Fears rise China could weaponise rare earths in US tech war

AFP, Beijing

THE US has hit China where it hurts by going after its telecom champion Huawei, but Beijing's control of the global supply of rare earths used in smartphones and electric cars gives it a powerful weapon in their escalating tech war.

A seemingly routine visit by President Xi Jinping to a Chinese rare earths company this week is being widely read as an obvious threat that Beijing is standing ready for action.

"We should firmly grasp the strategic basis of technological innovation, master more key core technologies and seize the commanding heights of industry development," Xi said during the visit, the official Xinhua news agency reported Wednesday.

"Rare earth is not only an important strategic resource, but also a non-renewable resource," he added, in comments likely to further fuel speculation.

However, analysts say China appears apprehensive to target the minerals just yet, possibly fearful of shooting itself in the foot by hastening a global search for alternative supplies of the commodities.

Xi's inspection tour "is no accident, this didn't happen by chance," said Li Mingjiang, China programme coordinator at the Rajaratnam School of International Studies (RSIS) in Singapore.

"At this moment, clearly the policy circles in China are considering the possibility of using a rare earth exports ban as a policy weapon against the US." The United States last week threatened to cut supplies of US technology needed by Chinese telecom champion Huawei, which Washington suspects is in bed with China's military.

The US move has fanned speculation that Xi could impose retaliatory measures and in an indication of the importance of rare earths to the US, Washington did not include them in a tariffs increase on Chinese goods this month.

- China has leverage - China occupies a commanding position, producing more than 95 percent of the world's rare earths, and the United States relies on China for upwards of 80 percent of its imports.

Rare earths are 17 elements critical to manufacturing everything from smartphones and televisions to cameras and lightbulbs.

That gives Beijing tremendous leverage in what is shaping up largely as a battle between the US and China over who will own the future of high-tech.

"China could shut down nearly every automobile, computer, smartphone and aircraft assembly line outside of China if they chose to embargo these materials," James Kennedy, president of ThREE Consulting, wrote Tuesday in National Defense, a US industry publication.

China has been accused of using its rare earth leverage for political reasons before.

Japanese industry sources said it temporarily cut off exports in 2010 as a territorial row flared between the Asian rivals, charges that Beijing denied.

In 2014, the World Trade Organization ruled the country had violated global trade rules by restricting exports of the minerals.

A man walks by a bench featuring a US flag outside a store in Beijing.

AFP

The case was brought by the United States, European Union and Japan, which accused China of curbing exports to give its tech companies an edge over foreign rivals. China has cited environmental damage from mining and the need to conserve supplies as the reason for any past limits on output.

While disruptive, any leverage gained from a supply block may be short-lived, experts said.

"This would accelerate moves to find alternative supply sources," said Kokichiro Mio, who studies China's economy at NLI Research Institute.

- Empty threat? - China is not the only country with sizeable reserves of rare earths.

The United States Geological Survey estimated last year there were 120 million tons of deposits worldwide including 44 million in China, 22 million in Brazil and 18 million in Russia.

China is the leading producer partly because the environmental risks deter some countries from harvesting their own deposits. Mining rare earths creates toxic waste and the potential release of harmful radioactive tailings.

"There is a possibility that China would go ahead (with export curbs) but chances are what we are seeing now is just a threat," Mio said.

"The US would be in trouble over a short period of time. But it is unlikely that they (China) want to pour oil on the flames." During Monday's visit, Xi was accompanied by Vice Premier Liu He, who has led China in fraught trade negotiations with Washington -- a fact not lost on China-watchers.

State media coverage of the visit was dry, but a commentary on a social media account run by the Communist Party mouthpiece, the People's Daily, stressed China's dominance in the global supply chain and the relative paucity of US output.

Meanwhile, cutting off the United States would mark a sharp escalation that Beijing may not have the stomach for, said Li of the RSIS.

"The difference is the US is targeting specific Chinese companies. If China targets the US as a country... that may be regarded by the US and the world as a significant escalation of the trade war," he said.

Investors stick with safe-haven bonds on trade, Brexit concerns

REUTERS, London

Euro zone safe-haven bond yields dipped on Wednesday as trade tensions between China and the United States and renewed political uncertainty around Britain's exit from the European Union kept investors on edge.

Washington's temporary relaxation of curbs against China's Huawei Technologies has failed to offset deeper worries about an intensifying trade war between the world's two largest economies.

