



Linking economic nationalism with global value chain

Indonesia's nickel sector industrial policies

① Background

- Jokowi's economic policy stance
- History
- Economy
- Politics & society
- Logic

② Policies

- Market condition
- Export ban
- Share divestment requirement
- State holding company
- Electric vehicle industry promotion

③ Effects

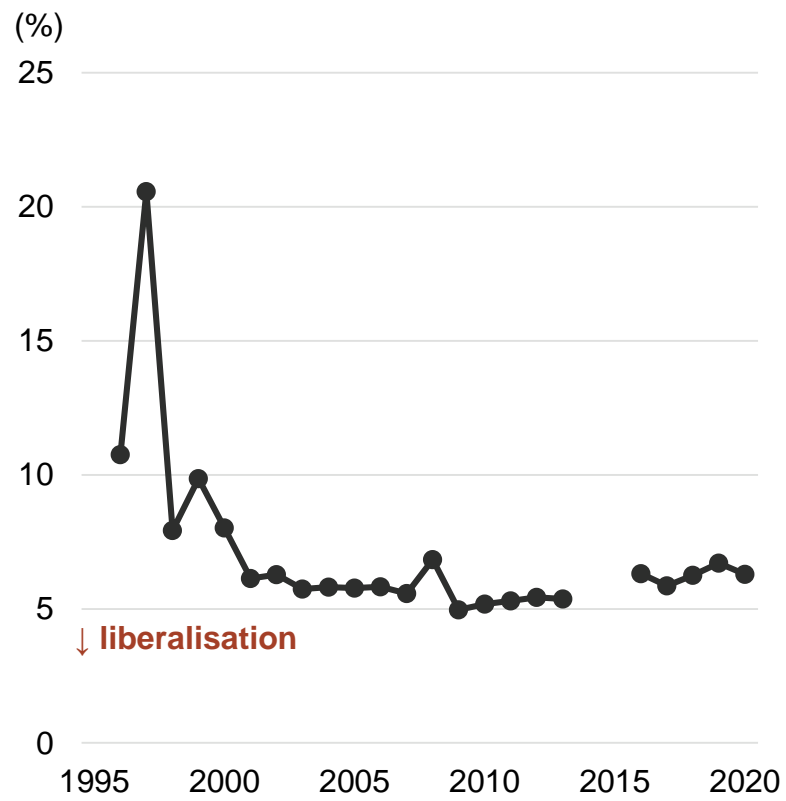
- Production & exports
- Metal sector investment
- Electric vehicle value chain investment
- Boosting resource protectionism

④ Implications

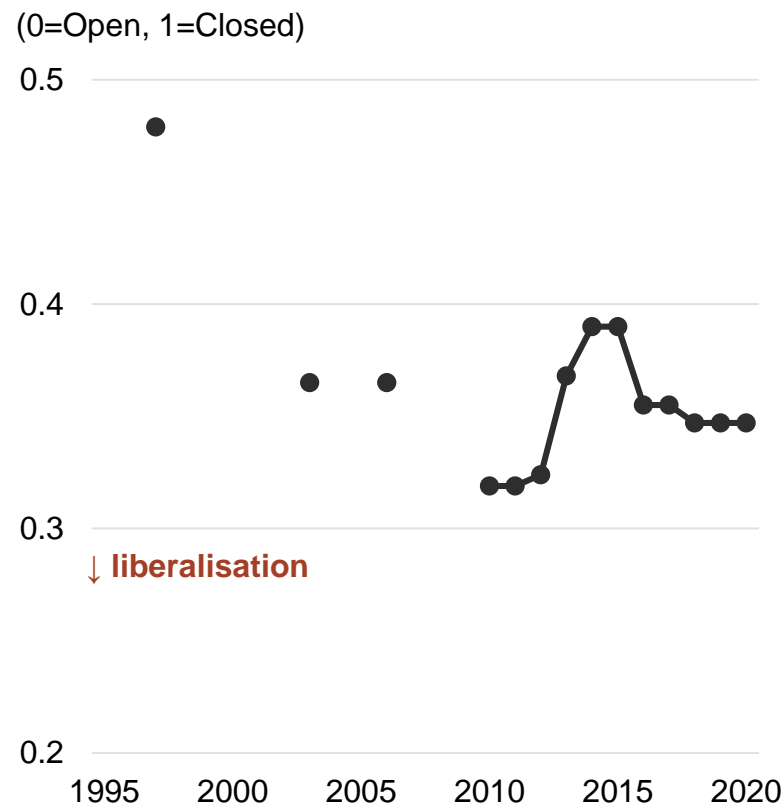
- World Trade Organization
- United States' Inflation Reduction Act
- Geostrategic conflict
- Industrial policies in other mineral segments

Jokowi's economic policy stance (1/2)

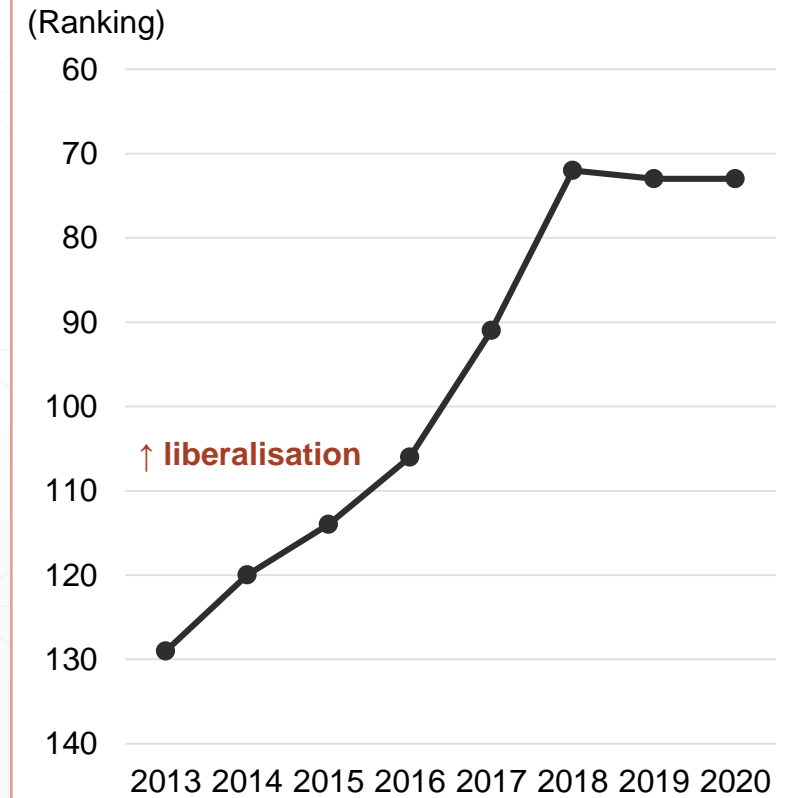
Simple mean tariff rate



FDI regulatory restrictiveness index

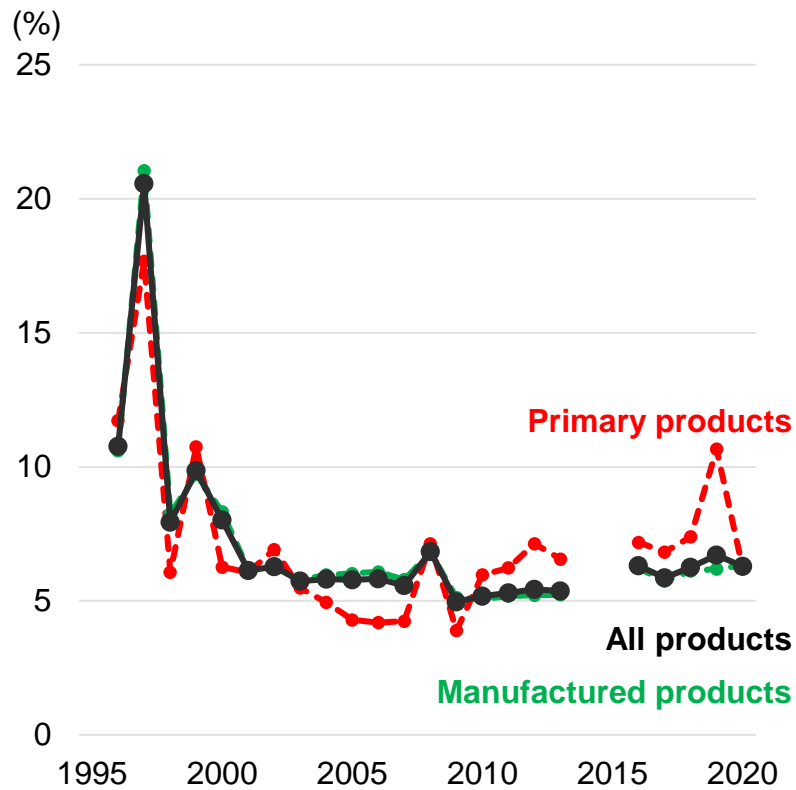


Ease of doing business index

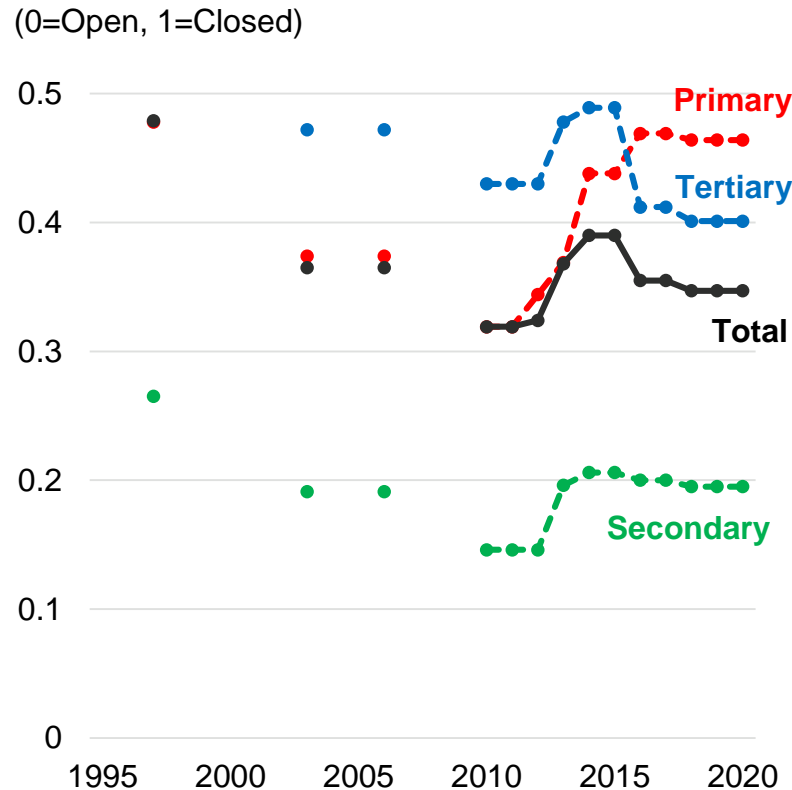


Jokowi's economic policy stance (2/2)

