



## **CHALLENGES OF ECONOMIC DIPLOMACY POST-WTO DECISION IN THE PERSPECTIVE OF NATIONAL INTEREST ON INDONESIA'S NICKEL ORE EXPORT BAN POLICY TO THE EUROPEAN UNION**

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**Abstract:** *This study examines Indonesia's nickel downstream policy as an effort to enhance the added value of natural resources, particularly nickel. With its vast nickel reserves, Indonesia has implemented an export ban on nickel ore to encourage the production of refined nickel products, aiming to sustainably increase state revenues. However, the implementation of this policy faces several challenges, including a legal dispute with the European Union and a World Trade Organization (WTO) ruling. WTO deemed the policy a violation of free trade principles, alongside issues such as dependency on foreign labor and environmental concerns. This study recommends strengthening economic diplomacy, developing local technology, and improving the skills of the domestic workforce to achieve independence and sustainability in Indonesia's nickel management.*

**Key Words:** *Nickel Downstream Policy, Export Ban, Economic Diplomacy, Sustainability, World Trade Organization (WTO)*

**Abstrak:** *Penelitian ini menyoroti mengenai kebijakan hilirisasi nikel di Indonesia sebagai upaya untuk meningkatkan nilai tambah sumber daya alam khususnya nikel. Indonesia yang memiliki cadangan tambang tersebut menerapkan larangan ekspor bijih nikel untuk mendorong produksi barang olahan nikel untuk meningkatkan pendapatan negara secara keberlanjutan. Indonesia dalam implementasi kebijakannya mendapatkan tantangan termasuk adanya gugatan Uni Eropa serta adanya putusan World Trade Organization (WTO). WTO menjatuhkan gugatan yang berisi pelanggaran prinsip perdagangan bebas, ketergantungan pada tenaga kerja asing, dan isu lingkungan. Penelitian ini merekomendasikan penguatan diplomasi ekonomi, pengembangan teknologi lokal, dan peningkatan keterampilan tenaga kerja*

*domestik untuk mencapai kemandirian dan keberlanjutan pengelolaan nikel Indonesia.*

***Kata Kunci:*** *Kebijakan Hilirisasi Nikel, Larangan Ekspor, Diplomasi Ekonomi, Keberlanjutan, World Trade Organization (WTO)*

## **INTRODUCTION**

The substantial need for raw materials, such as nickel, for renewable energy is propelling the shift from fossil fuels. Nickel has been utilized since ancient times and its applications are expanding in the steel, electronics, and energy sectors. Indonesia, with the biggest nickel reserves globally (52%), continues to export low-value raw ore. Indonesia, as the country with the largest nickel reserves in the world (52%), still exports raw ore with low value. The government enhances added value by prohibiting the export of raw materials under Law Number 4 of 2009 and Minister of Energy and Mineral Resources Regulation No. 1 of 2014, which promotes the establishment of smelters. By 2023, this program augmented processed nickel exports to USD 6.2 billion and state revenue to IDR 510 trillion. This approach encounters opposition from the European Union (EU), which initiated legal action against Indonesia at the WTO in 2019 for purportedly contravening the principles of free trade (Article XI GATT 1994). The WTO determined that Indonesia's export ban contravened international trade regulations, despite its intention to enhance the domestic economy.

Cooperation with China through smelter investments increases nickel production, but still involves a lot of foreign labor (TKA), especially due to limited local skills and technology. Although this investment supports development, dependence on foreign labor (TKA) poses challenges to the independence and development of the local workforce. Prioritizing the reduction of reliance on foreign labor, the enhancement of domestic training, and the fortification of economic diplomacy has become essential for Indonesia to independently manage its natural resources while safeguarding anticipated earnings and interests.

## **METHODS**

This study employs a descriptive-analytical qualitative methodology. This research, adhering to the qualitative approach, is receptive to advancements and alterations in field conditions. This research emphasizes the problematic features, concentrating on countries as the primary focus. The research is further refined by other theories and concepts like Neo-mercantilism, national interest, and the theory of absolute benefit as the analytical instruments employed by the researcher.

Researchers additionally employ the notion of National Interest. National Interest refers to a nation's objectives and aspirations, encompassing economic, military, and cultural dimensions. This concept is crucial in the context of international relations, serving as a foundational element in the formation of a state and its conduct in global affairs. The national interest is intricately linked to a state's power, aimed at the pursuit of influence, whether by coercive (hard power) or non-coercive (soft power) means. The pursuit of national interests to fulfill national objectives will encounter various challenges and repercussions, particularly within the international system, including rivalry and the emergence of entities that function as power balancers. In the realm of natural resource management, Indonesia aims to enhance its economic influence in international trade, along with its national objectives. Indonesia fulfills its responsibility by safeguarding its primary assets through the advancement of downstream sectors in conjunction with collaboration with other nations, including China. The prohibition on nickel ore exports is a tactic to enhance Indonesia's interests while demonstrating the nation's capacity to diminish reliance on foreign nations in the management of its natural resources (Parandaru, 2021).

