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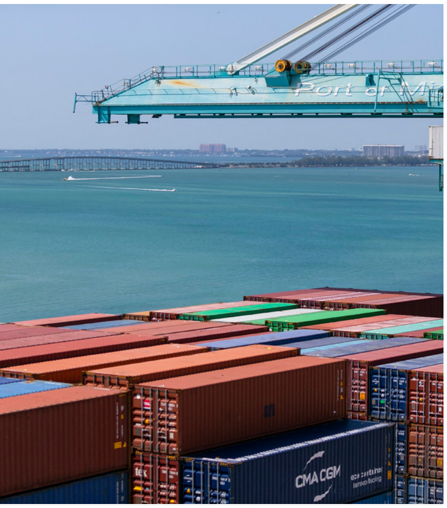
Secure supply chains for the US run through its closest neighbors

By José Manuel Restrepo and Martin Cassinelli



Shipping containers being loaded in PortMiami. TNS/ABACA via Reuters Connect.

Bottom lines up front

- Central America and the Dominican Republic buy more from the United States than they sell to it, and forty percent of US trade flows through the region via the Panama Canal.
- Investing in this trade relationship is worthwhile for the US, and it can use tariff exemptions and a higher annual equity cap for development finance to do so.
- Central America and the Dominican Republic should improve the rule of law and invest in a skilled workforce as they seek to deepen their integration to US supply chains.

Introduction

Central America and the Dominican Republic are part of the United States' immediate neighborhood, an area that has long been viewed primarily through the lens of migration management and development assistance. US engagement in the region has been shaped by concerns over irregular migration, political instability, and humanitarian crises. Yet, this framing overlooks a transformation taking place in recent years: the subregion outperforms Latin America and the Caribbean's economic growth, has a growing industrial capacity, and hosts an increasingly important infrastructure for the United States. As global economic competition intensifies and the United States seeks to reduce its dependence on China, Central America and the Dominican Republic (CA-DR), as an economic hub, warrant reconsideration as vital contributors to US economic security.[1] These economic ties not only strengthen US resilience but also stimulate local economies in CA-DR, creating jobs that encourage talent to remain in the region and ease migration pressures

II. Central America and the Dominican Republic can contribute to supply chain resilience

The urgency of this reassessment is underscored by the structural vulnerabilities of US economic security revealed in recent years. The COVID-19 pandemic, Russia's invasion of Ukraine, and increasing geopolitical tensions with China have exposed the risks of concentrated, offshore supply chains. To

1. Central America is broadly understood in this report as Guatemala, El Salvador, Honduras, Costa Rica, and Panama. Nicaragua is not included, as it is not a promising US partner due to its repressive government that consistently undermines US interests.

address these risks, the United States has been pursuing the reindustrialization of its economy through landmark legislation such as the CHIPS and Science Act of 2022 or, more recently, by imposing reciprocal tariffs on imports from countries around the world—as well as launching a series of Section 232 national security investigations targeting imports of steel, aluminum, solar panels, and critical minerals from China.[2] Supply chain resilience has therefore become paramount for US economic security.