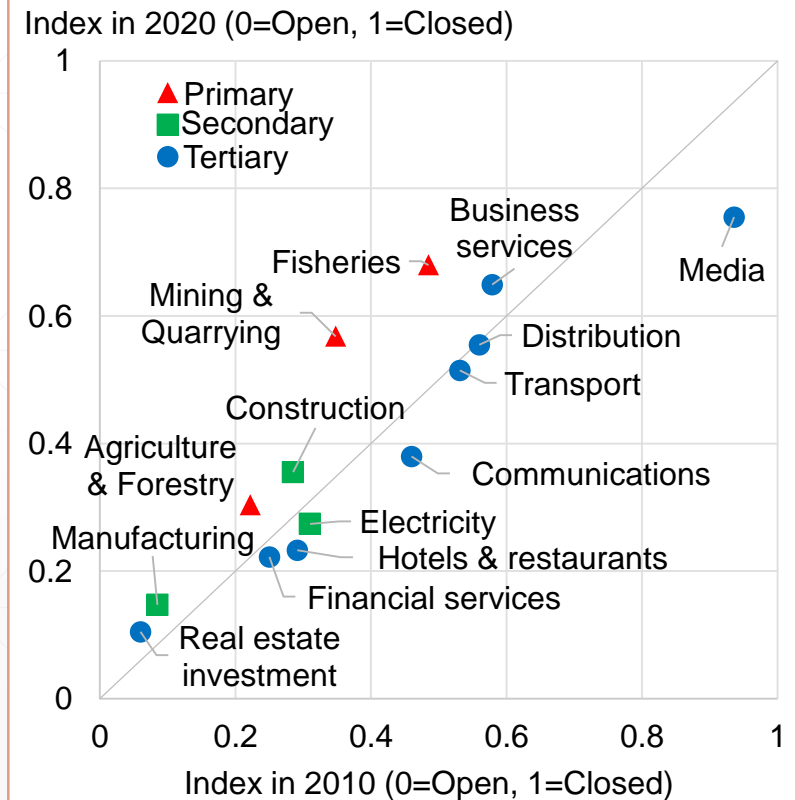
Simple mean tariff rate



FDI regulatory restrictiveness index

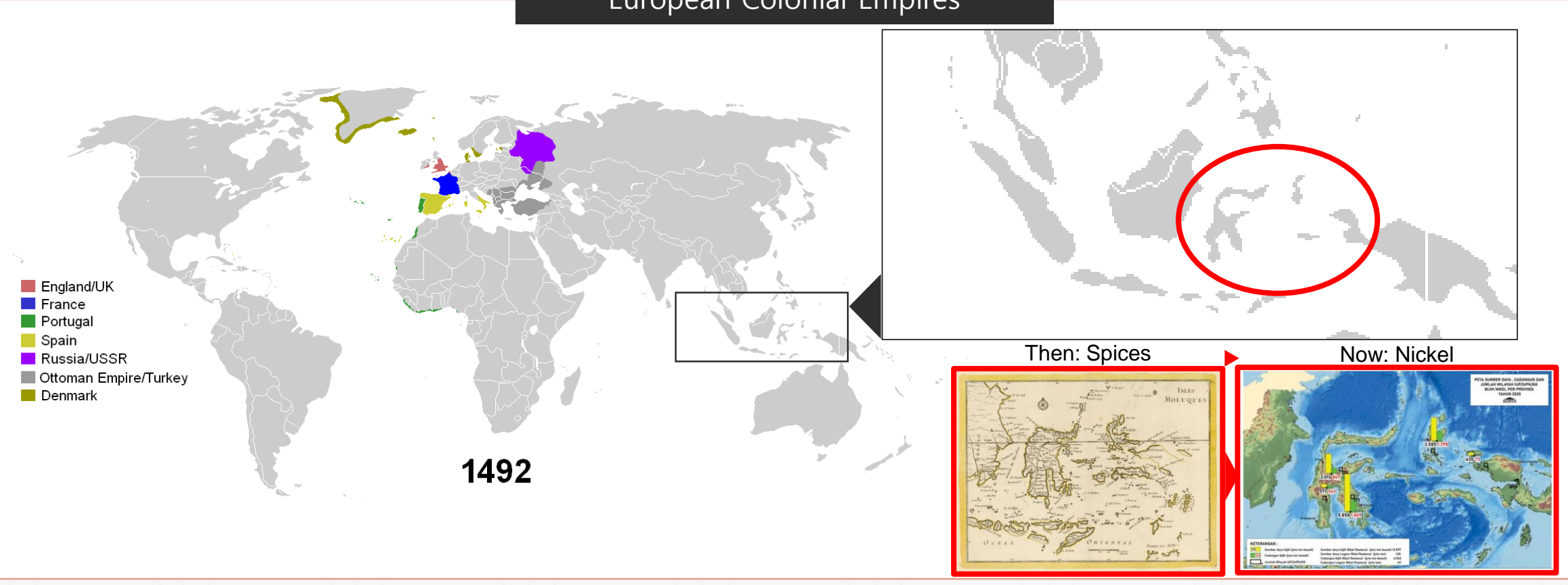


FDI regulatory restrictiveness index



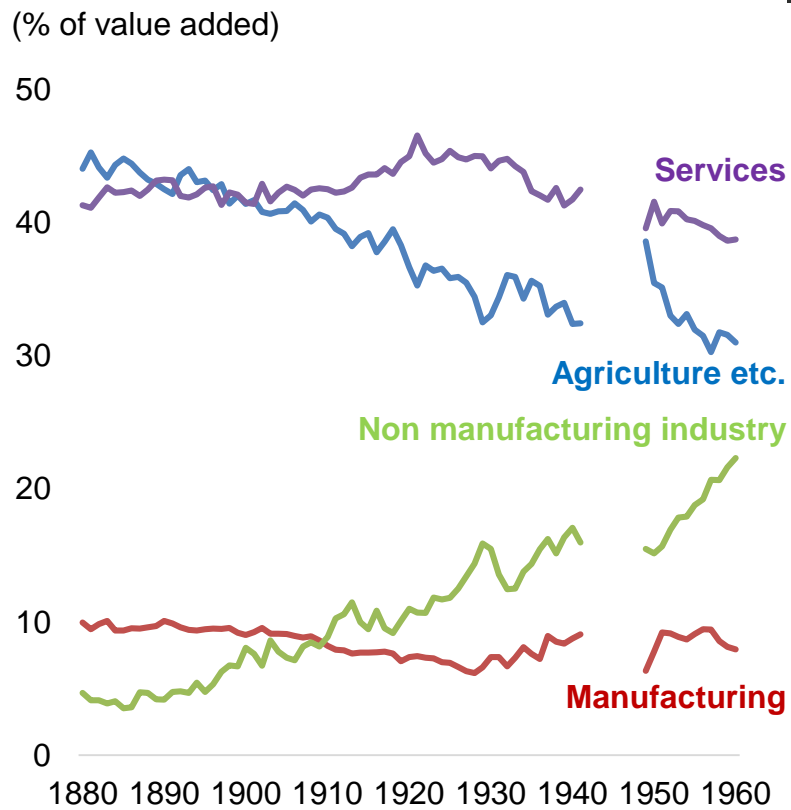
History (1/2)

European Colonial Empires

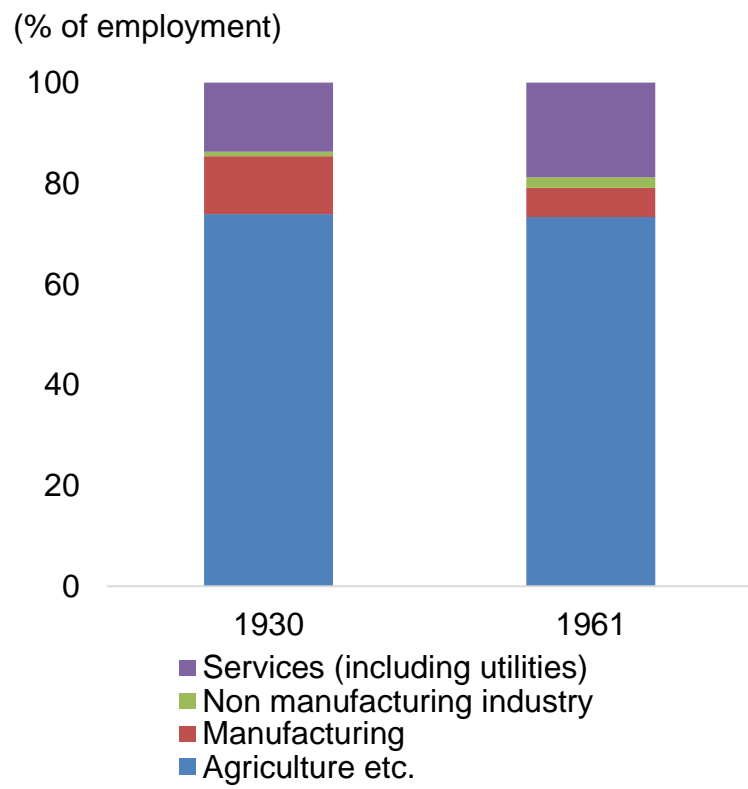


History (2/2)

