvadorans remitting from the U.S. is estimated at 830,000; Source: *Transnat.*

These practices among diasporas are not fungible, but rather reflect specific needs and priorities among migrants and together do not necessarily represent assets in themselves.

The consumption of goods and services, for example, is attributed to daily livelihood realities. Remittances, on the other hand, are both a combination of social protection and stock accumulation. Studies show that, depending on the groups and families, migrants may see a portion of remittance as an asset in itself because they then use it to invest in their families' material circumstances to transform their lives.⁷ Remittances sent to address educational needs, for example, create such a basis for asset building.

Investments in business and real estate and migrants' donations to their local communities are unambiguous, concrete forms of asset accumulation at the individual and community levels. In the case of financial activities we find that nearly two in ten migrants invest in their home country, and nearly three in ten build savings at home. The table below shows the kind of asset building practices that were found to take place among migrants from twelve different Latin American countries.

Table 5: Percent of remittance senders and recipients who . . .

	Sender	Recipient
Have a bank account	27	50
Mortgage loan	10	10
Have a small business	3	17
Have a small business loan	1	4
Have a student loan	1	3
Are paying insurance policies	2	6
Lends money to family to invest	2	2
Do not have financial obligations	NA	32

Source: Orozco, Manuel. *Transnational Engagement*...

Table 6: Percent of remittance senders/recipients who in addition to remittances help/are helped by their family to address other economic obligations, such as . . .

	Sender	Recipient
Mortgage loan	12	28
Pays loans to take care of a small business	2	27
Pays for a student loan	2	8
Helps pay for health insurance	2	16
Other financial obligations	22	26

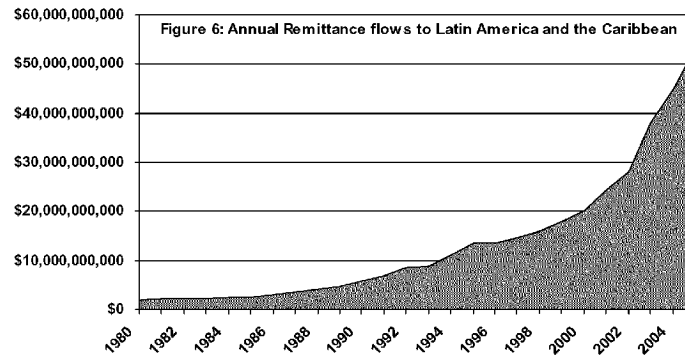
Source: Orozco, Manuel. *Transnational Engagement*.

i. The direct impact of remittances

The volume of remittance flows to Latin America and the Caribbean has increased to over fifty billion dollars in 2005 (see Figure 6). The increase is due to a number of factors that include reactions to economic downturns in Latin America and the Caribbean, strengthened ties between the U.S. and Latin America, improved competition in money transfers, increases in the contact among members in a transnational family, and improved accounting of the money received. For example, in 1980 only 17 countries reported flows on

⁷ Pozo, Susan and Catalina Amuedo-Dorantes "Remittances as Insurance: Evidence from Mexican Migrants," *Journal of Population Economics*, 2006,

remittances; by 2004 the number was 30. Even these figures, reported by Central Banks, are considered to be conservative estimates.



These flows have had an economic impact in several of these economies. First, the sheer volume has become an important source of foreign savings that help to sustain foreign currency reserves. For example, in many Caribbean and Central American countries, remittances are the most important source of income and exhibit far more stable flows than other factors. Second, remittances respond to macroeconomic shifts, particularly to inflation, thus manifesting countercyclical tendencies. Third, in some countries, particularly in smaller ones, these savings have an effect on the country's growth rate. Fourth, they represent an economic engine attached to an intermediating industry that includes other kinds of services and transactions. Fifth, remittances have a distributive impact in a country's economy.

Table 7: Central America in the global economy, 2005, in million US\$

Sector	Guatemala	El Salvador	Honduras	Nicaragua	Costa Rica	D.R.
Remittances	2,992.8	2,830.2	1,763	600.4	362.0	2,410.8
Merchandise Exports (not including maquiladora)	5,028.6	1,381.47	875.0	857.9	2,954.0	1,397.9
Maquiladora	352.4	1,920.7	886.4	682.1	4,072.3	4,734.6
Official Development Assistance*	218.4	211.5	641.7	1,232.4	13.5	86.9
Income from Tourism	868.9	542.9	472.2	207.1	1,598.9	3,519.7
GDP	27,400.0	17,244.0	8,000.0	5,000.0	20,014.5	29,333.2
R+X+A+I/GDP	35%	40%	58%	72%	45%	41%

Source: Central Bank of each country

In the broader Latin American and Caribbean context, remittances are increasingly taking on an important share of the National Income. Although they only represent 2 percent of regional Gross Domestic Product, the impact of remittances varies across countries and regions and is greater in smaller economies.

At the national level, such variations are associated with the relationship to GDP, to per capita flows and per capita GDP as well as to the cost of sending the money. For example, Haiti, Honduras, Nicaragua, El Salvador and Jamaica are countries where remittances received represent more than 10% of total GDP. However, not all of these countries are relevant when remittances are measured in per capita terms. Those countries that receive more than US\$100 per capita include ten countries, among which are Mexico, Guatemala, Ecuador, Barbados and Grenada. These differences are also noted in the average amounts sent as well as in the relationship between the annual amount sent and per capita income in these countries. These differences can be observed in the table below. Although the average amount sent is around \$270 per month, when that figure is compared to per capita GDP, again the results vary. Recipients in Haiti, Honduras and Bolivia, for example, receive amounts that are nearly three times per capita GDP. The cost of sending money also varies across countries and may be associated with volume; the lower the volume entering a country, the more expensive the transfer will be.

The differences in these trends are a function of specific country conditions as well as the history of migration. For example, although Central America, the Caribbean and Mexico have a historical relationship of migration to the United States, each migratory pattern and its subsequent remittance flows respond to the realities of these countries. Thus, Salvadorans and Dominicans may receive relatively similar volumes; however, their migrant populations are different in size and the timing of flows responds to varying dynamics. In the case of El Salvador, they responded to the civil war and its post-conflict process, whereas in the Dominican Republic there is a response to a longer historical tradition with one reference point being the exiled communities escaping the Trujillo dictatorship.

Table 8: Remittances and key economic indicators

Country	Remittance transfers ...				
	and GDP	Per capita	Cost	Average Transfer	Annual Volume
Mexico*	2.98%	187.18	6.0%	351.00	20,034,000,000
Brazil*	1.09%	30.85	8.13%	541.00	5,750,000,000
Colombia*	4.84%	90.48	5.0%	220.00	4,126,000,000
Guatemala*	11.42%	237.54	5.6%	363.00	2,992,770,000
El Salvador*	18.28%	411.31	5.2%	339.00	2,830,200,000
Dominican Republic*	13.35%	271.03	6.4%	176.00	2,410,800,000
Ecuador*	6.01%	136.07	3.9%	293.00	1,800,000,000
Jamaica*	18.33%	622.78	8.2%	209.00	1,651,000,000
Peru*	3.71%	89.21	4.6%	169.00	2,495,000,000
Honduras*	23.09%	244.72	5.8%	225.00	1,762,980,000
Haiti*	34.53%	115.50	6.7%	123.00	985,000,000
Nicaragua*	19.05%	154.91	5.2%	133.00	850,000,000
Paraguay*	8.52%	89.31	9.11%	263.00	550,000,000