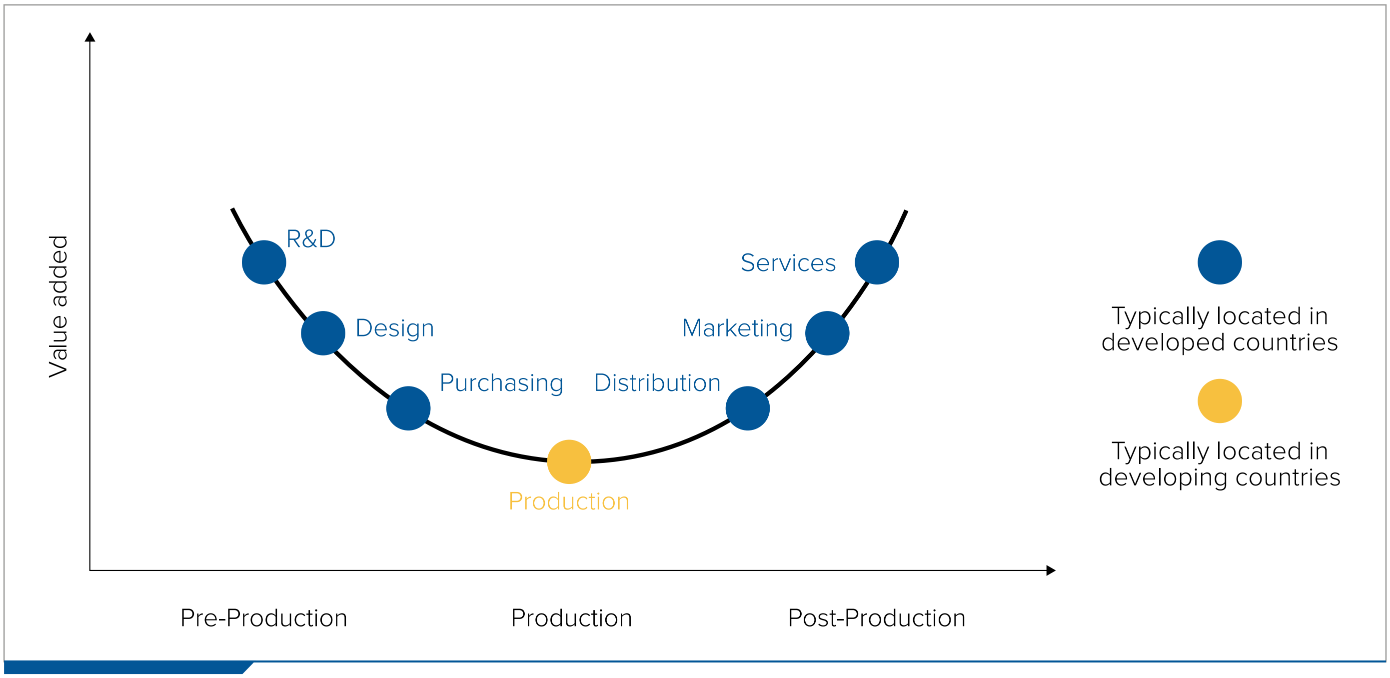
While weaning off reliance on China can yield more resilient supply chains, replacing China entirely with domestic production (autarky) could undermine US economic growth. As shown in a recent Organisation for Economic Co-operation and Development (OECD) report studying the effects of reshoring, localizing supply chains can lead to higher production costs, a decline in trade, and negative gross domestic product (GDP) growth, as companies with localized supply chains are more exposed to domestic shocks and production inefficiencies.[3] To achieve supply chain resilience and efficiency, and even to add US jobs, the United States needs to think of partners to complement its supply chain strategy.

Existing supply chain complementarities

CA-DR offers manufacturing complementarity to the United States. To understand why, one must understand how companies operate in global value chains and how domestic manufacturing companies can leverage the United States' neighborhood to achieve efficiency without sacrificing resiliency.

Global value chains are multi-step supply chains that offer complementarities, meaning that relocating parts of a supply abroad doesn't necessarily mean losing jobs domestically. Each step—from raw material extraction to final assembly—requires different inputs, skill sets, and cost structures. While high-value or sensitive steps might be reshored for strategic reasons, labor-intensive or lower-margin stages still need to be carried out where they can be done at cost. Academic literature refers to this phenomenon as the "smiling curve" of global value chains, in which the highest value is created at the early stage (design, research and development (R&D)) and late stage (marketing, branding) of production, while the middle stages such as assembly and logistics—often offshored or nearshored—tend to capture

Figure 1: The "smiling" curve shows complementarities along global value chains.



Source: Own design based on Agustín Filippo Carlos Guaipatín, Lucas Navarro, and Federico Wyss, "Productive Development in Face of the New Imperatives of Global Value Chains," Inter-American Development Bank, June 2024, https://publications.iadb.org/en/productive-development-policies-face-new-imperatives-global-value-chains

2. Benn Steil, "Section 232 Tariffs and the Relentless Rise of U.S. 'National Security' Protectionism," Council on Foreign Relations, June 18, 2025, https://www.cfr.org/article/section-232-tariffs-and-relentless-rise-us-national-security-protectionism.
3. Peter Foster, "Aggressive Reshoring of Supply Chains Risks Significant GDP Loss, Warns OECD," *Financial Times*, June 2, 2025, https://www.ft.com/content/e930fdce-367c-4e23-9967-9181b5cf43bc.

less value. These production efficiencies also translate into more affordable goods for US households, complementing domestic anti-inflation efforts without sacrificing economic security.

Because supply chains comprise several steps, partial relocation abroad can still add new jobs in the United States. A 2014 study measuring the effects of the North American Free Trade Agreement (NAFTA) in the job market—twenty years after the agreement was signed—found that expansion in Mexico by a US-based multinational corporation "is associated with domestic US expansion by the same firm."[4] As US firms relocate low-value-added steps of the chain to Mexico, they also increase sales, hire more workers, spend more on R&D, export more goods, and invest more capital in the United States. In other words, the study found that achieving efficiencies in the production stage abroad channels wealth and jobs to the United States across other stages. While the study focused on Mexico, a similar logic applies to CA-DR across specific industries.