Indonesia possesses nickel ore deposits estimated at approximately 4.3 billion tons, distributed across the nation. Indonesia holds the largest nickel deposits worldwide, accounting for approximately 52% of the global nickel reserves (Ministry of Energy and Mineral Resources, 2020). In 2021, the United States Geological Survey (USGS) indicated that Indonesia represented around 37% of global nickel production, amounting to 1 million metric tons (USGS, 2021).

## **RESULTS AND DISCUSSIONS**

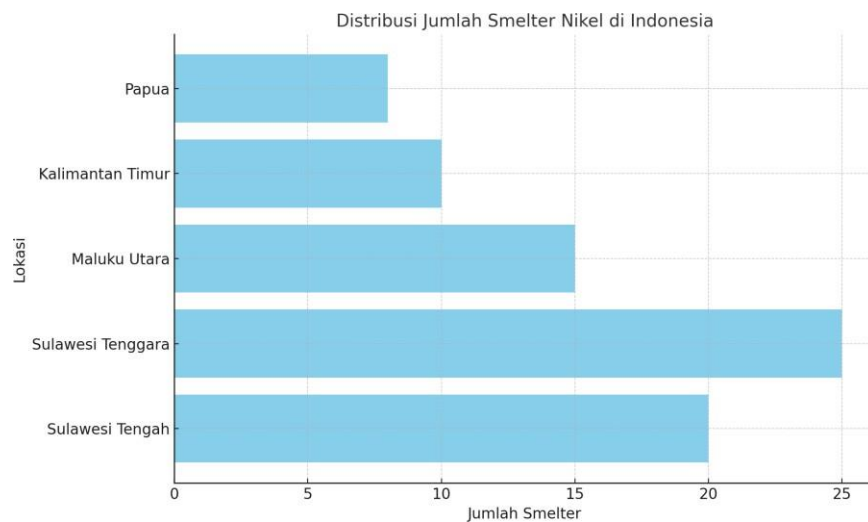
### ***Nickel as an Absolute Advantage***

Indonesia is known to have nickel ore reserves estimated at around 4.3 billion tons, spread throughout the country. Indonesia is also the country with the largest nickel reserves in the world, accounting for approximately 52% of the world's nickel reserves (Ministry of Energy and Mineral Resources, 2020). Meanwhile, in 2021, the United States Geological Survey (USGS) recorded Indonesia's contribution to be around 37% of the world's total nickel production, equivalent to 1 million metric tons (USGS, 2021). This potential indicates Indonesia's strategic positioning to leverage its natural resources for a competitive edge in the global market. Because of these reserves, Indonesia primarily exports nickel in its raw or 'ore' form, which results in lower prices in the global commodities market and insufficient domestic use. Indonesia seeks to enhance the processing of raw resources into semi-finished items to rejuvenate the industry and elevate the well-being of its populace. In 2009, the government produced a draft. The draft is articulated in Undang-Undang Nomor 4 of 2009 regarding Mineral and Coal Mining, which prohibits the export of unprocessed mining materials, including nickel. Article 103 stipulates that holders of mining permits must process and refine their mining products within the country. According to Article 170, domestic refining must occur within five years following the passage of the Mineral and Coal Mining Law (Undang-Undang Pertambangan Mineral dan Batu Bara). The notion of absolute advantage posits that a country can manufacture a product more efficiently than another, in terms of both cost and resources (Smith, 1776). In the case of nickel, Indonesia has efficiency driven by abundant mineral reserves, a strategic geographical location, and government policies aimed at increasing added value through downstream processing.

The Indonesian government then issued a policy banning the export of nickel ore and other mining commodities in early 2020. This policy is a reaffirmation of the Minister of Energy and Mineral Resources' (ESDM) Regulation Number 1 of 2014 and Government Regulation Number 1 of 2017 concerning the implementation of mineral and coal mining business activities. The provisions of this regulation aim to enhance the quality of the domestic industry and boost its

added value, thereby enabling the domestic operation of processing industries. Subsequently, Indonesia issued a government regulation under Permen SDM number 11 of 2019. This regulation requires all mining companies in Indonesia to have mineral processing or smelting facilities. This step directly places Indonesia on track to leverage its absolute advantage. The construction of this smelter aims to enhance the sale value of the minerals mined from Indonesia. A smelter must process nickel ore to achieve a comparable selling value. The number of nickel-specific smelters has currently reached 116, leading to an increase in domestic nickel ore consumption, projected to reach 400 million tons by 2025 (Grace et al., 2023).

