

**Testimony of Scott N. Paul  
President, Alliance for American Manufacturing  
Before the United States Senate Committee on Finance  
Subcommittee on International Trade, Customs, and Global Competitiveness  
Hearing Entitled  
“Supply Chain Resiliency:  
Alleviating Backlogs and Strengthening Long-Term Security”  
June 15, 2022**

Chairman Carper, Ranking Member Cornyn, and Members of the Subcommittee, on behalf of the Alliance for American Manufacturing, thank you for the opportunity to testify today on an issue of vital importance to our economic and national security: strengthening the resiliency of our supply chains to respond to new realities and the chaotic events of the past several years.

AAM is a non-profit, non-partisan partnership formed in 2007 by some of America’s leading manufacturers and the United Steelworkers. Our mission is to strengthen American manufacturing and support new private-sector jobs through smart public policies. We believe that an innovative and growing manufacturing base is vital to America’s economic and national security, as well as to providing good jobs for future generations. AAM achieves its mission through research, public education, advocacy, strategic communications, and coalition building around the issues that matter most to America’s manufacturers and workers.

**Domestic Supply Chain Resiliency Is an Economic and National Security Priority**

The last several years have made all Americans painfully aware of the tragic inadequacy of our deteriorated industrial capabilities and broken supply chains for respirators, ventilators, medicines, and other products essential for pandemic response. The pandemic and its economic shockwaves also exposed a dangerous reliance on global suppliers for many other consumer and commercial products – revealing that the United States is ill-equipped to produce enough semiconductors, automobiles and parts, building materials, and consumer goods for everyday life, let alone the quantities needed to address a future emergency.

The frailty of on-demand global supply chains and our utter reliance on them has left us dangerously exposed during an international health emergency and unprepared for future shocks. These disruptions should be viewed through the lens of years of public policy decisions that both facilitated, and in some cases actively encouraged, the offshoring of domestic production and critical supply chains.

As a result, over 90,000 American manufacturing facilities have closed their doors since the late 1990s. China surpassed the United States as the world’s largest manufacturing nation in 2010, and in 2019 held nearly 29 percent of global factory output while the U.S. share had shrunk to 17 percent.<sup>1</sup> With our high domestic consumption rates, this means imports have replaced domestic production throughout our supply chains at an alarming rate. We imported \$1.2 trillion in goods in 2000. By last year, that total surged to \$2.8 trillion, a 133 percent increase, while our GDP grew over the same period at a slower (115 percent) rate. Not only has this replacement led to the loss of five million good, middle-class jobs and devastated communities across our nation, it has left us increasingly dependent on imports, often

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<sup>1</sup> “China Is the World’s Manufacturing Superpower,” Felix Richter. Statista. May 4, 2021. Accessed via Web Link: <https://www.statista.com/chart/20858/top-10-countries-by-share-of-global-manufacturing-output/>

from adversarial countries like China and Russia, for everything from consumer goods and advanced technology products to lifesaving personal protective equipment.

For example, even though the United States generally accounts for 20 percent of the world's consumption, our global market share for making things falls woefully short of that. We manufacture about 10 percent of electric vehicles, 7 percent of lithium-ion batteries, 12 percent of semiconductors (down from 37 percent in less than a generation), and 4 percent of printed circuit boards. There is only one major domestic manufacturer of electrical steel needed to build out our energy grid, and there are many other examples of greatly diminished capacity in critical industries such as machine tools.

To address these supply chain disruptions, as well as anticipate and prepare for future crises, we must acknowledge how we got here and what went wrong. The pandemic has exposed in rather dramatic fashion that years of flawed tax, trade, procurement, and other economic policies have put the United States in a perilous position of over dependence on imports. As the United States looks to address supply chain challenges, we must move away from the status quo approach that fosters continued and growing over reliance on imports, and instead focus on efforts that increase our own production capabilities. While we recognize that the United States has important security and trade relationships with our allies, and we can and should utilize those where it makes sense, the primary solution should not be to double down on imports or more globally integrated supply chains. Our vulnerabilities reflect an outdated notion of the benefits of hyper-globalization, where our consumers, workers, domestic businesses, and our national security suffer. We must break the vicious cycle of implementing policies that reward imports over domestic production.

