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Subcommittee on the Western Hemisphere, Civilian Security, Migration, and International  
Economic Policy

Costa Rica, the Dominican Republic, and Panama: A New Alliance for Promoting  
Democracy and Prosperity in the Americas

Tuesday, January 20 at 10:00 am EST, Room 2172, Rayburn House Office Building

Chairman Sires, Ranking Member Green, distinguished members of this committee, and honorable members of the house of representatives, it is an honor to appear before you today. Costa Rica, Panamá, and the Dominican Republic, based on their “mutual commitment to the rule of law, democratic institutions, and respect and protection of human rights,”<sup>1</sup> created a new regional alliance, *Alianza para el Desarrollo en Democracia*, to promote joint initiatives to foster green, fair, and inclusive, sustainable growth and development. President Biden hailed the partnership as “inspiring,” an “alliance to strengthen democratic institutions...— to cooperate on transparency, human rights, economic development, and strengthening democracy throughout the region.”<sup>2</sup> At a time when many countries in the region, in particular in Central America, are turning their backs to democracy, it becomes imperative that we continue to show that “democracies can deliver for people on issues that matter most to them.”<sup>3</sup>

I will focus most of my remarks on the country of Costa Rica, the oldest continuously functioning democracy in Latin America, with no army since 1948, which can serve “as a model of progress for Latin America and the Caribbean.”<sup>4</sup> A country of virtually universal health and pensions, Costa Rica is the country in the region with the highest life span,<sup>5</sup> in many ways, a summary indicator of the quality of life and development progress. Costa Rica has shown a strong commitment to preserving the environment. The country is home to six percent of the world’s biodiversity, and twenty-five percent of the territory is classified as a national park or reserve. Costa Rica has emerged as a “global leader,” pioneering initiatives such as the “Payments for Environmental Services (PES) program,” initiated under President Figueres in the nineties. This program, which promotes conservation, has allowed the country to reverse

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<sup>1</sup> “Alianza para el Fortalecimiento de la Institucionalidad Democrática,” New York, 09, 12, 2021.

<sup>2</sup> Remarks by President Biden at the Summit for Democracy Closing Session, 12, 10, 2021.

<sup>3</sup> Remarks by President Biden at the Summit for Democracy Closing Session, 12, 10, 2021.

<sup>4</sup> <https://www.usaid.gov/news-information/speeches/sep-28-2021-administrator-samantha-power-remarks-at-the-interamerican-dialogue-vi-leadership-for-the-americas-awards-gala>

<sup>5</sup> [https://data.worldbank.org/indicator/SP.DYN.LE00.IN?locations=ZJ&most\\_recent\\_value\\_desc=true](https://data.worldbank.org/indicator/SP.DYN.LE00.IN?locations=ZJ&most_recent_value_desc=true)

deforestation.<sup>6</sup> Costa Rica's accomplishments are founded on a deep commitment to democracy, political stability, social welfare, respect for the environment, and an "outward-oriented strategy, based on the openness to foreign investment and trade."<sup>8</sup>

The *Alianza para el Desarrollo en Democracia* initiative aims to jump-start the economies of these three small nations by supporting an agenda that "generates synergies between these countries and other strategic partners" to take advantage of the process of "reconfiguration of global value chains" and "opportunities derived from nearshoring." Development requires the role of the private sector, public-private partnerships, and strategic allies such as the United States.

Costa Rica is a natural, reliable partner in U.S. efforts at nearshoring. The United States is Costa Rica, Panama, and the Dominican Republic's main trading partner and a primary source of tourism. The trade relationships have been built over decades through a series of initiatives and treaties, from *La Cuenca del Caribe*, under President Reagan to the signing of *CAFTA-DR* under President Bush. For Costa Rica, the United States represents more than 40% of exports and imports (Central America and Mexico represent 15% of imports, 20% of exports, with Panama and the Dominican Republic, close to 8%).<sup>9</sup>

The *New Alliance* efforts are "particularly valuable in the current situation where challenges are emerging in different latitudes." For example, Intel's investment in Costa Rica in the nineties aimed, foremost, at gaining geographical diversification.<sup>10</sup> As global supply chains have been tested, Intel has rediscovered the importance of this geographical diversification close to home and reaffirmed its commitment to the country. There are clear opportunities in the region. For example, Costa Rica has an existing medical cluster and biotechnology, priority areas for nearshoring. And yet Costa Rica, Dominican Republic, and Panama represent on average close to only 0.155% of total US Direct investment abroad.<sup>11</sup>

Costa Rica has benefited in so many ways from the US-Costa Rica friendship. I have as well. In the early sixties, at the "request of President John F. Kennedy," and under the umbrella of the *Alliance for Progress*, Harvard Business School formed a team headed by Professor George Lodge (now emeritus). This team eventually founded a business school, first in Nicaragua and then in Costa Rica, "with the backing of regional governments, the local

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<sup>6</sup> [https://data.worldbank.org/indicator/SP.DYN.LE00.IN?locations=ZJ&most\\_recent\\_value\\_desc=true](https://data.worldbank.org/indicator/SP.DYN.LE00.IN?locations=ZJ&most_recent_value_desc=true)

<sup>8</sup> <https://www.worldbank.org/en/country/costarica/overview#1>

<sup>9</sup> Observatory of Economic Complexity, <https://oec.world/en/profile/country/cri>.

