

## Buy America vs. Buy Allies

Government contracting is a powerful tool for promoting public policy, and the Biden Administration is using it to promote its policies, including domestic sourcing. An Executive Order titled *Ensuring the Future is Made in All of America by All of America's Workers* established the Made in America Office, and one of the first proposed rules focuses on implementing the E.O.

Much can be gained from buying domestic, but there are also benefits from close economic and strategic cooperation with allies, including doing business with those allies. According to the Commerce Department, defense exports

...further U.S. foreign policy and economic interests. Exports of major defense systems can also lower overhead and unit costs for the Department of Defense (DoD), and help sustain production facilities, workforce expertise, and the supplier base to support current and future U.S. defense requirements. Exports also promote interoperability of defense systems... and contribute positively to U.S. international trade account balances.<sup>1</sup>

The Administration talks about working with allies and points out that domestic preferences contain numerous exceptions and waiver options. But the current focus on domestic sourcing appears to set the stage to upend the Trade Agreements Act and domestic preference exemptions and waivers. The President has stated

I'm not letting a single contract to a single company that does not hire Americans, have all American parts, and has a supply chain that is an American product supply chain. And, by the way, that's not violating any trade agreement. It's been the law since the '30s, but no one has had the courage or the nerve to insist on it being applied. It's no violation of the World Trade Organization or anything else.

Is that an accurate assessment of the law? And is it good policy? After accounting for the need to secure strategic segments of the supply chains and domestic production capability, should DoD generally Buy America or Buy Allies?

In a July 2022 report, the Defense Critical Supply Chain Task Force, created by the House Armed Services Committee, takes a Buy Allies approach. The report recognizes that DoD must have access to domestic production of certain critical and strategic supplies and must "reduce reliance on adversaries for resources and manufacturing." The report also recommends that the U.S. work closer with allies and develop "strategies and incentives to move production to close allies, partners, and friendly nations with similar values and market-based approaches, when the cost curve does not support a purely domestic solution."

Let me pose three questions:

1. Will a more aggressive Buy American approach hurt or help the economy, and will other countries respond to an aggressive policy in kind, resulting in a net loss to the economy?
2. Given concerns over China, does a more aggressive Buy American approach undermine DoD's ability to buy what it needs, when it needs it, and at a reasonable price?

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<sup>1</sup> US Department of Commerce, Bureau of Industry and Security, [Offsets in Defense Trade](#), p. 10, July 2021.

3. Does an aggressive Buy America policy undermine building strong coalitions to contain China and counterbalance Russia?

The answers to these questions must account for the importance of the U.S. maintaining the right balance between supporting domestic industry and maintaining relationships abroad that provide crucial economic and strategic benefits.

### **Defense and Aerospace Exports Create Jobs and a U.S. Trade Surplus**

Given the robust Buy American requirements already in place, further efforts to implement blanket domestic sourcing requirements risk alienating our allies and undermining the benefits that come with close cooperation. Allies, seeing their companies excluded from the U.S. market, may retaliate and choose to shop elsewhere, costing more U.S. jobs than domestic preference requirements generate.

The domestic manufacturing base benefits significantly from defense and aerospace exports. In FY 2019, defense hardware exports exceeded \$20.5 billion.<sup>2</sup> According to the Bureau of Industry and Security, from 2017-2019, sales of manufactured military exports contributed a net of \$42.2 billion and 179,774 jobs to the U.S. industrial base (an average of 59,925 jobs annually).<sup>3</sup>

The \$20.5 billion in military sales in FY 2019 (*excluding* services) exceeds the \$11.9 billion DoD obligated on contracts from foreign entities (*including* services). The trade surplus is even more pronounced.

- A significant portion of DoD purchases from foreign entities were to support overseas operations.<sup>4</sup>
- According to the Aerospace Industries Association, the broader defense and aerospace industry generated a trade surplus of \$40 billion in 2020 (exports of \$90 billion vs. imports of \$50 billion).

