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Resource geopolitics

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From the editors' desk

As the world decarbonises and US–China rivalry intensifies, nations seek control over the mineral resources that feed green technologies and expand defence infrastructure. Once of interest mainly to geologists and geographers, rare earths and critical minerals are now basic inputs in global production chains and are front and centre to economic security and defence agendas. Disruptions and volatility in the supply of energy and minerals have global ripples, as demonstrated when energy prices responded to Russia's invasion of Ukraine in 2022 and when China used the 'rare earth weapon' to bring Trump's America to the negotiating table on tariffs in 2025.

This edition of *East Asia Forum Quarterly* examines the geopolitics of Asia's resources trade. Asia is home to important resource consumers like India, Japan and South Korea, as well as major suppliers like Australia and Indonesia. Uniquely China is both a major supplier and consumer. This complementarity between the producers and consumers has been a key engine for economic growth but is now challenged from two directions: the weaponisation of resource interdependencies and increasing industrial policy and protectionism, or 'resource nationalism'.

Contributors examine these dynamics, providing a clear-eyed assessment of how increasing geopolitical and economic competition is changing where and how we extract, refine, trade and manufacture the world's finite mineral resources.

A major focus is China's extraordinary dominance of global consumption, minerals refining and manufacture. Our contributors explain China's industrial might in these sectors and reflect critically on the core logic—and practical reality—of urgent Western efforts to securitise mineral resources and reduce dependency on a geopolitical rival. They consider a range of cases, illustrating how China's neighbours grapple with the current moment and try to strike a balance between economic integration with China while ensuring secure access and supply of mineral resources and their products. They reflect on the difficulty of that reordering: Australia's prosperity has long depended on 'dig and ship' extraction and turning over that model is hard and high risk. Reorganising mineral supply chains is not easy and risks slowing global momentum for the green energy transition.

Despite dramatic changes, the basic complementarity of the region's producers and consumers remains intact, and government policy that seeks to manage risks rather than overturn market structure would appear to deliver a better outcome for all.

In Asian Review we consider the decisive shift taking place in Japanese politics and the impact of K-pop on South Korea's soft power.

Eve Warburton and Eli Hayes

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PICTURE: REUTERS

A worker transports lithium batteries for processing at a factory in Huaibei City, Anhui Province.

Critical minerals and the reimagination of globalisation

RODERICK G EGGERT

WE ARE in the midst of a profound reassessment of globalisation and industrial policy. Over the past 15–20 years, much of the Western world has transitioned from 'least-cost' globalisation to the embrace of nation-focused, state-led industrial policy. The story of rare earths and other critical minerals provides a lens through which to view these developments.

Rare earths are a family of 17 chemical elements with important uses in many civilian and military technologies. They belong to a larger family of so-called critical minerals—a mineral, material or chemical element both essential in a modern technology and subject to supply risk. Which specific minerals are classed 'critical' differs between countries, companies and industries.

One type of supply risk faced by mineral users is short-term and results from a lack of geographic diversity in production. A disruption to supply from a single important source could lead to unexpected material shortages and volatile prices. Given the lag times in developing new mines, processing facilities and associated infrastructure, these supply constraints can also be perceived as medium-term issues.

A longer-term risk stems from the fear that production capacity a decade or more into the future will be insufficient to satisfy the material requirements for key technologies, with concerns around affordability

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COVER: Aerial view of a mine tailing dam, Liaoning Province. VCG / REUTERS

and environmentally and socially responsible production.

The public became aware of rare earths in 2010 with the explosion of rare earth prices following a temporary cutoff of Chinese exports to Japan during a territorial dispute. This embargo occurred during a period when China restricted rare earth exports through export duties and quotas more broadly as it sought to restructure the industry, giving domestic manufacturers a cost advantage over foreign customers. This saw a shift in the manufacturing of products containing rare earths to China.

In 2010, rare earth production in China accounted for more than 90 per cent of world output at both the mining and processing stages of production. Chinese production also accounted for most of global output for many other minerals labelled 'critical', like gallium, germanium and indium.

During this period, enthusiasm for globalisation was perhaps at its peak. The common consensus was that specific stages within a supply chain should occur where costs were lowest. Geographic fragmentation and supply chain concentration was simply the result of pursuing least-cost production.

Industrial policy was largely out of favour. The view was that national governments should be sector agnostic about the allocation of investment within an economy and instead focus on creating a stable legal, regulatory and financial framework for private initiatives to thrive. Broader government interventions should be limited to correcting market failures such as environmental externalities and providing social safety nets for the disadvantaged in society. While exceptions and interventions were made to prioritise specific national sectors like defence, the bias was largely to let the market decide.

DURING and immediately following 2010, lack of industrial policy characterised most government approaches in advanced market economies towards rare earths and other critical minerals. The focus was on improving the functioning of markets. Japan, Europe and the United States filed a WTO lawsuit charging that Chinese export restrictions violated the terms of WTO membership which required domestic and foreign customers to receive similar treatment. The view was that Beijing's restrictions were putting non-Chinese users of rare earths at a disadvantage. The suit was successful and China removed its export duties and quotas.

US, European and Japanese policy responses focused on traditional roles for government—geological mapping, research and development to reduce costs and environmental impacts, provision of market information, education and workforce development and expediting pre-production approval processes. International collaborations, often multilateral, were initiated. While governments would play a supporting role in responding to raw material risks, the private sector would generally take the lead.

Beginning in the late 2010s, companies and governments began to re-assess their enthusiasm for globalisation—a process which accelerated following the economy-wide supply chain disruptions caused by COVID-19, Russia's invasion of Ukraine and growing US–China geopolitical tensions.

In the 2020s, companies are increasingly prioritising the diversification of supply chains while attempting to minimise input costs.

Many automobile companies have entered into offtake agreements with new producers of rare earths for electric motor magnets and lithium, nickel and cobalt for batteries to meet growing demand in the longer term.

Meanwhile, governments are re-embracing industrial policy. They are co-financing critical mineral projects at home and with allied and partner economies, providing price guarantees and subsidising production, including through tariffs and other restrictions on international trade. Governments are stepping beyond their traditional role to take responsibility for securing critical mineral supplies for the private sector and domestic manufacturers.

European and US policies have abandoned any pretence of agnosticism, with critical minerals being elevated as a priority in domestic and foreign policy. The 2022 US Inflation Reduction Act provided a production tax credit for certain domestically mined and processed critical minerals and materials. In 2025, the US Department of Defense committed to provide equity and loan financing and became a minority owner of a rare earth company committed to domestic mining and processing. The EU's Critical Raw Materials Act established targets for European extraction, processing and recycling of priority raw materials and committed to faster processing of permits for strategic projects.

Why have governments seemingly abandoned globalisation and re-embraced industrial policy?

In part, this reflects a second-best world. The logic is that if Chinese state capitalism emphasises critical minerals self-sufficiency, then governments in other advanced economics will need to engage in their own forms of protectionism.

It also reflects growing geopolitical uncertainty and preparedness to pay the cost of secure military supply chains.

And the re-embrace of industrial policy reflects the perceived urgency of overcoming both the short-term challenge of geographic clustering in current critical minerals production and the longer-term challenge around the lack of production capacity relative to expected needs.

Whither globalisation and industrial policy with respect to critical minerals?

It is too soon to tell, given the extreme uncertainties in the world in early 2026. But to be sure, both globalisation and industrial policy are being re-imagined. Policymakers and companies are determining the degree to which they want to take advantage of the efficiencies of international markets in a new version of globalisation, while governments are trying to determine how directly they should intervene in markets to create secure and resilient supply chains of critical minerals at home. EAFQ

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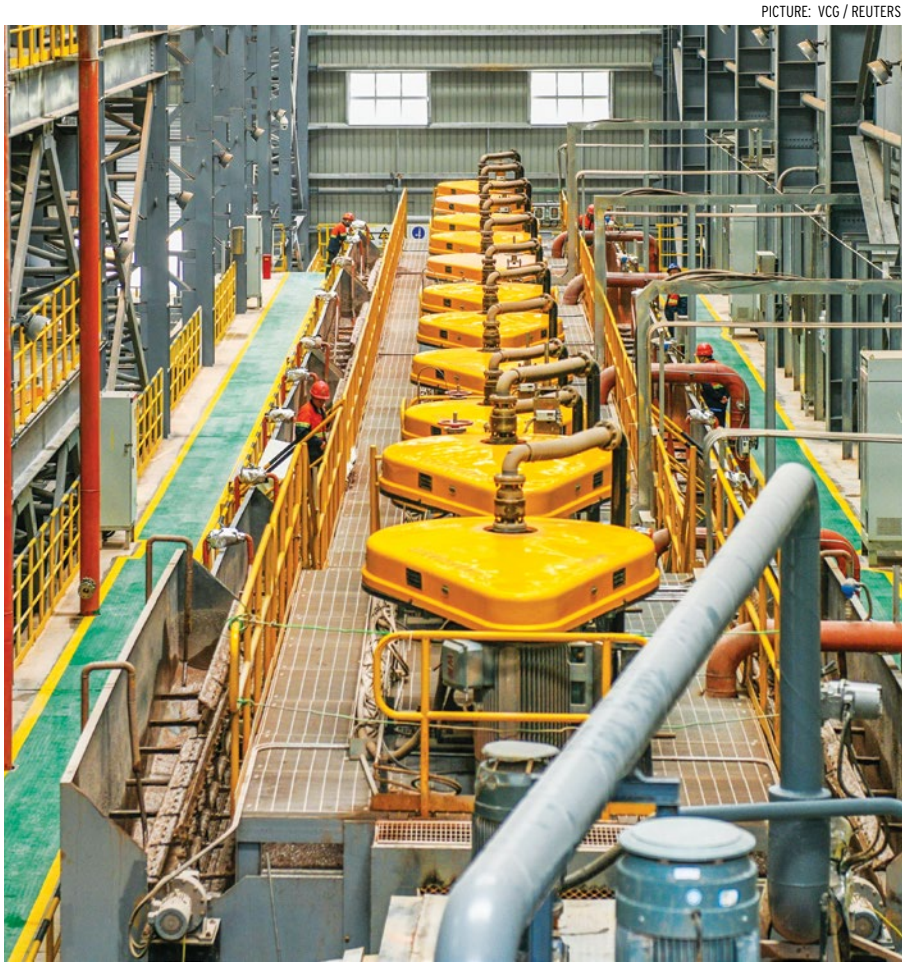
PICTURE: VCG / REUTERS



Production facilities at the mining and processing site of a lithium polymetallic mine in Yongzhou, Hunan Province.

PICTURE: REUTERS / MAXIM SHEMETOV

Samples of mineral resources are displayed at Nigeria's booth at the 8th China International Import Expo in Shanghai.

Way out of the West's critical minerals dilemma

MARINA YUE ZHANG

SINCE 2022, the United States and the EU have shifted rapidly towards a more interventionist industrial policy aimed at building 'trusted' critical mineral supply chains free from Chinese inputs.

The logic of this strategy is understandable. China has demonstrated its capacity to exploit supply chain chokepoints and Western defence planners are right to worry about concentrated sources supply for advanced weapons systems.

Yet this Western response exposes a deeper problem. Despite differing policy instruments, Washington and Brussels have pursued two intertwined objectives—national security and competitive positioning vis-a-vis China's state-led development—risking the subordination of critical minerals that are crucial to managing the challenge of climate change to what amounts to a war-oriented logic.

Policymakers in both the United States and the EU have promoted strategies such as 'strategic autonomy', 'friend-shoring' and 'secure supply' for critical minerals and the industrial capabilities that convert

them into batteries, magnets and advanced weapons components. Yet this turn towards state capitalism, with governments acting as direct economic actors, applies the logic of military supply chains to a climate challenge that can only be met by the mobilisation on market forces across the global economy.

Minerals are classified as critical not only because of their functional importance, but because of their supply chain vulnerability. A mineral may be economically vital yet not deemed to be critical if its supply is diversified across markets and resilient. This differs from strategic minerals, which are defined by their specific utility in defence, aerospace or critical infrastructure and by the absence of viable substitutes. The same minerals, used in both security-related applications and in green technologies, are classified differently across jurisdictions to reflect national security priorities.

China's 2016–2020 National Plan for Mineral Resources focuses on the strategic aspect of the minerals, emphasising their specific utilities for national interests. The United States classifies copper and nickel as both critical and strategic, while the EU and Australia treat them as strategic but not critical.

The concept of critical and strategic minerals has distinct military origins, which makes them well-suited for defence and other security-related sectors. But the framing becomes constraining when extended to the energy transition, which demands greater scale and speed and depends on cost-effective supply chains.

Minerals that dominate public policy discussion—lithium, cobalt, rare earth minerals, graphite, nickel and increasingly copper—are essential to global energy transition. Defence-related applications typically account for only a very small fraction of demand for critical minerals—well under one per cent of global volume for bulk commodities—while the overwhelming demand is driven by green energy and industrial uses essential to decarbonisation.

THIS mismatch between where demand actually lies and how policy is being designed creates growing tension in current critical minerals strategies. Western industrial policy on critical minerals risks amplifying climate challenges by adopting protectionist measures that promote decoupling and restrict green trade in products, services and carbon credits.

US and EU subsidies, procurement preferences and licensing reforms cannot rebuild an entire industrial ecosystem by compressing decades of industrial accumulation into a few years as global demand for clean energy technologies accelerates. Non-tariff barriers may be defensible for military applications, but they sit uneasily with the requirements of deploying energy transition technologies where affordability and standardisation drive adoption.

Treating all minerals equally and adopting security-centred supply chain strategies raises costs—particularly for developing economies—slowing the energy transition. The challenge of reconstructing a parallel, China-free supply chain is compounded by the structure of China's huge share in these markets.

China's market dominance rests on three mutually reinforcing capabilities—access to resources, deep processing know-how and a largescale industrial ecosystem built on accumulated intellectual property and engineering efficiency. The narratives that lax environmental regulation or cheap labour drive China's dominance are growing outdated since China launched its 'APEC Blue' environmental reforms in 2014.

