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Economic Cooperation for a Stronger and More Resilient Western Hemisphere

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I would like to thank Chairman Carper, Ranking Member Cornyn, and the members of the Subcommittee on International Trade, Customs, and Global Competitiveness for the opportunity to share my views on advancing economic cooperation for a stronger and more resilient Western Hemisphere.

The following testimony considers the many prospects for broader economic cooperation within the hemisphere, underscoring the value of engaging more extensively within our region, while also noting the various ways in which U.S. prospects are shaped by China's expansive efforts across the Americas.

A Shifting Economic Landscape

1. An opportune moment…

I applaud the Subcommittee's efforts to advance economic cooperation within the Western Hemisphere. The hemisphere's critical role in the U.S. economy and in support of broader U.S. interests is frequently overlooked amid wide-ranging other U.S. objectives and obligations, but the various nations that comprise the Americas are in many cases long-standing and deeply important economic and political partners for the United States. According to the U.S. Chamber of Commerce, the Americas accounted for over 40 percent of overall U.S. exports in 2022 and over 30 percent of total U.S. imports. Moreover, U.S. imports from the Latin American region increased in recent years, from nearly $1.18 billion in 2019 to $1.24 billion in 2022. Countries in the hemisphere also factor among our most important global trading partners (Mexico accounted for 14.7. percent of U.S. trade in 2022), sources of human capital, and sources natural resources, including critical minerals.

As the region grapples with the numerous economic, social, and other effects of the Covid-19 pandemic, this is an especially opportune moment to forge stronger partnerships and advance shared solutions. Indeed, nearly every country in the hemisphere is expected to face similar obstacles in pursuit of economic recovery in the coming years. Historic GDP losses and high debt levels have limited policy options and growth prospects. The region is also facing educational setbacks, frequent extreme weather events, historic migration flows, and wide-ranging other shared challenges. With all of this in mind, there is considerable need and justification for enhanced hemispheric cooperation—whether to properly diagnose the problems that the region is facing, derive lessons from varied policy approaches, further integrate our economies, mobilize creditor resources, or adapt to and mitigate the effects of a changing climate, among many other shared objectives.

Additionally, the value of shorter, regional supply chains and of consolidating production close to consumer markets became readily apparent amid the pandemic, and now amid ever-more-frequent, climate change-related disruptions. Nearshoring is a part of this process and has the potential to dramatically expand exports of goods and services from Latin America and the Caribbean. The creation of integrated regional value chains is a larger endeavor, and hasn't come easily in the region, but is immensely productive where it exists, such within the context of the USCMA. More can and should be done to nurture and expand regional economic linkages in their various forms.

2. …but time is of the essence.

China's already expansive presence in the region, and dominant position in certain global supply chains, presents some challenges for U.S. and other partner engagement in strategic sectors across Latin America. China's heavily subsidized telecommunications and renewable energy companies have quickly established a dominant position in much of the hemisphere, outcompeting U.S., other regional, and international firms in many cases.

After two decades of enhanced Chinese engagement with the hemisphere, geographic disparities in U.S. and Chinese economic influence are notable. U.S. trade and investment ties remain strong in North and Central America, but are less prominent in South America, where Chinese companies dominate the economic landscape. Chinese investment stock in Peru is four times that of U.S. stock, for instance—the result of an intensive Chinese focus on the Peru's mining sector. China has for many years been the top market for South American exports. Driven by South American flows, Latin American and Caribbean trade with China rose to record levels in 2022, with the region reporting an estimated $184 billion to China and importing an estimated $265 billion in goods.

For the United States, there is tremendous opportunity to deepen engagement throughout the hemisphere, including on the development of growth-promoting electromobility, microelectronics, and other regional supply chains. But time is of the essence as China grows its technical outreach and economic presence in these and other industries. Indeed, in just a matter of years, through a series of targeted investments and subsidized offerings, China has established prominent (and even dominant) positions in regional industries, including energy generation and transmission, telecommunications, renewable energy, electromobility, and now, critical minerals.

China's focus on emerging industries in the region is likely to continue. As the country urgently looks for new drivers of GDP growth, Chinese leaders are counting on "new infrastructure," or technology intensive sectors, to boost economic productivity. As a result, China has broadly supported innovation-related investment at home and abroad. In Latin America, energy transition, telecommunications, artificial intelligence, and other innovation-related industries are a focus for Chinese diplomats and firms alike. Indeed, in 2022, China's greenfield and M&A investments in Latin America and the Caribbean were centered on emerging supply chains in the renewable energy and electric vehicle (EV) industries, including lithium mining and manufacturing batteries and EVs.

Hemispheric Economic Policy in an Era of Strategic Competition

U.S. policy toward Latin America should not be a China policy—it should not be principally motivated by U.S. interest in competing with China in the region, in other words. Pursuing stronger economic ties within the hemisphere is a critical objective in its own right, with direct implications for the U.S. economy and regional security and stability.

However, the ability of the United States and its companies to maintain competitiveness in international markets and strategic industries requires some understanding of China's efforts and positioning in the Western Hemisphere and other regions.

