Japan’s Sōgō Shōsha and the Rare Earth Endgame

written by Jack Lifton | July 10, 2026

The signal was easy to miss in the daily flood of trade-war headlines, but its implications for the global magnet industry could hardly be more serious. In late May and early June 2026, Chinese authorities detained two Japanese nationals in Dalian, subsequently identified as employees of Fuji Electric, on suspicion of attempting to smuggle controlled rare earth magnets out of China by concealing them inside finished industrial products.

It was the first known criminal investigation in China targeting employees of a Japanese corporation over alleged rare earth smuggling. The reported fact pattern, embedding NdFeB magnets in electromagnetic contactors to avoid export licensing, tells investors everything about the state of the market. Companies are now willing to accept criminal risk rather than forgo the magnets their products require.

This is what a chokehold looks like from the inside.

China’s escalation did not begin with criminal prosecutions. It began in April 2025, when MOFCOM Announcement No. 18 placed seven categories of medium and heavy rare earths, including terbium, dysprosium, gadolinium, samarium, lutetium, scandium, and yttrium, under a strict non-automatic export licensing regime. Processing times, informally estimated at 45 to 60 days, quickly stretched to 60 to 120 days, with no predictable outcome. By October 2025, Beijing had widened the net further, adding processing equipment and even foreign-made goods containing Chinese-origin rare earth inputs. China’s export controls are no longer simply a matter of customs delays. They

are creating compliance and personnel risks for every foreign company operating inside China’s rare earth supply chain.

Most Western coverage of Japan’s rare earth vulnerability focuses on government agencies, including JOGMEC stockpiling targets, METI diversification mandates, and the United States-Japan Critical Minerals framework signed in October 2025. That coverage is accurate but incomplete. The institutional architecture that will actually move material, sign offtake agreements, arrange financing, and build the processing infrastructure that Japan and its allies require is not a government agency. It is found in Japan’s five great general trading houses: Mitsubishi Corporation, Mitsui & Co., Itochu Corporation, Sumitomo Corporation, and Marubeni Corporation.

The sōgō shōsha are, in their own way, among the most misunderstood business structures in global markets. They are neither pure traders nor pure investors. They are integrated operators, simultaneously acting as financiers, logistics coordinators, offtake purchasers, and equity co-investors, positioned at the nexus of physical commodity flows and project-level capital deployment. Warren Buffett, whose Berkshire Hathaway holds stakes ranging from 8.5% to 9.8% in all five trading houses, representing a position worth $23.5 billion at the end of 2024, has described their business model as similar to Berkshire itself. That is the highest compliment in the investment lexicon, and it is not misapplied.

Crucially, the sōgō shōsha move quickly when strategic pressure creates commercial opportunity. Marubeni’s November 2025 agreement with RZ Resources in Australia is a case study. For AUD$15 million and an equity interest of up to 5%, Marubeni secured a position in a New South Wales mineral sands project producing monazite, a primary feedstock for the rare earth oxide supply chain, with JX Advanced Metals Corporation participating

as a parallel strategic partner. The project has received a letter of interest from the Export-Import Bank of the United States and financing support from Export Finance Australia. It connects Marubeni’s capital directly to the permanent magnet industry in a geopolitically stable jurisdiction.

That is not a government program. It is a trading house operating exactly as designed.

A common misreading of the rare earth crisis frames it as a mining problem, or a shortage of ore in the ground. The ground is not the issue. Rare earth deposits exist in Australia, Canada, the United States, Brazil, and beneath the Pacific Ocean. Japan’s research vessel Chikyu retrieved sediment samples in February 2026 from depths exceeding 6,000 metres near Minami Torishima, confirming a resource potentially large enough to rank among the world’s three largest.

The problem is refining, separation, and magnet manufacturing, three industrial processes that China has methodically concentrated within its borders since the 1990s. China controls approximately 85% to 90% of global rare earth refining capacity and more than 90% of high-performance NdFeB magnet production. Even ore mined in Australia may require separation elsewhere before it can reach a magnet plant. This is the structural vulnerability that no stockpile can fully address.

Japan’s import dependence has improved dramatically since the 2010 Senkaku dispute, declining from roughly 90% of rare earth imports sourced from China at that time to 71.9% in 2024. That progress is real, but it also means that nearly three-quarters of Japan’s rare earth supply remains under Chinese discretionary control, including near-total dependence on the heavy rare earths dysprosium and terbium, which provide NdFeB magnets with the high-temperature performance required in electric vehicle

drivetrains and wind turbine generators.

