WIDENING THE APERTURE: NEARSHORING IN OUR 'NEAR ABROAD'

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Figure 1. The Greater Caribbean Basin

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Executive Summary

The Biden administration's domestic economic plans could end up harming or helping the Greater Caribbean Basin. If "Building Back Better – Buy American" becomes a call for U.S. firms to restrict overseas activities in favor of the United States, the rest of the region will be adversely affected since foreign investment and trade are key drivers of growth. Conversely, if the United States allows other Caribbean Basin countries to be eligible for components of its ambitious domestic agenda, it could simultaneously increase U.S. competitiveness and provide benefits to the region that far outweigh any traditional foreign assistance programs. Depending on their execution and scope, administration domestic plans could ameliorate or exacerbate migrant pressures on the U.S. southern border.

For compelling reasons of geopolitical interests, dense economic exchange, continuous waves of migration, proud diaspora communities, generous remittances, and cultural affinities, the destinies of the United States and the rest of the Greater Caribbean Basin are already inextricably intertwined. But conceiving of the nations of the Caribbean Basin – to include the Caribbean islands, Central America, as well as Mexico, Colombia, and, eventually, Venezuela – as a Greater Caribbean Community (GCC) – and as eligible for major national economic initiatives would require a leap in the national imagination and political ambition. Yet, the administration has already signaled its intention to include the region in its signature climate change and sustainable energy plans.

In this spirit of internationalizing the agenda for a more sustainable and productive U.S. economy, the Biden administration could include our "near abroad" in other proposed initiatives such as infrastructure development, deepening digitalization, education and workforce training, and constructing business parks feeding U.S.-led global supply chains.

Of special relevance to the GCC, the Biden plans call for investing in new technology hubs. If extended to include the GCC, these hubs could build upon existing free trade zones or erect profitable greenfield endeavors and be imbedded in existing free trade agreements. Host countries would commit, in formal bilateral accords or, even better, in a region-wide compact with the United States, to create comprehensive ecosystems for economically efficient and socially equitable production. High-quality labor and environmental regulations, and tight security measures, would also be guaranteed. Goals for such a regional network of technology hubs would include building resiliency, redundancy, and rapid supply responses into U.S.-centric supply chains.

This bulletin identifies how these hubs could be established, along with the benefits of doing so. As a first stage, about half a dozen technology hubs would be designated with start-up funds of $1 billion each seeded by U.S., multilateral, and private sources. One key goal would be to sop up underemployed local labor to reduce emigration pressures. Appropriate locations might include El Salvador and either Honduras or Guatemala; the border between Haiti and the Dominican Republic, a turbulent zone with high unemployment; a representative of the Anglo-Caribbean, such as Guyana or Jamaica, which specializes in call centers and information technology; and Barranquilla, a Colombian seaport. In keeping with Biden's pledge to increase manufacturing "in all of America," one hub could be added in a U.S. Gulf state suffering from high unemployment and poverty.

Biden could launch the technology hubs initiative at a regional summit of GCC leaders. The GCC initiative could then be a centerpiece of the Ninth Summit of the Americas, to be hosted by the United States in late 2021 or early 2022.

Section 1. Imagining a Greater Caribbean Community

As the Biden administration reimagines U.S. foreign policy, Latin America and the Caribbean could easily drop to the bottom of the policy deck. Inevitably, senior officials will focus on renewed great power competition, crisis hot spots in the Middle East, and, as always, European allies. Yet, the Western Hemisphere – especially the nearby Greater Caribbean Basin – offers a unique opportunity for the new administration to address a perennial foreign policy challenge and expand its ambitious domestic economic agenda beyond our borders.

Globalization may be stalled, but regionalism is resurgent. The strong Chinese economy, an irresistible magnet for other Asian economies, has strengthened its regional status with the 2020 signing of the 15-nation Regional Comprehensive Economic Partnership (RCEP); by reducing trade barriers, RCEP will encourage regional supply chains. Despite the exit of Great Britain, the European Union continues to bind its 27 member nations, fortifying supply chain linkages between the more developed West and the formerly socialist East. Russia is marshalling all its instruments of foreign policy to re-create the Russian Empire in its own "near abroad." In 2018, the 54-member African Continental Free Trade Agreement (AfCFTA) was created.

Yet, in comparison our own near abroad – the small nations of Central America and the many scattered Caribbean islands – are left floating largely on their own. Many are struggling with stagnant economies, severe social distress (even before the COVID-19 pandemic), failing governance, extreme levels of criminal and gang-related violence, and recurrent natural disasters and climate change (Table 1). Frightened local elites park their wealth in overseas bank accounts while the poor flee to market their labor for better wages abroad.[1] Nearby Mexico, Colombia, and Venezuela face their own long list of challenges.

The Biden administration's domestic economic plans, as outlined in detail during the presidential campaign and in a series of rapid-fire Executive Orders, presidential statements, and White House fact sheets could end up harming or helping the Greater Caribbean Basin. If "Building Back Better – Buy American" becomes a call for U.S. firms to restrict overseas activities in favor of the United States, the region will be adversely affected since foreign investment and trade are key drivers of growth. Indeed, in the extreme case that U.S. supply chains entirely reshored from Central America, some 500,000 jobs could be lost, adversely affecting households with some 2.5 million persons. Many of these Central Americans might seek to rejoin their relocated jobs back in the United States. Thus, there is a possible tension between Biden's "Made in America" campaign and his desire to contain migrant pressures on the nation's southern border.

"If the United States can expand the horizons of its domestic programs to pursue opportunities in its own 'near abroad,' the region could construct a web of dynamic prosperity."

Conversely, if the United States can expand the horizons of its domestic programs to pursue opportunities in its own "near abroad," the region could construct a web of dynamic prosperity. In this spirit, Biden campaign documents called for including countries of Central America and the Caribbean in various clean energy initiatives and in programs promoting climate change adaptation and resilience. This powerful insight could be applied to other relevant Biden administration economic growth initiatives.

The new administration is advancing an extraordinarily rich economic and social agenda: clean energy, climate change mitigation, efficient infrastructure, technological innovation, more inclusive access to quality health care and job training, support for medium- and small-scale businesses, and ambitious governance reforms. This agenda for sparking the U.S. economy bears remarkable similarities to the challenges facing other Caribbean Basin economies – not so surprising, because all are integrated into the same global economic marketplace. The

[1] For a recent assessment by a noted sociologist, see Orlando Patterson, *The Confounding Island: Jamaica and the Post-Colonial Predicament* (Cambridge: Harvard University Press, 2019).

administration's "American Jobs Plan" which details some $2.7 billion in expenditures and tax credits reads in many respects like a typical USAID or World Bank country development strategy.[2] Biden's proposals include programs commonly associated with development assistance such as school construction, affordable housing, clean water infrastructure, assistance to small business, workforce training, affordable high-speed broadband across rural regions, and community violence prevention programs.

If the United States allows other Caribbean Basin countries to be eligible for components of its domestic jobs and infrastructure "Building Back Better" agenda, it could simultaneously increase U.S. competitiveness and provide benefits to the region that far outweigh any traditional foreign assistance programs. Just as dramatic would be the uplifting psychological impact on regional actors and international investors.

Conceiving of the nations of the Caribbean Basin – to include the Caribbean islands, Central America, as well as Mexico, Colombia, and eventually Venezuela – as a Greater Caribbean Community (GCC) – and as eligible for major national economic initiatives would require a leap in the national imagination and political ambition.[3] But it would be worth the bureaucratic battles. A successful GCC could transform a perennially troublesome region into a 21st century diplomatic and economic triumph. It would also show the international community that the United States has not lost the ability and will to innovate and lead in global affairs.

The building blocks for a Greater Caribbean Community have been put in place by both Republican and Democratic administrations. In truth, many of these major initiatives were driven in large measure by leaders in the developing economies, even as U.S. policy makers were often given credit.[4] Since the Alliance for Progress in the 1960s, a series of foreign assistance programs, financed primarily by the United States and the Inter-American Development Bank, and to a lesser degree the World Bank, along with a series of trade agreements, have sought to address the region's social and economic problems.

[2] The White House, "Fact Sheet: The American Jobs Plan," Statements and Releases, March 31, 2021, https://www.whitehouse.gov/briefing-room/statements-releases/2021/03/31/fact-sheet-the-american-jobs-plan/?emci=163c19b5-b693-eb11-85aa-0050f237abef&emdi=b44d48f3-cf93-eb11-85aa-0050f237abef&ceid=13827.

[3] In defining the Greater Caribbean Basin, we will follow the Association of Caribbean States (ASC) whose 25 member states include: Antigua & Barbuda, The Bahamas, Barbados, Belize, Colombia, Costa Rica, Cuba, Dominica, Dominican Republic, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Mexico, Jamaica, Nicaragua, Panama, St. Kitts & Nevis, St. Lucia, St. Vincent & the Grenadines, Suriname, Trinidad & Tobago and Venezuela. Its associate members are Aruba, Curacao, (France on behalf of French Guiana, Saint Barthelemy and Saint Martin), Guadeloupe, Martinique, Saint Maarten, (The Netherlands on behalf of Bonaire, Saba, and Saint Eustatius), Turks and Caicos. Association of Caribbean States, "About the ACS," http://www.acs-aec.org/index.php?q=about-the-acs.

[4] Tom Long, *Latin America Confronts the United States: Asymmetry and Influence* (Cambridge: Cambridge University Press, 2015).

In the 1980s, through the Caribbean Basin Initiative (CBI) the United States extended duty-free entry to most Caribbean island exports (updated in 2020 as the Caribbean Basin Trade Partnership Act [CBTPA]). Negotiated in the 1990s, the North American Free Trade Agreement (NAFTA), and now its updated version, the United States-Mexico-Canada Agreement (USMCA), knit together the economies of the United States, Mexico, and Canada.[5] In the 2000s, the Dominican Republic-Central America Free Trade Agreement (CAFTA-DR) lowered trade barriers among the seven signatory nations.

These trade accords had two major goals. Geopolitically, the cooperating governments sought to bind their societies together behind a shared vision of cooperative, mutually advantageous relations, as opposed to paradigms of antagonistic nationalism, divisive barriers to the movement of goods and peoples, and coercive diplomacy built on threats, sanctions and, occasionally, force. Economically, the free trade accords intended to overcome a major disadvantage facing small nations: the small size of domestic markets, which circumscribe investment opportunities and deny increasing returns to scale that make firms more competitive. Generally, successful smaller economies (for example, Nordic countries, New Zealand, Israel, Singapore, Slovenia, Estonia, Costa Rica, Chile, and Uruguay) have opened to the outside world.[6]

"A GCC, enriched by new forms of economic integration, would be a productive counterpunch to recent Chinese encroachments in the region."

