

Strategic realignments: Indonesia's strategic shift in the EV supply chain – What are the ramifications for Australia?

Marina Yue Zhang

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Indonesia is seeking to [reduce](#) Chinese investment in its new nickel mining and processing projects to qualify for tax incentives under the US Inflation Reduction Act (IRA). The IRA offers generous tax breaks for EVs starting in 2025 but excludes those with batteries and key minerals, like lithium and nickel, from entities with significant Chinese ownership. Indonesia's efforts will significantly impact the EV supply chain and the global clean energy transition. As a critical mineral supplier, Australia must balance national interests with the need for global cooperation to achieve a sustainable and resilient future.

Indonesia-China alliances

As the world's largest nickel producer, Indonesia holds [20.6 percent](#) of global nickel reserves. Nickel is crucial for lithium-ion battery production, increasing energy density and battery duration. Indonesia accounted for [55 percent](#) of global nickel production by the end of 2023.

Before 2017, Indonesia's nickel industry relied heavily on raw material exports, hindered by poor infrastructure, outdated processing technologies, and a shortage of skilled labor. President [Joko Widodo](#) emphasised the need for investment cooperation in green energy and EVs, inviting Chinese capital and technology to help Indonesia become a global EV production hub.

Before this call, in 2009 Chinese company [Tsingshan](#) entered the Indonesian market to capitalise on undervalued nickel resources for its stainless steel business. Tsingshan's [investments](#) in Indonesia have been substantial, transforming the region with modern infrastructure. The company has invested in power plants, water treatment, waste management systems, ports, and airports, particularly within the Tsingshan Industrial Park.

Widodo's '[commodity downstreaming](#)' strategy underscores his ambition to transform Indonesia into an industrial powerhouse. Since the end of 2020, Indonesia has banned raw nickel exports, encouraging local smelting operations to avoid the '[resource curse](#).' Leading Chinese lithium battery companies, including CATL, and automakers like Wuling Motors and BYD, have set up manufacturing plants in Indonesia since 2020. Indonesia's nickel industry saw its export value increase more than [ten fold](#) between 2014 and 2023, significantly aided by Chinese investment and technology transfer.

Reducing Chinese influence in Indonesia's nickel industry poses a considerable challenge. Over [85 percent](#) of Indonesia's battery-grade nickel production in 2023 was sourced from companies predominantly owned by Chinese investors. Reducing Chinese stakes in Indonesia's nickel industry will impact its EV supply chain and economy. More importantly, it will deter future Chinese investments and reduce technology transfers from China, which are vital for maintaining competitiveness.

Geopolitical uncertainties

As the world races to transition to clean energy, controlling and processing vital resources has become a [new frontier](#) in great power competition. Led by the United States, countries have implemented protectionist industrial policies like the IRA to encourage onshore production and to reduce dependence on China. However, the repercussions are far-reaching, affecting not just US-China relations but also reshaping alliances and economic strategies across the Indo-Pacific, as illustrated in Indonesia-China partnerships.

Chinese companies face heightened regulatory scrutiny and potential investment restrictions abroad, indicating emerging geopolitical uncertainties in global supply chains. This could lead to a new form of resource nationalism, as nations scramble to secure their own critical minerals, risking strategic stockpiling and inefficient resource allocation.

Ramifications for Australia

Australia may find itself with increased bargaining power during the reshuffling of global supply chains. With substantial lithium reserves, Australia is well-positioned to ascend in the global battery supply chain. The IRA's incentives for sourcing minerals from free trade partners can drive investments into Australian projects, fostering technological advancements and infrastructure development. However, this also pressures the country to choose sides in the US-China rivalry. China has made extensive investments in Australia's mineral processing industries, and any move perceived as countering Chinese interests could lead to diplomatic tensions.

The potential [alliance](#) between Australia and Indonesia, for example, to build an alternative supply chain for battery minerals is a strategic move that can enhance Australia's role in the global market. By collaborating with Indonesia, Australia can leverage complementary resources to create a robust and diversified supply chain. This partnership aligns with the US-led 'de-risking' effort of a Mineral Security Partnership, aimed at reducing dependence on China.

This partnership, while promising, must navigate the reality of existing Chinese investment interests and technological capabilities in both countries. Australia's and Indonesia's efforts to establish alternative supply chains must address technological gaps in mineral refinement, waste management, and battery manufacturing.

The race for critical minerals is not just about economic competitiveness or national security; it's fundamentally about our collective ability to transition to a sustainable future. Navigating these geopolitical tensions while maintaining focus on the larger goal of combating climate change should be the priority for all stakeholders in this complex global equation.

Conclusion

Protectionist policies and the resulting geopolitical shifts in critical mineral supply chains have complex implications for the global clean energy transition. Diversifying supply chains and reducing dependence on China can enhance global supply chain resilience as an insurance policy. However, the fragmentation of supply chains and potential trade conflicts could disrupt the flow of critical minerals, slowing the adoption of clean technologies.

Open global trade and investment are pivotal in combating climate change, and fostering cooperative alliances rather than exclusive partnerships can enhance these efforts. Policymakers in Australia must balance the pursuit of national interests with the need for global cooperation on climate change.

Dr Marina Zhang is Associate Professor – Research at the Australia-China Relations Institute, University of Technology Sydney.