*Experts Have Been Warning that Offshoring and Reliance on Imports is a National Security Risk*

The unfortunate, yet entirely predictable, reality we now face is that decades of offshoring have contributed to ongoing supply chain shortages and risks that continue to hinder growth and have forced some factories to go idle. This is an alarming economic and national security issue that experts have predicted for years.

- In a 2012 report, entitled "[Preparing for 21st Century Risks](#)," former Department of Homeland Security Secretary Tom Ridge warned that the United States was at-risk of being unprepared to recover from disaster — whether it was terrorism, natural disaster, cyber disruption, or pandemic influenza — due to its dependence on other countries for critical manufacturing. Governor Ridge argued that at the root of the problem was an increasing reliance on foreign suppliers for products needed in the wake of catastrophic events. His report highlighted case studies on the domestic steel industry, our water infrastructure, and the commercial power grid which, because of its dependence on foreign sources, has reduced the number of domestic producers of electrical steel used in transformers to one. Governor Ridge warned that hostile trading partners may make a deliberate choice to not supply needed products, materials or technologies during a time of domestic crisis — citing U.S. reliance on imports as a national security risk.
- In a 2013 report, entitled "[ReMaking American Security](#)," Brigadier Gen. John Adams, U.S. Army (Ret.) found that U.S. national security is at-risk due to our military's reliance on foreign nations for the raw materials, parts, and products used to defend the American people. He examined the risks and vulnerabilities associated with 14 defense-critical natural resources, inputs, and

components—including semiconductors and rare-earth minerals—and presented recommendations to help mitigate the risks to our national security posed by the pervasive outsourcing of our defense industrial base.

Regrettably, these reports proved prescient, and the authors' warnings and recommendations were largely ignored. It took the COVID-19 pandemic to bring these concerns to the national spotlight, as the one-two punch of our gutted domestic supply chains and over reliance on foreign sources are impacting Americans in countless ways. We must be better prepared for the next crisis, and that requires taking bold action, starting right away. Moreover, the United States has a once-in-a-generation opportunity to take concrete steps to strengthen domestic manufacturing and rebuild critical supply chains, from semiconductors to face masks to batteries to solar panels.

We must also prioritize the expansion of all stages of manufacturing in the United States, including upstream inputs that are critical for the completion of a final product assembly or manufacture. Too often our policies overlook the components, parts, and upstream raw materials fundamentally necessary to produce a given product. In a future emergency, relying only on end products that are assembled or manufactured in the United States from all or mostly imported products is not a solution to the problems that have plagued our economy over the past several years. In fact, such approaches will only set us up to repeat this failure.

We have seen repeated failures affecting Americans in countless ways. Just this month, press reports highlighted that cancer patients and others needing imaging for their care and survival were dependent on contrast materials coming from China that are now in short supply.<sup>2</sup> We have learned in the past that a large number of components of the pandemic drug Remdesivir are produced in China. We have seen China threatening to weaponize supplies of rare earths to advance the CCP's political aims. These are but a few examples of the dangerous dependence that we now face.

Rebuilding supply chains will chart a course for a stronger future and create millions of new, well-paid jobs along the way. It's time to put an industrial policy in place to supercharge domestic manufacturing and grow supply chains.

### **AAM Supports a Policy Framework for More Secure, Resilient, and Revitalized Supply Chains**

We must acknowledge that supply chain resiliency is not a challenge that the private sector alone can fix. There is an appropriate role for government to provide leadership, coordination, a supportive policy framework, and funding directed to *domestic* production expansion where the vulnerabilities are most critical. This is not an easy task, but it is one that the American people demand because it is critical to our future security and prosperity.

