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Topics The Future of China's Rare Earth Export Controls

Following a meeting between U.S. and Chinese leaders at the end of October 2025, China postponed its imposition of restrictions on rare earth exports for one year. Will China continue to frequently impose rare earth export curbs as a means of exerting pressure on rival nations?

■ 70% of production and 90% of refining occur in China

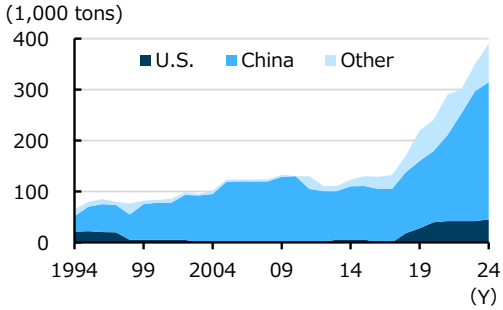
Rare earths feature distinctive electron orbitals that give them exceptional optical and magnetic properties, so their applications are wide-ranging. They are used in industries such as glass/ceramics, chemicals, steel, energy, machinery, electrical/electronic equipment, optical precision instruments, and medical devices, and are often described as the "vitamins" of high-tech sectors.

Until the mid-1980s, the U.S. was the world's largest producer of rare earths, but in the 1990s, China surpassed the U.S. to become the biggest producer on the planet. According to the U.S. Geological Survey (USGS), China's rare earth production surged from 2018 to reach 270,000 metric tons in 2024, accounting for 69.2% of the global total.

Rare earths go through four processes: 1) ore production through mining, 2) oxide manufacturing through extraction, separation, and refining (hereinafter collectively referred to as "refining"), 3) rare earth metal production through electrolysis and reduction, and 4) final product manufacturing through alloying. China's dominance is in refining rather than production.

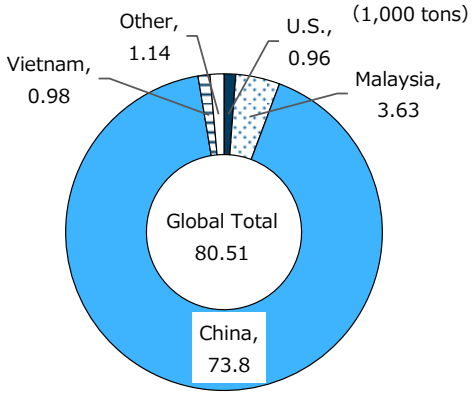
According to the International Energy Agency (IEA), China refined 73,800 metric tons of rare earths in 2024, which was 91.7% of the global total. China controls the world's supply of rare earths and is the only country that can exert pressure on rival nations by restricting rare earth exports.

<Rare Earth Production in The U.S., China, and Other Countries>



Source: Prepared by JRI based on data from USGS
Note: Quantities are expressed as oxide equivalent (rare earth oxides: REO), which indicates rare earth purity.

<Rare Earth Refining by Country (2024) >



Source: JRI based on IEA, Critical Minerals Data Explorer, May 21, 2025
Note: Weights are expressed as rare earth element content, not rare earth oxides (REO).

■ Negative impacts of export controls

The IEA projects that China's share of global rare earth production and refining will stand at 52.3% and 75.7% respectively in 2040. While China's dominance may weaken somewhat, it seems unlikely that worries about stable rare earth procurement among developed countries such as Japan will be quashed.

However, there are several reasons why the Chinese government will be unable to impose restrictions on rare earth exports frequently, and even when it does, the likelihood of such curbs remaining in place for long periods is probably low.

First, if rare earth prices are driven up as a result of export restrictions, this will spur the development of rare earths in countries other than China, as well as the development of resource-saving technologies and alternative materials. With the exception of certain periods, rare earth prices have remained stable over time. This has served to deter the development of rare earths outside China and the development of resource-saving technologies and alternative materials. To maintain the effectiveness of rare earth export restrictions in the future, China will need to continue supplying rare earths at low prices.

