





**Let's fix our marriage to the western hemisphere:  
A national strategy to successfully and responsibly out-compete China**

## ***Introduction***

Problems in your marriage? Attack the problem, not the person. In his 2022 “National Security Strategy (NSS),” President Joseph R. Biden Jr. states: “The most pressing strategic challenge facing our [United States] vision is from powers that layer authoritarian governance with a revisionist foreign policy.”<sup>1</sup> He labels the People’s Republic of China (PRC) as the only competitor with the intent and power to reshape the international order.<sup>2</sup> The PRC’s economic growth, military development, and global expansion are well known. The PRC’s 2019 *Defense White Paper* also signals its competition with the United States.<sup>3</sup> One way the PRC competes is through its Belt and Road Initiative (BRI). First launched in 2013, the BRI focused on bridging gaps between Africa, Europe, the Middle East, and Asia.<sup>4</sup> In 2018, however, the BRI finally expanded into Latin America, strengthening the PRC’s roots.<sup>5</sup> In April 2013, Secretary of State John Kerry stated before Congress that Latin America is in the United States’ “backyard,” and it must pay more attention to the region.<sup>6</sup> Seven months later, Kerry declared, “The era of the Monroe Doctrine is over,” signaling a movement toward multilateral diplomacy.<sup>7</sup> Yet, the United States’ relationships in the western hemisphere, primarily referring to Central America, Latin America, and the Caribbean (hereafter referred to as ‘The Region’), are too complex to be left to international relations by negotiation and friendliness.

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<sup>1</sup> Joseph R. Biden, Jr. *2022 National Security Strategy*. Washington, DC, 2022, 8.

<sup>2</sup> *Ibid*, 8.

<sup>3</sup> Anthony H. Cordesman. *China and the U.S.: Cooperation, Competition and/or Conflict: An Experimental Assessment*. [https://csis-website-prod.s3.amazonaws.com/s3fs-public/publication/191001\\_China\\_Grand\\_Strategy\\_Part%201.pdf](https://csis-website-prod.s3.amazonaws.com/s3fs-public/publication/191001_China_Grand_Strategy_Part%201.pdf). Washington, DC: Center for Strategic & International Studies, 2019, 19.

<sup>4</sup> Luis Alberto Lacalle. "The Road Continues South: China's Expansion of the Belt and Road Investment in Latin America." *China Today*, April 2019, 14-16, p. 14.

<sup>5</sup> *Ibid*, 14.

<sup>6</sup> Keith Johnson. "Kerry Makes It Official: 'Era of Monroe Doctrine Is Over.'" *Wall Street Journal* (New York, NY), November 18, 2013.

<sup>7</sup> *Ibid*.

The opening sentence alludes to a marriage analogy. Successful marriages require nurturing—negotiation falls short. In some marriages, an outsider enters and causes havoc; in these cases, the surviving unions focus on solving the problems that opened the door to the outsider—direct competition between a partner and the outsider is ill-advised. The lack of the United States Government’s (USG) attention to The Region opened the door for the PRC. The strategy has been to compete with that “outsider” while remaining open and friendly, hoping the “marriage” will survive. That will not work. Instead, the United States must make a few strategy adjustments to out-compete the PRC successfully and responsibly in the western hemisphere by strengthening the “marriage.” To out-compete the PRC successfully and responsibly, the United States must reinforce economic interdependence and help to grow economies across The Region while consolidating supply chains to the western hemisphere.

The United States should primarily compete through economics because its economy is its greatest strength. While the PRC continues to invest hundreds of billions to build infrastructure in exchange for influence, the United States can focus on mutually beneficial projects and enhance ground lines of communication (GLOC) in the western hemisphere. The NSS and National Defense Strategy (NDS) prescribe creating resilient supply chains.<sup>8</sup> Strong GLOCs connecting the western hemisphere will further enhance the benefits of consolidating supply chains to our “backyard.” To limit PRC interference in the event of conflict and to discourage escalating competition, the United States should have as much of its supply chain on internal GLOCs as possible. To out-compete *responsibly*, the United States must not compete as if it is a zero-sum game. The United States must recognize the PRC has legitimate reasons for

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<sup>8</sup> Joseph R. Biden, Jr. *2022 National Security Strategy*, 14; Lloyd Austin. *2022 National Defense Strategy of The United States of America*. Washington, DC, 2022, 20.

some of its activities and that some of its initiatives are good for the world. As such, the United States should attack the problem (play the game better) and not the person (analogy for the PRC).

