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INDONESIA'S ECONOMIC DIPLOMACY: THE CHALLENGES BY THE U.S. INCENTIVE REDUCTION ACT AND CHINA'S NICKEL DOMINATION

Jhon Maxwell Yosua Pattinussa[1)*], Qanszelir G. B. Pandjaitan XIV[1)],
Gusti Patading[1)], Roy Vincentius Pratikno[1)]

[1)]*Department of International Relations, Universitas Pelita Harapan, Tangerang*

e-mail: jhon.yosua@uph.edu

ABSTRACT

Indonesia, as the world's largest producer of nickel, faces significant challenges in leveraging its resources for economic development. These challenges are compounded by external pressures, including the U.S. Inflation Reduction Act (IRA), and internal issues related to China's dominance in Indonesia's nickel sector. Despite its vast nickel reserves, Indonesia is excluded from the green incentives provided under the IRA, which threatens to undermine its strategic position in the global nickel supply chain. The study seeks to understand the underlying factors driving this exclusion and the impacts of China's dominance on Indonesia's nickel industry. This research employs an explanatory qualitative approach, drawing from literature reviews and interviews with an industry expert. The methodology focuses on interpreting the interrelations between international trade policies, environmental sustainability, and Indonesia's domestic challenges. The study identifies three key factors behind Indonesia's exclusion from the IRA: the lack of a Free Trade Agreement (FTA) with the United States, environmental concerns over Indonesia's mining practices, and the significant presence of Chinese companies in Indonesia's nickel sector. China's dominance has also led to environmental degradation, reduced domestic industrial competitiveness, and economic dependency. To address these challenges, the research proposes that Indonesia negotiate an FTA with the United States. Such an agreement would create a framework for accessing IRA incentives, strengthen Indonesia's economic sovereignty, and mitigate China's dominance. While the negotiation process will require strong political will and careful diplomacy, it presents a viable path for Indonesia to secure its economic and geopolitical interests.

Keywords: United States, Indonesia, Incentive Reduction Act, Nickel, FTA.

1. Introduction

Indonesia is often regarded as a country rich in natural resources—and not without reason. From the surface, where diverse flora thrives, to the depths of its land and seas teeming with abundant resources, Indonesia's natural wealth is evident. This abundance serves as clear proof of the country's vast natural endowment. According to quantitative data on its natural assets, Indonesia is home to approximately 8,000 plant species and 2,215 types of flora (Putri, 2020). These significant figures have undoubtedly placed Indonesia at the center of global attention. Historically, Indonesia's natural wealth has consistently attracted interest from other nations—an allure that is, arguably, difficult to resist. This comparative advantage has often become a source of both domestic and international challenges. One of the most notable historical consequences was colonization, driven largely by the desire to exploit these rich resources. Although Indonesia has since achieved independence, the legacy of its resource wealth continues to be accompanied by various forms of conflict, many of which persist to this day.

The figures mentioned above merely illustrate the vast diversity of Indonesia's flora and fauna. Delving deeper, Indonesia possesses even greater wealth beneath its surface. The country is endowed with a variety of mineral commodities, including oil and natural gas, coal, iron sand, tin ore, nickel ore, bauxite, copper ore, gold, silver, and manganese ore. In addition, Indonesia also has a wide range of non-metallic mineral resources, such as mountain stone, river stone, limestone, coral stone, gravel, marble, sand, silica sand, quartz sand, kaolin, clay, and many others (Tim, 2023).

With such abundant resources, Indonesia has become one of the world's leading producers of mineral commodities. In fact, Indonesia is recognized as the largest nickel producer globally. Not only does the country lead in production, but it also holds the largest known nickel reserves in the world. According to data from the U.S. Geological Survey, Indonesia’s nickel reserves reached 21 million metric tons in 2022, equaling those of Australia for the same period. This figure accounts for approximately 21% of total global nickel reserves that year. Furthermore, Indonesia was the world’s largest nickel producer in 2022, with total production reaching 1.6 million metric tons, contributing 48.48% of the global output (Ranggasari, 2023).

