

CHAPTER I

INTRODUCTION

Chapter I of this paper will explain the Background regarding the beginning of the raw material export ban, which was enacted and made effective during the Jokowi period, and also the lawsuit that the European Union submitted about the Indonesian Policy. Chapter I will also include the Research Question, Concept and Theory, Hypothesis, Methodology, Research Range, Research Goal, and Writing System.

A. Background

Nickel Industry in Indonesia has been an opportunity for the country's industrialization. It is well known that Indonesia has an abundant reserve of nickel with 21 million Metric tons, the largest in the world (Kurniawan & Dwi, 2023). That factor makes Indonesia a resourceful country that is highly suitable for rapid industrialization as nickel is an essential commodity to be processed into stainless steel, which makes the material for modern appliances such as automotive, rechargeable batteries, and electronic tools. However, Indonesia was able to process such materials for a long time only when a chain of policies was enacted.

Indonesia has long been known for exporting raw materials abroad. However, this strategy does not profit Indonesia greatly as selling raw materials is always considered cheap, making buying back processed materials more expensive due to the lack of technology, which is still dependent on developed countries (Idris, 2023). Solving that problem, the Indonesian government under Joko Widodo reinforced the raw material export ban that was enacted in 2014 under "U.U. Mineral dan Batubara." It expanded its ban on the sale of raw nickel ore in January 2020 (Kementrian Energi dan Sumber Daya Mineral, 2019). This Policy is a significant development for Indonesia as the value of processed nickel rose exponentially from 2015, which is approximately five times the value (Rachman, 2023).

Indonesia's Policy to downstream their nickel industry has the purpose of increasing their national competitiveness and creating a multiplier effect on the nickel industry. As of 2023, multiple nickel corporations have been established in Indonesia, and many have grown exponentially since the law mineral policy was enacted. The prominent corporations include P.T. Aneka Tambang TBK, PT Vale Indonesia TBK, P.T. Central Omega Resources Tbk, PT Ifishdeco Tbk, P.T. Resource Alam Indonesia Tbk, P.T. Timah Tbk, PT PAM Mineral Tbk, and

P.T. Harum Energy Tbk (Lintang, 2023). Indonesia is determined to become a global key player in commodity downstream by decreasing the exports of raw materials domestically. The Policy is expected to have a “Multiplier Effect” on the society that is included in the ecosystem of the development industry, especially in the Nickel Industry site on Morowali (Kementrian Koordinator Bidang Perekonomian Republik Indonesia, 2023). This Policy was a priority during the Joko Widodo era, which explains the increasing number of smelters in the country.

On the other hand, Indonesia was forced to pay their Policy for diplomatic expenses. Indonesia's Policy to ban exporting raw nickels was courted by the European Union to be trialed by the World Trade Organization. European Union viewed the ban as a violation of free trade. Therefore, this case was brought to the World Trade Organization, which resulted in Indonesia’s loss. This has terminated Indonesia’s nickel export to the European Union (Trading Economics, 2023).

The World Trade Organization (WTO), however, also has its share of internal problems regarding its appeal body. The appeal body has been blocked by the United States in order to be reformed. Maria Pagan, Deputy United States Trade Representative, commented that the WTO dispute system, which is the appellate body, needs "much revamping" and is projected to be fully functional by 2024 (Farge, 2023). This reform effectively freezes 24 WTO cases in which Indonesia also has to queue for the appeal to be processed. The freeze on the appeal body gives Indonesia a chance to keep running its raw nickel ban policy without violating rules that have been legalized within the WTO.

Surprisingly, countries that opposed Indonesia's Policy are only within the European Union. Indonesia's Policy to upstream their nickel Industry has made the nickel industry within the country grow, and the Policy itself does not make international trade suffer (Setiawan, Terungkap! Hanya Negara Ini Menentang RI Setop Ekspor Nikel, 2023). Bara Khrisna Hasibuan, a Special Staff of the Minister of Trade for International Trade Agreements, argues that even the United States did not state a lawsuit or objection to Indonesia's raw nickel ore export ban. He also added that the government has already prepared an argument about the matter by showing the already growing smelters and nickel industry within the country (Setiawan, Terungkap! Hanya Negara Ini Menentang RI Setop Ekspor Nikel, 2023).

