

SMELTERS AND STRATEGIC PARKS: CHINA'S ROLE IN INDONESIA'S NICKEL VALUE CHAIN

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Cover: Nickel mining in Indonesia. Credit: Sesan13/Shutterstock.

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EXECUTIVE SUMMARY

With the largest nickel reserves in the world, Indonesia has successfully emerged as a pivotal player in the global critical minerals supply chain, especially for the electric vehicle battery industry. Indonesia's nickel development strategy rests on a raw nickel export ban and national strategic status for nickel developments in key industrial sites. This policy agenda promotes downstream processing through the development of huge, vertically integrated nickel processing hubs situated near nickel mining sites.

Critical minerals and downstream processing — particularly in nickel — were prioritised under President Joko Widodo's administration from 2014 to 2024. Building on the 2009 Mining Law, Widodo's administration introduced a ban on raw nickel exports in 2014, which drove a major expansion in smelting in Indonesia. Although there were only two nickel smelters in 2016, there are now over 60 smelters either operating or under construction across Indonesia's four nickel-rich provinces, supplying over 50% of the world supply, up from just 16% in 2019.¹

This huge and rapid expansion of nickel mining and processing in Indonesia has relied heavily on Chinese investment. The resource nationalisation paradigm forbids foreign firms from bidding for mining permits. As a result, Chinese interests have relatively limited control over the mining side of the industry. However, it is estimated that some 75% of nickel smelting is controlled by Chinese firms² and some 98% of Indonesian nickel exports are shipped to China.³ These statistics reflect the deep embedding of Indonesia's nickel sector in Chinese industrial networks, which is reinforced by investments under the Belt and Road Initiative and supported by high-level political backing from the Indonesian presidency.

The ubiquitous presence of Chinese interests in Indonesia's nickel boom has raised concerns about the effectiveness of resource nationalisation policies and the degree to which value is retained in Indonesia. In particular, the costs faced by local communities have



Photo: Waxy surface of Chrysoprase mineral with visible traces of nickel in apple green parts of the texture. Damian Pawlos. Credit: Adobe Stock

become a national debate. Local communities have seen their livelihoods undermined by deforestation and water pollution linked to nickel extraction and processing and have raised concerns about land acquisition and a lack of consultation. In addition, labour issues, especially in relation to workplace safety and low wages, continue to plague the sector. These issues reflect broader concerns about governance in the nickel sector, given the special regulatory favour under which nickel mining and processing falls in Indonesia and the broader strategic relations in which the sector sits.

In order to better understand these risks, this study maps corruption risks and governance weaknesses across the value chain of nickel mining and processing in Indonesia. The study uses the Mining Awards Corruption Risk Assessment tool (MACRA) and draws on literature review, focus group discussions, and in-depth interviews with several mining-affected communities in Weda Bay, smelter workers from Indonesia Weda Bay Industrial Park (IWIP), corporate lawyers, activists, journalists, and researchers.

1 Tunnicliffe, A. (2025). *Indonesia's nickel market stranglehold tightens, again*. mine: Issue 151: April 2025, Mine. Available at: https://mine.nridigital.com/mine_apr25/indonesia-nickel-market-2025 (Accessed: 04 May 2025).

2 C4ADS. (4 February 2025). *Refining Power*. Available at: <https://c4ads.org/commentary/refining-power/>

3 Xie, A. (2023). *98% of Indonesia's nickel products shipped to China in June*. Mysteel. Available at: <https://www.mysteel.net/news/5041119-98-of-indonesias-nickel-products-shipped-to-china-in-june> (Accessed: 04 March 2025).



Photo: Nickel ore production in Sorowako, Indonesia. Credit: KAISARMUDA, Shutterstock.

The study identifies a series of corruption risks throughout both the upstream and downstream segments of the industry. Bribery and illicit payments are commonly reported in the issuance of mining permits, a situation exacerbated by a lack of public transparency in the licensing process. Moreover, activists who speak out against environmental degradation or land seizures have faced criminalisation, while public participation in critical decision-making around land acquisition and industrial development remains minimal.

In particular, the study points to the following set of key governance risks:

1. Weak oversight of new smelter facilities: The absence of independent audits on smelter projects allows for manipulation of technical data, environmental reports, and project boundaries.
2. Regulatory overlaps and institutional fragmentation
 - a. Fragmented licensing authority between the Ministry of Energy and Mineral Resources (ESDM) and the Ministry of Industry (Kemenperin) hampers cross-sector coordination and data integration.

- b. The Online Single Submission — Risk Based Approach (OSS-RBA) system does not yet provide real-time, publicly accessible data, contributing to opaque monitoring of mining and smelting projects.
3. Weak oversight of foreign acquisitions
 - a. Chinese acquisition of mining companies proceeds without national-level control audits or verification of beneficial ownership.
 - b. Foreign divestment regulations are often circumvented through local nominees, without effective control verification mechanisms.

INTRODUCTION

Nickel is critical to the global energy transition and is found predominantly in Indonesia, where over half of global nickel reserves are located in just four provinces: Southeast, Central, and South Sulawesi as well as North Moluccas.⁴ Nickel is an important element for lithium-ion batteries used in electric vehicles as well as in large-scale energy storage systems and renewable energy infrastructure like wind turbines and solar panels. As production of these technologies has grown sharply since the early 2000s, Indonesia has experienced a ‘nickel boom’ driven by Chinese investment in the country. Chinese companies dominate global production of transition technologies, especially EVs.