Country	Remittance transfers ...				
	and GDP	Per capita	Cost	Average Transfer	Annual Volume
Bolivia*	10.17%	93.66	5.6%	235.00	860,000,000
Costa Rica*	2.11%	92.44	9.46%	301.00	400,000,000
Argentina**	0.2%	7	9.02%	212.00	270,000,000
Panama*	1.36%	61.90	10.50%	196.00	200,000,000
Guyana*	36.89%	359.52	10.14%	179.00	270,000,000
Barbados	4.3%	418	11.66%	220.00	113,000,000
Trinidad and Tobago*	0.77%	70.75	10.41%	200.00	92,400,000
Uruguay**	0.3%	71	11.28%	198.00	93,000,000
Belize*	3.77%	148.70	8.78%	220.00	40,150,000
Suriname*	4.20%	122.49	10.17%	220.00	55,000,000
Grenada**	5.2%	220		220.00	23,000,000
Venezuela, RB*	0.11%	4.64	17.10%	138.00	124,000,000
Chile**	0.0%	1	8.90%	279.00	13,000,000
Antigua and Barbuda**	1.5%	140		220.00	11,000,000
Dominica**	1.5%	56		220.00	4,000,000
St. Kitts and Nevis**	1.2%	86		220.00	4,000,000
St. Lucia**	0.6%	25		220.00	4,000,000
St. Vincent and the Grenadines**	0.8%	27		220.00	3,000,000

Source: Central Banks of each country, World Bank Development Indicators, data collected by the author. Note: * 2005; ** 2003.

Table 9: Remittances and other indicators

	Rural areas	Female Recipients (%)	Female Senders (%)	Recipients who spend in Health and Education (%)	Recipients with Bank Accounts (%)	Non-Recipients With Bank Accounts (%)	Senders With Investment (%)	Recipients with Investment (%)
Bolivia		52	71		44	35	4	
Colombia		68	54	84.14	32	45	5	14.5
D.Republic	40	73	45	38.89	66	58	3	21.1
Ecuador	57	74	28	48.01	46	34	1	29.8
El Salvador	39.5	72	46	50	31	19	3	10.6
Guatemala		80	29	59.41	41	17	2	5.1
Guyana	40	71	48	22.8	62		8	11.7
Haiti	34	53	32	86.4	68.4		25.5	17.7
Honduras			37		34	16	4	4
Jamaica			49		65	60	2	
Mexico	45.7	63	17		29	28	2	
Nicaragua	45	72	44	53.92	10	10	3	27
Peru		46			37	35		

A look at these flows and their manifestations in the Latin American and Caribbean region show the presence of three distinct groups as they relate to the impact these funds have in each country. One group is represented by those countries whose flows have an effect in most if not all the indicators mentioned above. This means that remittances have an

important presence both in the country's national and per capita income, as well as in the inflow to a household's income, which is at least twice the average per capita income. A second group is one wherein the effect of remittances is felt in half of these indicators, and the third group is that which is minimally impacted by remittances.

Table 10: Impact of remittances on Latin American and Caribbean economies

Impact of Remittances		
Strong	Medium	Low
Guatemala	Paraguay	Dominica
Ecuador	Colombia	Panama
Nicaragua	Peru	Antigua and Barbuda
El Salvador	Dominican Republic	St. Vincent and the Grenadines
Haiti	Brazil	Chile
Honduras	Suriname	Trinidad and Tobago
Bolivia	Costa Rica	Argentina
Guyana	Belize	St. Kitts and Nevis
Jamaica	Grenada	Uruguay
Mexico	Barbados	St. Lucia
		Venezuela, RB

Ratio of remittances: 1: < .66; 2: 0.67-1.5; 3: > 1.51; Remittances as % of GDP: 1: < 1%; 2: 1 to 4%; 3: > 4%; Remittances per capita: 1: < 36; 2: 37-100; > 100; Remittances cost: 1: > 7.5; 2: 7.6-9.5; 3: < 9.5.

The impact of remittances and other economic activities of migrants in the U.S.

It is also important to acknowledge that the impact of remittances and other migrant related economic activities also extends to the U.S. economy. For example, despite this substantive amount of resources sent, they only represent less than 20% of migrants' income: the rest is spent in the United States.

Table 11: Basic propensity to remit (ratio between amount sent and income)

Country of origin	Mean ratio	Standard Deviation	N
Colombia	.1357	.09665	204
Cuba	.0743	.07022	150
Ecuador	.3718	.29328	96
El Salvador	.1550	.13706	372
Guatemala	.3041	.25154	94
Guyana	.1434	.21995	174
Honduras	.1080	.07713	67
Mexico	.2890	.25427	440
Nicaragua	.1128	.08273	135
Dom. Rep.	.1246	.11146	149
Bolivia	.1154	.07710	68
Jamaica	.2169	.53953	180
Total	.1883	.24774	2129

Source: Orozco, Manuel. Surveys conducted by the author.

Moreover, the revenues these economic activities create for U.S. businesses, small and large, are quite substantial and in revenues represent ten percent of the volume sent abroad. The money transfer industry itself, handled predominantly by minority owned businesses, creates

between thirty to three hundred jobs with indirect benefits to thousands of agents operating nationwide.⁸ Thus, a decline in volume transferred would affect companies.⁹

The phone industry also has had great financial gains from these economic activities. Immigrant contacts account for a substantial share of telephone companies' revenues on service between the United States and Latin America. Half of calls from the United States to Latin America, for example, are household to household calls (Table 12). Similarly patterns are found in the airline industry, where revenues from international flights are substantively related to visits made by migrants and their families.

Table 12: Phone Calls between the United States and Selected Latin American Countries

País	Minutes 2003 (000)	Household minutes (000)	U.S. revenue (US\$)(000)	Payment to country (US\$)(000)	Monthly pay
Nicaragua	152,067	120,280	38,868	18,670	\$45
El Salvador	1,016,670	492,510	129,727	90,267	\$26
Guatemala	1,455,877	305,442	299,989	103,677	\$33
Honduras	411,481	169,418	108,623	95,946	\$60
Dominican Rep.	780,344	660,806	124,328	51,226	\$27
Colombia	838,903	634,940	96,195	55,651	\$22
Haiti	231,766	234,000	31,640	19,057	

Source: Data from author's 2003–2004 survey of immigrants in New York; Los Angeles; Washington, DC; Chicago; and Miami; administered by Emmanuel Sylvestre and Associates. United States Census Bureau, 2000; 2001, 2002 International Telecommunications Data, Federal Communications Commission, December 2001, and January 2003. Note: Computation based on an average of four calls a month at 5, 8, 15, 25, and 30 minutes per call. Formula was sum of phone calls = annual minutes × percent calling × immigrant percent remitting (from 2000 U.S. census).

There are other realities that are not to be neglected. These include, for example, the emotional effect of separation among families, the effects of migration on gender relations, in settings where social capital still has a strong gender bias against women.

3. Alternatives and policy options

The challenges to address the lack of robust growth in Latin America and the Caribbean require the increase of cooperation as well new policies that can leverage on the existing flows of money. Here we look into those issues.