Treating all minerals equally and adopting security-centred supply chain strategies raises costs–particularly for developing economies–slowing the energy transition

A single policy framework cannot optimise outcomes for both security-sensitive and energy transition minerals, despite their material overlap. The solution lies in segmenting supply tracks for security-related and energy transition technologies.

In a conflict scenario, rapid increases in demand for processed materials may exceed what commercial just-in-time supply chains can deliver. Ring-fencing security-critical minerals through strict chain-of-custody rules, strategic stockpiles and government-backed offtake provides essential resilience under such circumstances.

But meeting the far larger demand associated with the energy transition requires speed, scale and continued engagement with global supply chains—including China's. Segmentation allows governments to buy time for technological catch-

up in defence-related supply chains without stalling the broader economy or delaying decarbonisation.

To operationalise this approach, the mineral landscape needs to be divided into two tracks.

The first is a security track, in which minerals meet military specifications or serve as universal enablers for strategic technologies such as semiconductors and artificial intelligence, including dual-use applications. States must be willing to pay a 'security tax' to ensure supply chains prioritise control and insulation. The second is a green track, where demand is driven primarily by the energy transition. Policy should focus on liquidity and cost efficiency, with supply chains dependent on standards, scale and affordability.

China already differentiates between security-sensitive and civilian applications, restricting defence-grade materials and advanced processing technologies while exporting and investing in clean energy infrastructure and products. Beijing retains strong incentives to engage in the green track despite geopolitical tensions, both to leverage its cost and scale advantages and to sustain access to global markets.

PICTURE: COSTFOTO / NURPHOTO

Giant wind turbines at Baiyunling wind farm slowly rotate with snow covering the turbine towers and blades, Guangxi Province.

A dual-track approach allows countries in the Asia Pacific to participate in global green supply chains—including those involving Chinese capital—while developing smaller, secure supply lines for defence and critical infrastructure. This would accelerate decarbonisation, preserve strategic safeguards and avoid the 'all-or-nothing' logic that currently stifles investment.

The Asia Pacific region also requires institutional mechanisms that distinguish between stockpiling approaches for the two tracks. For security-track minerals, strategic stockpiles—including those in Australia—need to be modernised to hold processed forms of minerals, providing buffers against surge demand in conflict scenarios.

For green-track minerals, the region can draw on the models of the Japan Organization for Metals and Energy Security and Seoul's Korea Mine Rehabilitation and Mineral Resources Corporation, which maintain stockpiles that can be released during price spikes to stabilise markets and derisk commercial investment.

Escaping the security trap requires a conceptual shift: treating China's supply-chain dominance as a climate asset rather than merely a security risk, moving from blanket derisking to targeted protection and removing zero-sum competition. Integrating China's industrial capacity can lower the global cost of emissions reduction and accelerate deployment.

The choice is not between security and climate, but whether the West can pursue both without sacrificing one for the other. EAFQ

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PICTURE: BASRI MARZUKI / NURPHOTO

Environmental activists attend a rally to commemorate Anti-Mining Day in Palu, Central Sulawesi (May 2024).

New energy transition narratives, old extractive costs

ANGELA TRITTO

GEOPOLITICAL competition and resource nationalism are rapidly reshaping the extraction and governance of critical minerals essential to the global energy transition. Despite promises of sustainability, governments are deploying narratives and green industrial policies that are likely to reproduce familiar social and ecological harm.

At the November 2025 UN Climate Change Conference, a draft text under the UN Framework Convention on Climate Change acknowledged the need to address the negative social and environmental impacts of mining and processing critical minerals. The language was allegedly dropped following pushback from China and Russia. Yet by the end of the summit, similar wording resurfaced in a China–South Africa bilateral initiative on cooperation in Africa.

While the reasoning behind these seemingly contradictory positions is difficult to untangle, it is clear that the debate over critical minerals—and environmental governance more broadly—is increasingly shaped by discursive power and, at times, distorted by narrative warfare. This involves the strategic manipulation of information, including through disinformation, misinformation and greenwashing, to shape perceptions of critical minerals governance in an era of intensified geopolitical competition.

In China's case, a study by the Research Institute for Democracy, Society, and Emerging Technology identifies a clear dual-track communication strategy. In English-

... the energy transition can be advanced through non-extractive strategies such as material efficiency, demand reduction, extended product lifetimes and circular economy models

language media, China presents itself as a cooperative and indispensable partner in the global green transition. But in domestic Chinese-language outlets, messaging appears defensive and nationalistic. This divergence allows Beijing to cultivate international influence while managing dissent at home.

Beyond narratives, states are exercising power through protectionist trade policies. Indonesia's 2014 ban on raw mineral exports has triggered a wave of similar measures across the Global South. Over the past decade, Indonesia has become the world's largest nickel producer, driven by the rapid expansion of processing facilities largely operated by Chinese firms in industrial zones. Attracted by the promise of downstream industrialisation and battery supply chains, countries including Zimbabwe, Namibia, Ghana and Malawi have imposed bans on unprocessed critical mineral exports, while the Democratic Republic of Congo has shifted towards export quotas.

Malaysia announced an export ban on rare earth elements in 2023. According to a 2025 survey, the country's rare earth deposits are estimated to be worth US$175 billion. New export restrictions and local content requirements followed. Vietnam has also pursued similar policies, approving a revised law to restrict refined rare earths exports and continue its 2021 ban on ore exports to incentivise domestic industry.

According to the OECD, these developments reflect broader shifts in the global landscape driven by heightened geopolitical tensions and strategic competition. With the WTO's Appellate Body effectively paralysed, international trade rules are less able to constrain state behaviour.

At the same time, governments are reviving interest in one of the most controversial frontiers of extraction in the Indian and Pacific oceans: deep-sea mining.

Though contested waters like the South China Sea remain off-limits, Chinese survey vessels are operating within the exclusive economic zones of Southeast Asia's neighbours. In the Cook Islands, state-backed Chinese vessels are supporting the government's seabed exploration. In Nauru, The

Metals Company—a Canadian deep-sea mining firm—backed Nauru's 2025 attempt to force the International Seabed Authority to finalise mining rules. The company is now seeking to exploit a Trump-executive order to fast-track seabed mining permits under US domestic law, including in areas beyond US territorial waters.

Despite the absence of robust legal frameworks to govern the extraction of critical minerals, resistance has grown. A diverse coalition of NGOs, scientific bodies, European and Pacific governments, car manufacturers and public figures has mobilised against the environmental risks of mining, particularly deep-sea mining. The Deep Sea Conservation Coalition has led calls for a global moratorium on deep-sea mining, citing the ecological importance of largely undocumented marine ecosystems.

WHILE this movement has so far delayed commercial deep-sea mining, the pause is fragile. Renewed political backing in the United States and growing advocacy by Chinese scientists threaten to reopen the door.

The dangers of social and environmental damage are also evident on land. Indonesia's nickel boom, once celebrated as a cornerstone of green industrial policy, has come at a devastating cost.

Investigations have documented what activists call 'blood nickel'—incidents of workers killed in industrial accidents, suicides linked to unsafe, exploitative conditions and families left with minimal compensation. Reports describe conditions resembling forced labour and arrests in retaliation for strikes. At PT Gunbuster Nickel Industry, Project Multatuli revealed that local police arrested or intimidated workers who went on strike over unfair wages and unsafe working conditions. Conditions are even tougher for Chinese workers, with several fatal accidents allegedly silenced. The UN Interregional Crime and Justice Research Institute has also linked mining expansion in the region to rising criminal activity.

The environmental toll is equally stark. Nickel mining has accelerated deforestation, including in protected high-carbon forests, while runoff from mining sites has damaged coastal and marine ecosystems critical to local livelihoods. Coal-fired power plants built to supply energy-hungry processing facilities are projected to cause tens of thousands of excess deaths annually by 2030. As floods in Indonesia become more frequent, severe and deadly, these impacts must be counted among the true costs of the energy transition.

From Indonesia's nickel sector to lithium extraction threatening biodiversity in the Andes and cobalt and copper mining linked to human rights abuses in the Democratic Republic of Congo, the extractive costs of the energy transition are apparent. Against this global trend, environmental and social movements are challenging the assumption that decarbonisation requires ever-increasing extraction.

These movements do not oppose climate action itself. Rather, they argue that today's green industrial policies risk reproducing the same sacrifice zones, labour exploitation and ecological destruction that characterised the fossil fuel economy—now under the banner of sustainability.

Instead of investing in reducing demand, recycling and new technologies that reduce dependence on mining, governments continue to double down on extraction. Yet the assumption that critical minerals are indispensable to the energy transition deserves greater scrutiny.

Instead of investing in reducing demand, recycling and new technologies that reduce dependence on mining, governments continue to double down on extraction

A growing body of research suggests that the energy transition can be advanced through non-extractive strategies such as material efficiency, demand reduction, extended product lifetimes and circular economy models that prioritise recycling and urban mining over new extraction. Advances in battery chemistries that reduce or eliminate reliance on scarce minerals, alongside systemic changes like improved public transport, energy efficiency and grid optimisation, demonstrate that decarbonisation is as much a political and economic choice as a question of resource availability.

Recognising these alternatives is essential to avoid reproducing extractivist logic which, amid intensifying geopolitical competition, risks undermining the very sustainability goals that the energy transition seeks to achieve. EAFQ

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China's critical mineral strategy beyond geopolitics

WEIHUAN ZHOU

CRITICAL minerals have become a battlefield in intensifying geopolitical rivalries. Economies across the world, from developed and developing to resource-rich and resource-poor, are racing to secure supplies, strengthen sovereign control, expand processing capabilities and advance extraction and refining technologies.

Many of these strategies rely on friendshoring supply chains with allies and trusted partners to derisk against the dominant player—China. But the extent to which China poses a risk in critical mineral supply chains requires a closer examination of its strategies and policies, which are more nuanced than widely perceived.

> Viewing China's critical mineral strategy exclusively through a geopolitical lens breeds misconceptions and perhaps unnecessary confrontation

For decades, China's critical mineral strategy focused on the rare earth industry. In the 1970s, the goal was to nurture this infant industry. Supportive policies and initiatives rapidly elevated China to the world's largest rare earth producer and supplier. But success also generated problems such as illegal mining, overproduction, smuggling, resource depletion and pollution.

To tackle these problems, a balanced approach emerged to facilitate systemic industrial reforms aimed at enhancing environmental protection and resource management through technologies, innovation and sustainable development. Financial support increasingly targeted processing and commercial application of rare earths. Over time, this enabled China to achieve unparalleled scale and efficiency in the mineral refining sector.

A broader framework emerged with China's National Plan for Mineral Resources (2016–2020). For the first time, it identified 24 'strategic minerals' and an overarching strategy for the entire mineral resources industry extending to 2025. The plan set out major inward-oriented policies aimed at improving efficiency, upgrading industrial structures, advancing green development and strengthening supply chain resilience. It also included outward-oriented measures focused on promoting engagement through trade, investment and international cooperation.

This dual approach reflects a balancing act. China aims to ensure stable supply for its continued economic growth and industrialisation while also pursuing economic sustainability, industrial modernisation and technological advancement.

As critical minerals underpin major industries—such as semiconductors, electric vehicles, defence and artificial intelligence—global competition for these resources will intensify. China's strategy will remain focused on securing supplies at home and abroad while pursuing quality development and leadership in critical and frontier technologies.

These priorities are embedded in China's broader economic and development goals set out in the 14th Five-Year Plan in 2021 and reaffirmed in the 15th Five-Year Plan recommendations in 2025. It is necessary, both strategically and pragmatically, for China to advance its upgraded economic growth model in ways that also respond to geopolitical uncertainties and vulnerabilities.

DESPITE the complex policy landscape, criticisms of China in the critical mineral industry are often cast in geopolitical terms, targeting China's supply chain dominance and weaponisation of that power amid economic and diplomatic tensions.

Moving beyond this currently prevailing narrative of China as a 'risk' is essential to forging multilateral pathways towards critical minerals supply chain resilience.

While China is a leading processor and supplier of critical minerals, it does not control most of the mineral resources and is also the world's largest importer. Australia alone accounts for approximately one-third of China's critical mineral imports. China also sources critical minerals from other major resource-rich economies and global suppliers. Thus, like other economies, China faces the challenges of dependency, supply disruption and price fluctuation.

China's trade restrictions against Australia in 2020 and Lithuania in 2021 are widely seen as evidence of economic coercion. While the allegations are understandable, the circumstances in which China may take such actions are limited and criticisms of past Chinese coercion remain contested. For example, China's export restriction of rare earths to Japan amid tensions in the East China Sea in 2010, according to leading observers, may have been part of a broader policy move to reduce rare earths exports and not targeted at any specific economy.

Chinese export restraints of raw materials and rare earths have also led to high-profile WTO disputes. These restrictions caused disruptions of global supplies and price hikes, but they were linked to goals unrelated to economic coercion. Following adverse WTO rulings, China removed these restrictions and used the rulings to push forward domestic reforms of the rare earths industry, particularly to strengthen local enforcement of national sustainable development policies.

The wave of export controls China introduced in 2025, targeting germanium, gallium and more recently rare earths, was largely a defensive action in retaliation to US restrictions on advanced chips exports and unilateral tariffs. China has taken similar defensive measures in other disputes, including challenging the EU at the WTO and imposing tariffs on Canadian canola in response to tariffs against Chinese electric vehicles.

Such tit-for-tat actions justified on national security grounds are common in trade frictions. Yet the January 2026 Canada–China agreement to scale back their respective trade measures suggests that while China would not hesitate to defend its interests, it does not seek to maintain restrictions if cooperation is possible.

Viewing China's critical mineral strategy exclusively through a geopolitical lens breeds misconceptions

PICTURE: TAN YUNFENG / VCG

Workers monitor unmanned electric mining trucks at the Huzhou Nanfang Mining company in Zhejiang Province.

and perhaps unnecessary confrontation. Instead of treating China as the 'risk', governments should direct their derisking strategies towards tackling vulnerabilities in critical mineral supply chains via inclusive cooperation.

