

America's dangerous pursuit of critical-mineral dominance

IN 1973 a club of Arab petrostates held the world to ransom by halting crude-oil exports to countries they accused of supporting Israel. Petrol prices soared; Western economies buckled. Today the danger is that China will use its grip on other natural resources to achieve its aims, such as seizing Taiwan. It has already shown its power by choking off exports of rare-earth metals last year. That is why America is staging its biggest intervention in commodity markets in decades.

The battleground is the supply of “critical” metals, a group of minerals vital to making military, electrical and computing infrastructure—everything modern economies need to be safe, high-tech and green. China supplies most of these: it mines about 80% of the world's tungsten, for instance, and refines 99% of its gallium. This is spurring America into an all-out campaign to diversify its sourcing of 60 minerals. It has pledged billions of dollars to dozens of mining projects at home and abroad, floated plans to create price floors and trade blocs, and announced a vast stockpile to cover months of national needs. The risk now is that America depends too much on its scattershot efforts—and that, in seeking control, it breaks the flexible and resilient system of market incentives that ensures the smooth functioning of the global economy.

China's grip on critical minerals has exposed the West's most serious strategic weakness in many years. Last April, during its trade war with America, China restricted exports of seven crucial rare earths; it targeted another five in October. Nearly a third of Pentagon procurement programmes faced the risk of shortages, as did industries from carmaking to renewable energy. The prospect of large-scale disruption prodded President Donald Trump into a trade truce with Xi Jinping, as well as a relaxation of American controls on some technology exports. Yet Mr Xi can deploy the weapon again whenever he chooses. Meanwhile, exports of rare earths for dual-use

applications—the expanding grey zone between military and civilian uses—remain largely barred, sapping Western efforts to rearm.

It would be nice to say that the best defence against China's tactics is to double down on global markets. They certainly have a part to play. The oil crises of the 1970s boosted the development of commodity trading—in which prices for key materials are set on exchanges by millions of buyers and sellers entering 40m derivatives contracts daily. Time and again, hit by wars, industrial strikes and natural disasters, markets have handled shocks better than government planners ever could.

However, America is right. China's dominance over critical minerals means that continuing to place full faith in the invisible hand would be naive and unsafe. China has spent decades building control over minerals, bankrolling projects at home and acquiring assets abroad. Its producers have consolidated into behemoths that the state can control and which have the market power to deter would-be competitors by flooding global markets—even if that means taking temporary losses.

America's task, therefore, is to strike a balance. On the one hand, it needs to insure against the risk that China cuts off exports again, and to deter it from doing so by raising the cost of further restrictions. On the other, it needs to nurture markets. Subsidies and stockpiles are expensive. State-to-state mineral agreements invite rent-seeking, side deals and corruption—a risk with the Trump administration. Dirigisme muffles the price signals that encourage conservation and innovation.

Unfortunately, America is [mismanaging these trade-offs](#). Officials seem to deem almost any expense to be an acceptable price for security. Money is being spread wastefully thin, not focused where China's grip is tightest, in refineries and smelters. From Delaware to the Democratic Republic of Congo, chancers are pitching the administration dud projects in the hope of easy money. In return for peace in Ukraine (on his terms), Vladimir Putin is promising Mr Trump a bogus \$12trn in deals, including lots in energy and mining.

America's campaign should instead follow three principles. The first is to narrow the scope. Not all 60 minerals it deems critical genuinely are. Aluminium, lead and zinc are abundant, recyclable and substitutable; China would struggle to corner vast

industrial-metal markets like copper. America should therefore concentrate on niche, vital metals, such as some rare earths, where China can more easily restrict exports. Priority should go to critical industries—defence, and perhaps health care—leaving carmakers to fend for themselves. America should focus on projects near completion. Even keeping a small share of supply out of China’s control can break its chokehold, because Mr Xi will know that America has alternatives.

A second principle is to use all the tools at hand. America’s targeted stockpiles can cover immediate needs in a crisis, and its purchase contracts at pre-agreed prices can attract private investors and get projects off the ground. But it must also attend to refining and processing. Refiners that produce one main metal often leave critical by-products in waste rock, because processing costs too much. Conditional state backing could change their calculus.

Throughout, however, America must strive to ensure that price signals get through—the third principle. The economy will continue to adapt and innovate only if buyers and sellers face high prices when supply is limited. By contrast, low fixed prices will exacerbate dependence.

Shovel ready

For the Trump administration, national security means America First. That is translating into a race to lock up scarce supplies at others’ expense, causing its allies to worry they will be left behind. But even an administration that doubts the utility of military alliances should work with others over natural resources. Europe has engineering expertise; Japan, an earlier victim of China’s mineral blackmail, has experience in securing supply chains. Together they bulk up the market. Against China’s geology, industriousness and political system, America’s ability to work with others is its greatest asset.