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Asymmetric Interdependence as Bargaining Leverage: Indonesia's Economic Hedging in and Beyond the Belt and Road Initiative 2013–2024

By

Author: Asep Setiawan

Doctoral Program in Political Science, Faculty of Social and Political Science, Universitas Muhammadiyah Jakarta.

ABSTRACT: This article explains why Indonesia's growing economic exposure to China has generated different bargaining outcomes across major infrastructure and critical-mineral projects. Rather than treating asymmetric interdependence as either a deterministic source of Chinese coercion or evidence of unconstrained host-state agency, the article asks when structural dependence can be converted into bargaining leverage. It develops a framework that combines Keohane and Nye's distinction between sensitivity and vulnerability with the hedging literature and recent work on geoeconomics and politicised interdependence. The framework separates potential bargaining resources—credible exit options, alternative partners, and control over strategically scarce assets—from the domestic institutional capacity required to convert those resources into policy outcomes. Empirically, the study uses a qualitative structured, focused comparison and documentary process tracing of three cases: the Jakarta–Bandung high-speed railway, the Morowali nickel industrial ecosystem, and the Kayan Cascade hydropower project. The comparison finds that Indonesia's leverage is weakest after sunk costs and financing concentration narrow exit options, as in the railway case; stronger but distributionally uneven where regulatory control over a critical resource creates counter-leverage, as in nickel downstreaming; and potentially preservable when commitment remains incomplete and partners can be substituted, as in Kayan. The article contributes to middle-power and hedging scholarship by showing that asymmetry is mediated by asset specificity, project sequencing, and institutional conversion capacity rather than by aggregate power differentials alone.

Keywords: Indonesia, China, asymmetric interdependence, economic hedging, Belt and Road Initiative, economic statecraft, critical minerals, middle power.

INTRODUCTION

China's Belt and Road Initiative (BRI) has intensified a long-standing problem in international political economy: economic relations that generate development gains can also create strategic vulnerability. Indonesia is an especially useful case for examining this tension. Under President Joko Widodo, Jakarta welcomed Chinese capital for transport infrastructure, industrial parks, mineral processing, and energy projects while continuing to insist that foreign economic engagement must remain compatible with the country's *bebas aktif*

tradition and its broader preference for strategic autonomy. The result has not been a uniform pattern of dependence. Instead, China-linked projects have produced sharply different combinations of material benefit, financial exposure, regulatory control, and policy autonomy (Anwar, 2023; Mursitama & Yi, 2021; Yan, 2023; Yoshimatsu, 2022).

The central puzzle is therefore not whether Indonesia is economically dependent on China in an aggregate sense. The more analytically productive question is why similar structural asymmetries

produce different bargaining outcomes across sectors and project stages. The Jakarta–Bandung high-speed railway (HSR) illustrates the vulnerability that can emerge once sunk costs, debt financing, and technological specificity reduce credible exit options. Indonesia retained a formal 60 percent share in the KCIC joint venture, yet the project's US\$1.2 billion cost overrun required additional financing and state-capital support on the Indonesian side, narrowing room for ex post bargaining (Raharja & Sthefanny, 2026; Wijaya, 2025). By contrast, Indonesia's nickel downstreaming policy compelled foreign investors—predominantly Chinese firms—to locate processing capacity inside Indonesia. This created a form of resource-based counter-leverage, even as Chinese concentration in smelting and battery-related value chains generated enclave effects, environmental externalities, and new technological dependencies (Pandyaswargo et al., 2021; Warburton, 2024; Wijaya & Sinclair, 2025). The Kayan Cascade hydropower project presents a third pattern. Chinese firms participated at feasibility and contracting stages, but key foreign partners later withdrew while the Indonesian project company continued to seek alternative financing. The available evidence does not establish that Jakarta deliberately cancelled the project to deny Chinese dominance; it instead reveals the strategic value of incomplete commitment and partner substitutability before full financial lock-in.

This variation matters for three literatures. First, scholarship on interdependence has long emphasized that dependence is relational and that the distribution of adjustment costs can become a source of bargaining power. More recent work on weaponized and politicised interdependence shows that states can exploit concentrated networks, chokepoints, and value-chain positions for strategic purposes (Farrell & Newman, 2019; Van Assche & Lindner, 2026). Yet much of this literature focuses on major powers that control global network hubs. Less attention is paid to how a middle power can create issue-specific leverage when it lacks systemic centrality but controls a scarce resource, regulatory gate, or attractive market.

Second, the hedging literature explains why Southeast Asian states combine engagement with risk-management measures rather than choosing pure balancing or bandwagoning. However, hedging remains conceptually contested, and scholars have warned against treating every mixed policy as

evidence of hedging (Ciorciari & Haacke, 2019; Haacke, 2019; Lim & Cooper, 2015). In Indonesia, the strongest empirical work demonstrates that economic diversification—particularly competition between Chinese and Japanese infrastructure offers—can expand policy options and preserve autonomy (Yan, 2023). This article builds on that insight but shifts the unit of analysis from aggregate foreign-policy posture to the conversion of project-level bargaining resources into state-level economic hedging.