Two mature industries in CA-DR that have successfully integrated into US value chains are medical devices and a subset of electronics, both critical to the functioning of the US economy.

Costa Rica and the Dominican Republic stand out as prolific medical device manufacturers, especially in lower-value-added manufacturing (e.g., disposables and medical and surgical instruments). Both countries have seen a remarkable increase in medical device exports to the United States, representing about 13 percent of all medical instruments imported by the United States in 2023.[5] Medical device exports from Costa Rica and the Dominican Republic—which have grown 342 and 102 percent, respectively, since 2014—are built with Food and Drug Administration (FDA)-aligned regulations and a skilled workforce, making those countries ideal partners for manufacturing of these critical goods for US hospitals.[6] Rather than recreate this specialized infrastructure domestically, the United States can focus on higher-value activities like R&D, as the United States dominates medical device patent filings globally while relying on partners for scalable production.[7]

Beyond medical devices, CA-DR also offers supply chain complementarities in electronics, supplying key products for US original equipment manufacturers. For example, Honduras has developed a specialty in insulated wires, exporting more than $1 billion of them to the United States.[8] In the automotive, aerospace, and energy industries, these low-value-added imports are critical to transmitting electricity and data signals. Moreover, the Dominican Republic's free trade zones host significant assembly operations in electrical products such as circuit breakers, printed circuit board (PCB) assemblies, wireless equipment, and junction boxes. Electronics exports from these zones totaled roughly $665 million, 98.8 percent of which went to the United States.[9] These activities align with the smiling curve concept, with the assembly of components representing the low-value-added middle segment while R&D, system integration, and software remain in the United States.

Outside advanced industries such as medical devices and electronics, the subregion is an agribusiness powerhouse and a key supplier of agricultural goods that are essential to the US consumption basket but not produced domestically—such as bananas, other tropical fruits, and coffee. For example, the United States sources 13 percent of its tropical fruit imports from the subregion.

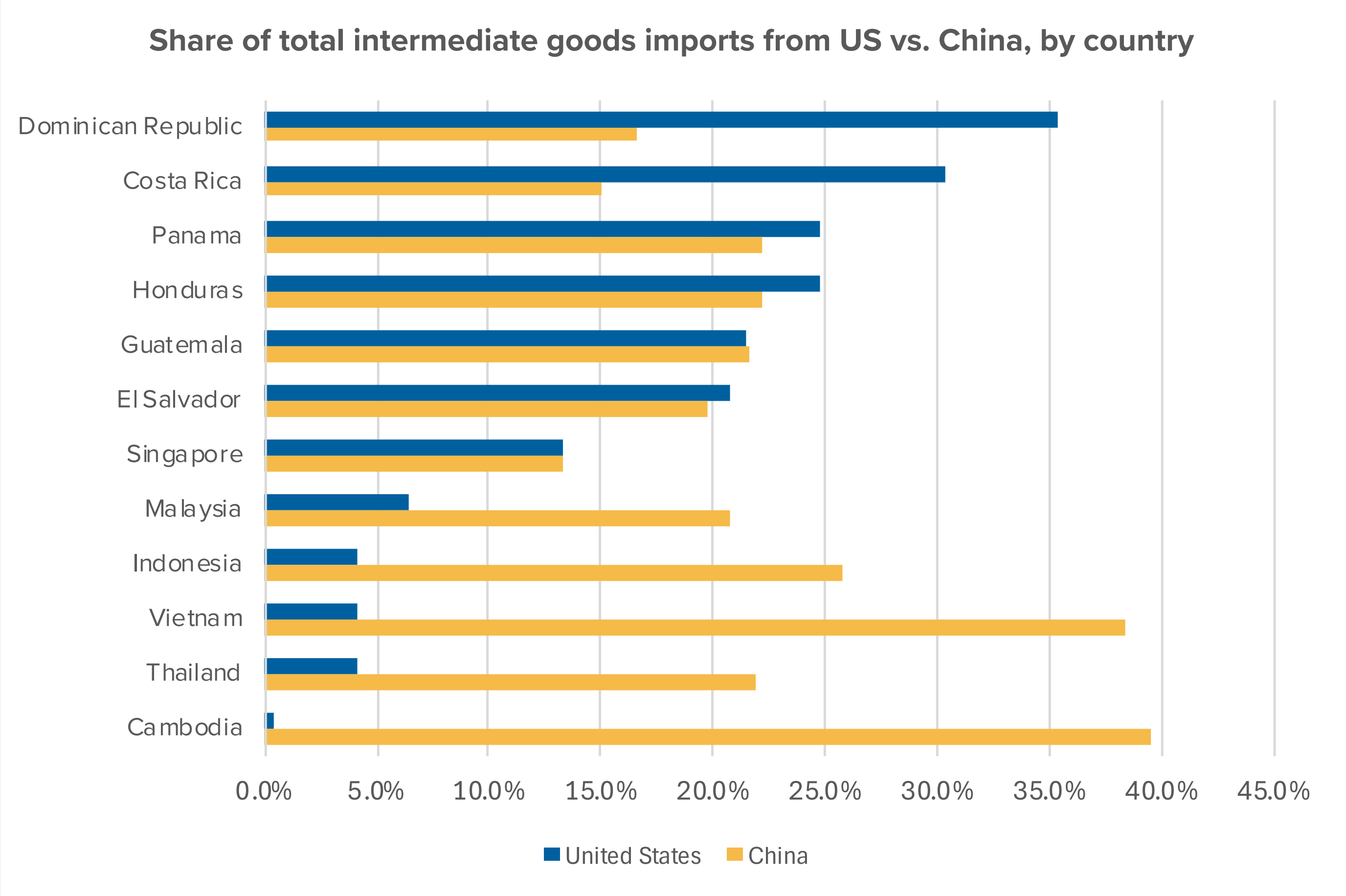
US dominates trade with Central America and the Dominican Republic