#### *Enactment of the Bipartisan Innovation Act (USICA / COMPETES Act)*

We support a swift and successful conclusion of conference committee work on competitiveness and innovation legislation that has separately worked its way through the House and Senate. Merging the most attractive provisions from each of these bills offers the opportunity to create a long-overdue policy framework for supply chain security, resiliency, and revitalization.

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<sup>2</sup> "Hospitals ration CT scans, other procedures over shortage of contrast dye," Elizabeth Chuck. NBC News. May 18 2022. Web link: <https://www.nbcnews.com/news/us-news/shortage-contrast-dye-hospitals-ration-ct-scans-procedures-rcna29379>

AAM has outlined our conference priorities in a [letter to House and Senate leaders](#),<sup>3</sup> but please allow me to outline several topics that are particularly important to today's hearing.

- Strengthening U.S. investments in critical industries. Conferees should prioritize *CHIPS Act* funding to strengthen domestic semiconductor manufacturing and other federal assistance to sustain and expand manufacturing research, development, and deployment efforts through the network of institutes and state-level extension partnerships that are crucial to inventing, scaling, and making the next generation of products here in America.
- Supply Chain Resiliency Fund. Similarly, the supply chain resiliency fund in the House bill will act to fill gaps in our nation's critical industrial capabilities. I would caution, however, that critical supply chains strengthened by federal dollars should be those here in America, not offshore. Loans, loan guarantees, grants, and other forms of assistance awarded as part of a supply chain resiliency fund should be predicated on investments being made in the United States with construction activities giving preference to goods produced by American workers. American taxpayers want their hard-earned tax payments used to promote American jobs.
- Trade Enforcement. AAM supports strengthening trade enforcement tools to ensure that our efforts to secure critical supply chains are not undermined by unfair trade practices from China, Russia, and other countries. Specifically, we urge inclusion of the *Leveling the Playing Field Act 2.0*<sup>4</sup> in the final conference report. Several members of this subcommittee – including Senators Brown, Portman, Casey, and Young – are sponsors of this timely legislation.

Within the trade title, AAM also supports efforts to reform the current *de minimis* policy and opposes language that would circumvent and undermine USTR's Section 301 exclusion process.

- Screening Outbound Investments in Critical Sectors. AAM supports the *National Critical Capabilities Defense Act* – sponsored by Senator Casey and Ranking Member Cornyn – to establish an outbound investment review process designed to avert the offshoring of production capacity to foreign adversaries in critical U.S. sectors. This legislation – backed up by a 2021 recommendation of the bipartisan, independent U.S.- China Economic and Security Review Commission – merits enactment.

#### *Additional Policy Initiatives*

More broadly, there are some guiding principles that we believe Congress and the Administration would be wise to follow as a new policy framework for supply chain resiliency is developed.

Federal dollars and other forms of assistance should not be available to entities that are owned by or affiliated with the foreign government or militaries of countries that that are uncooperative or pose risks to our economic and national security interests. We must confront the reality that China's government has used and will continue to use global disruptions, including the pandemic, to advance its own

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<sup>3</sup> March 23, 2022, AAM Letter regarding UCISA / COMPETES Priorities. Web Link: [https://www.americanmanufacturing.org/wp-content/uploads/2022/04/AAM-letter\\_USICA-COMPETES-Conference.pdf](https://www.americanmanufacturing.org/wp-content/uploads/2022/04/AAM-letter_USICA-COMPETES-Conference.pdf)

<sup>4</sup> S.1187 - Eliminating Global Market Distortions To Protect American Jobs Act of 2021

economic and geopolitical interests. In 2020, an official in China remarked that “it is possible to turn the crisis into an opportunity — to increase the trust and the dependence of all countries around the world of ‘Made in China’.”<sup>5</sup>

Unfortunately, Congress neglected to implement sufficient guardrails as part of previous COVID relief packages. As a result, the *New York Times* reported that more than 125 China-owned or -invested companies received hundreds of millions of dollars in loans from the Paycheck Protection Program (PPP) — many of them state-owned with concerning links to China’s military.<sup>6</sup> The PPP program was created at the start of the COVID-19 shutdowns to keep America’s small businesses afloat and keep workers employed during this unprecedented crisis — not to support the CCP’s ambitions.

