



***CENTRALIZING INDONESIA'S NICKEL
INDUSTRY: THE TRUE COSTS OF
CHINESE INVESTMENTS***

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During the 43rd ASEAN Summit in Jakarta on Sept. 5-7, 2023, Indonesian President Joko Widodo and Vice President Kamala Harris discussed the potential for a US-Indonesia Critical Minerals Specific [Free Trade Agreement](#) (CMS-FTA). This FTA would allow the US to receive more Indonesian nickel for EV batteries, enabling Indonesia to benefit from the tax incentives for EV purchases based on the Inflation Reduction Act, which US Congress passed in 2022. Achieving this CMS-FTA is a goal for US-Indonesia relations under the [Comprehensive Strategic Partnership](#) established in November 2023.

However, on Oct. 24 nine US senators sent out a [bipartisan letter](#) addressed to the US trade representative, treasury secretary, energy secretary, and commerce secretary expressing concerns regarding the CMS-FTA. These include weak labor protections in Indonesia, Chinese dominance of its mining industry, environmental implications, and lack of community engagement among Chinese and Indonesian workers. Indonesian policymakers should take this as a wakeup call to acknowledge and address the absence of beneficial environmental,

social, and governance practices in its nickel industry, including accounting for the role of Chinese investments.

Unpacking Indonesia's nickel

Indonesia, an emerging middle power in the Indo-Pacific, is a global hub for critical minerals reserves and production, with diverse resources including copper, gold, tin, silver, bauxite, iron, and nickel. One key to Indonesia's mining industry is nickel, with extensive reserves in the Kalimantan, Sulawesi, and Maluku islands, soaring production rates and exports of multiple forms of nickel. Nickel mined in Indonesia is suitable for producing stainless steel and electric vehicle batteries. From 2020 to 2022, Indonesia ranked first among global nickel producers, accounting for 20.6% of global total. Indonesia was [expected to produce](#) almost 2 million tons annually in 2023 and 2024.

Prompted by the COVID-19 recession of 2020, Indonesian policymakers have shifted policies on exporting raw mineral ore and followed “resource nationalism.” The Regulation of the Minister of Trade of the Republic of Indonesia [Number 96/2019](#) on Export Provisions for Processed and Purified Mining Products aimed to ensure economic resilience and capacity by strengthening domestic processing and bringing back added value to the nickel supply chain. The Indonesian government has acknowledged that directly exporting raw nickel ore limits its full economic potential. Consequently, the regulation bans exports of raw mineral ore not first processed domestically.

Prior to 2019, when Indonesia's government proposed a full export ban of raw nickel ore—finalized the following year, during the pandemic—raw nickel ore extracted in Indonesia was directly exported to foreign countries, with 90% going to China, whose robust supply chain could power their economy through manufacturing innovative technology and industrial construction. However, even the export ban did not stop China from getting direct access to Indonesian nickel.

China's direct access

Following the 2019 export ban, President Joko Widodo pushed for foreign direct investment in developing Indonesian smelters and processing facilities. In dire need of direct access to cheap Indonesian nickel, Chinese firms quickly—and vastly—invested in nickel and critical minerals-processing facilities, equal to \$30 billion in Chinese investments and commitments in downstream Indonesian nickel. As of July 2023, under China's Belt and Road Initiative, there are [43 nickel smelters](#) operating, including Asia's largest nickel processing park: Indonesia Morowali Industrial Park (IMIP). Due to a restrictive export ban and, consequently, substantial Chinese investments, Indonesia's [annual global total share](#) in nickel production has skyrocketed from 16% (2019) to 42.9% (2024).

According to the government in Jakarta, Indonesia has successfully used Chinese capital and technology in becoming the dominant force in the global nickel industry while adding value to domestic processing capabilities—but to what extent is this true? What are the true costs of China's investments in Indonesia's nickel industry?

