Shoring Up the Nearshore:
The Case for Caribbean Basin Production Sharing

For close to 200 years, an essential component to the United States' geopolitical strategy has been preventing outside powers gaining control or undue influence of countries in Latin America and the Caribbean, and to consider such actions as contrary to U.S. interests. Now, more than ever, it is in the **U.S. national interest to create a safe, secure and prosperous nearshore**. An important means to achieve those ends is through the promotion of **nearshore production sharing: enhancing the competitiveness of U.S. manufacturing through the integration of regional value-chains**. This is the best strategy for mitigating the conditions that contribute to illegal immigration, illicit trade, and susceptibility to undue Chinese influence in an area of critical geopolitical importance to the United States.

Antecedents

- A stable, secure and politically aligned Caribbean is vital to assuring the free flow of goods from the U.S. heartland via ports in the Gulf of Mexico to Europe across the Atlantic, or to Asia via the Panama Canal. It is also the sine qua non of U.S. naval control of the Atlantic.
- Many countries in the region, especially in the Northern Triangle of Central America, have failed to grow their economies sufficiently to satisfy its population's expectations and needs. Lack of economic opportunity and citizen security have combined to produce increasing illegal immigration to the United States.
- In the last three decades a large number of U.S. manufacturing facilities relocated to China resulting not only in the loss of hundreds of thousands of manufacturing jobs, but also in a large and growing trade deficit with China.
- Beginning in the 1980s, and accelerating in 2000 with the ascension of the People's Republic of China (PRC) to the World Trade Organization, there was a sustained shift of manufacturing to China as the regime opened sectors of its economy to foreign investment. Western investment in China was driven by labor-cost arbitrage, low transportation costs driven by broad scale expansion of containerized shipping and low oil prices, and the lure of a potential market of over one billion consumers.
- The U.S. and other WTO countries were betting that by embracing China into a rules-based world trading system, that China would inevitably become "more like us" with more transparent democratic institutions that enforced property rights and human rights, and open its internal market to U.S. products and services. There is a growing consensus that China has yet to adequately open its internal market, and has not been enforcing its commitments under the WTO.
- When manufacturing plants relocated from the Caribbean basin to China, they mostly left their U.S. supply chains behind and re-established Asia-centric supply chains, further exacerbating a growing trade deficit.

- China has methodically forced technology transfer from foreign investors, or outright stolen intellectual property across a wide range of industries, and provided Chinese state-owned enterprises (SOEs) access to this technology along with below market financing, creating "national champions" in strategic industries.
- China is now competitive across a growing range of sophisticated and knowledge intensive industries: computers, telecommunications gear, automobiles, specialty chemicals, pharmaceuticals, software, etc.
- All of these factors have contributed to a growing concern in the United States about: illegal immigration, jobs, fair trade, and a sense that the global trading system has taken advantage of U.S. companies and workers.

<u>Chinese Objectives in Latin America</u>: In recent years, China has been aggressively expanding its profile and presence in Latin America. China's objectives in the region are:

- Secure access to resources (energy, food, raw materials) for their industrial base.
- Access a demographically young and growing export market (sell finished goods back to Latin America).
- Undermine support for Taiwan by establishing diplomatic relations with the remaining countries in the region that still recognize the Republic of China.
- Establish a geopolitical foothold in Western Hemisphere (e.g. satellite ground station in Argentina, port operations in Panama, etc).

<u>Evolution of Value Chains and Trade Patterns</u>: a recent study by the McKinsey Global Institute (January 2019) postulates that globalization reached a turning point in the mid-2000s. Among the report's conclusions:

- *"**Less than 20 percent of global goods trade is based on labor-cost arbitrage**, and in many value chains, that share has been declining over the last decade."*
- *"Goods-producing value chains (particularly automotive as well as computers and electronics) are becoming more regionally concentrated…**companies are increasingly establishing production in proximity to demand.**"*
- *"The trends we identify may favor advanced economies, given their strengths in innovation and services as well as their highly skilled workforces. **Developing countries with geographic proximity to large consumer markets may benefit as production moves closer to consumers."***
- *"**Regional integration offers one possible solution**, and digital technologies also hold possibilities for new development paths."*

With nearshore production sharing, US companies benefit by retaining higher skilled/value-added operations in the US, and nearshoring lower value-added operations, allowing for shorter, integrated supply chains leading to lower transportation, logistics and inventory costs.

Nearshore regional value chains will:

- Produce goods more competitive in both the US and global marketplace;
- maintain and grow high value-added jobs in the U.S.;
- lower the carbon footprint of container shipments;
- and contribute to economic growth and prosperity in the region, and by so doing mitigate the lure of narcotrafficking and pressure to emigrate.