



WRITTEN TESTIMONY OF
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WESTERN HEMISPHERE”**

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** SFS senior fellows and researcher Pedro Souza helped compile research for this testimony*

Chairman Duncan, Ranking Member Sires, and distinguished members of the Subcommittee. Good afternoon, and thank you for your leadership and for inviting me to appear before you today to address the challenges and opportunities in the Western Hemisphere.

We are in an important period of transition within the world and the Western Hemisphere. The rise of pro-U.S. governments in Argentina, Peru, Brazil, Guatemala, and potentially other nations in the region soon, combined with what appears to be a renewed focus from the White House with the appointment of General John Kelly. Along with the work of this Congress, I believe there are ample opportunities to increase our engagement throughout the Americas. Capitalizing on these opportunities requires a strategic approach informed by our partners in Latin America and the Caribbean (LAC).

As part of my field research, I spend a considerable amount of time on-the-ground in LAC studying issues of concern for U.S. national security. Most of my testimony, therefore, provides an assessment of the transnational threats active in Central and South America. In my experience getting the threat assessment right is key, prior to any U.S. engagement. Towards the end of my testimony, I provide five recommendations identifying timely opportunities that can advance U.S. regional interests.

To accomplish this, and before all else, I hope that Congress will work with the new administration to acknowledge and overtly identify those in the Western Hemisphere who are working against U.S. interests and establish a strategy to negate their efforts. There is a clear convergence in LAC of state and non-state actors, criminal and terrorist franchises, and regional and extra-regional regimes who are working together to undermine the United States and Western influence, writ large. These anti-American elements use all available methods of asymmetric warfare to undermine the United States and its allies in the West. Their aim is a region friendlier to their illicit enterprises and less under the aegis of American influence.

To be blunt: We are in an asymmetric war for legitimacy in Latin America and we have not yet begun to fight.

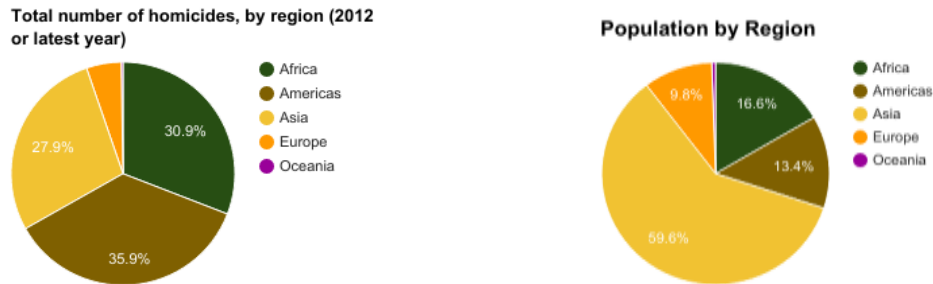
An Asymmetric Zone of Conflict

Latin America, for far too long, has been downplayed as a foreign policy backwater for the United States and characterized as a zone of peace and prosperity that does not merit the immediate attention of our U.S. national security community. As many of my colleagues remind me, while we have “headaches” in Latin America there are “migraines” in the Middle East. In no way, do I want to diminish the extremely difficult challenges we face on the other side of the world, but the fact remains that many of the transnational threats we face worldwide, including in the Middle East, are becoming increasingly active in the Americas. And although this is an added threat in our proximity, it presents an opportunity for greater leverage in the asymmetric contest against larger threats in the Middle East.

To highlight the problem here is one statistic that summarizes the seriousness of the situation we are facing in the region. The Western Hemisphere accounts for approximately 13.4 percent of the world’s population but almost 40 percent of its homicides. If we limit this to the LAC region the

situation is more concerning; total LAC population accounts for only 9 percent of the world and 33 percent of the homicides, as depicted in figure 1 below.