Nickel is considered a highly valuable commodity due to its widespread and essential applications in various industries. For instance, it is a key raw material in the production of stainless steel, which is used in kitchenware, household appliances, and vehicles. It also serves as an anti-corrosive coating for a wide range of products, including home appliances, automobiles, and ships. Moreover, nickel has gained significant popularity in recent years, largely due to the global shift from fossil fuel-powered vehicles to electric vehicles (EVs), a transition that relies heavily on a stable and sufficient supply of nickel (Karyza, 2023). In this context, nickel plays a critical role in supporting the advancement of the EV industry.

The rising global demand for nickel presents a strategic opportunity that Indonesia should embrace. The growing popularity of nickel is expected to drive international demand significantly, positioning Indonesia to benefit substantially as the world’s leading supplier. However, the path to fully leveraging this advantage on the global stage has proven to be complex and fraught with challenges. Indonesia is still grappling with an ongoing trade dispute with the European Union, which has escalated to the World Trade Organization (WTO), where Indonesia currently faces an unfavorable position (Desk, 2023). Now, a new potential tension has emerged, involving another global power—the United States—once again centering around Indonesia's nickel industry.

The initial point of tension emerged when the United States introduced a new industrial policy known as the Inflation Reduction Act (IRA), signed into law by President Joe Biden in August 2022. Broadly speaking, the IRA aims to promote industrial protectionism and reduce competition from other countries, particularly developing nations. The United States is currently prioritizing the development of a new clean economy. As part of the IRA's implementation, the U.S. government is set to provide hundreds of billions of dollars in green subsidies to companies engaged in environmentally friendly business practices (House, 2023).

While the IRA is a policy with a commendable objective and can be viewed as a step toward achieving the Sustainable Development Goals (SDGs), its implications for Indonesia have raised serious concerns. The core issue lies in Indonesia’s exclusion from the list of countries eligible for green incentives—a move perceived by many as a discriminatory act by the United States. Under the IRA, companies that establish factories or produce electric vehicles (EVs) using nickel sourced from Indonesia do not qualify for the green subsidies provided by the U.S. government. This exclusion has significant ramifications for Indonesia’s industries, particularly the nickel sector.

However, this policy may also be counterproductive for the United States. Given that Indonesia holds the world's largest nickel reserves, it represents an optimal supply source for companies engaged in the production of electric vehicles and batteries. Therefore, Indonesia's exclusion from the IRA's benefits raises urgent questions that merit scholarly investigation.

There are numerous assumptions surrounding the United States' concerns over China's growing dominance in Indonesia's nickel market. This study argues that a comprehensive analysis is required to understand the underlying motivations behind Indonesia's exclusion from the IRA incentives. Moreover, it is important to consider whether Indonesia can garner support from both the United States and China—two global powers often at odds with each other. This journal seeks to propose diplomatic strategies that can offer mutual benefits to both nations, ensuring that no party feels disadvantaged by the implementation of the Inflation Reduction Act (IRA). Based on those facts, this research aims to answer these questions: First, what are the underlying reasons for Indonesia's exclusion from the green incentives provided under the Inflation Reduction Act (IRA) implemented by the United States? Second, what diplomatic opportunities can Indonesia pursue to influence U.S. policy regarding the IRA and eliminate the exclusion currently applied to Indonesia?

2. Literature Review

2.1. Inflation Reduction Act (IRA)

In the journal article titled "What's in the Inflation Reduction Act (IRA) of 2022", it is explained that the Inflation Reduction Act (IRA) was signed into law by the President of the United States on August 16, 2022. This legislation provides incentives, grants, and loans worth billions of dollars to support new infrastructure investments in the areas of clean energy, transportation, and environmental sustainability. The IRA also allocates substantial funding for programs aimed at reducing greenhouse gas emissions and increasing energy efficiency. As the most comprehensive climate legislation in U.S. history, the IRA is expected to accelerate the transition toward a clean economy and help achieve net-zero emissions by 2050 (Kumar et al., 2022).

Further insights are provided in the publication by the U.S. Department of Policy titled "The Inflation Reduction Act Drives Significant Emission Reduction and Positions America to Reach Our Climate Goals." This journal highlights the impacts of the IRA within its first year of implementation, including cost savings for American households and support for communities disproportionately burdened by pollution and climate change. The publication also emphasizes how the IRA fosters both economic growth and environmental sustainability. As widely acknowledged, both state and non-state actors in the international arena are increasingly advocating for sustainable development.