***Strengthen economic interdependence and help grow economies across The Region***

Like the PRC, the United States must rethink its approach to international development. In September 2021, the PRC announced its Global Development Initiative (GDI), calling for its multilateral leadership to support the United Nations (UN) Sustainable Development Goals.<sup>9</sup> The GDI is more streamlined and focused than the BRI. Whereas the BRI was about economic growth and building infrastructure (the hardware), the GDI is people-oriented and focused on capacity building (the software), eerily similar to the United States' approach.<sup>10</sup> The PRC learned from its mistakes with its bilateral BRI. With the BRI, the PRC leveraged its industrial capacity to facilitate the expansion of Chinese companies into international markets.<sup>11</sup> Too often, however, those Chinese companies coerced local governments using hidden loan clauses and requiring natural resources as collateral.<sup>12</sup> In contrast, the GDI is multilateral. Since its launch, more than 60 countries have declared their support of the program.<sup>13</sup>

Supporters of the GDI are known as the "Group of Friends;" this group regularly meets at the UN, and as recently as January 2023, the GDI was a key topic at the World Economic Forum

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<sup>9</sup> Wang Yi. "Jointly Advancing the Global Development Initiative and Writing a New Chapter for Common Development." News release. September 21, 2022. Accessed January 5, 2023. [https://www.fmprc.gov.cn/eng/zxxx\\_662805/202209/t20220922\\_10769721.html](https://www.fmprc.gov.cn/eng/zxxx_662805/202209/t20220922_10769721.html).

<sup>10</sup> Deborah Brautigam. "China's Global Development Initiative: A Symbolic Rebranding of the Belt and Road Initiative." Globally News, December 23, 2022.

<sup>11</sup> Luis Alberto Lacalle. "The Road Continues South: China's Expansion of the Belt and Road Investment in Latin America," pp. 14-16.

<sup>12</sup> Laura J. Richardson. *Statement of General Laura J. Richardson, Commander, United States Southern Command Before the 117th Congress House Armed Services Committee*, 3.

<sup>13</sup> Wang Yi. "Jointly Advancing the Global Development Initiative and Writing a New Chapter for Common Development."

Annual Meeting (an annual meeting held in Switzerland since 1971).<sup>14</sup> The PRC's change in methodology sets it up as a leader on the world stage, flying in the face of the NSS, which directs the United States to demonstrate its enduring leadership.<sup>15</sup> The United States' approach to international development rests in empowering the U.S. Agency for International Development (USAID). Unfortunately, the NSS only calls for one policy shift regarding USAID: "to make development assistance more accessible and equitable"—this is not leadership comparable to the PRC.<sup>16</sup> The United States can be the leader of choice for international development by unleashing the massive potential of its private sector.

The United States can achieve economic asymmetry through economics favoring private capital. The NSS calls for development assistance to be more accessible by shifting 25 percent of the USAID budget to fund local partners.<sup>17</sup> The problem is that burdensome regulations still follow that money, shifting the administrative and legal drain to partners for minimal gain compared to partnering with the PRC. Leveraging the private sector for foreign direct investment can lift the burden and produce faster growth. The United States does this fantastically within its borders. For example, the USG is not positioned to ensure adequate housing for its 300+ million population and therefore encourages the private sector to build and maintain housing through the tax code.<sup>18</sup> The USG also guarantees affordable mortgages, but the USG uses the tax code to incentivize investors to develop and maintain housing.<sup>19</sup> The USG would not be good at starting

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<sup>14</sup> "China has always kept in step with Davos Spirit: Global Times editorial." <https://www.globaltimes.cn/page/202301/1283858.shtml>. Global Times, January 16, 2023.