To further support their nickel industry, Indonesia also enacted a partnership with China in various industries, including the nickel industry. The partnership between Indonesia and China can be seen in a prominent worldwide project called the Belt Road Initiative, which in

this context was realized by the construction of a Ferronickel manufactory through a partnership with a Chinese company that was constructed in Kendari, Southeast Sulawesi. This partnership has brought Indonesia into a developing and profitable business as in early 2022, approximately 13.000 tons of ferronickel set sail from Morowali into China to be then processed as stainless steel (P.R. Wire, 2022). This shows that Indonesia is ready for nickel industrialization in the country, which promotes growth and changes in the domestic economy, especially the export benefit that Indonesia has reaped.

Even though Indonesia can run its Policy at the moment, the question still lingers as to how Indonesia will continue its Policy in the future. From past disputes, Indonesia was sued by the United States for its Policy to limit the import of foods, plants, and animal products in 2014. The U.S. has requested Indonesia to pay US\$350 Million through WTO in sanctions (Fauzie, 2018). Despite the risk Indonesia might have to pay, Indonesia is still determined to continue its Policy. To explain this, External and internal factors can be added to the equation to explain further Indonesia's Foreign Policy, which brings us to the following research question;

B. Research Question

Why does Indonesia keep banning raw nickel exports despite losing a lawsuit from the WTO?

C. Theory and Concept

Political Economy

Political Economy is an approach that emerged in the early 18th century to understand the dramatic want satisfaction in the manner of production and distribution of goods. Political Economy explains how to advise politicians on how to manage the economic affairs of the state tailored to the wants of the citizens (Caporaso & Levine, 1992, p. 181). Political economy heavily discusses how the party in power affects a country's economic policy. One country's economic Policy will affect how the citizens operate as a whole. Political Economy believes that politics is integrated with the economy and is conceptually fused. It also believes that the economy is a sphere of self-interest pursuit that enters the relation where personal interests are affected by the political Policy that connects a person politically or personally to pursue their interest. In short, political economy explains the relationship between the government and private economic actors in the decision-making of national Policy (Caporaso & Levine, 1992, p. 7).

The political economy mentioned that governments that create suitable conditions for private risk-taking, the condition that the private sector could prosper, will benefit from capital accumulation, efficient allocation of resources, and sustained growth. On the contrary, a government that limits its private sectors and takes over economic activity to itself will risk low levels of investment, inefficiencies in the state sector, and nonproductive investments. However, literature found that full capture of the economic sector by private actors only is also a hindrance to growth; this matter should instead be a collaboration between the government and the private sector either through the design of Policy, for example, through liberalization of markets, or by political and institutional mechanism, for example, the banning of raw nickel export (Haggard & Huang, 2014).

Political Economy perspectives are varied; one prominent school is the political economy encompassing liberal/neoliberalism political economy and modern liberal political economy that are popularized by Adam Smith, David Ricardo, Maynard Keynes, etc. The major arguments of the school are many. However, the Author will shortlist arguments that are relevant to the topic of Indonesian policymakers and nickel corporations. The arguments are: (a) Government is created by individuals to foster the purpose of protecting rights and interests by the constitution. The government is only required to foster economic growth through public Policy. (b) The market plays a political role and promotes justice, freedom, equity, and orderliness in the economic system as a political institution; and (c) The promotion of private property and the development of capitalism is the best economic and political model of society (Sha, 2022).

We can apply this theory to explain the correlated interest between the Indonesian government, which is Jokowi, and private mining groups, such as local mining groups and foreign corporations that are involved in the ferronickel manufactory project in Morowali. They both have a similar rational self-interest, which is to strengthen the country's nickel industry and profit from the processed nickel export. This relation, thus, makes the raw material ban policy beneficial to those parties involved. Therefore, these common interests further strengthen the legitimacy of the raw material ban, which is legalized by the government and affects the activity of nickel industry stakeholder that obligate them to process their raw nickel. This benefits the government revenue, which improves Indonesia's exports.

The state plays a subsidiary role in the state-centered political economy, which explains that nickel corporations are following the government's interest, which in return also benefits

the corporations. This is true in the approach of state-centered political economy that identifies politics between the state and private sphere. The approach also explains that the government has an active role within the economy where the state acts because the private sector as a whole needs to take a significant step (Caporaso & Levine, 1992, p. 181). This denotes that the state is a dominant actor in the raw nickel export ban policy. This can be proved by the increasing number of smelters that were built during the Jokowi era when the Policy was enacted. The Policy made the nickel corporations obliged to build smelters to keep running and participate in exports. This phenomenon clearly proved that the corporations are aligned and follow the government agenda to push the local nickel industry.