Like measures adopted elsewhere, China's strategy prioritises domestic economic needs and strategic objectives over managing negative spillovers. These inward-looking policies can significantly disrupt critical mineral supply chains. The EU–Indonesia WTO dispute over Indonesia's nickel export ban illustrates the distortive impact of such policies.

Forging selective partnerships can also generate disruptions and uncertainties by fragmenting global supply chains and adding regulatory costs. It incentivises excluded economies, especially key players in global supply chains, to take unilateral actions and build their own alternative partnerships.

In November 2025, China launched the International Economic and Trade Cooperation Initiative on Green Mining and Minerals to facilitate cooperation among all interested parties. Regardless of China's strategic motivations— such as counteracting the derisking strategy of G7 governments and the increasing competition from critical mineral strategic partnerships forged by other countries—a coherent, globally coordinated policy response of this sort is needed to safeguard long-term resilience, predictability and security in critical mineral supply chains. EAFQ

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China's rare earth strategy may need recalibration

PATRICK XUE

THE signing of the United States–Australia Framework for Securing of Supply in the Mining and Processing of Critical Minerals and Rare Earths marked a milestone in Washington's efforts to secure stable, non-Chinese strategic material sources. For Beijing, it is a warning that its long-standing rare earth export control strategy may need recalibration.

Washington's core objective is to isolate China within the global system and reconfigure supply chains away from it. This containment strategy has evolved through President Donald Trump's 'trade wars 1.0 and 2.0', former president Joe Biden's 'small yard, high fence' technology policy and a broader contest for leadership in advanced industries. Beijing's rare earths' export controls have aimed to counter these moves by leveraging its dominance over critical inputs essential to high-end manufacturing. Yet this policy has, to some extent, helped Washington achieve its goal.

China's use of rare earths as a diplomatic tool dates back to 2010, when exports to Japan were curtailed amid tensions over the Senkaku/Diaoyu Islands. In 2014, the WTO ruled that those export quotas and tariffs violated the General Agreement on Tariffs and Trade, and Beijing withdrew the measures in 2015. Re-introducing similar restrictions in 2023 risked repeating the same cycle—undermining China's credibility while reinforcing US and allied efforts to diversify supply chains and reduce dependence on Chinese materials.

Major international consumers of China's rare earths, such as the United States, Japan and the EU, have been compelled to negotiate separate bilateral arrangements with Beijing, creating ripple effects of uncertainty reminiscent of the disruptions triggered by Washington's tariff wars. They are rebuilding domestic refining capacity and deepening supply links with other suppliers such as Australia, Canada and emerging producers in Africa, for example through the US–Australia critical minerals framework.

This diversification will erode China's long-term market share, weaken its partners' willingness to cooperate and increase the risk of strategic isolation. As the literature on economic coercion suggests, efforts to use economic leverage for strategic purposes are often difficult to sustain and generate unintended feedback effects that can constrain the initiator's own policy space.

Tighter export controls have also provided further incentives for China's resource-rich partners to align more closely with Washington and insulate

their supply chains from potential Chinese constraints. Australia's Labor Party government—which has actively sought to restabilise economic engagement with China since Prime Minister Anthony Albanese's election—still opted to deepen cooperation with the United States.

Beijing's own actions have thus inadvertently accelerated restrictive resource diplomacy, reshaping regional alignments and strengthening the non-Chinese supply ecosystem. Beijing would be sensible to recalibrate its strategy.

The current approach would benefit from greater precision and restraint. Rather than imposing blanket controls, China could adopt a more targeted, rules-based mechanism, focusing narrowly on legitimate national security concerns such as 'dual-use items' while maintaining open trade with trusted partners. Exempting partners like the EU from broad restrictions would help maintain diversified economic networks and reduce perceptions of coercion and deviation from rules-based trade.

Stronger monitoring of re-exports and transshipment routes to prevent leakages is likely to prove challenging in practice, given the limited traceability of rare earth commodities. Multilateral frameworks such as the Regional Comprehensive Economic Partnership (RCEP) could provide a limited platform for improving transparency through existing customs-cooperation and information-sharing mechanisms. China needs to make it clear that whatever restrictions it imposes are only in direct response to specific target countries, including but not limited to the United States.

A recalibrated strategy would focus on deepening supply chain interdependence with strategic partners. This requires greater predictability and stability in China's role as a global supply chain hub including honouring contractual commitments, minimising politicised interventions and ensuring quality and reliability. Only if partners have a high degree of trust in China's supply chains can cooperation be sustained under external pressure without partners shifting towards alternative sources and markets.

More ambitiously, China could anchor strategic interdependence through joint industrial initiatives like a regional green iron and steel community, integrating upstream and downstream industries and promoting technological cooperation. Such arrangements would reinforce economic complementarity, reduce perceptions that China uses resource policy as a geopolitical weapon and build trust in China's long-term role in international trade.

China's broader multilateral engagement is a crucial pillar in its quest for economic security. The Belt and Road Initiative, Global Development Initiative, Global Security Initiative, Global Civilization Initiative, as well as leadership in the Shanghai Cooperation Organization

PICTURE: COSTFOTO / NURPHOTO

A worker loads materials into a calcination furnace in Binzhou, Shandong Province.

and BRICS have been pursued to expand China's diplomatic reach. Yet these China-led initiatives are often viewed externally as attempts to construct a parallel order to counter the United States, fuelling distrust towards China.

A more effective path lies in strengthening established multilateral frameworks. Working through the WTO and RCEP and seeking membership of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership—as China is—to advance transparency, predictability and inclusivity in its implementation of trade rules would reinforce China's image as a stabilising force within the open global economy. Offsetting the economic impact of Trump-era tariffs would also be a welcome by-product but should not be the primary objective. Framing multilateralism as anti-US only deepens distrust.

China's 'community with a shared future for mankind' offers an inclusive vision, but its implementation lags behind its lofty rhetoric. Expanding non-governmental and academic exchanges, simplifying approval processes for exachanges and embedding this principle in practical cooperation could help translate the vision into credible and positive soft power.

As the United States and its allies tighten their critical mineral supply partnerships, China's best response is not escalation but adaptation—demonstrating that it can be both a dependable supplier and a constructive stakeholder in the global economic order. EAFQ

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SUBSIDY STRATEGY

Policies that enable China's critical minerals edge

DAVID LANDRY

CRITICAL minerals access constitutes a key objective in the second Trump administration's foreign policy, from the minerals deal it pressured Ukraine to sign in early 2025 to its ongoing calls to acquire Greenland. While critical minerals are a new consideration in 'making America great again', they have long been a cornerstone of Beijing's economic strategy.

China's critical minerals dominance represents the outcome of decades of state-led investment across mining and processing. This dominance is reinforced by enormous downstream demand by a manufacturing powerhouse, combined with unusually tight political control over the firms operating at each stage.

Beijing achieved its advantageous position in critical minerals through a set of enabling policies, of which three are particularly important: subsidised credit across the strategic sector, political backing for miners operating abroad and a complex set of industrial policy levers and political controls that shape where minerals ultimately flow.

Chinese mining and processing firms operate under financing conditions that differ fundamentally from those faced by their global competitors. Quarterly reports from the first quarter of 2024 show that the ten largest publicly-traded Chinese mining companies paid 3.68 per cent in effective interest on their outstanding debt, compared to 7.11 per cent for the ten largest publicly-traded foreign mining companies. The difference would likely be even larger if wholly state-owned Chinese firms were included, as these firms tend to receive more preferential treatment in China than their private counterparts.

Chinese policy banks play a critical role in this space. According to AidData's Global Chinese Development Finance Dataset, Chinese banks have extended at least

PICTURE: REUTERS

Attendees view a display at the 12th China-ASEAN Mining Cooperation Forum and Exhibition in Nanning City, Guangxi Zhuang Autonomous Region (May 2023).

19 loans since 2000, totalling US$11.5 billion, carrying a weighted average interest rate of just 3.8 per cent to Chinese mining companies. Subsidised credit provides more than a marginal advantage. It reshapes investment behaviour, enabling firms to tolerate volatility and thinner margins in the short-term for future payoffs.

As a result, Chinese firms are structurally positioned to prioritise strategic outcomes—market maximisation and supply security. This is particularly the case for state-owned enterprises, which dominate the upper tier of China's mining sector. Ninety four of the largest 100 Chinese mining companies are at least in part state-owned, with total government stakes in these 94 firms approaching 80 per cent on average.

Subsidised credit is just as critical downstream as processing minerals into refined metals is technologically demanding and capital intensive. China accounts for roughly 45 per cent of the world's copper refining, 70 per cent in the case of lithium and 90 per cent in rare earths. These positions have been built through unrelenting investment, made possible through subsidies that contribute to China's overcapacity.

China can now produce more batteries than the entire world needs. According to an executive at Huayou Cobalt—the largest producer of battery cathode materials—profit margins for Chinese firms that refine

> China's critical minerals dominance represents the outcome of decades of state-led investment across mining and processing

In the early 2000s, Chinese firms favoured minority stakes and joint ventures, prioritising learning and risk mitigation … today, outright acquisitions are far more common

battery metals hover at around 5 per cent. That overcapacity has also driven foreign competitors out of business—reinforcing China's position. Razor-thin margins also mean that firms cannot afford to run out of minerals. Idle capacity means losses, so Chinese firms are willing outbid competitors for raw materials. As a result, the margins earned by Chinese miners can be as high as 40 per cent.

Success comes down to both subsidised credit and political support. The scale of Chinese foreign investment in mining has expanded dramatically over the past two decades. Chinese firms now hold stakes in at least 184 active mining properties overseas, compared to a handful at the turn of the century.

These investments are disproportionately located in higher-risk jurisdictions. Chinese firms—especially state-owned enterprises, which have stakes in roughly 60 per cent of the 184 projects—are more willing to operate in risky environments. This is partly because they expect political support if projects encounter distress. That support can be direct, through diplomatic engagement or state-to-state negotiations. It can also be indirect, embedded in arrangements associated with the more than US$1.3 trillion in Chinese financing that has flowed around the world since 2000.

FEW projects better exemplify Chinese investors' risk tolerance than Simandou, Guinea's gargantuan iron ore deposit. After Rio Tinto spent hundreds of millions of dollars exploring the site, only to be partially expropriated in 2008 as part of a dizzying corruption scheme that saw hundreds of millions in bribes distributed to members of Guinea's ruling junta, few investors wanted anything to do with the project.

Eighteen years later, Chinese firms have directly or indirectly acquired roughly two-thirds of the rights to Simandou. China's Baowu Steel and the Sino-Singaporean Winning Consortium jointly own the half expropriated in 2008 (Blocks 1 and 2), while Rio Tinto sold 47 per cent of Blocks 3 and 4 to a Chinese consortium led by the state-owned Aluminium Corporation of China (which also holds an 11 per cent stake in Rio Tinto itself). One reason these firms might be undaunted by risk is that, as the AidData dataset shows, Guinea has received more than US$27 billion in Chinese financial commitments since 2010.

Beyond Guinea, the investment strategies of Chinese firms reflect their growing risk appetite. In the early 2000s, Chinese firms favoured minority stakes and joint ventures, prioritising learning and risk mitigation. Today, outright acquisitions are far more common. Average Chinese ownership stakes in overseas mines have risen from roughly 60 per cent in 2002 to over 80 per cent in 2022.

China also uses industrial policy inducements and political controls to guide where minerals ultimately go. Foreign mines are most valuable as they feed into China's domestic processing and manufacturing ecosystem. Here, Beijing has been unusually successful in aligning firm incentives with national objectives and industrial policy 'carrots' are key. For instance, elective value-added tax exemptions and rebates have been used to favour the domestic processing and transformation of minerals into final goods over raw exports.

At the same time, political controls ensure strategic alignment. Chinese Communist Party committees are now embedded in corporate governance across the mining sector. Since at least 2000, mining firms have been more likely than companies in other sectors to feature these structures. By around 2015, the sector was the second-most 'compliant' after public utilities companies. While this does not indicate micromanagement by Beijing, it does ensure that strategic priorities are considered in major firm decisions.

China's minerals dominance is a product of sustained state intervention across the entire value chain. For policymakers globally, the implication is clear. Keeping up with China requires grappling not just with mining or processing capacity, but with the political economy that underpins both these fields. EAFQ

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PICTURE: YOSHIO TSUNODA / AFLO

Japan's Prime Minister and President of the ruling Liberal Democratic Party leader Sanae Takaichi raises her arms in the air with Japan Innovation Party leader Hirofumi Yoshimura and co-leader Fumitake Fujita after a campaign speech for the general election in Tokyo (27 January 2026).

Constraint and uncertainty ahead for Japanese politics

YASUO TAKAO

JAPAN is entering a new era in which a convergence of political, economic and demographic pressures marks a decisive shift in the nation's the pattern of its governance. The Liberal Democratic Party's (LDP) long-standing role as the institutional anchor stabilising Japan's political system has weakened.

Following the collapse of its partnership with Komeito, the LDP now governs through a less stable coalition arrangement with Nippon Ishin. The LDP's decision to absorb three expelled Nippon Ishin members to secure a razor-thin 233-seat majority in the National Diet highlights the fragility of executive authority. In the Upper House, the governing coalition still falls short of control, holding only 119 of the 125 seats needed for a majority.

This is a significant break from the institutional logic that has underpinned Japanese politics since the mid-1950s. For the first time in decades, legislative outcomes are no longer shaped primarily by intra-party bargaining within the LDP or by stable coalition management. Open, transactional negotiations among multiple actors instead shape outcomes in a fragmented Diet.

The result is a more pluralist and transactional political order, where smaller parties pursue narrower, voter-salient agendas to maximise political leverage. Policy capacity then depends on continuous and fragile negotiation.

Japan has entered a politics of constraint, facing uncomfortable realities in national governance. The central challenge is not the pursuit of ambitious reform agendas, but the management of overlapping structural limits—demographic decline, fiscal scarcity, labour shortages, energy dependence and regional insecurity. These constraints narrow the space for policy choice, exacerbating disputes over taxation, government spending, industrial policy and national security.