The reporting was based on research by [Horizon Advisory](#), which noted:

*“These PRC entities span State-owned enterprises (SOEs); companies with ties to China’s military and military-civil fusion programs; companies that the US government has identified as national security threats; companies complicit in China’s genocide against the Uighur minority in Xinjiang; and media outlets owned by, or that take direction from, the CCP.*

*“The identified recipients linked to PRC-based ownership span critical and strategic industries including aerospace and defense; pharmaceuticals and medical technology; legacy and emerging automotive manufacturing; advanced manufacturing and manufacturing components (e.g., semiconductors, robotics); telecommunications; financial technology; entertainment; and media.”*

Congress should prioritize domestic content in our infrastructure, procurement, and supply chain rebuilding efforts. Federal financial assistance should be conditioned on the use of iron, steel, manufactured products, and construction materials that are produced in the United States by America’s workers.

Reinvesting tax dollars here at home creates American jobs, invests in goods produced under strong environmental and workplace safety standards, and protects our economic and national security. Without these policies in place, predatory foreign governments would be free to undercut domestic production with dumped and subsidized, environmentally-unfriendly, and substandard products — bypassing American workers and sending U.S. tax dollars offshore rather than reinvesting in the United States.

We applaud Senators Brown and Portman for their leadership in enacting the Build America, Buy America legislation as part of the recent Bipartisan Infrastructure Law. Congress now has an important role to play in seeing that federal departments and agencies effectively implement this policy.

It is critically important that our trade policies be closely aligned and coordinated with supply chain resiliency efforts. To create the market conditions that allow for the incubation of new technologies into domestic production, manufacturers should have the confidence that they will not be wiped out by a surge of subsidized imports from foreign state-owned enterprises seeking to capture our markets. U.S.

<sup>5</sup> “Opinion: How China is planning to use the coronavirus crisis to its advantage,” Josh Rogin. *Washington Post*. 16 March 2020.

<sup>6</sup> “U.S. Small Business Bailout Money Flowed to Chinese-Owned Companies,” Alan Rappeport. *New York Times*. 2 August 2020.

companies and American workers are among the most efficient, hardworking, and capable in the world, but even they cannot compete against predatory foreign governments determined to dominate supply chains and use them as a weapon of foreign coercion. We need to enforce our trade laws to ensure a level playing field for American workers and manufacturers.

Congress and the administration must not return to flawed trade policies. AAM supports smart global engagement in the Indo-Pacific to advance the rights, interests, and futures of American manufacturing and its workers. Yet, as the United States commences Indo-Pacific Economic Framework (IPEF) discussions to deepen economic engagement within the context of the overall Indo-Pacific Strategy, we cannot return to the flawed trade and other policies that created our dangerous reliance on global suppliers or that will exacerbate the existing imbalanced trade relationships with many of the Indo-Pacific countries. The United States must learn from its mistakes, not double down on them. The United States is long overdue for a new and innovative approach to trade and economic cooperation. It is both possible and desirable to create a trade and economic policy framework to support a resurgent, domestic manufacturing base.

It should be noted that the United States already has robust engagement in the Indo-Pacific region with multiple Free Trade Agreements, alternative Section 232 arrangements with multiple countries, more than \$1 trillion in foreign direct investment in the region, and various defense and security arrangements. Regrettably, the United States also has substantial trade deficits with a handful of key participants. The United States has massive 2021 trade deficits in the region, including \$90 billion with Vietnam, \$60 billion with Japan, \$41 billion with Malaysia, \$35 billion with Thailand, and \$33 billion with India.