This augmentation not only signifies enhanced production efficiency but also generates substantial added value, fortifying Indonesia's standing in the global supply chain, particularly within the stainless steel and electric vehicle battery industries (Rizal & Sihotang, 2023). Indonesia is boosting manufacturing efficiency and fortifying the domestic processing industry to bolster global competitiveness and optimize its long-term economic potential. This step is both economically significant and strategically vital for fostering national independence and sustainability.



Grafik 1. Distribution of nickel smelters in Indonesia

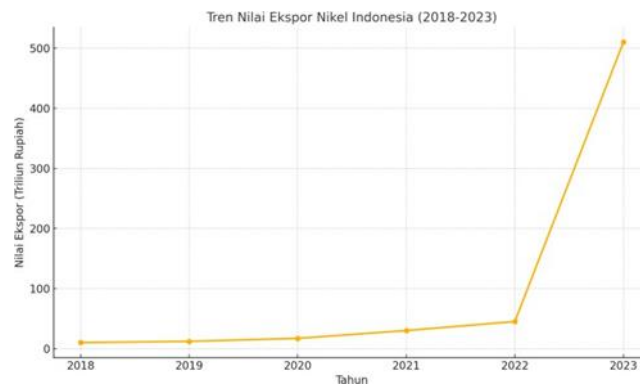
Source: Kementerian Energi dan Sumber Daya Mineral. (2023). Laporan Statistik Smelter Nasional. Jakarta: KESDM.

The Indonesian government explicitly employs neo-mercantilism, leveraging state mechanisms to bolster and exploit important sectors, thus augmenting national economic competitiveness while regulating all economic activities (Krugman, 1994). A nation's government intervenes to formulate policies that may benefit the nation's interests. Indonesia is taking steps to improve its natural resources, focusing on the management of its nickel mining assets, with the aim of reaping benefits. These advantages could stimulate Indonesia's economic expansion and augment the global competitiveness of its mining sector.

Indonesia utilizes these natural resources as a tool to strengthen its economic position in the global market. The Indonesian government's policy regulating nickel exports, such as the ban on raw nickel ore exports since 2020, is in line with the principles of neo-mercantilism, which encourages countries to control strategic resources to increase added value and strengthen the domestic economy (Herdiana, 2020). Indonesia strives to reduce dependence on other countries in the processing of its natural resources, enhance the competitiveness of domestic products, and strengthen Indonesia's position in the global market. By maximizing the domestic processing of natural resources, Indonesia is not only trying to reduce dependence on developed countries but also strengthen Indonesia's position in the global supply chain, especially in the rapidly growing high-tech industries, such as electric vehicles. Indonesia then processes this nickel ore into products such as *ferronickel*, *nickel matte*, and *nickel pig iron (NPI)*. All of these processed goods are a mixture of the main raw materials for the stainless steel industry and electric batteries for motor vehicles.

The Central Statistics Agency (BPS) of Indonesia noted that this policy has a significant impact on the continuity of Indonesia's nickel exports. The Central Statistics Agency (BPS) recorded that in 2020, Indonesia's nickel exports reached 93 thousand tons, valued at IDR 126 billion (2020 exchange rate). However, in 2023, there was a significant and highest increase, reaching 90% with an export volume of 1.1 million tons, valued at USD 6.2 billion, or IDR 100 trillion. President Joko Widodo (Jokowi), during his term in 2022, stated that Indonesia has enjoyed an income of IDR 17 trillion from the export of raw nickel ore. However, after Indonesia implemented downstream and industrialization policies in the mining

sector, particularly nickel, state revenue surged significantly to reach IDR 510 trillion. The processing of nickel into more valuable finished products is crucial, as it directly contributes to the increase in state revenue and taxes that related industries can contribute (Dwi, 2022).



Grafik 2. The Trend in Indonesia's Export Value

Source: Badan Pusat Statistik. (2023). *Ekspor dan Impor Komoditas Tambang*.

Jakarta: BPS

The downstream policy has proven effective in increasing the added value of Indonesia's natural resources while also strengthening the foundation of the national economy through the increase in processed product exports. Nickel downstreaming also plays an important role in Indonesia's economic transformation, from a country that initially relied on raw material exports to a country with more developed industrial capacity. The implementation of this policy creates new jobs, accelerates the development of supporting industries such as energy, logistics, and manufacturing, and strengthens the tax sector. Increased state revenue also opens up opportunities for better infrastructure development and improved community welfare.