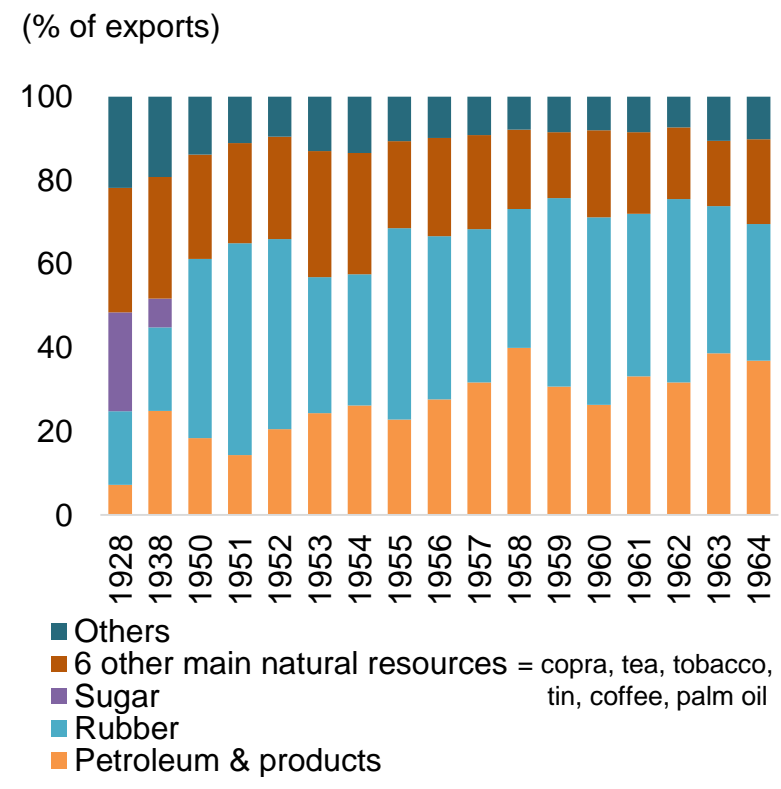
GDP by sector



Employment by sector

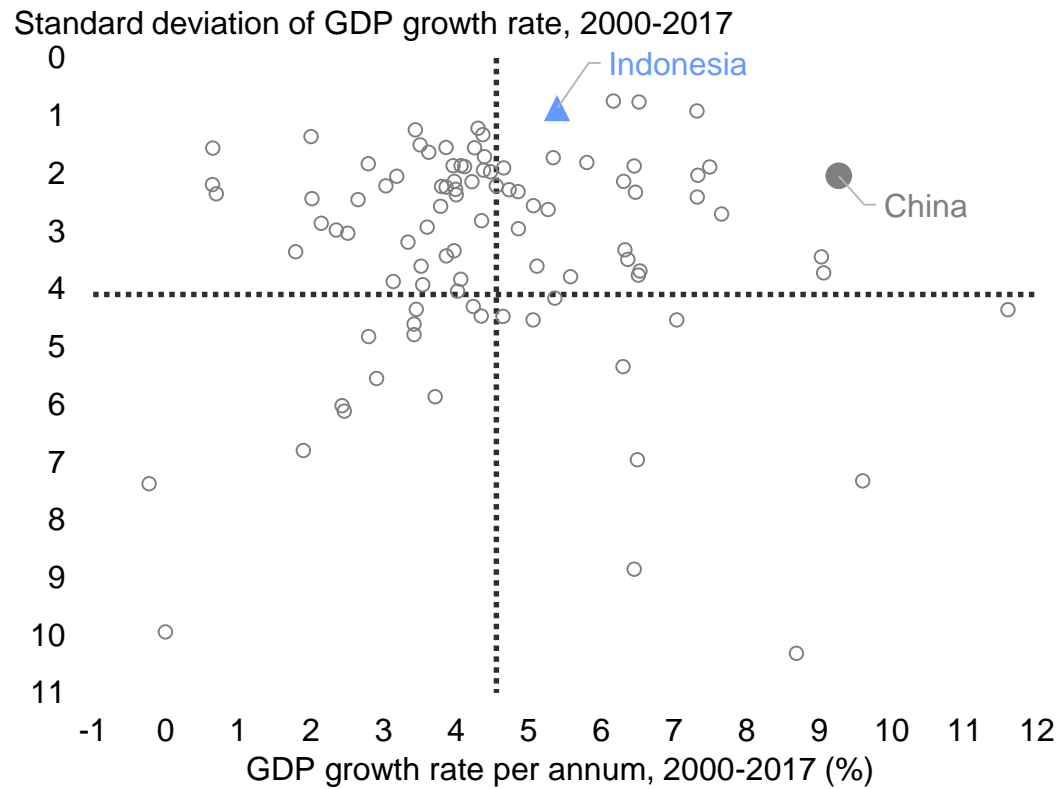


Export by main product

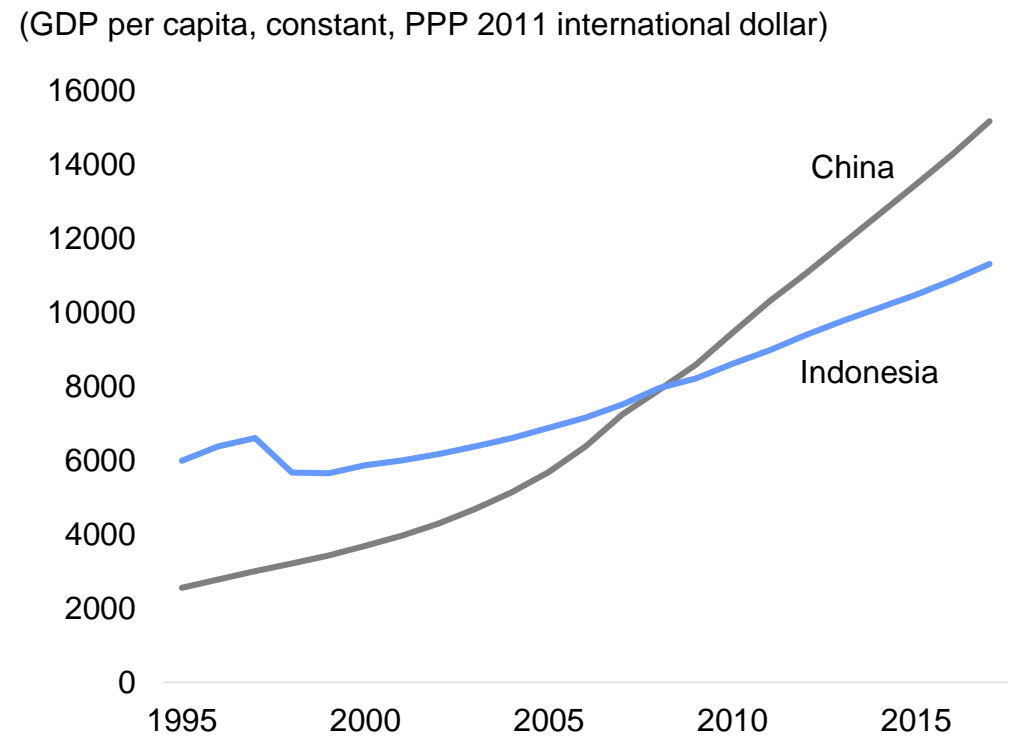


Economy (1/2)

Economic performance

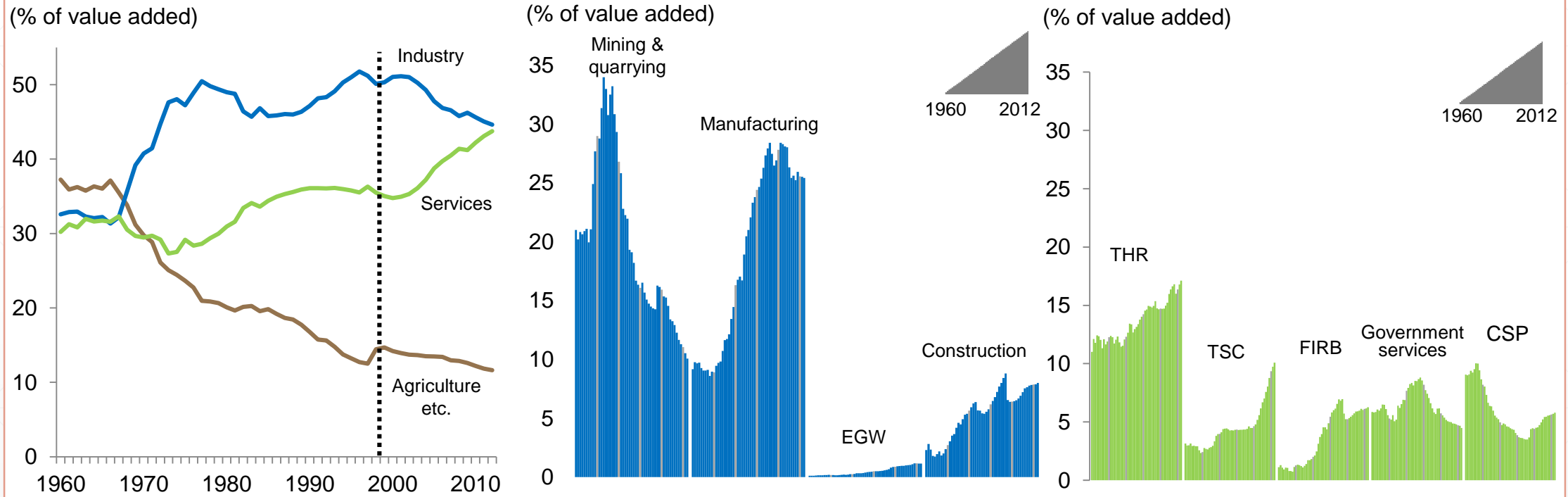


GDP per capita



Economy (2/2)

Structural transformation



Notes: EGW = electricity, gas, water supply; THR = wholesale and retail trade, hotels, restaurants; TSC = transport, storage, communication; FIRB = finance, insurance, real estate, business services; CSP = community, social, personal services.

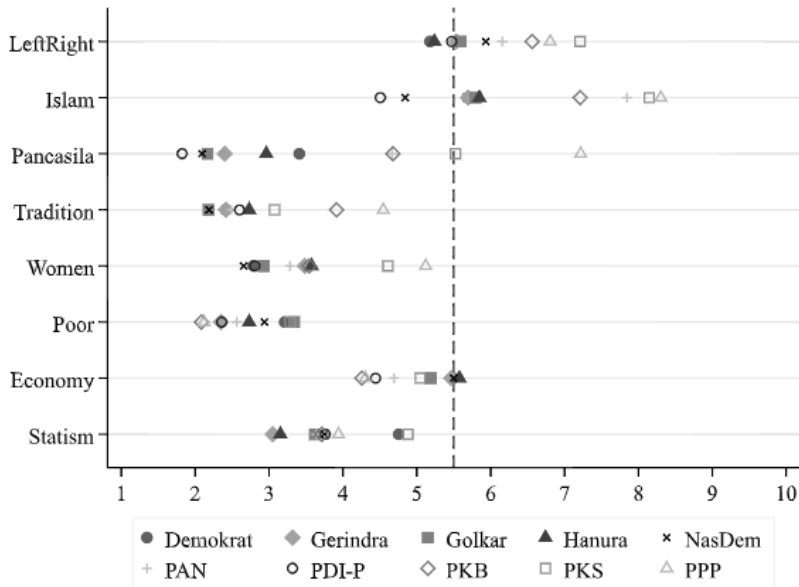
Sources: GGDC 10-Sector Database

Politics & society

Party positions, 2017-2018

Ideological representation in clientelistic democracies: The Indonesian case

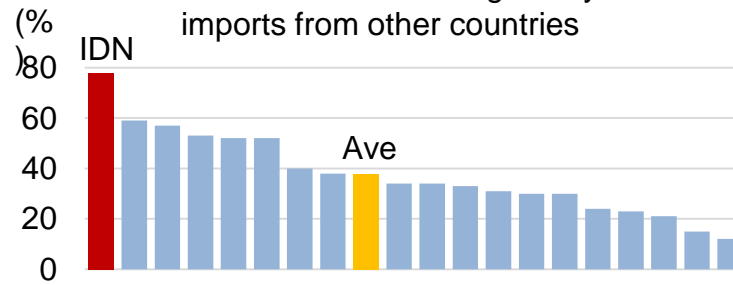
Diego Fossati ^{a,*}, Edward Aspinall ^b, Burhanuddin Muhtadi ^c, Eve Warburton ^d



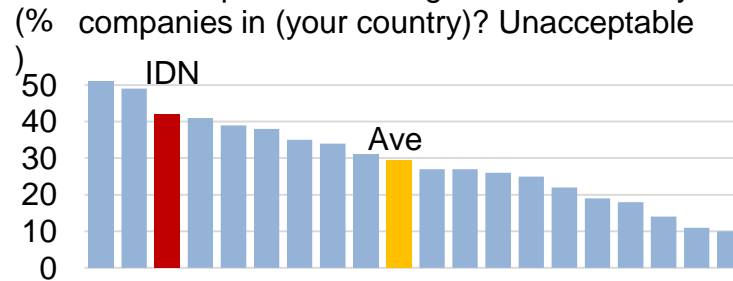
*Figure directly taken from the paper

YouGov survey, 2016

(My country) should be able to meet all of its own needs without needing to rely on imports from other countries