Third, BRI scholarship has moved away from monocausal accounts of 'debt-trap diplomacy' toward more differentiated analyses of host-state agency, domestic political economy, and bargaining between Chinese firms, lenders, and recipient governments (Bräutigam, 2020; Li et al., 2022; Loughlin & Grimsditch, 2021; Wang, 2023; Young, 2020). This shift is particularly important for Indonesia, where state-owned enterprises, ministries, local political actors, private conglomerates, and Chinese firms jointly shape outcomes. Recent research on Indonesia's economic corridors similarly demonstrates that Chinese capital is filtered through local accumulation regimes rather than imposed on a passive host state (Wijaya & Camba, 2026).

The article addresses a specific research gap at the intersection of these literatures. Existing studies identify asymmetric interdependence, economic hedging, host-state agency, and resource nationalism, but they rarely specify the causal sequence through which a potential bargaining asset becomes realized leverage. The article therefore asks: under what conditions can Indonesia convert asymmetric economic interdependence with China into bargaining leverage, and when does the same interdependence instead produce vulnerability? The answer advanced here is that leverage depends on three linked conditions: (1) credible exit or substitution options; (2) control over an asset or regulatory gate valued by the stronger partner; and (3) domestic institutional arrangements capable of converting those resources into enforceable project terms. These conditions are strongly affected by sequencing because bargaining power tends to decline after large sunk costs accumulate.

The theoretical contribution is a distinction between structural asymmetry, potential bargaining resources, and institutional conversion. This distinction avoids two opposite errors: assuming that material asymmetry automatically produces

political capture, and assuming that the existence of a valuable commodity automatically gives the host state effective leverage. Indonesia's experience shows that leverage is issue-specific, reversible, and often accompanied by new forms of dependence. The empirical contribution is a structured comparison of transport, critical-mineral, and energy projects that identifies how asset specificity and project lifecycle shape bargaining outcomes. The policy contribution is to demonstrate why ex ante contract design, partner diversification, competition policy, and regulatory capability matter more than attempts to recover leverage after financial lock-in.

Literature Review and Research Gap

Asymmetric interdependence, economic statecraft, and geoeconomic power

The foundational logic of asymmetric interdependence is that power does not derive simply from the volume of exchange but from unequal costs of disrupting or adjusting the relationship. Keohane and Nye's distinction between sensitivity and vulnerability remains useful because it directs attention to alternatives: a state may be highly sensitive to a relationship yet less vulnerable if it can switch suppliers, mobilize domestic substitutes, or redesign the policy environment. In contemporary geoeconomic competition, this logic has been extended from dyadic trade dependence to network position, state-market coordination, and value-chain governance. Farrell and Newman (2019) show how states occupying central network positions can exploit informational and financial chokepoints, while Wigell (2016) conceptualizes geoeconomics as the strategic use of economic instruments to pursue political objectives. Van Assche and Lindner (2026) further argue that geopolitical turbulence has transformed governments from background rule-setters into active co-strategists in strategic sectors. For this article, these arguments imply that asymmetric interdependence should be treated as a field of possible leverage rather than a fixed outcome. Systemic network centrality is one source of power, but not the only one. Resource-holding states can sometimes create issue-specific counter-leverage when a stronger partner has made asset-specific investments or depends on regulatory access to a scarce input. The Sino-Saudi oil relationship provides a recent comparative example in which supply-side and demand-side dependence coexist and become objects of strategic bargaining

(Ullah & Li, 2025). The Indonesian nickel case suggests a similar, though not identical, mechanism: sovereign control over raw-material exports and processing rules can alter the location of investment and increase the cost of exit for downstream firms.

Hedging: from alignment ambiguity to economic portfolio management

Hedging is commonly used to describe policies that combine engagement with insurance against adverse future outcomes. Yet the concept risks becoming analytically empty when it is defined simply as any mixture of cooperation and resistance. Lim and Cooper (2015) argue that meaningful hedging should involve costly trade-offs rather than costless diversification, while Haacke (2019) calls for more explicit criteria distinguishing hedging from balancing, bandwagoning, and routine engagement. Ciorciari and Haacke (2019) similarly emphasize strategic uncertainty as a core condition. Kuik (2021) treats hedging as a multi-pronged effort to maximize returns, mitigate risks, and keep options open under uncertainty. This option-preservation element is central to the framework developed below.

Indonesia illustrates why economic content must be integrated more systematically into hedging theory. Anwar (2023) characterizes Indonesia's broader posture as 'hedging plus': maximizing economic opportunities while preserving strategic autonomy through national and ASEAN-centered risk management. Yoshimatsu (2022) shows how Indonesia responded simultaneously to the BRI and Indo-Pacific initiatives, while Yan (2023) demonstrates how competition between China and Japan in railway infrastructure expanded Jakarta's choice set. Iksan and Soong (2023) likewise situate Indonesia's development strategy within China–United States rivalry. Together, these studies support an important correction: economic engagement with China is not necessarily the opposite of strategic autonomy. The relevant question is whether engagement expands or erodes future options.