The nickel boom builds on a minerals sector that has long been a major pillar of the Indonesian economy. Contributing almost 10% of national tax income, the minerals sector has expanded from oil and natural gas to coal and a series of metals such as tin, copper, bauxite and gold, which the government has classified as critical minerals. These minerals are considered critical due to their strategic importance for national economic development and security, as well as their high supply risk and lack of substitutes.⁵ Indonesia is amongst the seven-largest producing countries in coal, bauxite, tin and copper⁶ and has become the world's largest producer of nickel.⁷

Critical minerals and downstream processing — particularly in nickel — were prioritised under

President Joko Widodo’s administration from 2014 to 2024. Building on the push towards resource nationalism entailed in the 2009 Mining Law, Widodo’s administration introduced a ban on raw nickel exports in 2014, which aimed to encourage domestic smelting and value addition. This policy accelerated the growth of industrial parks such as the 5,500-hectare Indonesia Morowali Industrial Park (IMIP) in Central Sulawesi, where nickel sourced from nearby mines is processed and exported. The Morowali park, like the slightly smaller Indonesia Weda Bay Industrial Park (IWIP) in North Maluku, have been designated as National Strategic Projects, providing streamlined licensing processes, financing incentives, and supervision of social and environmental impacts.⁸ The rush of activity in the sector has driven huge growth in nickel exports, which reached over US\$38 billion in 2024, up from just US\$11.9 billion in 2020.⁹

Industrial parks such as Morowali and Weda Bay have become icons of Chinese-backed nickel industrialisation in Indonesia.¹⁰ Although direct Chinese ownership in the mining stage is relatively limited — with only 11 Chinese-affiliated mining companies identified across Central Sulawesi, Southeast Sulawesi, and North Maluku — around 75% of nickel smelting capacity is controlled by Chinese firms in activity focused in the industrial parks.¹¹ Operations typically encompass the entire downstream value chain: from sourcing raw or semi-processed nickel ore – either through local procurement contracts or acquisitions of companies holding mining licenses — to smelting, refining (e.g. producing nickel pig iron, ferronickel, and mixed hydroxide precipitate), and in some cases, further processing into battery precursor materials.

4 Ministry of Energy and Mineral Resources. (2020). Booklet Tambang Nikel 2020: Peluang Investasi Nikel Indonesia. Available at: <https://www.esdm.go.id/id/booklet/booklet-tambang-nikel-2020>

5 Ministry of Energy and Mineral Resources. (2023). Keputusan Menteri ESDM No 296.K/MB.01/MEM.B/2023 tentang Penetapan Jenis Komoditas yang Tergolong Dalam Klasifikasi Mineral Kritis. Available at: https://jdih.esdm.go.id/common/dokumen-external/Kepmen%20ESDM%20No%20296K_MB_01_MEM_B_2023.pdf

6 Ministry of Energy and Mineral Resources. (2021). Grand Strategy Mineral dan Batubara: Arah Pengembangan Hulu Hilir Mineral Utama dan Batubara Menuju Indonesia Maju. Available at: <https://www.esdm.go.id/assets/media/content/content-buku-grand-strategy-komoditas-minerba.pdf>

7 Home, A. (23 January 2025). Only Indonesia can help nickel recover from price bust. Available at: <https://www.reuters.com/markets/commodities/only-indonesia-can-help-nickel-recover-price-bust-andy-home-2025-01-22/>

8 See PP Nomor 42 tahun 2021 tentang Kemudahan Proyek Strategis Nasional (PSN). Available at <https://peraturan.bpk.go.id/Details/161962/pp-no-42-tahun-2021>

9 Resources Review. (8 April 2025). *Indonesia's nickel industry's growth comes with concerns*. Available at: [https://resourcesreview.com.au/news_article/indonesias-nickel-industrys-growth-comes-with-concerns/#:~:text=This%20led%20to%20the%20development,US\\$11.9%20billion%20in%202020.](https://resourcesreview.com.au/news_article/indonesias-nickel-industrys-growth-comes-with-concerns/#:~:text=This%20led%20to%20the%20development,US$11.9%20billion%20in%202020.)

10 Reuters (2025). *Chinese firms control around 75% of Indonesian nickel capacity, report finds*. Available at: <https://www.reuters.com/markets/commodities/chinese-firms-control-around-75-indonesian-nickel-capacity-report-finds-2025-02-05/>

11 C4ADS. (4 February 2025). *Refining Power*. Available at <https://c4ads.org/commentary/refining-power/>

The Chinese company Tsingshan, for example, leads smelter projects in Morowali through its subsidiary PT Indonesia Tsingshan Stainless Steel (ITSS), and has strategic partnerships with local firms and state-owned enterprises. In Central Halmahera, Chinese companies Huayou Cobalt and GEM Co. Ltd collaborate with Indonesian partners to supply mixed hydroxide precipitate (MHP) to global EV battery markets, especially China. This strategic positioning allows Chinese firms to dominate value capture and export flows, even without directly controlling most of the upstream concessions.