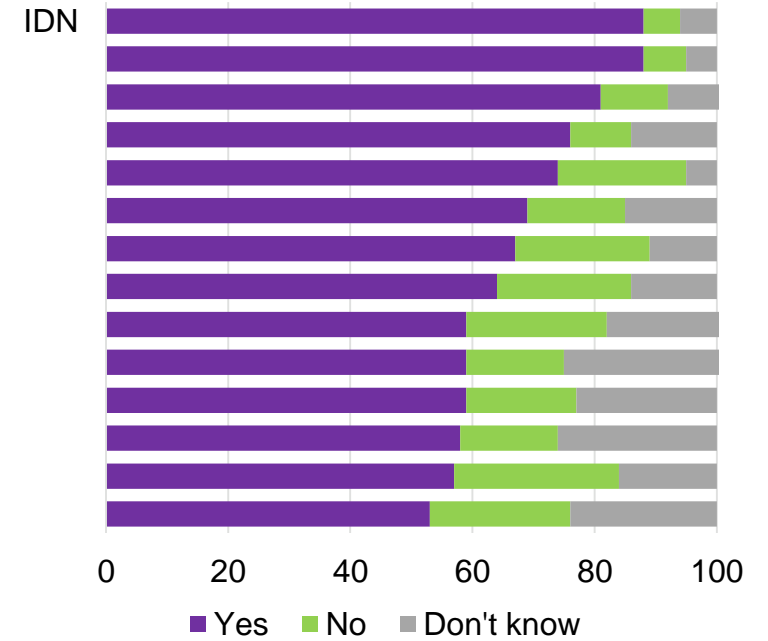


Generally speaking, do you think it is acceptable or unacceptable for foreign investors to buy companies in (your country)? Unacceptable



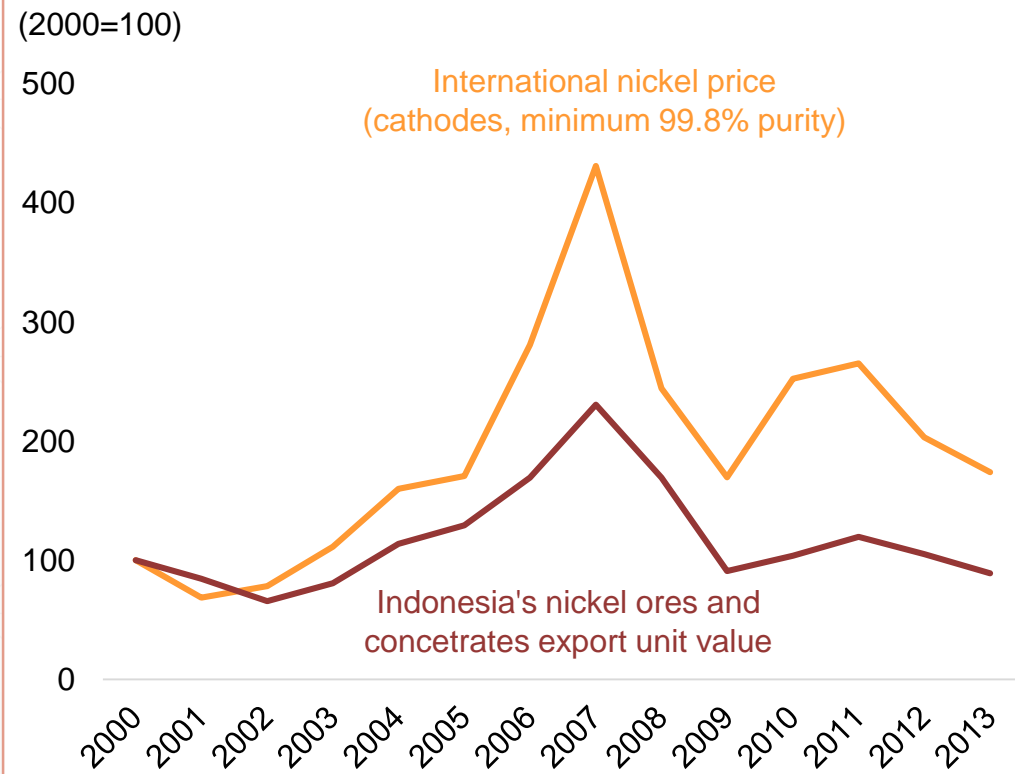
Bertelsmann Stiftung survey, 2020

Should the country you live in protect its economy more strongly against foreign competitors?

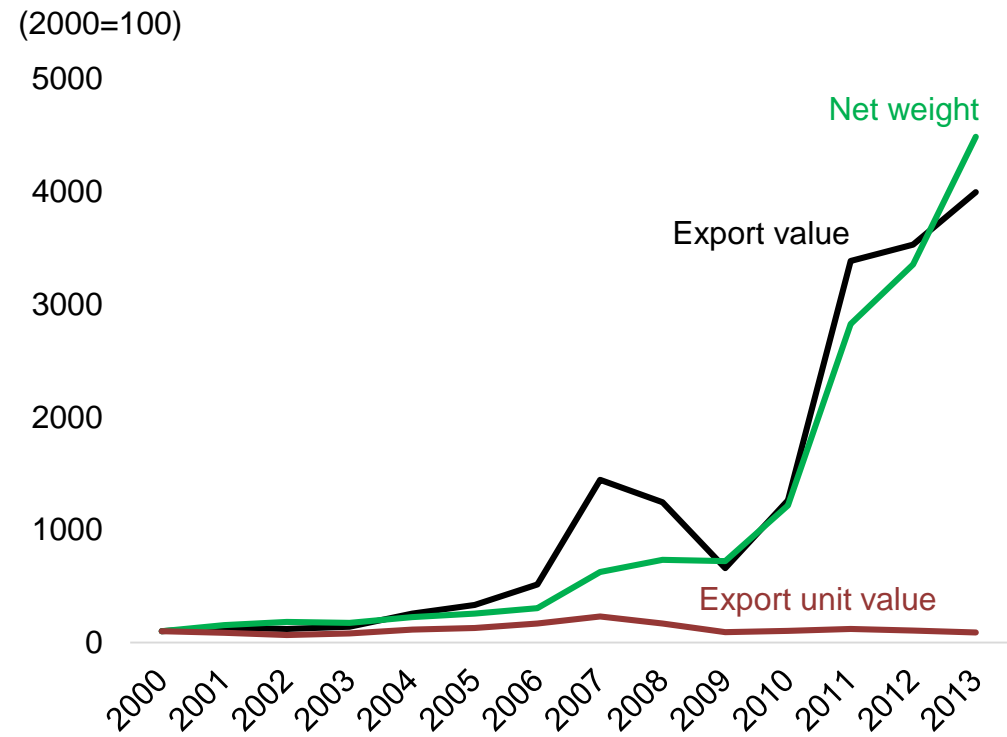


Logic (1/2)

Nickel prices, rebased



Indonesia's nickel exports, rebased



Logic (2/2)

Foreign entities' views

		<u>Domestic benefits</u>	
		Strong	Weak
<u>Foreign benefits</u>	Strong	Liberalisation	
	Weak		Protectionism

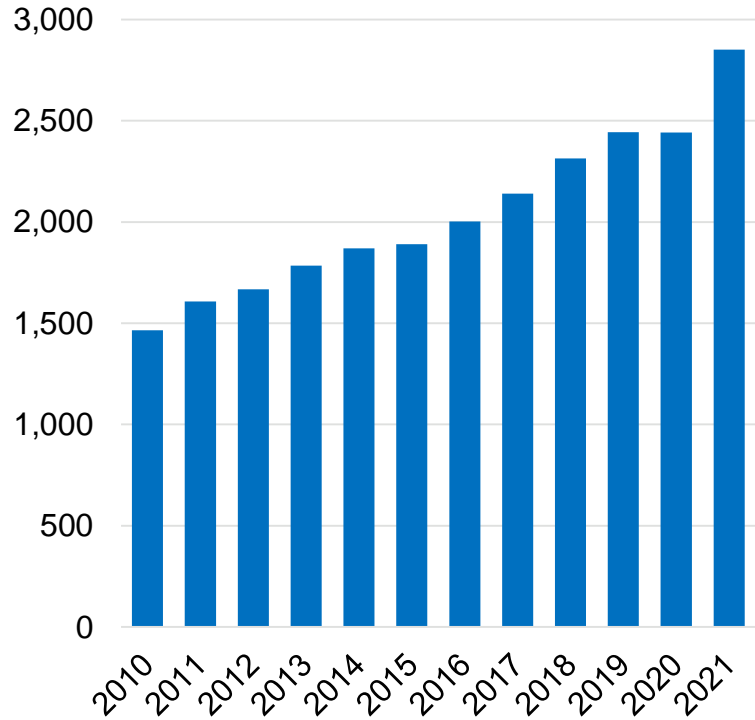
Nationalists' views

		<u>Domestic benefits</u>	
		Strong	Weak
<u>Foreign benefits</u>	Strong		Liberalisation
	Weak	Protectionism	Transition

Market condition

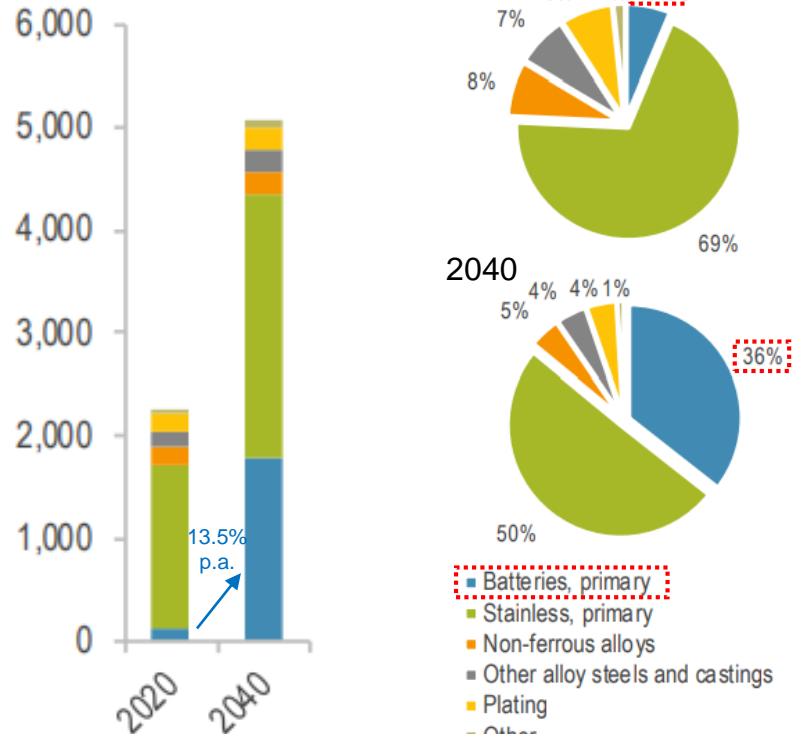
Global nickel consumption

(1,000 metric tons)