Sustainable development is a developmental approach that seeks to meet present human needs without compromising the ability of future generations to meet their own. It emphasizes a balance among three key pillars: economic growth, social inclusion, and environmental protection. The IRA is closely aligned with several Sustainable Development Goals (SDGs), particularly Goal 7 (Affordable and Clean Energy), Goal 9 (Industry, Innovation, and Infrastructure), Goal 11 (Sustainable Cities and Communities), and Goal 13 (Climate Action). In addition, it supports other SDGs related to environmental protection and sustainable development (DOE, 2022).

In the journal article "Inflation Reduction Act: Infrastructure Implementation Resources" authored by Tom Curtin and published by the National Governors Association, the allocation and distribution of IRA funding is described in greater detail. The total funding under the IRA amounts to hundreds of billions of dollars and includes incentives, grants, and loans. There are several primary areas of fund allocation. First, the IRA provides substantial federal funding for climate initiatives. To significantly reduce national carbon emissions by the end of this decade, the IRA allocates approximately $400 billion in public investment for clean energy. These funds are distributed through a combination of grants, tax incentives, and loan guarantees. The largest portion of the funds is allocated to clean equipment and electricity, followed by clean transportation, including subsidies for electric vehicles.

Second, the IRA supports the enhancement, repurposing, or replacement of existing energy infrastructure. The U.S. Department of Energy is set to receive approximately $12 billion to double its current lending capacity and create a new loan program with a ceiling of $250 billion to support these initiatives (Nga, 2023). Third, the IRA offers incentives to stimulate private investment. Most of the allocated funding comes in the form of tax credits, with an estimated total of $216 billion in tax deductions. Businesses are the primary beneficiaries of these credits, which are designed to encourage private-sector investment in sustainable industry, transportation, and energy. Many of these tax incentives are structured as direct payments, allowing entities to claim full benefit even if their tax liability is lower than the credit amount.

Fourth, the IRA includes incentives for consumers. Approximately $43 billion in tax credits are intended to lower emissions by reducing the costs of electric vehicles, energy-efficient appliances, rooftop solar panels, geothermal heating systems, and residential batteries. Moreover, these funds are broadly accessible. Individuals, corporations, state and local governments, and other organizations are all eligible to receive funding under the energy provisions of the Inflation Reduction Act.

2.2. Indonesia Nickel Sector

Dicky Dwi Radhica and Raden Ambara, in their article titled “Indonesia’s Nickel Protectionism in Global Trade,” assert that Indonesia plays a highly significant role in the global nickel industry, possessing approximately 25% of the world’s nickel reserves—making it the largest reserve holder globally. Numerous countries, such as Japan, China, the United States, and various European nations, are among the main consumers of Indonesian nickel products. This demand gives Indonesian nickel a relatively high market value. However, the authors argue that Indonesia’s nickel export earnings remain well below their potential. Their paper explores the journey of Indonesia’s nickel exports in international trade and examines the government’s efforts to implement protectionist policies at the national level to secure the benefits Indonesia should rightly obtain from nickel export activities (Radhica & Wibisana, 2023).

Agreeing with Dicky Dwi Radhica and Raden Ambara, I Kadek Dina Setiawan, in his research titled *“Competitiveness Analysis and Factors Influencing Nickel Ore Exports in Indonesia,”* argues that Indonesia, as a country rich in natural resources, holds immense potential to reap substantial economic benefits. Indonesia’s competitive advantage in nickel production presents a remarkable opportunity for its natural resources to serve as a pathway toward improving domestic economic welfare. However, Setiawan contends that the Indonesian government—particularly the Ministry of Energy and Mineral Resources—should further develop nickel exports to elevate this resource as a leading national product (Setiawan & Setiawina, 2019).