Figure 1: Global Homicides vs. Population

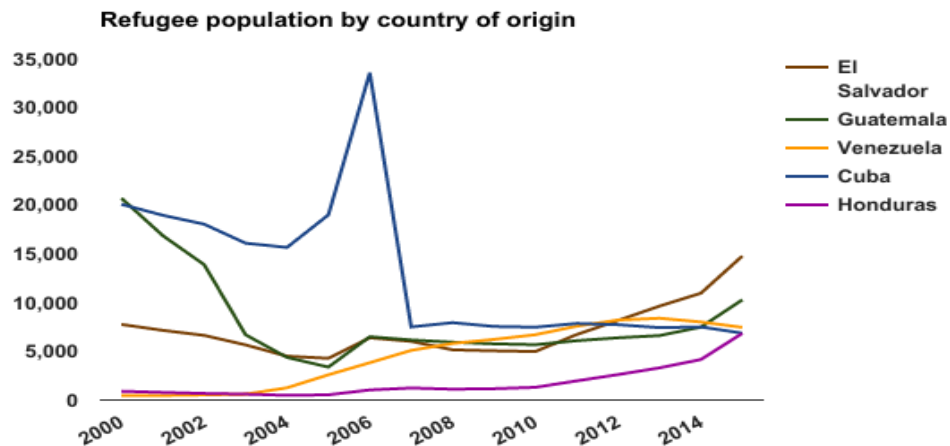


Source: United Nations Office of Drugs and Crime and World Data Bank

Per the latest report of the United Nations Office of Drugs and Crime, LAC countries compose nine of the top ten countries on homicides worldwide. Honduras, El Salvador, and Venezuela top the charts with astonishingly high homicide rates above 60 murders per 100,000 inhabitants, making these three countries the murder capitals of the world. Much of this is attributed to the violence associated with drug trafficking and the rise of gangs and organized crime in the region. Other indicators also show the level of violent conflict in the region.

Analogous to the increase in homicides in LAC is the recent uptick in refugees from the region, as depicted in figure 2, below.

Figure 2: Refugees in Selected LAC Countries (excluding Colombia)



Source: Migration Policy Institute

Since 2010, there has been a sharp increase in refugees from LAC countries, namely from Venezuela and the Northern Triangle (El Salvador, Guatemala, and Honduras). 2014 was a critical year in this upward trend provoked by the Central American crisis of unaccompanied minors that summer, and the Venezuelan government crackdown on student-led protests earlier that year. This trend can be correlated, at least somewhat, to the policies adopted by the last administration towards LAC. Prior to 2008, except for Venezuela, the trend of refugee outflows in LAC was declining, most notably in Cuba. Since then, a gradual increase in refugee outflows is taking place in these four LAC countries, surging in 2012 and again in 2014.

The upward trend in refugees from LAC is concerning, however, it is still well below the outflows in other parts of the world, namely from the Middle East. Yet, combined with other trends such as Internally Displaced Persons (IDP), of which Colombia still leads the world at close to 7 million IDP, it shows the region is far from a zone of peace. Historically Colombians affected by the over half-century war with the FARC have found refuge in neighboring Venezuela. More recently, however, a greater number of Venezuelans are crossing into Colombia than vice versa. IDP figures in Venezuela are difficult to determine due to the lack of statistics in the country. Nevertheless, examining the spike in U.S. asylum applications from Venezuela, increased over six times since 2014, provides perspective into the humanitarian crisis taking place in that country.

By 2014, we also witnessed an increase in the military and police presence within several LAC countries, with notable (more than 30 percent) rate increases in El Salvador, Uruguay, and Chile. The latter two countries are considered among the more peaceful in the region, however, they still have a 39 percent and 47 percent rate increase, respectively, in their military and police force. This combines with the growth of prison populations throughout LAC that is also increasing, most notably in Brazil, which now has the 4th largest prison population in the world with over a half million of its people incarcerated.

The upshot of all this data is that LAC has trends and tendencies more closely associated with zones of conflict than a zone of peace.

What is driving these trends and are they related? There are some isolated economic and socio-cultural drivers to these conflicts, however, we could also correlate these trends to the rise of a bloc of regional governments that foster instability and insecurity in the region to attack the legitimacy of the United States and its ability to cooperate with peaceful and prospering allies in the region.