The potential cost of disruption is not theoretical. Japanese analysts have estimated annual losses of as much as ¥2.6 trillion, approximately US$17 billion, if Chinese supply were fully interrupted. JOGMEC now targets 180 days of supply for minerals carrying elevated geopolitical risk, while projected public and private investment under the United States-Japan Critical Minerals framework has been estimated at US$2 billion to US$3 billion over five years. The rare earth sediment resource near Minami Torishima has been estimated at 16 million tonnes, but its location more than 6,000 metres below the surface makes commercial extraction an entirely different question.

Japan’s strategic response to rare earth vulnerability is the most institutionally sophisticated among industrialized economies, having been built over six decades rather than assembled in panic. METI’s four-pillar framework, covering overseas resource development, recycling and urban-mine recovery, substitution research, and statutory stockpiling, was formalized in July 2009, more than a year before the 2010 dispute compressed its timelines. The JOGMEC stockpile mechanism now targets 180 days of supply for minerals with elevated geopolitical exposure, a category that includes rare earths.

The October 2025 United States-Japan Critical Minerals framework adds a new layer of allied industrial coordination through joint financing mechanisms, a Critical Minerals Supply Security Rapid Response Group co-led by the United States Department of Energy and METI, accelerated permitting commitments, and new investment vehicles intended to mobilize private capital into mining, separation, and magnet manufacturing. Early projections suggest US$2 billion to US$3 billion in combined public and private investment over five years.

The gaps remain significant. Deep-sea extraction at depths of 6,000 metres has not been commercially demonstrated. Separation and processing capacity outside China remains embryonic. Building the specialized infrastructure and human expertise required to replicate Chinese processing capabilities is a decade-long undertaking, not a fiscal-year project. The United States-Japan general licence framework for low-risk commercial rare earth exports, signalled at a high-profile bilateral meeting in November 2025, had produced no implementing rule or usable provincial process by mid-2026. Exporters were still working case by case.

The sōgō shōsha understand this gap better than any institution. Their response has been to accelerate equity participation and offtake agreements in Australia, Canada, and selected African jurisdictions. They are serving as the private-sector bridge across the long period required to build alternative processing infrastructure.

The detention of the Fuji Electric employees in Dalian deserves closer analytical attention than it has received in the mainstream financial media. It represents a structural escalation, not simply a diplomatic incident.

China’s export-control architecture, codified in State Council Order No. 834 issued on April 7, 2026, gives Beijing a comprehensive legal basis for targeted restrictions extending far beyond customs administration. The criminal investigation of the Fuji Electric employees, reportedly focused on whether controlled NdFeB magnets were embedded inside finished electromagnetic contactors to circumvent licensing, indicates that Chinese authorities are now conducting transaction-level forensic analysis of finished-product exports. Every Japanese company manufacturing products containing rare earth components inside China now faces a compliance and personnel risk that did

not exist 18 months ago.

For investors in Japanese industrial manufacturers with significant operations in China, including robotics companies, electric vehicle component suppliers, and industrial machinery producers, this is a material risk that has not yet been fully priced into the market. The calculation involved in operating inside China's rare earth supply chain has changed. Companies that have not begun accelerating their supply-chain migration are exposed not only to shortages but also to potential criminal liability for their employees.

That exposure also creates demand. Every company accelerating its departure from Chinese rare earth supply chains requires an alternative source of processed material. The sōgō shōsha, with their networks of offtake agreements, equity positions, financing relationships, and logistics infrastructure, are uniquely positioned to supply it.

The conventional rare earth investment narrative concentrates on junior miners, particularly small-cap exploration companies holding undeveloped deposits in Australia, Canada, or the United States. That narrative is not wrong, but it is incomplete. The value in the rare earth supply chain does not accrue primarily to those who hold the ore. It accrues to those who control the chokepoints in separation, refining, alloying, and magnet manufacturing.

Warren Buffett, famously reluctant to invest in speculative mining ventures, has placed US$23.5 billion in the five companies most structurally positioned to intermediate that value chain at scale. That positioning deserves analytical respect.

For investors following these events, the thesis is consistent. The transition to allied-controlled rare earth processing is a

multi-decade structural shift, not merely a moment in an escalating trade dispute. The sōgō shōsha are not a bet on the price of a commodity. They are a bet on the institutional capacity to rebuild a supply chain, supported by government financing, allied-country permitting, established commercial relationships, and the operating experience required to execute at scale. That is an entirely different risk proposition.