<sup>15</sup> Joseph R. Biden, Jr. *2022 National Security Strategy*, 3.

<sup>16</sup> *Ibid*, 46.

<sup>17</sup> *Ibid*, 46.

<sup>18</sup> Alex Muresianu. *1980s Tax Reform, Cost Recovery, and the Real Estate Industry: Lessons for Today*. Report no. 720. Washington, DC: Tax Foundation, 2020. Accessed January 21, 2023. [https://files.taxfoundation.org/20200721170847/1980s-Tax-Reform-Cost-Recovery-and-the-Real-Estate-Industry-Lessons-for-Today.pdf?\\_gl=1\\*ep4fq\\*\\_ga\\*MTI4MDY5NzgyMi4xNjc0MzIwMTUz\\*\\_ga\\_FP7KWDV08V\\*MTY3NDMyMDE1NC4xLjAuMTY3NDMyMDE1NC42MC4wLjA](https://files.taxfoundation.org/20200721170847/1980s-Tax-Reform-Cost-Recovery-and-the-Real-Estate-Industry-Lessons-for-Today.pdf?_gl=1*ep4fq*_ga*MTI4MDY5NzgyMi4xNjc0MzIwMTUz*_ga_FP7KWDV08V*MTY3NDMyMDE1NC4xLjAuMTY3NDMyMDE1NC42MC4wLjA), pp. 1-11.

<sup>19</sup> *Ibid*, 1-11.

and running small businesses, but it certainly needs them.<sup>20</sup> Like real estate, the USG incentivizes its population to build small businesses by leveraging the tax code.<sup>21</sup>

The United States cannot mobilize international development at the same scale as the PRC, nor should it try. With its state-owned enterprises and immunity to public opinion, the PRC can direct many commercial resources to obtain strategic political ends. In contrast, the United States is accountable to its constituency, and government resources are highly regulated. Financial resources are highly regulated too, but the behavior of the private sector is not. However, the U.S. Tax Code highly influences private sector behavior. As such, the USG should lower interest loans for investors that want to build in The Region while modifying the Tax Code to incentivize their Foreign Direct Investment (FDI). Incentives would need to be compelling enough to spur the desired level of FDI, such as adjusting asset depreciation tables or even eliminating double taxation for participating C-corporations.<sup>22</sup> This strategy will result in less tax revenue, but the return on investment will be more than worth it if the domestic economy is any indication. In true capitalist fashion, the United States should allow the private sector to seek the most profitable opportunities, but The Region needs connective tissue that requires government assistance.

The United States needs to lead the building of a Pan-American transportation network to become the partner of choice over the PRC. How the NSS and NDS describe their reactive

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<sup>20</sup> According to the U.S. Small Business Administration, U.S. small businesses account for 99.7% of U.S. businesses with paid employees. <https://cdn.advocacy.sba.gov/wp-content/uploads/2021/12/06095731/Small-Business-FAQ-Revised-December-2021.pdf>

<sup>21</sup> "The Tax Benefits of Investing in Small Businesses." BNY Mellon Wealth Management. Accessed January 21, 2023. <https://www.bnymellonwealth.com/insights/the-tax-benefits-of-investing-in-small-businesses.html>.

<sup>22</sup> According to Taxfoundation.org, Income earned by C-corporations in the United States is taxed at the entity level at a statutory federal rate of 21 percent, plus state corporate taxes. If the corporation distributes dividends, those are taxed at the shareholder level as high as 37 percent under the federal individual income tax rate. States levy additional taxes on dividends. The USG may be able to modify this equation to incentivize FDI in The Region such as eliminating federal corporate tax tied to FDI in The Region and possibly lowering individual income tax for workers assigned to The Region.