This form of asymmetric engagement is not centered around the use of military force against the United States, but it focuses instead on incessantly driving public opinion against U.S. interests while delegitimizing any U.S. presence, particularly military and law enforcement presence, in the region. It can be argued that recent political outcomes in LAC (as of late 2015) have begun to shift the region toward a political trajectory more favorable to the United States. I agree with this assessment, however, to capitalize on this trajectory, we must not underestimate this bloc of nations that continue to consolidate power in their countries and persist in their anti-US efforts. A more prudent and cautious approach is required so that lessons from the past serve as policy guidance for the future in the hemisphere.

The ALBA Effect

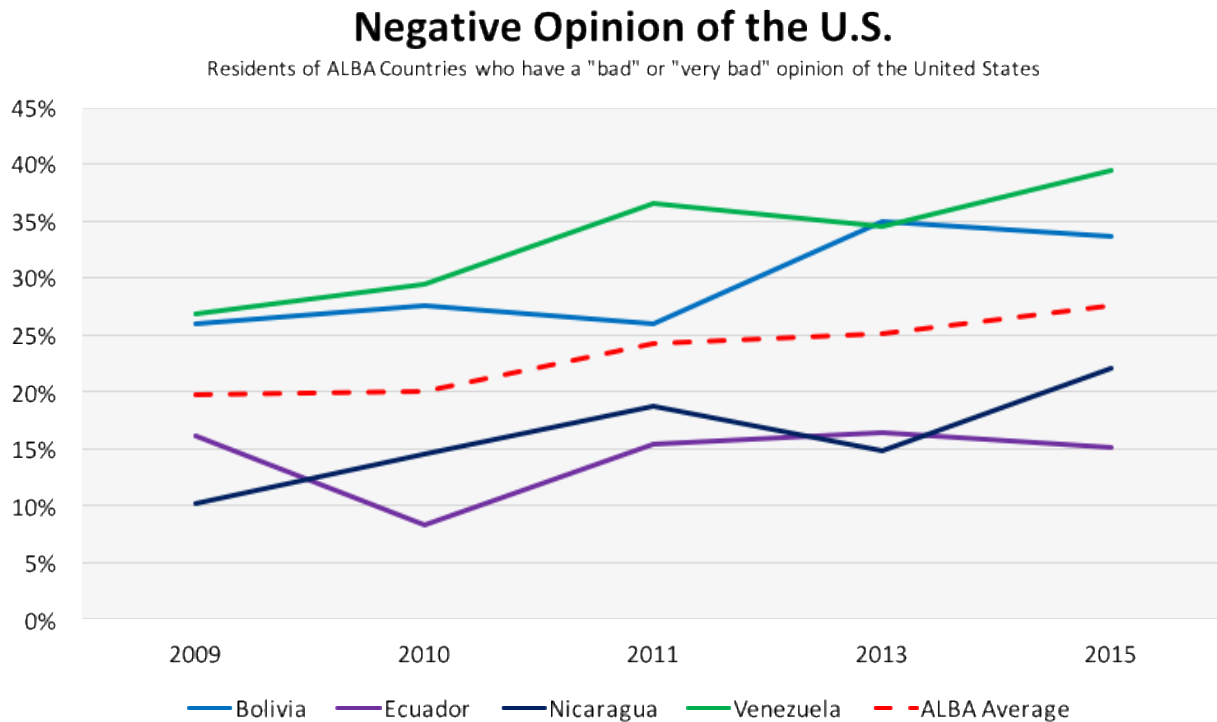
In Washington, it has become somewhat taboo to talk about the Bolivarian Alliance of the Americas (ALBA in their Spanish acronym). The death of Hugo Chávez in 2013 and Fidel Castro last year, have prompted several regional experts to declare that this anti-American alliance that dominated regional politics for almost a decade, is now defeated. Many of these same experts erroneously characterized the ALBA bloc as a collection of weaker and smaller countries that do not pose a serious threat to U.S. national security. This analytical failure enabled Venezuela to become close to a failed state, and allowed Cuba to gain prominence throughout the region. More to the point, this failure allowed anti-American extra-regional actors to gain an unprecedented amount of strategic influence in our hemisphere, along with an increasing convergence of criminal and terrorist networks.

