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The Outcompete World

Revisiting U.S. Economic Priorities for Competition with China in Latin America and the Caribbean

By Ryan C. Berg and Henry Ziemer

Absent or Outcompeted?

"We want to make sure that our closest neighbors know they have a real choice between debt-trap diplomacy and high-quality, transparent approaches to infrastructure and to development." This sentence, **delivered** by President Joe Biden at the Americas Partnership for Economic Prosperity (APEP) Leaders' Summit on November 3, encapsulates the challenge currently facing the United States when it looks to engage with Latin America and the Caribbean (LAC) at a time of rising geopolitical competition. Yet for all the rhetoric, the reality facing many LAC countries falls far short. APEP itself, the Biden administration's signature economic and trade initiative aimed at LAC, has felt **short on substance** for many regional leaders looking to the United States as a potential ally and accelerant to their economic growth. That U.S. trade representative Katherine Tai was absent from the November summit further reinforces a damaging perception that the United States is not interested in putting forward a competitive offer in LAC, distracted as it may be by obligations and interests far from its shared neighborhood.

While the truthfulness of such perceptions is certainly suspect—the United States is the largest single investor in LAC, responsible for **38 percent** of foreign direct investment in 2022—policymakers in Washington can hardly afford to rest on their laurels. In the space of 20 years, China has catapulted from a marginal player in LAC to a dominant force and **major influence in the region**. As of 2021, China was the **number two** trading partner for the region at large, capturing 21 percent of total exports and responsible for nearly 15 percent of the region's imports. For major economies across the hemisphere such as Brazil, Chile, and Ecuador, China has already surpassed the United States to become the **single largest** trading partner. In certain key sectors, especially infrastructure, telecommunications, and power generation, China far outpaces the United States. Chinese state-owned and private firms are deeply embedded throughout the region, forging links which would prove difficult to disrupt even if there was a credible U.S. counteroffer on the table—something that, in spite of statements from the White House, is sorely lacking in many regards.

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The story of how China arrived at such an advantageous position in the Americas can be separated into three main periods: an initial opening to the region from roughly the late 1990s to 2013, an investment boom and the use of Chinese policy and development banks from 2013 to 2017, and a more strategically driven phase characterized by the arrival of the Belt and Road Initiative (BRI) in the LAC in 2017.

From the turn of the century through 2013, China's outreach to the Western Hemisphere was driven by demand for resources, mostly in ensuring food security and energy security, where LAC countries offered Beijing the plethora of **raw materials** needed to meet rising domestic demand, especially when it came to oil, foodstuffs, and minerals. China-LAC collaboration benefited from a natural complementarity between China's economic needs and South America's commodity-driven economies. The sheer depth of China's demand for resources and its seemingly inexhaustible ability to pay for them helped rapidly catapult the trade relationship from peripheral to central for many countries, including key regional economies such as Brazil. The growing importance of LAC as a region also prompted the Chinese government to issue its first-ever **policy paper** on the region in 2008, a document that voiced a desire to "strengthen China's comprehensive cooperation with [the] Latin American and Caribbean region" in political, economic, cultural, and security affairs. In 2010, for instance, lending by Chinese policy banks reached an all-time high of **$35.1 billion** in a single year, nearly two-thirds of which went to the Hugo Chávez government in Venezuela.

With the ascension of Xi Jinping as president of China in 2013, China's engagement in LAC entered a new phase. This period was characterized by China's transition from a comparatively more passive relationship with the region based on trade in raw materials, to an active interest in promoting Chinese state-owned enterprises, investment, and closer ties between Beijing and regional capitals. Investment from Chinese policy banks is particularly noteworthy during this period, with China bankrolling a series of major **infrastructure projects** such as dams, bridges, roads, and railways. Throughout this period, loans from the China Development Bank and Chinese Export-Import Bank never returned to their 2010 highs. However, lending to the region on average remained the highest at any point in the past three decades, averaging **$12.8 billion** per year.

