

# China steps up threat to deprive US of rare earths

May 29 2019, by Laurent Thomet

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A cyclist is pictured in 2011 riding along a dusty road where dozens of factories process rare earths, iron and coal on the outskirts of Baotou city in Inner Mongolia, northwest China

Chinese state media dangled Wednesday the threat of cutting exports of

rare earths to the United States as a counter-strike in the trade war, potentially depriving Washington of a key resource used to make everything from smartphones to military hardware.

The warning is the latest salvo in a dispute that has intensified since President Donald Trump ramped up tariffs against China and moved to blacklist telecom giant Huawei earlier this month, while trade talks have apparently stalled.

Huawei stepped up its legal battle on Wednesday, announcing it had filed a motion in US court for summary judgment to speed up its bid to overturn US legislation that bars federal agencies from using its equipment over security concerns.

Beijing had already dropped a big hint that rare earths could be in the firing line by showing images last week of President Xi Jinping visiting a rare earths factory in Ganzhou, central China.

State media made it clearer on Wednesday.

"Will rare earths become China's counter-weapon against the unprovoked suppression of the US? The answer is not mysterious," warned The People's Daily, the Communist Party mouthpiece.

"We advise the US to not underestimate China's ability to safeguard its own development rights and interests, and not to say we didn't warn you."

The state-owned Global Times warned in an editorial that the "US will rue forcing China's hand on rare earths."

"It is believed that if the US increasingly suppresses the development of China, sooner or later, China will use rare earths as a weapon," the

nationalist tabloid said.

Shares in rare earth companies surged in the Shanghai and Shenzhen stock markets on Wednesday.

An unnamed official from the National Development and Reform Commission, China's state planner, had issued a cryptic warning late Tuesday.

"What I can tell you is that if anyone wants to use products made from our rare-earth exports to curb and suppress China's development, I'm sure the people of Ganzhou and across China will not be happy with that," the official said in answers to questions published by state media.

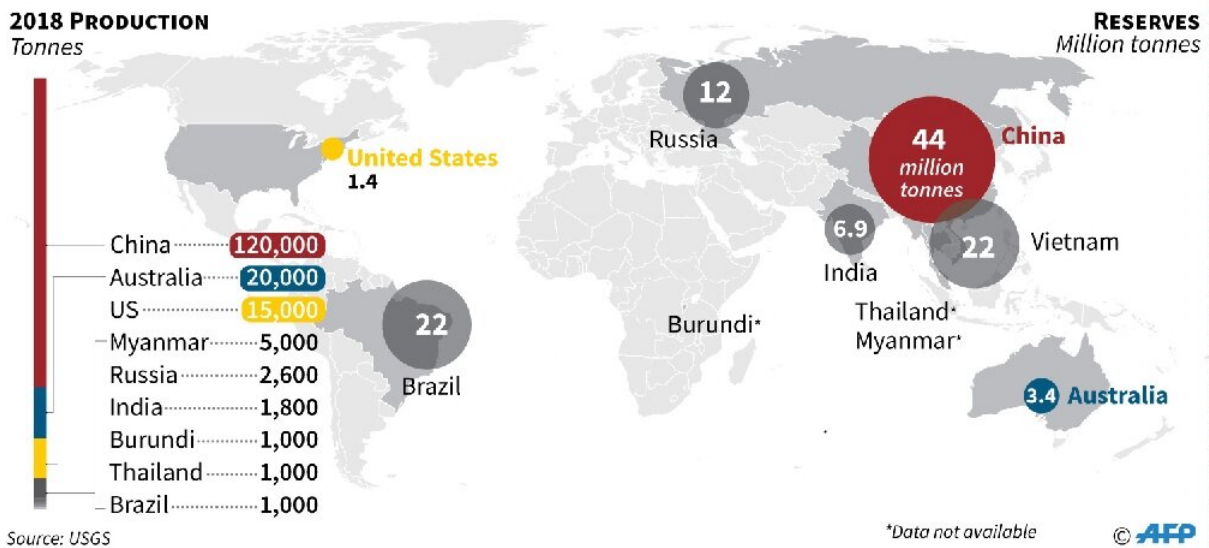
The official said rare-earth resources should "serve domestic needs first," but China is also willing to meet the "legitimate needs of countries around the world."

## **Huawei fights back**

China produces more than 95 percent of the world's rare earths, and the United States relies on China for upwards of 80 percent of its imports.

Rare earths are 17 elements critical to manufacturing everything from televisions to cameras and lightbulbs.

## Rare earth metals production and reserves



World map showing reserves of rare earth metals, vital to the production of high-tech equipment, by country and annual production in 2018.

US Secretary of State Mike Pompeo, asked about the rare earths threat during an interview, said that Americans have already "lost and suffered for decades under the current rules" and that Trump's "singular focus is to push back" on China.

He renewed his attack on Huawei, saying there was a "deep connectivity" between the company and the Chinese state that had no parallel in the US system.

"If it's the case that the Chinese Communist Party wanted to get information from technology that was in the possession of Huawei, it is almost certainly the case that Huawei would provide that to them," he told the Fox Business Network.

Huawei has rejected the criticism and, filing a lawsuit in a federal court in Texas, said that the United States unfairly singled out the company.

"The US government has provided no evidence to show that Huawei is a security threat," Huawei's chief legal officer Song Liuping told reporters.

## **Risky business**

China has been accused of using its rare earth leverage for political reasons before.

Japanese industry sources said it temporarily cut off exports in 2010 as a territorial row flared between the Asian rivals, charges that Beijing denied.

But experts say the Japan experience showed that China's leverage has some limits.

"Ultimately, concentrated rare earths supply in China had limited economic and political effects," according to a 2014 report by the Council on Foreign Relations think tank written by University of Texas professor Eugene Gholz.

The report said China's rare earth advantages were already slipping away in 2010 due to normal market behaviour, including increases in non-Chinese production and processing capacity, and innovations that have contributed to reducing demand for some rare earth elements.

Analysts have said China appears apprehensive of targeting the minerals just yet, possibly fearful of hastening a global search for alternative supplies of the commodities.

"I think China's current objective is to put pressure on the US for more

American concessions in the trade talks and compel the US to be less harsh on Huawei and other Chinese tech companies," said Li Mingjiang, China programme coordinator at the S. Rajaratnam School of International Studies in Singapore.

But China is likely to use a rare earths ban as a policy tool if the US continues to be tough on trade and Huawei, he told AFP.

The Global Times acknowledged that banning rare earth exports to the US could "produce complex effects, including incurring certain losses on China itself."

However, it added, "China also clearly knows that the US would suffer greater losses in that situation."

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