COUNTERING CHINA'S DOMINANCE IN THE CRITICAL MINERAL INDUSTRY

BY CALEB WORKMAN

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In December the People's Republic of China announced a retaliatory restriction of rare-earth element processing technology, a continuation of its strategy to monopolize the critical mineral market. These elements comprise a substantial portion of what the United States categorizes as "critical minerals" and are used extensively in crucial end products, from clean energy technologies to defense systems. The PRC has wielded this dominance to enact its own policies or punishments on dependent countries in the past, notably in 2010 against Japan after a Senkaku Islands territorial dispute. While Tokyo recognized its vulnerabilities and diversified away from Chinese-supplied minerals, Washington has failed to take similar sufficient actions toward securing mineral supply in the decade since.

However, heightened aggression from the PRC in the Indo-Pacific region and a more confrontational posture from the Trump and Biden administrations has resulted in other action in critical mineral policy. These efforts include heavy investment into stateside extraction, processing, recycling, and R&D for substitutes. Despite this emphasis on domestic reform, mining alone will not suffice America's demand. The future of the United States' independence from Chinese critical minerals lies in friendshoring, or the integration of friendly, stable countries into supply chains.

The Biden administration is focusing heavily on forming these agreements in both a bilateral, spoke-and-wheel style and through pre-existing multinational frameworks—all with moderate success. In addition to pledges to retain critical mineral trade and negotiations on import tariffs, some of these deals allow other nations to take advantage of the tax credits for electric vehicles provision with alternatively sourced critical minerals under the 2022 Inflation Reduction Act. These friendshoring efforts potentially serve as a model for realistically securing tangible incentives through existing US legislation, namely the IRA, to be applied to pre-existing partnerships and multinational frameworks. There is potential to expand on these promising steps. The PRC's recent export ban offers an opportunity to hasten the establishment of resilient stockpiles and secure supply chains.

Major actions to date—friendshoring

Japan and the United States struck a landmark Critical Minerals Agreement in March 2023. This CMA allows Japan to gain sizable EV investments from the IRA's provisions while opening windows for the US to profit from Japan's mineral processing capabilities. The CMA is already having real-life impacts on mineral supply chains. A month after signing the deal, the Japanese government announced its intent to subsidize companies for "up to half the cost of mine development and smelting projects of important minerals." The US is pursuing similar CMAs with Indonesia and the European Union, with negotiations taking place throughout 2023.

The 2023 Indo-Pacific Economic Framework for Prosperity Supply Chain Agreement and the 2022 launching of the Mineral Security Partnership are examples of major efforts to address vulnerabilities to supply chain resilience through transnational forums. However, these agreements' limited objectives leave much room for potential expansion. Moreover, many participating countries are mineral-consuming nations and need to first stimulate investment from their own private industries in their domestic production to realize the partnerships' goals.

Recommendations—Leveraging pre-existing partnerships and frameworks

The US government needs to expand its critical mineral treaties bilaterally and through pre-existing multinational frameworks. America can strengthen its partnerships by adding structure and tangible benefits to previously "hollow" or under-incentivized pacts, like the oft-criticized IPEF. Participants will find a greater reason to invest in their relations with the US due to clearer opportunities to bolster their domestic production and stockpile capabilities.

In particular, the US government needs to finalize CMAs with Indonesia and the EU. A US-EU CMA will drastically invigorate the EU's extraction, processing, and recycling capabilities in tandem with the recently passed European Critical Raw Materials Act. A US-Indonesian CMA could specifically mandate extraction of Indonesia's considerable nickel reserves by suppliers independent of Chinese corporations' control. The Chinese government's influence in the Indonesian nickel market remains a major concern with friendshoring there, but this deal will offer investment from friendly nations to counter this dominance. An influx in private capital from democracies will offer alternative financing sources for Indonesian companies, whose operations will likely be augmented with improved labor and environmental standards. In any case, increased investment from American tax credits through CMAs will certainly fund processing R&D, which can eventually drive innovations transforming the US and partners' abilities to produce domestically. However, the potential for these benefits to be reaped from these CMAs or any future attempts at them will rely on the executive branch's negotiation prowess and leeway. The IRA and similarly structured incentives will only offer more bargaining power in the CMA model.

The Biden administration also can lean on frameworks, like the G7, the Quadrilateral Security Dialogue, and IPEF to establish supply chain resilience and safeguard a Free and Open Indo-Pacific. Not only do many countries in these groups offer major extraction and processing capacities, but shared mineral security aligns closely with the regional security that the dialogues were established to maintain. The existing mineral negotiations within these groups lack tangible commitments from the involved countries, such as the introduction of tax credits or subsidies, lowering of quotas, joint ventures, and addressing other non-tariff barriers that may arise. A limited-objective CMA that qualifies for the EV tax credit for all countries in the frameworks can spark investment and gain these commitments. These incentives can further influence the fulfillment of Washington's other external aspirations, like the maintenance of environmental and labor standards in producing nations.

To achieve these policies, the executive branch should be given more leniency to independently pursue CMAs. Members of Congress criticized the Biden administration for classifying the US-Japan CMA as a free trade agreement without congressional approval. To solve this, Congress can renew the Trade Promotion Authority that expired in 2021, granting the president the ability to negotiate free trade agreements or CMAs removing tariffs or granting tax credit benefits. If this route is unrealistic, legislators can also consider developing a separate, streamlined approval process for CMAs.

By opening the advantages of the IRA to additional trading partners, the US will unwind the law's anti-globalist reshoring provisions. Direct actions to institute CMAs will further lessen the international apprehension towards Washington's seemingly protectionist policies and incite other countries to readily help address climate and security targets. Likewise, Congress can develop more credits or subsidies, similar to the IRAs, for mineral-intensive products, ranging from solar panels to aerospace components. These measures will enhance existing and future stimulating endeavors made by Congress, thus heightening their likelihood of guaranteeing resilient critical mineral supply chains.

Conclusion

The PRC's export ban presents an opportunity for the United States to counter China's dominance of critical mineral markets. The Biden administration's wielding of CMAs and frameworks to gain favorable trading conditions potentially represents a new, positive model for trade and supply chain security. While benefiting the US, these agreements will also aid in the development of other countries' extraction and processing industries, primarily by raising foreign investment from friendly nations over Chinese investment. Countries, like Indonesia, will witness a better quality of life and labor standards in the mineral industry. By relying on established partners and international forums, the US can alleviate its own and allies' mineral supply dependencies from the PRC, which threaten the stability of a Free and Open Indo-Pacific.

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