

China retaliates against US with export restrictions on strategic metals

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In the lead-up to US Treasury Secretary Janet Yellen's visit to Beijing this weekend, the Chinese government hit back at unilateral US economic bans and sanctions. It announced restrictions on Monday on the export of two critical metals—gallium and germanium. The metals are vital in a wide range of applications, including for specialised semi-conductors, solar panels, LEDs and fibre optic cables, to name a few.

The restrictions, which China justified on the grounds of “national security,” will come into force from August 1 and will require companies to apply for an export permit. No details have been released as to the requirements for a permit. Beijing has defended the move, insisting it was imposing export restrictions, not bans, and that they were not targeted at particular countries.

There is no doubt, however, that the Chinese announcement is in retaliation for US trade war measures, especially bans on the export of the most advanced computer chips and the equipment needed for their manufacture. The US also has been pressuring its allies to follow suit. Both Japan and the Netherlands have done so.

China announced the restrictions just days after the Netherlands announced plans to apply new controls to limit the export of high-end chipmaking equipment from September 1. The Dutch company ASML produces the most advanced equipment in the world for the manufacture of semiconductors and the move is another blow to Chinese hi-tech corporations.

The US and Japan had already announced similar measures. The Biden administration imposed bans last October on the export of advanced chips and chip-making equipment to China on “national security” grounds in a bid to cripple China's hi-tech industries.

Further measures are reportedly now under discussion in Washington, including further limits on advanced chips made by US firms Nvidia and AMD used for Artificial Intelligence (AI) applications. The *Wall Street Journal* reported this week that the White House is also considering prohibiting Chinese companies from accessing the cloud-computing services of US tech corporations like Amazon and Microsoft.

Beijing has repeatedly criticised the US bans. In the wake of its own restrictions, Chinese Foreign Ministry spokesperson Wang Wenbin this week reiterated: “We oppose the overstretch of national security concept and abuse of export control by a handful of countries and bullying practices of going all out to suppress and contain specific countries.”

In an interview with *China Daily*, former vice-minister of commerce Wei Jianguo warned: “This is just the beginning of China's countermeasures, and China's tool box has many more types of measures available. If the high-tech restrictions on China become tougher in the future, China's countermeasures will also escalate.”

In May, the Chinese government banned the use of memory chips made by the US company Micron products in “critical national infrastructure,” citing national security risks. The move echoed measures taken by the US and its allies to block the Chinese tech giant Huawei from any involvement in the construction of 5G networks.

The latest restrictions imposed on the two strategic metals points to even tougher measures that China could impose across a range of critical minerals, including rare earths. China dominates the production and supply of these products, which are vital to a broad range of industries, with both commercial and military applications. According to one estimate, China

produces more than 95 percent of gallium output and 67 percent of germanium.

According to Caixin, China's business website, the top importers of China's gallium products in 2022 were Japan, Germany and the Netherlands and of germanium products were Japan, France, Germany and the US.

Speaking of China's announcement, Paul Triolo, a senior vice president at global strategy firm Albright Stonebridge, told Reuters: "It's clearly timed to send a not-so-subtle message to the Biden administration that China holds significant cards when it comes to inputs to the semiconductor, aerospace, and automobile industries, and can and will increasingly be willing to inflict pain on US companies."

Peter Arkell, chairman of the Global Mining Association of China, explained to Reuters: "Gallium and germanium are just a couple of the minor metals that are so important for the range of tech products and China is the dominant producer of most of these metals. It is a fantasy to suggest that another country can replace China in the short or even medium term."

China's announcement has provoked concerns in related corporations internationally about acute shortages of gallium and germanium and rising prices not only for the two metals but for a vast array of goods that incorporate them. The European Commission expressed its concern and German economy minister Robert Habeck warned that any expansion of the restrictions to materials like lithium would be "problematic."

The Biden administration has lashed out at China's announcement, declaring hypocritically that it "firmly opposes" the export restrictions on the strategic metals. A US Commerce Department spokesman told the *South China Morning Post* in an email that China's actions "underscore the need to diversify supply chains." The email added that Washington would "engage with our allies and partners to address this and to build resilience in critical supply chains."

As it escalates its confrontation with China and prepares for conflict, the US is already engaged in intense discussions at home and with its allies to establish alternative supply chains for critical minerals to replace China in the time of war. For some of the rare earths, China is at present virtually the sole source.

The vulnerability of the US was underscored by a Pentagon spokesman who explained on Thursday that

the Pentagon holds a strategic US stockpile for germanium but currently has no inventory reserves for gallium.

China's announcement was clearly timed to coincide with the visit of Yellen, who is now in China. Yellen's trip, following that of US Secretary of State Antony Blinken last month, is supposedly part of a US charm offensive aimed at easing tensions between the two countries. Yellen, however, like Blinken, is not coming with any olive branch or offerings, but rather with a set of demands and ultimatums.

At an event yesterday in Beijing organised by the American Chamber of Commerce, Yellen declared that she intended to raise a series of concerns with her Chinese counterparts, "including China's use of nonmarket tools like expanded subsidies for its state-owned enterprises and domestic firms, as well as barriers to market access for foreign firms."

In a brazen display of hypocrisy, while justifying escalating US punitive measures against China on the basis of "national security," Yellen told her audience of corporate representatives: "I've been particularly troubled by punitive actions that have been taken against US firms in recent months."

Far from healing the rift, Yellen's visit will only add to the mounting tensions between the two countries.



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