I offer the following limited observations and recommendations as the United States seeks broader engagement within the hemisphere—and at a moment when China has achieved an expansive and even dominant presence across several economic sectors.

1. Market access is fundamental

If the United States is serious about engaging economically with the region, and also competing effectively with China in this hemisphere and elsewhere, then a robust trade agenda must be a priority. The Ecuador-China trade agreement, struck just days ago, is evidence not just of China's growing trade agenda in the region, but of U.S. paralysis in this respect. Ecuador sought a trade deal with the United States, too, but left Washington empty-handed. At the same time, so much of China's influence in the region is derived from its ever-expanding commercial partnerships, even when they are advancing economic re-primarization in parts of the region. A Uruguayan trade deal with China and possible Central American agreements are also on the horizon. If new U.S. trade deals and rejoining Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) are not currently feasible, then efforts to strengthen and expand existing agreements should be seriously considered. The Americas Partnership for Economic Prosperity (APEP) may also provide important opportunities for enhanced deal-making, but much will depend on levels of interest among partner nations in collaborations that don't involve market access.

2. Stay the course

Stronger U.S. ties to the region are achievable through various mechanisms but boosting U.S. economic presence is of utmost importance. U.S. efforts to engage at the subnational level across the hemisphere will be increasingly practical, especially in pursuit of opportunities in industries governed by subnational authorities. China's investment-related outreach is similarly "multi-tiered," with diplomatic and economic engagement evident at all administrative levels. Chinese commitments at the subnational level have been exceedingly productive in many cases. Five years of intense diplomatic engagement with Argentina's Jujuy province resulted in renewable energy, data storage, surveillance technology, and lithium extraction deals.

In pursuit of stronger ties, new private sector investment in the hemisphere, whether through "nearshoring" or other initiatives, is also critical. So, for that matter, is maintaining a presence in sectors where U.S. companies have been active for decades and even longer in some cases. Brazilian firm Odebrecht's corruption crisis generated numerous opportunities for Chinese company acquisition of sizeable infrastructure assets across the hemisphere, especially in the energy sector and often at the request of governments looking to ensure the continuous operation of major energy assets. But U.S. company divestment from the region has also created opportunities for Chinese and other investors. Crafting incentives for U.S. and partner nation companies to not just engage anew, but also to stay the course in the region, will be of great consequence.

Discussions are underway and steps are notably being taken within the U.S. government to remove certain administrative barriers to regional investment and finance. This includes within the U.S. Development Finance Corporation, as it seeks to allocate finance to a wider range of partners in Western Hemisphere, regardless of income level. U.S. efforts to engage more extensively through IDBInvest are also promising. Given the fiscal constraints confronting countries in the region, international financing and the regional pooling of resources through multilateral development banks or other mechanisms are critical to ensuring much-needed development and climate-related investments and increasing hemispheric resilience. The possible expansion of G2G deal-making, including new authority for individual U.S. government departments, is another notable development, and should focus on opportunities in priority economic sectors.

3. Focus on adding value

Chinese investment and trade in Latin America and the Caribbean remain overwhelmingly focused on agricultural commodities and extractive industries, but China has also made commitments to regional manufacturing, including of electronics, automobiles, and, most recently, lithium batteries. These investments largely support China's interests in established and emerging supply chains, though are additionally upheld as evidence of China's commitment to addressing enduring asymmetries in the China-Latin America economic dynamic.

In practice, U.S. hemispheric trade and investment are more diversified than China's. But as claims support for Latin American production capacity, this will be a critical moment for the United States to underscore its long-standing commitment to economic upgrading and diversification across the region, while also funneling resources toward a select set of priority and growth-promoting sectors/initiatives, including possibly those related to energy and digital transformation.

Any commitment to hemispheric economic upgrading must also include continued and concerted efforts to promote open standard development processes and harmonized legal and regulatory frameworks in discussions with hemispheric partners. China's strategies for standards setting and regulatory harmonization ensure that representatives from Chinese companies have outsize presence in standards-setting venues, are pursuing alignment with Belt and Road countries, and are engaging in wide-ranging policy coordination with members of the BRICS grouping, the Asia-Pacific Economic Cooperation forum, and other regional platforms.

Regional economic upgrading will additionally benefit from expanded technical and educational collaboration. Education must be revamped to prepare the region for the green economy and the investment opportunities it brings, for instance—this is an area rich in opportunities for collaboration. U.S. government outreach on global digital transformation, just energy transition, and in many other critical areas is already underway, and should strive for greater Latin American participation.

4. Strengthen the U.S. model

Ensuring a prominent U.S. role within the hemisphere, and a degree of competitiveness with China in this and other regions, will also require a substantial and sustained commitment to addressing our own economic challenges and societal needs. Continued, robust commitments to improving U.S. domestic conditions will naturally boost U.S. competitiveness and generate prospects for broader and longer-term economic cooperation within the hemisphere. The Bipartisan Infrastructure Deal is a critical step in the right direction. U.S. companies must stay competitive, but so must the U.S. economic model, including in the eyes of our hemispheric partners.