strategy to The Region indicates that the methods rely heavily on addressing threats instead of the system. Poor governance, poverty, corruption, and inconsistent attention exacerbate the perils listed in USG strategic documents.<sup>23</sup> The answer is connecting the economics beyond free trade and using the private sector instead of corruptible governments. As the world's largest and most open economy, the United States is the easy partner of choice, except that barriers can get in the way. Currently, the most significant barrier preventing the United States from being the partner of choice in The Region is the need for a modernized Pan-American Transportation Network as part of a cost-effective manufacturing ecosystem. First, the existing network of roads connecting South, Central, and North America requires repair.<sup>24</sup> More significantly, there is a 100-mile gap separating South and Central America; this gap is forested and marshy, causing most goods to travel by ship.<sup>25</sup> Some suggest a medium- to long-term rail transportation network and a tunneling network for the future.<sup>26</sup>

Establishing a rail transportation network is a leadership opportunity for the United States and one that is possible because other countries in The Region would surely share the costs given the undeniable economic (and even political) benefits of being closely connected to the U.S. economy. The governments would ultimately approve and help with funding, but the private sector will plan and develop, incentivized by the Tax Code (in the case of U.S. investors). Strengthening economic interdependence and helping to grow economies across The Region will be an effective way to out-compete the PRC successfully and responsibly. To further strengthen

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<sup>23</sup> Craig Deare. *Latin America 2020: Challenges to the U.S. National Security Interests*. Washington, DC: National Defense University Press, 2020, 4.

<sup>24</sup> Bindiya Vakil, Tom Linton, and Dale Rogers. "The Case for a Pan-American Manufacturing Ecosystem." *Harvard Business Review*, June 14, 2021.

<sup>25</sup> *Ibid.*

<sup>26</sup> *Ibid.*

these ties while enhancing security, the United States also needs to lead in bringing production on a vast scale to The Region.

***Consolidate supply chains to the western hemisphere***

The United States is vulnerable to revisionist foreign policy, which uses supply chains for coercion. The National Counterintelligence and Security Center identifies several technology sectors susceptible to supply chain risks, such as autonomous systems and semiconductors.<sup>27</sup> Autonomous Automotive Vehicles (AAV), for example, require heavy 5G support and over 3,500 semiconductors.<sup>28</sup> The PRC could disrupt this supply chain by acquiring chip manufacturing companies or, more nefariously, by disrupting shipping lanes. Using AAVs as an example, they require various advanced components (e.g., visible high-definition cameras) that each carry supply chain risk.<sup>29</sup> The U.S. responded to these risks with the CHIPS and Science Act to strengthen American manufacturing and address supply chain vulnerability, especially regarding semiconductors.<sup>30</sup> The CHIPS Act is essential to securing the most critical supply chains but does not address other vital areas, such as critical minerals, food, and chemicals.

Mitigating supply chain risk is an adaptive problem made even more complex through globalization. The United States can minimize isolationist national security methods while strengthening the supply chain by consolidating much of the system to the western hemisphere. The cost of manufacturing labor in many parts of The Region is now equivalent to China (in

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<sup>27</sup> The National Counterintelligence and Security Center" [Supply Chain Risk Management]. Office of the Director of National Intelligence. Accessed January 2, 2023. <https://www.dni.gov/index.php/ncsc-what-we-do/ncsc-supply-chain-threats>.

<sup>28</sup> Ibid.

<sup>29</sup> Ibid.

<sup>30</sup> "FACT SHEET: CHIPS and Science Act Will Lower Costs, Create Jobs, Strengthen Supply Chains, and Counter China." THE WHITE HOUSE. Last modified August 9, 2022. Accessed January 2, 2023. <https://www.whitehouse.gov/briefing-room/statements-releases/2022/08/09/fact-sheet-chips-and-science-act-will-lower-costs-create-jobs-strengthen-supply-chains-and-counter-china/>.

some cases, lower).<sup>31</sup> The combination of stable labor costs and lower shipping costs (physically closer to the U.S. and much cheaper with a transportation network in place) make for less complex and more secure supply chains. Supply chains will always be complicated, but the closer to home, the easier the United States can manage the risks.