But why should the United States rely on foreign manufacturing? Doesn't this undermine its security? Seeking production efficiencies abroad doesn't need to come at the expense of US economic security—if the United States chooses the right countries.

CA-DR offers ways to complement the reshoring agenda without compromising US economic security. CA-DR economies are

4. Theodore H. Moran and Lindsay Oldenski, "How US Investments in Mexico Have Increased Investment and Jobs at Home," Peterson Institute for International Economics, July 11, 2014, https://www.piie.com/blogs/realtime-economic-issues-watch/how-us-investments-mexico-have-increased-investment-and-jobs.
5. "Medical Instruments in United States," Observatory of Economic Complexity, 2022, https://oec.world/en/profile/bilateral-product/medical-instruments/reporter/usa.
6. Dixie Downing, "Beyond the Beaches: The Dominican Republic's Rise in Medical Devices," US International Trade Commission, July 2024, https://www.usitc.gov/publications/332/executive_briefings/ebot_island_of_innovation_dr_medical_devices.pdf.
7. "Patent Activity in the Medical Industry Decreased in Q3 2024," Medical Device Network, August, 10, 2023, https://www.medical-device-network.com/data-insights/patent-activity-medical-industry/?cf-view.
8. "Honduras (HND) Exports, Imports, and Trade Partners," Observatory of Economic Complexity, 2025, https://oec.world/en/profile/country/hnd.
9. Stephen Ezell, "Assessing the Dominican Republic's Readiness to Play a Greater Role in Global Semiconductor and PCB Value Chains," Information Technology and Innovation Foundation, January 29, 2024, https://itif.org/publications/2024/01/29/dr-semi-conductor-readiness/.

Figure 2: Central America and the DR source predominantly from the United States and Asian counterparts from China.



Source: "Intermediate Goods Imports by Country & Region US$000 2022," World Integrated Trade Solution, 2022, https://wits.worldbank.org/CountryProfile/en/Country/WLD/Year/2022/TradeFlow/Import/Partner/all/Product/UNCTAD-SoP2.

inextricably linked with the United States, as evidenced by how US inputs dominate these countries' production matrix, particularly when compared with manufacturing powerhouses in Asia, where Chinese inputs are predominant (see Figure 2). US exports to CA-DR, in turn, are used in the production of goods produced in CA-DR, benefiting US exporters.