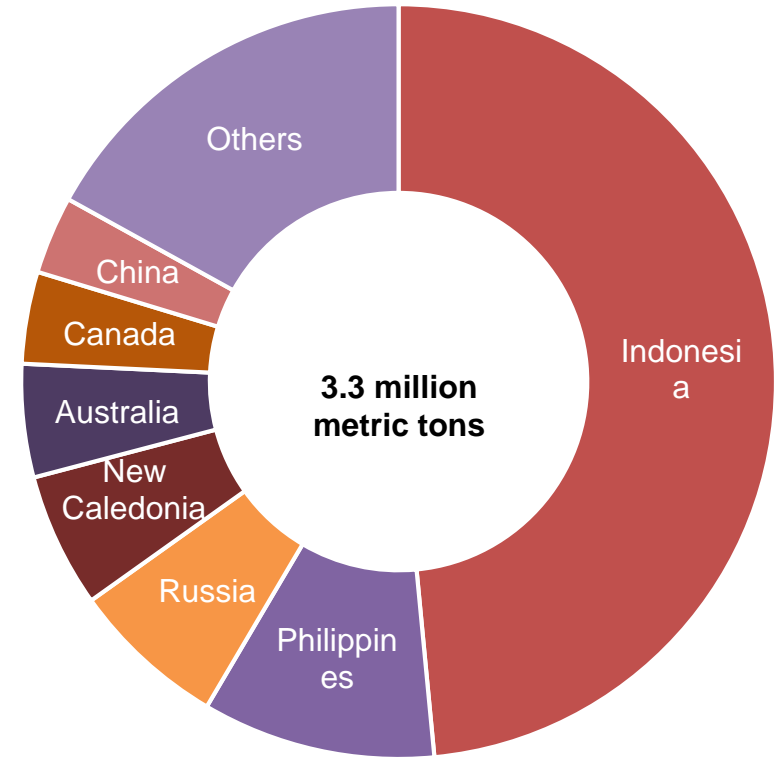
Nickel market demand, forecast

(kt Ni)



*Figures directly taken from the paper

Global nickel production, 2022



Export ban

Transitional measures adopted in implementing Indonesia's mining export ban

Year of announcement	Effective during:	Policy measures
2012	2012–2014	[Ministry of Finance Regulation 75/2012 Article 10] Exports of stated raw minerals and ores were allowed subject to an export tax of 20%
2014	2014–2016	[Ministry of Finance Regulation 6/2014 Article 3] Exports of Type 1 mineral products (such as copper and iron, not nickel) that satisfy the minimum processing levels that have been set lower than previously stipulated were allowed while being subjected to an export tax of 20–25% that gradually increases over time to 60%.
2014	2014–2017	[Ministry of Finance Regulation 153/2014 Article 4A] Same as above with the end of application period being extended from December 2016 to January 2017. Further, tariff rates on exports of Type 1 mineral products that satisfy the minimum processing levels are lowered to 0%, 5% or 7.5% depending on the percentage of progress in refining facility construction.
2017–2018	2017–2022	<p>[Ministry of Finance Regulation 13/2017 Article 11] Tariff rates on exports of Type 1 mineral products that satisfy the minimum processing levels were set at 0%, 2.5%, 5% or 7.5% depending on the percentage of progress in refining facility construction.</p> <p>[Ministry of Finance Regulation 164/2018 Article 11] Subsequently, tariff rates were set at 0%, 2.5%, 5% depending on the percentage of progress in refining facility construction.</p> <p>[Ministry of Energy and Mineral Resources Regulation 11/2017 Article 10] Exports of nickel ore and washed bauxite, previously classified as Type 2 minerals, were allowed for mining companies that satisfy conditionalities such as dedicating at least 30% of their current processing/refining capacity to process nickel ore and bauxite with certain characteristics and making progress in constructing refineries.</p> <p>[Ministry of Finance Regulation 13/2017 Article 12] Exports of nickel ore and bauxite were subject to an export tariff of 10%.</p> <p>[Ministry of Energy and Mineral Resources Regulation 11/2019] The nickel ore export ban was reinstated in January 2020.</p>
2020	2020–2023	[Ministry of Energy and Mineral Resources Regulation 17/2020 Article 62A] Same as above (except nickel) with the end of application period extended from January 2022 to June 2023.

Share divestment requirement

Divestment rules

Year of announcement	Contents
2012	Foreign controlling shareholders must hold at most 80% of shares in a mining company by the end of year 6 after production begins, with this share decreasing annually to reach 49% by the end of year 10.
2014	The divestment rules were relaxed in terms of the deadline and maximum foreign ownership share conditioned upon the company's progress in and plans on processing/refining activities or whether the company was involved in underground and/or open pit mining.
2017	Relaxation was reversed in 2017. The foreign ownership limitation was set at 80% by the 6th year of production, declining annually to reach 49% by the 10th year.
2021	The divestment rules were relaxed (again) in terms of the deadline and maximum foreign ownership share conditioned upon the company's progress in and plans on processing/refining activities or whether the company was involved in underground and/or open pit mining.

Freeport Indonesia divestment in 2018



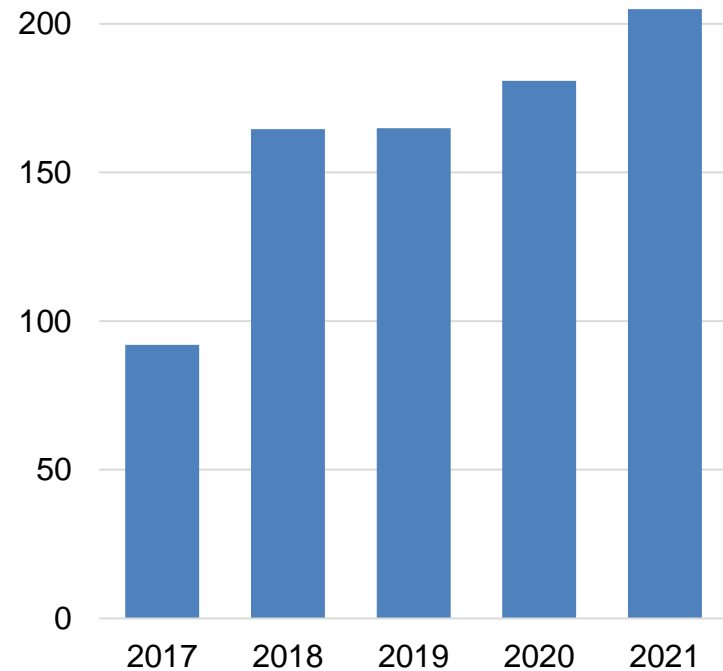
Vale Indonesia divestment in 2020



State holding company

MIND ID (Inalum)'s assets

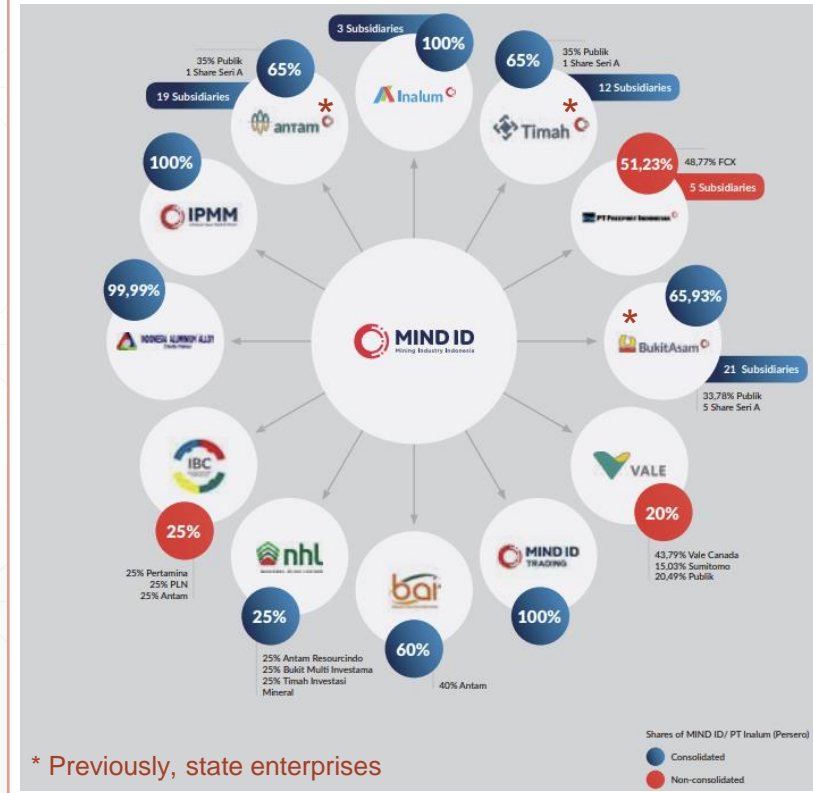
(billion rupiah)



State enterprises' assets, 2020

	SOE	Assets (billion rupiah)
1	PT Perusahaan Listrik Negara	1,588
2	PT Bank Rakyat Indonesia Tbk	1,512
3	PT Bank Mandiri Tbk	1,429
4	PT Pertamina	974
5	PT Bank Negara Indonesia Tbk	891
6	PT Bank Tabungan Negara Tbk	361
7	PT Taspen	289
8	PT Telkom Indonesia Tbk	247
9	PT Inalum (MIND ID)	181
10	PT Garuda Indonesia Tbk	139
11	PT Perkebunan Nusantara III	132
12	PT Pupuk Indonesia	127
13	PT Hutama Karya	111
14	PT Waskita Karya Tbk	106
15	PT Jasa Marga Tbk	104

MIND ID (Inalum) corporate structure



Electric vehicle industry promotion

Indonesia Battery Corporation



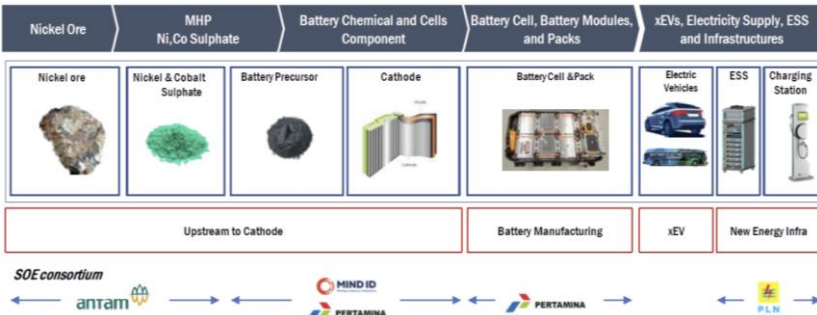
EV related fiscal incentives

- Policy measures
- Import duty incentives for battery-related components
- Import duty incentives for machineries & materials
- Incentives for making public electric vehicle charging stations
- Incentives for developing infrastructure related to public electric vehicle charging stations
- Export financing incentives
- Incentives for research & development and technological innovation activities
- Luxury goods incentives
- Central & regional government tax