BRI host-state agency and domestic political economy

The debate over Chinese overseas finance initially became polarized between strategic-control narratives and 'win-win' development accounts. The debt-trap label was especially influential but often treated intent, debt distress, and asset transfer as a single causal sequence. Bräutigam (2020) demonstrates the weakness of generalizing such a

sequence across cases. Subsequent research stresses bargaining, firm heterogeneity, and domestic institutions. Li et al. (2022) develop a host-country bargaining perspective on BRI foreign direct investment; Loughlin and Grimsditch (2021) show that local political economy reshapes the implementation of BRI projects; and Young (2020) demonstrates that regulatory capture can emerge through domestic patron-client networks rather than through external coercion alone. Wang's (2023) comparison of Malaysia and Indonesia further shows that infrastructure outcomes depend on the organization and politicisation of host-country policymaking.

The Indonesian case is therefore better conceptualized as negotiated interdependence. Chinese state-owned enterprises and policy banks possess important financing and technological advantages, but their projects are embedded in Indonesia's presidential politics, SOE structures, licensing regimes, local coalitions, and sectoral industrial policy. Tritto's (2021) study of Chinese investment in Indonesia's coal-power sector shows how Indonesia's developmental preferences helped shape the profile of BRI-linked investment. Wijaya and Camba (2026) similarly argue that Chinese capital entering Indonesian economic corridors is transformed by local political-economic structures and inter-capitalist competition. Host-state agency is real, but it is neither unitary nor automatically effective.

Critical minerals, downstreaming, and the paradox of resource-based leverage

Indonesia's nickel policy illustrates why resource nationalism should be integrated with interdependence and hedging. The 2020 ban on raw nickel ore exports accelerated investment in domestic processing and helped anchor large Chinese industrial operations in Indonesia (Pandyaswargo et al., 2021). From a bargaining perspective, the ban raised the cost of accessing Indonesian ore without investing locally. From an industrial-policy perspective, it aimed to move Indonesia upward in the value chain. From a political-economy perspective, however, the results are mixed. Östensson (2019) cautions that coercive downstreaming policies do not automatically generate efficient industrialization. Warburton (2024) describes Indonesia's nickel boom as producing 'nationalist enclaves': dramatic growth and export gains coexist with concentrated benefits, foreign capital dependence, and socio-

environmental harms. Wijaya and Sinclair (2025) show how green-development narratives are intertwined with resource nationalism, while Dou and Xu (2023) and Gulley (2024) place these dynamics in the broader context of critical-mineral supply-chain security and Chinese dominance in battery-related materials.

The legal dimension also constrains claims about leverage. The WTO panel in Indonesia—Measures Relating to Raw Materials found the nickel export prohibition and domestic processing requirement inconsistent with GATT Article XI:1 and rejected Indonesia's principal defenses. Indonesia appealed in December 2022, but the appeal remains unresolved because the Appellate Body is non-operational. The downstreaming policy therefore cannot be described as having been 'upheld' by the WTO. The analytically defensible claim is narrower: Indonesia maintained the policy and used domestic regulatory control to redirect investment, while bearing continuing legal and diplomatic costs.

Research gap and novelty

Four gaps remain. First, interdependence scholarship identifies relative vulnerability but often leaves the domestic conversion mechanism underspecified. Second, hedging studies usually classify national strategies but seldom trace how project-level bargaining resources aggregate into economic risk management. Third, BRI host-agency research shows that domestic politics matters but does not always identify when agency results in improved bargaining terms rather than merely local participation in externally financed projects. Fourth, the critical-minerals literature documents downstreaming and enclave effects but rarely connects resource gatekeeping to a general theory of asymmetric interdependence.

This article addresses these gaps by developing a conversion model in which structural asymmetry affects outcomes indirectly through potential bargaining resources and domestic institutional conversion. It introduces the term resource-based counter-leverage to describe a host state's ability to increase a stronger partner's adjustment costs by controlling access to a strategically scarce input or regulatory gate. Unlike a claim of 'reverse dominance', counter-leverage is deliberately bounded: it may coexist with technological dependence, buyer concentration, environmental harm, or financial vulnerability. The article further adds project sequencing as a scope condition, arguing that leverage is normally stronger before

contractual and financial sunk costs sharply reduce exit credibility.

Theoretical Framework: From Structural Asymmetry to Realized Leverage

Defining the dependent variable

The dependent variable is realized bargaining leverage: Indonesia's demonstrated ability to impose, preserve, or renegotiate host-preferred terms without incurring adjustment costs so large that the threatened policy becomes non-credible. This definition distinguishes leverage from benefits. A project can generate employment, connectivity, or export revenue without improving bargaining power. It also distinguishes leverage from formal ownership. Majority equity does not necessarily translate into operational or financial autonomy if technology, debt, or contractor structures create high switching costs.

