Rare Earth Chokepoint: China's Export Curbs Raise Japan's Supply Chain Risk

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What Happened

China has announced export restrictions on certain dual-use items to Japan following remarks by the Japanese Prime Minister characterising China's claim to Taiwan as a security threat. In response, China has reportedly begun restricting or delaying export approvals related to rare earth materials and rare earth magnets to Japanese firms. This is seen as a geopolitical reaction rather than solely a commercial regulatory change. This situation is reminiscent of 2010, when rare earth export disruptions to Japan during a diplomatic dispute spurred diversification efforts among Tokyo and its partners. Since that episode, Japan has made sustained efforts to reduce its dependence on Chinese rare earth imports, lowering reliance from roughly 90% at the time to closer to 60% in recent years through alternative sourcing and stockpiling strategies. However, despite this progress, Japan remains heavily reliant on China for rare earth processing and magnet supply, leaving key industries exposed to renewed geopolitical pressure.

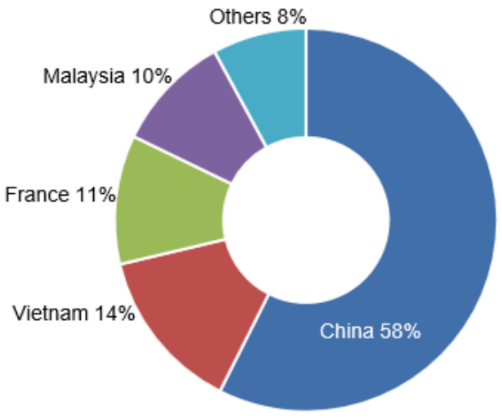
Rare-earth metals, scandium and yttrium exports by country in 2023

Reporter	TradeFlow	ProductCode	Product Description	Year	Partner	Trade Value 1000USD	Quantity	Quantity Unit
Japan	Import	280530	Rare-earth metals, scandium and yttrium	2023	World	334,018.32	7,784,470	Kg
Japan	Import	280530	Rare-earth metals, scandium and yttrium	2023	China	193,896.66	5,700,320	Kg
Japan	Import	280530	Rare-earth metals, scandium and yttrium	2023	Vietnam	100,273.75	1,605,410	Kg
Japan	Import	280530	Rare-earth metals, scandium and yttrium	2023	Thailand	39,177.40	474,800	Kg
Japan	Import	280530	Rare-earth metals, scandium and yttrium	2023	Philippines	605.04	2,615	Kg
Japan	Import	280530	Rare-earth metals, scandium and yttrium	2023	Austria	28.32	633	Kg
Japan	Import	280530	Rare-earth metals, scandium and yttrium	2023	United States	22.03	423	Kg
Japan	Import	280530	Rare-earth metals, scandium and yttrium	2023	United Kingdom	9.45	137	Kg
Japan	Import	280530	Rare-earth metals, scandium and yttrium	2023	Korea, Rep.	3.54	83	Kg
Japan	Import	280530	Rare-earth metals, scandium and yttrium	2023	Russian Federation	2.13	50	Kg

Source: WITS

Rare earth minerals are essential inputs for defence systems, high-tech manufacturing, electric vehicles, and advanced electronics. Any disruption to their supply can ripple through strategic industries and jeopardise production continuity.

Japan's dependency on China for the supply of rare earth (2018)

