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“Economic Cooperation for a Stronger and More Resilient Western Hemisphere”

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Introduction

Chairman Carper, Ranking Member Cornyn, and Members of the Committee thank you for the opportunity to discuss the challenges, opportunities, and approaches to achieving greater economic cooperation across the Western Hemisphere. A more unified Americas is a critical pillar of our nation’s long-term economic competitiveness and national security. Enhancing cooperation among the countries that comprise the region would make us stronger in countering the influence of strategic competitors and stem the root causes of irregular migration while strengthening the U.S. economy and furthering our climate goals by nearshoring and integrating supply chains and co-production.

There are a number of foundational pillars in achieving greater cooperation, including trade policies to incentivize nearshoring, investment promotion and supply chain integration, diplomatic engagement, development assistance to improve infrastructure, and consistency across labor protections and the rule of law.

The Partnership for Central America (PCA) is a model for mobilizing private sector investment across the region, integrating supply chains, and promoting nearshoring that creates economic growth in both the United States and across the region. As an independent non-governmental organization, we are working through a public-private partnership model with the U.S. Government to mobilize investments that advance economic growth and sustainable development goals. In just 18 months, the Partnership has delivered unprecedented impact in the region, including mobilizing more than \$4.2 billion in corporate and civil society investments to Northern Central America of which more than \$500 million has already been deployed. Alongside diplomatic, trade, and development pillars of enhanced cooperation, the Partnership for Central America can serve as a model for the necessary private sector mobilization that is required today to achieve greater economic integration and sustainable development goals across the Americas. As USAID Administrator Samantha Power noted during Congressional testimony in May 2022, “The Partnership for Central America shows that with dedicated effort we can draw...companies that want to be involved in that broader societal effort.”

Enhanced Cooperation Addresses Critical Challenges Facing the Western Hemisphere

Improved regional cooperation would benefit the U.S. economy, help curb Chinese incursion in the Americas, stem migration, and further our climate resilience and adaptation goals.

First, cooperation could lead to significant economic benefits for the U.S. economy. The economies of the Western Hemisphere are highly interdependent, and closer collaboration can help to create a more stable and prosperous economic environment. Increased trade between countries in the region can help to boost economic growth, create jobs, and increase investment opportunities for American businesses. The United States is a significant trading partner for many countries in the region, and closer economic ties can help to expand American exports, particularly in sectors such as textiles, agriculture, energy, and technology. Improved regional cooperation can also help to facilitate the transfer of technology and knowledge, which can help to promote innovation and competitiveness for American businesses.

The textile and apparel industry is an example of this mutually beneficial system for job creation in the United States and poverty alleviation in Central America. There are more than 500,000 U.S. workers in our country's textile industry and 80% of yarn made in the U.S. is exported to Northern Central America where Central American workers then convert that raw U.S.-made material into many of the apparel products we wear everyday. This is particularly important for the largest cotton-producing states, including Texas (3.4M bales p.a.); North Carolina (1M bales p.a.); and South Carolina (530K bales p.a.). The United States and our partners across the region are part of an integrated supply chain. When we invest in our region as a whole, and take advantage of each country's unique comparative advantage, we make the United States stronger against strategic competitors, stem irregular migration, and achieve our labor and climate goals—all while protecting and growing the United States' economy and high-quality jobs.

Improved regional cooperation can also help counterbalance strategic competition in Latin America. In Central America, China has invested heavily in infrastructure projects such as ports, highways, and telecommunications. According to data from the Inter-American Development Bank, Chinese investment in the region totaled \$90 billion between 2005 and 2019, with a significant increase in recent years.

Beyond Central America, Chinese investment has been a significant source of financing for energy and mining projects in the Western Hemisphere. In countries such as Brazil, Argentina, and Peru, Chinese companies have invested in large-scale projects such as hydroelectric dams, oil and gas exploration, and mining operations. The trend of increasing Chinese investment in Central and South America is likely to continue in the coming years, as China seeks to strengthen its economic ties with the region and expand its global influence.

A reduction in irregular migration to the United States is a third potential outcome of improved regional cooperation—by addressing the economic roots of migration. In Northern Central America, for example, nearly 10% of the populations of Guatemala, Honduras, and El Salvador have had to flee their home countries since 2014 as a result of humanitarian challenges that include the highest murder rates in the world, climate disasters that have decimated as much as 80% of crops in recent years, a three-fold increase in hunger, and as much 40% of the population living in extreme poverty in regions. Both as a cause and consequence, poverty stands out as the leading motivation for migration with 74% of migrants citing it as the primary reason behind their decision to flee. By working together on coordinated migration management—like the *Los Angeles Declaration on Migration and Protection*—the Hemisphere can create more stable and prosperous economies in the region and reduce the push factors that drive migration.

Finally, improved regional cooperation can also help to fight climate change. Our united efforts across the public, private, and social sectors have an important role to play in promoting sustainable

development, increased supply chain integration, and nearshoring, which can help to reduce greenhouse gas emissions, promote sustainable land use practices, protect vulnerable ecosystems, and increase supply chain transparency. By working together with countries in the Americas, we can nearshore production to reduce shipping times, promote greater cooperation on renewable energy, regenerative agriculture, and the protection of biodiversity.

