

### RESTORING CHINA-MYANMAR RARE EARTH PARTNERSHIP: POST THE COUP

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When the coronavirus outbreak impacted the global rare earth production capacity, China raised its output quota by 10 per cent to protect its domestic interests in 2021.<sup>1</sup> It is no surprise that China monopolises the market trends for rare earths and other critical elements, determining their prices and purchase values in accordance with its national interest. Thus, it is worth noting that despite being a dominant power, China's rare earth share has been continuously declining in terms of both reserves and production, from 70 per cent in the 2000s to 38 per cent in 2020.<sup>2</sup> Resource and mineral security have been driving factors for China's geo-economic investment and engagement in resource-rich countries, with poor economic growth and socio-political unrest, for instance in the African region.

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#### **China's REE Dependence on Myanmar**

Myanmar, with the third largest-rare earth reserve (31,000 tonnes) after the US (39,000 tonnes) and China (140,000 tonnes), has been increasing its production capacity continuously. In 2020, it mined more than 30,000 tonnes of rare earth oxides,

equivalent to 12.5 per cent of global production.<sup>3</sup> The most known and investigated rare earth mineral deposits in Myanmar are Xenotime (in Southern Myanmar), Monazite (in mountain ranges extending from Myanmar through western Thailand), and Columbite and Tantalite (in the Dawei and Myeik areas of Southern Myanmar). Moreover, it is claimed that the mines located in Kachin state have close ties to the Tatmadaw, the armed forces government of Myanmar, and have developed more than 100 rare earth mines in the region.<sup>4</sup>

This geological jurisdiction of Myanmar has remained unacknowledged and poorly examined for a long time. However, since the growth of China's presence, it is increasingly attracting the attention of the international mineral investment community. In fact, despite being the largest REE producer, China itself has become heavily dependent on Myanmar for raw materials.<sup>5</sup> China is continuously operating illegally in the Kachin mines, exporting the raw elements through the highly porous Kachin-China border.<sup>6</sup> In addition, the recent political turmoil in Myanmar and the pandemic caused a crisis and increased the presence of Chinese miners and their illegal exports, instead of restricting them.<sup>7</sup>

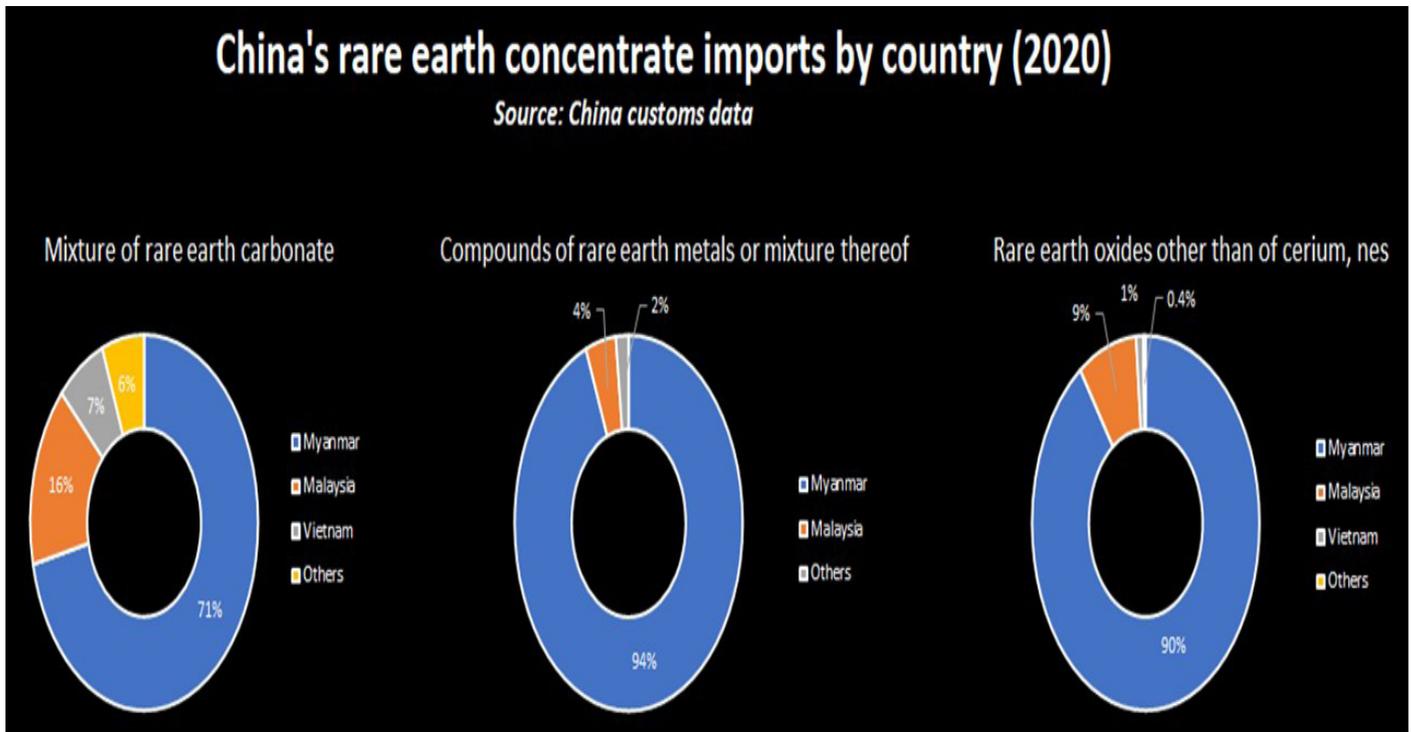
Most of the rare earth mining in the Kachin state has been established illegally and is a major export source for China. This fact was confirmed through an official Chinese statement which stated that more than 140,000 tonnes of rare earth minerals were imported into China from Myanmar during the period of 2017-2021. In 2021, the Chinese state-run Global Times reported a 23 per cent increase in rare earth imports and the opening of more than 10 rare earth mines on the China-Myanmar border (Figure 1). However, the growing involvement of armed groups has created major hurdles in the regulation and operation of Kachin rare earth mines.<sup>8</sup>