<sup>10</sup> Spar, D. (1998). Attracting high technology investment : intel's Costa Rican plant. Washington D.C., World Bank.

<sup>11</sup> Direct investment position on a historical-cost basis. Source:<https://www.bea.gov/sites/default/files/2021-07/dici0721.pdf>

business community, and the U.S. Agency for International Development.”<sup>12</sup> My father, sister, and brother eventually received their MBAs there. USAID helped Costa Rica undertake structural reforms during the eighties’ crisis and funded my scholarship to study in the great state of California. I became the first woman from my country to earn a Ph.D. in Economics. George Lodge later became a mentor at HBS and helped me write my first case.

Costa Rica bears witness to how democratic values are “foundational elements” of growth and prosperity. Costa Rica’s achievements, however, cannot be taken for granted. The pandemic has intensified the economic, social, and political challenges. COVID-19 has hit the Latin American region particularly hard. Costa Rica, for example, experienced the largest drop in GDP in decades; unemployment rates soared (20% Q4 2020) while poverty and inequality increased.<sup>13</sup> The country turned to the international multilateral agencies for support as a result. Moreover, the threats from the retreat of democracy in the region are real. In her testimony last September, President Chinchilla noted how Nicaragua has “consolidated a ruthless, corrupt” dictatorship.<sup>14</sup> As in the previous episodes, this has led to forced migration, 80% of which flows to Costa Rica,<sup>15</sup> disruptions of regional trade, and, overall, a threat to regional security.

Given these opportunities and challenges, I respectfully recommend:

For the United States, Costa Rica, Panama, and the Dominican Republic

1. To create a joint task force to identify trade and nearshoring opportunities. Costa Rica’s investment promotion agency (CINDE), established in 1982 as a private, non-profit organization, is an effective organization that can serve as a natural link.<sup>16</sup>
  - a. The task force should identify trade partnerships consistent with low-carbon economies and environmentally sustainable processes (.e.g PROCOMER’s Green Growth Platform which was worked with the Costa Rica-United States Foundation for Cooperation<sup>17</sup>).
  - b. In the particular case of regulated industries—such as the medical devices industry—the task force should identify policies that can facilitate nearshoring. For instance, the opening of the United States FDA office in Costa Rica has

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<sup>12</sup> <https://www.alumni.hbs.edu/stories/Pages/story-bulletin.aspx?num=586>

<sup>13</sup> <https://www.worldbank.org/en/country/costarica/overview#1>

<sup>14</sup> <https://docs.house.gov/Committee/Calendar/ByEvent.aspx?EventID=114052>

<sup>15</sup> <https://www.reuters.com/world/americas/soaring-number-nicaraguans-seek-refuge-costa-rica-amid-domestic-crackdown-2021-08-11/>

<sup>16</sup> [https://publications.iadb.org/publications/english/document/How\\_Effective\\_is\\_Investment\\_Promotion\\_Firm-Level\\_Evidence\\_en.pdf](https://publications.iadb.org/publications/english/document/How_Effective_is_Investment_Promotion_Firm-Level_Evidence_en.pdf)

<sup>17</sup> <https://www.procomer.com/exportador/programas/crecimiento-verde/>

helped ensure the safety, quality, and effectiveness of medical products and food produced in the region for export to the United States.

2. To continue to foster education partnerships, given in particular how the pandemic has disrupted the lives, learning, and mental health of so many young children, teenagers, and young adults. These include scholarships, educational exchanges, internships, apprenticeships in collaborations with local partners, such as INA in Costa Rica.

For Costa Rica-Panama-and Dominican Republic

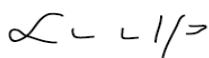
3. To continue to invest and improve logistics and IT facilities in their respective countries (ports, airports, electricity and internet cost, access, and coverage). Nearshoring, underpinned in reliable infrastructure, would shorten the length of the value chains rendering them more flexible and adaptable to evermore frequent shocks (climate change, pandemics, national security, etc.).

For the United States

4. To increase humanitarian aid for countries receiving immigration from Central America and Nicaragua, especially Costa Rica and Panama. The crisis created by Ortega's dictatorship mustn't destabilize the region.
5. To continue to work with the region on vaccination and Covid-19 relief efforts.

Costa Rica, Panama and, the Dominican Republic came together to “advance democracy, human rights, and economic cooperation.”<sup>18</sup> Despite their small size, they can provide “an example of the progress our hemisphere can make when we work together in the spirit of mutual respect, partnership, and dialogue.”<sup>19</sup> As we transition from COVID as a pandemic to endemic disease, we need to address our pressing development challenges—growth, inclusion, and sustainability—and our commitment to human rights and democracy. I am hopeful our countries can continue to work together.

Thank you for this opportunity to appear before you today. It has been a great privilege. I look forward to your questions.



Laura Alfaro

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<sup>18</sup> Representative Siles, twitter account.

<sup>19</sup> Samantha Powers, Sept 28,. 2021 <https://www.usaid.gov/news-information/speeches/sep-28-2021-administrator-samantha-power-remarks-at-the-interamerican-dialogue-vi-leadership-for-the-americas-awards-gala>