Chinese involvement continues to grow through new smelter and high-pressure acid leaching (HPAL) facility projects announced and launched between 2024 and 2025, alongside expansions of existing operations. This reflects not just quantitative dominance, but also China's long-term strategic involvement in Indonesia's nickel industry. The level of Chinese investment in such a strategic value chain can raise concerns over resource sovereignty, unequal technology transfer, and lower level of state control over the supply chain.

Rapid growth in activity in the nickel sector has also come at a significant social and environmental cost, prompting protest amongst local communities as well as a national debate about how to manage harms related to this rapidly growing industry. The nickel sector has become a key driver of deforestation, with clear felling for large open-cut mines for nickel extraction as well as for the industrial parks that are established near nickel mines.¹² Deforestation raises

issues for local livelihoods while water pollution from mines and processing plants forces fisherfolk to travel further offshore to find fish stocks.¹³ Local communities protesting these concerns have faced repressive actions from police and security forces.¹⁴ Local communities also report that air pollution has contributed to a rise in respiratory illness among local communities.¹⁵ The dependence of smelters on on-site coal-fired power plants raises additional concerns about the environmental impact of the industry.¹⁶

High social and environmental costs in turn raise concerns about governance risks in the sector. These concerns are particularly worrying given the high corruption risks that prevail in Indonesia's broader resource sector, particularly in relation to the issuance of mining permits.¹⁷ In recent years, two provincial governors have been implicated in corruption cases linked to nickel mining^{18,19} and the involvement of politically-exposed persons in the nickel industry has been widely reported.^{20,21} These conditions drive concerns among policy-makers across the Global South about the role of Chinese investment in a context of elevated corruption risks. In Indonesia, public perception frequently links Chinese involvement in the nickel sector to a lack of transparency and regulatory capture, despite China's prominent status as a key development partner.²²

These concerns are reflected in the centralisation of licensing authority, combined with weak institutional oversight, which has significantly increased corruption risks in Indonesia's nickel sector and in the mining

sector more broadly. Transparency International Indonesia (TII) previously highlighted that these risks became more pronounced after the enactment of Law No. 3/2020 and its revisions, which transferred full control over licensing to the central government without strengthening corresponding accountability mechanisms.²³ In fact, the legislature removed the article on criminal penalties for abuse of authority in the issuance of mining licences.²⁴ This regulatory change created fertile ground for rent-seeking, transactional governance, and abuse of power in the issuance and supervision of mining permits.

Building on these concerns, this paper expands the analysis of corruption and governance risks beyond the licensing stage to include nickel processing operations — particularly smelter projects dominated by foreign investors – where opaque regulatory frameworks and limited public scrutiny further heighten the risk of institutional capture and impunity. To do this, this study employs corruption risk and governance assessments through literature review, focus group discussions (FGD), and in-depth interviews with mining-affected communities, smelter workers, corporate lawyers, activists, journalists, and researchers. Fieldwork was conducted between September 2024 and April 2025. The primary field site was the Indonesia Weda Bay Industrial Park (IWIP) in North Maluku, which is currently preparing for business expansion.²⁵

During the fieldwork, the research team conducted one FGD and six in-depth interviews with key informants. These included: local researchers, local fishers, affected residents from Sagea and Lelilef Sawai, a member of the Central Halmahera parliament (DPRD), a corporate lawyer involved in land and industrial policy, and smelter employees from the Industrial Relations and Land Acquisition Divisions of PT IWIP. These interviews were designed to validate the integrity risks identified through the MACRA tool and to uncover first-hand insights on regulatory gaps, community consultation failures, and the socio-environmental impacts of Chinese-backed nickel investments.

The FGD was conducted in Ternate, the capital of North Maluku province, with participation from academics, local government officials, CSO representatives, and journalists. Meanwhile, the community visits were focused in Sagea — a rural village known for its karst landscapes and freshwater sources — and Lelilef Sawai, a coastal village located in Weda District.

More broadly, Central Halmahera Regency has experienced unprecedented demographic growth. According to the Central Statistics Agency of Central Halmahera (BPS Halmahera Tengah), the population surged from 42,815 in 2010 to approximately 106,500 in 2024 — representing a dramatic 148.7% increase over 15 years.²⁶ This surge coincides with the rapid industrialisation driven by the nickel processing sector, especially in North Weda and Central Weda districts, which host most of the IWIP smelters. The significant influx of workers and supporting industries has placed growing pressure on local infrastructure, traditional livelihoods, and environmental resources.

The research drew on TII's 2023 study on corruption risks in mining permit issuance and supervision as a foundational reference. It also analysed relevant regulations in the mining and industrial sectors, particularly the permitting process map. Additional sources included research on mining permit politics, corruption risks in mineral processing, the social-environmental impacts of nickel mining, and trends in Chinese investment in the mineral sector. Corruption risk prioritization was conducted using the MACRA tool, which assists researchers in identifying and diagnosing risks in the mining sector's licensing system.

