

# China's Dangerous Monopoly on Metals

Control of the rare-earth supply gives Beijing both economic and military advantages over the U.S.

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The Molycorp Mine in Mountain Pass, Calif., Sept. 10, 2009

As trade talks between the U.S. and China have focused on manufacturing, American negotiators seem to be ignoring China's growing domination of raw materials that are crucial to both countries' security and standard of living.

Rare-earth metals are essential for producing most technological equipment. It is impossible to build a car without cerium, a smartphone without europium, a guided missile without neodymium. China now controls the supply of all 16 strategically critical rare-earth metals. In fact, 96% of global mining output for rare-earth metals comes from within China's borders.

Yet U.S. trade negotiations with China have ignored the future availability and cost of rare earths. Is this because free-market principles have kept prices and availability stable? No. China has been using its monopoly as an economic and strategic sword. In 2010 it cut off Japan over the Senkaku Island dispute in the East China Sea. Japan quickly backed down in light of the devastating potential economic impact of even a short-term supply disruption.

More recently, China established a clever pricing strategy that made these metals cheaper inside China than out. That induced European, Japanese and U.S. companies, including General Electric Lighting, to move production into China and transfer valuable technology to Chinese companies so they could access competitively priced rare earths—taking jobs with them. This pricing scheme was stopped by the World Trade Organization in 2014, but not without China's filing an appeal, fighting hard for every inch of advantage.

U.S. negotiators appear blind to the issue of rare earths, as WTO protection masks the Chinese threat for now. But Beijing is establishing a potential replacement multinational arrangement to WTO membership through its Belt and Road Initiative. At some point China may be in a position simply to leave the WTO in favor of its own group, empowering it to do what it clearly wants to do: use its domination of rare earths to pressure companies to situate their plants in China.

It would be even worse if the U.S. withdrew from the WTO first, as President Trump has repeatedly threatened to do. In that case, only America's economy would sit outside China's global supply chain. China could simply cut off the U.S., as it did to Japan.

A trade agreement with China must include provisions requiring the same availability and pricing of rare-earth metals inside and outside China, with strong enforcement and transparency mechanisms. Otherwise, China will need only to quit the WTO to be in a position to stymie the promised U.S. manufacturing renaissance, have overwhelming leverage in all future trade disputes, and, in the longer term, gain a decisive strategic military advantage over the U.S.