In turn, leaders from the hemisphere, eager to leverage investment flows for political gain, strengthened their ties to China. This trend was especially apparent in authoritarian and semi-authoritarian regimes such as Venezuela, Bolivia, and Ecuador (under President Rafael Correa). Other governments—including Brazil as well as smaller countries such as Costa Rica, Suriname, and Jamaica—received impressive sums as well. Indeed, broadening the aperture of China's relationship to the hemisphere would become increasingly necessary as China's own **economic growth began to ebb** compared to the record levels recorded from 2000 to 2013.

The third phase of China's engagement in the hemisphere began in June 2017 when the government of Juan Carlos Varela in Panama officially dropped recognition of Taiwan in favor of China. In response,

China **pledged** upwards of $5 billion in development projects to construct a railroad between Panama City and neighboring Costa Rica, as well as a new deepwater port. Crucially, that same year Panama became the first Western Hemisphere country to accede to the BRI. As of December 2023, the BRI encompasses **22 countries** in the Western Hemisphere. Excluding the United States, Canada, and the seven countries which maintain diplomatic relations with Taiwan instead of China, this equates to 22 out of 26 eligible countries in the hemisphere, a remarkable feat considering the initiative's comparatively late start in the region. With this stage of engagement, China has sought to reorient its approach to LAC, away from both the commodities-oriented trade of the early 2000s and the permissive lending posture of 2013 to 2017. The Covid-19 pandemic and its associated impact on China's economy played a major role in this regard, as Chinese policy banks provided no significant loans to the region in 2020. Even before the pandemic, however, Chinese lending to the region had undergone a sharp **decline**, dipping to $2.1 billion in 2018 and $1.9 billion in 2019. This slowdown was mirrored globally, as China began to come to terms with the reality that its economy could no longer support an excessively permissive lending and investment posture. Furthermore, many earlier investments were now nearing maturation, with the recipient countries often in no position to pay China back. Once hailed as a giver of gifts, China has been placed in the unenviable position of **debt collector**. Ecuador, for instance, after having become heavily indebted to China during the Correa years, continues to face serious constraints related to the need of several successive governments to rely on sub-market-rate oil exports for debt service.

While the need to refocus on bankable projects and return on investment has limited China's room to maneuver in some respects, it has deepened China's interest and engagement in the hemisphere in other important areas. Politically, five countries changed their recognition from Taiwan to China since 2017, more than had switched in the preceding two decades. Furthermore, as Chinese companies have matured and globalized, their relationship with LAC countries has evolved away from a focus on primarily extractive industries and toward the sale of finished products **including** electronics, automobiles, and heavy machinery, to consumers within the region. Chinese telecommunications companies, most notably Huawei, have seen particular success in this regard. Today, Huawei is heavily involved throughout the region and has been involved in an estimated **one-third** of all tests of 5G telecommunications infrastructure in the hemisphere. These ties prove difficult to walk back, in spite of U.S. efforts to convince countries to "**rip and replace**" Huawei infrastructure, especially when such systems make up the backbone of a country's digital network. Other recent moves, such as the decision of Chinese auto manufacturer BYD to open an electric vehicle plant in Brazil, are illustrative of this new paradigm for economic engagement. In its public announcement, BYD **declared** its intent not just to manufacture vehicles in the plant, but also to process Brazilian lithium into batteries. Such maneuvers are emblematic of China's broader approach to the region as one that now seeks to marry the consumption of raw materials with the export of products made by these resources back to LAC consumers.

Undoubtedly, China faces significant challenges in navigating its evolving relationship with LAC countries. The BRI has, according to some reports, resulted in over **$1 trillion** in debt owed to China, with dubious prospects for many of the projects being repaid, while China's domestic economic slowdown has limited its ability to lend as freely as it did in the early 2010s. Nevertheless, according to recent analysis from AidData, China remains the world's single largest source of development

finance, and the deep ties created by many of its early loans have established lasting ties between LAC governments and Beijing. The remaining sections of this white paper will explore the need for the United States to recalibrate its strategy for competing in light of China's shifting approach to LAC. It will then will lay out the "outcompete ecosystem" of institutions and international partners the United States can call upon to create a **resource-backed alternative** to Chinese engagement in LAC. Finally, it will outline a series of policy recommendations for the U.S. government and Congress.