In her study titled “Nickel Resource Management in Indonesia: Implications for National Defense and Energy Security,” Nurbaiti highlights how Indonesia’s vast nickel reserves make it a key player in contemporary global trade, especially in the technological era, where nickel has become an essential component in the transition to electric-powered transportation. Nevertheless, she notes that the management of nickel resources in Indonesia remains suboptimal. Currently, Indonesia's nickel production is largely limited to lower-value categories—namely Class 2 and some Class 1 nickel—indicating the need for more advanced processing and production capacity (Nurbaiti et al., 2022).

The journal article titled "Export Restrictions as a Solution to the Nickel Raw Material Export Ban: A Case Study on Indonesia's Nickel Export Policy," written by Ario Seno Nugroho, discusses the ongoing debates between Indonesia and the European Union regarding Indonesia's nickel export ban. The findings of his study reveal that Indonesia's inability to manage its nickel resources efficiently has resulted in economic drawbacks following the implementation of the export ban. Nugroho argues that Indonesia's current export restriction policy could be improved through the imposition of appropriate export taxes. This approach could enhance national industrial productivity while generating revenue, without causing major disruptions to the international market (Nugroho, 2022).

2.3. China Domination on Nickel

In the journal article titled Peningkatan Investasi dan Hilirisasi Nikel di Indonesia (Enhancing Investment and Nickel Downstreaming in Indonesia), Muhammad Agung and Emmanuel Ariananto Waluyo Adi provide an in-depth analysis of Indonesia's efforts to downstream nickel resources as a means to boost investment. The article explains that the nickel downstreaming process is part of a broader national industrialization strategy aimed at transforming Indonesia into a more self-reliant and independent country. This transformation is built upon several core values, including raw materials, labor, infrastructure, energy, technology, policy, and financing. According to the authors, Indonesia's nickel downstreaming efforts have successfully attracted foreign investment, particularly in smelter development projects.

One prominent example includes Chinese investors expressing interest in funding Indonesian lithium projects worth approximately 5 trillion Rupiah. In response to such growing interest, the Indonesian government has introduced regulations aimed at improving quality standards. The article particularly emphasizes the Minister of Energy and Mineral Resources Regulation No. 11 of 2019, which requires companies to process raw materials domestically to elevate local market prices before exporting them. Thus, the article concludes that Indonesia's nickel downstreaming policy has led to an export ban on raw materials, intended to enhance domestic processing and meet the raw material demands of local smelters, utilizing the country's abundant natural resources. Overall, the study highlights that the downstreaming of Indonesia's raw natural resources—particularly nickel—must be pursued in parallel with the construction of new smelters to support long-term exports (Agung & Waluyo Adi, n.d., 2022).

Next, in the journal Upaya China Dalam Memenuhi Kebutuhan Nikel Dalam Negeri Pasca Kebijakan UU Minerba No.04 Tahun 2009 di Indonesia (China's Efforts to Meet Domestic Nickel Demand After the Implementation of Indonesia's Mineral and Coal Law No. 4 of 2009), Ananda Mustika Muas discusses China's position as one of the largest nickel producers globally. However, due to a supply gap, China has relied on nickel imports from countries such as Indonesia and the Philippines. Over the course of a decade, China increased its nickel import quota from Indonesia by 99.7%. The article traces how Indonesia's nickel industry experienced rapid growth, though its export value declined. This decline is attributed to the oversupply of low-cost nickel from China, which processed Indonesia's raw nickel ore at reduced prices. Consequently, Indonesia introduced the Minerba Law, which had a significant impact on China, including the shutdown of its stainless steel operations. While China then turned to the Philippines as an alternative supplier, the lower quality of nickel there hindered progress.

On the domestic front, however, Indonesia's policy also led to setbacks—many Indonesian mining companies were forced to conduct mass layoffs. The article further explains China's strategic response, namely its increased investments in Indonesian smelter development to improve nickel quality. This move opened a window for China to secure nickel supply directly from Indonesia. As a result, China has emerged as a leading country in signing Memoranda of Understanding (MoUs) regarding energy cooperation, particularly in the electricity and mineral downstream sectors. The MoUs involved 96 Chinese companies and 40 Indonesian firms in joint nickel processing initiatives. Thus, the article offers a comprehensive perspective on China's strategic role in utilizing Indonesian nickel resources (Muas, 2019).