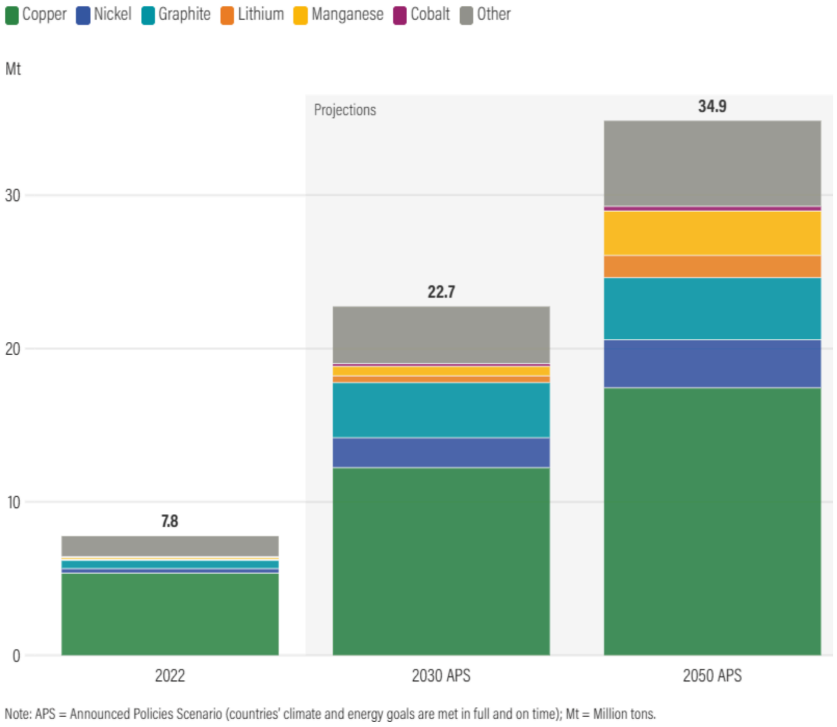


Source: METI

Rare Earths vs Critical Minerals

Rare earth elements are a subset of critical minerals. Critical minerals include a broader group of materials essential for modern technology, national security, and economic stability that face supply risks. Rare earths are a specific category within this group. Not all critical minerals are rare earth elements, but all rare earth elements are considered critical minerals because of their economic importance and supply risk. This distinction matters for supply chain risk because rare earths require complex processing and separation technologies that are far more concentrated globally than other critical minerals, amplifying geopolitical leverage when supply chains are disrupted. The relative importance and processing complexity of rare earths make them uniquely susceptible to export controls as a geopolitical tool.

Global critical minerals demand projections



Source: WRI

Export Controls as Political Leverage

China's actions reflect the increased use of export control policies as instruments of statecraft. Even when export measures are framed narrowly, such as targeting dual-use items, the broader impact often affects industrial sourcing due to regulatory uncertainty and compliance risk. This creates a more politically mediated supply chain environment in which firms must manage both regulatory risk and diplomatic context when sourcing essential materials.

Great Power Competition and the Expansion of Resource Statecraft

China's use of export controls must also be understood within a wider geopolitical context in which access to critical and rare earth minerals is increasingly tied to strategic alignment rather than market logic. Recent rhetoric and policy signals from the United States suggest renewed interest in securing external sources of critical minerals through political and strategic means. This includes heightened attention to Greenland's mineral potential, continued framing of Ukraine's resource base as strategically significant, and reporting indicating possible US interest in mineral access in other regions, including Latin America.

At the same time, Russia and China continue to consolidate influence over resource-rich regions within their respective spheres, reinforcing a pattern in which major powers seek to lock in upstream access and limit strategic vulnerability. The result is a global environment where resource extraction, processing, and trade are increasingly embedded in security and foreign policy calculations. For firms operating in this space, this creates a more complex operating landscape. Access to materials is no longer determined solely by price, contract, or efficiency, but by geopolitical alignment, regulatory discretion, and shifting political priorities. As great-power competition intensifies, companies may face growing pressure to navigate competing blocs and adjust sourcing strategies accordingly.

Implications for Critical Mineral Supply Chains & LATAM's Growing Role and Strategic Importance

The consequences of supply restrictions on rare earth minerals can include:

- Increased licensing delays and uncertainty for importers.
- Price volatility and operational risk for technologies dependent on rare earth magnets.
- Accelerated diversification efforts by governments and companies to develop alternative supply sources.
- Strategic reevaluation of sourcing models that were previously optimised purely for cost and efficiency.

Some actors are already positioning to build independent processing capacity, but this remains a work in progress worldwide.

Latin America continues to gain attention as an alternative source of critical minerals, including lithium for batteries and other resources for clean energy technologies. However, rising external influence in the region's resource sectors introduces geopolitical complexity for non-US firms, as major powers seek to gain influence in mining and supply chains.

Companies operating in the region need to anticipate not just market competition but also strategic alignment pressures from external governments or alliances seeking preferential access to minerals.

What This Means for Global Stakeholders

Firms that depend on supply chains dominated by a single country face a new reality: commercial decisions now intersect with national strategy and diplomacy. Strategic supply chain risk is moving from a theoretical discussion to an operational reality as materials like rare earths become instruments of geopolitical leverage.

Managing this risk requires diversification strategies, engagement with allied resource partners, and investment in resilient industrial processing capacity outside concentrated jurisdictions.

Actionable Recommendations

- Firms reliant on rare earth inputs should accelerate diversification of supply chains to reduce exposure to political control risks.
- Investors will increasingly price in geopolitical risk when valuing industries dependent on rare earths and critical minerals.
- Countries and companies could face pressure to align supply chains with geopolitical blocs rather than purely commercial partners.
- Long-term resilience may require investment in processing and refining capacity outside dominant supplier regions to reduce chokepoint vulnerability.
- Policymakers may adopt incentives or strategic stockpiling to buffer domestic industries against future supply disruptions.