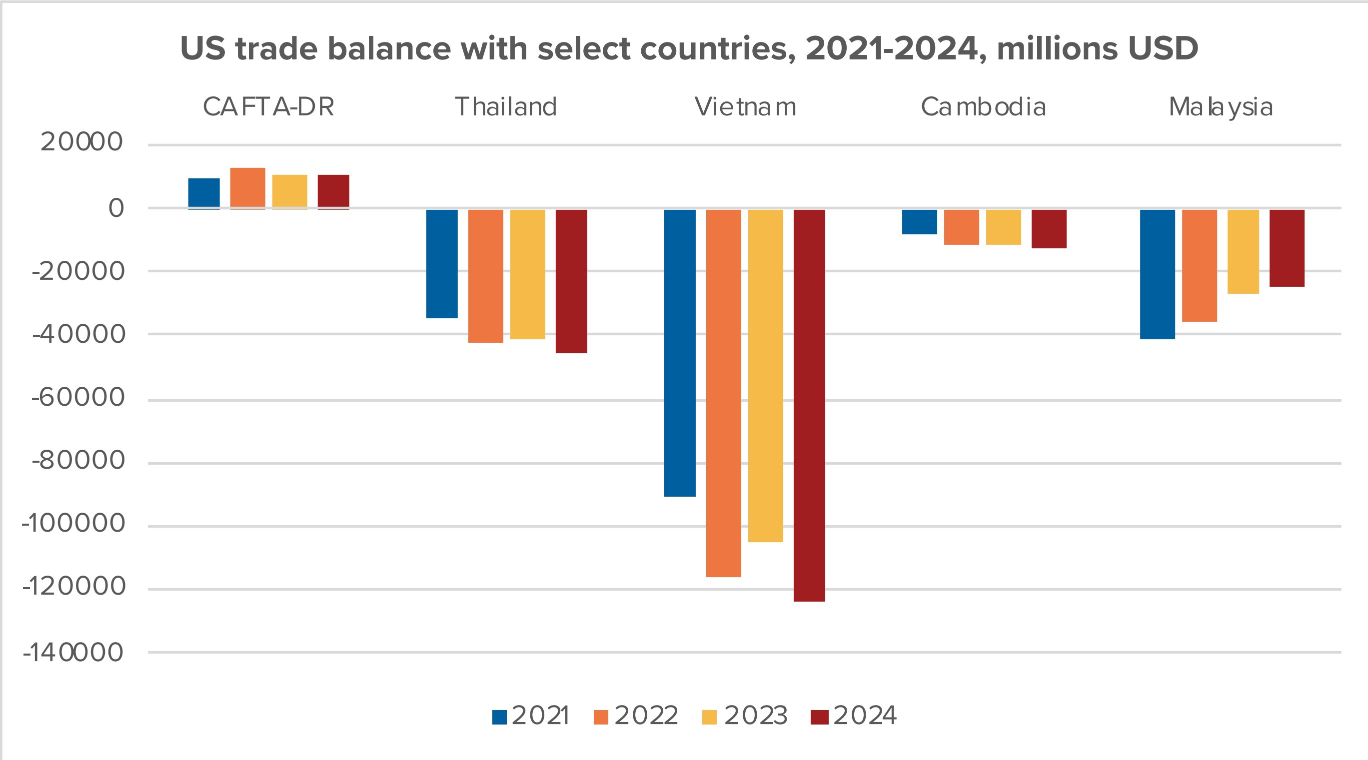
The degree to which US inputs are embedded in CA-DR production is clear in the textile sector, the largest trade category with the United States for Guatemala, Honduras, and El Salvador. The US textile industry exported $3 billion of fiber, yarn, and fabrics to CA-DR, making it the second-largest global market for US textiles after Mexico.[10] These materials are then channeled into CA-DR production lines, which then export finished apparel to the United States. As a result, CA-DR textile exports help support more than four hundred thousand US jobs that are dependent on the United States exporting its yarn, fiber, and fabrics.[11] The degree to which CA-DR countries buy US products, thereby benefitting US companies, is further evidenced by the trade surplus the United States enjoys with these economies, unlike their Asian counterparts (see Figure 3). Put differently, CA-DR economies buy more from the United States than they sell to it.

Finally, trade with this subregion is undergirded by the Dominican Republic-Central America Free Trade Agreement (CAFTA-DR), a free trade agreement that protects US investment there. It does

10. "Trade: Facts and Figures," National Council of Textile Organizations, January 16, 2014, https://ncto.org/facts-figures/trade.

11. Ibid.

Figure 3: CAFTA-DR cumulatively buys more US products than the US buys from it.