With Tatmadaw wresting power from the democratically elected regime, the rare earth export to China was forced to shut down. It led to a 25 per cent reduction in the supply capacity of rare-earth companies in Ganzhou, East China.<sup>9</sup> The coup d'état in Myanmar not only suspended exports to China but also paused China's shipment of auxiliary materials for exploiting unexposed rare-earth minerals in Myanmar, which further exacerbated the situation on both sides.<sup>10</sup> As per the customs data, China's imports from Myanmar fell by two per cent to 34,669 tonnes in 2021, with average import prices more than doubling to US\$21,954/tonne.<sup>11</sup>

To eliminate Chinese miners' unregulated or illegal presence and the resulting environmental crisis, the Myanmar government banned rare earth exports to China in 2018. Despite this restriction, Chinese Customs data (2020) claims that China's rare earth imports from Myanmar increased by 23 per cent, amounting to around 35,000 tonnes. It is noteworthy that the rare-earth sites of Myanmar have generated environmental concerns due to the increased presence of major powers like China, the USA, and

Australia. The environmental concerns have been causing public objection to rare earth mining in Myanmar, considering its impact on their health and lifestyle, thus affecting China-Myanmar's trading equation.

**Figure 1- Sources of China's Metal and Rare Earth Imports**



Source: "Possible impact of Myanmar coup on China's metal and rare earth supply" *Reuters*, February 10 2021, <https://www.reuters.com/article/us-myanmar-politics-china-metals-explain-idUSKBN2AA12U>. Accessed on 29 August 2022.