A GCC, enriched by new forms of economic integration, would be a productive counterpunch to recent Chinese encroachments in the region. Biden's "Building Back Better" calls for "reshoring" production facilities for re-industrializing America. The administration also wants to fortify industry supply chains, making them more secure and resilient to sudden shocks, such as political instability and pandemics. A complementary and more realistic approach to reshoring, which is also envisioned in the Executive Order on America's Supply Chains (February 24, 2021), would be to encourage supply chains to locate facilities in the nearby Greater Caribbean Basin, where costs are more competitive, where friendly governments could be encouraged to create an attractive business ecosystem, and where

[5] Andrew Selee, *Vanishing Frontiers: The Forces Driving Mexico and the United States Together* (New York: Public Affairs, 2018).
[6] William Easterly, "Small States, Small Problems? Income, Growth, and Volatility in Small States," *World Development*, Vol. 28, No. 11, February 2000, 2013-27; Jeffrey Frankel, "What Small Countries Can Teach the World," *Business Economics*, Vol. 47, No. 2, April 2012, 97-103; Alberto Alesina and Enrico Spolaore, *The Size of Nations* (Cambridge: MIT Press, 2003); and Ulf Hannerz and Andres Gingrich, *Small Countries: Structures and Sensibilities* (Philadelphia, PA: University of Pennsylvania Press, 2017).

supply chains can be secure.[7] Supporting the region to take advantage of the reconfiguration of supply chains would advance U.S. national security interests while enhancing the development of our near abroad.

Table 1. Greater Caribbean Basin Social Indicators

Country	Population (2019)	GDP (USD billions, 2019)	GDP growth, 2010-19	Per capita GNI (USD, 2019)	HDI (2019)	Homicide rate, per 100,000 (2018)
Barbados	287,025	5.21	2.0%	17,380	0.814	9.8
Belize	390,353	1.88	17.6%	4,480	0.716	37.8
Colombia	50,339,443	323.62	37.7%	6,510	0.767	25.3
Costa Rica	5,047,561	61.80	36.1%	11,700	0.810	11.3
Cuba	11,333,483	100.02	20.2%	7,480	0.783	5.0
Dominican Republic	10,738,958	88.94	59.6%	8,080	0.756	10.0
El Salvador	6,453,553	27.02	24.9%	4,000	0.673	52.0
Guatemala	16,604,026	76.71	37.1%	4,610	0.663	22.5
Guyana	782,766	5.17	40.6%	6,630	0.682	14.2
Haiti	11,263,077	14.33	20.2%	1,330	0.510	6.7
Honduras	9,746,117	25.10	37.9%	2,390	0.634	38.9
Jamaica	2,948,279	16.46	8.3%	5,320	0.734	43.9
Mexico	127,575,529	1,268.87	23.8%	9,480	0.779	29.1
Nicaragua	6,545,502	12.52	31.7%	1,890	0.660	7.2
Panama	4,246,439	66.80	71.8%	14,950	0.815	9.4
Trinidad and Tobago	1,394,973	24.27	-4.9%	17,010	0.796	30.6

Sources:

Population, GDP and GNI: UN Population Division, World Population Prospects: 2019 revision; and World Bank national accounts data, available at: https://data.worldbank.org/indicator/SP.POP.TOTL

GDP growth: Author calculations based on World Bank national accounts data, available at: https://data.worldbank.org/indicator/NY.GDP.MKTP.KD

HDI: UN Development Programme, *Human Development Report 2020*, available at: http://hdr.undp.org/sites/default/files/hdr2020.pdf

Homicide rate: UN Office on Drugs and Crime, Victims of intentional homicide, 1990-2018, available at: https://dataunodc.un.org/content/data/homicide/homicide-rate

Section 2. Why the Greater Caribbean Basin Matters

The Greater Caribbean Basin influences the United States in a variety of important ways, both positive and negative, including geopolitical factors, economic exchange, and the movement of peoples. As a global power, the United States seeks nearby nations that are friendly, or at least not antagonistic. Optimally, the near abroad contributes to U.S.

[7] The Executive Order on America's Supply Chains urges "diplomatic, economic, security, trade policy, informational, and other actions that can successfully engage allies and partners to strengthen supply chains jointly or in coordination." The White House, "Executive Order on America's Supply Chains," Press Release, February 24, 2021, https://www.whitehouse.gov/briefing-room/presidential-actions/2021/02/24/executive-order-on-americas-supply-chains/.

power, prestige, and prosperity. Minimally, the region is not a chronic drain on U.S. attention and resources. As a global power, the United States wants to devote its resources to protecting its interests and projecting its power around the world; as former World Bank President Robert Zoellick observed, "U.S. global diplomacy depends on having a healthy and friendly neighborhood."[8] Successive U.S. administrations have paid so much attention to communist Cuba because it violated this vision of a cooperative near abroad. The Johnson administration invaded the Dominican Republic in 1965 to avoid "a second Cuba," just as the Reagan administration invaded Grenada in 1983 to remove a government inspired by rebellious "Black power" politics.[9] In the 1980s, the Reagan administration also strove mightily to rid Central America of antagonistic Marxist movements.

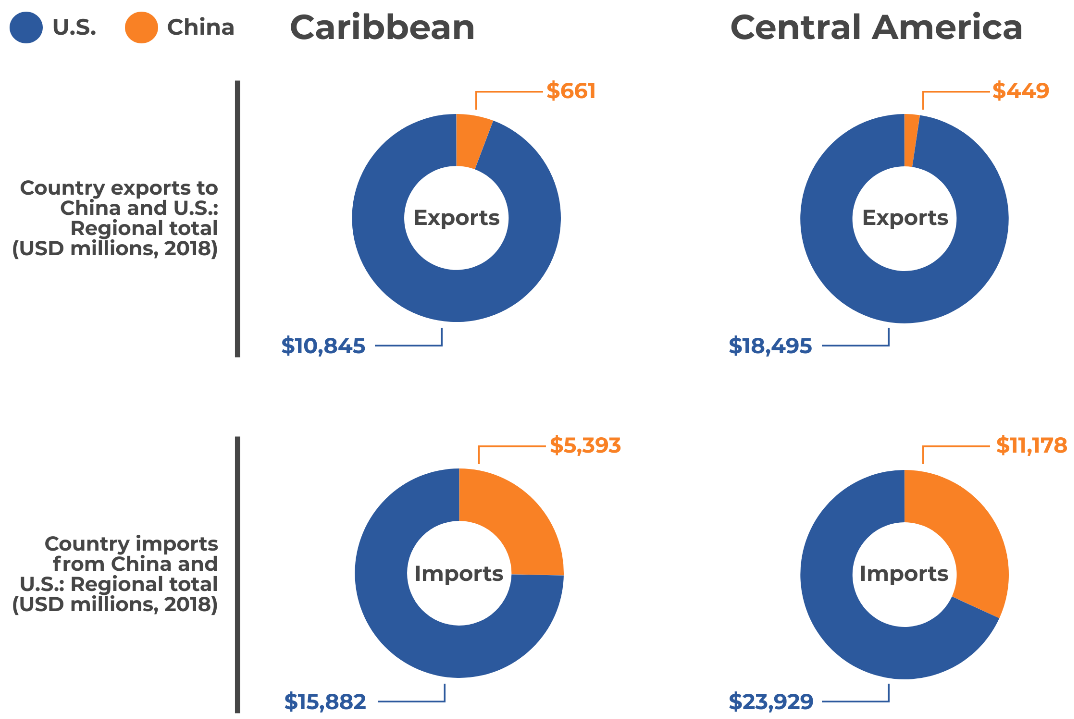
Other powers behave in a similar fashion. Historically, for example, Russia has sought a cordon sanitaire in Eastern Europe and the Black Sea, hence Vladimir Putin's re-acquisition of Crimea and intervention in the Ukraine. The European Union has invested heavily in Eastern Europe and the Balkans. China has long pursued friendly if not subservient, tributary relationships with its Southeast Asian neighbors. In the Western Hemisphere, a primary goal of Brazilian diplomacy is to maintain peaceful relations with its ten neighboring states.

For the United States today, there are two potential geopolitical threats emanating from the Greater Caribbean Basin. Powerful transnational criminal organizations (TNCs) operate with near impunity.[10] Yet, despite various loudly proclaimed strategies, the United States has not devoted the resources and made the policy changes required to vanquish or even seriously mitigate the TNCs; even when individual TNCs have been smashed, startups have rapidly taken their place. That half-hearted approach suggests that the TNCs are not regarded as a challenge to vital U.S. strategic interests, unlike global terrorist organizations.

[8] Robert B. Zoellick, *America in the World: A History of U.S. Diplomacy and Foreign Policy* (New York: Hachette Book Group, 2020), 447.
[9] Russell Crandall, *Gunboat Diplomacy: U.S. Interventions in the Dominican Republic, Grenada, and Panama* (Lanham, MD: Rowman and Littlefield, 2006).
[10] Among the voluminous literature on drug trafficking in the Western Hemisphere, see Russell Crandall, *Drugs and Thugs: The History and Future of America's War on Drugs* (New Haven: Yale University Press, 2020); Peter Andreas, *Killer High: A History of War in Six Drugs* (New York: Oxford University Press, 2020); and R. Evan Ellis, *Transnational Organized Crime in Latin America and the Caribbean: From Evolving Threats and Responses to Integrated, Adaptive Solutions* (Lanham, MD: Lexington Books, 2018). See also Western Hemisphere Drug Policy Commission, *Report of the Congressional Western Hemisphere Drug Policy Commission* (Washington, D.C.: WHDPC, 2020).

The second perceived threat is China.[11] The Chinese presence in the region is still small in comparison to the U.S. presence, even as Beijing has expanded its development finance and trade. U.S. investment and trade linkages in both Central America and the Caribbean are much stronger. Though regional imports from China have increased, for example, many made-in-China goods are produced by U.S. consumer brands (Figures 2 and 3). Still, over time, Chinese economic insertion and associated diplomatic influence could present a more serious challenge to the United States. Whether this growing presence becomes a strategic menace will depend on China's behavior, the intensity of the broader U.S.-Chinese rivalry, and whether the United States finds the means to contribute significantly to the region's progress.

