Malaysia and Indonesia: Test Cases for China's Global Rare Earth Control

written by Jack Lifton | July 18, 2026

"China's objective is no longer merely to dominate rare earth production at home. It is to control the global industry by deciding which countries receive the technology, technicians and market access required to compete. Malaysia and Indonesia are the test cases." — Jack Lifton, Co-Chair, Critical Minerals Institute (CMI)

China's activity in Malaysia appears both real and strategically important. In August 2025, Beijing indicated that it was prepared to provide Malaysia with rare earth processing technology and technical assistance, but reportedly insisted that cooperation be conducted through state-linked enterprises. Later reporting identified preliminary discussions involving Malaysia's sovereign wealth fund, Khazanah Nasional, and a Chinese state-owned company concerning a Malaysian rare earth refinery.

That condition—state-linked participants only—is revealing. China is not proposing an ordinary commercial sale of technology. It is proposing a **government-supervised industrial relationship** in which Beijing can control:

- the technology transferred;
- the Chinese personnel assigned;
- the equipment supplied;
- the products manufactured;
- the customers ultimately served;

- and, most importantly, whether the Malaysian operation ever becomes genuinely independent.

Malaysia is unusually attractive because it already has Lynas Rare Earths Limited's (ASX: LYC) large separation operation at Kuantan and is developing additional mining, separation and magnet-manufacturing capacity. **Malaysia has prohibited exports of unprocessed rare earth material, thereby requiring domestic value addition, while inviting both Chinese and non-Chinese investment.**

Since then, Malaysia's non-Chinese industrial base has become more formidable. Carester and Malaco have announced plans for a Malaysian rare earth separation operation, while Lynas and South Korea's JS Link are proceeding with a 3,000-tonne-per-year sintered NdFeB magnet facility near the Lynas plant.

My Interpretation.

China does not want Malaysia simply to become a Western or Japanese-sponsored competitor. It wants Malaysia to become a **multi-aligned processing center in which China remains an indispensable participant**.

In other words, Beijing recognizes that it may no longer be able to prevent every rare earth industry from being built outside China. Its second-best strategy is therefore to insert Chinese technology, state-owned companies, technicians, and commercial relationships into those industries.

Malaysia offers China several benefits.

First, it gives Chinese companies access to additional feedstocks without increasing mining pressure inside China. Second, Malaysia can serve markets that increasingly require

nominally non-Chinese production. Material produced in Malaysia may be more politically acceptable to Southeast Asian, Middle Eastern or some European buyers—even where Chinese technology or capital remains embedded in the plant. Third, Chinese participation could prevent Malaysia from becoming an exclusively American-aligned rare earth platform. The Malaysian government has been explicit that it does not intend merely to replace a Chinese supply chain with a Western one; it wants participation from both sides. Fourth, the proposed structure gives Beijing intelligence about feedstocks, process performance, production costs, customers, and downstream demand.

I therefore regard China's Malaysian policy as a form of strategic co-option. China is saying, in effect, if a rare earth industry is going to develop in Malaysia, China intends to be inside it rather than standing outside and watching it become a competitor.

There is, however, a serious complication. China's suspension of the October 2025 technology export controls expires on November 10, 2026. Unless Beijing extends, replaces or modifies that suspension, the controls would return. Any new Malaysian venture using Chinese separation technology, equipment or personnel could then require ongoing Chinese approval. The Chinese government could grant a specific license to a state-controlled Malaysian joint venture while refusing comparable technology to a Western-owned project. **That would make Malaysia a demonstration of how China intends to apply the rules selectively—not to stop all foreign rare earth development, but to decide which foreign development it will permit and influence**.

Indonesia: Considerable Potential, but much less evidence of an established Chinese Rare Earth Program

Indonesia is different. I find substantial evidence that Jakarta wants to develop rare earth resources, but much less public evidence that China has yet to establish a major, dedicated rare earth separation or magnet project there.

Indonesia announced in February 2026 that it had identified eight prospective blocks containing rare earths and other strategic minerals. It assigned a new state-owned organization, Perminas, to oversee development and announced parallel research into processing technology. The locations reportedly include Kalimantan, Sulawesi, and Bangka Belitung. However, the government did not publish detailed reserve estimates or demonstrate that these resources had yet been converted into economically defined deposits.

Indonesian officials have openly stated that the country needs to master rare earth processing and have identified China, Japan and South Korea as countries from which it can learn. President Prabowo’s government has also repeatedly invited foreign investment in rare earth exploration and processing.