So, then, the key question for IPEF is determining the goals and objectives for future engagement in the region. As I write this testimony, information available on the various issues within a potential IPEF is simply in development. We do not know which countries will ultimately participate, whether additional countries will be able to join via “docking” provisions in the future, whether the framework will include market access commitments now or in the future, the role of American manufacturing and its workers, and whether enforceable workers’ rights and corporate accountability will apply across all modules.

The IPEF should not under any circumstances extend benefits, direct or indirect, to countries like China that are not a signatory. In fact, IPEF participants should be prepared to join the United States in confronting China’s predatory practices.

While many argue that the IPEF represents an opportunity to address supply chain challenges, we must not move away from the lessons learned during the COVID-19 pandemic – that is, that the United States must prioritize reshoring U.S. supply chains. IPEF cooperation that shifts production or sourcing decisions away from China may be a worthwhile endeavor but is nevertheless insufficient without concurrent efforts to domestically produce goods and materials necessary for our economic, health, and national security. Merely reshuffling offshore supply chain continues to leave our nation overly reliant on foreign production and susceptible to shocks from geopolitical or other events. The IPEF represents an opportunity to break the vicious cycle of adopting trade and economic policies that reward imports over domestic production and American workers.

Congress and the administration should proceed cautiously with respect to altering or removing existing trade enforcement actions. Any proposals to ease imports of finished goods or inputs should be

carefully examined to ensure that we are not doubling down on risky global supply chains and making it more difficult to reshore them or undermine existing producers. While an accessible and transparent exclusion process is essential for trade enforcement actions, unwarranted tariff relief may very well signal the demise of a U.S. company that is seeking to establish a market foothold or one that has reinvented itself to fill gaps in our domestic supply chains.

China has not earned the right to additional U.S. market access. In fact, China has ramped up its industrial subsidies, strengthened its state-owned enterprises (SOEs), continued its horrific genocide of ethnic minorities, taken the side of Vladimir Putin, broken its promises on Hong Kong, and become more aggressive in the South China Sea and in its threatening posture towards Taiwan. Despite its empty promises, Beijing continues these egregious activities to the detriment of U.S. companies and American workers. If Beijing continues to disregard its commitments under the modest Phase One agreement, the United States should pursue its enforcement rights under that deal.

Senators, a brighter future for supply chains and manufacturing is possible. We see examples of where public policies have invited new investments over the past several years. Steel and aluminum industry capital investment in America has boomed since 2018. An electric vehicle charging network company based in Australia is establishing a factory in Tennessee thanks in part to new public investments and domestic preference rules. Semiconductor makers Intel, Texas Instruments, TSMC, GlobalFoundries, and others have announced new plants in America, based in part on CHIPS Act support. Ford, General Motors, and other automakers and partners are establishing EV production and battery plants in the United States rather than overseas in part because of USMCA domestic content rules, other existing trade policies, and public-private partnerships to build out charging networks. Overall, we've seen robust manufacturing job growth during this recovery. Just a generation ago, some economists predicted none of this—large new factories or surges in manufacturing jobs—would ever be possible again thanks to automation and import competition.

But we should not pretend that a brief focus on supply chains will right the ship. According to a new CSIS study, China spends 1.73 percent of its GDP on identifiable industrial subsidies, or \$407 billion exchange rate weighted equivalent. By contrast, the U.S. spends 0.39% for this purpose. The proposed CHIPS Act investment is exponentially smaller than what China is prepared to invest in semiconductors: \$150 billion. We don't need to spend that much, but we do need to be much more intentional about policies to strengthen supply chains for the long haul.

Public policy support for American manufacturing is crucial to tackling supply chain challenges, and we look forward to working with you to ensure a better future. Thank you for the opportunity to testify at today's hearing.