

Australia, Indonesia aim to challenge China's dominance in EVs and batteries

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Indonesia is set to 'advance mutually beneficial cooperation' with Australia in developing electric vehicle (EV) and battery supply chains. The [collaboration](#) will involve mapping the supply chains, joint scientific and research studies, as well as fostering new business-to-business links between the two countries.

Both countries plan to capitalise on their respective nickel and lithium resources to secure a position in global EV and battery supply chains. This strategic alliance between Indonesia and Australia is unfolding amid growing geopolitical uncertainties, especially due to the China-US rivalry for technological dominance in the clean energy transition. The United States, intent on reducing its reliance on China, is committed to creating an alternative supply chain with trusted partners. Australia has emerged as a crucial player in the US strategy, a development that is poised to benefit Indonesia's own partnership with Australia.

This cooperation aligns with the recent policy directions of both countries, too. Under its '[critical minerals strategy](#),' the Australian government aims to diversify its supply chain through partnerships with 'like-minded' countries and closely monitor foreign investments in critical mineral resources to safeguard national interests. Following the introduction of this strategy, the Australian government notably prevented a China-affiliated company from acquiring a majority stake in an Australian [lithium mining firm](#). Australia is particularly keen on strengthening ties with allies such as Indonesia to reduce China's dominance in the critical minerals sector.

Indonesia is actively working to construct its EV ecosystem by attracting foreign investment. The government has recently implemented [measures](#) to foster the EV industry. These measures include incentives such as regulatory support and subsidies. However, Indonesia faces US [opposition](#) to importing nickel products under the Inflation Reduction Act (IRA). In response, Indonesia is seeking to strengthen partnerships with other nations. The partnership with Australia can be seen as a strategic move toward integrating into a US-led supply chain.

The question arises: Does this strategic partnership between Indonesia and Australia offer a solution to address the climate challenge that is both geopolitically advantageous and environmentally friendly?

First, in terms of technology, China currently holds a [dominant](#) position in global supply chains for EVs and batteries. This dominance is attributed to its cost advantages, stemming from large-scale production and significant technological advancements made over the past decade, which are challenging for other nations to match in the short term. Both Indonesia and Australia currently lack the critical technologies and the substantial investment required to develop the necessary infrastructure in the construction of the supply chains.

Second, concerning vested interests, Chinese companies have long been invested in mineral processing supply chains in both Indonesia and Australia. This investment is part of China's strategic effort to secure essential materials for its supply chains. Chinese investment in Indonesia reached **\$3.6 billion** in the first half of 2023, doubling the level from the previous year, with the construction of new nickel smelters being a primary driver of this growth. Moreover, China has signed **agreements** with Indonesia to collaborate on the development of EV production and battery recycling.

In Australia, China has **acquired stakes** in various mines and companies involved in mineral production. Additionally, it has established partnerships and joint ventures with Australian firms to explore, develop, and process these minerals.

It would be simplistic to think that Chinese investors would readily relinquish their significant stakes in the upstream resources of the supply chains in Australia and Indonesia, as well as the substantial potential of the EV market in Indonesia and Southeast Asia. Chinese companies throughout these supply chains are navigating the dual challenges of raw material constraints and production overcapacity. Consequently, securing critical resources and acquiring foreign markets are top priorities for Chinese investors. **For instance**, companies like **CATL**, **BYD**, **SAIC-GM-Wuling**, and **Tianqi Lithium** have either already invested or are planning to expand their investments in both Australia and Indonesia.

Third, market size matters. China stands as the world's **largest** producer, consumer, and exporter of critical minerals such as lithium, nickel, cobalt, and rare earths. Its capacity to absorb massive supplies of these minerals in downstream battery production and EV manufacturing is unparalleled. With such scale advantages, Chinese upstream mineral producers have incentives to upgrade their technological and cost advantages against the supply chains by the Australia-Indonesia alliance.

Last but not least, environmental and human rights concerns are crucial in the Australia-Indonesia partnership. In **Indonesia**, the nickel industry has faced significant environmental and social challenges. These include inadequate waste management, water pollution, land conflicts, and labour rights violations, all of which have impacted communities across the country. To assist Indonesia in improving its **ESG** stance, more inclusive collaboration is required.

For national security, Western countries, led by the United States, must prudently reduce their reliance on supply chains dominated by China. Yet, 'weaponising' these supply chains could compromise global decarbonisation efforts. While China-US **strategic competition** for technological supremacy in advanced chipmaking and AI is critical, given their dual-use in civilian and military spheres, climate change necessitates a unified global response.

Ultimately, the '**China plus one**' supply chain strategy, often adopted as a 'just in case' or 'just in worst case' approach, will provide a safety net for the global supply chain but may not necessarily enhance supply chain resilience as much as hoped. Supply chains are built on interdependent ecosystems involving various players, including research institutes, large corporations, small- and medium-sized enterprises, and entrepreneurs across the entire industry value chain. More crucially, supply chain resilience requires redundancy in supplies within the value chain. Without such redundancy, supply chain will find it hard to restore if disrupted facing external shocks. Currently, China is the only country with such a comprehensive ecosystem.

As we move forward, it's crucial to bring together all leading technology nations, including China, as participants in the Australia-Indonesia critical minerals alliance. A larger, more diverse ecosystem enhances supply chain resilience. Building a cooperative alliance that transcends political and ideological divides is essential for addressing the urgent climate challenge and achieving decarbonisation goals.

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