Although the government is a dominant actor in the decision-making process, the private corporation also has a significant role in the political economy. This is strongly supported by the approach of political economy, where they are basing themselves in a system of private interest. Private stakeholders often involve themselves with the state to the extent that the state becomes an instrument to achieve private ends, which means government policy is driven by the interests of private corporations (Caporaso & Levine, 1992, p. 181). Various local nickel corporations prove this, notably PT Vale Indonesia Tbk, a local nickel corporation that increased their income consistently within 2023, benefitting from the Policy (Adhiat, 2023).

If it is taken to the scope of globalism, one country's economic policy can affect another country's economic policy. According to the political economy approach, the international economy appears from a collection of differences in every country's national economic performance, in which the national economy plays a dominant role in the international economic process. In short, a country's economic policy can have a substantial impact on another country's economic Policy (O'Hara, 2006, p. 49). Indonesia's raw material ban policy can be implemented into this theory. Jokowi, which is the figure of government, determines the economic Policy, which is the raw nickel ban, and it is effectively followed by stakeholders in the nickel industry. This has also affected the external party, which is foreign investors, notably from China, to create agreements on the industry. The private group from outside the country further supports Indonesia's interest in securing their export to the international market.

D. Argument

One argument states that Indonesia sought to develop its own nickel industry, supported by investments from both foreign and state businesses. The second argument is that Indonesia also aimed to expand its market to China. An actual illustration of the benefits of the export

ban that are driven mainly by Indonesia's exports to China is the spike in the value of the country's nickel exports in 2022.

E. Research Goals

The goal of this research is to find out and explain Indonesia's goal for keeping its raw material export ban, considering Indonesia's courage to keep the Policy after being sued by the European Union.

F. Methodology

The research method to gather data in this paper will be to utilize the qualitative method. The qualitative research method is an inquiry process to understand human problems based on building a complex, holistic report gathered from informants, which later turned into words. In order to gain results, qualitative research employs an array of theoretical paradigms, which can be achieved through a range of methods, methodologies, and research strategies (Creswell, 1994, p. 1-2). The qualitative method helps the Author understand and analyze phenomena that are happening in the realm of research to produce a scientific product. The Author gathers data from primary or secondary sources to support the research.

The data collection will be using online and offline sources such as books, reports, journals, articles, news, and others. Authors are also required to collect only data from trustworthy and responsible sources. Data that are collected will then be transformed and translated into Word products by the Author to support findings and conclusions by the end of the paper.

G. Research Range

Nickel research has been a broad topic throughout the years, which made it universal research, making the focus of the paper undefined, which is why the Author will set limitations to the research range that could bring certainty and focus to the paper to be able to produce a comprehensive research paper.

The research range of this paper will be from 2019-2023, which is dated explicitly to the Jokowi era of Indonesia when nickel industrialization was brought into massive progress. This research will also examine factors that would be affecting Indonesia's nickel industrialization and the policies that were made by Jokowi and enforced internationally, which could emphasize the cooperation side of the research.

H. Writing System

Chapter I of this paper will explain the Background regarding the beginning of the raw material export ban, which was enacted and effective during the Jokowi period, and also the lawsuit that was submitted by the European Union about the Indonesian Policy. Chapter I will also include the Research Question, Concept and Theory, Hypothesis, Methodology, Research Range, Research Goal, and Writing System.

Next, chapter II will explain the clash of interests between Indonesia and the European Union. The discussion will start by explaining the history of the raw material ban policy and what made the policy enacted. This section will also explain Indonesia's interest in the raw material ban policy enactment, including parties that are involved and have benefitted from the policy throughout the years. After that, this section will explain the other side of the coin, which is the European Union's interest behind their lawsuit, which resulted in their victory. Finally, the discussion will be wrapped up by explaining the result of the lawsuit.

Then chapter III of this paper will discuss the reasoning behind Indonesia's determination to preserve the raw material ban despite the risks. Chapter III will start by explaining Indonesia's intention behind the commitment to preserve the ban. Next, this chapter will also mention the government's intention to support the growth of Indonesia's based nickel industry within the country. After that, this chapter will also mention the export benefits that Indonesia accumulated by preserving the ban. Finally, the Author will conclude the chapter by mentioning the strengths and benefits that the government and corporations accumulated during the ban policy.

Lastly, chapter IV will wrap up the discussion by presenting the conclusion of some explanations and analysis from the previous chapters.