Getting to Outcompete

The United States, for all of its considerable advantages in terms of geographic proximity, trade agreements, and longstanding historical, cultural, and diplomatic ties, has **struggled** over the past decade to craft a cohesive strategy for its shared neighborhood. Ever since the heady **post-Cold War days** in which the decline and fall of regional dictatorships birthed new enthusiasm for democratic governance and free trade, U.S. policy toward LAC has taken a back seat to seemingly more pressing matters elsewhere. Most recently, the center of geopolitical contention appears to have shifted decidedly toward the Indo-Pacific, with analysts and policymakers both in Washington and throughout the region taking for granted that such a shift will cement LAC as **peripheral** to great power competition. Yet the conflicts and challenges facing the United States and its allies today cannot be properly viewed as regional in nature. The interconnected nature of global trade, diplomacy, and security relationships means that developments in one part of the world often exercise outsized, and unexpected, effects on other parts of the globe. Competition with China is no exception, and for its part, Beijing's decades-long courtship of the hemisphere illustrates that it undoubtedly factors LAC into its own strategic calculus.

Nevertheless, faced with limited resources, the United States has tended to fixate on LAC only insofar as the region generates crises that have direct bearing on U.S. interests. Mostly, the region tends to be relegated to an afterthought. As a result, U.S. policy is reactive and displays a tendency toward crisis management rather than competition, a feature which has evidently placed the United States on the back foot when faced with a rival who tends to view such issues explicitly through a competitive lens. Indeed, Beijing likely recognizes the United States' substantial, possibly overwhelming, advantages when it comes to engagement with LAC. Centuries of shared relations, geographic proximity, cultural ties, and vast amounts of trade all mean that the United States remains firmly entrenched and is unlikely to be ousted as a major player in LAC. Accordingly, China's strategy in the hemisphere appears to have **capitalized** on those areas which have been overlooked by U.S. government institutions and the private sector alike, such as mainly capital-intensive projects in the energy, logistics, and transport sectors.

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During the first two phases of China's engagement with the region, beginning roughly in the late 1990s and ending in 2017, when access to credit and funding were readily available, such projects could be implemented with comparative ease, especially vis-à-vis U.S.-led multilateral lending, which was often far more rigorous in its vetting requirements and standards for bankability. Chinese loans, by contrast, were accessible to far more countries with far fewer restrictions, yielding a number of high-profile victories, including **contracts** to develop dams, bridges, power plants, and, in the case of Bogotá, the city's first **metro system**. Such investments not only raised the profile of China's collaboration in the hemisphere, they provided a durable form of influence in the lengthy timelines for construction, as well as the often-substantial levels of debt countries enter when working with Chinese firms. The BRI era opened new opportunities even as China **has recalibrated** its approach, with Chinese firms moving to take advantage of the new opportunities for market access and investment heralded by the initiative.

Elsewhere, China's industrial policy has enabled Beijing to emerge as a global leader in **telecommunications**, which paid dividends within LAC as well. Absent a credible U.S. counteroffer, China has steadily **expanded** its presence across the region, wielding remarkably durable influence even as governments in Europe and Asia have grown skeptical of Chinese telecommunications providers. When Brazil, for instance, sought to join the U.S.-led Clean Network Initiative, aimed at curbing Chinese information technology giant Huawei's influence, China threatened to **withhold** badly needed vaccines, pressuring Brasília into opening its 5G tender to competition from Huawei.

To make a reasonable effort at curtailing China's engagement within the hemisphere, the United States will need to adopt an **outcompete** mindset.