First, people generally do not wish to migrate and stay apart from their families, thus they prefer a better performing home country economy. The pressures of globalization and the higher costs of living in their countries do not encourage potential migrants to stay. Second, current immigration includes undocumented border crossing practices which upset many groups who argue that the migration of low skilled undocumented workers is unsustainable,

⁸ Orozco, Manuel. *International Flows of Remittances: Cost, competition and financial access in Latin America and the Caribbean: toward an industry sourcard*. Washington DC: May 12, 2006, Report prepared for the Inter-American Development Bank.

⁹ First Data Corporation, for example, argued that the U.S. immigration activities and debate “in the second quarter negatively impacted Western Union's total revenue growth by 2% and total operating profit by 3%.” FDC attributed their drop in transactions to Mexico from 17% to 6% in the second quarter of this year.

is as high as 12 million people, has a direct effect on wages, takes jobs from the native born and is illegal. Although the actual figure of undocumented migrants may be lower¹⁰, and the effects of migrants may vary and have different implications, governments have the obligation to reduce undocumented flows and better manage migration.

Immediate policy solutions to promoting economic growth and reducing undocumented migration still intersect with the ways in which development is accelerated in many of these countries. Here we suggest three practical approaches, namely, to leverage the already existing economic practices of immigrants by adopting policy options that are tested and directly associated with development; accelerate economic reforms with strong social components focusing on increasing educational attainment and wealth generation; and support a guest worker program with conditionality clauses for migrant sending governments about their performance.

i. Leverage transnational economic practices through policy

There exists an imperative urgency to leverage policies that encourage asset accumulation among migrants and their families that requires creative thinking about how to proceed. Moser stresses the consideration of first and second generation policies. The first focuses on laying out a social and economic infrastructure (such as access to financial institutions or better education), while the second one attempts to “strengthen accumulated assets, to ensure their further consolidation and to prevent erosion.”

Within the context of transnational migration, and specifically among remittance senders and recipients, first generation policies should also concentrate on increasing the percentage of migrants and families with access to financial institutions. In addition, they should center on ways and means of accelerating the process of educational attainment by increasing average schooling and improving student academic performance. This means that educational services need to conform to the purchasing power of remittance senders and recipients to offer better quality education. Second generation policies should focus on designing tailored financial products that build assets for individuals, families and communities.

Broadly speaking we identify six initiatives where donor activity can be critically important to promoting asset accumulation by leveraging schemes through remittance funds and migrant capital investment.

First generation policies:

1. Accelerating financial intermediation projects with credit unions and MFIs;
2. Engaging banking institutions more actively by identifying their opportunity costs in rural areas;
3. Design projects that include education and health services among range of services offered by MFIs in cooperation with schools, public or private:
 - a. Education funds, tutoring classes, extracurricular activities, internet,
 - b. Health insurance, specialized medicine funds;

¹⁰ We estimate that the number of undocumented Hispanics/Latinos is seven million at most (see table 1 in appendix). Undocumented migrants from nationalities outside Latin America could amount for as much as two million.

- c. Define goals and standards among community leaders, financial institutions and local governments to raise educational attainment from 6th to 12th grade levels;

Second generation policies

4. Supporting projects on feasibility investment schemes to develop investment portfolios, including recommendations on business consolidation where microenterprise is ineffective or inefficient;
5. Link investment opportunities to the transformation of subsistence agriculture;
6. Engage local governments and the private sector to review their roles as environment enablers to promote investment and increase productivity.

An example of donor initiative: the Multilateral Investment Fund of the Inter-American Development Bank

One of the pioneering institutions in addressing the link between remittances and development has been the Multilateral Investment Fund (MIF) of the Inter-American Development Bank (IADB). The MIF has addressed this issue from a research, advocacy and operational perspective. Since 1999, it has engaged in a series of discussions and studies about the impact of remittances in Latin America and the policy problems posed by high transaction costs. As its research and public discussion ensued, the MIF encouraged movement on this front by taking the initiative to fund projects aimed at modernizing a financial infrastructure that could attract money transfers at lower cost, while addressing the financial needs of unbanked remittance receiving households.

To that effect, the MIF has funded over 20 million dollars in projects in several countries in Latin America (Brazil, Colombia, Dominican Republic, Ecuador, El Salvador, Mexico, Nicaragua), many of which go to microfinance institutions or alternative savings and credit institutions. Table 13 identifies some of the more widely known projects funded and related to remittance transfers.

Table 13: Projects funded by the Multilateral Investment Fund, 2001-2004.

Project	Country	Amount
Expansion and strengthening of a microfinance institution FIE	Argentina	\$2,396,060
Remittance Fund for Entrepreneurs	Brazil	\$5,000,000
Mobilization of remittances through microfinance institutions	Colombia	\$824,770
Distribution Channels for Remittances	Dominican Republic	\$2,500,000
Financial and business services for remittance recipients	Dominican Republic	\$840,000
Support Micro-Enterprises Utilizing a Line of Credit	Ecuador	\$2,200,000
Strengthening of Financial Services and Remittances	El Salvador	\$1,500,000
Capitalization of Remittances for Local Economic Development	Mexico	\$1,115,000
Strengthening Savings and Credit Unions	Mexico	\$3,500,000
Investment of Remittances	Mexico	\$460,000
Investment in Financiera Nicaragüense de Desarrollo	Nicaragua	\$1,750,000
Support for returning entrepreneurs	Peru	\$500,000
Enhance dev. impact of Peruvian workers' remittances from JP	Peru	\$7,200,000
Financing for micro and SMEs thru formal financial intermediaries	Regional	\$8,200,000
MIF-IFAD partnership facility for rural private sector dev-LAC	Regional	\$4,000,000
Total		\$41,985,830

The Fund has also engaged in partnerships with other donors and institutions. For example, it now has an alliance with the International Fund for Agricultural Development (IFAD) of the United Nations. In April 2004, the two organizations announced the creation of a \$7.6 million dollar fund aimed at funding remittance related projects that addressed microfinance and investment. Under this agreement, for which MIF provided \$4 million, local counterpart organizations, such as microfinance institutions and credit unions, are expected to commit \$1.6 million to the projects they propose (IADB-MIF 2004).

One of the more successful cases resulting from IADB efforts is the Red de la Gente project. In Mexico, BANSEFI, the National Savings and Financial Services Bank, a quasi-government institution mandated to expand financial products and services to all Mexicans, entered the remittance market and received funding to strengthen its technology and network of banks. In 2003 BANSEFI established a network of over 1200 distribution centers called L@Red de la Gente, together with popular banks, micro-finance institutions and credit unions, to act as a remittance payer. In addition, BANSEFI forged agreements with several MTOs including GiroMex, Dolex, Vigo, and MoneyGram. Furthermore, it also linked its network to the FedACH International SM Mexico Service.

Under this scheme, the members of L@Red de la Gente offer remittance transfer services in mostly low-income urban and rural areas that experience significant emigration to the US, and where the formal financial system has no coverage. In January 2005, BANSEFI made 25,000 transactions a month and had opened accounts for 10 percent of the individuals who had come in for remittance services, an improvement from the 6 per cent who opened accounts in 2003. By June 2006 L@Red de la Gente grew four times to 100,000 transactions a month and continued banking remittance recipients.

Other IADB-MIF grantee institutions like FEDECACES, the federation of credit unions in El Salvador, have targeted remittance recipients directly as potential members of the credit union. Approximately 25 percent of remittance recipients who choose FEDECACES to receive their remittances are also FEDECACES clients.