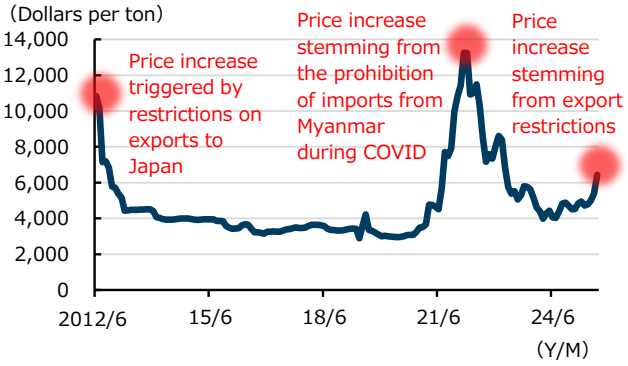
Second, any rise in rare earth prices would again exacerbate problems that have long plagued China's

rare earth industry: illegal mining and smuggling. After export restrictions were imposed in April 2025, domestic-international price gaps for rare earths widened rapidly. By September 2025, for example, international prices of dysprosium had reached $800–1,200 per kilogram, 4.7–7.1 times the domestic Chinese price ($169 per kilogram).

Third, China has become a rare earth importer, and its dominance in rare earths, which is based on its massive refining capacity, is considerably more fragile than before. China has been a net importer of rare earths since 2018, when imports began exceeding exports, and its position as the world's top refiner is contingent on stable imports. China's main source of rare earth imports is Myanmar, but relations between China and the Kachin Independence Army (KIA), an ethnic armed group that controls Myanmar's rare earth production areas, remain unstable.

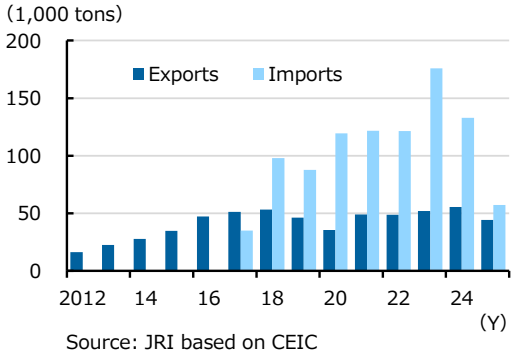
Fourth, if export restrictions on rare earths remain in place for an extended period, China's other exports are also likely to be impacted. The use of rare earths such as neodymium magnets underpins industries that support Chinese exports, including electronic devices like smartphones and PCs, as well as electric vehicles (EVs). If export curbs persist and production in countries other than China stalls, this will also adversely affect the operations of Chinese companies manufacturing and exporting components that do not contain rare earths.

<Rare Earth Prices>



Source: JRI based on IMF
Note: The IMF prepared the material based on UN trade statistics (Comtrade).

<China's Rare Earth Trade>



Source: JRI based on CEIC
Note: Figures for 2025 are for January-August.

■ Export controls are merely a bargaining chip

For the above reasons, the Chinese government will be unable to impose restrictions on rare earth exports frequently, and even when it does, the likelihood of such curbs remaining in place for long periods is expected to be low. For China, the most desirable outcome would be to create a situation where rival nations are made aware of the sourcing risks associated with rare earths but are nevertheless unable to reduce their dependence on China. It could do this by continuing to supply them with rare earths at low prices. In such a scenario, "export bans" would just be a final trump card, with the most sensible strategy for China being to employ reduced export volume via "prohibition with exceptions" or "licensing systems" as negotiation leverage whenever necessary. Moves among developed nations to secure alternative rare earth suppliers to China, such as Australia, are intensifying. However, considering China's likely stance and strategy as outlined above, importing countries may find that measures like increasing stockpiles prove surprisingly effective.

