



Beyond the 75th Anniversary Indonesia-China Economic Transformation and Geopolitical Recalculation

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Growing Indonesia-China trade relations and Jakarta's EV battery manufacturing ambitions carry social, ecological and geopolitical risks. *Image courtesy of Wikimedia Commons.*

KEY TAKEAWAYS

- China has become Indonesia's largest trade partner and foreign investor.

- The rise of Indonesia as the world's fourth largest exporter of iron and steel products, its shift from a low-value export structure, as well as its shrinking trade deficit with China would not have been possible without massive Chinese capital investments in Indonesia, particularly in the nickel-processing sector.
- As Jakarta seeks to move up the supply chain ladder with Chinese support it needs to engage in better geopolitical calculation to avoid getting trapped in the US-China geopolitical rivalry.

COMMENTARY

When discussing the closeness of the Indonesia-China economic relationship, experts and officials consistently emphasise trade statistics for good reason. China has been Indonesia's largest trading partner since 2005. Bilateral trade between the two countries surged nearly fivefold between 2005 and 2014, before more than doubling by 2024 (all trade statistics in this paper are sourced from the International Trade Centre's trademap.org).

Indonesia's trade balance with China turned negative in 2008, and the deficit grew steadily, peaking in 2018. But after a decade of deficits, the trend finally reversed. The deficit began shrinking, and by 2023, Indonesia had achieved a trade surplus with China. The Indonesian government [claimed credit](#) for this turnaround, [arguing](#) that the country could profit from Chinese trade despite COVID-19 – unaware that the deficit would return in 2024.

The expansion of trade between Indonesia and China and Indonesia's shrinking deficit are in fact closely linked to foreign direct investments (FDI) from China. During the Jokowi presidency, China was not only Indonesia's largest trading partner, it also emerged as the country's top foreign investor. This economic partnership represents a significant milestone in bilateral relations. It took more than four decades for China to grow to Indonesia's largest, if not most important, economic partner.

Under Jokowi's leadership, Indonesia's basic metal and metal product industries became the leading FDI sector. In 2024, this sector attracted [US\\$13.60 billion](#) in foreign investment – a substantial increase from just \$1.43 billion in 2014. From 2020 to 2024, this sector received the largest FDI share each year, consistently accounting for at least one-fifth of all foreign investment.

This dramatic growth unfolded alongside Indonesia's downstreaming (*hilirisasi*) policy drive, focusing on nickel processing, with [capital from China](#) playing a predominant role in the programme. Two studies published in [2022](#) and [earlier this year](#) discussed how transnational capitalist alliances between Indonesia and China emerged behind this policy platform. Indonesia, with the world's largest nickel reserves, has been climbing up the supply chain ladder, while the [presence of capital, technology, and labour from China](#) has become significantly more visible, especially in the nickel-rich regions of Sulawesi and North Maluku.

The effects of China-backed nickel downstreaming are evident in Indonesia's dramatic rise in iron and steel exports. Indonesia leaped from 22nd place in 2018 to

become the world's fourth largest iron and steel exporter by 2024, with export values surging from US\$1.14 billion in 2014 to US\$25.8 billion – making it Indonesia's third largest export commodity after coal and palm oil.

China is Indonesia's largest market for iron and steel exports. In 2024, nearly all of Indonesia's iron and steel exports to China originated from China-backed nickel-processing hubs in Sulawesi and North Maluku based on a comparison of statistics from the [Indonesian Central Statistics Agency \(BPS\)](#). These centres produce ferronickel, stainless steel, and nickel matte – the latter becoming Indonesia's third largest export item to China by 2024, totalling US\$5.87 billion and displacing palm oil.

The Emergence of a Trade-Investment Nexus

These notable changes suggest that a nexus between trade and investment has emerged in Indonesia-China economic relations. The rise of Indonesia as the world's fourth largest exporter of iron and steel products, its changing export structure, as well as its shrinking trade deficit with China would not have been possible without the massive capital influx from China into Indonesia's nickel-processing sector during Jokowi's presidency.

This nexus seems to have created a circular dynamic: China-backed nickel-processing hubs in Indonesia have produced value-added outputs, a substantial majority of which have been exported back to China. More broadly, this represents a departure from the traditional pattern of Indonesia's economic relations with China that was heavily focused on export commodities since the 2000s – now investment drives trade flows.

Extending the Value Chain: Battery Ambitions, Local Realities

Under President Prabowo, Indonesia has been strengthening its downstreaming commitment by extending the nickel pipeline to escape the low-value trap. On June 29, 2025, Prabowo [launched](#) Asia's largest EV battery manufacturing hub, central to his Golden Indonesia 2045 vision of energy independence by the country's 100th anniversary.

China plays a central role in this project through a US\$5.9 billion joint venture between two Indonesian SOEs (state-owned enterprises) and Chinese battery giant Contemporary Amperex Technology Co Ltd (CATL). This venture represents [Prabowo's first major project with China](#), which he described as proof of both countries' commitment to deepening their strategic partnership.

Indonesia's ambitions to move up the value chain by manufacturing batteries reflect the country's broader industrial transformation goals. However, this China-backed downstreaming drive has created [severe local socio-environmental impacts](#). Local communities are [excluded from project decisions and left to cope with industrial pressures while suffering environmental degradation](#). Indonesia and China must shift focus from boosting output to improving process quality by incorporating ESG (environmental, social and governance) norms into mineral downstream collaborations.

Bringing the Geopolitical Calculation Back In

Indonesia's downstreaming drive has fundamentally transformed the country's economic relations with China. Jakarta should now ensure that its relations with the rising power do not expand further at the expense of its ties with other great powers. This means Jakarta should also apply a geopolitical lens to calculate how to advance in the global battery supply chain.

As Americans begin eyeing Indonesia's critical minerals, Jakarta should anticipate intensifying geopolitical rivalry in the near future. Amid this competitive dynamic between China and the United States, Indonesia could find itself caught in a strategic dilemma. On one hand, the country cannot afford heavy reliance on any single power if it is to avoid external pressures. On the other hand, Indonesia does not always enjoy the luxury of multiple options when pursuing its interests since major powers often operate with an "either you're with us or against us" mentality.

Looking to strengthen economic ties beyond the 75th anniversary of diplomatic relations with China, Indonesia should engage in better strategic calculation since it is impossible to separate its bilateral ties with the rising power from broader geopolitical and geo-economic dynamics. Jakarta must ensure sufficient room to manoeuvre by trying to diversify its major collaboration partners. Jakarta should also recalibrate its downstreaming strategy as it collaborates with China, shifting from merely boosting output to strengthening governance that ensures substantial and just industrial transformation.

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