Table 14. Number of accounts opened by remittance recipient household clients of Fedecaces (May 2005)

Institution	New accounts opened	Monthly transfers	Conversion rate	Rural presence
Fedecaces	4375	22000	20%	90%
Acocomet	800	2383	34%	100%
Acacu	2703	2703	100%	90%

U.S. foreign assistance can help enable credit unions to transfers remittances through them and enhancing their capacity while reducing costs. At the same time, by offering money transfer services, credit unions and micro-finance institutions will bank the unbanked in the region, having a direct economic effect on their countries. Banking the unbanked has direct distributive and multiplier effects in an economy as the savings rates

increase, opportunities to invest are expanded at the local level and the inflow of remittances resulting from a decline in prices also increases. USAID can establish programs to facilitate the access of remittances recipients to credit unions for micro-finance opportunities, but also to receive remittances. USAID in particular can set up programs to enable savings and loans cooperatives to establish interfaces with credit unions and community banks in the United States.

USAID's successful experience in Jamaica is a proven example of what can be accomplished by leveraging remittance flows through financial access. Through a grant from the United States, in November 2003 USAID entered into an agreement with Jamaica National Building Society (JNBS), one of the country's remittance companies holding 15% of market share in the country, to introduce smart card technology to reduce the cost of money transfers and create greater accessibility to funds. In addition, JNBS would leverage the savings created from the implementation of the smart card into development work. As result in less than two years JNBS was able to activate 20% of its transfers through debit card while it used terminal point of sales among its merchants to enhance the use of the card among remittance recipient costumers. To date, JNBS is perhaps the only institution worldwide with the highest percent of recipients withdrawing money with a debit card and using it for purchases, thus reducing cash and transiting to account to account transfers domestically.¹¹ USAID provided a quarter of a million dollars to JNBS to achieve this goal, in turn more than ten thousand remittance recipients use debit cards today and the majority of JNBS costumers have bank accounts.

ii. Accelerate modernization reforms

Many Latin American and Caribbean countries exhibit low education rates, and the opportunities to increase wealth are partly associated with access to education. Bilateral and multilateral development agencies as well as governments and civil society have stressed the importance of targeting support in key areas such as free trade, social policy in education, and health, and democratization. There are at least ten issues where attention is needed, and substantive cooperation is important. Some of these issues include strengthening trading capacity, as well as financing for small and medium enterprises.

Program assistance has contributed to maintaining basic needs; however, given the prevailing constraints, there is need for more attention. To that effect it is important to increase aid flows. Foreign aid to the most of Latin America and the Caribbean has steadily dropped since the 1990s, with the exception of aid to Colombia. Specifically, pre-existing programs will require strengthening while new programs need to be created. The list below highlights the main issues for an initiative on development in Central America. Here we point to some but of these opportunities

Ten Opportunities

Democracy and Politics

1. Strengthening justice and the rule of law:
2. Anti-corruption options
3. Democratization: party modernization, equality and civil society

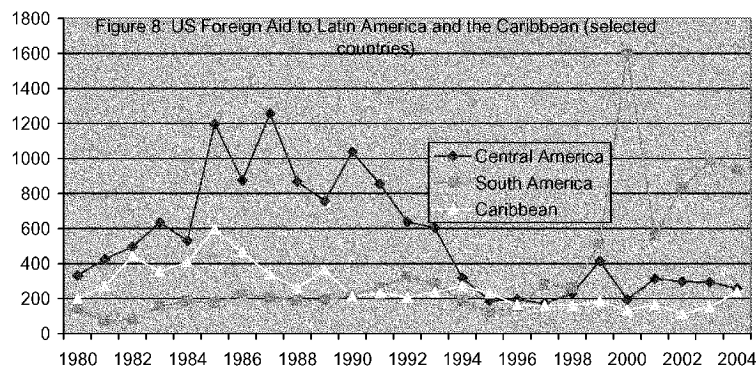
Economics and Trade

¹¹ In most places remittance payers have less than 5% of its costumers use debit cards.

4. Free Trade liberalization
5. Administration of Remittances
6. Small and medium enterprise for urban and rural development
7. Regional Integration

Social

8. Education
9. Public Safety and Crime
10. National Disaster Prevention: early warning systems, reconstruction initiatives and food security



Support for rural development continues to be a strategic area for the region and one in which USAID has been relatively successful. In particular, US funds allocated to improve *financial services to small and micro-enterprises* have been important in creating an economic base of Central American consumers and markets. Current allocation of these funds, however, has been relatively small (under \$3,000,000 per country). Further expanding credits to finance local development activities in the rural sector will prove an important tool for the development of local markets, which in turn generate wealth in these areas. Current evidence of the inflow of remittance money from the United States into micro-credit activities shows that with further financing, local development can occur. Specifically, U.S. assistance can focus its energies on providing resources to small financial groups.

Another important area in the rural sector has dealt with the *diversification of export commodities*. A focus on diversification and non-traditional exports rather than basic grains is a longstanding strategy that works in the long term as it yields higher value returns than other traditional produce. This approach will also have an effect on the affected coffee industry in two ways. First, it will help support the shift from coffee production into non-traditional exports. Second, it will support strategies to produce more competitive coffee in the international market. To that effect, continuous support to train farmer to produce alternative crops is an essential strategy which will also be connected to finance opportunities. Although this area has been of great importance to USAID, funding has been

limited; depending on the country, funding for alternative crop diversification has been under one million dollars.

Closely related to agricultural change is the constraint brought by the lack of identification and access to *market linkages and modern technology*. These two issues, however, are not restricted to the agricultural market but rather apply to all industry sectors. The ability to expand exports and get businesses involved in competitive ventures depends on access to markets and alliances with international businesses.

U.S. assistance can foster development alliances between U.S. and Central American businesses to quickly import technologies that will lower production costs and increase productivity and competitiveness.

Food security is also another area that requires significant attention. Current weather projections estimate that El Niño will hurt Central America again with a serious drought. The immediate effect is not only a loss of production, but also an inability to feed people in rural areas. A prevention plan for the region is required to confront the unfortunate but coming disaster this summer. U.S. assistance to Central America to confront drought has been essential, yet it hasn't meet the demands of food for the nearly one million people affected. This year assistance needs to arrive on time and in significant quantities.

Strengthening free trade is another area of critical importance. The legacy of the Caribbean Basin Initiative (CBI) in Central America, for example, has been an important one. Since its implementation, commerce has continued to increase. The growth in non-traditional exports has been significant, and an important economic transformation took place: the region's industrial exports have benefited more under the CBI than have its agricultural exports. The table below shows how the manufacture of textiles and garments is a key source of export revenue for these countries. Under the new free trade agreement, CAFTA-DR, these countries require substantive technical assistance in order to adopt greater competitive capacity and improve investment in new areas.