The erosion of LDP dominance signals more than a partisan setback. It marks the weakening of a governance framework that has long underpinned Japan's stability. Since the mid-1950s, the LDP anchored a system that managed social pressures through incremental adjustment, strong bureaucratic coordination and pragmatic compromise. Even brief periods in opposition did little to disrupt this model of single party government.

That equilibrium is eroding at an accelerating pace. Party fragmentation, weakened discipline and declining bureaucratic authority are intersecting to limit the state's capacity for coordinated action. The breakdown of the long-standing LDP–Komeito partnership has further exposed the ruling party's vulnerability, forcing reliance on narrow and unstable parliamentary numbers. Whether Japan's emerging multiparty configuration consolidates into a new equilibrium or remains fluid will be decisive in shaping Japan's future.

Japan is also experiencing signs of generational divergence but falls short of a settled political realignment. Recent polling shows that LDP support remains disproportionately located among older voters, while younger cohorts are less firmly attached to any party and are more open to alternatives, including reform-orientated or issue-driven actors.

This reflects not only differences in political values but also contrasting

PICTURE: YOSHIO TSUNODA / AFLO

An elderly woman pushes a trolley as she strolls Jizodori shopping street in Tokyo's Sugamo district.

material interests. Younger voters confront precarious employment, rising living costs and uncertain future prospects, while older voters are more invested in protecting existing social entitlements. Yet these patterns are uneven and rather fluid, influenced by low youth turnout and episodic surges in support for particular parties or charismatic leaders, rather than by a stable bloc shift.

The resulting political scene complicates compromise. Policies that might ease long-term fiscal pressure—such as restructuring the pension system, reforming long-term care financing, accelerating labour migration or updating energy markets—are electorally toxic among older voters who dominate turnout. Fragmentation reinforces risk aversion, making decisive reform politically hazardous, even when its policy necessity is widely acknowledged.

Economic pressures amplify this political fragility. High inflation and a persistently weak Japanese yen have eroded household purchasing power, while real wage gains are elusive and uneven across many sectors. The cautious retreat from ultra-loose monetary policy by the Bank of Japan has yet to translate into broad improvements in living standards. For many households—particularly those balancing employment with caregiving responsibilities—economic 'normalisation' feels abstract, while its costs are immediate.

> High inflation and a persistently weak Japanese yen have eroded household purchasing power, while real wage gains are elusive and uneven across many sectors

POLITICAL dissatisfaction has not translated into a uniform rejection of the government. Voter expectations have instead lowered in response to the prevailing constraints. In a society conscious of demographic decline and fiscal constraint, many voters no longer expect governments to deliver sustained growth or rising prosperity. Leadership is judged less by performance outcomes than by positional credibility—the ability to project resolve, defend existing social arrangements and manage decline without visible disorder.

One of the most striking features of Japan's current political moment is the resilience of Prime Minister Sanae Takaichi's personal support, despite legislative fragility, economic strain and limited policy delivery. Conventional models of democratic accountability would predict declining approval under such conditions. Yet among key constituencies—particularly younger voters—her popularity has remained unexpectedly robust. Younger voters are increasingly disengaged from the LDP's traditional policy coalition while still valuing a leader who appears decisive and symbolically protective.

This phenomenon is symptomatic of politics under constraint. Takaichi's appeal rests on symbolic alignment rather than tangible achievements. Her ideological clarity, rhetorical firmness and unapologetic conservatism resonate with voters who have internalised decline as inevitable and seek reassurance rather than change.

> Japan has entered a politics of constraint, facing uncomfortable realities in national governance

Popularity without performance thus becomes politically viable. Italy under Prime Minister Giorgia Meloni, Germany in former chancellor Angela Merkel's later years and France under President Emmanuel Macron all suggest that posture, narrative control and the defence of existing arrangements can substitute for policy transformation as the primary currency of political legitimacy. Japan pushes this logic further because demographic, fiscal and institutional pressures are more acute.

Identity politics plays a central role in this dynamic. Takaichi's emphasis on conservative agendas and traditional family norms resonates strongly with an ageing electorate that feels culturally and socially dislocated by globalisation, migration and rapid social change. Importantly, this appeal does not hinge on policy delivery.

The act of political articulation itself performs a stabilising function, signalling recognition and reassurance. Even a persistent legislative stalemate can reinforce political loyalty, as supporters are inclined to interpret policy failure as the

While Takaichi's rhetoric emphasises national resilience and strategic strength, Japan's exposure to external energy and critical-materials supply chains continue to widen

product of institutional constraints or opposition obstruction, rather than executive incapacity.

Gender further complicates this dynamic. As a woman leading one of the most conservative governments in postwar Japan, Takaichi benefits from a form of gendered exceptionalism. By explicitly rejecting feminist framing and aligning herself with protectionist family norms, she neutralises the potential backlash and reassures voters that female leadership need not challenge existing hierarchies. For many supporters, she symbolises continuity rather than disruption.

Fragmentation also spreads responsibility. In a divided Diet, policy failures can be blamed on opposition resistance, unstable coalition partners or broader structural constraints, rather than on the Prime Minister herself.

This allows Takaichi to occupy a paradoxical role. She is both the leader of the government and a critic of the limits it faces. This separation of popularity from policy performance helps stabilise her leadership in the short term. But over time, it weakens the incentives to pursue difficult but necessary reforms.

Beneath these political dynamics lies Japan's most profound structural challenge—demographic decline. By 2025, all seven million members of the first postwar baby boom cohort had entered 'late elderly' status. Out of a population of 123 million, 22 million are now aged 75 or above. The result is the so-called '2025 problem'—soaring demand for medical and long-term care, just as the labour force contracts.

THE arithmetic is unforgiving. Fewer workers must finance higher levels of care, while local governments struggle to sustain service provision amid depopulation. This demographic squeeze reshapes labour markets, fiscal policy and regional viability, accelerating the hollowing out of rural Japan.

Politically, an ageing population entrenches intergenerational tensions. Any attempt to rebalance social expenditure risks alienating older voters. As a result, governments defer rather than resolve distributive conflict, deepening long-term vulnerability. Japan's difficulty in managing this trade-off foreshadows the challenges facing other ageing societies in East Asia.

Labour shortages are the most immediate manifestation of demographic decline. In aged care, construction, hospitality and manufacturing, shortages have become structural rather than cyclical. Yet Japan continues to insist it has no immigration policy, relying instead on technical trainee schemes and temporary visas while framing long-term migration as exceptional.

This politics of denial carries significant risks. It impedes long-term integration, marginalises foreign workers and fuels cultural anxiety by treating immigration as a threat rather than a structural necessity. In a fragmented political environment, the absence of a coherent immigration framework exacerbates uncertainty and undermines Japan's capacity to adapt to demographic realities.

Regionally, Japan's circumstance carries significance beyond its borders. South Korea and Taiwan face comparable demographic pressures and labour shortages, while China is now entering population decline on a far larger scale. In this context, Japan's continued reluctance to articulate an explicit and durable immigration strategy offers a cautionary rather than exemplary model for its neighbours—illustrating how political avoidance can delay, but not resolve, structural adjustment.

A similar pattern of constrained adaptation is evident in energy policy, which has emerged as a central axis of Japan's politics of constraint. Japan's formal commitment to carbon neutrality by 2050 remains intact, but the pathway towards that goal has become deeply contested. The tighter nuclear safety regime and risk-averse policymaking culture that developed after the 2011 nuclear disaster in Fukushima, combined with Japan's dependence on imported energy and acute sensitivity to household energy costs, have narrowed the scope for decisive transition.

For voters already under strain from inflation and caregiving responsibilities, energy policy is not an abstract climate issue but an immediate distributive concern. Any transition that imposes short-term costs risks electoral backlash, particularly among older voters on fixed incomes who form a core constituency of the ruling coalition. Successive governments, including Takaichi's, have prioritised energy

stability and price containment over structural change, even while continuing to endorse decarbonisation in principle.

Under the Takaichi administration, Japan's energy policy risks reinforcing the constraints it seeks to overcome. While reaffirming the 2050 net-zero commitment, Takaichi has signalled plans to tighten regulations on large-scale solar projects, framing renewable expansion in nationalist and aesthetic terms and warning against 'covering our beautiful land with foreign-made solar panels'. This approach undermines the deployment of renewables at a time when Japan needs to expand low-carbon capacity, potentially slowing decarbonisation, increasing energy costs and weakening Japan's competitiveness in the global energy transition.

IMPLEMENTING large-scale renewable expansion, grid reform or carbon pricing requires coordination and political capital that are scarce in a divided Diet. Energy transition thus becomes another domain where postponement is politically rational but economically costly.

At the same time, the energy transition cannot be separated from acquiring access to rare earths and critical minerals, which underpin electric vehicles, batteries, renewable technologies and defence systems. Here, Japan confronts another binding constraint—strategic dependence on external supply chains, particularly those linked to China.

Japan's vulnerability is not theoretical. China's suspension of rare earth exports in 2010, following a Senkaku/Diaoyu Islands incident involving a collision between a Chinese fishing trawler and two Japanese Coast Guard vessels, left a lasting imprint on Japanese policy thinking. The move triggered efforts to diversify suppliers, expand recycling and secure overseas resource partnerships. Yet, structural dependence remains. As decarbonisation accelerates, demand for critical minerals will only intensify, sharpening Japan's exposure to external supply shocks.

This deepening material dependence complicates narratives of sovereignty and autonomy. While Takaichi's rhetoric emphasises national resilience and strategic strength, Japan's exposure to external energy and critical-materials supply chains continue to widen.

This dynamic highlights the central paradox of Takaichi's leadership—symbolic assertions of autonomy can coexist with a growing reliance on transnational networks that lie largely beyond domestic political control.

These contradictions become even more pronounced when energy and resource constraints intersect with national security pressures. Rising tensions in the Taiwan Strait and intensified Chinese military activity around Japan's southwestern islands have pushed Tokyo towards a more assertive defence posture. Yet strategic adjustment is fiscally demanding. The weak Japanese yen inflates procurement costs, meaning that defence expansion increasingly competes with social spending and energy investment. As defence outlays edge towards 2 per cent of GDP, the resulting trade-offs are becoming unavoidable and politically contentious.

Regionally, Japan's constrained leadership carries implications that extend beyond its domestic political arena. Allies increasingly expect Tokyo to play a proactive role in sustaining the Indo-Pacific order—not only in traditional security domains, but also in energy security, supply-

PICTURE: THE YOMIURI SHIMBUN

Japanese Prime Minister Sanae Takaichi inspects the Fukushima Daiichi Nuclear Power Plant in Okuma Town, Fukushima Prefecture (December 2025).

chain resilience and the governance of economic interdependence. As strategic competition with China intensifies, Japan is viewed as a pivotal partner capable of anchoring deterrence, coordinating industrial strategy and reinforcing democratic norms.

These dynamics are prompting a quiet burden-sharing recalibration. The United States, Australia and some European partners are absorbing more politically costly hard-power investments, while Japan anchors rule-setting, coordination and financial support. Rather than diminishing Japan's regional role, constraint is redefining it—away from expansive strategic ambition and towards leadership embedded in coalition frameworks.

These external expectations increasingly collide with Japan's domestic political realities. A fragmented Diet, rapidly ageing electorate and rising sensitivity to costly reforms have narrowed the government's room to manoeuvre.

> More effective governance will depend less on wholesale institutional overhaul than on converting fragile parliamentary arithmetic into a more disciplined governing coalition

Rather than enabling bold initiatives, these pressures encourage caution, incrementalism and a preference for policies that minimise visible distributional pain, limiting how far any administration can advance ambitious change.

Defence expansion, energy transition and diversification of critical materials all require sustained investment and a public acceptance of short-term costs. These conditions are difficult to secure in an era of volatile coalitions and recalibrated voter expectations.

JAPAN illustrates a broader dilemma confronting advanced democracies: strategic expectations are rising just as domestic governance capacity is narrowing. Ageing electorates prioritise stability over change, fragmented party systems diffuse accountability and fiscal pressures limit room for manoeuvring.

The durability of the Indo-Pacific order depends on both strategic coordination among states and the strength of domestic political foundations that enable democracies, such as Japan, to absorb the financial, social and political costs of sustained leadership.

The puzzling durability of Takaichi's popularity captures this transition. Her appeal stabilises leadership at a moment of institutional fragility by offering symbolic reassurance through ideological clarity, rhetorical resolve and a promise of continuity in uncertain times.

Yet this stabilisation comes at a cost. When political support is sustained more by posture than by performance, democratic legitimacy risks becoming decoupled from policy effectiveness. The danger is not authoritarian drift, but a subtler form of democratic thinning, in which difficult reforms are deferred because symbolic alignment suffices to maintain popular consent.

Takaichi's decision in late January 2026 to call a snap election on 8 February in an effort to capitalise on high approval ratings underscores how far leadership legitimacy has become decoupled from legislative performance. An escape from Japan's politics of constraint is unlikely to come through abrupt change. More effective governance will depend less on wholesale institutional overhaul than on converting fragile parliamentary arithmetic into a more disciplined governing coalition.

If Takaichi and Nippon Ishin can move beyond transactional bargaining towards a structured partnership—particularly around security legitimation and a credible energy strategy that stabilises nuclear policy and underwrites transition investment—Japan could rebuild executive capacity and widen the space for decisive action. The newly formed Centrist Reform Alliance may provide an additional coordinating anchor, reducing legislative fragmentation.

Whether Japan uses this moment to rebuild the institutional foundations of collective decision-making, or instead slips into a pattern of reactive and fragmented management of decline, will shape not only the next phase of its postwar political evolution. It will also determine Japan's capacity to act as a credible regional leader at a time when strategic expectations are rising faster than domestic governance capacity. The outcome will hinge less on the fate of any single administration than on whether Japan can reconcile pluralism with purpose—and constraint with renewal. EAFQ

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The limits of Korean soft power

CEDARBOUGH T SAEJI

THERE is a Korean term, *gukppong*, which can be translated as 'intoxicated by nationalism'. Used from around 2015, a quick search for images of *gukppong* turns up collages of pop stars, actors and athletes celebrated for raising South Korea's international profile starting from the 1990s and 2000s when the country's global visibility was thin, uneven and often negative.