Figure 2. Comparison of U.S. and Chinese Commercial Presence



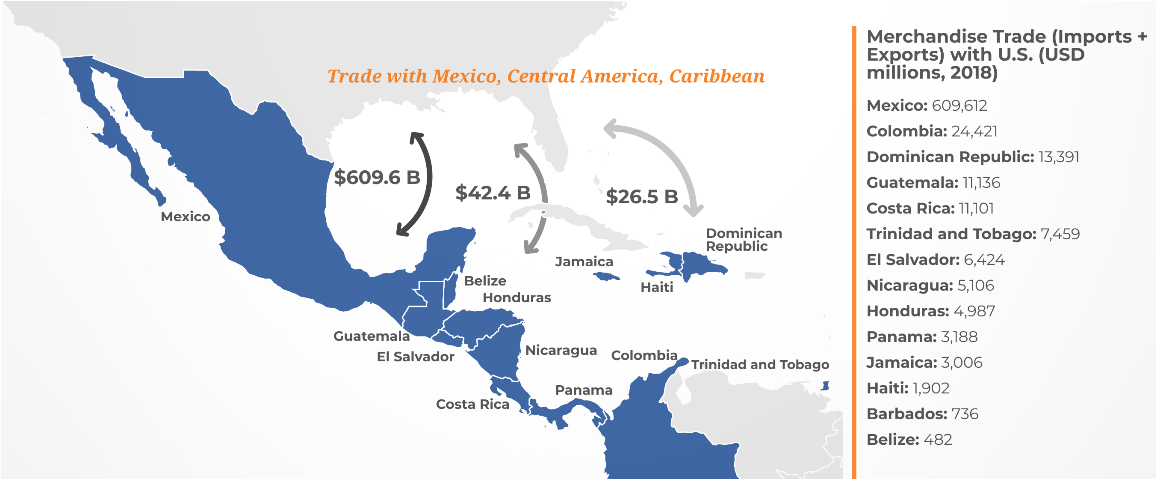
Sources:
Data compiled from UN COMTRADE, available at World Bank, World Integrated Trade Solution, 2018: https://wits.worldbank.org/Default.aspx?lang=en

Note: Caribbean: Barbados, Cuba, Dominican Republic, Haiti, Jamaica, Trinidad and Tobago; Central America: Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Panama

[11] For two thoughtful recent assessments, see Barbara Stallings, *Dependency in the 21st Century? The Political Economy of China–Latin America Relations* (Cambridge: Cambridge University Press, 2020); and Richard L. Bernal, "China's increasing influence in Central America and the Caribbean," in Robert E. Looney, ed., *Handbook of Caribbean Economies* (London: Routledge, 2021), 193-203.

Among the very top U.S. trading partners, accounting for over $600 billion in annual merchandise exchange, Mexico looms large in U.S. commercial interests; hence, after Israel and Canada, Mexico was the third country with which the United States negotiated a free trade agreement. The cumulative GDP of Central America and the Caribbean islands, despite their cumulative population of 95 million, is only about $640 billion (Table 1). But if those economies could awaken dormant opportunities, expand their middle classes, and grow at five percent per year over the next 30 years, their GDP would reach $2.8 trillion. Taken together, the region would become a valuable driver of U.S. prosperity.

Figure 3. Greater Caribbean Basin: U.S. Bilateral Trade



Sources:
Data compiled from UN COMTRADE, available at World Bank, World Integrated Trade Solution, 2018: https://wits.worldbank.org/Default.aspx?lang=en

The United States has long been a powerful draw for citizens from the Caribbean and Central America seeking jobs, higher living standards, safety, and, in some cases, political freedoms. For many countries, diaspora communities in the United States are enormous. Among the Caribbean islands, the 1.2 million individuals of Jamaican ancestry living in the United States, including Vice President Kamala Harris, are equal to 40 percent of the island's population; for Barbados, it is 68,000, or 24 percent; for Cuba, 2.4 million, or 21 percent; for the Dominican Republic, 2.1 million, or nearly 20 percent (Figure 4A). In Central America, the 2.3 million Salvadorans are equivalent to 36 percent of that crowded nation's population. The 37.2 million Mexicans in the United States are equivalent to 29 percent of Mexico's population.

Figure 4A. Individuals in the United States Claiming Origin or Ancestry, as Percentage of Country Population

Sources:
Author calculations based on data compiled from UN Population Division, World Population Prospects: 2019 revision, available at World Bank Data: https://data.worldbank.org/indicator/SP.POP.TOTL; and U.S. Census Bureau, ACS 2019, available at: https://data.census.gov/cedsci/table?q=Hispanic%20or%20Latino&tid=ACSDT1Y2019.B03001&hidePreview=false

Figure 4B. Remittances from the United States, as Percentage of Exports

Sources:
Data compiled from UN COMTRADE, available at World Bank, World Integrated Trade Solution, 2018: https://wits.worldbank.org/Default.aspx?lang=en; and Global Knowledge Partnership on Migration and Development, "Bilateral Remittance Matrix," 2018, available at: https://www.worldbank.org/en/topic/labormarkets/brief/migration-and-remittances

For the Caribbean islands, emigration is a popular option, even in the more successful states like Barbados; as former members of the British Empire and now the Commonwealth, the English-speaking Caribbean has a long history of migration to the United Kingdom and Canada, as well as to the United States. In Central America, political conflict, poverty, natural disasters, and insecurity are key drivers.

The valuable contributions to U.S. society of these immigrant populations are too numerous to do justice to here. As workers and consumers, as entrepreneurs and artists, as politicians, intellectuals, and scientists, these immigrants have enriched their chosen homeland in myriad ways.[12] As a recent illustration, the Biden administration is brimming with immigrants and their descendants, beginning with the vice president, whose father, Donald Harris, a professor emeritus of development economics at Stanford University, hails from Jamaica.

Many immigrants send portions of their income to their families back home. For some nations, these remittances have become a vital source of foreign exchange earnings. In 2018 alone, Mexicans sent $35 billion to their families and villages back home (Figure 4B). For many Caribbean Basin countries, these remittances account for a significant percentage of foreign exchange earnings. Annual remittances by Jamaicans living in the United States exceed by a significant margin the nation's merchandise export earnings. For El Salvador, remittances total 82 percent of merchandise export earnings; for Guatemala, 77 percent; and for the Dominican Republic, 57 percent.

To be sure, large-scale out-migration has high costs to sending countries. The brain drain deprives nations of their better-educated youth. In some cases, emigration reduces pressure for badly needed reforms. When economies grow and governments become more stable, emigration flows predictably decline.

"The destinies of the United States, Central America, and the rest of the Greater Caribbean Basin are already inextricably intertwined."

For these compelling reasons, the destinies of the United States, Central America, and the rest of the Greater Caribbean Basin are already inextricably intertwined. For many commercial enterprises and migrant families, these linkages are a daily reality. For governments in the region, the United States is the overwhelming security and diplomatic fact of life. For the United States government, the region has warranted intermittent attention, intense at times of local crises or bursts of migration, less so at times of apparent stability.[13] The Biden team has pledged to pay attention; this paper will suggest policies that reflect these shared interests and opportunities.

[12] For a stirring account, see A. K. Sandoval-Strausz, *Barrio America: How Latino Immigrants Saved the American City* (New York: Basic Books, 2019); for an individual journey, see Wyclef Jean, *Purpose: An Immigrant's Story* (New York: It Books, 2012); on the enduring contributions of Hispanic peoples to American life, see Carrie Gibson, *El Norte: The Epic and Forgotten Story of Hispanic North America* (New York: Grove Atlantic, 2019).

[13] For recent reviews, see Daniel Runde et al., "An Alliance for Prosperity 2.0," Center for Strategic and International Studies, Washington, D.C., 2021; and George Fauriol, "The Caribbean Potential: Reimagining

Section 3. Regional Stresses

With their proximity to a dynamic economy of 330 million people, why aren't the economies of the Greater Caribbean Basin more prosperous? Answers to this puzzle fall into several boxes: the disadvantages of small size, limited natural resources, and agricultural monocultures shaped by past imperial trading preferences; ill-conceived public policies; and poor governance, including high levels of corruption.

As mentioned earlier, the answer to smallness is openness. The answers to limited resources are various: niche specialties, which can be as varied as shipping, high-end tourism, cultural industries, or quality branded products, such as New Zealand's spring lamb or Swiss watches; importing scarce inputs including capital, management skills, and technology; and integration into large, dynamic global supply chains. Some of the GCC economies have successfully adopted these approaches: Costa Rica in sustainable tourism, Panama in financial services (albeit with inadequate transparency), Cuba and Jamaica in cultural industries, and the Dominican Republic and Costa Rica in the assembly of medical devices.

Economic analyses of the region have tended to converge around several key problems: insufficient savings and investment rates and hence slow growth; failing educational systems; high-cost, dirty energy grids; inadequate transportation and infrastructure including digital connectivity; recurrent natural disasters; extreme social inequalities and personal insecurity; and chronic political divisiveness resulting in gyrations in economic policies.[14] There are ready technical solutions to many of these problems; however, political will and institutional capabilities are too often absent.

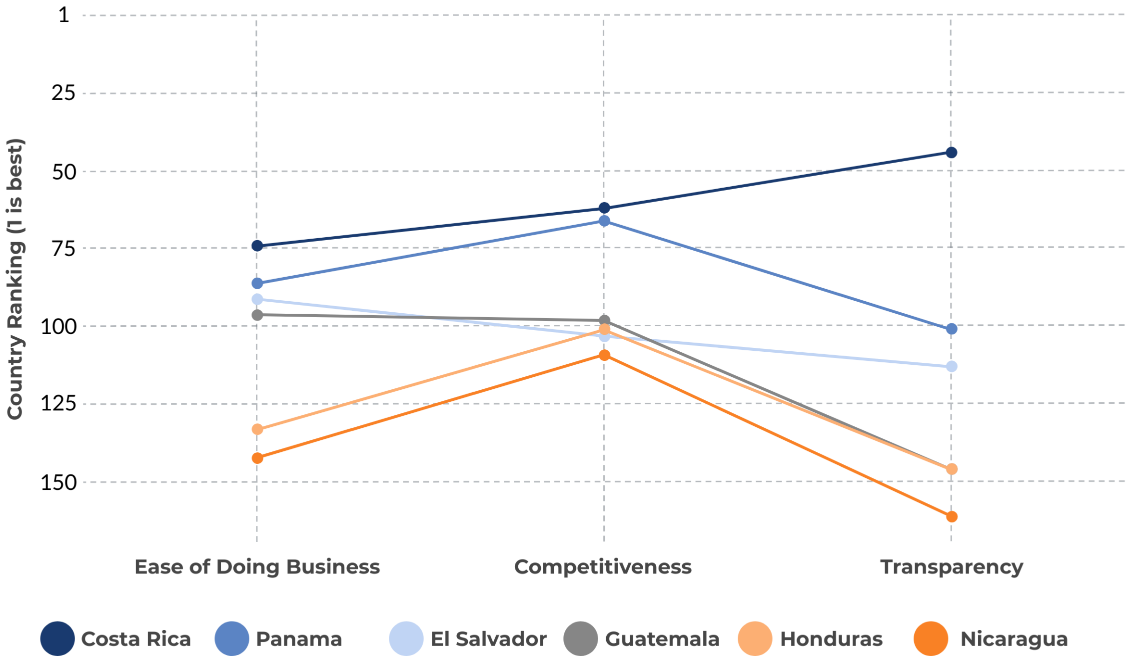
"Weak, corrupt public-sector institutions are without doubt squandering fiscal resources and discouraging private investors."

the Region's Policy Frameworks," Kimberly Green Latin American and Caribbean Center, Florida International University, Miami, 2020.