Finally, in the article Pilihan Rasional Indonesia dalam Kebijakan Larangan Ekspor Bijih Nikel (Indonesia's Rational Choice in the Nickel Ore Export Ban Policy), Santoso, Moenardy, Muttaqin, and Saputera examine Indonesia's protectionist policy in developing its nickel downstream industry through the lens of rational choice theory and international political economy. The authors categorize state interests into three dimensions: ideological preference, economic interest, and political interest. Ideological preference emphasizes the beliefs and ideologies of international actors in shaping decisions. Economic interest underscores the importance of understanding the motivations of actors within the international system, such as pricing, production, demand, and market competition. Lastly, political interest highlights the significance of state actors, interest groups, and individuals in global decision-making processes that influence political power and legitimacy.

Applying this framework, the authors argue that Indonesia's nickel export ban should be understood as a strategic move to increase competitiveness in the global nickel market through domestic smelter development and economic independence, supporting the full nickel production cycle from upstream to downstream. Their analysis also links this policy to Indonesia's sovereignty over its natural resources, which aims to reduce foreign influence in trade negotiations. Given Indonesia's rich and high-quality nickel reserves, the article suggests that the country could leverage its resources to gain a stronger position in international trade, potentially mirroring the role of OPEC (Organization of Petroleum Exporting Countries) in regulating oil and raw material prices. Ultimately, the authors conclude that safeguarding national interests and ensuring sovereignty over nickel resources are critical components of Indonesia's broader economic revitalization strategy (Santoso et al., 2023).

3. Research Method

This study uses an explanatory qualitative approach to understand why Indonesia is excluded from the U.S. Inflation Reduction Act's green incentives and to examine China's dominance in Indonesia's nickel sector. A qualitative method was chosen to capture diverse stakeholder perspectives and reveal complex underlying factors. Data were gathered through a literature review of academic journals, policy documents, trade agreements, government reports, and media, alongside semi-structured interviews with an industry expert.

Interviews focused on the IRA's impact, China's role in the nickel industry, and strategies for Indonesia's economic diplomacy. Thematic analysis was applied to transcribed interview data and literature findings, with triangulation used to ensure validity. Preliminary results were reviewed with participants and peers to reduce bias. This combined approach offers a comprehensive and reliable understanding of Indonesia's challenges in accessing green incentives and suggests ways to strengthen its position in international trade.

4. Results and Discussion

4.1 Indonesia Exclusion from IRA

One of the main barriers preventing Indonesia from fully accessing the benefits of the Inflation Reduction Act (IRA) is the qualification of batteries containing components sourced from Indonesia. Although Indonesia is one of the world's largest producers of nickel—a key component in batteries—these batteries still do not meet the requirements to receive full tax credits. This is due to several considerations, including the complexities of global supply chains and environmental concerns related to nickel mining (Prasetyo, 2016).

Beyond the battery issue, another significant challenge Indonesia faces in accessing green incentives is the dominance of Chinese companies in the nickel industry (Nurbaiti et al., 2022). This dominance serves as a second critical factor influencing Indonesia's position within the framework of the IRA. The United States, like many other countries, aims to ensure that the green incentives it offers promote sustainable trade and cooperation. The significant presence of Chinese companies in Indonesia's nickel sector has raised concerns about how these incentives would be utilized and whether such investments would truly support green efforts. This situation inevitably reduces the potential tax benefits Indonesia could obtain through the IRA.

Additionally, the absence of a free trade agreement (FTA) between Indonesia and the United States poses a substantial obstacle. FTAs typically allow countries to more easily access green incentives. However, as of now, Indonesia does not have a free trade agreement with the U.S. This lack of agreement limits Indonesia's access to the U.S. market, thereby constraining the country's potential for economic growth and the benefits that could be derived from the IRA. In conclusion, Indonesia faces several factors that hinder its ability to receive green incentives such as the IRA's tax credits from countries like the United States. These factors have a direct impact on Indonesia's economy by causing the country to miss opportunities to optimize tax benefits that are intended to help mitigate inflation and stimulate stronger economic growth.