Three mechanisms

The first mechanism is exiting optionality. Bargaining leverage increases when Indonesia can credibly postpone, reject, or substitute a financing or technology partner. This can arise from competition among foreign investors, domestic fiscal capacity, or project stages that preceded full commitment. Exit optionality declines as sunk costs, dedicated infrastructure, or lender concentration rise.

The second mechanism is asset-based counter-leverage. Indonesia can partially offset capital or technological dependence when it controls a scarce resource, regulatory permit, market access point, or other asset whose loss would impose significant costs on the stronger partner. Counter-leverage is

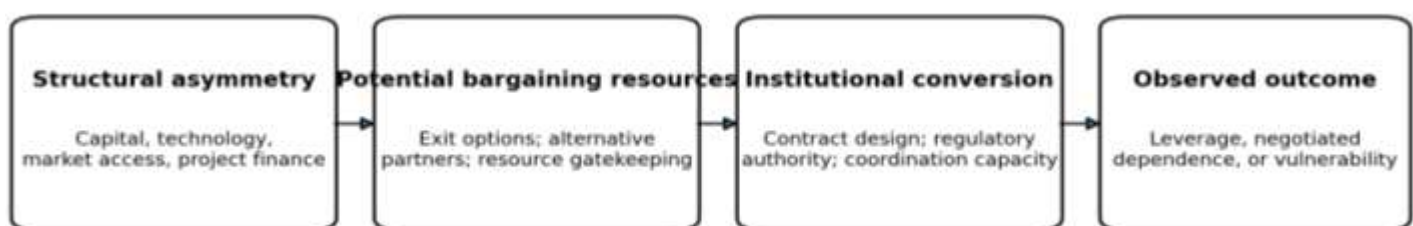
strongest when the asset is difficult to substitute, the state retains sovereign regulatory authority, and the partner has already made location-specific investments. It is weaker when buyers are concentrated, domestic firms lack complementary technology, or the partner can diversify away at acceptable cost.

The third mechanism is institutional conversion. Potential leverage only matters if domestic institutions can translate it into enforceable rules. Relevant capabilities include inter-ministerial coordination, transparent project appraisal, competition policy, contract design, ownership safeguards, environmental regulation, and the capacity to withstand short-term fiscal or political costs. Weak institutional conversion can dissipate even substantial bargaining assets.

Analytical expectations

The framework yields four analytical expectations rather than deterministic hypotheses. First, high exit optionality should improve bargaining outcomes, particularly before large sunk costs accumulate. Second, control over a strategically valuable and difficult-to-substitute asset should create counter-leverage, but only if domestic institutions retain meaningful regulatory authority. Third, high financial and technological asset specificity should increase vulnerability once a project enters implementation. Fourth, hedging should be evaluated at portfolio level: a state can accept dependence in one project while preserving autonomy through alternative partners, sectors, and institutions elsewhere.

Figure 1. Conversion mechanism from asymmetric interdependence to bargaining outcomes



Lifecycle sequencing matters: leverage is usually easier to preserve before large sunk costs accumulate.

Source: Author's conceptualization based on Keohane and Nye (2012), Kuik (2021), Farrell and Newman (2019), and Van Assche and Lindner (2026).

Research Design and Methodology

This study uses a qualitative structured, focused comparison of three China-linked projects combined with documentary process tracing. The design is appropriate because the research question concerns causal mechanisms—how potential bargaining resources are converted into leverage—rather than estimating an average treatment effect. Case-study research is particularly useful for identifying causal sequences and scope conditions

when the number of cases is small and contextual variation is theoretically meaningful (Gerring, 2004). The cases were selected purposively to maximize variation in sector, asset type, and project lifecycle while remaining within the common bilateral context of Indonesia–China economic engagement (Seawright & Gerring, 2008).

The three cases are not treated as identical BRI financing instruments. That assumption would be inaccurate. The HSR is a highly visible BRI-associated transport project financed through a joint venture and China Development Bank lending; Morowali is an industrial ecosystem shaped by Chinese private and state-linked capital, Indonesia's mineral policy, and the broader BRI-era expansion of China-linked investment; Kayan is a long-running hydropower project that involved Chinese feasibility, development, and EPC relationships but did not follow the same financing architecture. The comparison therefore examines China-linked geoeconomic interdependence 'in and beyond' the BRI rather than holding a single financing model constant.

The empirical period is 2013–2024. Scholarships published in 2025 and 2026 is used retrospectively to interpret developments within that period, not to extend the outcome window. Evidence is drawn from four categories: (1) peer-reviewed research; (2) Indonesian government planning, regulatory, and parliamentary material identified in the original manuscript; (3) corporate and project disclosures; and (4) reputable media used only to corroborate project chronology when primary documents are unavailable. The evidence hierarchy prioritizes official and peer-reviewed sources over advocacy or commentary. No interview dataset was supplied

with the manuscript. Accordingly, the revised study is explicitly documentary; the earlier statement that 'interview and documentary evidence' were coded has been removed. If the author has original interviews, the manuscript should not cite them until the sample, recruitment, dates, consent/ethics procedures, and coding protocol are fully documented.