[14] For example, see Michael Shifter and Bruno Binetti (eds.), *Unfulfilled Promises: Latin America Today* (Washington, D.C.: Inter-American Dialogue, 2019); Nancy Birdsall et al., *Fair Growth: Economic Policies for Latin America's Poor and Middle Income Majority* (Washington, D.C.: Center for Global Development, 2007); Diego Sánchez-Ancochea, *The Costs of Inequality in Latin America: Lessons and Warnings for the Rest of the World* (London: Bloomsbury Publishing, 2021); Renos Vakis, Jamele Rigolini, and Leonardo Lucchetti, *Left Behind: Chronic Poverty in Latin America and the Caribbean* (Washington, D.C.: The World Bank, 2016); Guillermo Beylis et al. (eds.), *Going Viral: COVID-19 and the Accelerated Transformation of Jobs in Latin America and the Caribbean* (Washington, D.C.: The World Bank, 2020); and Robert E. Looney (ed.), *Handbook of Caribbean Economies* (London: Routledge, 2021).

In many countries of the region, weak, corrupt public-sector institutions are without doubt squandering fiscal resources and discouraging private investors; the Northern Triangle and Haiti rank poorly on such indicators as transparency, corruption, and business competitiveness, even as Costa Rica and Barbados set higher performance standards (Figures 5A, 5B).[15] With one foot in Miami or Houston, discouraged elites evade taxes and abandon public education and healthcare services.[16] The international community struggles to alter such dysfunctional local political cultures.[17]

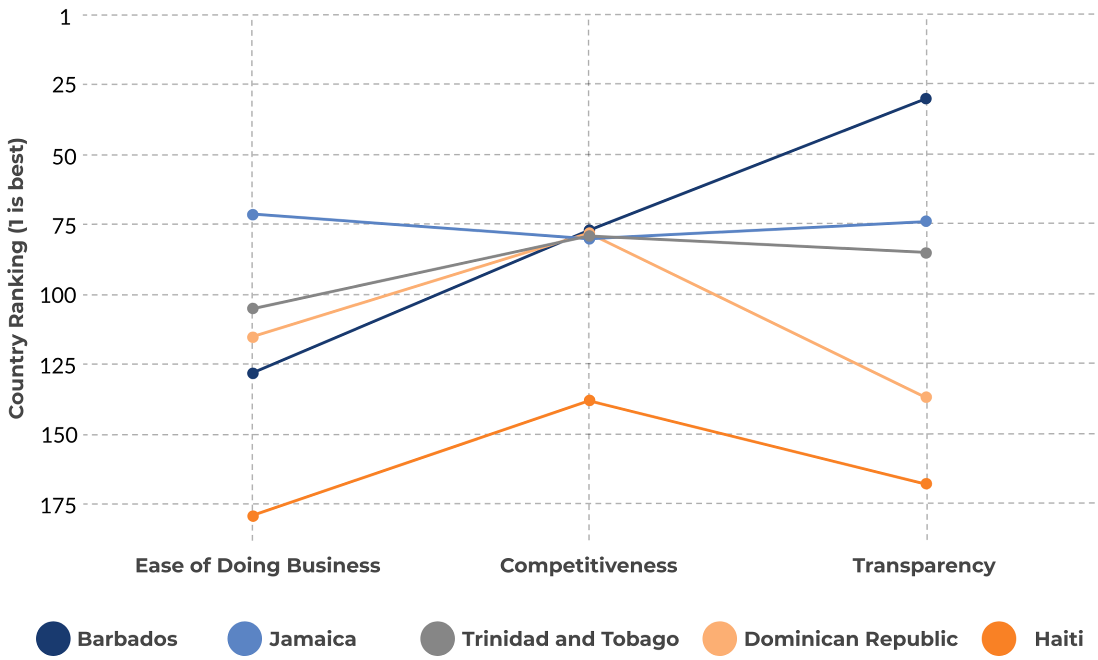
Figure 5A. Governance Dysfunctions, Central America



Sources:
World Bank, "Ease of Doing Business rankings," 2019, available at: https://www.doingbusiness.org/en/rankings?region=latin-america-and-caribbean; World Economic Forum, "Global Competitiveness Report," 2019, available at: http://www3.weforum.org/docs/WEF_TheGlobalCompetitivenessReport2019.pdf; and Transparency International, "Corruption Perceptions Index," 2019, available at: https://www.transparency.org/en/cpi/2019/index/nzl

[15] Eric L. Olson, Ricardo Zúñiga, et al., (eds.), *U.S. Foreign Aid to the Northern Triangle 2014-2019: Promoting Success by Learning from the Past* (Washington, D.C.: Latin American Program, Woodrow Wilson Center, 2020); and Dominique Desruelle and Alfred Schipke (eds.), *Economic Growth and Integration in Central America* (Washington, D.C.: International Monetary Fund, 2007).
[16] Aaron Schneider, *State-Building and Tax Regimes in Central America* (Cambridge: Cambridge University Press, 2012).
[17] Among many analyses of such "dysfunctional" behaviors, especially official corruption, see Mavrick Boejoekoe et al. (eds.), *Good Governance in the Caribbean: Obstacles and Opportunities*, (e-book) Global Americans, 2021, https://theglobalamericans.org/wp-content/uploads/2021/02/Good-Governance-in-the-Caribbean-Obstacles-and-Opportunities.pdf.

Figure 5B. Governance Dysfunctions, Caribbean



Sources:
World Bank, "Ease of Doing Business rankings," 2019, available at: https://www.doingbusiness.org/en/rankings?region=latin-america-and-caribbean; World Economic Forum, "Global Competitiveness Report," 2019, available at: http://www3.weforum.org/docs/WEF_TheGlobalCompetitivenessReport2019.pdf; and Transparency International, "Corruption Perceptions Index," 2019, available at: https://www.transparency.org/en/cpi/2019/index/nzl

Despite the wide gap in per capita income levels, the economic and social agendas facing the Greater Caribbean Basin and the United States overlap in essential respects, confronting many of the same pressures from rapid globalization and technological progress. This convergence of challenges opens opportunities for policy collaboration.

Already, the Biden administration has proposed cross-border collaboration in its "Clean Energy Export and Climate Investment Initiative." [18] Across the region, the environmental sustainability of energy grids varies greatly, from relatively green Costa Rica and Colombia to much less green Mexico and Puerto Rico (Figure 6). The Biden initiative is intended to provide low-cost financing, with an initial focus on the small island states in the Caribbean and the Pacific:

[18] "The Biden Plan for a Clean Energy Revolution and Environmental Justice," 2020, https://joebiden.com/climate-plan/. For commentary, see Lisa Viscidi, "Let's Work With Latin America to Fight Climate Change," *The New York Times*, January 11, 2021, https://www.nytimes.com/2021/01/11/opinion/biden-climate-change-latin-america.html. On the Caribbean Energy Security Initiative (CESI) of the Obama administration, see "Promoting Energy Security in the Caribbean," Press Release, June 2014, https://obamawhitehouse.archives.gov/the-press-office/2014/06/19/fact-sheet-promoting-energy-security-caribbean.

> "Investments in clean energy and resilient and sustainable infrastructure will drive an innovation boom that helps us achieve the vision of a hemisphere that is secure, middle class, and democratic from Canada to Chile. Biden will work with countries throughout our region to develop a comprehensive strategy… that will include a framework to limit greenhouse gas emissions… (set) common standards for the greening of manufacturing, mining, and tourism… (and) a more integrated energy grid from Mexico through Central America and Colombia supplied by increasingly clean energy… (with) a special focus on the Caribbean and the Northern Triangle of Central America to promote transitions to clean energy as well as climate change adaptation, and resilience."

In one of his first Executive Orders, Biden placed climate change and energy policies at the center of his foreign policy:

> "It is the policy of my administration that climate considerations shall be an essential element of United States foreign policy and national security. The United States will work with other countries and partners, both bilaterally and multilaterally, to put the world on a sustainable climate pathway…. The United States will also immediately begin to develop a climate finance plan, making strategic use of multilateral and bilateral channels and institutions, to assist developing countries."[19]

In this spirit of internationalizing the agenda for a more sustainable and productive U.S. economy, the Biden administration could include our "near abroad" in other "Building Back Better" initiatives, for example in infrastructure development, deepening digitalization, education and workforce training, and constructing business parks feeding U.S.-led global supply chains.

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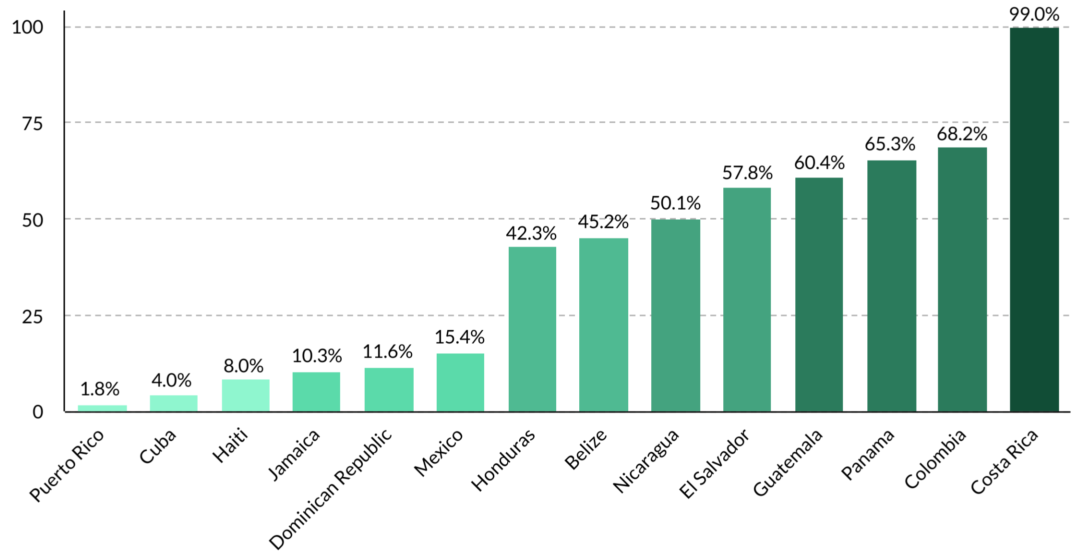
[19] Executive Order 14008, "Tackling the Climate Crisis at Home and Abroad," January 27, 2021, https://www.govinfo.gov/content/pkg/FR-2021-02-01/pdf/2021-02177.pdf.

Figure 6. Renewable Energy Performance, by Country



Sources:
International Energy Agency, Renewable electricity output, 2018, available at World Bank Data: https://data.worldbank.org/indicator/EG.ELC.RNEW.ZS?view=chart

Section 4. Nearshoring Regional Supply Chains

Even before the disruptions of the COVID-19 pandemic, many firms had been relocating supply chains from China, not to the United States but to Southeast Asia, especially Vietnam. Industrial wages had been rising in China relative to competing labor-abundant locations.[20] Moreover, some international firms had found that distance was more costly than anticipated: It was harder to monitor facilities, more difficult to build trustworthy relations with suppliers, more exhausting for executives to fly across so many time zones. Rising commercial tensions between Beijing and Washington, and U.S. tariffs against imports from China, were also driving relocation decisions as firms sought to diversify risk.[21]

[20] The Economist Intelligence Unit, "Will Latin America take advantage of supply chain shifts?" August 2020, https://www.eiu.com/n/campaigns/will-latin-america-take-advantage-of-supply-chain-shifts/; and McKinsey Global Institute, "Globalization in Transition: the Future of Trade and Value Chains," January 2019, https://www.mckinsey.com/featured-insights/innovation-and-growth/globalization-in-transition-the-future-of-trade-and-value-chains.
[21] U.S. Chamber of Commerce, "Understanding U.S.-China Decoupling: Macro Trends and Industry Impacts" (Washington, D.C.: U.S. Chamber of Commerce, 2021), especially "Appendix 1: Overview of U.S. Decoupling Policy Toolbox," https://www.uschamber.com/sites/default/files/024001_us_china_decoupling_report_fin.pdf.