This good policy for Indonesia is faced with new challenges from international trade partners, especially the European Union. The European Union (EU) considers Indonesia's actions to be very unfair as they can disrupt market order and threaten the sustainability of European industries. The EU is known to be one of the largest nickel importers in the world, and Indonesia is one of the importers of raw materials. This policy is perceived to impede the European Union's search for more affordable raw materials, leading to feelings of resentment within the

union (Nugroho, 2022). The EU often implements anti-dumping and anti-subsidy policies against raw mining products such as nickel. The products resulting from industrial downstreaming in this case will face the same issues, so the EU considers Indonesia's actions to be detrimental as they create significant problems and can reduce their competitiveness in the international trade arena. The EU also confronts the threat of industrial component chaos, particularly within the trade ecosystem. Clearly, this policy harms the free trade that the EU has been practicing all along.

The EU then sued Indonesia in 2019 at the World Trade Organization (WTO) regarding Indonesia's seemingly protectionist policies, particularly the ban on nickel ore exports. Indonesia's implemented policy is believed to drive up global nickel prices, leading to financial losses. The EU considers that this policy has violated the principle of free market and could trigger other countries to do the same. According to the EU, Indonesia has violated Article XI, Paragraph 1 of the General Agreement on Tariffs and Trade (GATT) 1994. The lawsuit filed by the EU includes restrictions on nickel exports, domestic requirements for nickel and coal processing, and prohibited subsidy schemes (Rizal et al., 2023).

### ***National Interests Hampered***

When national interests are used to achieve a country's goals, there will be several obstacles and consequences faced, especially in the international system, such as competition or the emergence of actors acting as power balancers. In the context of natural resource management, Indonesia, with its national interests, strives to boost its economic strength in the international trade arena. Indonesia plays its role by trying to protect its main assets through the development of downstream industries combined with cooperation with other countries such as China. This policy of banning nickel ore exports is a strategy to strengthen Indonesia's interests while asserting that Indonesia can reduce dependence on other countries in managing its natural resources (Parandaru, 2021). However, on October 17, 2022, the WTO issued a ruling affirming that Indonesia had violated the principle of free trade with quantitative restrictions regulated under Article XI, paragraph 1. In the agreement, WTO countries are prohibited from imposing export restrictions or bans except concerning customs duties, taxes, and other funds. In the



WTO ruling, the organization decided that Indonesia had indeed violated Article XI, paragraph 1 of GATT 1994 with its policy of banning the export of raw nickel.

The WTO considers Indonesia's export ban to be a form of quantitative restriction that is not in accordance with the principles of free trade guaranteed by GATT. The World Trade Organization also assesses that Indonesia cannot provide valid justification based on WTO provisions for implementing those restrictions. The WTO also acknowledges that the goal of a country's economic development is important to pursue, but it must adhere to the principle of free trade, which requires member countries to avoid unlawful trade restrictions based on existing foundations.

Although the policies implemented by Indonesia are indeed legally valid in economic terms, the WTO considers Indonesia's policy of imposing a nickel export ban to be in stark contrast to Indonesia's commitments as a WTO member, which has agreed to the principles of free trade without barriers as outlined in Article XI of the GATT. The Indonesian government, in its dealings with the European Union, must at least have strategic bargaining power and be able to protect national interests such as economic sovereignty (Sihotang & Suandika, 2023). This national interest is also inseparable from Indonesia's efforts to prove its ability to manage its natural resources.

To continue its main objective of managing and selling nickel at the international trade level and protecting its national interests, Indonesia needs to take appropriate steps such as economic diplomacy and negotiations. According to the special staff of the Minister of Trade for International Trade Agreements, Bara Krishna Hasibuan, the lawsuit could be withdrawn if there is an agreement between both parties, such as an amicable solution (negotiation) between Indonesia and the EU.

Indonesia has not officially conducted negotiations as they have only been informal discussions so far (Firda Dwi, 2024: CNBC). The Coordinating Minister for Maritime and Investment at the time, Luhut Binsar Pandjaitan, also mentioned that the EU is in talks to be able to import nickel and its derivatives like stainless steel again. Luhut also provided information that the EU requested Indonesia not to impose export bans on second and third-tier goods.