For instance, the U.S. Development Finance Corporation (DFC), viewed as the United States' flagship development entity to curtail the global reach of the Belt and Road Initiative (BRI), remains seemingly caught between two worlds. On one hand, the institution struggles to clarify whether it is a development institution or a more explicitly competition-oriented group. The institution's new ethos should be infused with a competition orientation; however, the actual ethos is determined by the personnel, many of whom remain risk-averse and seek only bankable projects from the days when the institution was the Overseas Private Investment Corporation (OPIC), a self-sustaining institution. On the other hand, the DFC has new advantages that give it a far wider remit than its **predecessor**, OPIC, to engage with projects of strategic value to the United States. National security exemptions free it from the requirement of working in low- and lower-middle-income countries, and it is no longer obligated to return funds to the Treasury Department, a policy that hamstrung OPIC. However, between these two countervailing pressures, the former appears to have won out over the latter, and the DFC has thus far fallen short of its full potential as a tool for U.S. competition in LAC.

The use of income classifications in particular has proven not fit for purpose when it comes to LAC, where many keystone countries fall into upper-middle-income (UMIC) and even high-income classifications. Thus, in spite of the available mechanisms granting exceptions to the DFC for working in UMIC countries, the institution appears to have fallen into a sense of **risk aversion**, unwilling to risk engendering congressional or public scrutiny for lending to countries that are, at face value, not those most in need of assistance. In the first place, many UMIC countries in LAC still suffer from **profound inequality**, meaning national income averages are poor indicators of the true development challenges they face. However, and perhaps more importantly, rigid adherence to income level

classifications hampers the United States' ability to shore up its presence in certain key areas of LAC. Guyana, for instance, recently **moved up** from UMIC to high-income status per the World Bank's income designations, which are used in turn by the DFC to set these bands. The change was intended to reflect the windfall Guyana has received on account of its booming oil production, yet it had the adverse effect of forcing a pause on engagement while the agency reassesses whether such efforts would be possible in a newly minted high-income country.

By contrast, China has been allocating **sizeable amounts** of money and attention to Guyana since the discovery of oil, ranging from bilateral diplomacy to military-to-military cooperation, in a clear effort to sway the burgeoning energy powerhouse toward Beijing, or at least to neutralize Guyana as an actor on the geopolitical stage. China will not, and indeed cannot, play by the same rules as the United States when crafting its strategy toward LAC. U.S. institutions should be clear-eyed in their recognition of this fact in order to properly recalibrate for strategic competition in the hemisphere.

In adopting this approach, U.S. policymakers should nevertheless recognize that not every facet of China's engagement with LAC is appropriate grounds for the United States to pursue an outcompete strategy. Given the limited resources allocated to the region, seeking to compete on all fronts simultaneously risks **overexerting** U.S. capabilities and achieving little in the way of countering China's most corrosive forms of influence. **Insulation and curtailment strategies** should be pursued together with efforts to make the United States a more competent competitor with China in the hemisphere. Insulation efforts seek to minimize potential harmful externalities associated with Chinese engagement by fortifying government transparency, rule of law, and institutional checks and balances. In doing so, insulation strategies recognize that many forms of Chinese engagement will persist even in light of a more competitive U.S. posture in the region. Similarly, curtailment strategies seek to keep out the forms of Chinese influence that are most damaging to LAC's political autonomy and democratic institutions. Curtailment is necessary in cases such as the use of mass surveillance by authoritarian and semi-authoritarian states; in such a scenario, the United States should seek to prevent China from supporting such efforts rather than compete against China to deliver the desired package of capabilities.

Growing the Outcompete Ecosystem

The United States is fortunate to have a diffuse array of tools at its disposal to enable an outcompete strategy. This system takes the form of a diverse ecosystem of actors with differing philosophies, objectives, and processes. Indeed, the ecosystem counts among its members U.S. government agencies, multilateral bodies, and even allies such as Japan, South Korea, and the European Union. Nevertheless, ensuring that all of the disparate resources strewn across this landscape can be directed toward a common goal promises to **pay dividends** not only for the United States' own ability to compete with China, but for the countries of LAC themselves, who deserve a more fulsome, resource-backed U.S. approach that speaks to their hopes and aspirations for their future.