The COVID-19 pandemic surfaced another criticism of global supply chains: their fragility in the face of sudden disruptions. Government export restrictions, as well as natural disasters, could interrupt complex supply chains extending across thousands of miles and hundreds of production units. Another vulnerability: in their single-minded pursuit of cost optimization, global value chains minimize inventories to control storage costs and avoid waste.[22] Consequently, they handicap their ability to react quickly to sudden surges in demand, for example for medical personal protective equipment.

Biden's "Build Back Better" calls for "reshoring" production facilities to re-industrialize America. However, as the Trump administration discovered, such reshoring is unlikely to occur on a large scale: The gaps are just too wide between production costs in the United States and alternative overseas locations. Even where reshoring does occur, the new factories – highly capital-intensive and loaded with the latest labor-saving technologies – will likely yield few new jobs. For example, Intel Corp announced that a proposed $20 billion investment in two new microchip factories in Arizona would create only 3000 permanent jobs, or an investment of $6.7 million per job.[23]

Rather than concentrating production facilities in one country (e.g., the United States), a better strategy to protect against supply disruptions is redundancy: to diversify sources among multiple suppliers and locations. Further, stockpiling as a form of insurance, whether by private or public entities, is the more efficient strategy both against sudden supply interruptions and demand surges. The Greater Caribbean Basin countries, many of which already participate in global value chains, are perfectly located solutions to these multiple challenges. Further, proximity can facilitate rapid retrofitting of factories to churn out urgently needed products; early in the COVID-19 pandemic, for example, HanesBrands converted clothing factories in Central America to manufacture U.S. Food and Drug Administration-approved medical masks.[24]

"A better strategy to protect against supply disruptions is redundancy: to diversify sources among multiple suppliers and locations."

[22] In this essay, I use the terms supply chains and value chains interchangeably. The more academic "value chains" emphasizes the value added at each link of the supply chain.
[23] Stephen Nellis,"Intel to spend $20 billion on U.S. chip plants as CEO challenges Asia dominance," Reuters, March 23, 2021. https://www.reuters.com/article/us-intel-manufacturing/intel-to-spend-20-billion-on-u-s-chip-plants-as-ceo-challenges-asia-dominance-idUSKBN2BF2WU
[24] "HanesBrands Inc. to make medical masks to help fight coronavirus in US," WXII12, March 23, 2020, https://www.wxii12.com/article/hanesbrands-inc-medical-masks-coronavirus-us/31895062.

Another recent technological innovation favors nearshoring: the e-commerce "Amazon Effect," powered by advanced information technologies and big data, which demands ultra-rapid, just-in-time deliveries. Only a few hours flight time from U.S. distribution hubs, the GCC countries offer a decisive geographic competitive edge that no distant Asian location can match. To fully capitalize on proximity, GCC governments must make sure that their logistics and customs procedures meet world-class standards.

Finally, GCC locations offer yet another potential advantage: more trustworthy security against criminal theft, cyberwarfare and hacking, and terrorist violence.[25] U.S. authorities can more easily implement high security standards and regularly certify their effectiveness in nearby countries where they have ready access to local authorities and production facilities. Similarly, oversight entities – U.S. government agencies and sourcing firms, labor unions, and international and local NGOs – can more easily monitor labor and environmental practices.

GCC Free Trade Zones

GCC countries have a rich history in participating in global value chains. Before NAFTA, U.S. firms were already operating production facilities, commonly labeled "maquilas," just across the border. Even before DR-CAFTA (2005), Central America had become a favorite location for sourcing apparel; a primary motivation of that regional trade accord was to further encourage foreign investment in such supply chains.

Many of these factories are clustered in free trade zones, sometimes referred to as enterprise zones, special economic zones, or export processing zones (Box 1). Through legislation, countries offer multiple incentives to participating firms, including duty-free trade, exemptions from corporate and sales taxes, specialized and streamlined regulatory oversight, and modern infrastructure.

In Central America today, over 500,000 workers are employed in free trade zones (Figure 7). In the Caribbean, free trade zones in the Dominican Republic employ nearly 172,000 workers and another 21,000 in neighboring Haiti. Barbados and Jamaica also host specialized firms participating in global value chains, notably in call centers and back-office services. Mexico eschews the free trade zone label but offers similar incentives to manufacturing facilities integrated in global value chains.

[25] For a best practices guide, see APEC, "Supply Chain Security Toolkit for Medical Products," March 17, 2017, https://www.nifds.go.kr/apec/SupplyChain/APEC_SupplyChainToolkit_170317.pdf.

Box 1. Global Supply Chains: Pros and Cons

The dispersal by firms of manufacturing facilities, at first within borders and eventually worldwide, has been one of the great business innovations of our times.[26] Firms spread their facilities in search of abundant natural resources, lower costs of production, a comprehensive ecosystem of suppliers, reliable and competitive logistics, and low and diversified political risk. Global supply or value chains have dramatically increased the availability, diversity, affordability, and quality of products. Prices of popular products such as clothing, shoes, toys, and consumer electronics have declined year after year. Contrary to popular notions, global value chains have increased the buying power of wages and raised the living standard of millions of American households.

This globalization of labor has not been without its critics. Some early clothing factories recalled the infamous sweatshops of the early industrial revolution. In response to outrage over reported violations of basic labor standards, many multinational firms began to audit their contract suppliers, often owned by local capitalists or third-party foreign investors from Asia or Europe, and demanded adherence to labor and environmental codes of conduct. Some multinationals offered factories technical assistance to upgrade their standards. Over time, industry associations devised their own codes of conduct and auditing systems. Global codes, such as the benchmark Global Reporting Initiative, became increasingly refined;[27] many multinationals now publish lists of their suppliers and their auditing results in their sustainability reports and websites. In reaching for higher social standards, corporate boards avoid hits to their reputations and to consumer sales and equity valuations. Increasingly, credible social responsibility has also become an essential tool for employee recruitment and retention.

A second criticism of global value chains pits the interests of workers in the industrialized north against those in developing countries. Attracted by lower wages in developing countries, business owners abandoned aging industrial centers for lower-cost locations, hollowing out the U.S. industrial heartland. While not denying these negative outcomes, out-sourcing firms made credible counter-arguments: 1) The high wages of the industrial heartland, set at a unique moment of U.S. global dominance after World War II, were unsustainable in light of stiffening global competition from recovering Asia and Europe; 2) Most manufacturing job losses in the United States were the result of labor-saving technological change; 3) By building more competitive supply chains, firms

[26] The classic text is Michael Porter, *Competitive Advantage: Creating and Sustaining Superior Performance* (New York: The Free Press, 1985). For a more recent treatment, Gary Gereffi and Karina Fernandez-Stark, *Global Value Chains: A Primer, 2nd edition* (Durham: Center on Globalization, Governance and Competitiveness, Duke University, July 2016).
[27] Global Reporting Initiative, "About GRI," 2021, https://www.globalreporting.org/.

actually saved U.S. jobs and created new ones, notably in the higher-paid rungs of management, marketing, and product design. Undeniably, there were winners and losers, and too often, well-intentioned government programs designed to address these inequities were grossly underfunded by a skeptical U.S. Congress.

In earlier times, Central America and the Caribbean concentrated in simple cut-and-sew apparel lines, churning out t-shirts and blue jeans, for example. Honduras and Nicaragua remain at that entry level. Elsewhere, however, production integrated into global value chains has diversified across sectors. For example, in the Dominican Republic, while textiles and apparel employ 41,000 workers, medical device makers and pharmaceutical firms employ nearly 24,000 and electronics nearly 14,000; drawing on the nation's bilingual youth, call centers and other back-office services employ another 54,000 (Box 2). Costa Rica exports $3.3 billion in medical devices and other precision equipment, directly employing 22,500 workers, indirectly another 17,100 (2018).[28]

Box 2. Success Story: Dominican Republic

An unsung success story, the Dominican Republic has sustained GDP growth of over 5 percent per year from 1993 to 2019, despite some volatility and recessions.[29] Exports of goods and services (primarily tourism), including from the free trade zones, exploded in variety and quantity, rising from $4.7 billion in 1993 to $20.2 billion in 2018.[30] Growth was reasonably inclusive: poverty rates declined from 33 percent to 23 percent and extreme poverty diminished from 8 percent to 3 percent (pre-COVID-19).[31] However imperfect, since the mid-1960s the multi-party representative democracy has held over a dozen consecutive, internationally supervised elections, won by diverse political parties. Unusual in the Western Hemisphere, the public and private sectors have learned to work together to the benefit of national economic welfare.

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[28] PROCOMER, "Portal estadístico de comercio exterior," http://sistemas.procomer.go.cr/estadisticas/inicio.aspx; and PROCOMER, "Balance de las zonas francas: Beneficio neto del régimen para Costa Rica," December 2019, 54, https://www.procomer.com/wp-content/uploads/Balance-Zona-Franca-1.pdf.
[29] Banco Central, República Dominicana, "Sector Real-Producto Interno Bruto (PIB) per Cápita, RD$ y US$," updated 2019, https://www.bancentral.gov.do/a/d/2533-sector-real.
[30] Banco Central, República Dominicana, "Sector Externo- Exportaciones, Anual," updated 2019, https://www.bancentral.gov.do/a/d/2532-sector-externo.
[31] Oficina Nacional de Estadística, República Dominicana, "Sociales, Pobreza, asistencia social y condiciones de vida, Pobreza Monetaria," June 6, 2019, https://www.one.gob.do/sociales/pobreza/pobreza-monetaria.

The Dominican Republic's free trade zones consist of 74 parks housing 673 firms, employing 172,000 workers and exporting $6.2 billion or 57 percent of total national merchandise exports (see Figure below). According to some experts, the parks generate almost as much "indirect employment" as direct employment. Production is spread among a diversity of products, including medical devices, textiles and apparel, footwear, tobacco (cigars and cigarillos), electronic products, call centers and business process outsourcing outfits (BPOs), and jewelry. The medical device cluster includes industry leaders such as Medtronic, Johnson and Johnson, General Electric, Cardinal Health, Baxter, Siemens, and Fresenius. In the Dominican Republic, most free trade zone parks are owned and managed by Dominicans.

