

Challenges and Policy Considerations Regarding Offshoring and Foreign Investment Risks

September 2019

Highlights of GAO-19-516, a report to congressional committees.

Why This Matters

DOD relies on a globalized network of suppliers for the components and technologies involved in its weapons systems. Domestic companies that offshore their operations or accept foreign investment can help DOD save money and access more technology. But a globalized supply chain can also make it harder for DOD to get what it needs if, for example, other countries cut off U.S. access to critical supplies.

Key Takeaways

Foreign investments in U.S. companies vary annually, but the extent of offshoring is largely unknown. We convened a panel of experts to talk about the benefits and risks of both.

Panelists noted that offshoring can lower costs and provide better access to foreign workers and markets. When companies that offshore contract with DOD, they can pass those benefits along. Foreign investment can help U.S. companies grow.

The panelists also outlined some of the risks of relying on a globalized supply chain. Specifically:

Intellectual property—Foreign investors in U.S. companies can get access to the sensitive technologies those companies develop. When those investors are from the nation’s strategic competitors (such as China or Russia), technology transfer is a concern.

Domestic production—If the United States sends too much production abroad, the skills of the nation’s own workforce can erode.

Source materials—DOD relies on foreign suppliers for parts and materials such as rare earth metals that are crucial to many weapon systems. Geopolitical conflicts can compromise access to foreign supplies to meet current and future needs.

Panelists highlighted ways to reduce these risks, such as by sharing information with U.S. companies on specific risks related to foreign suppliers.

Offshoring and Foreign Investment

Offshoring

Generally refers to a range of business activities, such as shifting domestic production to a facility abroad



Foreign Investment

Financial transactions that can give foreign investors a degree of influence in a U.S. business



Source: GAO. | GAO-19-516

How GAO Did This Study

We convened a panel of 13 experts from academia, industry groups, think tanks, and federal agencies representing diverse viewpoints. We selected these panelists based on reviews of professional publications, congressional testimonies, other reference material, and interviews.

For more information, contact: William T. Woods, Director, 202-512-4841, wwoods@gao.gov