4.2 China Domination on Indonesia's Nickel Industry

China's dominance in Indonesia's nickel industry has had several negative impacts on the country across various aspects. One of the primary concerns is Indonesia's lack of control over its own natural resources. China's strong presence in the nickel industry has allowed them to dictate trade terms and reap disproportionate benefits from Indonesia's resources without providing adequate returns. This has led to a loss of national revenue and increased economic dependence on China. Data from the Ministry of Energy and Mineral Resources indicates that Indonesia's nickel production is largely dominated by downstream products from China.

Furthermore, China's dominance has contributed to environmental degradation in Indonesia. Nickel extraction and processing require large amounts of energy, water, and chemicals, which can have detrimental effects on the environment if not properly regulated. Due to China's overwhelming control, there is a lack of oversight and regulation within the industry, leading to irresponsible mining practices and pollution (Baraputri, 2023). This has resulted in deforestation, water contamination, and air pollution, all of which negatively impact local communities and ecosystems. According to a report by the Ministry of Energy and Mineral Resources, nickel processing in Indonesia produces waste that is harmful to both the environment and human health (Laksono et al., 2020).

Another negative impact of China's dominance in Indonesia's nickel industry is the displacement of local businesses and workers. With China serving as the primary buyer of Indonesian nickel, a highly China-dependent market has emerged. This has caused many local nickel businesses to shut down as they are unable to compete with China's low-cost production. Additionally, Chinese companies often bring their own labor force to Indonesia, further limiting employment opportunities for local workers (CNN, 2022). This situation has led to social tensions and economic inequality within the country. Data from Indonesia's Central Statistics Agency (BPS) shows that the mining and quarrying sector—including the nickel industry—contributed only around 7.5% to the total workforce in 2020. Moreover, China's dominance has significantly hindered Indonesia's ability to develop its downstream nickel industry. Downstream industry refers to the processing of raw nickel into higher-value products such as stainless steel or battery materials. However, with China dominating the processing and export of these products, Indonesia has remained largely restricted to selling raw nickel ore at relatively low prices.

Evidence of the impact of China's dominance in the nickel industry can be seen through an interview conducted by the author's team with Mr. Gerald Hermawan, an entrepreneur operating in the mining sector, including nickel mining. Mr. Hermawan's business involves the extraction and sale of nickel in chunk form. In the interview, he revealed a comparison of prices before and after the implementation of the raw nickel export ban. Prior to the ban, the selling price of nickel chunks was approximately $80 per ton. However, after the ban came into effect, he could only sell the nickel to local smelting companies in Indonesia, with the price dropping significantly to just $40 per ton.

Despite rising global nickel prices, smelters—dominated by Chinese companies—have the power to set the purchasing price for raw nickel. These companies set the price at $40 per ton, a figure much lower than what was offered before the export ban. This situation has created an imbalance between nickel producers like Mr. Hermawan and the Chinese smelting companies that control the pricing. Mr. Hermawan emphasized that China's dominance in the smelting industry is the main factor that enables them to suppress prices as low as possible. As a player in the nickel mining sector, he expressed that current regulations limit his ability to sell raw nickel, particularly to Chinese companies. He feels disadvantaged by this situation—and he is not alone, as many nickel industry players in Indonesia face similar losses.

From an economic perspective, Mr. Hermawan also highlighted the importance of recognizing that Indonesia is losing high-potential economic opportunities and higher-value exports due to this situation. China's dominance in the smelting industry also makes Indonesia more vulnerable to fluctuations in global nickel prices due to over-reliance on a single major market. Therefore, when shaping economic and trade policy, it is crucial to consider the deep implications of China's dominance in the nickel industry and its consequences for Indonesia's potential to develop its downstream industry and maintain economic stability

In conclusion, China's dominance in Indonesia's nickel industry has brought about several negative consequences. These include the loss of control over natural resources, environmental degradation, the displacement of local businesses and workers, and limited opportunities for downstream industry development. To mitigate these negative impacts, Indonesia must assert greater control over its natural resources and implement stricter regulations in the nickel industry. The country should also focus on developing its own downstream industry to add value to its nickel exports and diversify its economy. Additionally, Indonesia should enhance cooperation with other countries in processing nickel and its value-added products.