The FTZs are closely intertwined with the U.S. economy. The U.S. accounts for some 70 percent of FTZ trade (exports and imports).[32] U.S. firms account for 40 percent of the accumulated investments of $5 billion in the FTZs.

Table 2. The Dominican Republic Supply Chains by Sector

Sector	Exports (USD millions)	Employment
Medical Devices and Pharmaceuticals	1,557	23,698
Electronics	1,150	11,480
Textiles and Apparel	1,107	41,370
Tobacco Manufacture	850	29,831
Jewelry	491	2,768
Footwear	352	11,965
Other / Call Centers and Services	724	50,614
Total	**6,230**	**171,726**

Sources:
Banco Central de la República Dominicana, Sector Externo, "Zonas Francas. Exportaciones de Zonas Francas" 2018, available at: https://www.bancentral.gov.do/a/d/2532; and Consejo Nacional de Zonas Francas de Exportación, Informe Estadístico 2018, available at: http://adozona.org/wp-content/uploads/2019/08/Informe-final-CNZFE-2018.pdf

[32] Dirección General de Aduanas, "Exportaciones por país de destino enero 2012-junio 2019, Estadísticas-Series de Tiempo," updated 2019, https://www.aduanas.gob.do/estadisticas/series-de-tiempo/.

Within host countries, a common criticism of free trade zones is that they promote two-tiered economies: an efficient, competitive internationalized economy within the zones while neglecting the domestically-oriented economy (For other common criticisms see Box 2). The solutions: in the first instance, for governments to encourage domestic firms, often small and medium-scale enterprises (SMEs), to produce inputs for the free trade zone firms, to join the global value chains; and over time, for governments to diffuse efficiency-generating free trade zone practices and regulations (but not necessarily all the fiscal incentives) horizontally throughout the national territory.

Figure 7. Free Trade Zones: Employment and Exports

Sources:
Data compiled from AZFA, "Book estadístico de las Zonas Francas de Iberoamérica," 2020, available at: https://www.asociacionzonasfrancas.org/media/publications/files/Baja__Book_estad%C3%ADstico_ZF_2020.pdf; and additional data from Asociación Salvadoreña de Industriales, Banco Central de Nicaragua, Banco de Guatemala, CNZFE, DANE Colombia, INEC Panama, PROCOMER

Section 5. Building Back Better: Widening The Aperture[33]

Biden is not the first U.S. president concerned with the security of critical supplies. As war loomed in the Pacific and Europe, President Franklin D. Roosevelt initiated his Good Neighbor Policy to create, in part, the diplomatic conditions in Latin America that would ensure ready supplies of petroleum, iron ore, and other raw materials to fuel his "Arsenal of Democracy." In the 1930s and 1940s, the newly created U.S. Export-Import Bank provided long-term finance to promote U.S. investments and associated infrastructure in Latin America.[34]

In its "Building Back Better" vision, the Biden team has pledged to:

> "Mobilize American manufacturing and innovation to ensure that the future is made in America, and in all of America. We've seen the importance of bringing home critical supply chains so that we aren't dependent on other countries in future crises. But Biden believes we can't stop there — he plans to build a strong industrial base and small-business-led supply chains to retain and create millions of good-paying union jobs in manufacturing and technology across the country."

To create at least 5 million new jobs in manufacturing and innovation, the Biden team has invoked a wide range of policy instruments:

- Investing in new technology hubs;
- Tax credits for firms for retooling:
- $400 billion for government procurement to "Make Buy American Real… to power new demand for American products;"

[33] Early commentaries on the Biden administration and global supply chains include: Atlantic Council, "The Biden-Harris Administration and the future of supply chains in the Americas," December 2020, https://www.atlanticcouncil.org/in-depth-research-reports/report/spotlight-the-biden-harris-administration-and-the-future-of-supply-chains-in-the-americas/; and "Is a wave of supply-chain reshoring around the corner?" *The Economist*, December 16, 2020, https://www.economist.com/finance-and-economics/2020/12/16/is-a-wave-of-supply-chain-reshoring-around-the-corner?utm_campaign=the-economist-today&utm_medium=newsletter&utm_source=salesforce-marketing-cloud&utm_term=2020-12-29&utm_content=article-link-3&etear=nl_today_3.

[34] Richard E. Feinberg, *Subsidizing Success: The Export-Import Bank in the U.S. Economy* (Cambridge: Cambridge University Press, 1982), 12-19.

- For government procurement, tighten domestic content rules (the percent of value added that must be domestic), as the 51 percent requirement may be insufficient, and waivers are granted too readily;[35]
- New incentives for companies to make critical products in the United States;
- Long-term government supply contracts, at cost-plus pricing, for essential products, such as N95 face masks and other medical devices;
- Credit facilities for smaller manufacturers, to modernize and reduce carbon emissions;
- Financing for infrastructure for education institutions, including to build new research labs and creating new business parks; and,
- Investing in education
    - $50 billion in high-quality training programs
    - Creating community college-business-union partnerships to develop effective training programs
    - Providing free tuition for four-year degrees for families earning less than $125,000.

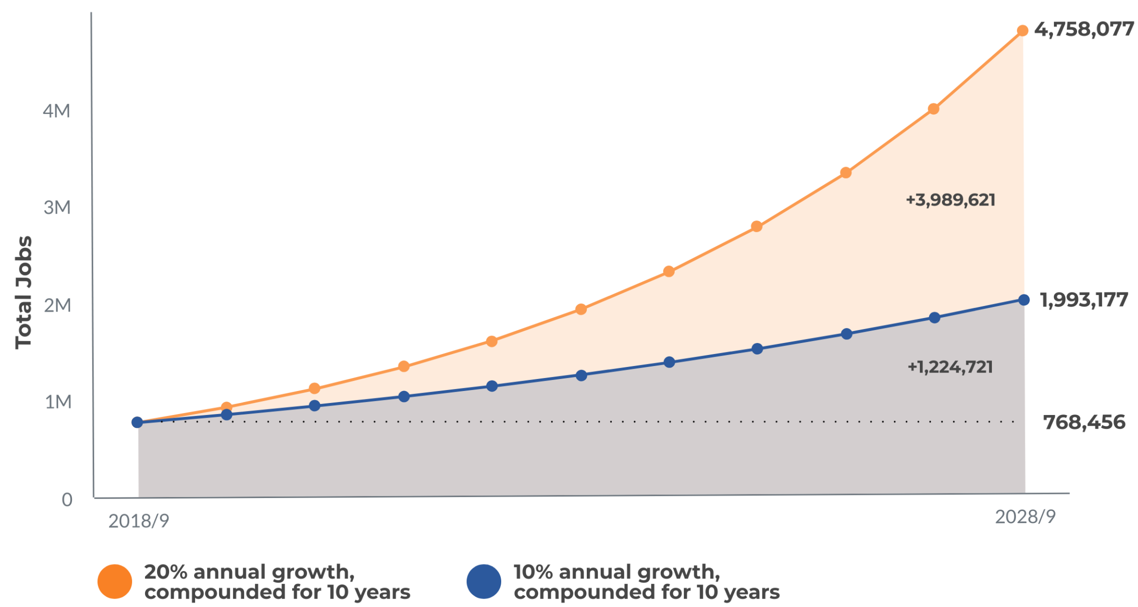
> ***"Endowing such major policy initiatives with a regional dimension could be game changers in U.S. approaches toward the Greater Caribbean Basin."***

Such industrial policy measures could be powerful tools, if adequately funded and systematically executed. Many of these and other programs are incorporated into the administration's "The American Jobs Plan."[36] If a backdoor version of economic protectionism, they could produce distortions at home, harm other nations, and invite costly retaliation. But if nested within a broader vision of U.S. interests, endowing such major policy initiatives with a regional dimension could be game changers in U.S. approaches toward the Greater Caribbean Basin. If coupled with domestic reforms in the partner nations, they could transform the region's small economies. In coordination with regional development programs, they would create local employment, reduce poverty, and help address the roots of emigration. If employment in globally integrated firms expanded by ten percent per year for ten years in the region, an

[35] The Executive Order "Ensuring the Future is Made in All of America by All of America's Workers," January 25, 2021, called for "an increase in the numerical threshold for domestic content requirements," but without specifying a precise number. The White House, "Executive Order on Ensuring the Future Is Made in All of America by All of America's Workers," Press Release, January 25, 2021, https://www.whitehouse.gov/briefing-room/presidential-actions/2021/01/25/executive-order-on-ensuring-the-future-is-made-in-all-of-america-by-all-of-americas-workers/.
[36] The White House, "Fact Sheet: The American Jobs Plan," Statements and Releases, March 31, 2021, op.cit.

additional 1.2 million jobs would be created; if employment expanded by 20 percent per year, 4 million jobs would be created (Figure 8).

Figure 8. Job Creation in Regional GVC Manufacturing and Services



Sources:
Author calculations based on data compiled from AZFA, "Book estadístico de las Zonas Francas de Iberoamérica," 2020, available at: https://www.asociacionzonasfrancas.org/media/publications/files/Baja__Book_estad%C3%ADstico_ZF_2020.pdf; and additional data from Asociación Salvadoreña de Industriales, Banco Central de Nicaragua, CNZFE, PROCOMER

Note: Calculations include Belize, Colombia, Costa Rica, Cuba, Dominican Republic, El Salvador, Guatemala, Haiti, Honduras, Nicaragua, Panama

Section 6. A GCC Compact To Launch Technology Hubs

Of special relevance to the GCC, the Biden plans call for investing in new technology hubs. The more advanced free trade zones in GCC countries, such as in the Dominican Republic and Costa Rica, already house manufacturing facilities in such high-tech sectors as electronics and medical devices (Box 2). The administration's "The American Jobs Plan" proposes an investment of $20 billion in at least 10 regional innovation hubs that "will leverage private investment to fuel technology development, link urban and rural economies…." The Plan allocates an additional $50 billion to strengthen supply chains for critical goods. The Plan also proposes "innovation hubs to support the growth of entrepreneurship in communities of color and underserviced communities."[37]

Imagine if the United States were to join GCC neighbors in locating technology hubs in the GCC region. These hubs would attract badly needed foreign and domestic investments into both higher tech ventures as well as more traditional assembly "maquilas." The hubs could build upon existing free trade zones or build profitable greenfield endeavors. For each hub, U.S. government credit agencies, including the Export-Import Bank and the new Development Finance Corporation, working in partnership with multilateral development banks and private investors, could assemble $1 billion in initial infrastructure funds per hub. U.S. firms investing and sourcing in these GCC technology hubs would be eligible for incentives under the "Building Back Better – Made in America" and "The America's Job Plan" umbrellas. This blurring of the line between domestic and international locations would be fitting in an age of global value chains.

