



AFPC Capitol Hill briefing: “The Death of “Made in China”? The Future of Global Supply Chains in a Post-Pandemic World”

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Related Categories: Democracy and Governance; International Economics and Trade; Australia; China; India; Japan

Related Expert: Richard M. Harrison, Joshua Eisenman, Michael Sobolik

On September 17th, 2020, the American Foreign Policy Council (AFPC) hosted a virtual briefing for congressional staffers on the outlook of global supply chains in the wake of COVID-19. The briefing, *The Death of “Made in China”?*, outlined how the Chinese Communist Party’s aggressive response to COVID-19—silencing medical professionals as the virus spread, hoarding personal protective equipment, and leveraging market access to deflect blame—is compelling governments around the world to assess the risks of relying on “Made in China” for supply chains.

Mr. Richard M. Harrison, AFPC VP of Operations and Director of Defense Technology Programs, moderated the panel, and the discussants were Ambassador Paula Dobriansky, Senior Fellow, Harvard University Belfer Center for Science & International Affairs; Dr. Thomas Palley, former Chief Economist, U.S.-China Economic and Security Review Commission; Dr. Joshua Eisenman, AFPC Senior Fellow in China Studies; and Mr. Michael Sobolik, AFPC Fellow in Indo-Pacific Studies.

Background

In his opening remarks, Mr. Harrison addressed how the pandemic has upended economic growth projections for the world’s second largest economy and dented its competitive advantage as a manufacturing hub. Mr. Harrison also contextualized the supply chain debate by highlighting preexisting disagreements between the U.S. national security and business communities on China policy.

Remarks

In her comments, Ambassador Paula Dobriansky argued that China’s status as a hub for supply chains, needs reconsideration. Even before the pandemic began, Ambassador Dobriansky observed, companies and countries had already started diversifying their supply chains due to increasing labor costs in China. Furthermore, three-fourths of U.S. companies have reported disruptions in Chinese supply chains. Therefore, the ambassador advocated for the Quadrilateral+, which would expand upon the current informal “Quad” group (U.S., Australia, Japan and India) and build a broader coalition of countries concerned about the security challenges associated with an overreliance on China. Beijing’s actions have led to a trend of security concerns throughout the world’s capitals, such as in Hanoi, where the government recently released a white paper directly expressing concerns related to China’s South China Sea claims, leading Vietnam to develop stronger military ties abroad. The ambassador also noted a weakening of the European Union’s close ties with China over its track record of cyber-attacks and human rights abuses. At the NATO Summit last year, Secretary General Jens Stoltenberg flagged concerns over China’s activities in both the Arctic and Africa. Additionally, the ambassador highlighted strengthened China-Russia alignment over shared interests—namely dividing U.S. allies and eroding U.S. power. Ambassador Dobriansky cited military exercises, weapons sales, and economic investments from both Beijing and Moscow as evidence of this alignment, while also cautioning against viewing it as an alliance.

Panel

The subsequent panel discussion unpacked the costs and benefits for the United States of shifting global supply chains away from China. Dr. Thomas Palley argued that U.S. reliance on Chinese supply chains gives the PRC excessive influence over America. Dr. Palley weighed whether the economic costs of reorienting global supply chains away from China would yield commensurate benefits, especially since jobs would be unlikely to return to the U.S. Dr. Palley also raised the threat of Beijing cutting back on purchases, particularly agricultural products, as well as the possibility of restricting U.S. companies from accessing Chinese markets. Geopolitically, while there could be short-term geopolitical costs associated with moving U.S. supply chains, Dr. Palley noted that the U.S. could realize benefits in the future—specifically lessened dependence on China, and reorienting other countries’ economies to the U.S. in key sectors. Finally, Dr. Palley posited that the U.S. needs to cool its confrontational approach to China if policymakers hope to make a rational decision on supply chains.

Dr. Joshua Eisenman reiterated Dr. Palley's statement that a diversification of supply lines does not guarantee a wave of returning manufacturing jobs in the U.S., but the preponderance of his remarks focused on China. Dr. Eisenman explained the domestic and international headwinds that China currently faces and the relevance of these challenges for the Chinese Communist Party. In particular, China is reeling from a slew of recent controversies ranging from Huawei and the South China Sea to the Yangtze River floods and an ongoing demographic crisis. Dr. Eisenman also unpacked China's current economic challenges that, ironically, stem from Beijing's recovery plan. He focused on China's "dual-circulation policy," which effectively stimulates economic growth through debt-driven investment. The challenge, Dr. Eisenman argued, is that investment is outpacing consumer spending, which is resulting in an imbalanced recovery that may prove unsustainable. He also addressed China's Belt and Road Initiative and the problems it is facing. Because investment in core infrastructure is not turning a profit, primarily due to the pandemic, BRI participants are unable to sustain heavy debt burdens, which in turn pressures China and reduces its investment flexibility in physical projects. As a result, Beijing will likely redirect investments to digital platforms. In his concluding remarks, Dr. Eisenman offered a number of suggestions for U.S. policymakers, including the reconsideration of TPP, robust mediation strategies, and placing a bigger emphasis on USAID. He also echoed Ambassador Dobriansky's support for the Quadrilateral dialogue, but with an explicitly political aspect.

Lastly, Mr. Michael Sobolik highlighted several tensions policymakers face in the supply chain discussion: multilateral vs. unilateral approaches; substantive legislation vs symbolic legislation; top-down strategies vs bottom-up approaches; and compelling or enticing U.S. companies to leave China. Mr. Sobolik identified PPE and rare earth minerals as key sectors to extricate from China. Particularly related to the U.S domestic base, he highlighted specific provisions in the National Defense Authorization Act of 2021 that seek to restart the U.S. industrial base, but also questioned whether reshoring those jobs to the U.S. made sense. Mr. Sobolik also noted two strategic weaknesses that Washington is facing: its reactive posture, and its tendency toward "whack-a-mole" solutions. In his concluding remarks, Mr. Sobolik postulated that the U.S needs to push China to compete on America's terms.