(Yuji Miura)

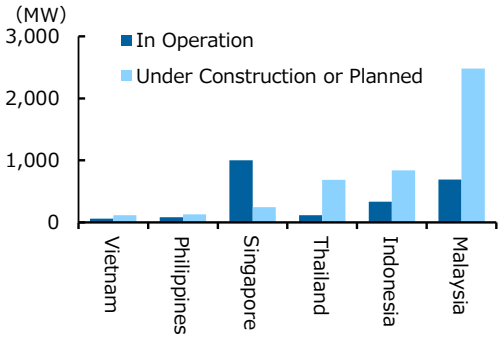
Topics Data Center Investment in Southeast Asia Gaining Momentum

Investment in data centers in Southeast Asian nations is surging amid the AI boom. While this will contribute to job creation and industrial development in these countries, it also exposes them to the risks of power and water shortages as well as being caught in the middle of the U.S.-China rivalry.

■ Data center investment surges in Southeast Asia

In Southeast Asia, investment from outside the region for data center construction is pouring in amid rising global AI demand. Malaysia, Indonesia, and Thailand in particular are attracting attention as investment destinations. Singapore, which has already established itself as a data center hub, has tightened screening for land acquisitions and investments, making new construction difficult. As a result, the preceding countries have been garnering interest as alternative locations. The investments are being led by global IT companies such as Google, Microsoft, and AWS from the U.S., and Alibaba Cloud and Beijing Haoyang Cloud Data Technology from China.

<Data Center Operational Capacity>



Source: JRI based on Cushman & Wakefield [2025]

■ Background to increased investment

Three factors underlie the expansion of data center investment in Southeast Asia.

The first is the region's geopolitical neutrality. Amid intensifying U.S.-China tensions, global companies are accelerating moves to relocate their data storage and processing operations to politically neutral Southeast Asia to ensure data privacy and security.

The second is growing local demand for digital services. In Southeast Asia, high internet penetration rates combined with large youthful populations have fueled a rapid expansion of digital services such as e-commerce and social media. This is increasing demand for computing power and data storage, which is expected to result in more data centers.

The third is proactive investment promotion measures by national governments. Malaysia, Indonesia, Thailand, and other countries have been introducing policies one after another to entice investment in data center-related infrastructure. The measures include tax incentives and deregulation aimed at attracting foreign capital.

<Measures to Attract Data Center Investment>

Country	Description
Thailand	・Exemption from value-added tax (VAT) ・Simplification of review and approval procedures ・Tax and regulatory incentives for projects that meet certain criteria
Indonesia	・Incentives for construction in the Nongsa Digital Park Special Economic Zone ・Plans to establish a dedicated regulatory authority for data centers
Malaysia	・Simplification of review and approval procedures ・Comprehensive policy support based on the "MyDigital" Malaysia Digital Economy Blueprint ・Incentives such as the "Penang Silicon Design (PSD) @5km+" initiative

Source: JRI based on various media reports

■ Economic benefits from promoting data center construction

Potential economic benefits are driving national governments to actively attract data center investment. These include 1) production and employment expansion, 2) human resource development and technology transfer, and 3) enhancing industrial value-added.

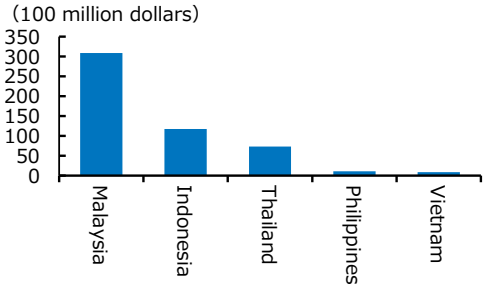
Regarding production and employment expansion, data center-related investments involve large sums of money per project and are thus expected to generate economic ripple effects not only for the construction sector but also for a wide range of related industries such as electric power, telecommunications, and manufacturing. If all the projects currently under construction or planned in Southeast Asian countries are completed, they are projected to generate production inducement effects that could amount to tens of

billions of dollars. They are also expected to positively impact local government finances through job creation and increased tax revenue resulting from the boom in construction. However, since data center operations and management are highly automated and require minimal personnel, job creation after they have gone into operation is likely to be limited.