That establishes Indonesian interest. It does not yet establish a Chinese-controlled rare earth industry.

What China is Probably Doing…

China already occupies an extraordinarily strong industrial position in Indonesia through nickel, stainless steel,

batteries, smelting, industrial parks, and supporting infrastructure. Rare earths could ultimately be attached to that existing Chinese-Indonesian industrial structure, even without a highly visible stand-alone announcement today.

China’s probable strategy is therefore more cautious than in Malaysia.

It will first determine what Indonesia actually possesses:

- monazite and xenotime associated with tin mining;
- rare earth-bearing mineral sands;
- material associated with bauxite or lateritic deposits;
- uranium- or thorium-bearing byproducts;
- and possible rare earths in coal or metallurgical residues.

Indonesia has long recognized that rare earth minerals occur as byproducts of its tin industry, particularly in the Bangka-Belitung system. But identifying mineral occurrence is not the same as establishing a commercially viable flow sheet, reserves, recovery rates, or a legal framework for radioactive residues.

China does not need to rush. It can allow Indonesian state companies to conduct exploration and preliminary research while Chinese companies observe which materials prove commercially useful.

Once a viable resource is identified, China can offer:

- low-cost processing equipment;
- engineering and construction;
- reagent supply;
- metallurgical expertise;
- financing;

- and guaranteed concentrate purchasing.

This is essentially the model China used in other Indonesian mineral industries: control is established not necessarily through ownership of the mine, but through control of the capital, processing plant, technical workforce, and market outlet.

Why China May be more Cautious in Indonesia

Indonesia has a strong policy of downstreaming. Jakarta does not merely want to export raw mineral concentrates; it wants investment in processing and manufacturing within Indonesia. That principle remains central to Indonesia's negotiations over access to critical minerals.

This creates both an opportunity and a risk for China. The opportunity is that Chinese companies have proven willing to build processing capacity in Indonesia, whereas Western companies were unwilling or unable to do so.

The risk is that a genuine rare earth separation industry inside Indonesia could eventually become a competitor, particularly if Indonesia brings in Japanese, Korean, Indian, European, or American technology alongside Chinese investment.

China is therefore likely to offer enough assistance to secure influence but not enough to create an independent Indonesian technical capability. It may provide complete plants operated by Chinese personnel rather than disclose process design, operating parameters, reagent systems or separation know-how to Indonesian partners.

That distinction is essential. A country does not possess rare

earth technology merely because a plant physically exists within its borders. It possesses the technology only when its own engineers can operate, modify, repair, and reproduce the system without relying on the foreign supplier.

Malaysia and Indonesia Serve Different Chinese Purposes

Malaysia is already becoming a genuine non-Chinese rare earth center. China’s immediate objective is therefore to **penetrate, influence and constrain** that emerging industry.

Indonesia is still defining its resources and institutions. China’s objective there is more likely to be securing an early position, evaluating the deposits, and waiting **until commercially attractive feedstocks emerge**.

Malaysia is primarily a contest over processing technology and downstream market access.

Indonesia is presently more of a contest over future resource control and the architecture of industrial development.

My Conclusion

China is not simply trying to prevent rare earth production outside its borders. It is adapting to the fact that some foreign production is now inevitable.

Its emerging strategy appears to be:

1. Deny advanced technology to openly strategic competitors;
2. Provide selective technology to governments and state-linked ventures that accept Chinese supervision;
3. Acquire or control additional foreign feedstocks;

4. Locate some Chinese-influenced production outside China that provides political or commercial advantages;
5. And prevent host countries from acquiring enough independent expertise to become true competitors.

Malaysia is the clearest test of this strategy. China may be prepared to make Malaysia one of the few countries permitted to receive controlled Chinese rare earth technology—but only within a structure Beijing can monitor and influence.

Indonesia remains less developed but potentially much more significant industrially. Should commercially attractive rare earth byproducts emerge from Indonesia's tin, nickel, bauxite, or mineral sands sectors, I would expect Chinese companies to move quickly. They already possess the industrial infrastructure, government relationships, and operating presence needed to do so.

The important question is not whether the plant is located in China, Malaysia, or Indonesia. It is: **Who controls the process knowledge, who supplies the technicians and reagents, and who decides where the product may be sold?**

On those tests, many nominally foreign projects could remain functionally part of China's rare earth supply chain.