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## The Year of the Industrial Base

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The industrial base has been a clear focus of national security policy since the start of the current administration. Policy and strategy documents issued in 2018 concretely articulate the economy as a strategic asset whose importance to national security is underpinned by the state of the defense industrial base. While the strategic importance of a strong and resilient industrial base has long been recognized, it currently faces threats from the residual effects of Budget Control Act spending caps and sequestration and from state-directed foreign competition in key technology sectors. For instance, [a CSIS study](#) showed the pervasive impact of the Budget Control Act on the industrial base, finding that the number of vendors working directly for the Department of Defense (DoD) fell by 20 percent.

What impacts these declines had on lower levels of the supply chain remains uncertain. The highly-anticipated findings from the first post-sequestration [review](#) of the health of the industrial base were publicly released last Friday. The review highlights the damage done at lower tiers of the supply chain, identifying approximately 300 specific vulnerabilities among critical suppliers. Addressing these vulnerabilities will be one of DoD's critical jobs next year. Congress set the table in the [John S. McCain National Defense Authorization Act](#) (NDAA) for FY 2019 by providing the necessary tools to address weaknesses in the industrial base and leverage the U.S. economy as a strategic national security asset.

The administration has used a variety of vehicles to promote its support for the industrial base. [Executive Order 13806](#) required the Secretary of Defense, in concert with an interagency team, to assess the capacity and resiliency of the defense industrial base and how it can be strengthened. The [National Defense](#) and [Security Strategies](#) (NDS/NSS) emphasized inter-state strategic competition as the primary threat to national security, highlighting that China's pursuit of modernization in technology and their military threatens U.S. national security that has historically been achieved through preeminence in these fields. To counter this threat, the strategy documents proposed that the United States pursues multilateralism through strengthening existing relationships and seeks new partners at the same time that it protects and rejuvenates the domestic economy by guarding it against competitors and

intellectual property theft. The [National Security Presidential Memorandum](#) regarding U.S. Conventional Arms Transfer policy, issued in April of this year, complemented this theme by promising executive branch support for proposed arms transfers that are in the national security interest. By simplifying and clarifying the procedures and regulations required for arms transfers, the administration promised to increase the opportunities for U.S. companies to sell arms abroad.

The findings from the industrial base review largely focus on these more strategic concerns. For instance, the report states that the United States worryingly relies on China for rare earth minerals that many high-tech systems depend on. Furthermore, the review notes the emergence of Chinese investments in U.S. technology startups as a threat to national security. And it highlights the potential for China to threaten U.S. national security by inserting malicious hardware and software into the many technology supply chains originating in China, an act which could have potentially devastating effects such as compromising critical infrastructure. This risk was highlighted in a recent [Bloomberg article](#) that found evidence of Chinese infiltration into U.S. tech giants including Amazon and Apple through the insertion of a malicious chip into a major supply chain for commercial servers. At the same time, the industrial base review recognizes that defense trade also brings many benefits, including the potential to leverage the economies of partners and allies through arrangements such as the national technology industrial base (NTIB), which provides the United States with greater access to the technology of friendly nations.

A policy is only as good as the tools provided to implement it, and the FY 2019 NDAA provides several new tools necessary for implementing the industrial-base focused policies and strategies of this past year. In light of the industrial base review's findings that foreign dependency, reliance on a sole source, and diminishing manufacturing sources and material sources are likely to threaten the industrial base, the FY 2019 NDAA provides legal and regulatory guidance for countering these threats to the technological capacity and general health of the industrial base.

For instance, Section 843 authorizes a pilot program to “test the feasibility and reliability of using machine-vision technologies to determine the authenticity and security of microelectronic parts in weapon systems,” bolstering the DoD’s ability to identify compromised infrastructure that utilizes materials sourced internationally. Section 845 requires the Secretary of Defense to collaborate with interagency colleagues to report on the health of the defense electronics industrial base. The report is required to investigate current and planned commercial partnerships and describe the electronics

supply chain requirements to meet the goals of the 2018 NDS. Section 1793 calls for a review and report on key national security technology capability advantages, competitions, and gaps between the United States and other nations.

The FY 2019 NDAA also provides tools necessary for pursuing the administration's new arms transfer policy. Section 1756 calls for the Secretary of Defense to strive toward implementing "an accurate, consistent, and timely evaluation and processing of licenses or other requests for authorization to export, reexport, or in-country transfer items" in under 30 days from the original license request. Similarly, Section 1751—otherwise known as the Export Controls Act of 2018—requires export control policy that is "transparent, predictable, and timely, has the flexibility to be adapted to address new threats in the future, and allows seamless access to and sharing of export control information," between U.S. agencies.

More industrial-base targeted provisions include Section 844 that allows NTIB firms to apply to be considered for the status of a required provider for important items of supply to DoD. Additionally, Section 846 fortifies the national security innovation base by building off of the last administration's efforts towards creating manufacturing consortiums. These consortiums would be designated as defense manufacturing communities that DoD has the authority to invest in for achieving critical skills, improving facilities, executing research and development, and promoting small business. Section 1261 requires the president to formulate a whole of government strategy for long-term strategic competition with China by March 1, 2019. Finally, Section 885 mandates the Secretary of Defense to "develop a process and procedures for limiting foreign access to technology through contracts, grants, cooperative agreements, or other transactions, when such limitation is in the interest of national security."

The industrial base review coupled with policy and strategy documents gives DoD and its inter-agency network a great deal of homework for the upcoming year. While it is clear that the DoD will be rigorously working toward supporting and reinvigorating industries as well as deeply engaging with its partners and allies, DoD will have to overcome the challenge of the competing interests associated with these two core strategic goals. Protecting and strengthening the industrial base through re-sourcing critical materials and technologies domestically and tightening regulations to safeguard essential intellectual property—as federal agencies and industries are simultaneously encouraged to deepen their relationships with allies and partners—may generate some inherent tensions. Simultaneously pursuing these two goals will be tricky for government and industry alike. Educating the acquisition workforce on

how to achieve these goals will require the issuance of careful regulatory guidance in the upcoming year in order to delineate how to best navigate this environment and ensure that strategic U.S. interests are efficiently met.

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