Table 15: U.S. Imports of Central American Goods, (as percent of total imports, 2005)

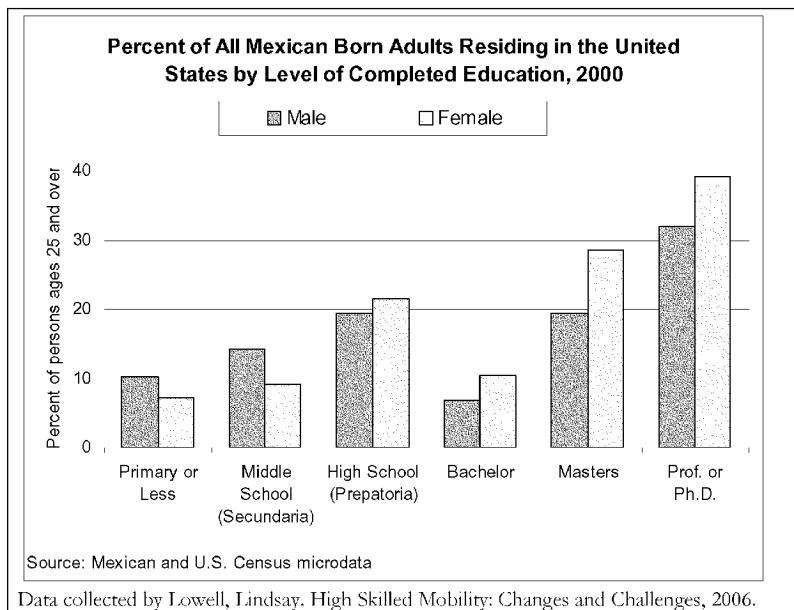
Product	D.R.	Costa Rica	El Salvador	Guatemala	Honduras	Nicaragua
Textiles and Garments	40%	14%	81%	56%	70%	60 ^c
Coffee, tea, spices	5%	1%	3%	9%	2%	4 ^c
Total	45%	14.01%	84%	65%	72%	64 ^c

Source: US International Trade Commission, Interactive Tariff and Trade Data Web, 2006.

Education is a major area that needs fundamental attention. The global economy demands people with education levels above secondary education, yet most of Latin America and Caribbean countries hold a sixth grade education, and drop out rates are alarmingly high in many countries. Moreover, skills acquisition is inadequate and many in the labor force learn to adapt remedial techniques on productivity, whether in agriculture or manufactures. Governments are to be urged to increase investment in education, involve the private sector

to invest in its labor force and retain it, and deepen and expand learning tools for economic development.

While criticism in the United States by some sectors argues that most of the Mexican labor force has low education levels and is predominantly unskilled, the effect in Mexico is distinctively different: there is a high percent of Mexican individuals with graduate and postgraduate education that have left Mexico. Retaining professionals, while sponsoring return migration programs to skilled labor force is critically important to enhance development opportunities in Latin America and the Caribbean.



iii. Adopt a reliable and responsible guest worker program

Any analysis and recommendation about leveraging migrant foreign savings as sources for asset accumulation cannot ignore the broader context of migration. Specifically, the context in which migration takes place between the United States and Latin America is a combination of market demand for foreign labor, inefficient government migration management and poor economic performance in Latin America. The end result is the employment of foreign labor working under precarious conditions, living on low wages and struggling to turn their resources into assets.

The local economies and governments in the countries where migration occurs are constrained by private sector unwillingness to leverage foreign savings, an uncertainty as to

how to proceed, and struggling economies that are barely growing, thus limiting the options for asset building or accumulation. Given the realities of continued transnational migration, a demand for and ready supply of foreign labor, and increasing interest among donors to leverage these flows, managed migration through a guest worker program and the legalization of undocumented workers is of critical importance.

Adopting a guest worker program as recommended by President Bush based on country quota allocations is an important step forward. This kind of initiative should include two important components tied together by a conditionality framework. First, the guest worker program should be accompanied by a small but compact foreign assistance package aimed at supporting a local financial and economic base to encourage migrants to eventually return home on better conditions. Second, local governments should commit to adopt policies aimed at leveraging remittance flows, while strengthening their ties to their diasporas. Thus, access to a guest worker program should be conditioned to the leveraging of migrant's foreign savings through policy incentives and initiatives and sound economic performance. Governments, with the exception of Mexico, have adopted few policies to encourage financial access either through direct government incentives or through incentives for private banking institutions.

Although in January 2004 at the Summit of the Americas, the United States committed to help reduce transaction costs, along with its Latin American counterparts, the United States and Mexico are the only countries that have followed through with their commitment. Western Hemisphere states agreed to "adopt, as needed or appropriate, measures such as: the promotion of competition between the providers of these services, the elimination of regulatory obstacles and other restrictive measures that affect the cost of these transfers, as well as the use of new technologies, while maintaining effective financial oversight." Furthermore, in late 2004 these and other efforts on the part of government, private, nonprofit, and international organizations led to major money transfer companies signing a "Goals and Recommendations" letter stating that "remittance institutions should compete on the basis of fair and non-discriminatory contractual arrangements." Moreover, they recommended that "public authorities should facilitate remittance markets, and avoid attempts to tax, over-regulate or otherwise take actions that impede the flow of remittances."

Unfortunately this commitment has fallen short of compliance, yet immigration continues to be of critical importance to these countries. Setting conditions to compliance to the Summit of the Americas declaration and adopting metrics to measure success of their implementation should be a guiding indicator to allowing a country participate on a guest worker initiative.

Appendix

Table 1: Average estimates of remittance senders and undocumented migrants

Country	Average sent	Av. Freq.	Annual Remittance Volume	Senders	% in US	% Undoc.	Undoc rem. (#)	All und. (#)
Guatemala	218	12	\$4,126,000,000	1,580,014	70%	32%	353,923	460
Colombia	155	12	\$1,000,000,000	537,337	90%	9.3%	44,975	58
Ecuador	222	12	\$1,800,000,000	676,437	70%	60%	284,104	369
El Salvador	246	12	\$2,830,200,000	958,420	90%	37%	319,154	414
Honduras	298	12	\$2,992,770,000	838,035	90%	60%	452,539	588
Nicaragua	333	12	\$270,000,000	67,635	80%	30%	16,232	21
Other	151	12	\$1,762,980,000	971,232	90%	51%	445,795	579
Total	301	12	\$20,034,000,000	5,543,423	95%	56%	2,949,101	3,833
Guatemala	158	12	\$850,000,000	447,400	60%	15%	40,266	52
Mexico	163	12	\$2,410,800,000	1,235,801	80%	8%	79,091	102
Other	246	12	\$860,000,000	291,667	80%	58%	135,333	175
Jamaica	375	12	\$1,651,000,000	367,358	70%	30%	77,145	100
Total	254	12	\$40,587,750,000	13,514,758			5,197,659	6,756

