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SHARED STAKES, SHARED RESPONSIBILITY:
**ASSESSING CHINA'S INVESTMENTS IN
INDONESIA'S ENERGY AND TRANSITION
MINERALS SECTORS TO IDENTIFY POLICY GAPS
AND STRENGTHEN ENVIRONMENTAL AND
SOCIAL SAFEGUARDS**

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Traction Energy Asia is an independent think tank and strategic convenor leading Indonesia's clean energy transition within a low-carbon economy. Our organization addresses the urgent need to mitigate the impacts of current energy choices on Indonesia's unique biodiversity and ecosystems while countering the growing threat of climate change.

Shared Stakes, Shared Responsibility: Assessing China's Investments in Indonesia's Energy and Transition Minerals Sectors to Identify Policy Gaps and Strengthen Environmental and Social Safeguards

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Executive Summary

Shared Stakes, Shared Responsibility: Strengthening Environmental and Social Safeguards in China–Indonesia Investment Cooperation assesses how China’s growing investments in Indonesia’s energy and transition minerals sectors can serve as a platform for advancing stronger environmental and social protections. It identifies key policy and regulatory gaps on both sides and explores opportunities for Indonesia and China to work together to align investment practices with higher environmental and social standards, ensuring long-term benefits for communities, ecosystems, and economies.

Methodology

The research was based on a combination of policy reviews and investment data analysis. Data was collected from government reports, financial disclosures, academic studies, Non-Governmental Organization (NGO) investigations, as well as the results from discussions at a Stakeholder Workshop on 14th April, 2025.

Key Findings

China’s Strategic Role in Indonesia’s Energy and Transition Minerals Sectors

China is the largest investor in Indonesia’s nickel mining and processing industries, driven by the global demand for Electric Vehicle (EV) batteries. China has also financed a significant portion of Indonesia’s coal power infrastructure, particularly captive coal plants supporting mineral processing in industrial parks.

Although China’s 2021 commitment at the United Nations General Assembly to end support for new overseas coal plants was welcome, many off-grid coal projects in Indonesia continued to receive Chinese support. While these investments align with Indonesia’s industrialization and economic growth ambitions, they also exacerbate environmental and social risks.

Environmental and Social Risks

The rapid expansion of nickel smelters and captive coal plants has contributed to deforestation, water pollution, labor rights violations, and community displacement. Many projects operate with limited transparency, highlighting serious gaps in regulatory enforcement and corporate accountability.

Evolving Policy and Regulatory Landscape

China’s evolving sustainability commitments—including its dual carbon goals, ESG disclosure requirements, and green finance initiatives—present an important opportunity to elevate environmental and social standards in its overseas investments. However, enforcement remains inconsistent, particularly abroad.

Indonesia’s regulatory frameworks, meanwhile, have not yet caught up with the pace of investment, and institutional incentives to prioritize ESG compliance remain weak.

Regulatory and Policy Gaps

- **Limited ESG Compliance and Enforcement:** Both countries have ESG frameworks, but practical application and enforcement lag behind, creating significant governance gaps.
- **Weak Community Engagement:** Affected communities lack effective avenues to participate meaningfully in project planning, grievance processes, and decision-making.
- **Insufficient Incentives for Renewable Energy:** Despite China's capacity and interest in supporting clean energy, Indonesian policies have not provided the necessary incentives to attract greater Chinese investment into renewables.

Strategic Risks and Opportunities

Indonesia's Growing Risk of Being Left Behind

Indonesia's slow progress in institutionalizing ESG standards threatens its global competitiveness. In an investment environment increasingly shaped by ESG and green finance requirements, countries without credible safeguards risk losing access to high-quality, low-risk capital—particularly in the fast-growing clean energy and green technology sectors. Without urgent reform, Indonesia risks missing substantial economic opportunities and falling behind regional peers who are moving faster to integrate sustainability into their investment climates.

Leveraging China's Sustainability Frameworks and the Global Development Initiative (GDI)

China's domestic sustainability agenda, including its "Ecological Civilization" concept and the Global Development Initiative (GDI), provides a critical framework for encouraging higher ESG standards in Indonesia-bound investments. The GDI, grounded in the Sustainable Development Goals (SDGs) and the Paris Agreement, offers a platform for piloting climate-aligned, socially inclusive cooperation models—moving beyond transactional investments toward true development partnerships.

Opportunities for Strengthening Sustainability and Accountability

- **Leveraging China's Green Finance Commitments:** Encouraging Chinese financial institutions to apply stricter ESG criteria to investments in Indonesia, aligning with China's own domestic standards.
- **Strengthening Regulatory Oversight:** Advocating for harmonization between China's green investment principles and Indonesia's environmental and social governance frameworks.
- **Enhancing Civil Society Engagement:** Building civil society capacity to monitor, report, and advocate for stronger ESG practices in Chinese-funded projects.
- **Framing ESG as an Economic Imperative:** Positioning stronger ESG compliance not merely as an environmental or social necessity, but as crucial for Indonesia's future competitiveness and investment attractiveness.

Conclusion

China's investment in Indonesia's energy and transition minerals sectors is at a pivotal juncture. These investments offer important economic opportunities, but without stronger safeguards and enforcement mechanisms, they risk entrenching environmental harm, social injustice, and economic vulnerability.

Strengthening regulatory frameworks, enhancing transparency, and fostering collaboration among policymakers, investors, and civil society will be critical. Initiatives like the GDI, if operationalized effectively, offer a path toward greener, fairer, and more resilient China–Indonesia investment cooperation.

The recommendations outlined in this report provide a practical roadmap for achieving these goals, ensuring that Chinese investments contribute meaningfully to Indonesia's sustainable development and global competitiveness.