The crown jewel of U.S. efforts to compete with China in the economic space is surely the DFC. In spite of the institution's aforementioned limitations, it remains among the most flexible and innovative mechanisms available to the United States as a counterweight to China's strategic investments. Thanks to a competitive mission and the authorities to back it up, the DFC is well suited to lead the charge in LAC, provided it has the right strategic vision and sufficient political willpower. Unfortunately, both

have at times fallen short of their lofty ambitions.

Other key actors in this space include international institutions not directly controlled by the United States but nevertheless **vital to the U.S-led international order and development ecosystem**. Chief among these is the Inter-American Development Bank (IDB), which stands out as the dominant lender for the majority of countries in LAC. However, the IDB's role is complicated by the fact that China has been a **member** of the bank since 2009, which allows Chinese companies to bid on contracts tendered by the institution. Thus, while Beijing's overall influence through the bank is limited by its multilateral nature and the relatively small amount Chinese support through it, IDB accession has enabled Chinese firms to leverage their competitive advantages across a number of projects which may have originally been foreclosed to them.

Other relevant institutions include the International Finance Corporation (IFC), Inter-American Foundation, International Monetary Fund, and World Bank. Furthermore, the European Union and Japan have likewise made significant strides in their engagement with LAC. The former, through its own BRI counteroffer, known as the Global Gateway, has pledged to mobilize **€45 billion** (about $49 billion) to invest into LAC, while the latter, through the Japan International Cooperation Agency (JICA), has developed strong ties throughout the region in the development space. Taiwan, with the **majority of its 13 diplomatic allies** located in LAC, also plays an important role in development assistance, in many cases **yielding better** results than China for a fraction of the cost. These allies will be vital partners and force multipliers for the United States, but harnessing their unique advantages and capabilities will require a high degree of coordination.

The final and perhaps most consequential actor in the outcompete ecosystem is the U.S. private sector and capital markets. Indeed, no other element within the U.S. tool kit comes close to the level of resources the private sector can bring to bear. Furthermore, as corporations look to nearshore and "**friend-shore**" operations in order to mitigate risks to supply chains from rising geopolitical tensions, LAC should profit handsomely. The IDB, for instance, estimates that nearshoring could deliver an additional **$78 billion** in annual exports across the region. However, for many countries in the hemisphere, unlocking the potential of nearshoring and private sector-led development remains elusive. More needs to be done to create an enabling environment for U.S. and other firms to invest in the region. Additionally, the ability of the United States to engage most meaningfully with regional economies has been hamstrung by a shift in the U.S. political climate **away from trade agreements**. Particularly, key countries such as **Ecuador** and **Uruguay** have repeatedly approached U.S. policymakers in search of free trade agreements only to be rebuffed to the point that both ultimately turned to China in search of improving economic conditions for their populations.

Policy Recommendations

1. **Utilize DFC reauthorization to emphasize outcompeting.**

The upcoming DFC reauthorization process offers an opportunity for Congress to clarify priorities for the institution. As outlined in a **recent CSIS report**, Congress could take this opportunity to remove unnecessary red tape, such as the requirement for congressional notification for any projects above $10 million. Congress should also increase funding for staff to enable the DFC to review projects more swiftly and hire more regional experts for work in LAC specifically. Furthermore, the reauthorization

process carries the potential to spark a broader conversation on the role of the DFC in a world increasingly shaped by great power competition, in which all instruments of state power will need to be deployed for the United States to maintain its lead. An explicit endorsement of the DFC as the centerpiece of a U.S. competitive strategy could help to alleviate some of the risk aversion documented among the organization's leadership. Indeed, during the reauthorization process, Congress could push for the DFC to revisit its use of World Bank income classifications and to pursue investments in riskier but more strategic sectors, such as infrastructure, energy, and transportation.

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In doing so, both the administration and Congress should anticipate and prepare for attacks on such a competition-oriented mentality, which will likely draw opposition on the grounds of being insufficiently focused on development. Such accusations have been levied since the BUILD Act's inception, and the DFC's attempts to insulate itself from further targeting can be seen as a core driver of the risk-aversion observed within the organization. Bipartisanship will be essential to present a united front regarding the importance of institutions such as the DFC in counteracting the most deleterious effects of the rise of Chinese influence throughout LAC.