Source: Dominican Republic-Central America FTA (CAFTA-DR)," Office of the United States Trade Representative, last visited August 14, 2025, https://ustr.gov/trade-agreements/free-trade-agreements/cafta-dr-dominican-republic-central-america-fta.

so by ensuring fair treatment, legal stability, and the ability to move capital freely.[12] CAFTA-DR guarantees that US firms cannot be unfairly treated compared to local or third-country investors, and that their assets cannot be taken by the government without proper compensation. The agreement also ensures that investors have access to neutral dispute resolution if local legal systems fail to provide justice. These protections reduce risk and create a more predictable business environment.

Not only do CA-DR countries offer supply chain complementarities across critical industries, but the nature of US trade with the subregion—which is dominated by US inputs and undergirded by a free trade agreement—allows these complementarities to coexist with US economic security while US companies see positive returns and jobs generated.

III. China's infrastructure footprint in Central America and the DR and the strategic risk to US economic security

Economic security is not only a matter of diversifying production; it also requires protecting the infrastructure through which trade flows, especially when US exposure to regional infrastructure is high. This is the case in CA-DR. Forty percent of annual US trade passes through the Panama Canal, and four of the ten ports on which the United States most relies across Latin America and the Caribbean (LAC) are in the CA-DR subregion.[13] It is no secret that China has significantly expanded its footprint in Latin America's infrastructure landscape, targeting ports, energy systems, and telecommunications as part of its broader Belt and Road ambitions. Luckily for the United States, however, CA-DR countries aren't yet top destinations for Chinese investment (just 4 percent

12. "Dominican Republic-Central America FTA (CAFTA-DR)," Office of the United States Trade Representative, last visited August 14, 2025, https://ustr.gov/trade-agreements/free-trade-agreements/cafta-dr-dominican-republic-central-america-fta.

13. Henry Ziemer, Jaehyun Han, and Aidan Powers, "No Safe Harbor: Evaluating the Risk of China's Port Projects in Latin America and the Caribbean," Center for Strategic and International Studies, June 25, 2025, https://features.csis.org/no-safe-harbor-china-ports.

of China's foreign direct investment to LAC was targeted to the subregion) and the United States remains the subregion's largest trading partner. This shouldn't serve as grounds for complacency but should be understood as fertile ground for the United States to work with its CA-DR partners to enhance the security of the infrastructure through which its goods flow.

Complacency, in turn, can pose security challenges. China has increased its investment in the region's infrastructure, particularly in Honduras and El Salvador. In Honduras, Chinese state-owned enterprises (SOEs) have recently ramped up their presence in the energy and public works sectors. The Xiomara Castro government is advancing twenty billion dollars in projects with China-based companies to develop the country's "dry canal" corridor linking the Pacific and Atlantic coasts. This includes China Harbor's expansion of the Port of San Lorenzo on the Gulf of Fonseca, upgrades to the highway from San Lorenzo to Puerto Cortés, and construction of bridges connecting Puerto Cortés to the mainland to facilitate interoceanic trade.[14] In El Salvador, Chinese financing has supported the construction of a new national library and a flagship coastal tourism initiative known as Surf City, underscoring Beijing's interest in high-visibility infrastructure.[15] China-based firms have also long shown interest in developing the Port of La Unión on the Gulf of Fonseca, along with a range of commercial facilities within a special economic zone (SEZ) that would grant them special privileges and operational autonomy.[16] Famously, in Panama—a key strategic node for US shipping— the main ports at either end of the Panama Canal are operated by Panama Ports Company, a subsidiary of CK Hutchinson Holdings—a Hong Kong-based conglomerate with ties to Beijing, which owns a 90 percent stake in the company.[17] (In March 2025 the conglomerate announced plans to sell its interests in the Panama Canal ports; the potential deal was still in the works as of late August.) While Chinese engagement in the CA-DR region remains modest compared to its engagement in South America, these investments reflect a calibrated effort to expand influence in sectors critical to trade and long-term strategic access.

Miami at the center of US ties with the region

Trade with Central America and the Dominican Republic doesn't just contribute to US economic security at large. The US-Central American trading relationship benefits local economies across the United States.

Among the cities that benefit most from trade with CA-DR, Miami stands out. No city in the United States sees more benefit of trade with CA-DR. One-third of all US exports to Latin America come from Miami, directly supporting thirty thousand local jobs, while the larger trade and logistics industry in Miami-Dade County supports another 340,000 jobs. In fact, two-thirds of Florida's two-way trade stems from Miami-Dade County (which includes Miami International Airport and PortMiami).