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23 Nagara, G., Yazid, F., and Atikah, G.A. (2023). *Corruption Risk Assessment on Licensing and Monitoring of Mining Industry in Indonesia*. Transparency International Indonesia. Available at: <https://ti.or.id/books/corruption-risk-assessment-on-license-and-monitoring-of-mining-industry-in-indonesia/>

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26 Badan Pusat Statistik Kabupaten Halmahera Tengah. (2025). *Kabupaten Halmahera Tengah Dalam Angka 2025*. Available at: <https://haltengkab.bps.go.id/id/publication/2025/02/28/c28313c4d0c01394ca7e3288/kabupaten-halmahera-tengah-dalam-angka-2025.html>

THE NATIONAL INDUSTRY CONTEXT

Indonesia has become one of the most favoured investment destinations for Chinese investors. In 2023, Indonesia was the largest recipient of Chinese investment under the Belt and Road Initiative (BRI).²⁷ President Prabowo Subianto’s visit to China in late 2024 strengthened cooperation between the two governments, especially in green technology and energy, aligning China’s Greener BRI agenda with Indonesia’s energy transition goals. Indonesia’s accession to the BRICS is also expected to open new economic opportunities and attract additional Chinese investment.²⁸

At the domestic level, this deepening of strategic ties coincides with the new administration’s expanded cabinet structure and continued focus on nickel downstreaming as a National Strategic Project (PSN) in the 2025–2029 National Medium-Term Development Plan (RPJMN). The establishment of new ministries—such as a proposed ministry to oversee strategic commodities (e.g., nickel, palm oil, and coal)²⁹ and the separation of the Ministry of Environment and Forestry into two entities—may add complexity to inter-ministerial coordination, particularly in licensing, environmental oversight, and investment governance in the mining sector.

For example, in nickel industrial zones like the Indonesia Weda Bay Industrial Park (IWIP), licensing and operational oversight often require coordination between the Ministry of Energy and Mineral Resources (ESDM), the Ministry of Investment, the Ministry of Industry, the anticipated commodity-focused ministry,

and the now-separate ministries responsible for environment and forestry. In such cases, fragmented mandates and unsynchronised data have led to ambiguity over who is accountable for environmental permits, forest area release, and monitoring of high-risk smelter activities. These institutional overlaps create governance gaps, reduce transparency, and hinder local communities and authorities from obtaining legal clarity or protection from mining impacts.

China is the world’s largest consumer of nickel, accounting for 64% of global demand.³⁰ As both the largest EV manufacturer and market in recent years, securing battery component supply has become a strategic priority.^{31,32} Given the key role of nickel in battery technology, it is no surprise that Indonesia’s vast nickel resources have become a major investment target for Chinese firms over the past decade. Their presence in Indonesia’s nickel industry expanded significantly following the 2020 ban on raw ore exports, encouraging important downstream investments.³³

As of 2023, there were 373 nickel concessions which had been issued the required legal, administrative, technical, financial and environmental permits.³⁴ These concessions cover almost a million hectares of land. Although foreign companies are not allowed to bid for mining permits in Indonesia, they are allowed to enter into joint ventures or to purchase stakes in existing Indonesian companies that can bid for permits. Chinese companies, however, have maintained a relatively limited footprint in the mining stage itself. Only 11 companies with Chinese shareholders were recorded operating in Central Sulawesi, Southeast Sulawesi, and North Maluku, according to the Global China South Project.³⁵ While detailed ownership structures vary,

these 11 companies are believed to involve a mix of majority and minority stakes, often through joint ventures with local partners. Their collective share of national nickel ore production remains relatively small.

In downstream processing, by contrast, a strong Chinese presence is evident. 116 smelter projects have been recorded across Indonesia³⁶—comprising operational, under-construction, and planned facilities, with Chinese companies controlling a reported 75% of refining capacity.³⁷

Generally, Chinese firms dominate two types of nickel smelters:

1. RKEF: Rotary Kiln Electric Furnace

Companies such as Tsingshan Holding Group are leading the construction and operation of smelters with Rotary Kiln Electric Furnace (RKEF) technology that processes nickel laterite ore into products such as Nickel Pig Iron (NPI) and ferronickel. These products are partly used for the stainless steel industry, but are also starting to be directed to the battery industry. Areas such as the Indonesia Morowali Industrial Park (IMIP) are centres of this activity, and most of the facilities there are owned or controlled by Chinese entities.³⁸

2. HPAL: High-Pressure Acid Leaching Processing

Chinese companies such as Huayou Cobalt and GEM Co. Ltd are investing heavily in HPAL technology, which is used to process low-grade nickel into Mixed Hydroxide Precipitate (MHP)—an essential ingredient for the production of lithium-ion battery precursors. In Indonesia’s Weda Bay Industrial Park (IWIP) and several other regions, these facilities supply the global market, especially Chinese EV battery producers.³⁹

This downstream focus allows Chinese firms to dominate global critical mineral supply chains without

the higher political and operational risks of upstream mining. In some cases, Chinese firms have acquired companies that already hold Production Operation Mining Licences (IUP OP) or have access to nickel ore supplies.⁴⁰ For example, China Bearing Group acquired Far East Mining in Morowali⁴¹ and Tsingshan formed a joint venture with PT Sulawesi Mining Investment.