The global supply chain is also vulnerable to global security threats like climate change and pandemics. As 2040 approaches, climate change will intensify, and geopolitical tensions will rise.<sup>32</sup> The United States can expect competition over critical minerals, clean energy technologies, food, and potable water.<sup>33</sup> Nearly a third of the world's renewable water resources are in South America, and Latin America is also a major food exporter.<sup>34</sup> Regarding critical minerals, Latin America also holds considerable reserves of those and already has the PRC's attention.<sup>35</sup> Global supply chains also look different in a post-pandemic world. Modern supply chains depend on reliable shipping, which can completely shut down amid a pandemic. The challenge is to make supply chains more resilient without decreasing competitiveness.<sup>36</sup> The CHIPS Act, for example, strengthens the semiconductor chain for the United States but at a high financial cost to the government. Even the wealthiest country has limits on how many supply chains they can protect with government subsidies. To keep costs low, manufacturers need to diversify; it is too expensive for firms (and countries) to keep all skills and materials in-house.

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<sup>31</sup> Bindiya Vakil, Tom Linton, and Dale Rogers. "The Case for a Pan-American Manufacturing Ecosystem."

<sup>32</sup> National Intelligence Council. "National Intelligence Estimate: Climate Change and International Responses Increasing Challenges to US National Security Through 2040," October 21, 2021, p. i.

<sup>33</sup> *Ibid*, 6.

<sup>34</sup> Bindiya Vakil, Tom Linton, and Dale Rogers. "The Case for a Pan-American Manufacturing Ecosystem."

<sup>35</sup> Caitlin Purdy and Rodrigo Castillo. *The Future of Mining in Latin America*. N.p.: Leveraging Transparency to Reduce Corruption, 2022.

<sup>36</sup> Willy C. Shih. "Global Supply Chains in a Post-Pandemic World." *Harvard Business Review*, September 2020. Accessed January 3, 2023. <https://hbr.org/2020/09/global-supply-chains-in-a-post-pandemic-world>.

Consolidating to the western hemisphere is a good balance. There is plenty of space on the planet's western side to diversify supply chains, natural resources, and age-appropriate workers.

The United States should consolidate the most vital supply chains to U.S. territory with other important ones dispersed throughout The Region. Prioritization is essential. Some supplies are technologically complex and central to defense—those types should be manufactured in the United States if possible. But even if semiconductor manufacturing moves to the United States, for example, there is still a problem supplying the raw material needed to produce those semiconductors. The Washington Quarterly reports that “the demand for more rare and critical metals will explode in the years to come.”<sup>37</sup> The demand forecast is not surprising considering the essential role critical metals play in building technology and what they will play in the renewable energy field. Other supplies cannot be mined or manufactured in the United States (e.g., some critical metals) or must be manufactured elsewhere because of costs and availability of labor.

As an emerging economy, China was able to transform into an exporter of choice because of its access to cheaper labor. A large part of what drives labor costs down is the availability of young unskilled labor. With an average age of 38.5, the United States is not a contender for cheap labor, but with an average age of 24 to 28, Central and South America are.<sup>38</sup> The Region has the potential to become a manufacturing powerhouse that will shore up supply chains for the United States. With systems, infrastructure, and fruitful economic partnerships, the United States will successfully and responsibly out-compete the PRC.

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<sup>37</sup> Guillaume Pitron. "The Geopolitics of the Rare-Metals Race." *The Washington Quarterly* 45 (1): 135–50, p. 141.

<sup>38</sup> Bindiya Vakil, Tom Linton, and Dale Rogers. "The Case for a Pan-American Manufacturing Ecosystem."

### *Counterarguments*

Admittedly, The Region is a highly volatile area that gets in the way of activities that strengthen and grow economies. Central America, Latin America, and the Caribbean is the world's most violent region, accounting for 37 percent of homicides worldwide.<sup>39</sup> As such, U.S. Southern Command identifies crime, especially Transnational Criminal Organizations, as a top threat.<sup>40</sup> When citizens, business owners, and even politicians do not feel safe, they may be less likely to remain productive. Rampant corruption also scares off FDI and creates opportunities for the PRC to exploit vulnerable politicians and public officials.<sup>41</sup> Corruption disrupts fairness which is a base requirement of a healthy private sector. Even if the United States provided access to low-interest loans and fully leveraged tax codes to encourage activity, the anti-competition environment discourages the private sector.