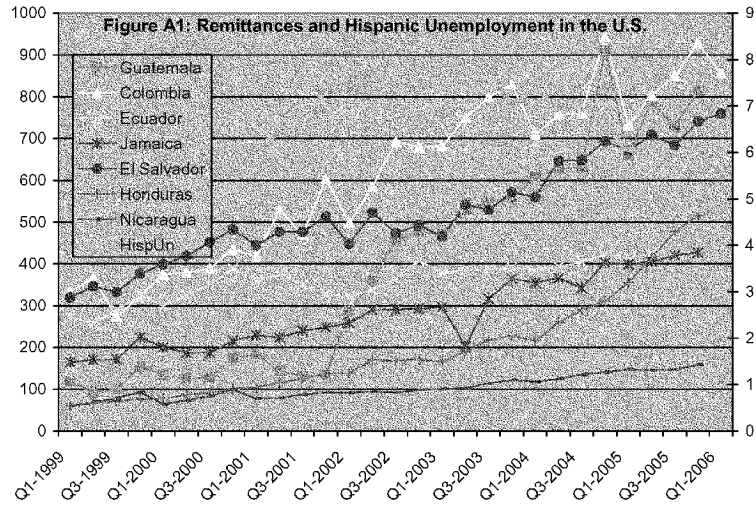
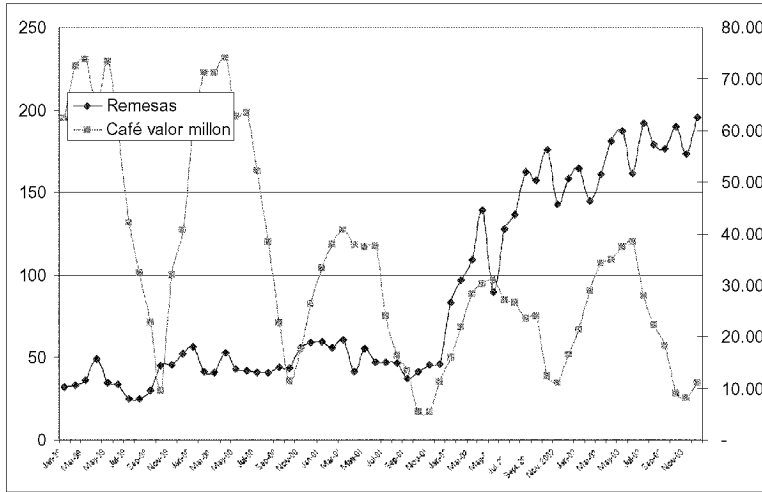


Figure A2: Guatemala and the Coffee Crisis



Mr. BURTON. Let me start the questioning with you, Dr. Orozco. It was interesting where you said that the ability of people, entrepreneurs, in the very low class can get some loans, and the ones who have the more affluent businesses can get loans, but the people in the middle cannot. Can you elaborate on that a little bit?

It seems to me that may be a big part of the problem or the crux of the problem, because there are probably people down there that would like to start businesses but do not have the wherewithal to do it. If we could figure out a way that they can benefit from the trade surpluses that Mexico now enjoys, maybe we can start dealing with the immigration problem.

Mr. OROZCO. I think one of the problems is that most of the banking industry in Latin America has focused predominantly on large exporters, so they have reduced their investment portfolios and the loan portfolios for the small and medium enterprises. There is almost like a glass ceiling, and sometimes there is a practical ceiling for the small businesses to prosper.

Mr. BURTON. Well, how can we change that?

Mr. OROZCO. Well, I think we need to go back to conditionality. We need to condition for economic assistance, free trade, guest worker programs, to provide access to the middle class or to the potential middle class. For example, one of the areas that we can pay attention to is implementing or motivating the countries in Latin America to implement the equivalent of our Community Reinvestment Act. It does not exist.

For example, 15 percent of the revenue of Salvadoran banks in El Salvador comes from the remittance transfers that the poor people here, 40 percent of them who are undocumented, are sending. They live here in precarious conditions. The banks are becoming very wealthy. What percentage of that is invested in those communities? Zero. And I think we need to put as far as our cooperation strategies—

Mr. BURTON. Are there any things that our Government in concert with the government of these countries like El Salvador or Mexico could do to encourage the banking and investment industries to make sure that the money that is going back there is in part loaned out to the potential entrepreneurs in the middle class?

Mr. OROZCO. Yes. I mean, there are three ways. One is what USAID did, for example, in Jamaica. They invested in credit unions and microfinance institutions there to reduce cash transactions and instead promote card-based transactions so that you could increase your access to savings, and that was very successful. Jamaica is the only country in the world where 25 percent of the remittance recipient population withdraws the money with a debit card. That is very important. So that is one area, forwarding assistance, paying attention to financial access.

The second is that conditionality works. If you condition further cooperation to reforms that deal with this type of financial democracy, you can get quite far. And the third area is sharing the lessons that we have here in the United States about how we have been able to be successful to provide economic citizenship to minorities, and that can be done in those countries, too.

There is not reluctance of governments not to do it. Sometimes they do not know how to do it, and sometimes the private sector

is very powerful. But the reality is that the private sector wants NAFTA, wants CAFTA, and wants free trade. So if you condition those reforms, more cooperation to those reforms, I think you can go quite far.

Mr. BURTON. Could you provide maybe an outline of your suggestions to the Committee? I would like to see that. I do not know if we could do anything legislatively to encourage that, but we can sure look at that avenue as a potential.

Do you gentlemen have any comments that you would like to make in regard to that? Mr. Farnsworth?

Mr. FARNSWORTH. Just a couple things to focus on if I could. I fully agree that access to capital remains one of the limiting factors in terms of development in the region. I think that is absolutely the case. You know, access to capital or the building of capital can take several forms, and one is the domestic stock of capital and another is direct foreign investment.

And I think the two are not obviously the same, but they are related, and ultimately the growth profile of the country in question, whatever country that may be, is going to be directly linked to the stock of capital over time in that country. I mean, that is just a basic economic equation. And so the key question is how do you build a stock of capital in those countries.

One of the ways to do that—and we have been talking a little bit about, you know, harnessing the remittances into Latin America over this past year, 2005. We have had almost \$54 billion of remittances go into Latin America and the Caribbean as a whole. About \$20 billion of that has gone to Mexico itself. Brazil was next with over \$6 billion. I mean, that is real money.

I think there is a question of how can government harness what is essentially private sector or personal transactions. I mean, people sending money to their own family is really what you are doing, to your brother, sister, mother, what have you. So there is a question there, but I think working through USAID programs, working through the MCC, Millennium Challenge, which we have talked about, frankly working with the Inter-American Development Bank to create if you will incentives in the local banking industries to provide loans based on money that may be coming in through remittances.

I mean, it is basically subsidized lending. You can then begin to push some of that resources out into the local communities. I think that—

Mr. BURTON. But that is not taking place at the present time.

Mr. FARNSWORTH. No, not in any systematic way.

Mr. BURTON. Along with Mr. Orozco—see, I got that right that time—along with Mr. Orozco, if you could give us a suggestion on how we could encourage that from the Congress.

Mr. FARNSWORTH. Sure. Absolutely.

Mr. BURTON. I would like to see it.

Mr. FARNSWORTH. I would be happy to.

Mr. BURTON. I would like to see that personally.

Mr. Charles.

Mr. CHARLES. The only thing I would add to that is that I do not think there is a grain of disagreement here at the table. I think conditionality is something that works. As you know, the United

States Congress tries many times to condition things when an international accord is underway.

We have direct and indirect ways of conditioning the banking system. We have certainly regulated far more directly our own banking system than we have tried to regulate some of these foreign banking systems, but you have the World Bank, the IMF, the IFC, lots of international instruments through which you could simply say that support by the United States Congress for various initiatives is going to be conditioned upon breaking down certain clear barriers of entry such that a percentage of investing will be done at a level which allows or encourages entrepreneurship by the middle class.

Mr. BURTON. So we could contact these various worldwide financial institutions that do have a tremendous amount of influence over these various countries and their lending institutions and maybe by jawboning get them to put pressure on them to loosen up so that the funds would be more available.

Mr. BURTON. I think you could.

Mr. BURTON. Yes. Mr. Engel.

Mr. ENGEL. Thank you, Mr. Chairman. Dr. Orozco, I do not have trouble with your name, you see, because I root for the New York Mets in baseball, and the last time they won the World Series was in 1986, and the best relief pitcher was Jesse Orozco. So I never have trouble with your name.

Mr. BURTON. The New York? What was that again?

Mr. ENGEL. See, that is the difference between coming from New York and coming from Indiana. You see, we can mention, we can pronounce those names, but the Chairman did a good job actually.