This approach avoids the main legal framework for the mining sector, Law No. 3/2020 on Minerals and Coal, which designates control over mineral wealth under the auspices of the Ministry of Energy and Mineral Resources. Instead, such acquisitions typically require only a notification to the Ministry of Energy and Mineral Resources, with no formal control audit or national security screening. The considerably weaker oversight entailed in such acquisitions raises concerns about foreign ownership oversight, transparency and national resource sovereignty.⁴²

Other Chinese firms pursue greenfield investments in industrial parks like IMIP and IWIP, where infrastructure, land access, and licensing are streamlined. Such investment usually falls under industrial regulations, rather than mining-specific law, with Chinese firms generally applying for Industrial Business Licenses (IUI) from the Ministry of Industry as stipulated in Article 104 of the Minerba Law, further reinforced by Ministerial Regulation No. 7/2023 on smelter development.⁴³

This division of responsibilities has created fragmented oversight, particularly concerning transparency, supervision, and policy consistency between upstream and downstream sectors. Transparency is limited due to the absence of integrated, publicly accessible data on ownership changes, production volumes, and ore sourcing. This makes it difficult to trace nickel from mine to smelter and weakens public oversight. Supervision is weak because of the absence of a unified inspection system between ministries. A smelter may

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36 Kementerian Energi dan Sumber Daya Mineral Republik Indonesia. (2023). *Pemerintah rencana batasi izin pembangunan smelter nikel kelas II*. Siaran Pers, 19 October. Available at: <https://www.esdm.go.id/id/media-center/arsip-berita/pemerintah-rencana-batasi-izin-pembangunan-smelter-nikel-kelas-ii>

37 C4ADS. (4 February 2025). *Refining Power*. Available at: <https://c4ads.org/commentary/refining-power/>

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40 Interview with a corporate lawyer with Chinese mining and smelter clients on March 4, 2025

41 IwanQH. (2016). *Chinese Company Acquires Nickel Mine in Morowali*. Available at <https://www.tambang.co.id/perusahaan-cina-akuisisi-tambang-nikel-di-morowali>

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43 Regulation of the Minister of Energy and Mineral Resources Number 7 of 2023 Continuation of the Construction of Metallic Mineral Refining Facilities in the Country

operate legally while sourcing ore from non-compliant mines without detection.

These vulnerabilities increase the risk of corruption, excessive exploitation, and economic dependency when foreign firms — including those from China — expand in strategic sectors like nickel.

The reliance on Industrial Business Licences is widely seen as a critical regulatory blindspot. In particular, the scale, intensity, and configuration of nickel operations, which integrate mining, smelting, and export within single corporate groups are a relatively new phenomenon in Indonesia's resource governance landscape. As a result, existing industrial laws are poorly positioned to address the environmental, labor, and geopolitical risks associated with large-scale mineral processing, especially when dominated by foreign actors. Moreover, this set of concerns is not resolved by Law No. 25/2007 on Investment, by which all foreign firms must register through the Online Single Submission – Risk Based Approach (OSS-RBA) system managed by the Investment Ministry (BKPM). To the contrary, this fragments the legal framework, contributing to oversight challenges and facilitating regulatory arbitrage, particularly in the case of foreign-dominated operations.⁴⁴

In practice, it is widely perceived that Chinese projects — especially BRI-linked initiatives or those designated as of national strategic importance — receive preferential treatment, including expedited permits, land access, or fiscal incentives. These are not always accompanied by transparency and public accountability.⁴⁵ Weak inter-ministerial coordination and lack of strategic investment risk review mechanisms compound these structural gaps.

Adverse experiences in local communities highlight the importance of governance in managing potential harms associated with nickel industrialisation. Our own fieldwork in the vicinity of the Indonesia Weda Bay Industrial Park (IWIP) revealed widespread concerns about shortcomings in the consultation process, including the accompaniment of police with IWIP staff during land negotiations and unfair compensation.⁴⁶ It has been widely reported that community organisers who have raised concerns about the social and environmental costs of nickel industrialisation that

are born by local communities have been faced with repression from police and private security forces.⁴⁷

MINING LICENSING PROCESS MAP

In Indonesia, the authority to issue mining permits for exploration and production (IUP Eksplorasi and IUP Operasi Produksi) rests with the Ministry of Energy and Mineral Resources (ESDM), in accordance with Law No. 3 of 2020 on Mining. Meanwhile, permits for refining or smelter operations — referred to as Industrial Business Licenses (IUI — are issued separately by the Ministry of Industry under Article 104 of the same law and its implementing regulations.

Since the centralisation of mining authority in 2020, all licensing decisions, including land use for mining purposes, have been under the control of the central government. Local governments and provincial legislative councils (DPRD) may provide inputs during spatial planning, but no longer have the authority to issue mining licenses.

The mining permit process in Indonesia consists of several stages, which are primarily managed by the Ministry of Energy and Mineral Resources (ESDM). It begins with the designation of Mining Permit Areas (WIUP), determined in consultation with provincial and local stakeholders but formally issued by ESDM. Once WIUPs are designated, the ministry opens a competitive bidding process for interested and qualified companies.

Qualified companies must pass due diligence assessments on administrative, technical, and financial grounds to be considered for licensing. The winning bidder receives an Exploration Mining Permit (IUP Eksplorasi), allowing geological surveys and feasibility studies. Once exploration is completed and environmental clearance is obtained, companies may apply for a Production Operation Mining Permit (IUP OP), which allows full-scale mineral extraction and onsite processing. Companies must submit mine plans, obtain environmental impact assessment (AMDAL), land use rights, and forestry permits if operating in forest areas. If a company plans to build and operate a smelter, it must separately obtain an Industrial Business License (IUI) from the Ministry of Industry. Article 104 of Law No. 3 of 2020 mandates the

Ministry of Industry to verify foreign-owned smelter investments. It is worth noting that there are cases of Chinese firms only holding IUI licenses that do not directly engage in mining activities.