In the mid-1990s, much of the world knew more about North Korea through alarmist headlines than they did about South Korea. What they did know was usually limited to intermittent coverage of labour protests in the 1990s and pro-democracy protests before that. The country's international image was such that, before the 1988 Olympics, there were fewer than one million foreign visitors per year. International love for stars like golfer Pak Seri and singer BoA functioned as proof that South Korea existed beyond a site of Cold War tensions, labour unrest and authoritarian developmentalism.

South Korea's image has transformed since then, driven in large part by *hallyu*—the international popularity of South Korean pop culture products. In the wake of the 2002 World Cup, Psy's 'Gangnam Style' and the success of *Parasite* and *Squid Game*, more people around the world have become aware that South Korea is a fast-paced, modern and hyper-competitive society, with tourism booming.

Hallyu represents South Korea's national interests and plays significant political, economic and diplomatic roles. Whether a drama is labelled a 'K-drama' or a singer makes 'K-pop', the K is used by the government

PICTURE: JOHN ANGELILLO / POOL VIA REUTERS

Members of the South Korean boy band BTS speak at the SDG Moment event as part of the UN General Assembly 76th session General Debate at the United Nations Headquarters in New York (20 September 2021).

and understood by fan and non-fan audiences alike to represent South Korea.

The government's relationship with pop culture has changed dramatically over the past three decades. While *hallyu* was able to take off more quickly due to deregulation and state infrastructure investment in the late 1990s and early 2000s, the government has since been 'hijacking K-pop fans for its own audience and free-riding on the K-pop bandwagon', as UCLA Professor Suk-young Kim says.

South Korean celebrities have long been called upon to serve representative roles for the nation. They have shaken hands or performed at state events, from small diplomatic gatherings to large national festivals and have appeared in government campaigns, most prominently to advertise tourism to South Korea. These celebrities are better known internationally than South Korean politicians, and they informally represent South Korea in their public appearances.

The South Korean government supports *hallyu* through Korean Cultural Centres, with 35 located in 30 countries as of 2026. It also organises fan-focused events like the Changwon K-pop World Cover Festival and encourages tourism with infrastructure investment and advertisements.

PICTURE: DANIEL DESLOVER / ZUMA PRESS WIRE

Fans attend a performance of the South Korean K-pop band Twice at the Lollapalooza Music Festival in Chicago.

POP culture as a form of soft power has been translated into a bureaucratic policy environment that demands quantifiable success. According to the Korean Cultural Contents Agency, Korean cultural exports earned US$13 billion annually as of 2023, with over US$8 billion generated by the games industry alone, while cultural imports were only US$784 million the same year. The Korean Tourism Data Lab shows that total visitors to South Korea from December 2024 to November 2025 reached 18.6 million, surpassing pre-pandemic levels. Women aged 21–30—the core *hallyu* fan demographic—accounted for 19 per cent of visitors.

Hallyu has paid off handsomely in terms of nation branding—around the world people now differentiate South Korea from neighbouring countries and may plan to visit on that basis. But has it paid off in terms of soft power—and does soft power exist anywhere? The pursuit of soft power-through-pop culture seems like a substitute objective for the hard power aspirations that South Korea cannot realistically pursue. As Gibson and Istad observe, 'Soft power is achieved by drawing on "soft" national resources, but this does not mean that it can be separated from the ultimate goal of creating political influence in the international sphere'.

In the 1980s the American political scientist Joseph Nye posited that countries could amass soft power through resources that produce attraction, with popular culture chief among them. While the United States had hard power in the form of its large economy and military, Hollywood, for example,

popularised the American Dream. Regardless of its ability to shape the preference of others, soft power can be undermined by crises of legitimacy or morality, as is now happening in the United States. South Korea has also experienced undermining events like the imprisonment of three of the last five presidents, two of whom were impeached.

Nye's assumption drew a causal chain—attraction leads to preference shaping, which results in political influence. South Korea's *hallyu* industries have become very good at producing attraction, but how does attraction come to shape preference and translate into political, economic or diplomatic action? Nye assumed a direct relationship from attraction to preference shaping to influence, but South Korean policy seems to proceed from attraction to celebration—*gukppong*—to justifying funding. The causal chain breaks down. *Hallyu* works as branding, but the conversion to policy leverage appears elusive.

For example, Gibson and Istad examined a series of YouTube videos featuring K-pop supergroup BTS and former South Korean president Moon Jae-in at the UN General Assembly in 2021. The recorded 12-minute discussion between BTS and the president focused on the Sustainable Development Goals, garnered 8.2 million views and generated positive sentiment. Yet engagement with the video's political message was limited—references to 'BTS' occurred in 3 per cent of comments, compared to less than 0.5 per cent for 'world' and 'people'. The result was a stark gap between cultural appeal and political influence.

> While *hallyu* has succeeded brilliantly as nation branding, it appears to have failed to convert cultural attraction into political influence

The most revealing example of soft power's limitations is South Korea's bid in 2023 to host the World Expo 2030 in Busan. The campaign to attract votes from member states of the Bureau International de Expositions was launched by *Squid Game* star Lee Jung-jae while the show was topping global Netflix charts. Officials also leveraged BTS—with two of the group's members from Busan—to shake politicians' hands, pose in photographs and hold a free concert. Organisers assured then-president Yoon Suk-yeol that the campaign was going well and that many votes had been secured.

Yet in November 2023, Riyadh was selected with 119 votes against Busan's 29 votes, showing overwhelmingly that South Korea's soft power had barely made a dent despite global *hallyu* enthusiasm, BTS's unprecedented popularity and *Squid Game*'s cultural dominance. *Hankook Ilbo* reported that nearly US$35 million had been spent on bid-related activities. Soft power proved to be a promise rather than a measurable force. The voting nations—many, even all, of which consume South Korean cultural products—were unmoved when it came to political decisions with economic and diplomatic implications.

This is the paradox at the heart of the so-called 'soft power' discourse.

> The pursuit of soft power-through-pop culture seems like a substitute objective for the hard power aspirations that South Korea cannot realistically pursue

While *hallyu* has succeeded brilliantly as nation branding, it appears to have failed to convert cultural attraction into political influence. Whereas for the United States, while Hollywood-amplified myths of a righteous America are rapidly being proven false, its loss of soft power has changed little—the US economy and military keep the ball in their court. Perhaps 'soft power' is just a pleasant sounding fantasy embraced by middle power countries.

This gap between the narrative that South Korea is held aloft as a country amassing soft power and reality reveals that South Korean soft power may function less as a mechanism for shaping others' preferences and more as a story that reassures South Koreans themselves. It is a bureaucratised form of *gukppong* that justifies continued investment while obscuring the absence of measurable policy leverage because being acknowledged and desired salves the wounds of a country that was overlooked for decades. Some, like Jang, even question whether South Korean soft power is in fact propaganda.

When fans are politically mobilised in South Korea, it is often for causes unrelated or even contrary to government objectives

SOUTH KOREA'S seeming inability to convert soft power into international political influence may also be a consequence of racialisation. As Choi and Maliangkay observe, any astonishment that South Korea can punch above its proverbial class through *hallyu* 'unveils a covert tenor of racism'. When South Korean soft power is raised in journalism or academic articles, the discussion is couched in terms that sound suspiciously coercive—*hallyu* is penetrating foreign markets, conquering and dominating.

The question 'why K-pop and why South Korea?' exposes how Euro–American cultural production is treated as universal, while South Korean success is framed as surprising and must be explained. Seen this way, *gukppong* is a response to a racial hierarchy—a double bind where pride is mocked as nationalism. While South Korea's developmental history may have trained policymakers to think of its cultural industry in terms of competition, exports and measurable outcomes, these narratives normalise South Korean success while erasing the unequal conditions under which it emerged.

A further complication in South Korea's soft power emerges from the nature of fandom itself. International fans represent a blunt instrument that Seoul does not know how to engage with or control. The government wants to mobilise enthusiasm, but fans do not operate under authorities. Many young fans lack understanding of South Korean history or global geopolitics. These fans react and create disparate movements in sub-pockets of the internet, some of which catch on. With the 'K' in K-pop widely understood as representing South Korea as a nation, fans' actions create diplomatic complications even when they have no intention of commenting on South Korea's international relationships.

Consider the case of Thai K-pop fans who mobilised against their country's military dictatorship, using K-pop fandom organising tactics and iconography in pro-democracy protests. While this demonstrated fans' capacity for political mobilisation, it had nothing to do with South Korean governmental interests and potentially complicated Thailand–South Korea relations. Similarly, when US Congress Representative Alexandria Ocasio-Cortez credited 'K-pop allies' in a Twitter post after fans coordinated to disrupt a Trump rally in 2020, South Korea was dragged into domestic US political disputes.

When fans are politically mobilised in South Korea, it is often for causes unrelated or even contrary to government objectives. This was apparent when president Yoon's camp discovered fans objected to BTS potentially performing at his inauguration.

K-pop fans can thus become a liability in the South Korean government's diplomatic and domestic political agendas. Not only are fans capable of making their own interpretations, they are also capable of mass actions that could interfere with government objectives. The soft power which Seoul seeks to wield exists primarily in the hands of actors the government cannot control.

This pattern—attraction without alignment, mobilisation for causes unrelated to Seoul's objectives and spectacular policy failures like the Expo bid—raises an uncomfortable question. Is South Korean soft power less about influencing others and more about reassuring South Koreans that global admiration should translate into security, relevance and respect?

THE very concept of soft power may be unfalsifiable in practice, making this question difficult to answer. When influence succeeds, we call it soft power. When it fails, we say it was undermined by crises of legitimacy, that soft power takes time or that the causal mechanisms are complex. This makes soft power immune to empirical challenge. The South Korean case suggests that soft power may function primarily as a retrospective explanation applied when influence happens to occur without coercion, rather than as a force that can be deliberately wielded.

South Korea's cultural industries have created widespread attraction and admiration and increasingly contribute to the national economy

Hallyu's spectacular success in transforming South Korea's global image from a little-known country beyond Cold War associations in the 1990s into a global leader in popular culture is a genuine achievement that cannot be minimised. Nation branding works. South Korea's cultural industries have created widespread attraction and admiration and increasingly contribute to the national economy.

But attraction has not converted to political leverage. The BTS UN appearance generated views but not policy engagement. The World Expo bid, despite timing and celebrity deployment, failed to attract interest from member states. International fans mobilise for their own causes, sometimes complicating South Korean diplomacy. The causal chain from cultural appeal to political influence that soft power theory promises has not materialised in measurable ways.

And under racialised global hierarchies that treat South Korean achievement as surprising, Seoul remains trapped in a double bind—it must justify its success without acknowledging the limits of this success, to avoid undermining the political discourse that supports continued cultural investment. Soft power becomes the language that mediates this contradiction, allowing Seoul to claim significance while actual policy influence remains elusive.

This does not mean *hallyu* is worthless to South Korea—far from it. Tourism revenue, cultural industry exports and enhanced national prestige all matter. But these are branding successes, not demonstrations of political power. When South Korean policymakers and scholars discuss soft power, they may be describing something closer to brand equity than to Nye's conception of preference-shaping influence.

The real function of soft power discourse is domestic. It validates massive investment in cultural industries and cultural diplomacy infrastructure, provides a strategic-sounding framework for celebrating *hallyu*'s success and offers domestic reassurance that South Korea's global cultural prominence matters geopolitically, even when concrete evidence for such influence is scarce. It provides a vocabulary for *gukppong* that sounds less like nationalism and more like policy.

The causal chain from cultural appeal to political influence that soft power theory promises has not materialised in measurable ways

SOUTH KOREAN policy seems to proceed from attraction to celebration to justifying funding—a loop that serves domestic political purposes regardless of whether preference shaping or political influence materialises. Whether this domestic reassurance corresponds to actual influence in international politics remains an open—and uncomfortable—question.

The term *gukppong*, once used to celebrate a new phenomenon of South Korean triumph, may have evolved into bureaucratic discussion about soft power—the same pride and desire for recognition, dressed in the language of strategic influence. And just as *gukppong* can be tasteless when it refuses to acknowledge the racialised hierarchies that make South Korean success seem surprising, soft power discourse can obscure the gap between cultural success and political influence.

Rather than through the unfalsifiable promise of political influence, policymakers should justify cultural investment through measurable outcomes like tourism revenue, export earnings and international reputation. The task remains for scholars to investigate whether soft power has ever demonstrably shaped foreign policy decisions, or whether it functions primarily as retrospective explanation and domestic reassurance across nations.

Until South Korea can demonstrate that *hallyu* translates into concrete policy outcomes —votes at international bodies, shifts in bilateral relations and tangible diplomatic leverage—soft power will remain less a force that Seoul wields and more a story South Koreans tell themselves about why global admiration matters. EAFQ

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PICTURE: REUTERS / YURIKO NAKAO

Workers assemble a vehicle at a Toyota subsidiary plant in Japan after the facility resumed operations following the 2011 earthquake and tsunami (May 2012).

Lessons from Japan's rare earth shock

KUNIHIKO SHINODA

FOR Japan, China's 2010 restrictions on rare earth exports exposed the vulnerability of its industrial base and national security. Fifteen years on, the international environment surrounding critical minerals has grown more complex and fraught with geopolitical tension.

As a resource-poor country—yet one of the world's leading manufacturing powers—Japan has long confronted the structural constraint of requiring imported critical minerals which are produced in a limited number of countries and require intense midstreaming processes and are difficult to substitute. While its responses to this circumstance have yielded a degree of success—such as a decline in dependence on China for rare earths—changes in the international environment have increasingly exposed their limitations. Japan's experience offers important lessons for import-dependent manufacturing economies.