Could you explain, Dr. Orozco, what is the relationship between remittances and microfinance? Can remittances be used as steady income for the purposes of qualifying for loans or mortgages or property?

Mr. OROZCO. The relationship is twofold. First, what we are doing, for example, we had a big substantive fund with Inter-American Development Bank and International Fund for Agricultural Development where you provide \$200,000 in technical assistance to enable microfinance institutions to be payers of remittances. That is, instead of going to a supermarket to pick up your money, you pick the money at a microfinance institution.

And the funding goes to design financial products to those remittance recipient households. Those products are marketed in a way that are attractive to the recipient of money. So you offer them savings accounts, health insurance, life insurance, body repatriation—we all die at some point—and that becomes an interesting approach.

So, by providing those financial services, microfinance institutions are able to attract this volume of money, and then they can mobilize the savings that are kept as well as the cash flow that comes through the remittances for lending to the local community. So everybody benefits, not only the remittance recipient but also the local entrepreneur that needs to borrow money, and that is basically the relationship that we are looking at.

We have microfinance institutions, for example, that use the history of receiving remittances as a source of income or sometimes

as credit history, and so that is used then to provide a loan. Either it is a loan for productive activities or for consumption.

Mr. ENGEL. Mr. Farnsworth, I saw you were nodding your head when I asked that question, so do you have any comments on that?

Mr. FARNSWORTH. Mr. Engel, nothing to add. I think he summarized it pretty well.

Mr. ENGEL. If someone wants to buy a home and they have this money, but they have it because of remittances, right now it is very difficult, if not impossible, to get them to qualify for a loan or anything else, am I correct?

Mr. OROZCO. Yes. And that is one of the areas that we are working on. There has been an increase in mortgage lending as a result of financial intermediation through remittances.

Mr. ENGEL. Dr. Orozco, do you believe that illegal immigrants should have access to U.S. banking services? I think I know your answer, but how can the informal remittance flows which exist largely on a cash transfer basis be regularized through account-to-account transfers, and what specific banking sector reforms would you recommend that you have not already mentioned?

Mr. OROZCO. Well, I think yes, my answer is that anyone should have access to a financial institution. It is actually a good security measure because you can track the identity of the individual that has the financial resources stored in a bank, but more importantly is that it has an effect in the local economy in the U.S. and in the home country.

The Federal Reserve Bank of Atlanta's program, Dinero à Mexico, that is, it is a network of United States banks connected to banks in Mexico, has been very successful. You can open an account and send money back home, but at the same time, you have access to loans and different kinds of opportunities. The reality is that anyone who improves their economic citizenship eventually will have more value added to our U.S. economy than anyone who is in the margin of the economy.

Mr. ENGEL. Dollar for dollar, which has a greater impact, funds from the migration remittance sector or U.S. foreign aid and development programs from your observations? Do they achieve similar objectives, or do they complement each other?

Mr. OROZCO. Let me put it this way. Remittances can keep you out of poverty, but they cannot get you out of it. To get you out of poverty, you need to have a systematic strategy of development, and if you assume that the remittance issue is a strategy of development, you are failing as a state. So, in my view, I mean, I work on remittances, and I think we need to focus more on policy leveraging, but the reality is that you have to go back to the constraints of developing in these countries. So foreign aid is more important to a large extent.

Mr. ENGEL. Thank you. The Inter-American Development Bank has done work on remittances' ability to, and I quote them, "promote financial democracy." Could you elaborate on what they mean?

Mr. OROZCO. Yes. Right now in most of Latin America, 20 percent or 2 out of 10 people have access to financial institutions. That is what we call effective financial disenfranchisement. That pre-

cludes you from, for example, having access to a loan but also having the opportunity to build savings systematically.

So what we have been advocating is using the transfer of money as a way to provide greater access to financial institutions to remittance recipients. Somewhere between 10 to 20 percent of people in Latin America are receiving remittances in that area. So we speak of financial democracy in a way that you provide this access to savings, to loans, and to expand to the local economies.

Mr. ENGEL. Thank you. Mr. Farnsworth, you refer to efforts by the Council for the Americas to address the issue of labor reform in Latin America. Could you please elaborate on how labor reform might broaden the economic base and address Latin American youth unemployment?

Mr. FARNSWORTH. I would be happy to, and if I could just beg your indulgence to make two very quick points on remittances. Number one, to go back to your question about can you use remittances to leverage other than lending for regular payments, for example, mortgages, it is very, very interesting what the statistics tell you, that remittances on average are sent back 10 to 14 times per year, in other words, on average, about once a month, give or take, and they average between \$240 to \$250 per payment. It is a regular payment to the extent that the loan is given on those terms, something very creative and interesting to have a look at.

The second thing is in terms of the viability of these as a development strategy, I would agree that if remittances is a development strategy, it is certainly incomplete. But the size of the remittance flows is much larger than the foreign aid that the United States is sending to Latin America. Again, \$20 billion last year to Mexico alone. We do not give \$20 billion to Mexico in terms of official assistance, so it is something to keep in mind.

To your question very briefly and thank you for the opportunity, labor market reform is probably one of the most pressing issues we believe facing Latin America as a whole, and the reason why is because right now for the private sector to create jobs, which we believe is the sine qua non of keeping workers at home, in other words, reducing migration pressures to create jobs, labor markets have to be made more flexible to bring workers into the formal economy.

On average, 50 percent of nonagricultural workers across Latin America are in the informal economy. That is astounding. That means people who are outside of the official statistics, they do not have the labor protections, they do not have access to Social Security, they are essentially outside of the protections of the state. That is unacceptable. Even Chile, which has the best record there, has over 40 percent of nonag sector in the informal sector. That has got to change.

The way to do it we believe and we have been doing some work on this, much more work has to be done, but is to reduce the disincentives for the private sector to create jobs by, for example, allowing the ability to reduce the workforce for cause.

So, for example, in many countries in Latin America, if a worker is to be fired, even if the worker is incompetent, the law states that the company has to pay sometimes multiples of the person's salary

over a period of many years to be able to essentially buy out their labor contract. That could be even if the worker is incompetent.

Well, if you know you are going to have to do that by hiring an incompetent worker, the alternative is simply not to hire the worker, and so the worker has one of two choices. He or she can work in the informal economy, which is to say provide the labor in a way that is not a formal job maybe on a consulting contract or something like this, or to try to be self-employed, and you see that all over Latin America.

This is going to become particularly acute in the next few years because right now there is a huge demographic bubble facing Latin America where the percentage of workers that will be entering into the labor force in the next couple years is going to far exceed the ability of the economies to actually create jobs even with growth projected as ECLAC, the Economic Institute for Latin America, came out on Tuesday with projections for 2007 that Latin America would grow at 4½ percent, which is fairly robust. But the fact of the matter is even with sustained growth rates that high, the countries will not be able to soak up this demographic bubble that is rising to the surface.

So labor markets have to be made more flexible so that jobs can be created. It is not a magic bullet. It is not a panacea, but it is one thing that needs to be addressed.

Mr. ENGEL. Thank you. I have no further questions, but I wanted to give Mr. Charles an opportunity if there is anything he wanted to comment on, what the other two gentlemen have said.