For each case, the analysis codes four dimensions: exit optionality; asset-based counter-leverage; institutional conversion capacity; and sunk-cost/asset-specific exposure. The observable outcome is the extent to which Indonesia preserved host-preferred terms or policy autonomy. Evidence of intentional strategy is treated conservatively. Administrative delay, partner withdrawal, or project non-completion is not automatically coded as dominance denial unless documentary evidence links the outcome to an explicit government strategy. This rule is particularly important for the Kayan case.

The design has limitations. The cases vary across sectors, making them analytically illuminating but not statistically comparable. Public access to commercial contracts is incomplete, especially for clauses governing technology transfer, risk allocation, and off-take agreements. Domestic actors within Indonesia are also heterogeneous, so 'Indonesia' should not be interpreted as a unitary negotiator. Finally, the study evaluates bargaining leverage rather than full welfare effects; employment quality, environmental costs, distributional outcomes, and local political conflict are considered when they alter the sustainability of leverage but are not independently estimated.

Table 1. Operationalization of the Analytical Framework

Concept	Observable indicators	Expected implication	Evidence rule
Exit optionality	Alternative financiers/partners; ability to delay or reject; low switching costs	Greater ex ante leverage	Count only credible, feasible alternatives—not rhetorical diversification
Asset-based counter-leverage	Resource scarcity; regulatory gate; partner-specific fixed investment	Raises stronger partner's adjustment cost	Must show assets are valuable and state retains control
Institutional conversion	Contract clarity; inter-ministerial coordination; competition/regulatory enforcement	Converts potential power into realized leverage	Infer from enforceable rules and observed bargaining outcomes
Sunk-cost exposure	Debt concentration; dedicated technology; incomplete but costly assets	Reduces ex-post exit credibility	Distinguish financial exposure from intentional coercion

Source: Author's operationalization. No new quantitative data are introduced.

Results

5Jakarta–Bandung HSR: formal ownership, sunk-cost vulnerability, and constrained ex post bargaining

The Jakarta–Bandung HSR is the strongest case of declining exit optionality. The project was organized through PT Kereta Cepat Indonesia China (KCIC), with the Indonesian SOE consortium PT Pilar Sinergi BUMN Indonesia holding 60 percent and the Chinese consortium Beijing Yawan HSR holding 40 percent. Formal majority ownership initially appeared to safeguard Indonesian control. Yet formal equity was only one component of the project's bargaining structure. Financing depended heavily on China Development Bank, technology and rolling stock were China-linked, and the project required dedicated infrastructure that had little value outside the railway system. These features increased asset specificity and made exit progressively less credible as construction advanced (Raharja & Sthefanny, 2026; Wijaya, 2025).

The critical bargaining event was the cost overrun. Indonesia and China ultimately agreed on an overrun of approximately US\$1.2 billion. The burden was allocated broadly in line with the 60:40 ownership structure, while the Indonesian side relied on additional China Development Bank financing and state-capital support for its equity contribution. The relevant implication is not that Chinese equity automatically increased—available evidence does not establish such a change by 2024—but that Indonesia's adjustment alternatives narrowed. Once billions of dollars had been committed, abandoning the project would have imposed large fiscal, political, and reputational costs. The asymmetry thus operated through sunk-cost vulnerability rather than a simple transfer of ownership.

This case also complicates the language of 'debt-trap diplomacy'. The evidence does not demonstrate a pre-designed Chinese strategy to seize the railway. What it demonstrates is a bargaining environment in which a lender and technology provider gained structural advantages as the host side's exit options declined. This is consistent with the broader literature that rejects intentional debt-trap claims while recognizing that opaque or poorly allocated risks can still create political and fiscal vulnerability (Bräutigam, 2020; Li et al., 2022). Wijaya's (2025) analysis is especially important because it shows that railway risk was politically contested and

redistributed through negotiation rather than objectively fixed at contract signature.

Indonesia nevertheless obtained significant developmental benefits: a functioning high-speed rail service, domestic engineering experience, connectivity gains, and a platform for transit-oriented development. These benefits should not be equated with bargaining leverage. The more precise conclusion is that the project produced negotiated dependence: Indonesia retained formal ownership and developmental gains but faced weakened ex post bargaining because alternative financing and exit options had become costly. The case therefore supports the sequencing expectation: risk allocation and contingency rules are most valuable before construction, not after sunk costs make renegotiation unavoidable.

