



By: Tomorrow's Affairs Staff

The new price of Chinese dominance



In recent years, it has become almost routine to discuss "reducing dependence" on China. Most of these discussions have remained at the level of political statements, strategies, and long-term plans.

What is happening in Japan today seems much more concrete. In recent weeks, Beijing has again restricted access to certain rare earths and critical raw materials, including dysprosium, terbium, and gallium – materials essential for modern electronics, advanced industrial production, defence systems, and the energy transition.

Almost simultaneously, Tokyo launched an initiative to open trade talks with **Mercosur**, the South American bloc comprising Brazil, Argentina, Paraguay, Uruguay, and Bolivia.

At first glance, these appear to be two separate developments. In reality, they are two parts of the same strategic story.

Japan is no longer merely seeking an alternative supplier for several critical raw materials; it is trying to reduce its dependence on geopolitically risky supply chains.

This is a much greater change than simple trade diversification and is probably one of the most important economic processes currently taking place in Asia.

Beijing is once again playing its strongest card

China has held a dominant position in the processing and production of rare earths for years. Many countries have significant reserves of these raw materials, but China controls much of the processing capacity and final industrial production.

For this reason, **export restrictions** have a much greater effect than may appear at first glance.

Today's restrictions are not unprecedented. During the **2010 Senkaku Islands dispute**,

shipments of rare earths from China to Japan fell sharply in what was widely interpreted as political pressure from Beijing, although the Chinese government has never officially confirmed the embargo.

Control over raw materials is now part of a much wider technological and industrial competition

Since then, this approach has become part of a broader strategy. In recent years, Beijing has imposed export restrictions on gallium, germanium, graphite, and other critical raw materials, indicating that it regards **control of key industrial resources** as an important aspect of its economic and technological power.

Today, the situation is even more serious. Rare earths are no longer only relevant to manufacturing electronic devices; they have become essential for the development of electric vehicles, batteries, wind turbines, semiconductors, radar systems, and modern military technology.

Control over these raw materials is now part of a much wider technological and industrial competition.

For Japan, the problem is not only the immediate interruption or limitation of deliveries; it is uncertainty.

No large industrial economy can plan long-term investments unless it knows whether access to key raw materials will depend on political relations with a single country.

Tokyo is changing its economic logic

For decades, Japan was considered one of the world's most open economies. Its model relied on stable global markets, predictable trade rules, and deep integration into international supply chains. That world no longer exists.

The pandemic, the war in Ukraine, the conflict in the Gulf, and the increasingly open technological competition between China and the United States have shown that global supply chains no longer operate in the predictable environment on which modern trade depends.

Restrictions on rare earth exports are the latest reminder that access to key raw materials now depends as much on geopolitics as on markets.

This is why Tokyo has changed its approach in recent years.

Japanese government is increasingly involved in developing alternative supply chains

Rather than assuming the market will find the most efficient solution, the Japanese government is increasingly involved in developing **alternative supply chains**. The new trade initiative with Mercosur is part of this process.

South America offers Japan several assets that are becoming strategically valuable.

Brazil possesses significant mineral wealth and substantial agricultural capacity. Argentina holds vast reserves of lithium, a key resource for battery production.

The region provides energy resources, metals, and markets that are not directly involved in the US-China competition.

For Tokyo, this is more than a trade agreement. It is an attempt to shift some economic risks away from a region dominated by China and increasing geopolitical tensions.

Japan is not seeking new suppliers, but rather aiming for less dependence

The biggest mistake would be to view this as a typical case of import diversification.

Japan is not seeking a replacement for China's rare earths, as such an alternative is practically non-existent in the short term. China remains an indispensable player in much of the global critical minerals processing system.

Tokyo's goal is more realistic: gradually reducing dependence on a single dominant supplier.

Japan is seeking to reduce the possibility that a single political decision in Beijing could threaten entire industrial sectors

The difference is significant. Completely replacing China would be expensive, slow, and likely impractical. Reducing dependence is a more realistic goal.

This involves expanding the network of partners, investing in new mining projects, developing domestic reserves, recycling critical materials, and concluding long-term contracts with countries that can provide alternative sources of raw materials.

In other words, Japan is seeking to reduce the possibility that a single political decision in Beijing could threaten entire industrial sectors.

This is a risk management strategy, not a strategy of economic decoupling from China.

What Japan is doing today, others may do tomorrow

The significance of this story extends beyond Japan. Many developed economies face the same challenge.

The European Union is developing its own strategy for critical raw materials. South Korea is investing in alternative sources of minerals and battery components. The United States is

investing billions of dollars in domestic production and processing of critical materials.

They all begin with the same assessment: relying on a single dominant source has become a strategic risk.

Negotiations with Mercosur carry much greater significance than traditional trade statistics suggest

Japan is notable because it is now taking a further step. Instead of addressing the issue through individual raw materials, Tokyo is beginning to build a broader network of economic relations that links trade, energy, industrial policy, and security of supply.

This is why negotiations with Mercosur carry much greater significance than traditional trade statistics suggest.

It is not just about customs duties or car exports; it is an attempt to create an alternative economic geography.

China could achieve the opposite effect

Beijing starts from the logical assumption that control over critical raw materials is a powerful instrument of political influence. In the short term, this assessment is correct.

Few countries can quickly replace China's capacity for processing rare earths or certain technological components. However, the long-term outlook may differ.

China could face a paradoxical consequence of its own policy

Each new **export restriction** further encourages other countries to invest in alternative sources, new processing technologies, and different trade routes. The process is slow and costly, but it accelerates

with each new crisis.

This is why China could face a paradoxical consequence of its own policy. An instrument that currently brings political influence also encourages other economies to gradually reduce their dependence on the Chinese system.

This will not happen overnight, nor in just a few years, but the trend is already visible.

A new phase of globalisation is beginning

The most important consequence of current events may have nothing to do with Japan or China.

Over the past few decades, the global economy has operated on a simple logic: production moves to where it is cheapest, raw materials are sourced from the most efficient suppliers, and political risks are treated as secondary. That logic is changing.

Increasingly, countries are willing to pay higher prices to reduce strategic dependence. Security of supply is becoming as important as price, and geopolitical stability is becoming as important as market efficiency.

This is why the story of China's rare earths and Japan's rapprochement with Mercosur is not merely trade news.



Trade agreements were once created to boost growth; now, they are increasingly established to reduce risk - EU Mercosur

It demonstrates what it means to adapt a large industrial economy to a world where geopolitics increasingly determines the direction of trade, investment, and industrial development.

If Tokyo succeeds in building a network of alternative partnerships and sources of supply, it is very likely that it will not remain an isolated case.

South Korea, parts of ASEAN, the [European Union](#), and other developed economies face almost identical problems.

Trade agreements were once created to boost growth; now, they are increasingly established to reduce risk. This is the best way to understand the change the world economy is undergoing.

Japan did not move towards Mercosur because South America became more attractive than China.

It did so because it estimated that dependence on a single centre of power was becoming more costly than alternative partnerships.

This logic is likely to shape many more economic decisions in the coming years than any traditional free trade debate ever did.

Photo: [Official Website of the Prime Minister's Office of Japan](#)