4.3 The Urgency of FTA Formulation

Currently, Indonesia does not have an FTA that covers the full spectrum of trade with the United States. However, Indonesia and the United States do have a trade framework centered on the Generalized System of Preferences (GSP), which provides tariff preferences for certain products. In addition, there are several sectoral trade agreements between the two countries, such as cooperation agreements in the creative and energy industries. While these collaborations expand market access and boost investment, they have not yet reached the comprehensive level typically associated with an FTA.

Developments in trade relations between Indonesia and the United States continue to be closely monitored, and further negotiations regarding a potential FTA may become an important part of future bilateral trade relations. A comprehensive FTA has the potential to bring significant benefits in terms of economic growth and expanded market access for both countries, as well as support broader global economic cooperation.

Firstly, a Free Trade Agreement (FTA) between Indonesia and the United States has the potential to significantly enhance trade and economic cooperation, which in turn would create job opportunities, increase investment, and drive overall economic growth. As the largest economy in Southeast Asia, Indonesia offers a vast market of over 270 million people, characterized by a growing middle class and increasing consumer demand. By establishing an FTA with Indonesia, the United States would gain access to this lucrative market, spanning various industries such as technology, agriculture, and manufacturing. According to the United States Trade Representative, the U.S. exported goods worth $8.4 billion to Indonesia in 2020, and an FTA has the potential to further increase that figure.

Secondly, an FTA with the United States would strengthen bilateral relations between the two countries, creating closer economic ties between Indonesia and the U.S. This would help reduce potential conflicts and promote cooperation across various aspects of economic and political life. Through an FTA, both countries can address differences and strengthen their collaboration in tackling global challenges such as climate change, security issues, and global health concerns.

Thirdly, through an FTA with the United States, Indonesia could benefit from American business expertise and technology. The transfer of knowledge and technology from the U.S. could support Indonesia in various sectors, including information technology, innovation, and improving efficiency and productivity. This would enhance Indonesia's competitiveness in the global market, enabling local businesses to grow, create jobs, and support sustainable economic development.

In addition to the economic and technological benefits, an FTA with the United States would also allow Indonesia to play a more active role in the global trade community. By participating in such an agreement, Indonesia could strengthen its position in Southeast Asia and contribute more significantly to shaping international trade rules. This would ultimately increase Indonesia's influence on the global stage and help the country more effectively promote its economic and political interests internationally. Overall, an FTA with the United States represents a strategic step that could help Indonesia expand trade opportunities, strengthen bilateral ties, and boost economic competitiveness. Thus, such an agreement holds the potential to support sustainable economic growth and elevate Indonesia's standing in the global arena.

Furthermore, the establishment of a Free Trade Agreement (FTA) with Indonesia aligns with the principles and goals of the United States in advancing global trade liberalization. In the context of global trade, data shows that the United States is one of the world’s largest economies and has a strong history of promoting free trade. By advocating for free and fair trade practices through an FTA, the United States can strengthen the global trading system, potentially curbing protectionist tendencies and supporting global economic growth. In the Southeast Asian context, a bilateral FTA with Indonesia could serve as an important precedent. It could encourage other ASEAN countries to consider similar agreements, which in turn would strengthen U.S. economic and political influence in the region. This also aligns with the U.S. efforts to deepen relations with Southeast Asian nations through initiatives like the “Rebalance to Asia.”

Additionally, a U.S.–Indonesia FTA would help create order in trade between the two countries. It would provide a reliable "Market Access" mechanism, which is crucial in building commitment as trade partners (Listiyadi, 2018). Through an FTA, Indonesia could expect to benefit from greater access to the U.S. market through the elimination or reduction of tariffs, making U.S. imports more affordable. Bilateral trade data between Indonesia and the U.S. shows significant potential for growth in trade cooperation. Overall, an FTA with Indonesia would provide substantial benefits for both parties, create new opportunities in the global economy, strengthen bilateral relations, and advance the U.S. role in the Asia-Pacific region. Moreover, it would contribute to overall global economic growth and stability and demonstrate the United States’ commitment to free and fair trade amidst the ever-evolving dynamics of global trade.