Public support for foreign trade and the benefits it confers on the domestic economy remain steady. According to a 2021 Gallup poll, 63% of those polled consider foreign trade “an opportunity for economic growth through increased U.S. exports,” compared to 32% who consider it a threat.<sup>5</sup>

Consider the case of India. Strategically situated in southeast Asia along the Chinese border, India is key ally in containing Chinese expansion. In 2020, Indian procurement of US military equipment increased to \$3.4 billion, contributing to the U.S. economy, promoting interoperability with the U.S., and forging a stronger strategic alliance. India, however, is not one of the countries deemed to be domestic by the Buy American Act. It makes no sense to exclude that nation from our procurement system, particularly

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<sup>2</sup> US Census Bureau, *U.S. Exports to World Total by 5-digit End-Use Code (2010-2019)*, <https://www.census.gov/foreign-trade/statistics/product/enduse/exports/c0000.html>. Does not include sales of defense-related services. Includes the following export end-use codes: (50000) Military aircraft, complete; (50010) Aircraft launching gear, parachutes, etc.; (50020) Engines and turbines for military aircraft; (50030) Military trucks, armored vehicles, etc.; (50040) Military ships and boats; (50050) Tanks, artillery, missiles, rockets, guns, and ammunition; (50060) Military apparel and footwear; and (50070) Parts for military-type goods.

<sup>3</sup> *Offsets in Defense Trade*, p. 21 and Table 4-5.2. The data excludes offsets.

<sup>4</sup> More than \$830 million were obligated from entities in Afghanistan, the bulk of which supported operations in theatre; petroleum obligations, which exceeded \$2.8 billion, are frequently sourced from regional providers to lower costs and shorten supply chains.

<sup>5</sup> [Sharply Fewer in U.S. View Foreign Trade as Opportunity \(gallup.com\)](#), March 31, 2021.

given the other options they have for buying military goods and services, as reflected in a recent news article:

The Biden administration's Pacific strategy will face a major test later this year when India makes good on a controversial \$5 billion arms deal with Russia, an agreement that could trigger U.S. sanctions at a time when Washington is trying to pull India closer.

### **Robust Relationships with Allies Promote Readiness, Resiliency, Overmatch**

*And as we compete with China...our position will be much stronger when we build coalitions of like-minded partners...We are almost 25 percent of the global economy on our own, but together with our democratic partners, we more than double our economic leverage.*

General Lloyd Austin III, December 29, 2020

Trade surplus and select critical items or resources aside, the U.S. cannot afford, and should not try, to create a wholly domestic defense supply chain. As the COVID-19 pandemic laid bare, manufacturing and supply chains can be disrupted anywhere in the world, at any time. Even domestic production can be disrupted. A dispersed, redundant, and resilient supply chain provides strategic depth.

A recent GAO report found that reasons for overall declines in aircraft mission-capable rates included diminishing manufacturing sources, parts no longer available for production, and delays or shortages of parts.<sup>6</sup> At a time when our manufacturing industrial base is fragile and cannot maintain a sufficient supply of parts in peace time, let alone wartime, excluding reliable, allied suppliers of critical parts will only further harm readiness and weaken the industrial base.

*"Initiatives like the National Technology and Industrial Base, among other international programs and agreements, foster collaboration, competition, and innovation to ensure a healthy supply chain."*

Deputy Secretary of Defense Kathleen Hicks

Maintaining robust defense industrial base trade with our allies also promotes strategic alliances, interoperability, and other political benefits. Instead of limiting sources of supply, Congress and DoD should focus on stimulating additional geographically dispersed sources of supply to foster a more robust and resilient supply chain.

When the U.S. withdraws from nurturing these relationships, China exploits the void. Just one example of this occurred in November 2020, when 15 Asian nations signed the Regional Comprehensive Economic Partnership, the world's largest free-trade deal, including China, Australia, Japan, and South Korea—but not the United States.

In promoting policies to support the domestic industrial base, we should strive to ensure that we do not unintentionally undermine domestic industry or hurt critical strategic relationships with our allies.

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<sup>6</sup> GAO, *Weapon System Sustainment: Aircraft Mission Capable Rates Generally Did Not Meet Goals and Cost of Sustaining Selected Weapon Systems Varied Widely*, pages 13-14, GAO-21-101SP, November 2020.