Mr. CHARLES. Not that they have said but just to add and I appreciate the opportunity to do so. I would just point out that we have focused a lot of this discussion today on the remittances, and they are an important component. The foreign aid is of course leveraging things that you seek. You target that money at something, whether you are building courthouses or training prosecutors or training law enforcement. So it is much more significant. It is like a fulcrum under the board rather than just sprinkling it across the board.

The second thing is I think we omit to our peril two huge sources of revenue or problems in this hemisphere. The first is drug money. The Chairman has said \$51–53 billion in remittances back to Mexico. The rough estimates on the drug economy the market the United States represents is \$600 billion. That money flows back to many of the countries here, and it is something you cannot look away from. You must stare down the barrel of that problem and keep at it, which incidentally I think the United States Congress has effectively, perhaps very effectively done in the last 5 years.

The second thing is public corruption, which is very closely tied to that drug money, and you cannot look away from those two issues. That is why the law and the rule of law are so fundamental to future investment.

There is a critical distinction which seems to me forever lost in the media and sometimes on the Floor and certainly outside between illegal immigration and legal immigration, and I just want to make the point that you can be heartily in favor of strong, progressive, encouraging immigration on a legal basis and dead set against permitting further illegal immigration, something we have

all talked about and thought about, but I find they are blurred again and again and again to no good.

And the last point is an issue Ms. Lee raised, which is the linkages between illegal immigration—and I want it to be clear it is illegal immigration—and terrorism. I do not want to get into classified things here, but let me say for more than a year and a half, I read the CIB every morning, and there are very clear ties. It is absolutely indisputable that there are situations arising in this hemisphere that put the United States of America at peril as a result of weaknesses in our bilateral and multilateral relationships on the security front.

And what I am saying there very specifically is you have passport fraud in the extreme in places like Bogota where they took down 17 operations with 34 individuals, some of whom were actually processing, so they reported al-Qaeda-related linkages to the al-Qaeda organization. You have situations in which we have picked up weapons, caches that have nothing to do with human immigration in California off Calexico, things like man pads. Drug traffickers do not use man pads. Shoulder-fired missiles are not used by drug traffickers. So there is something else going on there.

On the Texas border, you have things being picked up that seem very directly tied to radical Islam, things like lots and lots of prayer robes and Korans. They do not tie to the traditional hemispheric patterns of both materiel and people, and I think the point I make there is we have to be aware of the interconnectivity.

Going to your point about a 22 percent cut in the budget in this hemisphere, it seems to me we have to see that these issues are tied together. Drugs and public corruption, the fact that illegal immigration is tied to terrorism and ultimately also even if it is only 1 percent, yes, a 1 percent chance of a suitcase nuclear device going off in an American city is big enough for me to be concerned. I just leave you with that, that I think there is a wider circle of interest and concern that circles the remittances.

Mr. ENGEL. I thank you. I thank you, Mr. Chairman.

Mr. BURTON. Let me thank you all for being here. We will have some questions we would like to submit for the record. I really would like to have your outline on how to solve the problem of lending money to small businesses and the middle class down there. If you could get that to me, we will see if we cannot either write a letter to the world financial institutions and/or try something legislatively that will do that job.

Thank you very much for being here. We stand adjourned.

[Whereupon, at 4:28 p.m., the Subcommittee was adjourned.]

A P P E N D I X

MATERIAL SUBMITTED FOR THE HEARING RECORD

PREPARED STATEMENT OF THE HONORABLE ELIOT L. ENGEL, A REPRESENTATIVE IN
CONGRESS FROM THE STATE OF NEW YORK

Mr. Chairman, as we're all aware, today's hearing is part of a series of Republican-called summer hearings to spotlight the issue of immigration, an important and serious topic.

Immigration affects not only Americans, but just about everyone worldwide. As you recognize, the challenge of immigration is a global phenomenon that is connected with international events and the opportunities and freedoms (or lack thereof) that exist elsewhere.

As a global issue, we all have a story to tell. Each story is different; and, yet, the patterns and lessons are remarkably similar.

Mr. Chairman, my family came here from Europe to seek the freedom and promise of the United States. Similarly, most immigrants to this country come for a better life. Lacking freedom and/or opportunity in their home countries, immigrants are driven by a desire to improve conditions for themselves and their families.

For instance, I represent sizeable Irish and Irish American populations who came here in large numbers when jobs at home were unavailable. As Ireland's conditions have improved, immigration flows to the United States have slowed or even reversed. Today, Ireland is not a source country. Rather, in a remarkably short time-period, Ireland has become a destination for immigrants fleeing other troubled lands.

But, while large-scale Irish immigration to the United States and elsewhere has now ended, new immigrant communities are forming, as people flee poor conditions elsewhere. For example, I also proudly represent a large Haitian community that has emigrated from Haiti because of its history of political and social unrest and severe poverty. As in the case of the Irish, once Haiti becomes stable, frees itself of violence, grows its economy, and creates jobs, Haitians will no longer risk their lives to come to the United States.

Until we recognize the interconnection between immigration, global freedom and economic opportunity, we will never solve the problem of illegal immigration. But, in today's highly-polarized, political environment, our immigration debate glosses over the basic facts.

At a recent Senate hearing, the Mayor of New York City, Michael Bloomberg, said it well: "It's as if we expect border control agents to do what a century of communism could not: defeat the natural market forces of supply and demand and defeat the natural human desire for freedom and opportunity. You might as well sit on your beach chair and tell the tide not to come in."

So, I agree with you Mr. Chairman: Illegal immigration is NOT just an American problem. That is why this can be a useful hearing. When thinking about the issue, it is both important and refreshing to look outside our borders on the root causes of immigration to the U.S., such as poverty, lack of economic opportunities, low wages, political instability and unrest, and other causes. Unless we address these root causes, the problem of illegal immigration will remain.

Similarly, source, transit and recipient nations of our hemisphere all have a dog in this fight and they too are responsible for curbing illegal immigration. As they work to address their own internal problems, particularly through economic expansion and job creation, illegal immigration will diminish.

The lessons are so simple they've somehow been overlooked. For example, the primary driver of migration from Mexico to the United States is the significant wage gap between our two countries. Thus, lowering the wage gap will help stem the problem.

Of course, there is much more to be said about the international aspects of immigration, as it's a complex relationship. For example, immigration, legal and illegal, often benefit source countries by easing pressure on social service systems and labor markets. Remittances—money sent home by immigrants in the United States—can help in reducing poverty, especially in low-income households and communities. In fact, at \$50 billion per year, remittances from immigrants in the U.S. to countries in the Western Hemisphere represent substantial portions of our neighbors' GDPs. These are the exact kinds of immigration issues I look forward to hearing about.

Mr. Chairman, I would also like to hear our witnesses address what the U.S. and the international community can do to promote more sound economic circumstances in the nations to our south. What types of aid programs can help? What has been the result of free trade agreements? Can micro lending fill the gap? What else can be done?

Mr. Chairman, immigration is, indeed, a global phenomenon, and illegal immigration stemming from the Americas is a problem that requires a broader perspective than the current immigration debate has previously allowed.

Ultimately, a wall on the border is a mere band-aid. It will not stop the flow of illegal immigrants to our country. Only by changing circumstances inside of source countries will immigration begin to slow. So, I suggest that for an International Relations Subcommittee, this is the proper focus. And, there is no more important or relevant Sub-committee to explore the regional implications of immigration than ours.

I thank you, Mr. Chairman, for your leadership in framing the immigration issue as you have, and for calling this important hearing. I look forward to today's testimony.