2. **Invest in energy security.**

One of the principal challenges for LAC countries is navigating the energy transition from fossil fuels to renewables. To this end, the region is fortunate to possess vast reserves of the minerals and metals which will be essential for new clean energy technologies. From the lithium triangle countries of Argentina, Bolivia, and Chile, to impressive copper reserves found in Peru, Chile, and Panama, the region's minerals potential stands to not only help meet global demand for renewables, but **deliver sustainable economic development** for these countries' citizens. The United States should work to bring countries throughout LAC into the **Minerals Security Partnership** (MSP), a compact designed to secure critical mineral supply chains. Nearly a year after its announcement, the MSP does not include a single LAC country, a serious detriment given the key role the region plays in global minerals markets.

The energy future of many of these countries is further complicated by the heavy presence of Chinese firms in their power sectors. Chinese companies are responsible for 10 percent of Brazil's power generation capacity and **12 percent** of its energy transmission infrastructure. Likewise, as of 2020, the state-owned State Grid Corporation of China acquired **majority ownership** over Chile's power distribution infrastructure. The United States can help to reduce these vulnerabilities by directing institutions such as the DFC to engage with a broader array of energy projects. At the moment, the organization has been constrained by an overly narrow focus on renewable energy projects, which has limited opportunities to engage in the kinds of large-scale generation and distribution initiatives needed to bring energy prices down throughout the hemisphere. Indeed, countries such as Guyana, poised

to become a major player in global oil markets, and Mexico, with impressive **natural gas resources**, can and should be doing more to promote regional energy security. But these countries need outside support and partnership if they are to fully tap their energy potential, something the U.S. government has thus far **proven reluctant** to countenance. To be sure, transitioning to renewables should remain a top goal of the United States, but policymakers should recognize that fossil fuels remain the dominant source of power in much of the region. Avoiding such realities only leaves the door open for Chinese-backed firms to enter.

3. **Provide a capital increase for the IDB.**

The IDB carries the potential to be one of the United States' greatest force multipliers in delivering inclusive and sustainable economic development for the region. Recently, progress has been made toward a capital increase for IDB Invest, the bank's private sector arm, which operates separately and with a more modest portfolio. This increase would add roughly **$3–4.5 billion** in capital, representing a major expansion of its current $12.4 billion portfolio. At a time when the private sector throughout LAC remains rocked by the aftereffects of the Covid-19 pandemic, such an infusion of capital could be essential for rejuvenating private enterprise. IDB Invest also has a **central role** in the recently unveiled APEP framework. In addition to an increase for IDB Invest, the United States should consider backing a **broader increase** for the institution itself, which has not undergone a general capital increase since 2010. Support for such a move could help position the bank to better support LAC countries in light of geopolitical and economic shifts, and U.S. leadership would help expand Washington's leverage to advocate for key reforms that will be essential in an outcompete world. Stricter scrutiny of Chinese state-owned enterprises bidding on IDB contracts, for instance, and inclusion of Taiwan as a member of the bank's board, akin to its participation in the Asian Development Bank, would represent key victories for the United States in shifting this institution away from China and delivering on rigorous, U.S.-aligned economic support for LAC.

4. **Broaden partnerships with allied countries.**

Resources for LAC will likely continue to be limited, at the very least in the short to mid-term. Accordingly, the United States will need to seek out like-minded partners and international institutions which can serve as force-multipliers for U.S. investment. Natural candidates in this regard include Japan, South Korea, Taiwan, and the European Union, which have all dramatically increased their investments in LAC in recent years. The first two, both home to robust electric vehicle manufacturing sectors, could be natural partners in shoring up mineral security and governance issues in LAC. Indeed, the Seoul-based Posco steel manufacturer has already announced a **$4 billion** investment in Argentina's lithium sector. In the case of the European Union, the United States should seek to engage urgently on how to align U.S. efforts with the Global Gateway's recent investments to amplify their combined effect.