For individual logistics hubs like PortMiami, LAC represent 46 percent of all its trade and its three top trade partners (adding exports and imports) are Honduras, the Dominican Republic, and Guatemala (see Figure 4). PortMiami is a crucial asset for Florida, generating an annual economic impact of $61.4 billion—or 4 percent of Florida's GDP—for the local economy, which directly stems from the trading relationship with Latin America, and with the CA-DR subregion more specifically.

The case of Miami-Dade County and PortMiami suggests an additional argument for how the CA-DR region supports US economic security. The deepening of trade relations with the subregion—whether by doubling down on supply chain complementarities or by investing in subregional infrastructure—generates positive economic impacts in corresponding US trading and logistics hubs, directly contributing to valued jobs in the US economy.

14. Bryan Burgess, et al., "Spotlight on PRC Engagement in Honduras Relative to Central America," AIDDATA, College of William and Mary, January 2025, https://docs.aiddata.org/reports/prc-engagement-honduras/Spotlight_on_PRC_Engagement_in_Honduras.pdf.
15. Ibid.
16. Evan Ellis, "China's Advance in Central America and Its Strategic Importance," Diplomat, April 8, 2024, https://thediplomat.com/2024/05/chinas-advance-in-central-america-and-its-strategic-importance.
17. Jenny Duan, "Great-Power Competition in the Panama Canal," International Institute for Strategic Studies, April 15, 2025, https://www.iiss.org/online-analysis/online-analysis/2025/04/great-power-competition-in-the-panama-canal.

Implications of Chinese influence over the subregion's port infrastructure

Chinese control or influence over port infrastructure in the Western Hemisphere raises serious strategic and security concerns for the United States. Ports are not just commercial nodes; they are also critical chokepoints that can be leveraged for geopolitical purposes. China's expanding role in regional ports through direct investment, construction contracts, and long-term operating concessions provides Beijing with potential leverage over the flow of goods, conferring advantages to certain ships and companies, as well as the ability to collect sensitive shipping data—which serves as intelligence gathering and a platform for future military or dual-use operations.

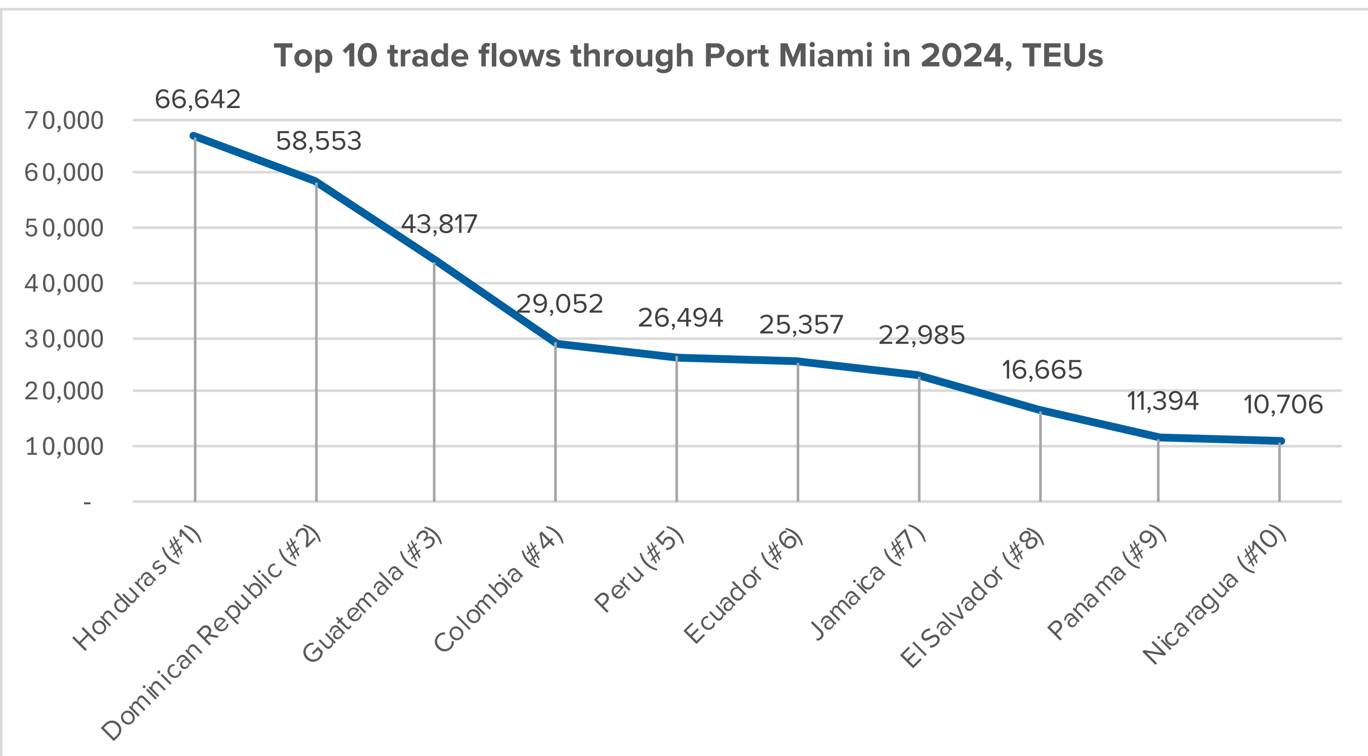
China's growing footprint in Central America, especially in Honduras and El Salvador, is particularly concerning given the strategic location of these countries near key maritime routes like the Panama Canal and the Gulf of Fonseca. As Chinese firms position themselves to dominate projects such as the dry canal in Honduras and the La Unión port-SEZ in El Salvador, the United States risks losing influence in a subregion that directly affects its logistical and trade connectivity. These projects serve as beachheads for broader political alignment and dependency on China. The lack of stringent oversight and the potential for long-term leases or exemptions within special economic zones can give Chinese actors quasi-sovereign control over critical infrastructure, sidelining US partners and constraining Washington's options. If this trend accelerates, US economic security could be seriously undermined by reduced access to the very corridors that sustain its commercial and strategic presence in the Americas.

