# Diversification in Times of Geo-Economic Dependence

During the seventh EU–Japan High-Level Economic Dialogue in May 2026, both allies reaffirmed their joint commitment to strengthening strategic supply chains. With the entry into force of the Critical Raw Materials Act (CRMA) in 2024, Brussels is attempting to rapidly phase out European dependence on China. The urgency is high: following Chinese threats of export restrictions, the EU is currently trying to prevent a trade war with China. Europe is vulnerable to this geo-economic blackmail; the EU is still at least 70% dependent on Chinese mining and processing of critical raw materials.

Japan was already confronted with Chinese export restrictions in 2010 and successfully reformed its raw materials strategy at the time. "Diversification by investing in Australia was a crucial move for Japan to reduce its dependence on China," says HIG expert, sinologist, and Japanologist Casper Wits. "It is a textbook example of diversification toward like-minded partners." This raises not only the question of what concrete steps Japan took and what Europe can learn from them, but also what cooperation between the two players promises for the security of raw material supply to the EU.

## The Japanese Strategy: The JOGMEC Model

Beijing recently proved once again its willingness to militarize the economy by completely halting the export of tungsten, among other materials, to Japan. This material is essential for the production of the defense industry. This followed the Japanese governmnet expressing its concerns regarding the autonomy of Taiwan. Beijing justified these restrictions to ‘safeguard’ its national security and prevent the spreading of sensitive technology.Since an earlier embargo by China in 2010, following a dispute over the Senkaku Islands, resource-poor Japan has undergone a paradigm shift. While it was long believed that economic interconnectedness provided security, that dependence turned out to be a major vulnerability instead.

In response, the Japanese Ministry of Economy, Trade and Industry (METI) reformed industrial policy through the "rare metals strategy." Under this strategy, the mandate of the state organization JOGMEC was significantly expanded. JOGMEC bypasses market objections by working closely with businesses and directly participating in foreign mining and processing operations through equity investments, debt guarantees, and technical coordination. Unlike in Europe, the Japanese private sector has traditionally been very closely linked with the government. Takahiro Kamisuna, Research Associate of the Japan Chair Programme at IISS, explains that Japanese private enterprises take the strategic objectives of the government quite seriously: “The European situation differs substantially from this, as the role of the business community in Europe is much more strongly determined by the laws of market logic."

A successful practical example is the intervention in 2011 to support the Australian miner Lynas Rare EarthsWith financial backing from JOGMEC, Lynas mines rare earths in Australia, which are subsequently processed in Malaysia. Consequently, the crucial chemical separation

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takes place entirely outside of China. Thanks to similar projects in Brazil and South Africa, Tokyo reduced its import dependence on China from 90% in 2010 to 60% to 70% today. Yet, vulnerability remains high. During the G7 Summit in June, the Japanese government warned that Chinese sanctions could still disrupt global supply chains. The ambition has therefore been expressed to further reduce dependence to 50% before 2030.

## The CRMA and the European Financing Gap

With its raw materials policy, the EU is attempting to emulate the successes of the JOGMEC model. Europe expert Michel Don Michaloliakos calls the introduction of the CRMA very positive, because member states are finally showing ambition through concrete targets. "Unlike Japan, however, the EU lacks a central financing or coordination point; tasks are fragmented between the European Commission, the European Investment Bank (EIB), and national agencies," he explains. HIG expert Don Michaloliakos points out that European companies are at a disadvantage compared to players from other parts of the world. While American raw material companies easily attract private capital through a strong financial sector, and China safeguards the competitiveness of its companies with structural state aid, European enterprises lack both pillars of support. Furthermore, European banks are traditionally risk-averse when it comes to mining, and strict EU state aid rules prevent member states from simply investing billions in specific companies.