Taiwan can also play an important and interlocking role with U.S. foreign policy objectives. Taiwan's seven remaining diplomatic allies in the hemisphere are relatively small countries where targeted and properly scaled investments can have major impacts. The United States would not need to invest much to significantly augment Taiwanese development efforts in countries such as Belize, St. Lucia, and Guatemala. Furthermore, Taiwan's previous work on initiatives such as the **digitization** of Paraguay's

health information service has granted it important expertise on a growing subject of concern for one of the regions that was hit heaviest by the Covid-19 pandemic. Aligning these disparate countries with equally diffuse resources and objectives in the region will be no small feat. To this end, the **recent memorandum of understanding** between Taiwan's International Cooperation and Development Fund and the U.S. Agency for International Development is a step in the right direction. The United States could also consider convening a summit that would bring together allies and partners from within and outside the hemisphere to discuss the most pressing challenges the hemisphere faces and develop a set of shared priorities.

5. **Enhance awareness of detrimental Chinese business practices.**

While not a substitute for providing a competitive, resource-backed counteroffer, the United States should reiterate that many of the attractive promises made by Chinese officials rarely live up to expectations in practice. The United States should also do more to highlight the effects of unsustainable debt burdens. Currently, **56 China-backed development projects** across the hemisphere have been subject to concerns of malpractice: 30 have resulted in environmental hazards, 22 have had adverse effects on Indigenous communities, and 13 have been associated with corruption. For every $1 in assistance globally, **China adds $9 in debt** to lower- and middle-income countries. By adopting stricter know-your-client standards and transparent contracting processes, countries in LAC could mitigate some of the advantages enjoyed by Chinese firms in this space and secure better results from such projects. The United States should seek to highlight the problematic activities of the most complicit firms by documenting and making available such information for decisionmakers and civil society in the region. Furthermore, the United States can **bolster** engagement between the Committee on Foreign Investment in the United States and regional countries to encourage the development of similar institutions throughout the hemisphere, thereby shoring up the ability of LAC countries to navigate partnerships with Chinese state-owned firms more constructively and mitigate the geopolitical risk associated with engagements in particularly sensitive industries.

6. **Increase APEP's ambition and galvanize enthusiasm for trade.**

Each of the above recommendations can help to recalibrate U.S. strategy for competition with China in LAC. However, unlocking U.S. capital markets stands out as one of the most potentially impactful outcomes. Getting to this point will require significant investment over time to reintroduce trade as a central feature of U.S. policy toward the region, something which, at the moment, appears a more distant prospect. The seeds for such a revitalization are nevertheless there. For all its limitations, APEP offers a flexible framework through with to harmonize trade policy between the United States and like-minded countries in the hemisphere. Congressional action will be necessary to capture its full potential. Passage of the **Western Hemisphere Nearshoring Act** in particular would give a firm legislative backing to enable greater investment in the region, while aligning APEP with such an initiative could grant serious incentives for countries to engage with some or all of APEP's pillars and access the full slew of its investment opportunities. Ultimately, however, the United States should move past **nonbinding, flexible agreements** such as APEP and get over its aversion to traditional, text-based trade agreements.

Other initiatives aimed at reintroducing trade to the realm of policy debate could include restoring the president's Trade Promotion Authority, which would allow the executive branch to proactively

negotiate terms with countries in the region in line with congressional guidance. Other conversations regarding the possible expansion of the **United States-Mexico-Canada Agreement**, one of the most modern and comprehensive trade frameworks in existence, to like-minded countries such as **Costa Rica** and the Dominican Republic could prove an innovative way forward without having to modernize all of the United States existing trade agreements one by one. Although APEP is the Biden administration's vehicle for economic engagement with LAC, leaders in both the White House and Congress will need to challenge themselves to **think** "outside of the APEP box" for a more comprehensive conversation on the role of trade in competing with China.

From long-standing trade ties to geographic proximity, to shared democratic institutions, the United States has a plethora of advantages to help it compete with China in LAC. Translating these into a competitive edge, however, will require determined political will from the administration, Congress, and the private sector, as well as a recognition of the vast, yet untapped potential of closer U.S.-LAC collaboration. ■

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