In practice, Chinese investors often acquire local mining companies that already hold IUP OP licenses to bypass lengthy licensing processes. The ESDM governs upstream mining licenses (IUP Eksplorasi and IUP OP), while the Ministry of Industry regulates downstream permits (IUI) for smelters. This division of responsibilities has created fragmented oversight, particularly concerning transparency, supervision, and policy consistency between upstream and downstream sectors.

Transparency is limited due to the absence of integrated, publicly accessible data on ownership changes, production volumes, and ore sourcing. This

makes it difficult to trace nickel from mine to smelter and weakens public oversight. Supervision is weak because there's no unified inspection system between ministries. A smelter may operate legally while sourcing ore from non-compliant mines without detection.

These gaps enable overlapping permits, unmonitored exploitation, and circumvention of rules, heightening corruption risks and deepening Indonesia's economic dependency on foreign capital, particularly from China. The lack of coordination and of strong verification mechanisms between ministries has led to systemic governance issues, including overlapping permits, weak supervision, and inconsistent policies. These vulnerabilities increase the risk of corruption, excessive exploitation, and economic dependency when foreign firms — especially from China — expand in strategic sectors like nickel.

Table 1. Mining Licensing Process Flow and Actors

Process Stage	Responsible Actor(s)
Designation of Mining Permit Area (WIUP)	Ministry of Energy and Mineral Resources (ESDM)
Auction of Exploration Permit	ESDM
Qualification Verification (administrative, technical, financial)	ESDM
Issuance of Exploration Permit (IUP Eksplorasi)	ESDM
Production Operation Permit Auction/Application	ESDM
Issuance of Production Operation Permit (IUP OP)	ESDM
Environmental Impact Assessment and Land Use Permits (AMDAL, IPPKH, land rights)	Ministry of Environment and Forestry (KLHK), National Land Agency (ATR/BPN)
Industrial Business License (IUI) for Smelters	Ministry of Industry
Acquisition of Local Mining Companies	ESDM
• Law No. 13/2003 on Manpower (as amended by the Omnibus Law) • Government Regulation No. 34/2021 on the Use of Foreign Workers • Ministerial Regulation No. 8/2021 on Procedures for the Use of Foreign Workers	Ministry of Manpower (Kemnaker), Ministry of Immigration
Tax Incentive for investor who builds nickel smelter	
• Minister of Finance Regulation No. 159/2015 (amended by 103/2016)	

44 Ministry of Investment and Downstream Industry/ BKPM. *Electronically Integrated Business Licensing System*. Available at: <https://oss.go.id/>

45 Warta Ekonomi.co.id. (2023). *China's Dominance in Nickel Mining and Downstreaming Doesn't Benefit Indonesia*. Available at: <https://wartaekonomi.co.id/read511521/dominasi-china-dalam-tambang-nikel-dan-hilirisasi-tak-untungkan-indonesia>

46 In-depth interviews with academics, local activists, journalists, local parliamentary member (DPRD) and residents of the mining area of the Indonesia Weda Bay Industrial Park (IWIP) project on February 25-28, 2025.

47 Astuti, R., Sujatha, R., and Yeremia, A.E. (2025). *Putting Community-Centric Justice into Just Transitions from the Global South: the case of Indonesia's Nickel Sector*. Available at: <https://iopscience.iop.org/article/10.1088/1748-9326/adc8b9/pdf>

GOVERNANCE RISKS

This paper has identified the following governance risks in the Indonesian nickel supply value chain. While these affect the value chain as a whole, they are particularly relevant to understand the role of Chinese actors in the sector, given their prominence.

1. Limited public participation and activist criminalisation

The lack of meaningful public participation in the AMDAL (environmental impact assessment), land consultation, and permitting processes prevents affected communities from having a voice. When communities or activists protest against projects, they are often criminalised using vague legal provisions. An example has been the use of the Electronic Information and Transactions (ITE) Law, which governs online activities but has been widely criticised for suppressing free expression. This creates a repressive environment and facilitates corruption by silencing grassroots dissent.

2. Regulatory and data overlap

Licensing data between the Ministry of Energy and Mineral Resources (ESDM), the National Land Agency (ATR/BPN), the Ministry of Environment and Forestry (KLHK), and local governments is often uncoordinated, leading to overlapping permits with protected forests, settlements, or customary lands. This disintegration of data allows for boundary manipulation of concessions and hinders cross-sectoral oversight.

3. Concentrated or opaque ownership structures and conflicts of interest

This reflects the structural concentration of power in Indonesia's resource governance, where political elites or their relatives often own or control mining companies, both at the central and local levels. Poor separation of the public and private sector and the absence of strong conflict-of-interest oversight allows these actors to design or enforce policies that directly benefit themselves, resulting in regulatory bias, elite capture, and the long-term monopolisation of the extractive sector.