Adding to the nervousness, British Prime Minister Theresa May's last-ditch attempt on Wednesday to deliver a Brexit deal was widely panned by lawmakers, setting Britain on course for another period of uncertainty and worrying investors who do not know when or whether the United Kingdom will leave the EU.

"The tone of re-nervousness has come from two sources. The re-escalation of the trade war....and the tensions around the Brexit vote," said Matthew Cairns, a fixed income strategist at Rabobank.

However, Cairns described the nervousness as limited on Wednesday, with investors cautious ahead of European parliament elections beginning on Thursday.

The 10-year German bund yield, the go-to safe-haven bond when investors are jittery, dropped more than one basis point to -0.07 percent.

The yield has risen from 2-1/2 year lows, of -0.13 percent, hit earlier this month, but few investors and analysts believe it can rise back into positive territory.

"10-year Bund yields are pinned down and we don't see them going anywhere soon," Cairns said, adding that Rabobank had an end-year forecast for the 10-year yield of -0.20 percent.

French and Dutch government bond yields were also marginally lower in early European trade.

Portugal hopes to raise 2 billion yuan from a Chinese yuan-denominated Panda bond - the first to be launched by a euro zone country. The country's finance minister said late on Wednesday Portugal expects to price the bond on May. 30.

Elsewhere, Italian yields fell, helped by recent opinion polls that suggest deputy prime minister Matteo Salvini's far-right party may not do as well at Thursday's European parliamentary elections as previously thought.

Investors are concerned a strong showing for Salvini - as well as other populist parties across Europe - will lead to another showdown between Rome and Brussels over Italy's budget plans.

Italian 10-year yields fell 1 basis point to 2.632 percent , while the 2-year yield dropped 2 bps to 0.585 percent .

Investors had dumped Italian bonds last week, concerned about comments from Salvini that the indebted euro zone member would breach European fiscal rules, but have tiptoed back into the market this week.

Japan's trade surplus falls sharply as exports drop

AFP, Tokyo

JAPAN'S trade surplus dropped by around 90 percent in April, official data showed Wednesday, with exports affected by a slowdown in China's economy as it wages a trade war with Washington.

Meanwhile, Japan's politically sensitive trade surplus with the United States grew 17.7 percent in April from a year earlier, the data showed, days before US President Trump arrives on a state visit.

Japan's overall trade surplus plummeted by 90.3 percent to 60.4 billion yen ($550 million).

The decrease, sharply lower than market expectations, was chiefly due to falls in exports of chip-related products to China, the finance ministry data showed.

But the trade surplus with the United States was up for a second consecutive month, led by exports of automobiles, chip-making equipment and aircraft.

The jump in the surplus with the US -- to 723.2 billion yen ($6.5 billion) -- follows an almost 10 percent rise in March and a 1.6 percent dip in February.

The latest figures come ahead of Trump's visit to Japan this weekend for meetings with Prime Minister Shinzo Abe. They are expected to focus on issues including trade. Trump has frequently complained that Japan has an unfair advantage in bilateral trade, and is seeking to negotiate a new trade agreement with Tokyo.

Last week, Trump announced a six-month delay in imposing steep tariffs on auto imports, seeking to pressure Japan and Europe into bargaining concessions on trade. The temporary reprieve, from what would have been a sizable escalation in Trump's multi-front trade wars, was welcomed by the global market.

However, some trade experts say it could mean Washington is still trying to take Tokyo's cherished auto industry hostage to put pressure on Japan to open up its agricultural market.

AFP

Women with umbrellas wait to cross a street during a rainy afternoon in Tokyo.

Britain's Hinduja brothers consider bid for India's Jet Airways

AFP, Mumbai

The billionaire Hinduja brothers -- Britain's wealthiest people -- are considering a bid for India's grounded Jet Airways, a spokesperson said Wednesday, sending shares in the firm soaring almost seven percent.

Saddled with debts of more than $1 billion, Mumbai-based Jet has been in a tailspin for months, defaulting on loans and failing to pay many staff and aircraft leases, forcing it to suspend operations last month. The firm's main lender, State Bank of India (SBI), is seeking to sell a majority stake and has received two unsolicited bids and a conditional offer from Etihad Airways of Abu Dhabi.

Etihad already owns a 24 percent share and says it will inject funds to maintain its stake if a majority shareholder can be found.

Explainer: Who pays Trump's tariffs, China or US customers and companies?