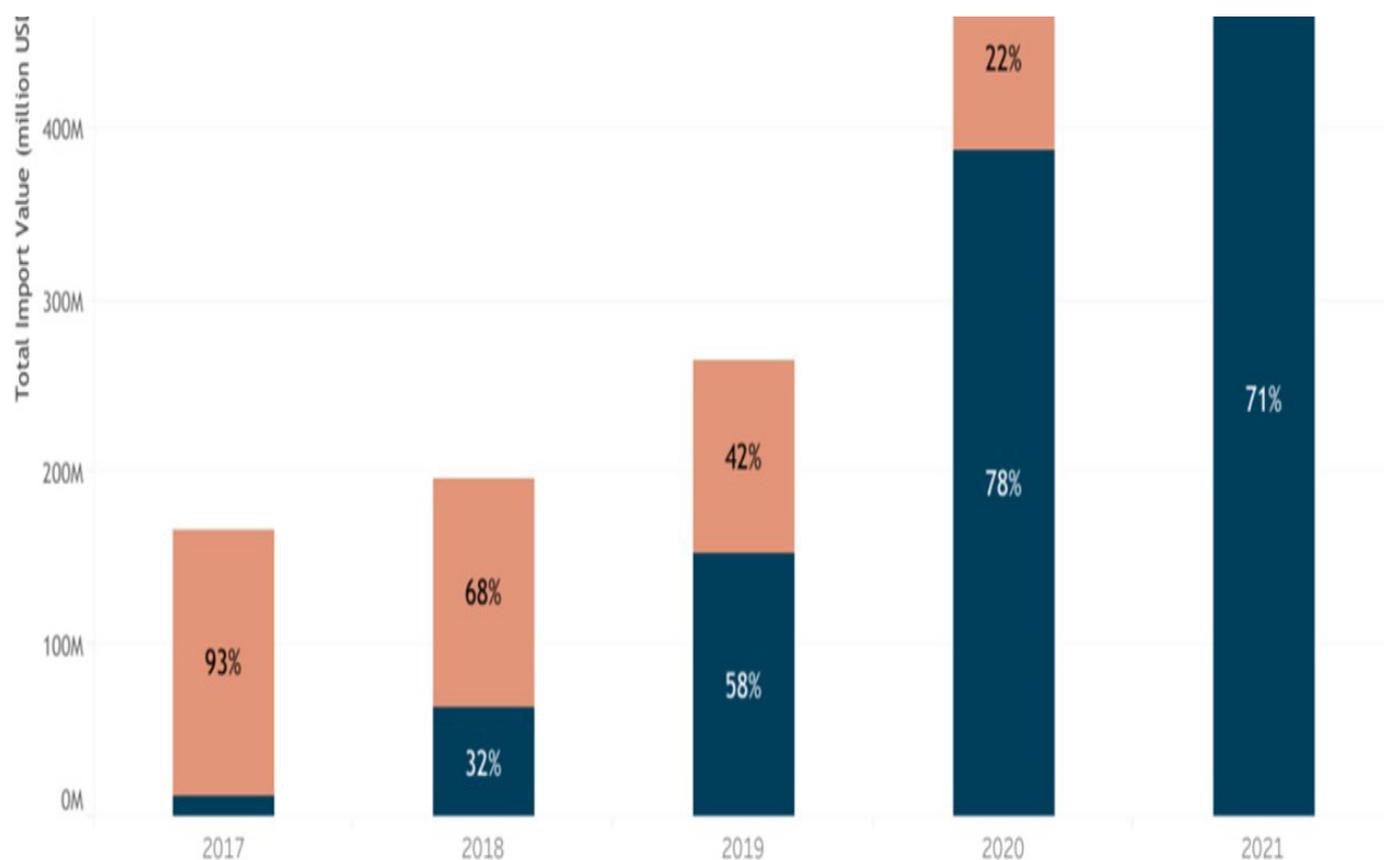
### Restoring Post-Coup Partnerships

From 2011-2020, Myanmar earned about US\$623 million in total from exporting rare earth elements to China. The annual export value increased from US\$88,500 to US\$388 million in the same period, and the production hiked up from 38 tonnes to 35,500 tonnes, a more than 93,000 per cent increase (Figure 2). The coup although closed the border and impacted the trade share, Myanmar REE exports to China resumed with the reopening of two border gates, Kyin San Kyawt and Chinshwehaw in November 2021, thus several thousand tonnes of rare earth minerals to China were shipped. However, the border closed, and the rare earth shipments were suspended again at the beginning of 2022.<sup>12</sup>

It is worth observing that China-Myanmar rare earth trade ties were never totally closed, thanks to the

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continuous opening and closing of borders. Chinese geo-economic strength lies in its nesting infrastructure investment arrangements that minimise the potential economic risks, which has been its strategic basis for continued engagement in the Myanmar mining sector. Despite the changes in the equation and the ban on illegal mining by Chinese companies, Myanmar needs a geo-economic partnership with China to convert its growing resource curse into a resource boom. China has the capacity to not only invest and give technical support to Myanmar mines but also the strategic need to secure its own rare earth monopoly.



Source: Land Portal, “Myanmar’s environment hit by rare earth mining boom”, <https://landportal.org/node/102464>. Accessed on September 4, 2022.

## Implications for India

China has always been a strategic factor impacting the dynamics between India and Myanmar, most particularly their trade relations. Although India-Myanmar bilateral trade relations go back to their Treaty of Friendship (1951) and Trade Agreement (1994), China managed to have a more effective engagement with Myanmar than India. Myanmar is also a crucial part of India’s Act East Policy to develop engagement with the Southeast Asian region. In addition, Myanmar has a geopolitical and geostrategic significance for India, being a bridge between South Asia and Southeast Asia and a fellow member of geopolitical groupings like ASEAN, BIMSTEC, and GMS.