In the context of Indonesia's energy and natural resources, this poor separation is reflected in the rise of individuals who simultaneously hold political office and control business interests in mining. As shown in recent research, 60% of national parliamentarians are linked to private companies,⁴⁸ creating structural incentives for policy decisions that prioritise private gain over public accountability. This dynamic was evident in the passage of the 2020 Omnibus Law and the revision of the Mining Law, both of which favoured business elites by streamlining permits, weakening environmental safeguards, and expanding corporate rights over land and resources. In practice, this entanglement allows politically connected firms to dominate strategic concessions, particularly in nickel-producing regions, and undermines independent oversight of licensing, environmental compliance, and community consent.⁴⁹

4. Corruption and opacity in nickel smelter projects

Chinese-funded smelter projects often lack transparency in licensing, financing, and environmental impact assessments. The absence of mandatory public reporting or independent verification makes it easier to manipulate production data, land area declarations, and environmental compliance.

5. Corruption risk in concession designation

The designation of Mining Permit Areas (WIUP) is often conducted without transparent and accountable processes. In some cases, political proximity rather than technical or environmental feasibility appears to influence concession allocation, which may increase the risk of bribery and illicit gratuities.

6. Divestment compliance risks

One of the most critical governance vulnerabilities lies in the absence of a robust mechanism to verify beneficial owner(s) and the actual control of divested shares. Many foreign companies, including Chinese firms, formally comply with the divestment rule by transferring shares to Indonesian individuals or entities. However, these local shareholders often act merely as nominees or proxies, while the effective decision-making power and economic benefits remain with the foreign parent company. Although the Mining Law mandates divestment of foreign-owned shares to



Photo: Open nickel mining activity in Pomalaa, Indonesia. Credit: KAISARMUDA/Shutterstock

domestic parties, this is often circumvented by using local nominees. The lack of a verification mechanism for effective control over shares makes the regulation easy to manipulate.

7. Centralised authority without sufficient capacity

Following Law No. 3 of 2020, all licensing authority was centralised at the national level. However, the ESDM ministry lacks sufficient staff, budget, and systems to monitor thousands of active permits across Indonesia, resulting in weak field oversight and increased corruption risks.

8. Weak transparency in licensing and monitoring

The Online Single Submission – Risk Based Approach (OSS-RBA) system used to streamline business permits is not yet fully integrated with real-time, publicly

accessible reporting. The lack of transparency regarding permit holders, application processes, and enforcement actions creates opportunities for behind-the-scenes dealings and bribery.

9. Mining Permit Auction Vulnerabilities

The Designated Mining Permit Areas (WIUPs) auction mechanism rarely involves public participation and typically occurs administratively through an online system. This raises risks of collusion and favouritism, where auction winners may have political or business elite ties, leading to unfair and non-transparent access to resources.

⁴⁸ Balowski, J., Rastika, I., and Sari, H.P. (2024) *60% of Indonesian parliamentarians have business links*. Europe Solidaire Sans Frontières. Available at: <https://www.europe-solidaire.org/spip.php?article72181>

⁴⁹ Damanik, I., Rompas, A., Nadia, Z., Berenschot, W., & Warburton, E. (2025). *Business-Politics Relations in Indonesia: The Oligarchisation of Democracy*. Available at: <https://www.tandfonline.com/doi/full/10.1080/00074918.2024.2442417>

RECOMMENDATIONS

Recommendations for the Indonesian Government

1. Establish a mandatory transfer of control audit mechanism. All acquisitions — whether partial or full — of Indonesian mining companies by foreign entities, particularly in strategic sectors such as nickel, should undergo a transparent, pre-approval audit process. This mechanism must include geopolitical risk assessments, beneficial ownership verification, and integrity checks to evaluate potential national security threats, prevent regulatory evasion through nominee or layered corporate structures, and ensure that transfers in the minerals sector do not undermine the equitable distribution of resource benefits, including fair revenue sharing with local communities, broader social and environmental protections, and Indonesia's long-term development goals.
2. Mandate public disclosure of all mining share acquisition transactions. Any foreign acquisition must be publicly disclosed through official platforms like Minerba One Data Indonesia (MODI), not just annual reports.
3. Develop a policy that designates a cooling-off period for former public officials. Introduce a 2–3 year waiting period before ex-officials can join mining companies to prevent conflicts of interest.
4. Strengthen cross-ministerial oversight mechanisms between ESDM and the Ministry of Industry. Ensure consistent licensing data via a shared dashboard and joint audits.
5. Require independent verification for Chinese-funded smelters designated as National Strategic Projects. Audits must verify environmental, social, financial, and technical compliance.
6. Mandate independent environmental and social impact audits. Audits must be done by independent institutions and results published transparently.
7. Establish legally binding No-Go Zones for mining and smelting. Exclude ecologically sensitive, Indigenous, and disaster-prone zones from mining and smelting operations.
8. Issue a regulation governing mining acquisitions. Include provisions for ESDM approval, Audit Board of Indonesia (BPK)/Corruption Eradication Commission (KPK) oversight, and public disclosure.
9. Map and digitise mining concessions in real-time. Expand the One Map initiative to include ownership, permits, and legal status.
10. Require social feasibility assessments as a licensing prerequisite. Ensure no significant harm to Indigenous and vulnerable communities.

11. Limit foreign ownership in strategic mineral assets. Impose maximum 49% foreign shareholding cap in critical resource sectors.
12. Impose financial and criminal sanctions for socio-environmental violations as stated in Law 32 year 2009 on Environmental Management and Protection. Fines should be progressive and directed toward rehabilitation funds.
13. Establish a Strategic Investment Risk Assessment Council. Evaluate long-term national security, economic, and environmental risks.

