

What matters for post-covid supply chain policy in DC?

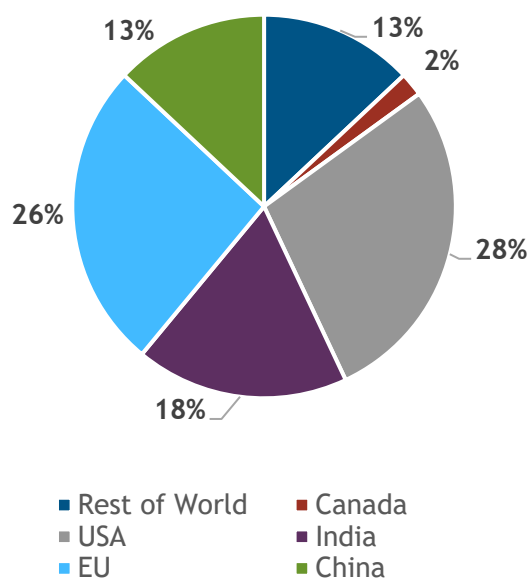
Blog post by Senior Associate Miranda Lutz, May 22 2020

Since the onset of the coronavirus pandemic, headlines of breakdowns in US supply chains and the inability of the US to meet the demand for essential goods like personal protective equipment (PPE) have taken over the news cycle. Through these challenges, the pandemic has brought to the forefront US reliance on Chinese manufacturing. But how will this policy issue manifest in Washington, DC - a city notoriously plagued by gridlock?

The media has focused on President Trump, whose longstanding priority has been to reinvigorate the US manufacturing sector. He has successfully been able to use supply chain issues stemming from covid-19 to bolster his 'Buy American' mandate. However, this topic is not just a focus of the Trump administration.

Congress is also seriously debating the risks of US reliance on Chinese manufacturing for supplies needed to mitigate covid-19. While much of the next stimulus package will be determined by partisan politics, lawmakers will undoubtedly consider including provisions addressing the decoupling of US-China supply chains. We expect bipartisan support for measures targeting Chinese manufacturing and incentivising the 'reshoring' of certain critical manufacturing capabilities. Specifically, we anticipate there will be action in two sectors: medical supplies and dual-use goods.

Percentage of API Manufacturing Facilities for All Drugs by Country or Region (August 2019)



Source: [Food and Drug Administration](#)

As the graph above shows, 72% of active pharmaceutical ingredients (API) manufacturers supplying the US are overseas. In recognition of this, since Congress has been back in session policymakers have introduced several stand-alone bills addressing concerns that the US has been unable to manufacture necessary supplies. For example, Senators Marco Rubio (R-FL) and Elizabeth Warren (D-MA), among others, introduced the *Strengthening America's Supply Chain and National Security Act*, which would require the Department of Defense to determine the extent of US dependency on China for pharmaceuticals and require drug-makers report the amount of API used in medicines to the Federal Drug Administration. This initiative builds off of reports from the Defense Health Agency which found that the US is over-reliant on China for APIs. Notably, it is not every day that a conservative stalwart like Rubio teams up with a progressive icon like Warren. In another example, Representatives Anna Eshoo (D-CA) and Susan Brooks (R-IN) introduced the *Prescription for American Drug Independence Act* which would establish a committee to analyse the impact of US dependence on China for pharmaceutical production.

Ultimately, the concern stems from both the quality of ingredients China produces and potential shortages resulting from supply chain failures. In this case, the messaging against China is not just rhetoric. These legislative initiatives demonstrate there is cross-party support for the US to re-examine its manufacturing capabilities, making the measures ripe for inclusion in the next coronavirus relief package.

Another supply chain issue that could be tackled in the next covid-19 legislation is that many US dual-use products, those that have both civilian and military applications, are manufactured outside of the country. A 2018 Department of Defense [report](#) highlighted concerns that China is the main supplier for numerous products critical to national security. As a result, dual-use industries such as semiconductors, chip materials, robotics, aviation, and satellites are likely to receive special attention in reshoring efforts.

We have already seen evidence of this with Taiwan Semiconductor Manufacturing Company's (TSMC) announcement on May 15th that it intends to build a \$12 billion microchip factory in Arizona. This decision comes after the US Commerce Department issued new regulations to restrict Huawei's ability to use US technology to produce its semiconductors by preventing companies, like TSMC, from selling chips to Huawei that are made with American manufacturing equipment. While the regulations were issued from the Trump administration, there is robust support on Capitol Hill to reduce Huawei's presence in the US over national security concerns. The bipartisan *Secure and Trusted Communications Networks Act* which was signed into law last year gave the Federal Communications Commission \$1 billion to replace any gear from Huawei or ZTE Corp., another Chinese-based telecommunications company. This whole-of-government concern over Huawei is what could drive Congress to incentivise certain dual-use sectors to establish domestic capabilities.

Two factors essential for accomplishing anything in DC are bipartisan support and buy in from both the executive and legislative branches. US dependence on Chinese supply chains has both of these components. And while these are not new issues, the covid-19 pandemic has heightened their profile and could serve as the catalyst for Congress to take decisive action.