The key bottleneck in the critical minerals supply chains lies in midstream activities such as refining and processing. While the production of ores such as lithium, cobalt and nickel is geographically dispersed across a number of countries such as Australia, Chile and the Democratic Republic of the Congo, the midstream

processes that convert these ores into usable materials are heavily concentrated in China. Supported by low-cost energy, relatively lenient environmental regulations and long-term industrial development policies, China has established overwhelming competitiveness in these midstream segments of critical minerals industries.

Through its export control laws and resource management regimes, China has also demonstrated its willingness to use critical minerals as diplomatic and security leverage. China's tightening of export controls on gallium, germanium, graphite and antimony in 2023 and 2024, for example, should be understood within the broader context of US–China strategic competition. These measures generate significant—and often unpredictable—supply risks for firms in other countries like Japan.

Since the 2010 rare earth shock, Japan has achieved a degree of success in reducing its dependence on China by combining supply diversification, research and development of substitute materials and undertaking effective action under international trade rules. In aggregate terms, China's share of Japan's rare earth imports declined from around 90 per cent in 2010 to less than 60 per cent by 2020. This outcome reflects upstream development through cooperation with Australia's Lynas Corporation, as well as technological advances in rare-earth-saving magnet production.

Today's critical mineral supply chains are far more complex than those of the past. In electric vehicle and battery supply chains, for example, any disruption at a single stage—from minerals and materials to cells and vehicles—can halt the entire production system.

Japanese firms tend to be particularly cautious about direct investment in upstream resource assets and are relatively less involved in the high-risk early stages of development. In Japan, it is common to procure battery metals and other resources through major trading houses. But in China, Europe and the United States, not only resource companies but also midstream and downstream players—component and materials suppliers, cell manufacturers and original equipment manufacturers—are increasingly moving to secure upstream interests directly.

JAPAN'S policy response has begun to change. Japan's 2022 Economic Security Promotion Act designates critical minerals as 'specified critical products' and advances a multi-pillar strategy encompassing stockpiling, upstream and midstream development and recycling. This includes the Japan Organization for Metals and Energy Security's (JOGMEC) subsidy support for refining and recycling projects, as well as its backing of rare earth separation initiatives like Western Australia's Lynas project and the France-based Caremag project.

The government has set concrete quantitative targets towards 2030 for minerals such as lithium, nickel, cobalt, graphite and rare earths. It has also expanded financial support through equity investment, loans, debt guarantees and subsidies provided by JOGMEC.

These measures are producing tangible results. In the Lynas Rare Earths project, Japan has secured offtake rights covering roughly 30 per cent of current domestic demand for heavy rare earths, reducing Japan's dependence on China. These supply agreements span upstream mining in Australia and midstream separation and refining in Malaysia.

Since the 2010 rare earth shock, Japan has achieved a degree of success in reducing its dependence on China by combining supply diversification, research and development of substitute materials and undertaking effective action under international trade rules

Domestic lithium-ion battery recycling can also mitigate geopolitical risk by establishing domestic sources of supply through the recovery of nickel, cobalt and lithium from end-of-life batteries.

But Japan's efforts still face some limitations. The first concerns scale and policy uncertainty. The United States and the EU have deployed large incentives and target-setting—such as the EU Critical Raw Materials Act—that can reshape corporate location decisions quickly. By comparison, the effectiveness of Japan's support measures including JOGMEC investments and assistance under the

Economic Security Promotion Act depends on how well they crowd in private investment.

The second limitation lies in the difficulty of building relationships with resource-producing countries. Resource-rich states such as Indonesia and Chile have enhanced their bargaining power through ore export restrictions and policies aimed at increasing domestic value adding. While Chinese firms have demonstrated a willingness to make rapid investment decisions and to integrate themselves into local industrial development strategies, Japanese firms have tended to adopt a more cautious stance, as seen in Indonesia's nickel sector.

The third issue concerns human rights and environmental risks. Critical mineral supply chains are frequently associated with serious issues such as child labour, unsafe working conditions, pollution and links to armed groups. In Europe and North America, regulatory frameworks mandating supply chain-wide due diligence for companies are rapidly expanding. This is not a Japan-only challenge, but it is necessary to build credible compliance and verification capabilities.

The most important lesson from Japan's experience is the necessity of pursuing supply chain resilience for critical minerals through stockpiling, upstream investment, diversification of refining and processing, recycling, the use of international rules and diplomatic engagement.

Even a resource-poor country like Japan can secure a degree of strategic autonomy through institutional design and international cooperation. Through multilateral frameworks such as the Quad, the Minerals Security Partnership and the Indo-Pacific Economic Framework, Japan is seeking to coordinate resource-producing and consuming countries to build supply chains grounded in rules and trust.

In an era of resource geopolitics, critical minerals are strategic assets that simultaneously shape industrial competitiveness and national security. While Japan's initiatives remain a work in progress, the very process of experimentation and adjustment offers a valuable reference point for a world simultaneously trying to manage largescale energy transition and geopolitical fragmentation. EAFQ

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DOWNSTREAMING TRAPS

Nickel nationalism holds back Indonesia's clean tech ambitions

RIANDY LAKSONO

INDONESIA'S nickel boom is often held up as proof that industrial policy can work. The 2020 ban on exports of unprocessed nickel triggered a wave of domestic smelting and processing investment, supporting regional growth and modest labour-market gains in Sulawesi and Maluku. This is a textbook case of resource-based industrialisation: natural resources are not treated as the end point, but as a lever for structural transformation.

Yet Indonesia's bigger promise—to become a serious node in the clean technology supply chain—is harder to see in the trade or economic data. Despite its nickel endowment, Indonesia exported only about US$12 million worth of electric vehicles (EVs) in 2024, compared with Thailand's US$363 million in the same year and Vietnam's US$192 million in 2023. Battery exports are a brighter spot, jumping from US$9 million in 2021 to almost US$600 million in 2024. But even this performance lags behind regional competitors such as Malaysia, which exported US$1 billion worth of batteries, and Singapore, which exported US$721 million during the same period.

PICTURE: MOHAMAD HAMZAH / NURPHOTO

Young men play football at a residential area near the nickel-based production plant at Morowali Industrial Park in Central Sulawesi Province, Indonesia.

One explanation for Indonesia's slow catch-up in the clean technology supply chain may be the rigidity of a resource-driven approach. A nickel-first model locks policy attention and investor incentives onto one slice of a fast-moving industry.

Against that backdrop, moves to incentivise the production of nickel-based EV batteries risk doubling down on a narrowly based comparative advantage. This matters because foreign investors look for policy certainty as well as technological flexibility. Chinese outward investment associated with Indonesia's battery value chain is concentrated in mineral processing—mainly nickel—while Malaysia attracts more battery manufacturing plants, reinforcing its status as ASEAN's leading battery exporter.

Indonesia's strategy is not meant to stop at nickel pig iron or stainless steel. The ambition is to promote a downstream EV and battery ecosystem. An export ban alone cannot create domestic champions. Jakarta has instead leaned on localisation rules, requiring minimum shares of locally produced components so that EV assembly by foreign firms is paired with domestic capability building. Indonesia relies on localisation more than its ASEAN peers, while EV leaders such as Thailand and Vietnam lean more on production incentives. Subsidies can expand production capacity with lower economic loss than more protectionist tools such as trade barriers and local content requirements—especially when support is targeted, time-bound and paired with performance disciplines.

Local content rules carry risks. The empirical case that localisation improves competitiveness in low-carbon technologies is weak. Cross-country evidence from solar photovoltaic and wind technologies suggests that local content requirements rarely deliver export gains and work only where domestic capabilities already existed. Rigid localisation can raise costs, delay scaling and discourage the investors needed to transfer know-how.

Localisation is also less attractive when supply chains are reallocated under geopolitical stress. Firms want

new production bases that serve multiple markets amid tariff risk and security screening. That logic helps explain why Vietnam became a major focus in the face of US–China trade tensions and why it has attracted clean technology manufacturing investment from firms seeking an export hub in low-carbon supply chains. If Indonesia's policy stance is perceived as technology-specific, import-restrictive or administratively unpredictable, it risks missing the relocation wave it hopes to ride.

These micro successes and policy experiments have not added up to a clear national transformation. Indonesia's overall growth has remained moderate—around 5 per cent—and manufacturing's share of GDP has hovered around 19 per cent. The nickel belt may be booming, but the spillovers to the wider economy are limited.

Given its drawbacks and narrow socioeconomic benefits, why does the resource-based industrialisation model retain political appeal? One reason is it promises diversification without diluting the power of incumbent extractive interests. Political economy research suggests that elites may resist broad-based diversification if it creates economic actors who could later challenge political control. Resource-based industrialisation, by contrast, preserves the influence of extractive businesses by creating new rents in processing that incumbents capture.

> the question is not whether downstreaming 'works' in a narrow sense [but] whether it can deliver a globally competitive clean technology position and national gains

Key cabinet members of former president Joko Widodo's administration received direct benefits from the nickel sector's expansion by acting as brokers who expedited investment processes. And several major nickel mining concessions have also been directly connected with, or have ties to, ministers from the Jokowi and Prabowo administrations.

THE same political logic extends to energy. Nickel smelters are power-hungry and much of the capacity has been met with coal-fired electricity. The expansion of coal power capacity has been linked to plants built to serve nickel-processing districts. A report from Project Multatuli revealed that the majority of Indonesia's top-10 influential coal oligarchs are deeply entrenched in politics, with many having served as key ministers or holding powerful connections, including to President Prabowo Subianto.

This coalition makes the resource-processing route politically legible. It expands rents without creating new centres of industrial power too quickly. It also helps explain why Indonesia began its clean technology push with mineral processing, with plans to build an EV ecosystem later, while Vietnam—starting from a weaker resource base—moved earlier into downstream EV assembly and exports. The result has been disparities in trade and industrial performance.

It is unsurprising that policymakers talk about replicating the nickel downstreaming strategy across other commodities, from agriculture to fisheries. The template is institutionally familiar, even if its development payoff is narrow. Domestic extractive businesses still dominate politics and Indonesia's industrial policy is likely to continue favouring resource-intensive industries aligned with their interests.

For Indonesia, the question is not whether downstreaming 'works' in a narrow sense—it clearly can create new industrial enclaves and export revenues. The harder question is whether it can deliver a globally competitive clean technology position and national gains. That requires a pivot from nickel-centric nationalism to capability-centric green industrial policy. Policymakers need to ensure technology-neutral incentives, predictable rules that welcome supply chain relocation and targeted support for the learning-intensive stages of manufacturing and assembly. It also requires cleaning up the nickel value chain by reducing coal dependence.

If Indonesia can broaden its toolkit beyond export bans and rigid localisation, treating nickel as one input to a wider strategy rather than the strategy itself, it has a better chance of turning the nickel boom into durable clean technology competitiveness. Doing so also means confronting the political incentives that stand in the way. EAFQ

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Leverage in the Australia–China iron ore trade

JAMES LAURENCESON

THE November 2025 launch of the Chinese-invested Simandou iron ore mine in Guinea, West Africa pricked a long-standing anxiety in Australia—whether China's past dependence on Australian iron ore is waning and whether Beijing might now be able to extract geopolitical concessions by threatening Australia's economic security.

But viewing Simandou's market entry as a turning point is misguided and risks leading policymakers astray. While impacting the global iron ore market at the margins, the evidence points to Australia remaining resistant to economic coercion on this account.

The real vulnerabilities facing Australia lie elsewhere—an over-securitised approach to economic engagement with China, an unravelling of the US-led international trading system and domestic factors such as stagnant productivity growth.

In the early 2020s, Beijing might have scratched an emotional itch by disrupting around a dozen Australian exports to punish Canberra over political differences. But because, among other things, Australia remained an essential supplier of big-ticket items like iron ore, the move backfired.

What has changed now is that Simandou will potentially add up to 120 million tonnes of iron ore per

PICTURE: REUTERS / LUC GNAGO

Mining vehicles operate at the Simandou iron ore mine in Guinea (November 2025).

Even if Simandou's entry does cause a sharper fall in prices, business fundamentals strongly favour Australia

annum to global supply. China's steel production has also flatlined. This led Chinese commentator Kai Xue to contend that 'With supply rising and demand falling, someone will inevitably be pushed out and that someone is likely to be the Pilbara region of Western Australia. The reason is geopolitical.'

While such a warning might be eye-catching, it overstates both Simandou's scale and any newfound leverage that Beijing has acquired. The simple opening of a new Chinese-invested mine is hardly cause for alarm.

New mines are required to maintain current supply as existing operations elsewhere are depleted. And Chinese investment is not just growing Guinea's industry. In 2022, Shanghai-headquartered Baowu agreed to become a joint venture partner with Rio Tinto in the new Pilbara-based Western Range mine that opened in June 2025.

Ownership structures further complicate notions of Simandou as a geopolitical weapon. The entire project is owned by two consortiums, SimFer and Winning Consortium Simandou (WCS), each holding a 42.5 per cent share and manage different mining tenements. The Guinean government holds the remaining 15 per cent.

The largest shareholder in the SimFer consortium is Rio Tinto. While Chinese interests hold a combined majority of WCS, these are split across two different legal entities. In the largest of these, a Singaporean company's stake is on par with its Chinese joint venture partner.

None of these mine owners—Chinese or otherwise—have an incentive to deliberately undercut their own returns by collapsing global iron ore prices. Nor do they possess the market power to do so.

By the end of 2027, Guinea is expected to supply global markets with 40–50 million tonnes of iron ore, double that in 2025. In comparison, Australia will supply 934 million tonnes and Brazil 427 million tonnes.

On the demand side, China is expected to import almost 1.2 billion tonnes. From January–November 2025, China imported over 1.1 billion tonnes, an increase of 1.4 per cent year-on-year.

For China, Australia will remain an essential supplier.

By the end of 2027, Australian iron ore is still expected to fetch just over US$80 per tonne. Even if Simandou's entry does cause a sharper fall in prices, business fundamentals strongly favour Australia.

Despite any premium Simandou's marginally higher quality ores attracts, its cost base is significantly higher than major Pilbara producers' at an estimated US$55–60 per tonne—even before accounting for longer shipping distances to China.