Indonesia has ambitious goals to become a sustainable, developed nation by 2045, with a focus on transitioning to renewable energy. Success in this area depends on Indonesia becoming the global nexus for EV production. Unfortunately, the rapid shift toward renewable energy brings negative impacts as well. Indonesia faces a paradox: it has the potential to succeed in the global EV market, but this success may amplify domestic inequalities. Also, Chinese-invested nickel smelters have dominated Indonesia's nickel industry, leading to significant pushback from local communities and major environmental complications.

IMIP, located in Central Sulawesi, perfectly exemplifies this paradox. IMIP is highly efficient in processing nickel due to its large site and number of workers—IMIP has [approximately 120,000 workers](#), 90% Indonesian and 10% Chinese—but this has led to cultural friction between Indonesian and Chinese workers. Most Chinese workers occupy managerial

and technical positions, while Indonesians make up the main workforce. Indonesian workers report instances of exclusive and [preferential treatment](#) for Chinese employees, reflected in living conditions and salary scales, with Chinese managerial treatment further highlighting these inequalities. Furthermore, working conditions at IMIP are unsafe, with numerous workplace fatalities and a lack of accountability. [In 2023 alone](#), 34 workers died due to fires and explosions, with 39 others severely burned, resulting in disabilities.

Ironically, though intended to reduce the country's overall carbon emissions, IMIP has a [significant ecological footprint](#) due to submarine waste disposal and air pollution from coal-generated power. Pollution and wastewater runoff compromise local water quality, leading to a decline in fish and marine life populations. This has severely impacted fishers, causing them to lose their livelihoods. Additionally, emissions from power plants result in toxic respiratory diseases and illnesses within the local community.

A game of monopoly

It is no surprise that these nickel processing facilities failed to uphold safety standards—let alone mitigating environmental impacts. But the companies and Indonesian government have seemingly taken no actions to address these issues.

[Tsingshan Group](#), due to assorted joint ventures with Chinese and Indonesian subsidiary companies, essentially owns 66.25% of IMIP and *Bintang Delapan* Investment (a domestic Indonesian firm) holds 33.75% of shares.

Since Indonesia's 2019 export ban on raw mineral ore and the massive influx of Chinese-invested industrial parks that have dominated Indonesia's processed nickel markets, smaller local Indonesian mining companies can no longer sell nickel to other overseas buyers. These massive industrial parks, alongside the export ban, have resulted in a [“oligopsony” market](#)—where Chinese-concentrated buyers disproportionately influence a great extent of Indonesia's nickel market, which is really only

catered and sold to China. This allows Chinese companies to monopolize the demand for Indonesian nickel, pressuring Indonesian domestic miners to sell nickel for below-market price. This leads to a stark decrease in profit loss for Indonesian companies, forcing them to cut costs towards environmental and safety practices.

The unequal distribution of shareholder stakes and monopolization of Indonesian markets highlights the extent and nature of the Chinese-controlled "Indonesian" nickel industry. IMIP is just one of many nickel processing sites facing similar issues. The BRI is profoundly entangled with positive connotations that boost Indonesia's economy and create jobs; however, in reality these smelters and processing facilities have induced more domestic issues. Smelters primarily benefit a small group of individuals, largely centered within the government and conglomerates based in Indonesia's capital city, Jakarta. Meanwhile, workers on the ground struggle to make ends meet.

Indonesian policymakers should demand greater accountability from Chinese companies for accidents and environmental damage. Domestic stakeholders could implement strict policies requiring these companies to take full responsibility for any harm caused and to actively participate in remediation efforts. If Chinese companies resist these demands, Indonesia could leverage this as an opportunity to seek investment and/or accelerate on-going investments from countries with higher labor and environmental standards, such as Japan, South Korea, and the US. Diversifying investments would help Indonesia reduce the monopolistic influence of Chinese firms and create a more competitive and fair market environment, fostering better labor and environmental practices.

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