EV related tax holidays

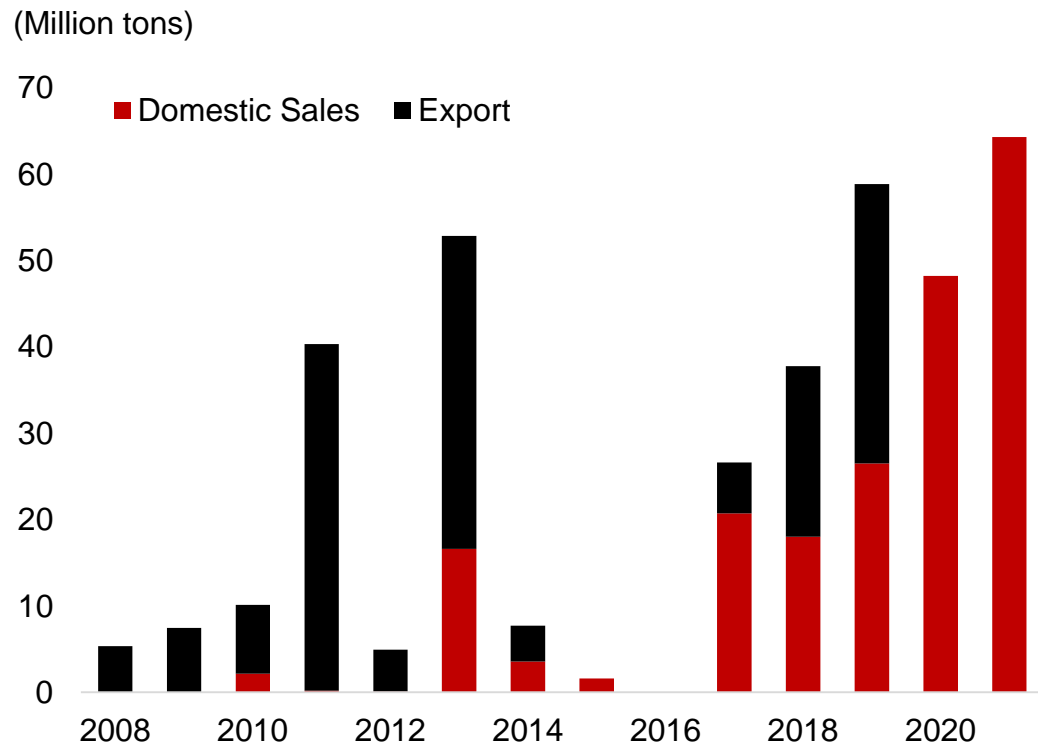
5-20 years of tax exemption (depends on investment value)
+ 2 years of tax reduction

for *integrated BEV assembly, EV battery, BEV motor, flexy engine, multiple components, Power Control Unit*