IV. Policy recommendations

The United States government should consider the following.

- **Development finance**: To strengthen US economic security and counter growing Chinese influence, Washington should expand the US International Development Finance Corporation's (DFC) ability to invest in CA-DR. Congress should remove income-based restrictions that exclude strategic upper-middle-income partners like Costa Rica and the Dominican Republic and should raise the DFC's annual equity cap to support

Figure 4: PortMiami is the gateway in trade with Central America and the DR.



Note: TEUs refer to twenty-foot equivalent units, a standard measure of cargo container capacity.

Source: "Latin America and the Caribbean Statistics 2024," PortMiami, https://www.miamidade.gov/portmiami/library/portmiami-main-latin-caribbean-statistics.pdf large-scale infrastructure and manufacturing projects. DFC financing should prioritize sectors critical to US supply chain resilience, such as medical devices, electronics, and agribusiness. These reforms would empower the United States to channel investment into strategic ports, energy grids, and industrial hubs in a region where infrastructure gaps threaten long-term alignment with the United States, and where China is gaining influence through state-backed projects. Additionally, the US Army Corps of Engineers' expansion of Puerto Quetzal in Guatemala shows another possible policy in the US government's toolbox.

- **Trade policy**: Washington should modernize CAFTA-DR to mirror United States-Mexico-Canada Agreement (USMCA) standards, tightening rules of origin and customs enforcement, which ensure US inputs dominate regional supply chains. Selective tariff exemptions should be considered whenever countries align with US strategic interests (e.g., rejecting Chinese port infrastructure deals). Moreover, a regional supply chain security framework could be established with CA-DR countries that align trade policy with US national security goals. This could include the utilization of US technical frameworks for manufacturing in CA-DR, origin verification protocols, joint inspections, and certification processes that prevent Chinese component leakage into trusted supply chains.

Governments of Central America and the Dominican Republic should consider the following.

- **Rule of law**: To fully contribute to US economic security and deepen integration into supply chains, CA-DR must strengthen the rule of law. This includes ensuring legal stability and predictable enforcement of commercial rules, reducing corruption simplifying bureaucracy through digitalization and public-sector reforms, improving transparency of customs procedures, and institutionalizing "one-stop investment windows" to streamline investment procedures. These reforms, partly emphasized in the US Trade Representative (USTR) Foreign Trade Barriers of 2025, will help attract and retain both domestic and foreign investment, enhance competitiveness, and position the subregion as a reliable partner in global supply chains.
- **Local labor force**: CA-DR must invest in building a skilled local workforce. Governments should expand vocational training and short-cycle education programs aligned with private-sector needs, particularly in manufacturing, logistics, and digital services. Public-private partnerships can ensure training stays relevant to evolving industry standards. Special attention should be given to youth and underserved populations to broaden labor force participation. A workforce equipped with the right skills will increase productivity, attract investment, and ensure that CA-DR's strategic relationship with the United States translates into inclusive and sustainable economic growth across the subregion, retaining skilled labor in the region and alleviating irregular migration pressures toward the United States.

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