Morowali nickel: resource-based counter-leverage with enclave and concentration effects

The Morowali industrial ecosystem differs fundamentally from the HSR because the core bargaining asset originates in Indonesian territory and sovereign regulation. Indonesia's ban on raw nickel ore exports, effective from 2020, required firms seeking access to Indonesian nickel to process material domestically. This policy helped accelerate Chinese investment in smelting and downstream facilities and contributed to a rapid expansion of nickel-related output. In interdependence terms, Indonesia increased the adjustment cost for external processors by making raw-ore access conditional on local investment (Pandyaswargo et al., 2021; Warburton, 2024).

This mechanism is best described as resource-based counter-leverage. China's strength lies in capital, processing technology, industrial networks, and demand; Indonesia's countervailing asset lies in resource endowment and sovereign authority over mining and export rules. The relationship is therefore asymmetrical in more than one direction. Indonesia depends on Chinese firms for rapid capital deployment and technology, while Chinese value chains have strong commercial incentives to maintain access to Indonesian nickel. The policy changed the location of value-adding activity and created fixed investment that is costly to relocate. In this limited sense, Indonesia converted resource control into bargaining space.

The limits are equally important. Counter-leverage does not equal autonomy. Chinese-linked firms occupy powerful positions across smelting, off-take, and associated industrial networks, potentially

narrowing Indonesia's buyer and technology options. Warburton (2024) shows that nickel-led industrialization has produced enclave characteristics: gains are large but concentrated, and socio-environmental costs are unevenly distributed. Wijaya and Sinclair (2025) likewise show that the EV-development narrative combines green ambition with resource nationalism while reproducing tensions over governance and sustainability. These conditions can erode leverage over time if Indonesia becomes dependent on a narrow set of investors or if environmental and labor problems limit access to alternative high-value markets.

The WTO dispute further qualifies the success narrative. The panel in DS592 found the export ban and domestic processing requirements inconsistent with GATT Article XI:1 and recommended conformity. Indonesia appealed, leaving the dispute legally unresolved under the current Appellate Body impasse. The policy nevertheless remained an effective instrument for redirecting investment during the study period. The appropriate conclusion is therefore conditional: nickel provides stronger bargaining resources than the HSR because Indonesia controls a strategically valued input and regulatory gate, but the durability of that leverage depends on technological diversification, competition among buyers, environmental upgrading, and legal adaptation.

Kayan Cascade hydropower: pre-commitment optionality, partner withdrawal, and evidentiary limits

The original manuscript described the Kayan Cascade hydropower project as a cancelled Chinese-led BRI project and interpreted non-completion as deliberate Indonesian dominance denial. The available evidence does not support that causal claim. Kayan Hydro Energy has pursued the multi-dam project for years; Chinese firms, including Sinohydro/Power China, participated in studies and development agreements, and Power China signed an EPC contract for Kayan I in 2018. By 2024, however, Power China and Sumitomo had withdrawn from the project, while the Indonesian project company continued preparatory works and sought replacement partners. The project therefore did not simply disappear, nor is there sufficient documentary evidence that Indonesian ministries intentionally blocked it to exclude China.

The analytically useful feature of Kayan is different: commitment remained incomplete for a long period,

and the host-side project could continue searching for partners after major foreign participants exited. This preserved more optionality than the HSR once the latter entered deep construction. In bargaining terms, Kayan illustrates the value—and uncertainty—of the pre-commitment stage. A host government or domestic developer can delay final financing, adjust partnership structures, or invite competing capital without incurring the same sunk-cost penalties as an operational megaproject.

This case should therefore be coded as indeterminate-to-moderate leverage rather than a clear dominance-denial success. Partner substitution demonstrates that Chinese participation was not fully irreplaceable, but it does not prove that Indonesian state strategy caused the withdrawal or improved project terms. The case contributes mainly by identifying a boundary condition: high exit optionality creates the possibility of leverage, but realized leverage requires evidence that the option was used to secure preferred terms. The distinction between option value and observed bargaining success is essential for avoiding over-interpretation.

Cross-case comparison

Across the three cases, the most robust pattern is not sectoral but temporal and institutional. The HSR had the weakest exit option once construction and debt commitments accumulated. Morowali retained stronger counter-leverage because sovereign resource regulation continued to affect investors after capital had been sunk, although concentration in Chinese-linked value chains created new vulnerabilities.

Figure 2. Economic-hedging matrix and analytical placement of the three cases



Source: Author's conceptualization. Case positions summarize the qualitative evidence and should not be read as interval-scale measurements.