Sharply lower prices would also increase China's import dependence. Chinese domestic suppliers, which currently account for around 300 million tonnes of the country's needs, are the world's highest cost producers and so are most vulnerable to having their margins destroyed.

EVEN in terms of the threat to Australian government coffers, the risks are modest. Australian Treasury estimates suggest that a US$10 per tonne fall in iron ore prices in 2025–26 would reduce Commonwealth revenues by up to AU$2.1 billion (US$1.4 billion) in 2028–29. But the overall budget position already assumes a conservative benchmark price of US$60 per tonne—with US$1.4 billion equating to just 0.25 per cent of expected revenue.

Australia's economic security is not meaningfully undermined by Simandou. But a real risk facing Australia lies in how it manages its economic engagement with China.

Canberra has long welcomed Chinese investment in the iron ore industry, not only to supplement domestic capital, but also as a credible signal to Beijing that regardless of strategic differences, economic security in the steel supply chain was a shared objective best served by very high levels of interdependence.

As with iron ore, China is also Australia's largest market for critical minerals like lithium and rare earths. Yet Canberra has shunned Chinese investment in the sector since 2020, seeing it only as a potential threat to greater supply chain resilience. This is despite examples such as Australia now bolstering the global supply of processed critical minerals like lithium hydroxide precisely because it approved Chinese investment in the 2010s.

Another risk lies in the rupture of the rules-based trading system. Aside from China's needing Australia for big-ticket items like iron ore, Beijing's disruptive trade measures in the early 2020s were blunted by local producers having access to open and competitive global markets, underpinned by the

WTO which provided both countries an exit ramp.

These days, the same system helps to defend Australia's economic security from threats emanating from the United States.

Australia's high-level interdependence, or deep complementarity, in the iron ore trade with China strengthens its hand in keeping China's feet to the torch on its multilateral rhetoric and credentials. It thus makes no sense to discourage China in its ambition to accede to regional trade blocs like the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP) so long as it commits to a credible pathway to meeting its high standards.

Australia and China are already bilateral free trade agreement partners and fellow members of the Regional Comprehensive Economic Partnership and the WTO. US accession to CPTPP should also be supported if Washington is ever so inclined. These are all arrangements that help constrain China to a multilateral course.

More significantly, Australia's deepest economic security vulnerabilities are domestic. Productivity growth has run into the sand, posing a more serious threat to Australia's long-term income growth, fiscal capacity and economic resilience than any new iron ore mine in West Africa.

Australia's huge iron ore trade with China leaves Australia's economic security very much in Canberra's hands, not Beijing's. EAFQ

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China moves to regain iron ore market power

PASCALE MASSOT

THE Chinese government established the 20 billion yuan (US$3 billion) Chinese Mineral Resources Group (CMRG) in 2022 to coordinate Chinese iron ore purchases in the international marketplace. In early 2025, it made headlines after asking the iron ore buyers it represents to stop buying a particular iron ore blend from BHP—one of China's top providers—until it agreed on various terms for the coming contracts. These included a commitment to renminbi-denominated settlements.

To understand the creation of CMRG, it helps to look back to the early 2000s. At that time, the iron ore benchmark price was negotiated behind closed doors between the top Japanese consumers and major global producers—BHP, Rio Tinto and Vale—a system that had been in place for decades. Japan's top three steelmakers then accounted for roughly 70 per cent of total national steel production, giving them significant influence.

In 2006, when China took over from Japan as the lead benchmark negotiator—three years after becoming the largest iron ore importer—it faced several major challenges. The domestic industry was deeply fragmented. Baosteel, the lead negotiator, was responsible for only 6 per cent of domestic steel production in 2005 and China had over 7300 steel-producing enterprises. The top two Chinese importers of iron ore at that time accounted for just above 10 per cent of all Chinese iron ore imports.

Another challenge related to China's growing consumption, which heightened its vulnerability. The late 2000s marked the peak of a commodities supercycle and prices were rising rapidly. While Japanese buyers had coordinated their purchasing strategy effectively, Chinese lead negotiators—Baosteel and later the China Iron and Steel Association—struggled. The mechanisms needed to coordinate such a fragmented industry were weak, and individual iron ore importers had strong incentives to go around the lead negotiator and strike deals based on the emerging spot price.

By 2010, the benchmark pricing system fell apart. Over the next decade and a half, financialisation, price increases and volatility put a strain on iron ore consumers. Interviews, documentary analysis and media reports confirm how this frustrated major Chinese market players, including the industry association. This outcome was the opposite of what they wanted: more market power over the iron ore exporters. Chinese

PICTURE: REUTERS / LUC GNAGO

A worker stands next to a sign at the Simandou mine in Guinea.

government bodies, experts and industry insiders have openly debated this coordination failure for at least two decades.

Sitting in the middle of a critical minerals derisking frenzy, the Western world often treats China as dominating the minerals sector. This view lacks nuance. China has indeed built a dominant position in the midstream segments of many critical minerals value chains, but it remains heavily dependent on international producers for the majority of the raw minerals it consumes. A 2018 study for the *Proceedings of the National Academy of Sciences* found China was more than 50 per cent dependent on imports for 19 out of 42 non-fuel minerals. China's market power is unevenly distributed along these value chains.

> Understanding the different forms of market power internationally helps put recent developments into perspective

The collapse of the negotiated iron ore benchmark was the result of a coordination failure on China's part. When placed in a position of market vulnerability, Chinese stakeholders have two options: consolidate and coordinate better domestically or try to unsettle global consolidation and coordination attempts.

In this case, the Chinese government appears to have pursued both. CMRG coordinates above 50 per cent of China's total iron ore imports. Fifteen years after the benchmark system collapsed, CMRG is explicitly tasked with trying to coordinate iron ore purchases and turning China's market share—more than 70 per cent of the global seaborne trade—into real market power.

But why try to stiffen its negotiating position now? In November 2025, after decades of setbacks and over US$20 billion of investments—including significant Chinese participation—the Guinean Simandou iron ore project delivered its first shipment of iron ore to China. At full capacity, the mine will deliver up to 120 million tons of iron ore, or about 10 per cent of China's annual imports.

Supply from one of the world's largest and best deposits will dilute the market power of key Australian suppliers, whose ore quality is gradually declining. Global iron ore firms are not entirely devoid of agency—Rio Tinto is a major investor in the Simandou project.

China is certainly attempting to lower the price of a commodity on which it is heavily import dependent, arguing that profit margins for key iron ore exporters have been too high. Putting the financialisation genie back in the steel bottle will, however, be difficult. This is partly because a new class of market participants in China, including traders, has benefited from these trends. But the country is pushing through a more ambitious agenda to rebalance market power in the realm of commodities.

Understanding the different forms of market power internationally helps put recent developments into perspective. As Johannes Petry argues in a recent *International Affairs* piece, and I have argued elsewhere, power in global commodity markets takes many different shapes. Chinese actors are not only looking at price levels but at the broader market architecture. This includes the location of commodity exchanges, the currency of settlement, the regulations that apply where exchanges are based and the role of Western financial institutions.

Chinese attempts to rebalance market power vulnerabilities in the iron ore market are part of a larger, long-running exercise in pursuit of market power more generally in global commodity and critical minerals markets.

But bold actions on this front, like China's use of export controls for rare earths and associated technologies, can also backfire. China is walking a difficult line here between its legacy pursuit of a more appropriate global economic position, given the size of its economy, and is facing the increasingly complex responses to the growing size of its international impact. This balancing act will define global commodity market dynamics for the foreseeable future. EAFQ

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PICTURE: CFOTO / SIPA USA

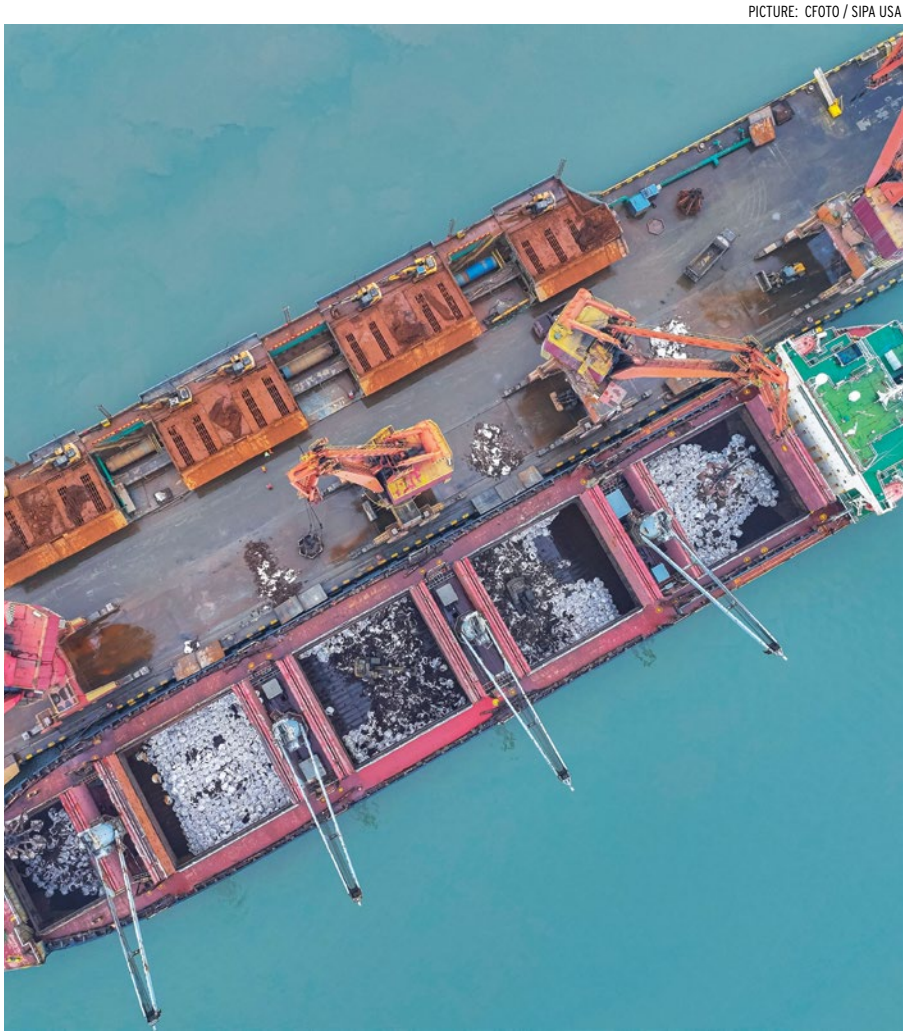
A cargo ship unloads imported iron ore at the Qingdao Port ore terminal in Shandong Province, China.

Critical minerals buyers' clubs test Asia Pacific governance

KEVIN THOW AND VLADO VIVODA

THE idea of critical minerals buyers' clubs has gained prominence in international policy debates. Faced with growing supply insecurity, export controls and price volatility, policymakers are looking beyond supply diversification towards demand-side coordination. Proposals for anchor markets, standards-based markets or coordinated buyers' arrangements seek to counter China's dominance of critical minerals by pooling purchasing power, stabilising prices and providing assured offtake for non-Chinese supply.

PICTURE: CFOTO / SIPA USA



A ship carrying 20,000 tons of nickel ore carries out loading and unloading operations in Fuan city in Fujian province, China.

For many, the appeal is clear. Australia is a major upstream supplier seeking more secure demand and price stability, while a number of ASEAN states occupy key positions in processing, manufacturing and trade. Japan and South Korea are highly exposed downstream consumers with strong incentives to reduce disruption risks. Buyers' clubs aim to shield producers and consumers alike from market manipulation and geopolitical shocks, though practical implementation remains difficult.

Importantly, no formal regional buyers' club currently exists in the Asia Pacific. Discussions to date have largely taken place at the national level, among partners such as Japan, South Korea and Australia, and within broader groupings such as the G7 and the EU. Buyers' clubs are an emerging policy concept rather than an established regional institution.

Proposals for buyers' clubs have emerged partly because existing multilateral institutions are ill-equipped to manage the geopolitical dimensions of critical minerals. The WTO's rules offer limited scope for disciplining industrial policy, export controls or strategic procurement, while broader multilateral forums struggle to coordinate politically costly commitments among diverse

members. Governments increasingly favour plurilateral or minilateral arrangements that promise speed, flexibility and alignment among trusted partners.

IN THE Asia Pacific, regional cooperation mechanisms coexist with dense webs of bilateral agreements, but this has not translated into sustained, regionally anchored demand-side coordination. Instead, the most consequential initiatives shaping the region have been led by the United States. Through a growing set of bilateral agreements framed by Washington as the foundations of a 'critical minerals club of nations', the United States is actively shaping investment flows, project financing and strategic alignment across Asia Pacific economies.

While these initiatives offer participating states access to capital, technology and security guarantees, they also draw demand, expertise and political attention towards the US market. As a result, incentives for regionally centred coordination are weakened, fragmenting efforts to build a cohesive buyers' club centred on regional demand. Moreover, efforts to operationalise G7 coordination around standards-based critical minerals markets point to growing ambition but also highlight the difficulty of moving from shared principles towards commitments that bind. Buyers' clubs represent the most ambitious extension of this trend, shifting from coordinating supply diversification to coordinating demand.

The feasibility of buyers' clubs depends on the depth of coordination they can achieve. At one end lies thin coordination, including information sharing, voluntary standards, joint statements and loose policy alignment. Thin coordination is politically palatable and relatively easy to establish, but it cannot guarantee offtake, stabilise prices or prevent firms from sourcing cheaper inputs.

Conversely, thick coordination involves binding commitments—coordinated procurement, shared rules of origin, trade measures to penalise non-members, price support mechanisms and explicit incentives for firms to source within the club. Only this approach can plausibly shift market power, underwrite investment in alternative supply and insulate members from price manipulation.

