



# Indonesia Investments

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## Management of Natural Resources

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**14 JUNE 2022**

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**Van Der Schaar Investments B.V.  
CV Indonesia Investments**

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Update – 14 June 2022

**Gaining More from Its Abundance of  
Natural Resources**



# Preface

In addition to our reports, Indonesia Investments sends updates on key economic, political or social developments to our subscribers to make sure that our subscribers do not miss out on vital information. The topics in these updates may be discussed in more detail (and in an updated form) in the forthcoming monthly report.

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## - Natural Resources -

# Gaining More from Its Abundance of Natural Resources; a Look at the Construction of Smelting Facilities in Indonesia

*“After the nickel ore ban<sup>2</sup> [imposed in January 2020], we focus on bauxite this year [2022]. And after bauxite, we will go for tin and copper. We have to dare to take these steps!”*

The quote above originates from Indonesian President Joko Widodo, expressed back in January 2022. The statement refers to the ambition of the Indonesian government to gain more from the country’s abundance of natural resources. So far, the problem has been that Indonesia is a major exporter of natural resources in more-or-less raw form (shipping cheap ores, in big volumes, to overseas destinations where the ores are processed, hence encouraging industrialization at the export destination).

However, it is a situation that implies several missed opportunities for Indonesia. For instance, by focusing on mineral ore exports Indonesia has difficulty to develop its own processing industries, meaning it remains at the bottom end of the (global)

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<sup>2</sup> Our most recent article on the topic of nickel (and Indonesia’s nickel ore export ban) was included in the May 2022 report of Indonesia Investments

value chain. Ideally, export-oriented industrialization in Indonesia produces goods with added value that allow Indonesia to rise in the global value and logistics chains.

Large-scale, export-oriented industrialization would make the Indonesian economy more stable because while raw (or barely processed) natural resources are typically subject to significant price volatility on international markets, processed goods have a much more stable value, thus export earnings become more stable accordingly. We saw this in the 2000s when the commodities boom was a blessing for the Indonesian economy. However, the situation turned sour in the 2010s – when commodity prices generally plunged – causing Indonesia to face a widening current account deficit that undermined foreign institutions’ and investors’ confidence in the fundamentals of the Indonesian economy. And so, the Indonesian economy seems to be too closely linked to volatile commodity prices. Therefore, when exports are not dominated by more-or-less raw commodities, Indonesia’s trade balance, current account balance, and even the rupiah rate are bound to become more stable accordingly.



Moreover, if Indonesia sells its natural resources in large quantities and in a rapid manner, then the country will see its abundance of natural resources shrink heavily in a few decades' time, making it less attractive to invest in the industrial processing of natural resources in Indonesia at some point in the future. So, preserving enough reserves for future use (at home) is important to attract investment.

But the shift to 'value-added natural resources' is a process that does not succeed by itself, with the main reason being that the investment environment of Indonesia is not the most favorable<sup>3</sup>, while it is also too attractive for the established players to simply enjoy revenue from exporting unprocessed natural resources (especially in times of high commodity prices) without needing to consider any capital-intensive investment. And so, top-down encouragement is required.

[...]

**This is the introduction of the article. In case you want to read the full article you can order our June 2022 report (electronic report) by sending**

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<sup>3</sup> To improve the investment environment Indonesia imposed the Omnibus Law on Job Creation (Law No.11 of 2020) in November 2020 (which -among other matters- aims at cutting red tape). However, Indonesia's Constitutional Court deemed this law "conditionally unconstitutional" and gave the government two years to revise the law. This was a setback as policymakers regard this law as a crucial tool to significantly strengthen Indonesia's investment and business environment, hence attract foreign and domestic direct investment realization.

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