Because Europe bought solely on the basis of the lowest price for too long, China was able to build a dominant mining and processing industry, backed by mild to non-existent environmental restrictions. As a result, Beijing has been able to flood the European market with cheap products, making European competition extremely difficult. With the CRMA, Brussels wants to turn the tide through sixty "strategic projects" inside and outside Europe. An estimated 22.5 billion euros has been made available through a mix of EIB loans, national subsidies, and private investments. According to Don Michaloliakos, while the EU is indeed trying to attract private capital with this, European projects are currently struggling with an acute financing gap.

Moreover, according to the European Court of Auditors, the EU strategy rests on shaky foundations: the 2030 targets lack robust data underpinnings, and internal permitting procedures can take up to 15 years. The off-take contracts also reveal a painful bottleneck: in the first seventeen strategic projects, half of the produced raw materials go to parties outside the EU, including companies in the US and Japan. This underscores the fierce mutual competition between Western allies.



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## Cooperation and Lessons for Brussels

During the Economic Dialogue, the EU and Japan agreed to jointly address vulnerabilities in the area of critical raw materials through a number of concrete action lines. The partners are committed to sharing information on export restrictions via an early warning system and will coordinate financial support for mining and processing projects more closely to prevent mutual competition.

Yet, in practice, Japanese cooperation has so far remained primarily bilateral in nature. "When it comes to critical raw materials, Japan prefers to work with individual allies because, from a Japanese perspective, this allows for a more targeted response to specific needs than broad cooperation with the EU bloc as a whole," says Kamisuna.

To truly match the success of the Japanese strategy, the EU must close its institutional gaps. Brussels will have to mandate the EIB and national export credit agencies to actually function as a union-wide investor that directly injects risk-bearing capital into private projects. If the EU lets these national insurers and the EIB work together as a single bloc, they can jointly assemble financial packages that absorb the risks of projects that are too large or too risky for a single European country alone.

In addition, there is much to be gained in the area of urban mining: extracting materials from discarded products, such as the "black mass" from which essential raw materials are distilled. As part of the CRMA, the European Commission has formulated the ambitious target to obtain no less than 25% of the required critical raw materials from recycled material by 2030. To realize this, however, recycling must become profitable. Currently, newly mined, China-processed raw materials are simply too financially attractive compared to recycled European alternatives.

It is precisely at this intersection that cooperation with Japan can function as a flywheel. A concrete success illustrating this potential is the investment in the French mineral processor Caremag SAS. In March 2025, JOGMEC and the Japanese company Iwatani jointly stepped into this French recycling project for rare earth elements. In exchange, the Japanese secured a long-term contract for the supply of heavy rare earths, accounting for an estimated 20% of future Japanese demand. When Caremag becomes operational at the end of 2026, it will mark the very first joint venture in this field within Europe. This deal shows how bridging the European financing gap can go hand in hand with Japanese security of supply. It is a blueprint for the competitiveness alliance announced by the EU and Japan in July 2025 as a response to the escalating geo-economic tensions between the US and China. Casper Wits emphasizes the urgency of this partnership: "It is crucial for our welfare and security that the EU cooperates even more intensively with a partner like Japan. Unfortunately, this realization has taken too long to arrive." "Where superpowers like the US and China deploy coercive power or industrial dominance, the EU and Japan must instead utilize coordinated multilateralism," Wits states.



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## Conclusion

Repeated geo-economic blackmail by Beijing has made it painfully clear that extreme dependence on a single player is an existential vulnerability. While Japan learned this lesson the hard way back in 2010 and successfully reformed its raw materials policy with an active, risk-bearing state, Europe currently finds itself still in a transitional phase. The Critical Raw Materials Act demonstrates the right European ambitions, but as long as Brussels struggles with an acute financing gap and a fragmented institutional approach, actual implementation remains vulnerable.

To take the step from paper ambitions to strategic autonomy, Europe must dare to let go of market logic and start treating raw material security as an essential component of its security policy. The Japanese JOGMEC model shows that private investments in crucial supply chains can indeed yield returns when the state actively acts as a financial risk-mitigator. In addition, close cooperation with like-minded partners offers an indispensable counterweight to autocratic competition to safeguard our own welfare and security.



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