As for human resource development and technology transfer, the cultivation of highly skilled IT professionals, as well as technology transfer to domestic companies through foreign direct investment (FDI), is anticipated.

Finally, on enhancing industrial value-added, undertaking high-value-added operations such as data processing and AI training domestically will catalyze a transformation of the industrial structure from labor-intensive to knowledge-intensive. This will lead to economy-wide productivity improvements. In Southeast Asian nations facing declining birthrates and aging populations, industrial advancement to enhance long-term potential growth is an urgent task.

<Production Inducement Effects of Data Center Construction>



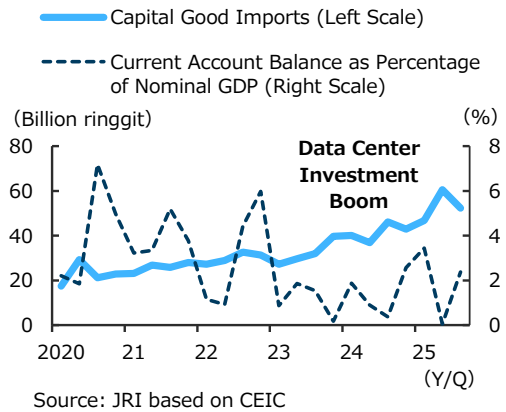
Sources: JRI based on ADB, UN, ILO, and Cushman & Wakefield [2025]
Note: Production inducement effects if all the projects currently under construction or planned are completed. Construction costs are estimates based on Cushman & Wakefield [2025].

■ Challenges and risks have also emerged

However, several challenges and risks have also become apparent with the surge in data center investment, and recipient countries will need to respond to them.

First, there are concerns about pressure on supplies of electric power and water resources. According to the International Energy Agency (IEA), electricity demand from data centers within the region is projected to double by 2030 compared to 2024. But in Southeast Asia, the introduction of renewable energy and the development of transmission/distribution infrastructure have not kept pace with growing demand, and there is a real risk of electricity shortages. In addition, given the region's hot and humid climate, large amounts of water will be required for cooling data centers. This could strain water supplies intended for other purposes. According to the Central Bank of Malaysia, a 50-MW data center is estimated to consume approximately 22,000 households' worth of electricity and about 2,200 households' worth of water every day.

<Malaysia's Capital Good Imports and Current Account Balance>



Source: JRI based on CEIC

Second, the investments will put downward pressure on these countries' current account balances in the short term. Taking Malaysia as an example, the recent expansion of data center investments has necessitated large-scale procurement of capital goods such as servers and cooling equipment from abroad during the construction phase. This has led to a narrowing of the country's trade surplus and pushed the current account balance as a percentage of nominal GDP down to around 1%. Malaysia's current account remains in surplus, suggesting that there is no need for excessive concern there, but Indonesia and the Philippines are both running current account deficits, so they will need to be more cautious.

Third, there are geopolitical risks. Chinese companies are increasingly utilizing the data centers being built in Southeast Asian countries to perform advanced computational tasks such as training AI models. This behavior is partly a consequence of U.S. restrictions on exports of high-performance semiconductors to China, which have made such tasks difficult to perform using data centers inside China. Going forward, the U.S. may view such moves by Chinese firms as problematic and impose sanctions on Southeast Asian nations. But if Southeast Asian countries restrict data center use by Chinese companies out of consideration for the U.S., they risk worsening their relations with China and suffering disadvantages in trade and investment as a result. As these scenarios illustrate, Southeast Asian nations may find themselves forced to navigate difficult trade-offs amid the U.S.-China rivalry.

(Wu Zijing)