Strategic stockpiling sits uneasily between these two modes of coordination. In principle, stockpiles can buffer short-term supply shocks and price spikes. Australia's proposal to establish a strategic reserve reflects this logic, with similar initiatives emerging among other advanced economies. But who should bear the cost of stockpiles: exporters or consumers in destination markets?

Stockpiling alone cannot substitute for sustained demand-side coordination. Many critical minerals degrade, are costly to store or exist primarily as intermediate products rather than standardised commodities. Strategic reserves function as a financial and contractual instrument, reinforcing the need for thicker coordination.

The difficulty is that thick coordination is precisely where buyers' clubs become most fragile. It imposes real economic costs and constrains policy autonomy. It also demands alignment not only among governments, but between governments and firms—many of which prioritise cost minimisation and flexibility.

These challenges are especially acute in the Asia Pacific, where deep trade integration, diverse development models and a strong preference for hedging shape the political economy. For many ASEAN economies, and for Japan and South Korea—whose manufacturing sectors are deeply embedded in regional supply chains—China is still a dominant trade partner and investor across multiple stages of critical minerals and advanced manufacturing value chains. The scale and continued attractiveness of the Chinese market itself further complicates efforts to sustain exclusionary or preferential demand-side arrangements.

AS A trusted upstream supplier and close partner of several prospective buyers' club members, Australia stands to benefit from more stable demand and clearer investment signals. Yet without credible demand guarantees, upstream diversification remains exposed to price cycles and strategic oversupply.

Much of the buyers' club debate focuses on coordination among like-minded states, but less attention is paid to Chinese market power itself. China's influence does not rest solely on episodic export controls or overt coercion, but on a structurally embedded control architecture spanning mining, processing, refining, logistics, finance and downstream manufacturing.

This architecture allows China to shape markets continuously. Complex supply chains enable blending and processing across jurisdictions, making it difficult to define and enforce Chinese origin in intermediate products—especially in Southeast Asia's integrated manufacturing networks. Tightening traceability raises costs for club members; loosening it undermines effectiveness.

China can also deploy targeted bilateralism through long-term offtake

agreements, preferential pricing or investment packages for key producers and processing hubs. Export controls add an additional layer of leverage when embedded within this broader system. Strategic oversupply lets China flood markets to drive down prices and deter investment in higher-cost non-Chinese projects. Paradoxically, this behaviour pushes buyers' clubs towards even thicker coordination, amplifying the political and economic costs that make such arrangements difficult to sustain.

Buyers' clubs should be understood less as a technocratic solution to critical minerals insecurity than as a stress test for regional governance. Their success depends on both institutional design and the willingness of states to absorb costs, resist defection and sustain coordination over time, while contending with a rival whose market power is structurally embedded.

For Australia, ASEAN, Japan and South Korea, the question is not simply whether buyers' clubs can be built, but whether they will endure. In a region defined by economic interdependence, strategic hedging and competing centres of demand, the durability of demand-side coordination remains uncertain. If buyers' clubs falter, it may reflect less on the concept itself than on the limits of collective action in an increasingly fragmented regional and global trading order. EAFQ

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Australian critical mineral geopolitics and domestic interests

LIAN SINCLAIR

AS THE global energy transition shifts the strategic and industrial calculations of great powers towards securing and refining critical minerals, Australian policymakers face a familiar dilemma: balancing the country's economic relationship with China—its largest trading partner—and the United States, the world's largest, and increasingly antagonistic, military power.

In a booming market, increasing cooperation with North American, European, Japanese and South Korean industry need not come at the expense of trade with China. Decoupling Australian industry from China would be economically devastating.

Australia's primary geopolitical and industrial objective should be to support a just, peaceful and sustainable global energy transition. But this ambition is constrained by the economic interests of politically powerful mining magnates, corporations and associations in Australia.

Mining magnates rarely agree with each other, as their interests vary mineral-to-mineral and over time. For example, lithium firms tend to take a pro-China stance while rare earth miners push government to take a more defensive or exclusionary approach to China. Billionaire investors with diverse portfolios may call for more or less government intervention and take more or less confrontational stances towards China depending on changing commodity markets.

What unites the extractive capitalist class is opposition to taxation, environmental regulation, labour standards and First Nations' land rights, as threats to their profits. With rare exceptions, extractive corporations also actively court state intervention in the form of subsidies and other forms of derisking.

There are 31 minerals named on Australia's critical minerals list, each with different uses, production processes, market dynamics and environmental implications. A few, like gallium, are driven by military applications. But those most in demand are booming because of their use in renewable energy and electric vehicles (EVs).

Lithium, for example, has become Australia's sixth most valuable

commodity export, generating AU$5 billion in export revenue in 2024 with over 90 per cent exported as spodumene ore to China, where it is refined into battery-grade products. While lithium boomed, Australian nickel production crashed. Despite a growing US$37 billion global nickel market—driven by both stainless steel and EV battery production—most Australian nickel mines and refineries have suspended operations, outcompeted by cheaper Indonesian production backed by Chinese capital and technology.

Rare earths sit on the other end of the spectrum, with annual global trade at only US$4 billion. As the central ingredient in the lightweight powerful magnets at the heart of wind turbines and EV motors, rare earths have an outsized influence on energy and security policy. While around 90 per cent of global production is concentrated in China, there are 10 rare earth mining firms in Australia which have collectively received or been promised over AU$8.6 billion in public loans amid hopes of exporting a semi-refined product to the United States, South Korea or Europe.

Despite these differences, each of Australia's 31 critical minerals are covered by the same overarching

In a booming market, increasing cooperation with North American, European, Japanese and South Korean industry need not come at the expense of trade with China

PICTURE: YURI GRIPAS / POOL VIA CNP / INSTARIMAGES

United States President Donald Trump meets with Australian Prime Minister Anthony Albanese in the Cabinet Room of the White House in Washington, D.C.

Genuine mineral-specific industrial partnerships that coordinate mineral refining in Australia with midstream and downstream manufacturing firms in the EU, Japan, South Korea and North America could create new global production networks for renewable energy

government policies and strategies, aimed at producing refined minerals for Western renewable energy, EV and military technologies.

The October 2025 Australia–US critical minerals and rare earths deal was met with fanfare, with both signatories promising to invest AU$1.5 billion in critical mineral projects across Australia to create a non-Chinese supply of minerals. This deal is an extension of existing 'derisking' strategy.

Since 2019, the Australian government has promised over AU$6 billion in loans to 'derisk' critical mineral extraction in Australia. Most of this has gone to upstream mining firms, rather than addressing the key bottleneck of processing and refining technology.

Likewise, the government's AU$1.2 billion critical minerals strategic reserve and price floors—called for by the Association of Mining and Exploration Companies—will benefit upstream miners while doing little to encourage downstream value-adding.

THE Australian Government's Future Made in Australia agenda marked an attempt to move beyond this narrow 'dig-and-ship' strategy, offering over AU$7 billion in production tax incentives for firms that refine minerals onshore. But further downstreaming production in Australia will depend on US, EU and South Korean buyers to develop midstream industries in rare earth magnets and lithium-ion batteries.

Moving past the billion-dollar announcements, these policies fail to address the more difficult underlying challenges in downstreaming and diversifying critical minerals production. Challenges include workers and skills training, First Nations' cultural heritage and land rights and a systematic approach to environmental protection, with most states carving out 'significant developments'—including critical minerals—from assessment processes. Failure to address these issues means that critical minerals will face mounting resistance from communities and civil society.

International cooperation will also need to move beyond throwing billions at upstream mining firms. High-level agreements like the Minerals Security Partnership promise security and sustainability without providing mechanisms for achieving it. Engaging in an Asian 'green market' could help Australia balance its interests between the United States and China.

Genuine mineral-specific industrial partnerships that coordinate mineral refining in Australia with midstream and downstream manufacturing firms in the EU, Japan, South Korea and North America could create new global production networks for renewable energy. This is how , Lynas, the only productive Australian rare earth firm, succeeded despite controversy—with over A$120 million funding and close coordination with the Japanese public–private partnership Japan Australia Rare Earths. China's technological and financial investment in Indonesian nickel is another example of how targeted industrial partnerships could operate, albeit accompanied by environmental and social devastation.

International coordination of production, pricing mechanisms, workforce creation and upskilling, environmental protection and enshrining First Nations' sovereignty would require state institutions, both in Australia and in partner countries, to engage in long-term industrial planning. This would almost certainly mean going against the short-term interests of mining corporations and billionaire investors that dominate upstream extraction. The biggest question is whether a political coalition can emerge to champion long-term industrial transformation and sustainability. History suggests that the interests of Australia's upstream mining industry will be hard to overcome. EAFQ

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Australia quietly quitting the LNG business

GRAEME BETHUNE

AUSTRALIAN liquefied natural gas (LNG) exports are falling—and the decline is set to continue. Australian government policy, increasingly focused on diverting gas from export projects to fill gaps in the domestic market, is likely to accelerate this trend. Australia's Asian investors have grown wary, raising questions about the country's role in the region's energy supply.

LNG is Australia's third-largest export by value. The value of Australian LNG exports fell from US$90.3 billion in 2022 to US$60.1 billion in 2025, primarily due to lower prices. The volume of exports have also begun to fall. In 2022, Australia was the world's largest producer, marginally ahead of the United States and Qatar, with production of 80.9 million tonnes . But production fell to 77.6 million tonnes per annum by November 2025, primarily due to the decline in the output of Australia's largest LNG project, the North West Shelf. Meanwhile, the United States

PICTURE: CFOTO / SIPA USA

An LNG carrier is assisted by tugboats as it docks in Yantai, Shandong province, China.

PICTURE: REUTERS / ISSEI KATO

LNG storage tanks and a membrane-type tanker are seen at Tokyo Electric Power Co.'s Futtsu Thermal Power Station in Futtsu, Japan.

Against this backdrop, competition from the United States is intensifying, reinforced by new agreements with Japan and South Korea to increase US LNG imports

has passed Australia, producing over 100 million tonnes in 2025.

The Australian government anticipates a gradual decline in demand for Australian LNG exports due to the decarbonisation strategies of major buyers in East Asia and competition from other LNG producers, particularly the United States. According to the government's official projections through to 2050 in the 2024 Future Gas Strategy, existing decarbonisation policies by LNG buyers will lead to a gradual fall in demand, to somewhat below current levels. If LNG buyers pursue more aspirational decarbonisation policies, export demand for Australian LNG is projected to collapse by 2050 to around 21 million tonnes, or just over 7 million tonnes in a zero carbon emissions scenario.

Yet three of Australia's major LNG importers—Japan, South Korea and Taiwan—have significant challenges in decarbonisation, including the lagging development of renewables, delays in restarting nuclear power and a heavy reliance on coal for power generation. Achieving the aspirational or net-zero scenarios outlined in Canberra's Future Gas Strategy seems unlikely, at least in the short-term.

Against this backdrop, competition from the United States is intensifying, reinforced by new agreements with Japan and South Korea to increase US LNG imports. To the extent that

LNG from other countries replaces Australian LNG, there would be no decline in global emissions.

Domestically, Australia faces political opposition to gas. The last decade has seen the growth of strong environmental opposition to gas as a fossil fuel. On the East Coast, gas buyers feel aggrieved by the hike in gas prices, while many farmers are opposed to onshore exploration and development. The strongest support for gas tends to be in Queensland, Western Australia and South Australia, but with opposition in the politically powerful states of Victoria and New South Wales.

IN THIS political climate, increasing government barriers to gas development are limiting Australian LNG exports. New or expanded LNG projects are required to achieve net-zero for reservoir emissions from day one. Legal challenges that delayed LNG projects at Scarborough and Barossa are yet to be fully addressed. Gas has been excluded from accelerated approvals under the Environment Protection and Biosecurity Conservation Act. Government policy now prioritises optimising existing gas fields and infrastructure rather than exploring new areas.

In December 2025, Canberra announced its intention to introduce a prospective East Coast domestic gas reservation policy with export permits, requiring 15–25 per cent of new LNG contracts be reserved for the domestic market. Shortfalls in the domestic market will have to be met by diversions from LNG projects—many of which are also facing gas supply challenges—adding uncertainty to both exporters and investors.

LNG project investors are unhappy with this. In its submission to the government Gas Market Review, the Korea Gas Corporation, a partner in the East Coast Gladstone LNG project, noted that its investment was made on a long term basis well beyond the initial 15-year LNG offtake period. Under the proposed policy settings, this assumption no longer holds.

Media reports suggest that Energy Minister Chris Bowen has briefed Asian counterparts on the government's proposed gas reservation policy. Yet China—the largest buyer of Australia's East Coast LNG accounting for over 50 per cent of shipments in December 2025—was not mentioned. China's three major importing companies are not only buyers of LNG but also ongoing developers and producers of Queensland gas, some of which it is feared may now be diverted to the domestic market. With Australia's East Coast LNG comprising 17 per cent of China's total LNG imports in the 2025 September quarter, the proposed policy likely heightens concerns among Chinese buyers and investors.

Japan, Australia's largest LNG buyer, has been publicly expressing concerns since 2023 that Australia is 'quietly quitting the LNG business'. These concerns were reiterated prior to the 2025 election.

Canberra has reassured buyers that Australia will continue to be a reliable LNG supplier and honour contracts. But the barriers to gas development have created challenges for the government in living up to its promise.

In the absence of support for new Australian gas development, export projects have commenced natural decline and are increasingly vulnerable to being diverted to the domestic market to plug gaps caused by the decline of domestic fields. The lack of support for LNG is not being well-received by major Asian gas importers, who are increasingly turning to the United States, Qatar and, in the case of China, to Russia.

> The Australian government anticipates a gradual decline in demand for Australian LNG exports due to the decarbonisation strategies of major buyers in East Asia and competition from other LNG producers

Emerging LNG fields around Australia, including the Greater Sunrise LNG project in Timor-Leste, the Abadi LNG project in Indonesia and the Papua New Guinea LNG project, demand significant funding from export credit agencies such as Export Finance Australia and its regional counterparts. Amid China's increasing influence, the Australian government's decision to support—or not support—any of these projects may signal the future trajectory of Australia's role in the regional LNG market. EAFQ

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