

# PURSUE SUPPLY CHAIN AGREEMENTS IN STRATEGIC SECTORS

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| <p><b>ISSUE</b></p>  | <p>The United States and its trading partners have been working hard to build resilient and secure supply chains in strategic sectors, but more can be done to manage risk. Moving from largely procedural supply chain agreements to more substantive and concrete provisions will support diversification efforts, help ensure access to critical inputs and technologies, and reduce U.S dependence on China.</p>   |
| <p><b>SIGNIFICANCE</b></p>                                 | <p>As tensions with China show no signs of abating, U.S. efforts to reduce economic dependence on China are critically important. The United States still remains dependent on China in key sectors; such as critical minerals, batteries, and certain pharmaceuticals. Reducing this dependence and building greater economic resilience, particularly in strategic sectors, cannot be achieved unilaterally. The United States should work with key Indo-Pacific partners and others so that it can weather approaching storms. Facilitating increased trade in strategic areas among key trusted partners in the Indo-Pacific through pooling capabilities and resources in different parts of the supply chain and removing trade barriers should be a priority.</p>   |
| <p><b>EXPECTATIONS<br/>IN THE REGION</b></p>               | <p>Indo-Pacific partners would welcome sustained U.S. economic engagement in the region where it supports their economic development and helps them better respond to economic challenges.</p>   |
| <p><b>DOMESTIC<br/>CONSTRAINTS/<br/>CONSIDERATIONS</b></p> | <p>There has been bipartisan support in Congress to strengthen supply chains, such as through the Critical Minerals Security Act and the Promoting Resilient Supply Chains Act. Stakeholders would also welcome initiatives that provide more certainty on supply of critical inputs, particularly given the increasingly turbulent times.</p>   |
| <p><b>RECOMMENDED<br/>COURSE OF<br/>ACTION</b></p>         | <p>The United States should negotiate sector-specific supply chain agreements with key partners in the Indo-Pacific, starting with a few sectors and over time extending to more. Critical sectors that could be in the first tranche include critical minerals, pharmaceuticals, and semiconductors. These agreements should feature provisions that support robust supply chains such as sharing of information, establishing prompt response networks, and supporting investment in critical infrastructure. Moreover, they should also include tariff cuts, aligned standards, and trade facilitation provisions to be applied only to the agreement's parties. Strengthened provisions to promote transportation and logistics services to increase resilience should also be included. Such agreements could be a forerunner of deeper economic collaboration with these partners to advance other economic security objectives, such as closer cooperation on export controls and investment screening.</p> |