Conversely, the private sector of any country is no stranger to crime. Thriving businesses exist in nearly every part of the world. Instead of staying away from areas with criminal activity, the private sector accounts for the cost of security, and they become proactive with counter-crime measures. The main driver of any business is profitability. So long as the environment is profitable after accounting for the cost of crime, the private sector will enter the market. With the free trade agreements for The Region already in place and access to low-interest capital, tax incentives, and the Pan-American transportation network, the potential will flood The Region with productive private industry.

Consolidating supply chains to the western hemisphere could negatively impact allies and partners worldwide. Only three countries are in the western hemisphere on a list of 15 top U.S.

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<sup>39</sup> Craig Deare. *Latin America 2020: Challenges to the U.S. National Security Interests*, 24.

<sup>40</sup> Laura J. Richardson. *Statement of General Laura J. Richardson, Commander, United States Southern Command Before the 117th Congress House Armed Services Committee*, 2.

<sup>41</sup> *Ibid*, 10.

trading partners.<sup>42</sup> Without a corresponding increase in demand, moving supply chains to the western hemisphere would mean taking away from our partners to the east in a zero-sum game. Additionally, China is the top trading partner of the United States.<sup>43</sup> Thus, in addition to souring at least a dozen essential trading relationships, the United States would diminish its economy by driving up the domestic consumer price index. Due to globalization, consolidating supply chains to the western hemisphere is impractical. Instead, the current strategy to maintain the international order, proven over decades, must be protected.

Conversely, this paper does not call for the complete transfer of all supply chains to the western hemisphere, nor an overhaul of the international order. Instead, to maintain the international order, the United States must be resilient, partly through resilient supply chains. As such, supply chains critical to national instruments of power should be in the western hemisphere while addressing trading partner needs. For example, moving semiconductor production to the United States adversely affects the Netherlands. Nevertheless, production in this case, must move to the United States, but in return, the United States can help the Netherlands develop other means to produce trade items. There is no higher priority than security.

### ***Conclusion***

There is a problem with the marriage between the United States and The Region. Strategic documents such as the NSS and NDS indicate the PRC as the primary culprit, whereas other sources focus on different problems, such as Transnational Criminal Organizations. Instead, the focus should be strengthening relationships in The Region by increasing economic interdependence with a Pan-American transportation network and unleashing the U.S. private

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<sup>42</sup> "Top Trading Partners - January 2017." United States Census Bureau. Accessed January 7, 2023. <https://www.census.gov/foreign-trade/statistics/highlights/toppartners.html>.

<sup>43</sup> Ibid.

sector. A strong relationship with The Region would discourage intervention from “outsiders,” primarily the PRC, because The Region would be far less susceptible to offers provided through the BRI or GDI. Boosting economic interdependence is a responsible way to out-compete the PRC because it does not involve directly challenging China in a zero-sum game that requires countries to choose one or the other. In addition to being responsible, this strategy has a high chance of success because of the United States’ geographic position that favors the connection of its massive economy to The Region alongside beneficial trade agreements already in place.

Along with reinforcing economic interdependence, the United States must address supply chain vulnerabilities by consolidating supply chains in the western hemisphere. Although this action could adversely affect trading partners, security is the priority, and the United States can find ways to address these trading partners’ needs. Consolidating to the western hemisphere would create more resilient supply chains called for in the NSS. Consolidation would further enhance the economic interdependence between the United States and The Region by expanding opportunities to mine and manufacture in terms of quantity and diversification. The PRC may not have an equal chance to consolidate its supply chains in the Pacific, leading the United States to out-compete the PRC successfully and responsibly concerning supply chain resiliency. The era of the Monroe Doctrine may be over, but the United States should still seek to prevent influence from the eastern hemisphere, mainly the PRC, in areas where the United States should easily be the partner of choice. The United States can become the partner of choice, not by returning to the Monroe Doctrine, but by “strengthening the marriage”—being attentive, fair, and protective of outside influence that may harm the relationship.