

# China considering “rare earths” retaliation in conflict with the US

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While its official position remains that it is still willing to engage in trade negotiations, China has signalled that it is ready to hit back in the US economic war against it.

A major Chinese planning body has made a thinly-veiled threat to cut off the supply of rare earth minerals, used in a large variety of high-tech products, in response to the US move to ban the sale of vital high-tech products to the technology and communications giant Huawei. It came in a question and answer bulletin posted on Wednesday by the National Development and Reform Commission.

“Will rare earths become China’s counter-weapon against the US’s unwarranted suppression? What I can tell you is that if anyone wants to use products made from rare earth to curb the development of China, then the people of the revolutionary soviet base and the whole Chinese people will not be happy,” the posting said.

The US relies on China for about 80 percent of its rare earths, a category covering a variety of minerals used in a range of products including smartphones, electric vehicles and military equipment. China has a dominant position in the supply of these minerals which, despite their designation, are relatively abundant but costly to mine.

An editorial published on Wednesday in the *People’s Daily*, one of the key media outlets of the ruling Chinese Communist Party, warned that the US should not underestimate China’s ability to fight a trade war.

In its report on the editorial, *Bloomberg* noted it contained a phrase meaning “don’t say I didn’t warn you” that had been employed on other occasions, including in 1962 when China went to war against India, and also before the conflict between China and

Vietnam in 1979.

The belief that rare earths could possibly be used as a weapon in the conflict with the US was sparked earlier this month when China’s president Xi Jinping made a visit to a rare earths plant accompanied by his chief trade negotiator Vice Premier Liu He.

The conflict has also extended to the World Trade Organisation when the Chinese representative raised the issue of the US bans on sales of products to Huawei at the meeting of the organisation’s market access committee on Tuesday.

According to a report in the *Financial Times*, when the meeting moved to discuss “other business,” the Chinese representative launched an attack on the US saying the placing of Huawei on an export blacklist by the US Commerce Department breached WTO rules.

Under those rules, member states can invoke trade bans on “national security” grounds. However, the representative accused the US of claiming “national security” concerns across the board, which was causing “great concern” in the membership of the organisation.

Trump has invoked “national security” to place tariffs on steel and aluminium imports and has threatened to impose a 25 percent tariff on auto imports on the same basis.

There was now a “great danger of having too wide an exception that would permit anything under the sun,” the Chinese representative said.

The scope of the US action against Huawei and its implications have also been raised in a legal case brought by the company against an earlier US ban on the supply of Huawei equipment to federal agencies.

The action was launched three months ago, arguing that the ban under the US National Defence Authorisation Act is unconstitutional in that it singles out a person or a group for action without trial. The

Huawei lawyers are seeking summary judgement in the case; that is, to decide on the matter without a full trial.

Huawei said it was filing the motion in order to accelerate the process of halting “illegal action against the company.” It is arguing the ban violated sections of the US constitution, that there were no facts at issue, and therefore a judgement was purely a matter of law.

Speaking on the case and the wider attacks on Huawei at a press conference in Shenzhen on Wednesday, the company’s chief legal officer, Song Liuping, said the judicial system was the last line of defence to obtain justice.

The US administration was “using every tool they have, including legislative, administrative, and diplomatic channels. They want to put us out of business. Almost never seen in history. The fact is the US government has provided no evidence to show that Huawei is a security threat. There is no gun, no smoke. Only speculation.”

Commenting on the decision by the Commerce Department to add Huawei to the US Entity List, banning US firms from supplying it with products needed for its operations, Song said the action had set a “dangerous precedent.”

“Today it’s telecoms and Huawei. Tomorrow it could be your industry, your company, your consumers.”

He said as many as 1,200 companies could be affected by the US action. Last year Huawei spent around \$11 billion on buying components and services from US firms. The ban is due to come into force in August, following Trump’s decision to give a three-month reprieve on its implementation.

However, already major hi-tech suppliers, including Google, Qualcomm, Microsoft and the chip technology provider ARM Holdings, have moved to cut ties with Huawei, hitting its international smartphone business. Huawei is the second largest supplier of smartphones worldwide.

The war against Huawei followed the breakdown on trade talks between China and the US which came on May 5. Trump had announced new tariff hikes in the lead up to a meeting in Washington that had been touted as finalising an agreement.

The *South China Morning Post* has published an article on the circumstances which led to the decision. On April 30, China’s top negotiator Liu He held a private meeting during trade talks in Beijing with US

negotiators Treasury Secretary Steven Mnuchin and US Trade Representative Robert Lighthizer.

According to the report, citing a person who was present at the wider negotiations, the expressions on their faces was “stern and gloomy” when they emerged and a sense of “foreboding” permeated the meeting hall. Five days later, Trump announced the new tariff measures.

The US claimed that they were imposed because China was “backtracking” on what had been previous agreed.

However, according to two Chinese sources cited by the newspaper, the US negotiators “kept adding new demands in the late stages of the negotiations” some of which would “directly affect China’s political and social stability.”

“The real reason is that the US side keep changing their demands. There were so many changes ... And then they turned around and accused us of backtracking.”

With the escalation of the attacks on Huawei, Trump has effectively ruled out any prospect of a trade agreement with China. At a joint press conference in Tokyo with Japanese prime minister Shinzo Abe earlier this week, he said China wanted to make a deal but “we’re not ready to make a deal.”

He warned that American tariffs on Chinese goods “could go up very, very substantially, very easily.”

Trump’s comments were not just directed at Beijing but were also intended as a warning to Abe. The US is engaged in bilateral trade negotiations with Japan in which it is demanding that Japanese markets be opened for increased exports of US agricultural products.

Similar negotiations on a bilateral deal, also involving US agriculture, are being conducted with the European Union. Both sets of discussions are being held under the threat that if US demands are not met then auto tariffs of 25 percent—consideration of which has been suspended by Trump for six months—will be imposed.



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