REUTERS

US President Donald Trump says China pays the tariffs he has imposed on $250 billion of Chinese exports to the United States. But that is not how tariffs work. China's government and companies in China do not pay tariffs directly. Tariffs are a tax on imports. They are paid by US-registered firms to US customs for the goods they import into the United States.

Importers often pass the costs of tariffs on to customers - manufacturers and consumers in the United States - by raising their prices.

US business executives and economists say US consumers foot much of the bill through rising prices.

White House economic adviser Larry Kudlow has acknowledged that "both sides will suffer on this," contradicting the president.

The tariff bill is set to rise further. Trump this month directed US Trade Representative Robert Lighthizer to launch the process of imposing tariffs on the remaining $300 billion of goods from China. That includes products ranging from cellphones to baby pacifiers.

That would mean almost all imports from China would be subject to a 25 percent import tax. US companies see rising consumer prices

A growing number of US companies has warned about the negative impact of the tariffs on US consumers.

Nike Inc and 172 other footwear companies have urged Trump to remove footwear from a list of imports facing a proposed extra 25 percent tariff, warning the move could cost consumers an additional $7 billion a year.

Walmart Inc, the world's largest retailer, and department store chain Macy's Inc have warned that prices for shoppers will rise due to higher tariffs on goods from China.

What the 'tariff man' says

Trump, who has called himself the "Tariff Man," has often repeated that China pays for US tariffs on its goods.

"We have billions of dollars coming into our Treasury — billions — from China. We never had 10 cents coming into our Treasury; now we have billions coming in," he said on Jan. 24.

On May 5, he tweeted: "For 10 months, China has been paying Tariffs to the USA."

As well as imposing tariffs on Chinese goods, Trump has also imposed a tax on global steel and aluminum imports and shipments of washing machines and solar panels.

How tariffs really work

US Customs and Border Protection (CBP) collects the tax on imports. The agency typically requires importers to pay duties within 10 days of their shipments clearing customs.

Through May 1, Washington has assessed $23.7 billion in tariffs since early 2018, according to data from the CBP.

Total tariff revenue - including levies that pre-dated Trump - shot up by 89 percent in the first half of the current fiscal year starting Oct. 1, to a total of $34.7 billion, according to US Treasury data.

Every item imported into the United States legally has a customs code. Importers are expected to check the tariffs and other taxes and duties due on the goods they bring in, calculate what they owe, and pay it.

US Customs reviews payments and sends importers a fresh bill if it detects underpayment.

Importers also have to post payment guarantees, or import bonds, with customs. The costs of these bonds have risen with tariffs, an additional burden on US-based firms importing goods from China.

Do Chinese suppliers bear the costs of US tariffs?

Chinese suppliers do shoulder some of the cost of US tariffs in indirect ways. Exporters sometimes, for instance, are forced to offer US importers a discount to help defray the costs of higher US duties. Chinese companies might also lose business if US importers find another tariff-free source of the same goods outside China.

And outside of tariffs, the Trump administration's decision to add China's Huawei, the world's largest telecoms equipment maker, to a trade blacklist, has hit that company hard.

But US-based importers are managing the higher tax burden in a number of ways that hurt US companies and customers more than China.

Such strategies include accepting lower profit margins; cutting costs - including wages and jobs for US workers; deferring any potential wage hikes, as well as passing on tariff costs through higher prices for US consumers or companies.

Most importers use a mix of such tactics to spread the higher costs among suppliers and consumers or buyers.

Higher prices for tractors, washing machines

Higher duties on imports of metals and Chinese products, for example, increased Caterpillar's production costs by more than $100 million last year. In response, the heavy-duty equipment maker increased prices for its products.

Tractor manufacturer Deere & Co estimates a $100 million increase in its raw materials costs this year because of Trump's tariffs on Chinese imports. Deere has cut costs and increased prices to protect its profits.

A Congressional Research Service report in February found that the tariffs boosted washing machine prices by as much as 12 percent, compared to January 2018, before tariffs took effect.

Steel and aluminum tariffs increased the price of steel products by nearly 9 percent last year, pushing up costs for steel users by $5.6 billion, according to a study by the Peterson Institute for International Economics.

US companies and consumers paid $3 billion a month in additional taxes because of tariffs on Chinese goods and on aluminum and steel from around the globe, according to a study by the Federal Reserve Bank of New York, Princeton University, and Columbia University.

AFP

US President Donald Trump points as he leaves after speaking during a Make America Great Again rally at Williamsport Regional Airport in Pennsylvania on May 20.