

Policy Backgrounder

Critical Minerals: Impact of Export Regulations

China's recent order imposing export controls on 10 US companies in the defense and drone sectors highlights the importance of reliable US availability of critical minerals, including rare earth elements (REEs). The order raises questions as to future US-China trade in these minerals, particularly once the one-year US-China "trade truce" expires this Fall.

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- China stated it took the action in response to the US blacklist of 80 Chinese companies (including Alibaba, Baidu, and electric vehicle maker BYD) that it determined are aiding the Chinese military.¹ Chinese companies are prohibited from selling dual-use (items capable of both civilian and military use) to the companies on the export control list.
 - The action also covers companies in third countries that use covered goods from China.
 - All companies on the list use critical minerals; significantly, the export control list includes two prominent US rare earths companies, MP Materials and USA Rare Earth. The inclusion of rare earths companies shows how seriously China takes this sector which it dominates (with a global share of 70% in mining and almost 90% in processing).
 - Export controls have already led to some concerns over access to REEs in Japan and drive global efforts to diversify both supply and processing. However, these efforts will take time. Even as the US seeks to accelerate mining of REEs, businesses should continue to monitor efforts to diversify supply chains and joint purchasing efforts, such as the G-7's Critical Minerals Resilience and Production Alliance.
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The Export Control Order

Last Fall, the US and China agreed to a one-year “trade truce” in which both parties committed not to raise tariffs from their current levels of tariffs.² As a part of the truce, China also agreed to suspend for one-year its ban on the export of gallium, germanium, and antimony to the US.

China’s recent export control order is an extension of its policy regarding export controls of a sector in which it dominates both mining (with a global share of 70%) and processing (almost 90%). It also continues another broad trend in Chinese policy: building an export control regime with global application. The latest export controls have third-party application: companies anywhere in the world may not sell dual-use items to those ten companies if the items originated in China. This provision parallels third-party restrictions imposed by the US Commerce Department. China, too, seeks to control how minerals and products of Chinese origin may be used by end-users in third countries.

The inclusion of two US rare earths companies in the latest export control order, while it will have little practical effect on the companies themselves, shows how seriously China takes this sector in which it has particular dominance. One company, MP Materials, owns the Mountain Pass mine in California, the US’ only currently operating rare earths mine and processing facility and the largest processor outside China. The Department of Defense has been the largest shareholder in MP Materials since July 2025. Prior to this, the largest shareholder was a Chinese company. The second company, USA Rare Earth, is developing a mine in Texas; the US has taken a 10% stake in the company.

Still, the latest action, of itself, is not expected to threaten the overall trade truce with the US. Indeed, the response to the Pentagon’s blacklist, which included several major Chinese companies, is likely a measured calculation rather than an escalation of tensions. It is significant that China chose not to retaliate in kind, for instance targeting large US technology companies or auto manufacturers as the US had included some major Chinese technology companies and auto manufacturers on its list. Similarly, a new list of prohibited entities in Chinese government procurement included many major US defense companies but excluded Boeing, presumably to permit China to continue to purchase commercial aircraft. However, it is a reminder of China’s dominance of the REE sector and its resistance to attempts to weaken its power and leverage over US and global supply chains that depend on rare earths and other critical minerals.

US Dependence on Foreign Sources of Critical Minerals

It is important to make a distinction between a broader list of critical minerals with both defense and civilian industrial applications and the subset of REEs. The broader list³ includes minerals and metals such as gold and copper which the US has in abundance (and can easily import); others such as aluminum and uranium easily obtained from partner countries of the US; others such as cobalt for which there are a few principal sources but can be obtained; and those, including many REEs, for which a principal or near-exclusive source is China. For REEs as a

class, China dominates the global market, with an estimated 48% of total global supply and higher figures for several specific REEs.⁴

Rare earths are a point of economic vulnerability for the US in both civilian and military applications; the US imported 80% of REE needs in 2024. China also had a ban on shipping gallium, germanium, and antimony to the US but suspended it until November 27 as part of the trade truce negotiated last year.⁵ While the US highlights partnerships with countries such as Australia, Japan, Malaysia, and Thailand, it is also seeking to expand domestic mining and processing,⁶ including investments from the Department of Energy,⁷ and efforts to accelerate permitting of mines and facilities. These efforts also include a partnership with Japan announced last October on REE supply chains, mining, processing, and coordinated investment.⁸