Goals for such a regional network of technology hubs would include building resiliency, redundancy, and rapid supply responses into U.S.-centric supply chains. The multiple locations would provide extra insurance against disruptions due to natural disasters, political instability, or other black swan events. Long-term supply contracts, as contemplated in "Building Back Better," would attract investors and guarantee product availability. U.S. Customs and Border Protection could build customs enforcement procedures into the hubs to facilitate smooth access to the U.S. market. Such nearshore value chains would be more cost efficient than full on-shoring, and hence more commercially viable and less reliant upon hefty federal subsidies. These nearshoring value chains would also, on average, incorporate more value added in the United States, and create more U.S. jobs, than would value chains located in more distant locations. A win-win-win proposition: more U.S. jobs, lower fiscal burdens for the U.S. taxpayer, and more jobs in the "near abroad" developing nations.

"Nearshore value chains would be more cost efficient than full on-shoring, and hence more commercially viable and less reliant upon hefty federal subsidies."

Ownership of these technology hubs could take various forms. As they already do for industrial parks, host governments could create oversight agencies that establish and administer novel regulatory regimes. These agencies could exercise direct ownership, allow for public-private partnerships, or license to purely private investors. They would

[37] The White House, "Fact Sheet: The American Jobs Plan," Ibid.

work alongside national investment promotion agencies and marketing offices. As providers of capital and technical advice, U.S. government agencies and investors could participate in initial rule setting and advisory committees but would not maintain ownership shares.

Host countries would commit, in formal bilateral accords or even better in a region-wide compact with the United States, to create comprehensive ecosystems for economically efficient and socially equitable production. In many countries, regulations governing free trade zones already provide the groundwork. U.S. agencies and private investors would work with multilateral development agencies and local partners, public and private, to fill in remaining gaps in infrastructure, trade facilitation, and labor market education and management training. Specifically, Biden's domestic educational programs could expand to catalyze partnerships between U.S. and regional educational institutions. High-quality labor and environmental regulations, and tight security measures, would also be guaranteed.[38] Upgrading local judicial systems and commercial dispute settlement mechanisms would enhance competitiveness. Commitments to high-profile fights against corruption would be critical to enhancing the legitimacy and efficiency of democratic regimes, as well as to persuading U.S. citizens that their tax dollars were being well spent.[39]

The design of governing principles for the Greater Caribbean Community network of technology hubs would be led by the White House's National Economic Council in coordination with the National Security Council, with inputs from the departments of Commerce, Treasury, State, Homeland Security, including Customs and Border Protection, as well as the U.S. Trade Representative. The Office of Management and Budget, which is to house a new Made in America Office, would also participate. A coordinating committee would include other stakeholders, including the engaged national governments and private sector associations, labor union leaders, and civil society experts. Well-established sub-regional organizations, including the Caribbean

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[38] The Biden campaign advocated similar measures for Central America. See "The Biden Plan to Build Security and Prosperity in Partnership With the People of Central America," 2020, https://joebiden.com/centralamerica/. "A Biden administration will harness private sector investment to promote economic stability and job creation in Central America by:

- Working with multilateral development banks, such as the World Bank and the Inter-American Development Bank (IDB), to develop infrastructure and promote foreign investment by engaging with the private sector in a cost-effective and competitive manner. The United States should…ensure that these institutions focus on Central America as a priority.
- Reducing the barriers to private sector investment by prioritizing strengthening the rule of law with increased judicial capacity and improving the competitiveness of the Northern Triangle market by modernizing and standardizing customs procedures."

[39] On highlighting anti-corruption in US foreign policy, see Samantha Power, "The Can-Do Power: America's Advantage and Biden's Chance," *Foreign Affairs*, January/February, 2021, https://www.foreignaffairs.com/articles/united-states/2020-11-20/samantha-power-can-do-power.

Community (CARICOM), the Organization of Eastern Caribbean States, the Secretariat for Central American Integration, and the Central American Integration System, should have voices at the table. The energies, resources, and political clout of the region's large diasporas (Figure 4A), which have thrived in their chosen homeland, should be engaged.

As a first stage, about half a dozen technology hubs would be designated. In selecting locations, one key goal would be to sop up underemployed local labor to reduce emigration pressures. Other criteria might include competitive infrastructure including port and air facilities, being either already in place or readily erected with adequate external finance and technical assistance, and with the enthusiastic participation of host governments. Appropriate locations might include El Salvador and Honduras or Guatemala in Central America; the border between Haiti and the Dominican Republic, a turbulent zone with high unemployment; a representative of the Anglo-Caribbean, such as Guyana with its newly discovered petroleum reserves or Jamaica, which specializes in call centers, back-office services, and information technology; and Barranquilla, a seaport on the northern Caribbean coast of Colombia (Figure 9). In keeping with Biden's pledge to increase manufacturing "in all of America" and "to ensure geographic dispersal of economic activity across all regions of the United States… in communities of color and economically distressed areas," one hub could be added in a U.S. Gulf state suffering from high unemployment and poverty.[40] This selection would recognize the geographic unity of the GCC region, build on existing commercial networks, and underscore historic and social commonalities (Box 3).

"One key goal would be to sop up underemployed local labor to reduce emigration pressures."

As a later stage, after diplomatic relations between the United States and Nicaragua have normalized, existing free trade zones around Managua could be expanded; and in Cuba, either the existing Mariel development zone, or the U.S. Naval Base in Guantánamo Bay, Cuba, no longer of military value, could be converted to civilian, industrial use. In both Nicaragua and Cuba, the hubs would create economic opportunities for the United States and the host countries to cement better bilateral relations.

Employment goals could aim for 100,000 jobs at each technology hub by year five, 300,000 by year ten; cumulatively, the six hubs would generate 600,000 new jobs by year five, 1.8 million by year 10. This would be a significant achievement, and encourage private investors, foreign and domestic, throughout their economies.

[40] The White House, "Executive Order on America's Supply Chains," Press Release, February 24, 2021, https://www.whitehouse.gov/briefing-room/presidential-actions/2021/02/24/executive-order-on-americas-supply-chains/.

Image credit: Blue Planet Studio/Shutterstock

To respond to common criticisms of supply chains (Box 1), high sustainability standards for environmental, social, and corporate governance (ESG) would be guaranteed through a dense system of auditors conversant in environmental and labor codes and by on-site mitigation and training cadres. Auditing teams could be a mix of experts internal to U.S. firms, established international auditing outfits, and certified local non-governmental organizations. Inventories of participating U.S. firms and local vendors and their sustainability performances would be made publicly available in a timely, transparent manner. By setting regionwide standards, the interlaced technology hubs would avoid destructive race-to-the-bottom competition. Some of the advanced labor and environmental standards and compliance procedures in the USMCA could also apply. One social innovation to consider: Gender equity goals could include gender balance in the higher-paying "technician" jobs, as opposed to the lower-paying, less skilled "operator" jobs on the factory floor where women tend to be concentrated. In this regard, the newly established Gender Policy Council is mandated "to coordinate with the National Security Council on all issues related to gender equality globally, including women's economic participation, health, and involvement in peace and security efforts.[41]

To augment the capacity of the Inter-American Development Bank to support such technology hubs, its member states should authorize a major increase to its capital, empowering the bank to raise its annual lending from $13 billion to $20 billion.[42] The United States, a major contributor to the recapitalization, would signal its preference for allocating the lion's share of the new lending to the GCC nations. The sub-regional

[41] The White House, "Executive Order on Establishment of the White House Gender Policy Council," March 8, 2021. https://www.whitehouse.gov/briefing-room/presidential-actions/2021/03/08/executive-order-on-establishment-of-the-white-house-gender-policy-council/

[42] In promoting investment in supply chains, the IDB notes that if Latin America and the Caribbean could capture 15 percent of related U.S. imports, the region's exports would expand by $72 billion. Presentation by Tulio Marti to Mesa Nearshore, "Oportunidades Nearshoring Republica Dominicana," February 2021, unpublished.

development banks, the Caribbean Development Bank and the Central American Bank for Economic Integration, could also make valuable contributions.

Figure 9. GCC Network of Technology Hubs

GCC Technology Hubs and Regional Trade Agreements

Even before NAFTA, many U.S. supply chains extended across the Rio Grande into northern Mexico. With its large workforce and long border with the United States, Mexico would be a logical choice for manufacturers relocating from China or elsewhere. But Mexican President Andrés Manuel López Obrador has created a problematic investment climate. The new Biden administration and Canada could negotiate trade and investment standards with Mexico that would provide much needed assurance to investors. Biden's first coordinator for the U.S. southern border, Roberta Jacobson, has previously written in favor of such coordination:

> "The United States should lead the effort to establish a decision-making body that can plan and fund coordinated border infrastructure and security projects.... Reinvigorated North American supply chains, bolstered by a trilateral

commitment to modernize shared infrastructure, would support a more globally competitive, secure, and stable continent."[43]

The Biden administration is likely to be cautious before undertaking major new trade initiatives, given the sharp divisions within the Democratic Party and its diverse constituencies. Thankfully, the USMCA, CBI, and CAFTA-DR are already in place. A politically realistic goal would be to place them under a single umbrella accord that would facilitate the trans-regional operations of global supply chains, for example, the shipment of parts manufactured in Central America to assembly factories in Mexico. Short of a full-scale renegotiation, which could be politically risky, the goal would be to harmonize certain trade and investment regulations.[44] Specifically, accords could be reached on common region-wide rules of origin (degrees of value added required to benefit from trade preferences), as agreed upon in the 2020 Asian Regional Comprehensive Economic Partnership;[45] and to allow for cumulation (summing value added along the supply chain within participating countries).

"The hubs would be a creative response to 21st century challenges facing both the United States and the other nations of the region."

The umbrella accord could also promote the routine sharing of information regarding best practices, ranging from trade facilitation to labor standards to the availability of essential industrial components and other supplies, including critical stockpiles. Data on labor market conditions could also be shared. Labor mobility could be facilitated through accredited trans-regional training programs[46] and internships. Efforts could be made to manage job placements for displaced persons, targeting the massive refugee outflows from crisis-ridden Venezuela.

[43] Roberta Jacobson and Tom Wyler, "To Counter China, Look to Canada and Mexico," *Foreign Affairs*, July 31, 2020, https://www.foreignaffairs.com/articles/americas/2020-07-31/counter-china-look-canada-and-mexico.

[44] On unifying regional and bilateral FTAs, see "Made in the Americas: Promoting Value Chains in Our Hemisphere," Inter-American Development Bank, April 2018, https://publications.iadb.org/en/made-americas-promoting-value-chains-our-hemisphere.

[45] Asian Development Bank, *Asian Economic Integration Report 2021* (Manila: ADB, 2021), 27, Box 2.1, file:///C:/Users/rfeinberg/Documents/From%20Old%20Computer/Near%20Shoring%202020/ADB%20Asian-economic-integration-report-2021.pdf.

[46] The White House, "Executive Order on Ensuring the Future Is Made in All of America by All of America's Workers," Press Release, January 25, 2021, https://www.whitehouse.gov/briefing-room/presidential-actions/2021/01/25/executive-order-on-ensuring-the-future-is-made-in-all-of-america-by-all-of-americas-workers/.