For those unfamiliar with the ALBA, a short summary is in order. The Bolivarian alliance was launched in 2004 as a political power project by the Castro brothers in Cuba and the late Hugo Chávez of Venezuela. Arguably, its high-water mark was in 2014 after it consolidated thirteen governments in the region under one banner. This includes Bolivia (in 2006), Nicaragua (in 2007), Dominica (in 2008), Antigua and Barbuda, St. Vincent and the Grenadines (in 2009), Ecuador (also in 2009), Saint Lucia (in 2013), and Grenada, and Saint Kitts and Nevis (in 2014). El Salvador flirted with joining this alliance in 2014 after Salvador Sánchez Cerén became president. Suriname, Haiti, Iran, and Syria are observing members. Combined this alliance has a population over 70 million, a GDP over \$700 billion, and territory spanning across 2.5 million square kilometers. The ALBA has its own trade system (the SUCRE), its own bank (based in Caracas), a regional television network (Telesur), and an international NGO network managed through the Bolivarian Continental Coordinator (CCB in its Spanish acronym). None of this is cause for concern in and of itself, but the ALBA's success is the sum of its individual parts driving a narrative against "U.S. imperialism" and undermining U.S. influence.

Since the death of Venezuela's Hugo Chávez in 2013 and the subsequent collapse of the country's economy under "21st Century Socialism," the ALBA has become visibly less cohesive without a strong *caudillo* at the helm. Nevertheless, the member countries are still under autocratic rule and their governments have replaced ideological implementation with increased criminalization of the State. While one could argue that the ALBA is significantly weaker than before, it is equally true to state that the anti-imperialism sentiments that brought the Bolivarian alliance to prominence—are stronger than ever before. The previous U.S. administration's rekindled relationship with the Cuban regime and support for the Colombian government's peace deal with the FARC brought a breath of new life into this alliance and its anti-American narrative.

Twelve years since its founding, the ALBA's largest success has been manipulating public opinion. Latinobarómetro, a Chilean polling firm measuring public opinion throughout Latin America, depicts data showing a negative trend in the positive opinion of the United States within the ALBA countries. Likewise, the same data shows an increase in the negative opinion of the U.S. in these same countries, as depicted in figure 3 below. The risk of having this trend continue is losing access in a handful of countries in the Western Hemisphere that maintain an anti-US posture. This alliance also continues to remove the U.S. from regional discussions and forums, citing "anti-imperialism" as their *casus belli*.

Figure 3: Negative Opinion of the United States in ALBA countries



Today, the ALBA is less ideological and more of a collection of “criminalized states”—a term coined by regional security expert Douglas Farah. Their strength no longer lies in their ideological momentum, but in their ties to transnational organized crime. The sharp decline in oil prices over the last few years has made these mostly oil-producing countries more reliant on illicit activity to maintain their power. Rather than surrender power, however, most of the ALBA countries are turning to transnational organized crime and using authoritarian tactics to repress and silence opposition while consolidating control in their country.

The U.S. Congress and Trump administration should not assume that the ALBA governments will simply fade away. Several recent developments in these countries suggest otherwise. Special attention should be paid to Nicaragua and Bolivia as each country’s respective head of state has cemented their positions of power until at least 2019.

I call this the “wounded dog syndrome,” whereas, analogous to a wounded dog, when an ALBA regime perceives that its back is against the wall, their leaders will become more apt to demonstrate their totalitarian nature by increasing political repression. I believe we will begin to see heightened civil conflict and increased chaos throughout the hemisphere as the first of the main ALBA leaders in Ecuador and Venezuela are threatened by rejection from a citizenry weary of socialist-induced scarcity. These regimes still have control over their militaries and are strengthening civilian militias. We should not assume they will not act violently in a last-ditch effort to maintain power. The new administration and Congress should pay special attention to the extra-regional forces that are propping up these regimes.

The Convergence of Extra-Regional State and Non-State Actors

The convergence of criminal and terrorist networks in LAC are enabled by the support of extra-regional state actors, whose leadership has been complicit in criminal and terrorist activity. Joining forces with regional anti-American actors, namely the ALBA countries, these regimes use state power to yield billions of dollars in illicit revenue, move a myriad of illicit products, and establish military and intelligence networks throughout the Americas.