Kayan retained option value because full financial closure and partner lock-in were incomplete, but the evidence is insufficient to classify this as deliberate state leverage. The comparison therefore supports a

conditional model: potential bargaining power is highest when a host state controls a valuable asset or credible alternative and can institutionalize that advantage before sunk costs narrow the choice set

Table 2. Structured Cross-Case Comparison

Case	Main dependence	Exit option	Counter-leverage asset	Institutional conversion	Observed outcome	Evidence confidence
Jakarta–Bandung HSR	CDB finance; China-linked technology; dedicated rail assets	Low after deep construction	Limited	Formal majority ownership but costly refinancing/contingency exposure	Negotiated dependence; weak ex post leverage	High for financing/ownership; moderate for contractual mechanisms
Morowali nickel	Chinese capital, processing technology, buyer networks	Medium	Nickel resource control and processing regulation	Strong sovereign rule-setting, but competition/environmental enforcement uneven	Resource-based counter-leverage with enclave vulnerabilities	High for policy and investment shift; moderate for bargaining-price effects
Kayan Cascade	Foreign project finance/EP C partners	Medium–High before financial closure	Project/market access; partner substitutability	Incomplete; project company retained ability to seek replacements	Option preservation; realized leverage indeterminate	Moderate; state intent not demonstrated

Source: Compiled by the author from the evidence and citations discussed in Sections 5–6. “Evidence confidence” refers to the strength of public documentation, not a statistical confidence interval.

Discussion

From aggregate dependence to leverage geometry

The cases demonstrate why aggregate measures of trade or investment dependence can be misleading. Indonesia can simultaneously become more economically connected to China and preserve substantial autonomy in particular issue areas. What matters is the geometry of dependence: who can adjust, at what cost, at what stage, and through which institutional channel. This approach bridges classical interdependence theory with recent geoeconomic scholarship. Farrell and Newman’s (2019) network framework highlights structural positions that enable coercion; the Indonesian cases

show that a non-great power can also create localized chokepoints through sovereign regulation of scarce resources. Van Assche and Lindner’s (2026) concept of government co-strategizing further clarifies why industrial policy, corporate location, and foreign policy can no longer be separated in strategic sectors.

Economic hedging is a portfolio strategy, not a label for every mixed project

The comparison also refines the application of hedging. Hedging should not be inferred simply because a state accepts Chinese investment while maintaining relations with other powers. Following Haacke (2019) and Lim and Cooper (2015), the behavior should involve meaningful uncertainty, option preservation, and trade-offs. Indonesia’s economic hedging is therefore best located at portfolio level: it leverages competition among foreign partners, retains ASEAN-centered and bilateral alternatives, and varies acceptable

dependence across sectors. Yan's (2023) analysis of Sino-Japanese infrastructure competition is especially relevant because it shows how alternative offers can expand recipient-state agency even when switching is costly. Anwar's (2023) 'hedging plus' framework provides the broader strategic context: Indonesia seeks benefits from all major powers while avoiding exclusive alignment.

The project cases reveal that portfolio hedging can coexist with project-level vulnerability. The HSR may create concentrated financing exposure while Indonesia continues to diversify other infrastructure partnerships. Conversely, strong leverage in nickel does not imply economy-wide independence from China. This multilevel distinction prevents the concept of hedging from becoming a catch-all description and links it to observable mechanisms.

Host-state agency must be evaluated by outcomes, not activity

BRI research rightly emphasizes that recipient states are not passive. Yet 'agency' is too broad to serve as an outcome variable. Governments exercise agency even when decisions later generate vulnerability. The more demanding question is whether state action changes the distribution of adjustment costs in the host state's favor. Li et al. (2022), Loughlin and Grimsditch (2021), Wang (2023), and Young (2020) all demonstrate in different ways that BRI implementation is filtered through host-country institutions and coalitions. The present analysis adds an outcome criterion: agency becomes bargaining leverage only when it preserves credible alternatives, secures enforceable terms, or increases the partner's cost of non-compliance relative to the host's cost of adjustment.

This distinction changes how the HSR should be interpreted. Indonesia exercised considerable agency in selecting China over Japan, designing a joint venture, and politically supporting the project. But those acts did not guarantee strong leverage once the project accumulated sunk costs. Conversely, nickel downstreaming imposed real costs on Indonesia—including legal disputes, environmental pressures, and dependence on foreign processing capital—but altered investors' location decisions and therefore represents a stronger instance of realized bargaining influence.

The paradox of critical-mineral leverage

Critical minerals create a particularly important form of twenty-first-century asymmetry. Energy-transition supply chains combine geographically concentrated resources with technologically

concentrated processing networks. This creates mutual dependence but not symmetry. Indonesia's nickel position gives it bargaining resources unavailable in most infrastructure sectors, yet China's processing scale and industrial ecosystem can convert resource abundance into a new form of downstream dependence. Dou and Xu (2023) show why critical-mineral security increasingly depends on whole supply chains rather than raw-resource availability, while Gulley (2024) demonstrates the strategic importance of Chinese concentration in battery-material processing. Indonesia's policy problem is therefore to prevent raw-material counter-leverage from being neutralized by technology and buyer concentration.

Sequencing and the politics of sunk costs

The strongest theoretical finding is the importance of sequencing. Before commitment, alternative partners and regulatory conditions can be used to improve terms. After commitment, the bargaining environment changes because both sides acquire sunk assets, but the distribution of those assets is rarely equal. In HSR, Indonesia's political and fiscal cost of non-completion became exceptionally high. In nickel, Chinese fixed investment inside Indonesia increased foreign investors' own exit costs, helping Indonesia preserve regulatory influence after investment. Kayan remained closer to the pre-commitment end of the spectrum during the study period, leaving partner substitution feasible. Thus, the same general concept—asymmetric interdependence—produces different outcomes depending on when and where adjustment costs become concentrated.

