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Global Supply Chains and U.S. Competitiveness

Statement of
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For the Hearing
*Supply Chain Resiliency: Alleviating Backlogs and
Strengthening Long-Term Security*

Before the Subcommittee on
International Trade, Customs, and Global Competitiveness
U.S. Senate Committee on Finance

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The American Leadership Initiative (ALI) appreciates the opportunity to testify before the Senate Finance Committee's Subcommittee on International Trade, Customs, and Global Competitiveness on the important topic of supply chain resiliency.

ALI's mission is to put our country and citizens on the right trajectory for 21st Century realities. We champion a holistic vision that: embraces a long-term alternative to populist isolationism that undermines American interests; strengthens and reforms our global alliances and institutions; doubles-down on our shared American values; addresses climate change collaboratively; and demands inclusive and sustainable growth - at home and abroad.

This hearing's topic is extremely important and timely, as we have witnessed waves of shortages over the past few years, from toilet paper to bicycles, from semiconductors to baby formula. These supply chain shortages, spurred by a variety of factors, including the pandemic, Russia's invasion of Ukraine, and lockdowns in China, have led to a bipartisan momentum to shore up American competitiveness and encourage U.S. manufacturing. National security concerns about China, combined with Russia's invasion of Ukraine, have raised awareness of the need to reduce U.S. supply chain dependency on these autocratic regimes.

In late February, the White House released [a plan](#) to revitalize American manufacturing and secure critical supply chains. This policy shift towards restoring American competitiveness and manufacturing, providing important funding to expand U.S. semiconductor production, and constructively working with allies to address the China challenge. is also seen in the United States Innovation and Competition Act ([USICA](#)) and the House-passed [America COMPETES Act](#) of 2022. ALI applauds both these initiatives and urges the conference to reach agreement and pass this critical legislation. The U.S. should also look for ways to streamline its import processes where possible, including exploring whether to eliminate some China 301 tariffs on consumer goods where they don't compete with domestic suppliers.

Fully implementing the Trade Facilitation Agreement, is an important step to streamline import and export processes globally. This agreement, which entered into force in 2017, specifies that technical and financial support should be provided to developing countries to help them implement the provisions to streamline their customs procedures. Implementation has been delayed over the past couple of years due to the pandemic and should now be expedited.

USICA includes several important provisions to facilitate the diversification of supply chains and facilitate the onshoring of critical manufacturing, and the Congress should consider funding to support these initiatives.

Having stable and secure access to critical products like semiconductors or medical equipment is essential to both the U.S. economy and national security. This crisis offers the U.S. an opportunity to think strategically about our economic and foreign policy goals and recreate our supply chains to support those goals. Current trade tensions with China provide an ideal time to begin reevaluating our trade policies with partner countries to strengthen those relationships and build more resilient supply chains.

Not everything can be produced domestically, and the U.S. should strive to find the right balance between onshoring and right-shoring global supply chains to achieve a range of foreign policy goals. Different solutions will work for different sectors, so it is important to consider the particular needs of each one when looking at supplier diversification.

As [Treasury Secretary Janet Yellen](#) said recently in her comments to the Atlantic Council, “friend-shoring” of supply chains to trusted countries allows us to securely extend market access and lower the risks to our economy, as well as to our trusted trade partners. Friend-shoring is an important part of supplier resilience, especially when moving sourcing for key technologies out of China. The effort to coordinate semiconductor supply chains under the U.S.-EU Tech and Trade Council, as well as efforts to coordinate with Japan and Korea, are important examples of how allies can coordinate moving sourcing of key technologies out of China and keep these technologies within countries that share U.S. values.

Concern about the ability to access certain goods quickly is an argument for turning to countries closer to the U.S., such as Canada and Mexico, to allow for ground shipment and eliminate port delays. This near shoring can also be used to encourage growth in developing countries that have strategic importance. The Biden administration has initiated [a program](#) to encourage private sector investment in the Northern Triangle — El Salvador, Guatemala and Honduras — with the goal of spurring economic development to reduce the incentive for migration from those countries to the United States. This program engages the State Department, USAID and other agencies to support U.S. companies looking to invest or source there.

For companies wanting to relocate textile manufacturing from Xinjiang, the Northern Triangle countries are an option to explore. To make the Caribbean and Central

America an sourcing attractive destination for near shoring, the USG must invest in additional capacity building to upgrade infrastructure, facilitate investment financing and invest in expanded trade facilitation programs.

Supporting sourcing in countries of strategic interest is an important tool to counter China growing global footprint. The Administration's Northern Triangle initiative can be a model for supporting other developing countries, notably in Africa, Latin America, to counter China's heavy investment in those regions. Such sourcing investments not only strengthen our economic relationships, but also our national security by bring jobs and investment and creating stronger relationships in those regions.

The Indo-Pacific Economic Framework (IPEF), launched earlier this week, is also a key tool in the U.S. supply chain strategy. In addition to strengthening U.S. leadership in Asia, it has a pillar focused on supply chain resiliency that will help the U.S. work with regional allies to ensure that key supply chains are reliable and secure.

U.S. supply chain policy should be used to advance U.S. standards, especially labor, environmental and digital standards. The IPEF framework seeks to advance those standards in Asia and provide countries a vital alternative to China's regressive standards.

To fully develop new sourcing partnerships, the U.S. will need to invest in capacity building to train workers, provide assistance in raising standards, and partner with the U.S. private sector to facilitate these countries becoming new sourcing destinations. ALI has suggested offering IPEF countries who meet key standards in the framework, a "preferred supplier" status, allowing their goods to be expedited through U.S. customs.

Investing in digital trade facilitation as part of IPEF and in other countries the U.S. sourcing destinations, is an important tool to reduce customs bottlenecks. The U.S. should assist these countries to transition to e-invoicing, as well as to implement digital rules of origin, sanitary phytosanitary certificates, and other digital customs documentation to expedite the customs process, as well as reduce opportunities for corruption.

In December, President Biden signed the [Uyghur Forced Labor Prevention Act](#), which bans imports from Xinjiang and seeks to ensure that goods produced wholly or in part with forced labor in other areas of China do not enter the U.S. The law also calls on the United States to lead international efforts to end forced labor practices around the globe and to coordinate with Mexico and Canada to implement the [USMCA prohibition](#) on

importing goods produced by forced labor into the three countries. This prohibition on imports produced with forced labor creates a necessity for U.S. companies to find new sourcing destinations with higher labor standards and is an important example of how the U.S. can advance labor rights and human rights through supply chain regulations.

A rethinking of supply chains can encourage green sourcing as well. In a recent path-breaking agreement on steel and aluminum, the United States and the European Union agreed to address carbon intensity and overcapacity of high-carbon steel and aluminum. This arrangement is meant to discourage the production of high-carbon steel and aluminum and ensure domestic policies to lower the carbon intensity of these industries, and it could be a model for the U.S. to achieve lower-carbon production in other sectors.

U.S. leadership on digital standards is of critical importance. As China's [Digital Silk Road](#) has expanded, it has brought authoritarian standards of surveillance, monitoring and censorship with the internet and telecommunication equipment it sells. The U.S. must be a standards setter in the digital space and offer countries its digital model of transparency, openness and democracy or risk ceding this critical space to China.

The U.S. should continue to strengthen constructive relationships with allies as well as expand its network of plurilateral arrangements to create new opportunities for friend shoring and supplier resiliency. Rethinking supply chains also offers the opportunity to emphasize trade facilitation, align standards, and strengthen near shoring in the Western Hemisphere to create economic opportunity and build new resilient sourcing paradigms that benefit American consumers and workers, as well as advance American values.

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