The level to which geopolitical forces such as Iran, Russia, and China cooperate on a global level is debated among national security and foreign policy experts. In LAC, these three extra-regional state actors have benefitted, at least to some degree, from the ALBA's destabilization efforts in the region. Operating at the strategic level, these extra-regional actors have vested interests in stimulating a new multipolar system in LAC that favors their interests and investments. Whether it's Russia's response to Crimea, China's political ploys to isolate Taiwan, or Iran's skirting of international sanctions—the United States' "soft underbelly" has increasingly become advantageous to the global ambitions of these three extra-regional actors.

Russia is resurging in the region, by some accounts exceeding its previous presence during the Soviet era. Iran is increasing its regional military and intelligence footprint, while China is surpassing the U.S. as the largest trade partner in select LAC countries. If one examines this phenomenon closely, a visible pattern is discernable in specific countries aligned with these extra-regional actors.

The convergence is taking place in the ALBA nations. Approximately 75 percent of Russian arms sales to the region are with ALBA members, namely Venezuela and Nicaragua. Around 75 percent of Iran's military and intelligence footprint is with these same countries, notably Venezuela and Bolivia. Lastly, close to 75 percent of China's credit and loans to LAC are geared towards the ALBA, propping up failed economies and buying increased regional influence. This pattern can be called the three-fourths standard of extra-regional activity in LAC, and the fact they are in the same countries suggest that more strategic cooperation is taking place in the region among Russia, Iran, and China than competition.



In many instances, the commercial or economic activity of these three extra-regional actors in LAC constitute “non-market” interventions that serve more political and military purposes, while neglecting poor S&P creditworthiness and high systemic risk of many of these countries. Both Venezuela and Ecuador share the dubious honor of 10 foreign debt defaults each. To legitimate market actors, these countries have proven to be high-yield risks that warrant enhanced due-diligence, but China, Russia, and Iran continue to bail them out by offering “sweetened” business deals with heavily subsidized, long-term financing for large contracts and energy-related concessions.

The net effect is a growing element of Russian and Chinese organized crime, an increase in radical and violent jihadists, a maze of foreign state-owned enterprises engaged in dual-use activity, and regional alternative governance structures that play by a different set of rules while maintaining a Westphalian facade. This constitutes increased awareness and vigilance from the U.S. foreign policy and national security community. Islamist terrorism, transnational organized crime, the proliferation of Weapons of Mass Destruction—are all tier one national security threats, and all are active in Latin America and the Caribbean. The growing strategic influence of Russia, China, Iran, and increasingly North Korea, in Latin America add another layer of complexity to this challenge.

This assessment presents the most pressing issues in LAC, meriting prioritized attention by the U.S. foreign policy and national security community. The following are five recommendations as to how the Congress and the new administration can work together to advance U.S. interests and ensure peace and prosperity in the hemisphere.

Recommendation 1: Strengthening Human Intelligence Beyond the Border

Last month the Associated Press reported that, in 2016, “Venezuelans for the first time led asylum requests to United States as the country’s middle class fled the crashing, oil-dependent economy.” Derived from data of the U.S. Citizenship and Immigration Services, the largest spike comes after 2014 with an additional 168 percent jump in U.S. asylum applications from Venezuelans since October 2015. Moreover, Venezuela is among the top 10 countries whose citizens had overstayed their visas in the United States in 2015.

Earlier this month, CNN and CNN *en Español* aired a year-long investigation revealing a potential immigration scheme by the Venezuelan government. Government officials are reportedly selling passports to suspected members of foreign terrorist organizations, namely Lebanese Hezbollah. The CNN documentary provided eyewitness testimony from former Venezuelan officials living in exile, with first-hand knowledge about this alleged immigration scheme. The potential terrorism risk of the Venezuelan government providing identification documents that conceal the identities of members of Islamist terrorist organizations presents a global security challenge.