This matters because many regions in the Americas are ranked among the most vulnerable regions in the world to the effects of climate change. For example, the Global Climate Risk Index has ranked Honduras as the country most at-risk in the world to climate-related disasters and Guatemala experienced 12 times more hurricanes and tropical storms in recent years than the entire previous record, which contributed to recent migration spikes. According to the World Bank, Central America could see millions of additional climate migrants by 2050 as agricultural yields decline across Central America as a result of drought.

Partnership for Central America - A Model for Private Sector Mobilization to Advance Regional Cooperation, Nearshoring, and Supply Chain Integration

The Partnership for Central America is a model for mobilizing the private sector in support of economic cooperation, including promoting investments, integrating supply chains, and promoting nearshoring to create economic growth in both the United States and across the Americas. Like other frontier and emerging economies around the world, Northern Central America lacked a sustained organizing effort to mobilize and maintain the international investments and job creation required to shift the needle on economic growth in the region. To address this need, the Partnership was launched in May 2021 alongside a Call to Action by Vice President Harris to reduce the root causes of poverty in the region.

As a convener, PCA has brought together more than 100 strategic partners to deliver on a bold 10-year strategic plan to mobilize private sector investments to create jobs and implement social programs that build the investment climate for long-term growth. Within this scope, PCA mobilizes and coordinates the private sector to promote climate resilience, job creation, trade and nearshoring facilitation, and supply chain integration, among others. Our Board of Directors and Strategic Partners include leading regional and global government, business, and civil society leaders.

In 18 months, PCA mobilized \$4.2 billion in civil society and private sector funding to the region—of which more than \$500 million has already been deployed. Since our launch, our partners have financially included more than one million individuals; provided digital connectivity to more than four million; created more than 15,000 living-wage jobs; supported more than 4,500 farmers; and, provided technical training to more than 15,000 individuals, with 3,500 trained with certification for employment. As a result of these programs, children from a rural indigenous community in Comayagua, Honduras are now able to access the internet, which connects these families to the global economy and creates an immeasurable potential for their lives. Similarly, PCA helped guide Nespresso to launch its first line of coffee from El Salvador as part of its \$150M commitment, which is a tangible example of how greater cooperation can lead to new investments from global companies that deliver high-quality jobs that achieve our strategic objectives across the Americas, including stemming the economic roots of migration.

This has resulted in an impact on the ground that includes delivering aid to five million potential migrants, which reduces their need to migrate; mobilizing investments to a historic level (e.g., one

country's Foreign Direct Investment increased 300%); and contributing to a reduction in year-to-date migration from this region (as of February 2023).

Economic Cooperation to Achieve Economic Growth

As we work to support integrated supply chains and increase economic growth in the United States and Central America, the Partnership has prioritized sectors with expansive trade and nearshoring potential. In Central America, only 20% of the workforce is employed in the formal economy and 74% of migrants cited low wages or lack of jobs as a reason for migrating. By increasing investment in strategic sectors and industries, the Partnership works with partners to create a more inclusive and sustainable workforce in the region.

As one example, two-way trade in the textile and apparel sector supports more than one million workers in the U.S. and Dominican Republic-Central America Free Trade Agreement (CAFTA-DR) countries. 80% of U.S.-spun yarn exports go to the CAFTA-DR countries and of the \$15 billion in two-way textile and apparel trade between the U.S. and CAFTA-DR, \$4 billion were U.S. textile exports, which resulted in \$11 billion in CAFTA-DR textile and apparel exports to the U.S.

More apparel production in Central America translates into more yarn and fabric investments and jobs in the U.S., while simultaneously reducing the economic drivers of migration.

Since the beginning of the COVID-19 pandemic, due to supply chain challenges and delays, there has been an industry-wide focus on diversifying textile and apparel production supply chains to the Western Hemisphere. From our work with leading apparel brands, we know companies are actively seeking pathways to diversify their supply chains to our region. In this brief moment of opportunity to grow our country and region as an economic hub for nearshoring, we look forward to working with this Committee on shaping policies that incentivizes nearshoring and simultaneously protects American jobs.

Looking forward, we are conscious of the many challenges that lay ahead in achieving our shared vision of economic cooperation, including overcoming clear challenges in adherence to the rule of law and consistent environmental and labor standards. Even so, improved regional cooperation across the Western Hemisphere is essential to achieving a more stable, prosperous, and sustainable future for the United States and the region. Such cooperation can help to create new economic opportunities, counter investments by strategic competitors, stem illegal migration to the United States, and fight climate change. By working together across policies, investments, and social sector programs, we can help to promote greater prosperity, security, and stability for the region. However, it will require sustained attention, adequate resources, political will across governments, and strong and inclusive economic growth to go with strengthened governance.

I look forward to collaborating closely with this Committee going forward to deliver on our shared vision for advancing economic cooperation for a stronger and more resilient Western Hemisphere.