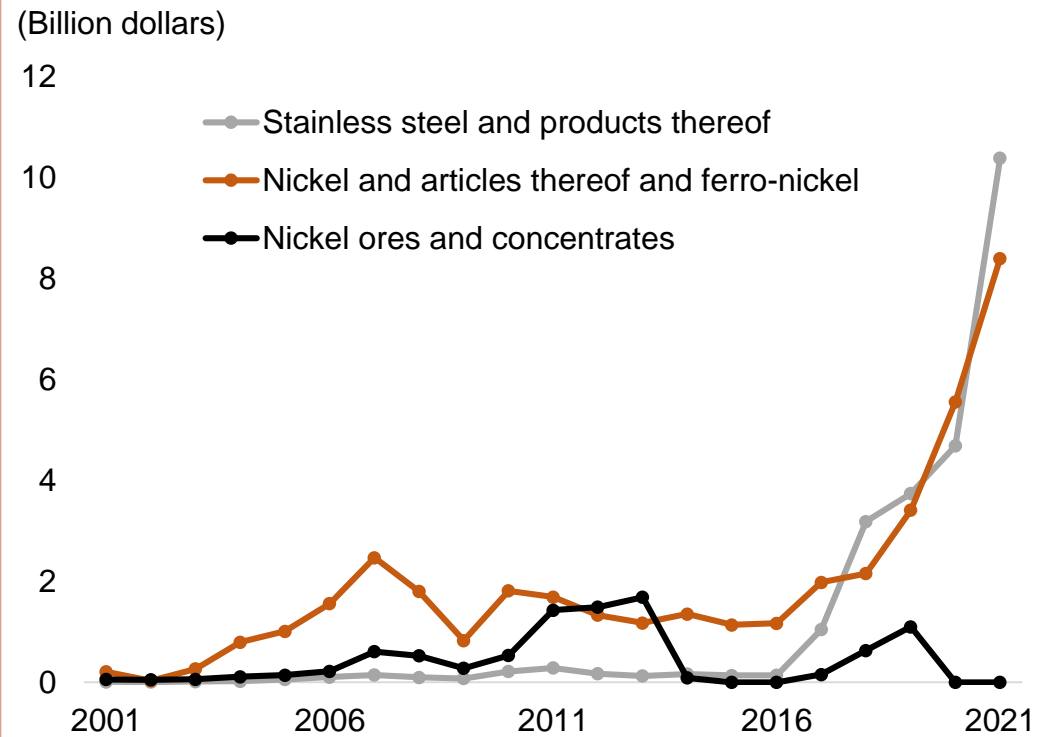


Production and exports

Nickel ore production & consumption

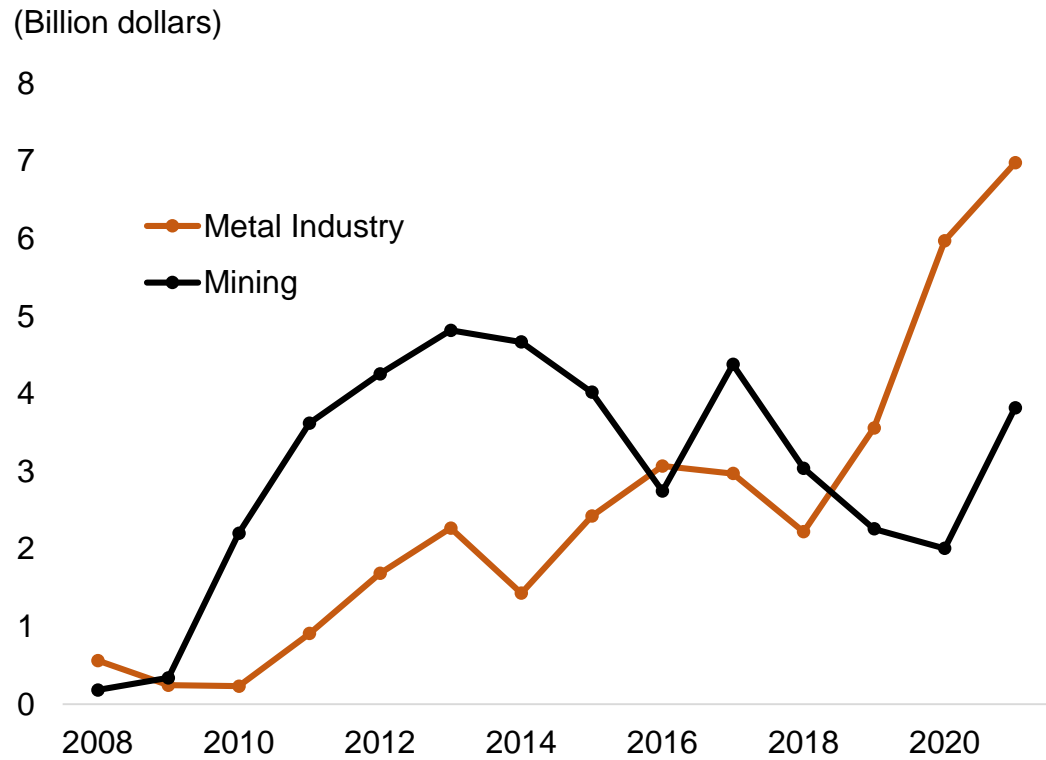


Exports of nickel-related products

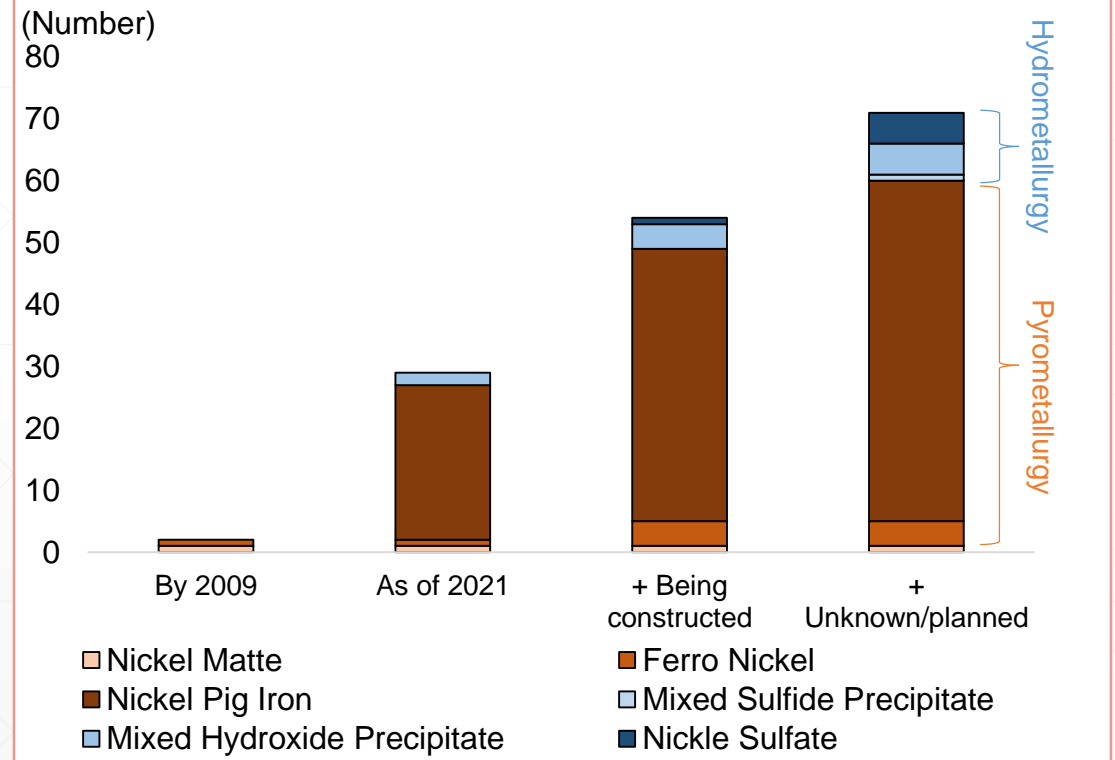


Metal sector investment

FDI into Indonesia



Number of nickel smelter/processor



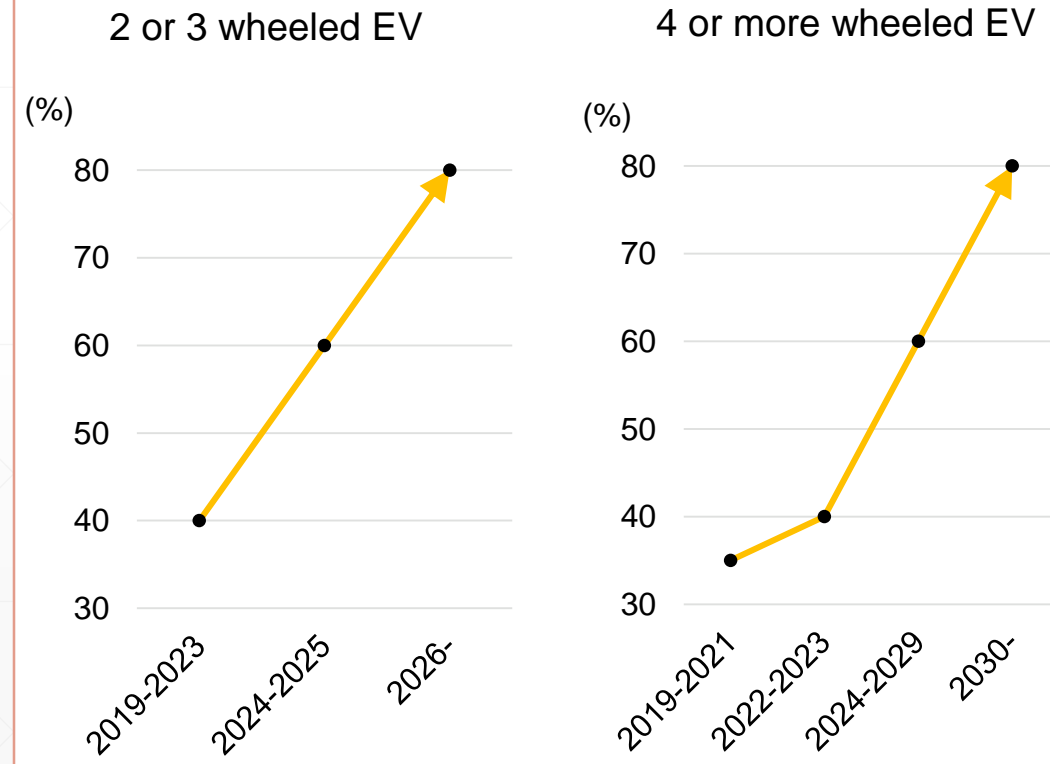
Electric vehicle value chain investment

EV value chain in ASEAN c.2021

Value chain	Indonesia	Philippines	Malaysia	Thailand	Singapore
Nickel mining	Eramet (FR), Nickel Mines (AU), Solway Investment (CH), Tsingshan Holding (CN), Vale (BR), Zhejiang Huayou Cobalt (CN)	Sumitomo Metal Mining (JP), Mitsui (JP)			
Nickel smelting	Eramet (FR), Jiangsu Delong Nickel Industry (CN), Nickel Mines (AU), Solway Investment (CH), Tsingshan Holding (CN), Vale (BR), Zhejiang Huayou Cobalt (CN)				
EV battery, parts, components	LG Energy Solution (KR), Hyundai Group (KR), CATL (China)		Honda (JP), SK Group (KR)	BMW (DE), Evlomo (US), Mercedes-Benz (DE), SAIC (CN), Toyota (JP)	
EV production	Hyundai (KR), Toyota (JP)	EnPlus (KR)	Toyota (JP)	BMW (DE), Foxconn (Taiwan), Mercedes-Benz (DE), Mitsubishi (JP), Nissan (JP)	Hyundai Motor Innovation Centre (KR)

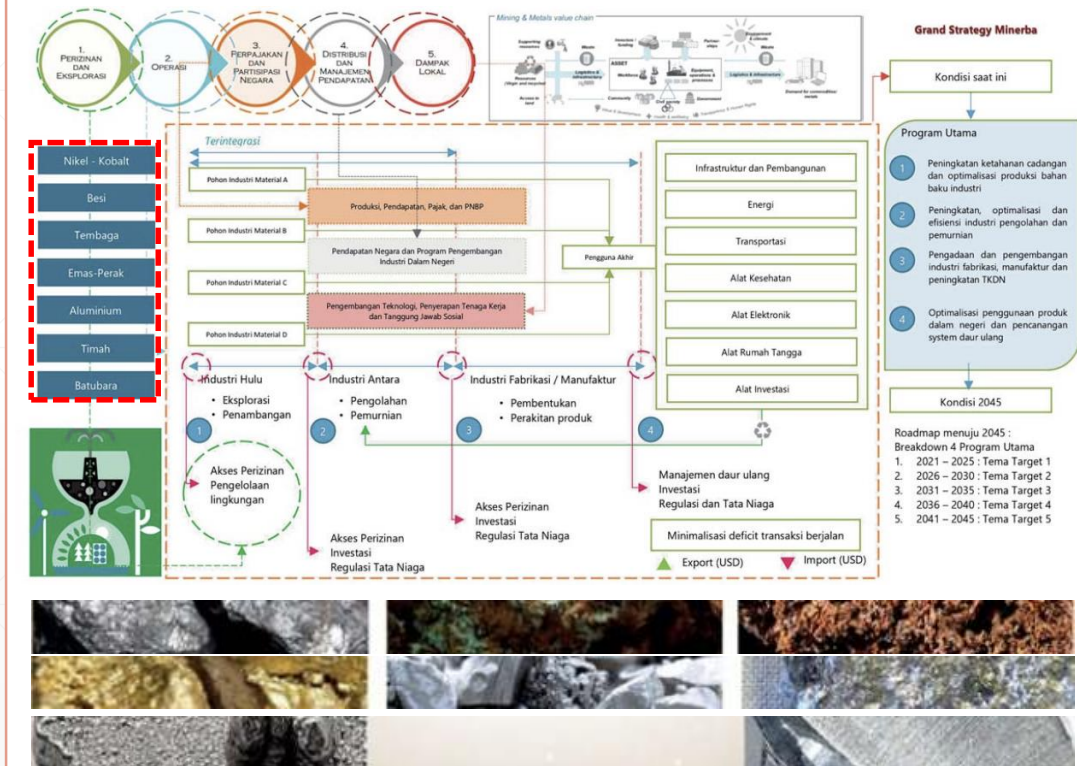
*selected companies

Local content goals for EV production



Boosting resource protectionism

In other mineral segments



In other natural resource sectors



“Don’t you think that downstreaming can only be carried out in nickel, mining sectors. Fisheries, agriculture, and plantation sectors also have great potential and every region has its own potential.”

(23rd/Feb/2023 @ Opening of the 2023 National Working Meeting of APPSI)

World Trade Organization

DS592 report of the panel

“The prohibition on the export of nickel ore... is not excluded from the applicability of Article XI:1 because it is not a prohibition or restriction temporarily applied to prevent or relieve critical shortages of foodstuffs or other products essential to Indonesia within the meaning of Article XI:2(a) of the GATT 1994.”

“The domestic processing requirement... is not excluded from the applicability of Article XI:1 because it is not a prohibition or restriction temporarily applied to prevent or relieve critical shortages of foodstuffs or other products essential to Indonesia within the meaning of Article XI:2(a) of the GATT 1994.”

“Industrial downstreaming must go on”

“We must be determined. We will not back down, we do not hesitate since such natural resources belong to Indonesia. It is our sovereignty. We determine them to be the benefit for our people, our society.”

“Our policy to stop exporting nickel ores was sued by the EU and it is decided that we lost. However, I said to Minister of Foreign Affairs not to back down because this will be a great leap for our state civilization.”

“I mentioned that the partnership should be equal, without constraints, no country should dictate, and no developed countries think that their standards are better than ours.”

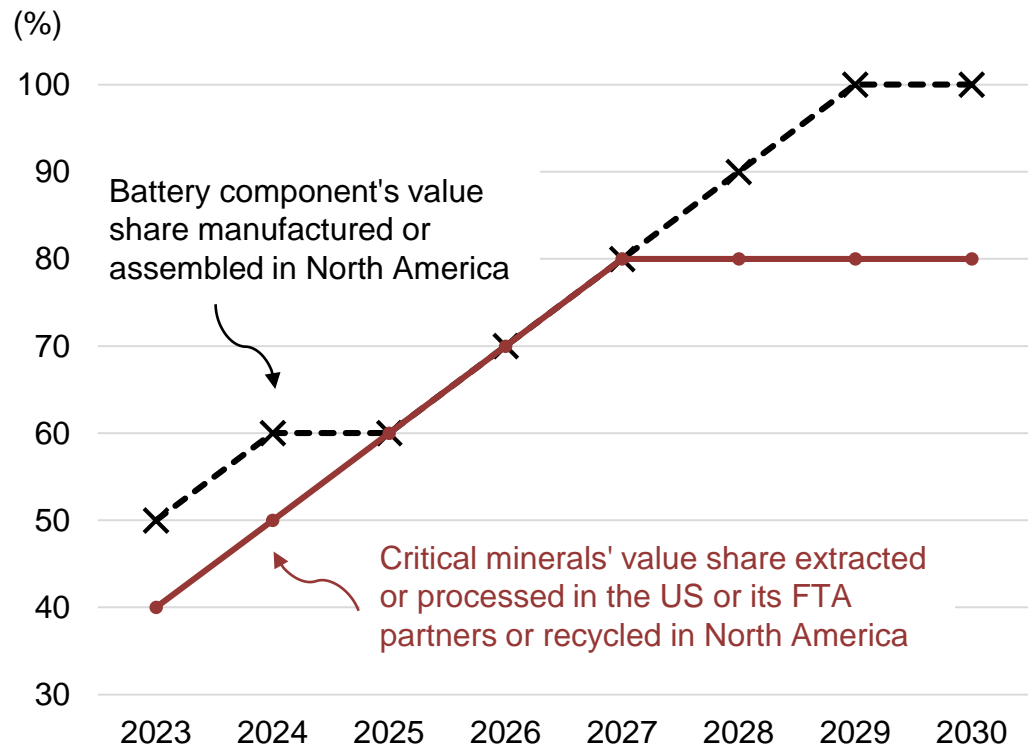
“Bung Karno in 1965 stated it, so we cannot be dictated and be dependent on any other countries. This is what we want to do: to be self-sufficient, be self-sufficient, and be self-sufficient.”

(10th/January/2023 @ Commemoration of 50th Anniversary of PDI-P)



United States' Inflation Reduction Act – Electric vehicle subsidies

Minerals/component requirement



Excluded entities

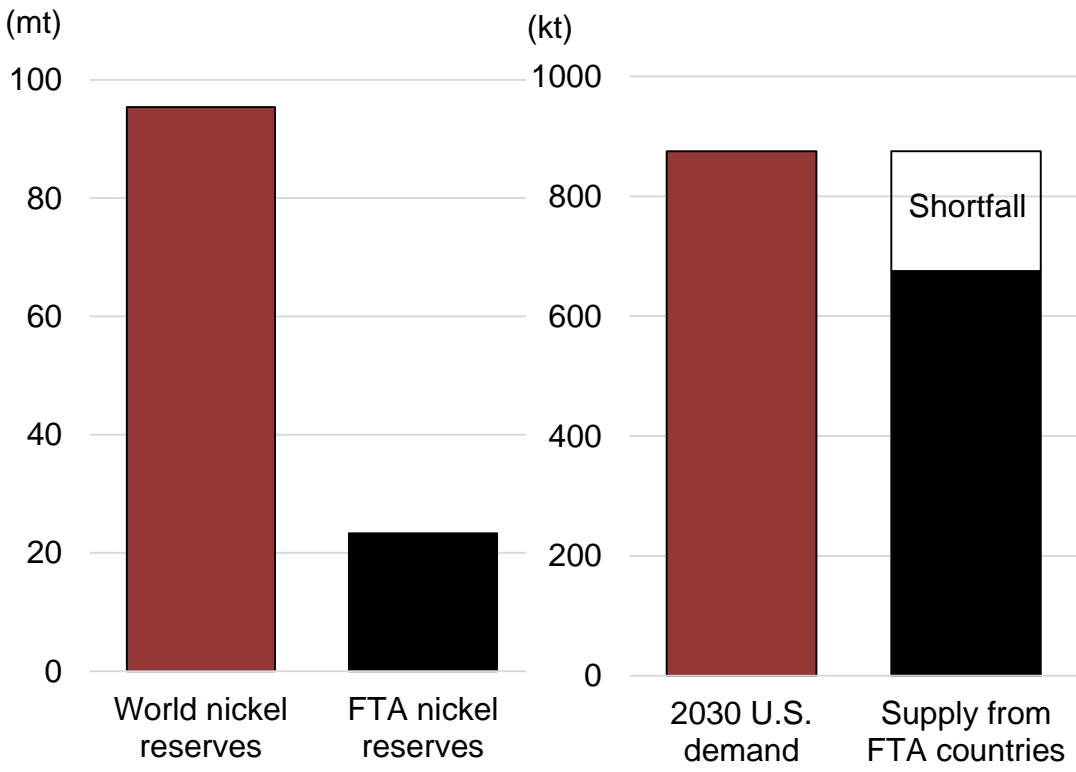
EXCLUDED ENTITIES.—For purposes of this section, the term 'new clean vehicle' shall not include—