Launching the Technology Hubs

This system of GCC technology hubs would not, of course, be a silver bullet to solve all the region's development problems. But the hubs would be a creative response to 21st century challenges facing both the United States and the other nations of the region. They would signal a commitment to regional development by both the U.S. government and private sector. Perhaps most important, if successful, they could engender new confidence in local business communities and keep more local savings and entrepreneurial talent at home. More workers and their families could find gainful employment without having to travel northward.

Biden could launch the technology hubs initiative at a regional summit of leaders, together with CEOs of firms in the industrial and service sectors leading global value chains, and with other stakeholders. He would sketch out the major financial incentives as well as the sustainability standards that will apply. As suggested above, participating nations could sign a GCC compact committing to relevant domestic economic and governance reforms. The regional meeting would also present an excellent opportunity for Biden, together with the other national leaders, to propose to link the three existing regional trade regimes to foster efficient trans-regional value chains.

More broadly, the U.S. president would specify which of his other "Building Back Better" initiatives – regarding clean energy, technological innovation, infrastructure, education and healthcare, and pandemic responses – would expand outward to include the neighboring economies. For example, the Executive Order "Made in All of America" could be amended to include value-added in the GCC hubs as meeting the domestic content requirements, or to grant waivers for GCC-made products.

Biden would articulate his vision of a Greater Caribbean Community incorporating the Gulf coast states and the other regional nations. He would explain the commonalities and the designs for a shared prosperity. In the nations of the Greater Caribbean Basin, citizens swing from viewing the United States as the historic enemy to a grand opportunity. The proposed GCC compact would affirm a vision of mutual benefit. Geography as destiny, in the good sense.

The United States is scheduled to host the Ninth Summit of the Americas in late 2021 or early 2022. A major theme is likely to be responsive, accountable governance, building on the central theme of the previous summit in Lima in 2018, combating corruption.[47] But this time the governance theme should be more closely linked to economic

[47] Richard E. Feinberg, "How to Think about the Summit of the Americas," Policy Brief, Brookings Institution, 2018.

development and job creation, responding directly to the economic devastation wrought by the pandemic. Governed by their bespoke regulatory regimes, the hubs will escape some of the bureaucratic delays and corruption all too common throughout the wider Caribbean.[48] These successes would set an example for nationwide governance reforms.

In a century where divisiveness and violence appear to be gaining ground, the Greater Caribbean Community vision would affirm the opposite: by embracing their shared space, public officials and peoples of the GCC would pledge to join forces to meet some of the most demanding challenges of our turbulent era.

Box 3. Reconceptualizing the U.S. Gulf Coast

Does the Greater Caribbean Basin, including the Gulf of Mexico, end where its waters lap against the shores of the Gulf States (Alabama, Louisiana, and Mississippi but also including coastlines of Florida and Texas)? Or can we reconceptualize the region to include these shorelines and their hinterlands?

The histories of the Gulf states and the Greater Caribbean Basin are intertwined in ways well recorded yet not so well recognized. They share the legacies of plantation agriculture and its decomposition. Both regions have experienced massive emigrations northward; in various waves from Mexico, the Caribbean islands, and more recently Central America; from the post-Reconstruction South, African Americans fled economic downturns and racial violence to find refuge in the industrializing Midwestern cities.

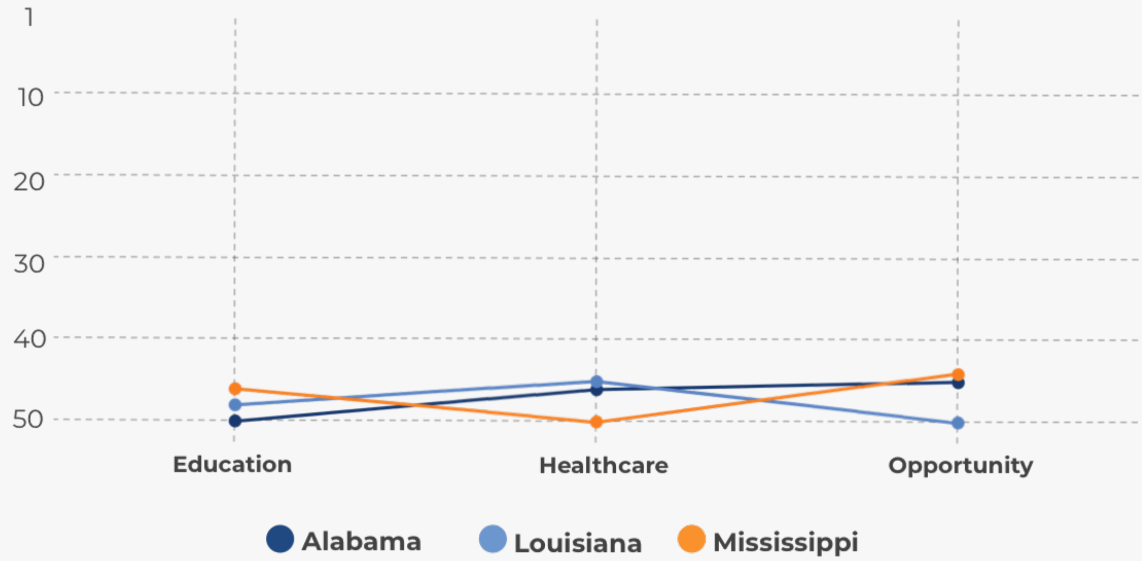
Demographically, the 3 Gulf states average populations of 4.2 million, in a similar dimension to such small states as Jamaica, Nicaragua and Costa Rica. Blacks comprise one third of the populations of the 3 Gulf states; in the English-speaking Caribbean, Blacks (of varying skin tones) are large majorities. In Mexico, Colombia and much of Central America, where indigenous and Black populations are significant, racial distinctions run deep. As in the U.S. Gulf states, these divisions inhibit social mobility and generate political polarizations which periodically erupt into violence.

The Gulf states overcome the smallness of their markets through their participation in the world's largest free market economy, the United States. Nevertheless, they fall to the

[48] Kevin Casas Zamora and Miguel Carter, "Beyond the Scandals: The Changing Context of Corruption in Latin America" (Washington, D.C.: The Inter-American Dialogue, 2017); Eduardo Engel et al., *Report of the Expert Advisory Group on Anti-Corruption, Transparency and Integrity in Latin America and the Caribbean* (Washington, D.C.: Inter-American Development Bank, 2018); and Cynthia J. Arnson, ed., *In the Age of Disruption: Latin America's Domestic and International Challenges* (Washington, D.C.: Latin American Program, Woodrow Wilson Center, 2018).

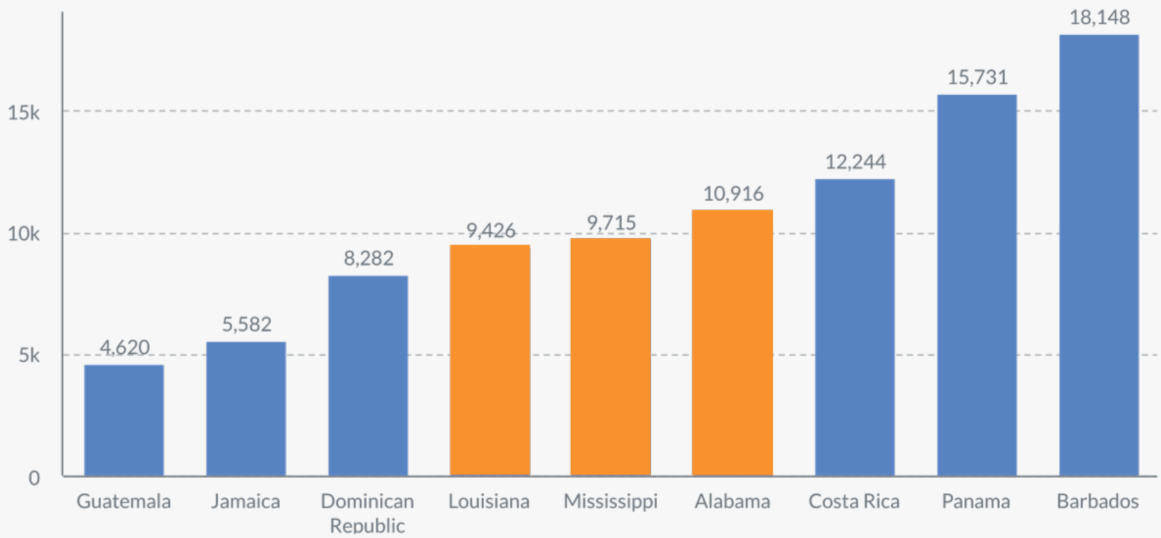
very bottom in state rankings of social welfare, as indicated by access to health and education (Figure 10A). Moreover, the poorer citizens of the Gulf states experience poverty levels that can be compared to those of Central America and the Caribbean. The household incomes of the bottom quintile in the Gulf states, at $10,000 (well below the national figure of $14,500), fall between the per capita GDP of the Dominican Republic and Costa Rica, and are measurably below that of Panama and Barbados (Figure 10B). One telling metric: homicide rates in the 3 Gulf states, at 13 per 100,000 population (compared to the U.S. average of 5 per 100,000), exceed those of the Dominican Republic, Barbados, and Costa Rica, although remaining far below those of the terribly violent Northern Tier of Central America (El Salvador, Guatemala, Honduras) (Table 1).

Figure 10A. State Performance Rankings



Sources:
U.S. News & World Report, "Best States," 2019, available at: https://www.usnews.com/news/best-states

Figure 10B. GDP Per Capita vs. Mean Household Income: Gulf States, Bottom Quintile



Sources:
World Bank national accounts data, 2019, available at: https://data.worldbank.org/indicator/NY.GDP.PCAP.CD?view=chart; and U.S. Census Bureau, ACS 2019, available at: https://www.census.gov/quickfacts/fact/table/AL,MS,LA/PST045219

None of this is to deny the many obvious differences between the Gulf states and the rest of the Greater Caribbean. But the multiple interconnections – historic, racial, social, and economic – are powerful enough as to warrant an appreciation for the many convergences. Not surprisingly, the commonly proposed solutions to their development problems are markedly similar. As the United States seeks to "rebuild better" at home, and to reduce its sharp regional and social disparities, it can apply some of those solutions both to its own underdeveloped Gulf states as well as throughout the Greater Caribbean Community.

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Richard E. Feinberg is a professor at the School of Global Policy and Strategy, University of California, San Diego. His four decades of experience in inter-American relations spans U.S. government service (at the U.S. Departments of Treasury and State, and as Senior Director for Inter-American Affairs at the National Security Council), numerous New York and Washington-based public policy institutes, and as a Peace Corps Volunteer (Chile). Since 2005 he has reviewed over 300 books for the Western Hemisphere section of *Foreign Affairs* magazine. Among his most recent publications are *Open for Business: Building the New Cuban Economy* (Brookings Institution Press, 2016) and *Nicaraguan Tragedy: From Consensus to Coercion* (Wilson Center, Latin American Program, 2019). He holds a Ph.D. in international economics from Stanford University and a B.A. in European History from Brown University.

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