4.4 The Possible Process of Establishing a Free Trade Agreement (FTA) Indo-US

The establishment of a Free Trade Agreement (FTA) between Indonesia and the United States is a complex and multi-stage process that requires close coordination between both nations. As a bilateral agreement aimed at promoting free trade, eliminating trade barriers, and strengthening economic ties, the FTA negotiation involves a sequence of structured steps to ensure a mutually beneficial outcome. The process begins with a feasibility study, jointly conducted by the governments of Indonesia and the United States. This study aims to evaluate the potential economic benefits and sectoral impacts of the proposed agreement. It includes in-depth analysis to assess how the FTA might affect employment, economic growth, and industrial development. Such assessments are essential to ensure that the agreement aligns with the broader economic objectives of both countries.

Following the feasibility study, both parties proceed to define their respective goals and priorities. This phase includes identifying the sectors to be covered under the FTA, negotiating the reduction or elimination of tariffs, addressing non-tariff barriers, and outlining provisions for the protection of intellectual property rights. The objectives must reflect the national interests and strategic economic aspirations of each country.

The next critical step is the formal negotiation phase, where designated negotiating teams from both governments discuss the specific terms of the agreement. This phase often involves extensive dialogue and compromise to resolve differences. Stakeholder consultations form a vital part of this process, as governments are expected to engage with business actors, civil society organizations, and other relevant sectors to ensure that the agreement responds to the broader national interest and does not provoke significant domestic opposition.

Issues such as market access for agricultural products, environmental regulations, labor standards, and sustainable development are likely to be debated and require careful resolution.

Upon reaching consensus, the agreement proceeds to the formal signing ceremony, typically attended by high-level government representatives from both nations. However, this is not the final step. The FTA must then undergo ratification by the legislative bodies in each country—in the case of the United States, approval by Congress is mandatory. Ratification ensures the agreement has the necessary legal backing to be implemented.

Once ratified, the agreement enters the implementation phase, which includes the removal of tariffs, enforcement of agreed-upon trade regulations, and preparation for practical execution. Finally, a system of ongoing monitoring and periodic evaluation is essential to assess the impact of the FTA and ensure that it functions as intended. This oversight mechanism allows for adjustments and ensures long-term compliance and mutual benefit. In conclusion, the formulation of an FTA between Indonesia and the United States is a strategic but intricate process that demands time, strong political commitment, and inclusive stakeholder engagement. The ultimate goal is to achieve a balanced and sustainable agreement that promotes trade, economic cooperation, and shared prosperity.

5. Conclusion

Based on the findings of this study, several key conclusions can be drawn. First, Indonesia is currently unable to benefit from the green incentives provided under the United States' Inflation Reduction Act (IRA) due to multiple factors. One major obstacle is the fact that nickel mining practices in Indonesia have yet to meet the sustainable development standards consistently emphasized by the United States. In addition, Indonesia does not have a Free Trade Agreement (FTA) with the United States, which is a crucial prerequisite for qualifying for green subsidies under the IRA. Another significant factor relates to the dominant role of China in Indonesia’s nickel industry, which complicates the strategic calculus for U.S. policymakers. Given the ongoing geopolitical tensions between the U.S. and China, extending incentives to Indonesia’s nickel sector could be perceived as indirectly supporting Chinese interests.

Second, the overall spectrum of challenges identified in this research points toward a single strategic solution: strengthening bilateral relations with the United States through economic diplomacy, particularly via the negotiation of a Free Trade Agreement. Such an agreement would offer Indonesia several important advantages. First, it would provide a policy framework that enables Indonesia to qualify for the IRA’s green incentives, thereby addressing the issue of exclusion. Second, it would create opportunities to dilute Chinese dominance in Indonesia’s nickel industry by encouraging broader U.S.-Indonesia industrial collaboration.

However, the process of establishing an FTA is not without its difficulties. Numerous challenges must be overcome, including divergent national interests, regulatory differences, and cultural dissimilarities. Therefore, strong political will and sustained diplomatic engagement are required on both sides to reach a mutually beneficial agreement. In conclusion, economic diplomacy through a Free Trade Agreement emerges as an effective and comprehensive strategy to resolve two major issues concurrently: facilitating access to U.S. green incentives and addressing domestic challenges related to Chinese influence in the nickel sector. This approach enables Indonesia to advance both its economic and geopolitical interests.

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