Export controls on Japan

In January, China reimposed a ban on the export of certain rare earths (and 800 dual-use items) to Japan in response to what it perceived as a shift in Japanese policy regarding Taiwan.⁹ (China had also effectively banned export of critical minerals to Japan in 2010 after a dispute over the Senkaku islands in the East China Sea. Export of other rare earths to Japan for civilian purposes is governed by China's general export control regulations. Similar to the recent action on the US, China has expanded its export control list of companies to include Japanese defense and drone companies, including placing 40 companies on a watch list, targeting end-uses that would benefit the Japanese military.¹⁰

More directly, since January, China has not exported dysprosium or terbium to Japan (used in rare-earth magnets), molybdenum power as well as unalloyed yttrium and scandium, while exports of tungsten and rare-earth magnets have fallen significantly.¹¹ In response, Japan is seeking to expand supply chain security for rare earths and other critical minerals and is considering deep-sea mining of rare earths from exceptionally rich deposits in seafloor mud about 6,000 meters deep in Japan's exclusive economic zone.¹²

Plurilateral efforts

Reacting to export restrictions, in 2025, the G-7, joined by Australia, announced a Critical Minerals Action Plan. In February, the US hosted a Critical Minerals Summit (see Backgrounder, "[The Critical Minerals Ministerial and Industrial Policy](#)"), which involved both consumer and producer nations, with a goal of finding additional sources and ensuring reliability of supply, even considering a buyers' club and a negotiated price floor to give incentives to develop new mines and processing facilities.¹³

Now, the recent G-7 Summit in France advanced a non-binding Critical Minerals Resilience and Production Alliance "open to like-minded partners subject to the approval of participating countries." This builds on the work of the Critical Minerals Ministerial to "promote the development of coordinated projects through demand aggregation and the mobilization of public and private collective financial capacities. In so doing, we aim to significantly reduce our dependencies on a single supplier outside the G7 and partner countries for rare earths and

permanent magnets to under 60 per cent by 2030 and continuing to decrease further over time, with an ambition to reach 50 per cent as soon as possible.”¹⁴

This is an ambitious goal and will require the active involvement of both producing and consuming countries, in particular the US which is both a producer and a consumer. The temptation could be to develop bilateral efforts outside the plurilateral context, which could in turn give China an opening to resist the plurilateral effort. In addition, businesses may face higher prices for REEs over time as a result of the price floor -- but this would be balanced by more reliable supplies if the initiative and other efforts to expand mining and processing work as they are intended.

Even if the latest export control order does not lead to shortages, it is nevertheless a reminder of China's power in the rare earths sector and of China's determination to implement a parallel export control regime to that operated by the US Commerce Department. US businesses should monitor both the US-China negotiations to determine whether the suspension of the ban on export of certain rare earths to the US will continue and also global efforts to expand sources of supply beyond China. In the near-term, however, those efforts will face a difficulty of China's continued dominance of global processing of rare earths. Collaboration between like-minded countries in both the G7 and the developing world to diversify supply and find other sources of processing is a slow task, one that China will likely seek to deter as it can, but it is the best way to ensure broader supply chain security and resilience over the long term.

About the Authors



David Young, President, The CEO Center, The Conference Board



John Gardner, Head of Public Policy & Research, The CEO Center, The Conference Board

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Endnotes

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- ⁹ <https://www.japantimes.co.jp/business/2026/01/14/companies/japan-companies-assess-china-rare-earth-curbs/>
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- ¹¹ <https://english.kyodonews.net/articles/-/79292>
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- ¹³ <https://asiatimes.com/2026/06/japan-seeks-g7-price-floors-to-break-chinas-rare-earth-grip/>
- ¹⁴ <https://www.elysee.fr/en/G7evian/2026/06/17/g7-leaders-declaration-on-securing-supply-chains-for-critical-minerals>