Recommendations for Chinese companies and foreign investors

1. Disclose beneficial ownership structures transparently. Companies must report ultimate beneficial owners in MODI.
2. Conduct meaningful public consultations before smelter construction. Engage communities from the planning phase, especially in Indigenous areas.
3. Create transparent reporting systems for workplace and environmental incidents. Smelter incidents must be logged and published periodically.
4. Ensure fair treatment for foreign and local workers. Eliminate wage and promotion disparities.
5. Implement internal compliance mechanisms aligned with ESG standards. Mandate human rights due diligence and publish AMDAL audits.

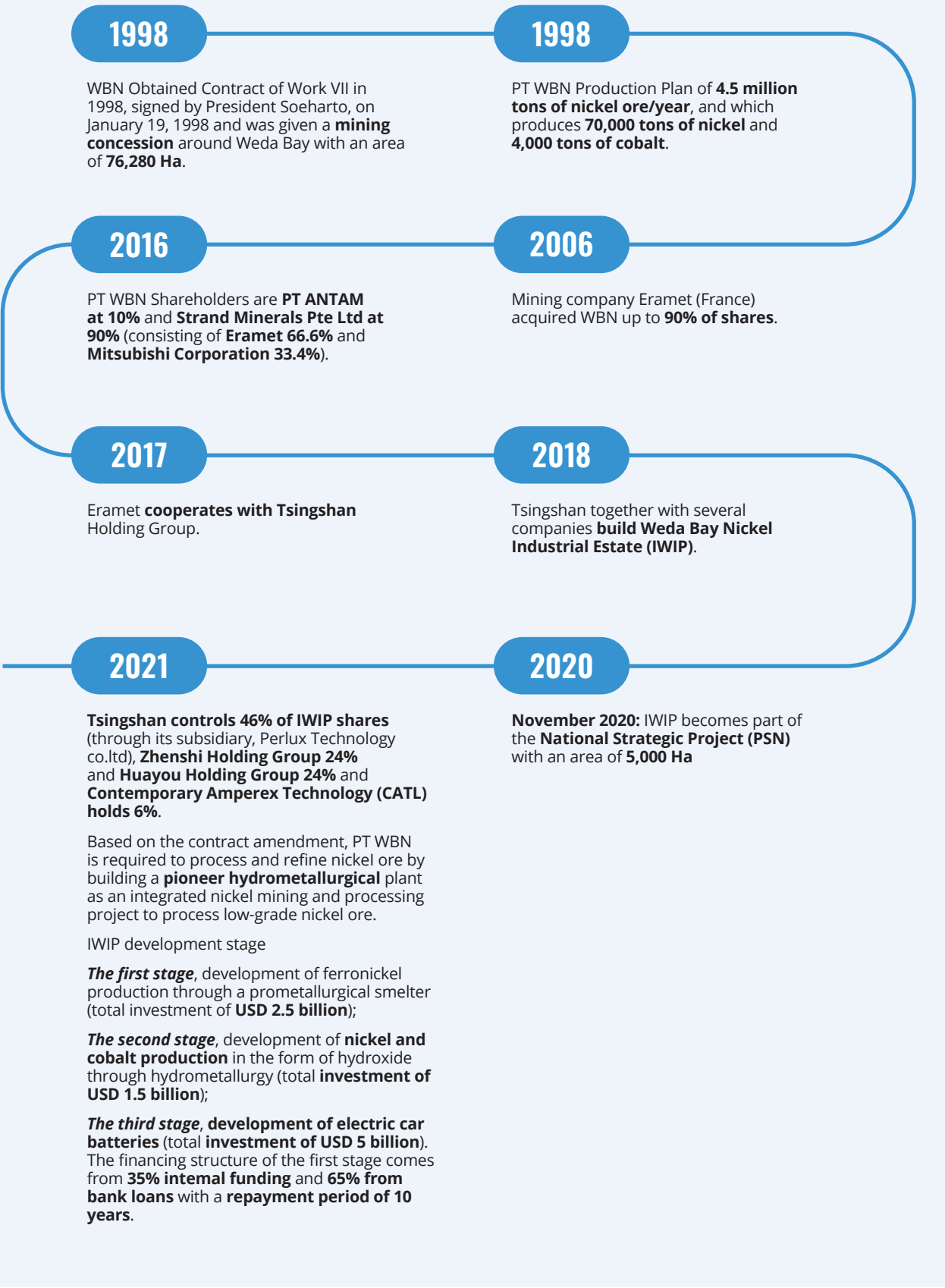
For civil society and local communities

1. Monitor licensing and acquisition processes involving foreign companies with vigilance.
2. Promote legal literacy and FPIC training for local communities to strengthen land and environmental rights protection.
3. Establish labour rights monitoring networks in industrial mining zones such as IMIP and IWIP.

For Media and Academia:

1. Expand investigative reporting and public policy research on mining projects and strategic foreign investments.
2. Build open-source, tech-based public databases to track acquisitions, licensing, and environmental impacts in the mining sector.

The Chronology of Weda Bay Nickel (WBN) and Weda Bay Industrial Park (IWIP)



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