Theoretical Contribution and Policy Implications

The article makes three theoretical contributions. First, it disaggregates asymmetric interdependence into structural asymmetry, potential bargaining resources, and realized leverage. This prevents material dependence from being treated as destiny. Second, it adds resource-based counter-leverage to the analysis of middle-power economic statecraft. The concept captures situations in which a state lacking financial or technological superiority can nevertheless raise a stronger partner's adjustment costs through resource control or regulatory gatekeeping. Third, it identifies institutional conversion and sequencing as mediators. A valuable asset creates only potential power; contracts, regulatory capability, partner diversification, and timing determine whether that power is realized.

These contributions also refine middle-power analysis. Indonesia is not well described as a ‘small power’. Its market size, ASEAN role, resource endowment, and diplomatic ambition provide forms of structural agency that small-state frameworks alone do not capture. At the same time, Indonesia lacks the network centrality or financial reach associated with major-power economic coercion. The appropriate category is therefore issue-specific middle-power leverage: the capacity to shape bargaining outcomes in selected domains without controlling the broader structure of interdependence.

Four policy implications follow. First, Indonesia should prioritize ex ante risk allocation in large infrastructure contracts. Cost-overrun formulas, refinancing triggers, dispute-resolution procedures, technology-access provisions, and fiscal-contingency rules should be negotiated before construction begins. The objective is not to exclude Chinese finance but to reduce the collapse of exit credibility after sunk costs accumulate.

Second, financing diversification should be institutionalized rather than improvised. Alternative Japanese, Korean, European, multilateral, and domestic financing options increase bargaining power only when projects are designed to remain technically and financially compatible with multiple partners. Indonesia’s IEA Association relationship, which dates from 2015, may support energy-policy cooperation, but it should not be portrayed as a 2022 substitute-financing mechanism for Kayan. The broader principle is to create credible alternatives before negotiations reach financial close.

Third, nickel policy should shift from simple localization toward capability diversification. The next stage of leverage requires wider buyer competition, domestic technological learning, transparent off-take arrangements, stronger environmental enforcement, and access to higher-standard export markets. Replicating raw-export bans across other minerals without considering WTO obligations, market structure, and processing economics would be analytically and legally unsound.

Fourth, project governance should distinguish national strategic objectives from the balance sheets of individual SOEs or politically connected firms. Where state-owned enterprises carry concentrated project risk, the government should publish clearer contingent-liability assessments and establish independent review of renegotiation terms.

Institutional transparency is itself a bargaining resource because it reduces the ability of project urgency to force opaque concessions.

Conclusion

Indonesia’s economic relationship with China is neither a straightforward debt trap nor an uncomplicated story of host-state agency. It is a field of negotiated interdependence in which bargaining outcomes vary across assets, institutions, and project stages. The Jakarta–Bandung HSR shows how formal majority ownership can coexist with vulnerability when debt, technology, and sunk costs narrow credible exit options. The Morowali nickel ecosystem demonstrates the opposite mechanism: sovereign control over a critical resource and processing rules can create counter-leverage that changes investors’ location decisions, even while producing new dependencies and distributional costs. The Kayan Cascade case cautions against inferring strategic success from delay or partner withdrawal; incomplete commitment preserved optionality, but the evidence does not establish deliberate dominance denial or superior bargaining terms.

The central theoretical implication is that asymmetric interdependence should be treated as a convertible political-economic condition. Structural asymmetry generates neither capture nor leverage by itself. What matters is whether a state possesses credible alternatives or strategically valuable assets, and whether domestic institutions can convert those resources into enforceable outcomes before sunk costs erode choice. This conversion framework extends hedging scholarships beyond alignment behavior and links it to project finance, industrial policy, and critical-mineral governance.

The article also identifies a broader research agenda. Comparative work should test whether the conversion mechanism travels to other middle powers with valuable resources but uneven institutional capacity. Future studies could compare Indonesia with Vietnam, Malaysia, Saudi Arabia, or resource-rich African states; operationalize exit optionality and institutional conversion with project-level data; and examine digital infrastructure, data centers, and battery supply chains where regulatory and technological chokepoints are increasingly important. For Indonesia specifically, post-2024 developments should be studied as a separate temporal extension rather than retrofitted into a 2013–2024 design. Such work can evaluate whether the Prabowo

administration strengthens ex ante bargaining institutions or deepens concentration in China-linked finance and technology.

In short, economic dependence does not eliminate agency, but neither does agency automatically produce leverage. Indonesia's experience shows that bargaining power is most durable when strategic assets, credible alternatives, and institutional capacity reinforce one another before dependence becomes costly to unwind.

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