However, not all nickel downstreaming in Indonesia uses local labor. Many foreign workers have been brought in by other companies, especially from China. These results from substantial investment between China and Indonesia. As a form of acceleration for nickel downstreaming, Indonesia has partnered with China as an investor in these projects. In recent years, China has actively contributed through direct investments in the smelter sector in Indonesia. Until now, Indonesia has successfully built 20 nickel smelters that support the national natural resource downstreaming efforts (Friana, 2023). The construction of the smelters and their processing are carried out by foreign workers from China. However, this is starting to contradict the nickel downstream policy according to ESDM Regulation Number 1 of 2014. The regulation aims to create job opportunities. ESDM Ministerial Regulation No. 8 of 2015 and No. 5 of 2017, which updated the processing and refining regulations, replaced the regulation, but the main objective remained unchanged.

As a result of the cooperation between Indonesia and China, numerous Chinese mining enterprises continue to hire foreign labor to operate the specialized technologies and methods they introduce, including the HPAL (High Pressure Acid Leach) technology essential for nickel ore refinement. This raises a sensitive issue, where the use of foreign labor often disadvantages opportunities for local workers. On the other hand, Chinese foreign workers also play a significant role in Indonesia's nickel mining industry. Two major companies, namely PT Indonesia Morowali Industrial Park (IMIP) in Central Sulawesi and PT Virtue Dragon Nickel Industry (VDNI) in Southeast Sulawesi, are prime examples of Chinese investment in this sector. Chinese investment in the nickel mining and refining sector has positively influenced economic growth, enhanced employment possibilities, fostered human resource development, and advanced infrastructural development. This investment, however, presents concerns, particularly with environmental issues associated with nickel mining and refining activities.

Bahlil Lahadalia, the Minister of Energy and Mineral Resources, stated that foreign workers can accomplish tasks in 18 months, whereas local workers may require several years to attain equivalent skills (Yusrial, Tempo: 2024). The presence of foreign workers indicates Indonesia's significant reliance on foreign

companies for the management of its natural resources, especially in the operation of nickel smelters. Most of the smelter technology and infrastructure are controlled by foreign parties, allowing them to dominate the market. This underscores a significant challenge in the advancement of human resources within Indonesia's mining sector, as insufficient investment in training and local capacity development impedes the progress of domestic industrialization.

The EU raised a protest with the WTO, asserting that Indonesia's practices are deemed unfair, jeopardizing its viability in global economic competition. Indonesia must safeguard against foreign interference that could undermine the sustainability of its natural resource management. Indonesia must maintain its natural resources to secure its national interests, as it possesses the right to control these resources and it is essential to preserve its assets. However, on the other hand, Indonesia, which still relies on foreign workers in nickel processing, also needs to strive to address this by implementing policies such as Permen ESDM No. 1 of 2014, which need to be addressed, including the lack of infrastructure, access to cutting-edge technology, and inadequate training systems for local workers.

### **CONCLUSIONS**

The nickel downstreaming policy in Indonesia exemplifies the implementation of neo-mercantilism principles and absolute advantage theory, wherein the state leverages strategic resources to bolster domestic economic competitiveness and fortify its standing in international trade. The downstream policy provides leverage for Indonesia in international trade negotiations, including with major partners such as China and the European Union. However, the lawsuit from the European Union at the WTO indicates resistance from trade partners against this policy. Possessing the world's greatest nickel reserves, this policy enables Indonesia to achieve substantial advantages by optimizing domestic production and processing and therefore creating considerable added value. The rise in state revenue from Rp17 trillion (derived from raw material exports) to Rp510 trillion (from processed product exports) demonstrates that this program effectively maximizes the potential of national resources.

With the advantage of abundant nickel resources and relatively low exploration costs, Indonesia can produce processed nickel products more efficiently than other countries. This gives Indonesia an advantage in global trade, especially in the strategic raw materials sector, such as ferronickel and other derivative products that are key components in the stainless steel and electric vehicle battery industries. This policy reflects the tension between national interest-based protectionism and the principle of free trade. The WTO's ruling on Indonesia's ban on raw nickel exports highlights the importance of a more targeted economic diplomacy strategy to maintain Indonesia's position in the global market while still protecting national interests.

Internally, the limitations of technology and local labor become challenges that need to be addressed. Although Indonesia has an absolute advantage in terms of resources, the dominance of foreign labor in operating advanced technology indicates the need for accelerated technology transfer and the development of domestic human resource capacity. This step is necessary to support the sustainability of downstream policies and ensure independence in the management of strategic resources.

This downstream policy has had a positive impact on strengthening the domestic economy, increasing state revenue, and reducing dependence on raw material exports in line with the national interest perspective. However, to maintain this success, Indonesia needs to combine an absolute profit-based strategy with effective economic diplomacy, diversification of trade partners, and local capacity development. With these measures, Indonesia can continue to leverage its nickel reserves as a strategic asset in the global supply chain while also strengthening its position in high-value-added international trade.

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