China's rare earths leverage could reshape global tech dynamics

Lucas Cacioli
10 hours ago

The unresolved dispute over military-use rare earths materials in US-China trade negotiations threatens to fragment global supply chains, creating both challenges and opportunities for investors across Asian markets.

Recent US-China trade talks in London may have reduced immediate tensions, but a standoff over critical rare earths materials and advanced technology remains unresolved, potentially reshaping investment flows across Asia and beyond, according to industry experts.

"The rare earths dispute threatens to destabilise global supply chains across defense, EVs and AI infrastructure," Steve Alain Lawrence, CIO at Balfour Capital Group, told *AsianInvestor.*

"China processes over 85% of rare earths, and with no clear resolution companies like MP Materials and Lynas Rare Earths have seen increased investor interest as Western governments seek alternatives."

The dispute centres on China's refusal to grant export clearance for specialised rare earths magnets needed for US military applications, while

Steve Alain Lawrence, Balfour Capital Group

the United States maintains export restrictions on advanced AI chips to China.

This technological standoff has created a new dimension to trade tensions that initially focused on tariffs and trade imbalances, Balfour said.

SUPPLY CHAIN DISRUPTION

The implications of continued uncertainty extend beyond immediate market volatility, said Andrew Zurawski, chief economist for Asia Pacific at WTW.

"Rare earths minerals are a critical component to the production of a wide range of products such as defence equipment, smartphones and electric vehicles. China dominates the production of rare earths, accounting for more than two-thirds of global production in 2024 and holds half of the world's reserves," he told *AsianInvestor.*

While China has agreed to fast-track approvals for non-military rare earths applications following the London talks, the standoff over military-grade materials continues, according to a Reuters report this week.

Andrew Zurawski, WTW

The disruptions could have significant ripple effects across Asia, Balfour's Lawrence said.

"Disruptions could delay drone, semiconductor and missile systems—raising costs and causing strategic bottlenecks, especially for South Korea, Japan and Taiwan, which rely heavily on advanced tech inputs," he added.

PERSISTENT UNCERTAINTY

The US signalled in London it may extend existing tariffs on Chinese goods beyond the August 10 deadline agreed to in Geneva last month, suggesting a comprehensive trade deal remains elusive in the near term, according to Reuters.

"If tariffs remain in limbo, companies face operational paralysis," Lawrence said.

"Persistent uncertainty reduces capital expenditure and slows investment into China. Manufacturers like Apple, Tesla and Qualcomm are already recalibrating global footprints."

This uncertainty has broader macroeconomic implications, according to Zurawski.

"From a macroeconomic perspective, it creates downside pressure for growth in the US and China which is generally a downside for equities in both markets," he said.

SHIFTING POWER DYNAMICS

The technological standoff has created a new geopolitical reality in which China's control of rare earths counterbalances US dominance in advanced semiconductors.

"China's control over rare earths and the US dominance in AI semiconductors—through firms like Nvidia, AMD and Broadcom—has created a bifurcated tech ecosystem," Lawrence said.

The trade negotiations between the US and China this year have clearly shown that China is willing to use its considerable control of the rare earths market to pressure the US to lower proposed tariffs against China, said WTW's Zurawski.

"The latest negotiations also show they are willing to leverage certain rare earths to negotiate more favourable access to advanced AI chips," he said.

Source: Shutterstock

INVESTMENT OPPORTUNITIES

Despite the challenges, the current environment is creating clear winners and losers across the region, offering strategic investment opportunities.

"The likely beneficiaries will be Southeast Asian economies and India, while supply chain volatility and input inflation may dampen margins across Asia-Pacific equity markets," Lawrence said. "Investors may favour diversified, tariff-resilient supply chains such as those of Foxconn and ASE Technology."

Specific countries are positioned to benefit from this reconfiguration, he added.

"Economies such as Vietnam and Malaysia are becoming strategic winners, absorbing redirected supply chains," Lawrence said. "However, Taiwan's TSMC and South Korea's Samsung remain exposed to export controls and geopolitical crossfire."

Zurawski's analysis supports this assessment.

"We would expect the potential for structural shifts in supply chains and shifts in regional trade and investment flows as China diverts more exports to Asia and demands more high-tech goods from the region," he said.

Regional economies with significant semiconductor production capacity appear particularly well-positioned, Zurawski said.

"We would also continue to expect regional economies with a high share of semiconductor production, such as Malaysia, to do relatively well in these circumstances."

EQUITIES FUND MANAGERS ASSET THEMES

#balfour capital **#china** **#geopolitics** **#rare earth** **#technology** **#us** **#wtw**

RELATED ARTICLES

Emerging market equities reaching inflection point

Lucas Cacioli
Jun 8, 2025