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India already has multiple connectivity projects running in Myanmar, out of which the India-Myanmar-Thailand Trilateral Highway and the Kaladan Multimodal Project are the most important.<sup>13</sup> Besides these factors of bilateral diplomacy, Myanmar is also an important source of critical minerals for India to achieve its clean energy transition goals.

The military coup and domestic objection against China's mining activities brought China-Myanmar trade to a hold, thus opening opportunities for India and other countries with growing demand for REE. Although no progress was reported in this regard, India's reformed mineral policies emphasising ease of doing business carry the potential to expand its mining partnerships, of which Myanmar could be the prospective option. However, the changing political landscape of Myanmar will present opportunities or challenges for both China and India.

## Notes:

<sup>1</sup> Sophia Kalantzakos, "The Race for Critical Minerals in an era of geopolitical realignments", *Italian Journal of International Affairs*, July 2022, <https://www.tandfonline.com/doi/full/10.1080/03932729.2020.1786926>. Accessed on July 18, 2022.

<sup>2</sup> Neha Mishra, "China needs Madagascar, Afghanistan to save its rare earth empire. Its monopoly is in danger", *The Print*, July 12, 2022, <https://theprint.in/opinion/china-needs-madagascar-afghanistan-to-save-its-rare-earth-empire-its-monopoly-is-in-danger/1035079/>. Accessed on September 13, 2022.

<sup>3</sup> "USGS Mineral Commodities Summary 2022", <https://pubs.usgs.gov/periodicals/mcs2022/mcs2022-rare-earths.pdf>. Accessed on August 25, 2022.

<sup>4</sup> U Kyaw Thein, "Rare Earth Minerals in the Union of Myanmar," *Materials Science Forum*, Vol. 70-71, 1991, p. 149-150: 149-150. Accessed on August 27, 2022.

<sup>5</sup> Ibid.

<sup>6</sup> Jauman Naw, Emily Fishbein and Ronja Pilgaard, "'Weapons, power and money': How rare-earth mining in Kachin enriches a Tatmadaw ally," *The Frontier*, August 3, 2021, <https://www.frontiermyanmar.net/en/weapons-power-and-money-how-rare-earth-mining-in-kachin-enriches-a-tatmadaw-ally/>. Accessed on August 28, 2022.

<sup>7</sup> Sribala Subramanian, "Rare Earths in Myanmar: Unobtainium?," *The Diplomat*, June 14, 2021, <https://thediplomat.com/2021/06/rare-earths-in-myanmar-unobtainium/>. Accessed on August 27, 2022.

<sup>8</sup> Dipanjan Roy Chaudhary, "Myanmar emerges as key source of rare earth minerals for China", *Economic Times*, July 17, 2022, [https://economictimes.indiatimes.com/news/international/world-news/myanmar-emerges-as-key-source-of-rare-earth-minerals-for-china/articleshow/92925855.cms?utm\\_source=contentofinterest&utm\\_medium=text&utm\\_campaign=cppst](https://economictimes.indiatimes.com/news/international/world-news/myanmar-emerges-as-key-source-of-rare-earth-minerals-for-china/articleshow/92925855.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst). Accessed on August 26, 2022.

<sup>9</sup> Li Xuanmin, "Chinese rare-earth firms' capacity cut by at least 25% as border closure with Myanmar weighs on mineral shipments", *Global Times*, March 25, 2022, <https://www.globaltimes.cn/page/202203/1256791.shtml>.

Accessed on August 24, 2022.

<sup>10</sup> Ibid.

<sup>11</sup> “China’s heavy rare earth market to resume upward track”, *Argus Media*, February 25 2022, <https://www.argusmedia.com/en/news/2305714-chinas-heavy-rare-earth-market-to-resume-upward-track>. Accessed on August 24, 2022.

<sup>12</sup> Subramanian, n. 7.

<sup>13</sup> Pratinashree Basu, “Employing Proximity: Boosting Bilateral Ties Between India and Myanmar”, in Pahi Saikia and Anasua Basu Ray Chaudhury (ed.), *India and Myanmar Borderlands: Ethnicity, Security and Connectivity*, (New York: Routledge Publishers, 2020) p. 129-140.



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