This is one example of the threat mentioned by the new Secretary of Homeland Security, General John Kelly, who noted that the threat from these networks beyond the border require a multi-layered approach to immigration security. It is clear that the Trump administration is prioritizing immigration security. My recommendation to this committee is that it should take the opportunity that is being provided by the tighter immigration vetting proposed by the new administration to strengthen human intelligence networks in LAC. Securing our border begins with enhanced and

robust intelligence collection at U.S. embassies and consulates abroad, as far south as Argentina, up through Venezuela, and into Mexico.

Recommendation 2: Establishing a Regional Counterterrorism Coalition

By mid-year, if not sooner, a historic antiterrorism legal precedent will take place in the region. Members of Islamist terrorist networks, for the first time in LAC, may be convicted on terrorism-related charges. One, if not both, of two ongoing terrorism trials in LAC could lead to the conviction of either a member of Lebanese Hezbollah or local sympathizers of ISIS.

In October 2014, a Lebanese national, Mohamad Ghaleb Hamdar, was arrested in Lima, Peru for potentially plotting a terrorist attack in the country. Two years later, in October 2016, I served as an expert witness in this trial. A verdict is expected in March. Given that Hamdar is charged with membership in a terrorist organization, a potential conviction could serve as a de-facto designation of Hezbollah as a terrorist organization in Peru. This would be the first designation of its kind in Latin America.

In July 2016, at least twelve Brazilian jihadists were arrested in Rio de Janeiro, for engaging in a terrorist plot to launch small arms attacks throughout various sites of the Summer Olympic Games. These jihadists pledged allegiance to ISIS through an encrypted messaging app, where they coordinated across various Brazilian cities to arrange the potential shipment of weapons to carry out the terrorist attack. The trial on these Brazilian jihadists is also set to conclude in March, and a conviction is likely.

For several years, Islamist terrorist networks have operated in a state of legal grace in Latin America. More than half the countries in the region lack any form of antiterrorism legal framework. And for the countries that have antiterrorism laws—all of them exclude foreign terrorist organizations. The ability to reform or establish antiterrorism laws in LAC to designate foreign terrorist organizations from the Middle East, is a timely opportunity for the Congress to work with the new administration to deter further terrorist activity worldwide, and to establish a long-sought legal framework in LAC to do so.

Currently, Panama is the only LAC country in the global anti-ISIS coalition. Peru, Argentina, and Brazil, are potential additional members of this coalition, and could easily help the U.S. expand a counterterrorism coalition in Latin America.

Recommendation 3: Working with U.S. Treasury to Sanction Illicit Networks

Filled with low-capacity countries and cash-intensive economies, LAC is an attractive target for illicit elements from opposite ends of the globe. What was once most prevalent in gray areas has moved with astonishing speed to subvert and co-opt state and non-state financial institutions all throughout the Western Hemisphere. This new model operates under broad state protection in the region that undermines commercial markets and international trade, moving several hundred tons of narcotics, laundering millions (if not billions) of dollars, and smuggling a growing number of radical and violent Jihadists throughout the Western Hemisphere. Consequently, illicit finance is the lifeblood of this crime-terror nexus in LAC and the associated criminalized states.

Illicit markets are key to the criminal-terrorist pipelines that move a variety of illicit products in

and out of the Western Hemisphere. The billions of dollars in illicit funds are key enablers of new military, economic, and political institutions and extra-regional alliances designed to eradicate U.S. influence from the region. These illicit markets are used to build parallel structures that are not accountable to the democratic process and help enrich anti-American regimes that use illicit funding for corruption and alliance with TOC groups as a matter of state policy.

For instance, in Central America, the revenues of ALBA Petróleos is equal to 22 percent of the Salvadoran budget. In Nicaragua, Albanisa comprises 20 percent of Nicaragua's budget. Both state-owned enterprises are blended with TOC groups allowing fictitious mega-projects on infrastructure development to legitimize illicit funds.

Dismantling these illicit financial networks is key to any strategy aimed at neutralizing criminal and terrorist networks in LAC. I recommend the Congress work with the new administration to strictly enforce current U.S. anti-money laundering laws and policies in the Western Hemisphere and vigorously apply and enforce the Transnational Drug Trafficking Act of 2015. Working with the U.S. Department of Treasury's Office of Terrorism and Financial Intelligence a bipartisan effort to sanction violators of this law and other policies designed to protect the integrity of the U.S. financial system—is critical to advancing U.S. regional interests.