“(A) any vehicle placed in service after December 31, 2024, with respect to which any of the applicable critical minerals contained in the battery of such vehicle (as described in subsection (e)(1)(A)) were extracted, processed, or recycled by a foreign entity of concern (as defined in section 40207(a)(5) of the Infrastructure Investment and Jobs Act (42 U.S.C. 18741(a)(5))), or

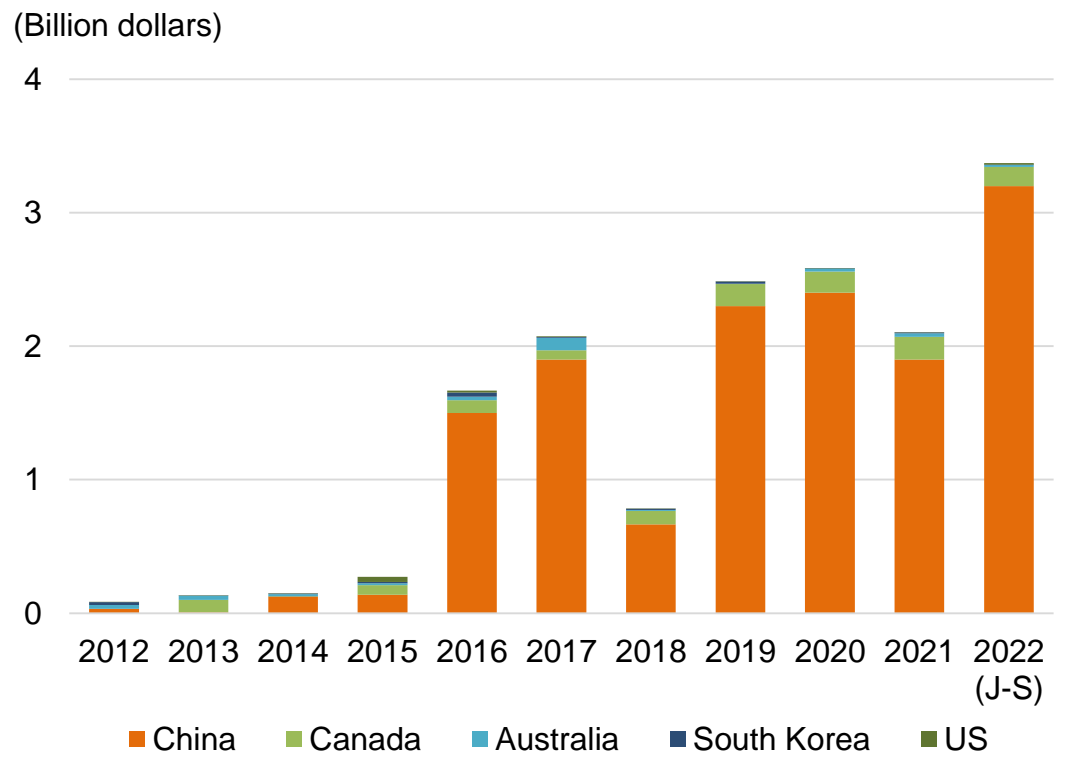
“(B) any vehicle placed in service after December 31, 2023, with respect to which any of the components contained in the battery of such vehicle (as described in subsection (e)(2)(A)) were manufactured or assembled by a foreign entity of concern (as so defined).”

Geostrategic conflict

U.S. nickel dependency risk

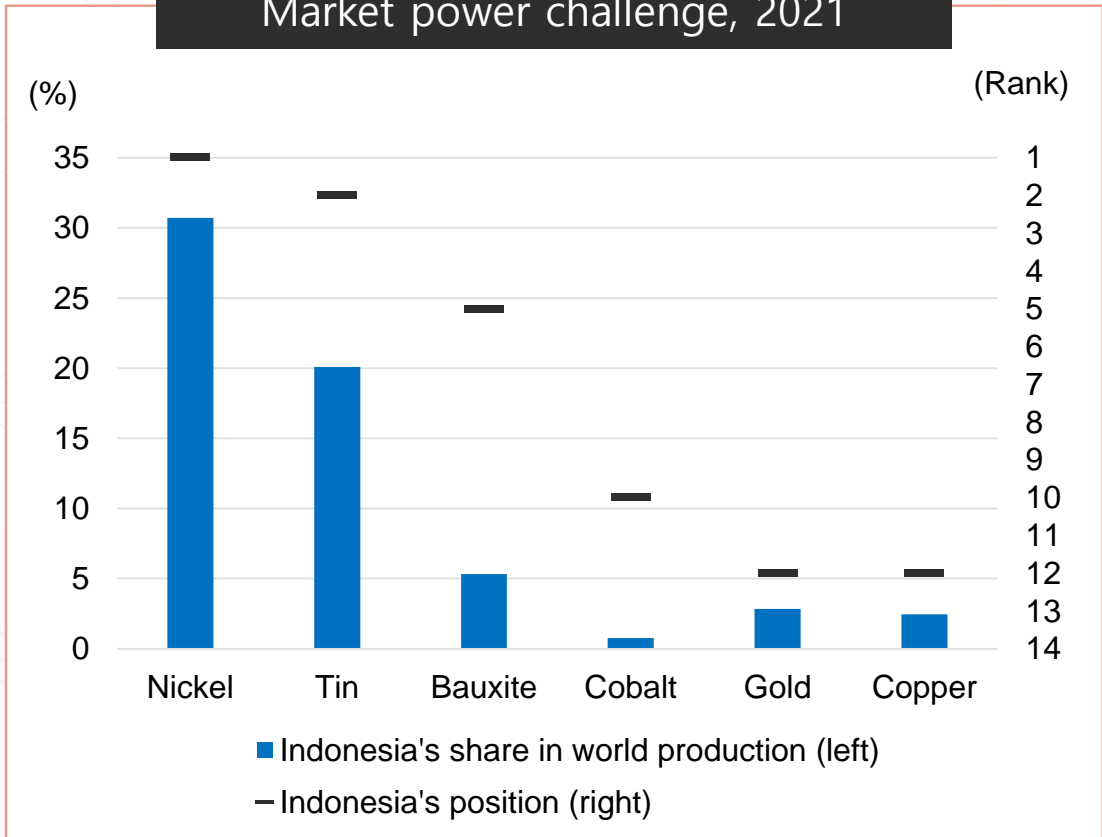


FDI in Sulawesi & Halmahera



Industrial policies in other mineral segments

Market power challenge, 2021



Infrastructure challenge



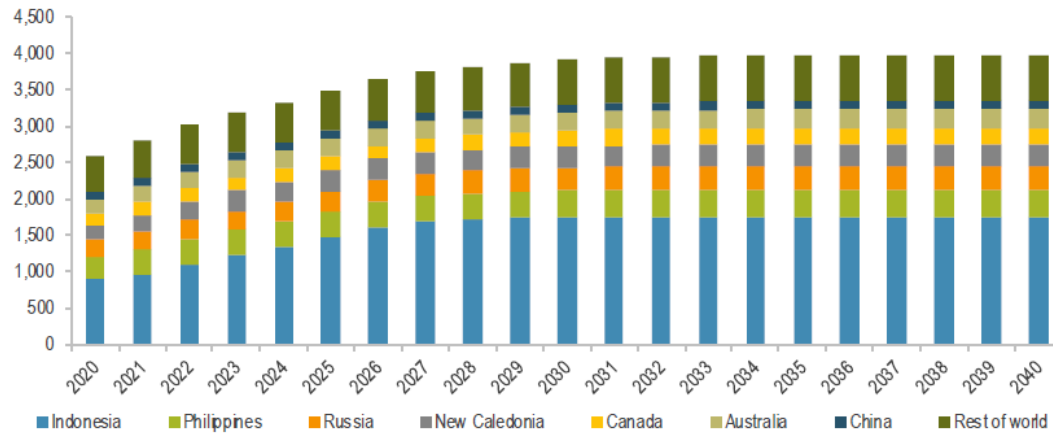
“The difficulty lies on the geography of our country. The island of Sulawesi has much nickel supply. So does North Maluku. Copper is found in Papua and Sumbawa islands. These are the big ones. We also have bauxite in West Kalimantan and Riau Island provinces, in Bintan regency. We have tin in Bangka Belitung Islands provinces.”

(31st/Jan/2023 @ 8th Anniversary and National Gathering of PSI)

No going back

Rapid production expansion will...

Figure 23: Outlook for expected mine supply by country, 2020-2040 (kt Ni)

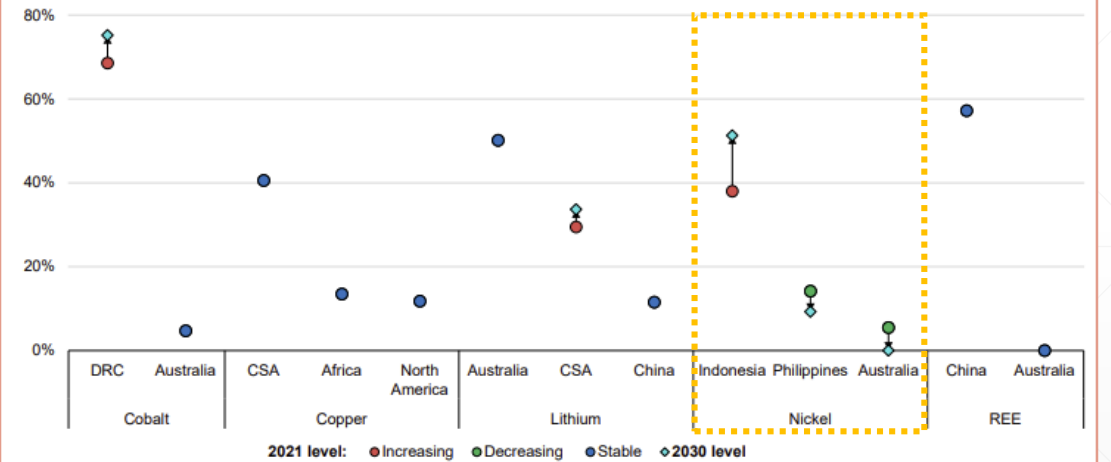


Source: Roskill, 2020.

*Figure directly taken from the paper

translate into ↑ concentration

Figure 3.9 Shares of the leading regions in global mining of selected critical minerals in 2021 and 2030 based on currently anticipated investments



IEA. CC BY 4.0.

Notes: DRC = Democratic Republic of Congo; CSA = Central and South America. Stable is defined as a change of less than 4%. Dots represent 2021 value and the arrow the change to 2030.
Sources: IEA analysis based on USGS (2022); S&P Global (2022c); S&P Global (2022d); S&P Global (2022e); European Commission (2020); Eurometaux (2022).

*Figure directly taken from the paper