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Enemies in America's supply chain

Steve Bakke  November 15, 2023



The world is in turmoil and America is embedded in the problems. We are supplying Ukraine with the ability to fight an effective defense against the aggressions of Russia. We are now providing backing for Israel's defensive response to the terrorist mutilation murders on October 7. And we are contemplating the possibility of defending our ally Taiwan against any conflict that erupts with China. It's imperative we evaluate our own incoming supply chains in the context of our responsibilities and commitment to others.

Rare earth minerals are used in technology production, in particular today's all-important battery production. While we are in what amounts to a anti-fossil fuel policy "cram-down," there are several factors that complicate our ability to accomplish the administration's electric vehicle (EV) objectives.

Simply stated, China dominates the world-wide "rare earths" supplies. Technologies involved in our green energy efforts, as well as modern warfare technologies such as we are providing in Ukraine and potentially in Israel, demand a supply of these minerals.

While our dependence on China for rare earths has reduced recently, it still stands at approximately 74% of our rare earths imports according to a report by Mai Nguyen and Eric Onstad of Reuters. China is hard to avoid as a supplier because it accounted for 70% world-wide mine production of rare earths in 2022.

Rare earths from China account to a significant portion of our total requirements. And there are several minerals that we rely virtually entirely on imports for our supply. This amounts to the U.S. potentially depending on its enemy for materials needed for our national defense.

Here's another example of relying on an enemy in our supply chain. One of our most important domestic responsibilities is health care services, including pharmaceuticals. And almost more important than our domestic pharmaceutical production and distribution is our dependence on others to supply us with necessary product and ingredients. For me it's been

a revelation as to the lack of U.S. self-sufficiency in terms of markets for critical pharmaceuticals and even equipment.

Here's what China has been supplying the U.S. in large numbers and proportions of our total requirements: penicillin, aspirin, acetaminophen, prescription drug ingredients, and certain vitamins. This list also includes medical devices, medical face masks, and protective clothing. China has recently been at the top or near there for companies exporting drugs and biologics to the U.S. And it is a dominant provider of generic drugs.

Looking at recent statistics it's clear that we've "talked a better game" than we've played it. According to a report by Niels Graham in atlanticcouncil.org, since 2020, U.S. imports of Chinese pharmaceuticals (determined from government tariff codes) has grown by 485% and now stands at more than 6% of our total pharmaceuticals. That's an important and significant statistic considering our fragile relationship with China.

More important than that statistic is that over the last decade we have imported about 17% of our supply of "active pharmaceutical ingredients" (API) from China. APIs are the most important ingredient in pharmaceuticals. That's high but not yet at "strangle hold level" of our supplies – say the experts.

As we can see, we depend way too much on a potential enemy for supplying us with critical supplies, the most important being pharmaceuticals and rare earth minerals used in energy and defense technologies, along with numerous other uses. Rare earths have wide ranging applications also in consumer electronics, and many more industries.

A friend suggested I take a look at the U.S.-China trade statistics to reassure myself that significant progress is being made in reducing our dependency on imports from China. I received little comfort, although I'm no expert at interpreting international trade statistics. According to statista.com, for the ten years from 2013 through 2022, our trade deficit with China ranged from almost 319 billion U.S. dollars in 2013 to almost 383 billion in 2022. The only year higher than 2022 was 418 billion in 2018.

The dependence on Chinese imports remains dangerously high and is increasing again during the current administration. Can we ever find the motivation and courage to make significant changes in our reliance on Chinese imports. We'll regret it if we don't.