Recommendation 4: Moving Toward More Bilateral Free Trade Agreements in LAC

Another area of conflict in Latin America is trade. Trade, which by definition is a peaceful activity, has been politicized and used as an instrument of war in LAC. With the rise of the ALBA bloc, multilateral trade pacts such as UNASUR and MERCOSUR, originally intended as regional integration and commercial systems, were turned into political and ideological blocs. Instead of promoting genuine free trade with the goal of promoting mutual prosperity, they served as protective barriers to imports. Based on the erroneous model of import substitution industrialization the new multilateral trade pacts made it prohibitively expensive to secure cheaper inputs and imports, with the state picking and choosing winners to be subsidized by local consumers.

Event NAFTA, for instance, struggles with the wage differential between Canadian and American workers, on the one hand, and Mexican workers on the other is substantial and has adverse consequences for investment and other factors. Likewise, the environmental standards expected of Canadian and American industries impose a heavy burden on and raise costs on Mexico's comparative advantages. The inherent inequalities and differences might be easier to stipulate and to contend within a bilateral agreement than in a multilateral agreement intent on achieving some unreachable equilibrium.

Bilateral trade agreements may prove more effective due to the limitation of parties. Multilateral trade deals often superimpose geopolitical considerations over and above the direct national interests of the parties involved. Rules and regulations may fit awkwardly on the capacity of some of the parties to comply with the full details of a pact. Political considerations and circumstances may vary greatly from country to country and these may have tremendous impact on the implementation of a multilateral agreement. In short, one size may not fit all parties to a single agreement.

Two countries who could benefit immediately from a bilateral free trade agreement with the United States are Argentina and Guatemala.

Recently, Argentina's president Mauricio Macri struck down tariffs that had made computer, notebook and tablet prices in his country the highest in the Americas. In a "knowledge society," Macri pointed out that pricing out computers had a devastating effect on the country's education, business, industry, science and innovative entrepreneurs. Working with the Macri government, U.S. suppliers ranging from Apple to high and low end PC manufacturers could make a significant contribution to economic prosperity. Bilateral trade between the U.S. and Argentina has enormous possibilities and should be pursued to build economic and other critical bonds between our two nations. After twelve years of reckless spending and depleted currency reserves, the Argentines seem poised to trade and to restock their reserves with dollars with which to buy from American suppliers. The Congress and new administration should welcome such a posture by negotiating win-win deals with the Argentines.

Similarly, in Central America, the Guatemalan government of Jimmy Morales, a maverick political figure, is prepared to broker bilateral agreements providing favorable investment opportunities in that country. Opportunities which would generate badly needed employment and help to stem the tide of low-skilled, low-wage migration. A bold bilateral approach could engender a stable, prosperous Guatemala potentially reversing the path of the region without the U.S. attempting to take on too much through a multilateral agreement consisting of highly diverse entities in Central America (Honduras, El Salvador, Guatemala, and even Nicaragua) with different political, social, and economic particularities and circumstances.

Recommendation 5: Appropriate \$5 Billion Annual to Countering Criminalized States

All the recommendations provided are strategic initiatives aimed to advance U.S. regional interests. None of these recommendations, however, will be successful if Congress and the new administration does not develop a campaign to counter the rise of "Criminalized States" in LAC whose primary strategic goal is to harm the United States.

For a relatively small investment of \$5 billion annually (approximately two weeks in Afghanistan) the Congress can make a significant difference in securing our southern border, dismantling criminal and terrorist networks, strengthening our allies, and reasserting U.S. influence in Latin America, at a time when the region sorely needs our assistance.

At the heart of this effort is countering the bloc of nations identified in this testimony and their extra-regional allies that are working to undermine U.S. presence and influence in the Western Hemisphere. It is essential to spend additional funds on prevention now, then be forced into a potential future intervention down the road.

Thank you again Mr. Chairman and subcommittee members for the privilege of testifying. I would be happy to answer any questions and provide more detail as requested.