

Trading under the new president

20 January 2025

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Summary

- Despite some moderate voices in Trump's cabinet, implementing an across-the-board import tariff may remain in the US government's agenda – a threat to Indonesia's higher value-added exports.
- Despite its much larger nominal size, the Chinese import market is ersatz compared to the US market, given Indonesia's highly diversified exports to the US.
- Securing a trade agreement with the US is crucial for Indonesia's industrialisation effort, given that higher reliance on the Chinese market may further concentrate the domestic manufacturing sector.

- The global and Indonesian financial markets were influenced by notable developments in the past week. On the domestic front, Bank Indonesia has surprisingly cut the policy rate by 25 bps to 5.75%, indicating BI's strategy to safeguard Indonesia's growth momentum by allowing the Rupiah to gradually devalue and restoring the domestic liquidity condition (see our report on the Jan-25 BI policy meeting). Alas, the SBN market continues to face sizable external pressures, with net foreign outflows to the tune of USD 206.5 Mn recorded in the past week, while the higher FX demand to repay the USD 2.18 Bn in maturing bonds in the past week (of which USD 2.0 Bn is a global bond) did not help to relieve the Rupiah from its current 16,300/USD level.
- Fortunately, recent developments on the global front appear to be generally more positive. For instance, progress in Israel-Hamas peace talks appears to have tempered the

recent oil market rally, with Brent crude prices edging closer to USD 80/bl by the week's end, after reaching its five-month high of USD 82/bl midweek.

- Meanwhile, animal behaviour continues to rule over the US market (while leaving other markets behind), as shown by the \$TRUMP meme coin surge to USD 11.7 bn in market cap overnight. The lower VIX index also indicated a calmer condition elsewhere in the US financial market, as the US Senate is expected to confirm even the most contentious of President Trump's secretary pick (especially that of the Secretary of Defence), thus reducing uncertainties ahead of President Trump's inauguration later today. As before, soon-to-be US Treasury Secretary Scott Bessent's statement during his Senate hearing also helped calm the market, given his support for the Fed's independence and his moderate interpretation of Trump's trade policies.

Lose some, gain none

- It is important to note, however, that import tariffs and other trade policies fall under the jurisdiction of the US Department of Commerce, which, pending Senate confirmation hearings, could be led by more hawkish voices from Trump’s camp (Howard Lutnick). Trump’s eventual pick for US Trade Representative, Jamieson Greer, is also well-acquainted with the President’s hawkish trade rhetoric, having played a key role (as Robert Lighthizer’s chief of staff) in formulating the across-the-board tariffs on Chinese exports implemented during Trump’s first administration.
- It might be best, then, to assume that an across-the-board tariff hike on US imports remains on President Trump’s agenda, especially since Scott Bessent’s statement hinted only at a gradual increase in import tariffs, rather than a cancellation of the hike or the moderation of the final rate. This suggests that, even under a moderate scenario, tariffs may eventually reach the final rates of 10-20% on all imports (60% on imports from China), limiting access for all exporters to enter the US market in the upcoming periods.
- While Chinese manufacturers appear to be the hardest hit by the tariff agenda, the direct impact of higher US import tariffs will also put other exporters under pressure. **Indonesian exporters, for example, rely heavily on the US market for their manufactured goods exports, particularly higher value-added products such**

“The Chinese import market is not an apple-to-apple replacement for the US market, given Indonesia’s highly diversified exports to the US”

as machinery, electronics, and vehicles & parts (HS 84, 85, and 87. *See Chart 1*).

- **The threat to Indonesia’s higher value-added manufactured goods exports underscores another challenge to the country’s industrialisation agenda**, given that production and exports of goods under HS codes 84-87 serve as critical building blocks for developing the capacity to produce even higher value-added products – considering the typically highly interconnected product space occupied by manufacturers of such goods (for instance, lower demand for made-in-Indonesia AES¹ and battery cells could slow down investments in the sector, limiting businesses’ incentives and ability to develop the capacity to produce higher value-added products, such as EVs).
- Fortunately, rumours about the Trump administration implementing punitive tariffs on China-owned foreign manufacturers appear to be losing steam for now, meaning that developing economies may continue to attract investments from Chinese manufacturers seeking to relocate and re-export their products to the US market. **Unfortunately for Indonesia, higher investments from China have insofar failed to improve its position in the highly lucrative but increasingly competitive US import market**, while Vietnam and Cambodia seem to be winning the relocation game (*see Chart 2*).
- **Limited investments from China’s end-goods manufacturers appear to be a key reason**

¹ Automotive engine system

behind Indonesia’s relative stagnation in exports to the US market (relative to Vietnam and Cambodia). Chinese FDIs in Indonesia have helped to cement Indonesia’s position in the upstream of China’s supply chain, while the allure of discounted import tariffs to the US market encouraged China’s downstream producers to relocate to Vietnam. For instance, American importers could benefit from as much as a 20% discount on import tariffs by buying made-in-Vietnam consumer electronics under the current US-Vietnam BTA², rather than the 10-50% blanket tariffs imposed on consumer electronics imported from Indonesia or other non-treaty economies³.

- Arguments have been made that the limited access to the US import market may not significantly threaten Indonesia’s trade potential, given that Indonesian exports to China in 2024 are already more than double the exports to the US market (USD 56.41 Bn vs. 23.85 Bn in Jan-Nov 2024). However, it is important to note that, **unlike the US import market, the Chinese import market is not inclusive – open only to a select number of Indonesian exporters (see Chart 3)**. For instance, exports of nickel products, coal & lignite, and palm oil – a grand total of 10 8-digit HS code products – accounted for more than 60% of Indonesia’s exports to China in 2024. In contrast, Indonesia’s sizable exports of shrimp, furniture, and toys to the US indicate that the US market, at present, is accessible even to mid-sized companies in Indonesia. **This situation highlights the**

substantial number of businesses across various industries and sizes that could lose export demand if the US government raises import tariffs, potentially leading to an even more concentrated domestic manufacturing sector.

- It is an understatement, then, to say that the Indonesian government is facing a tough task to create an inclusive environment for the domestic manufacturing sector to grow. Unfortunately, the current industrialisation strategy seems to push investments to the commodity sector, in which high capital requirements put a significant entry barrier for most businesses to enter the industry.
- **Securing some form of trade agreement with the US may provide a quick fix to the current predicament**, with Indonesia’s reliance on imported agricultural products creating an opening to negotiate the much-needed Indonesia-US trade agreement (à la the US-China 2020 Phase One trade deal). Alas, Indonesia’s quick admission to BRICS may turn out to be an awkward topic for US and Indonesian trade representatives, given President Trump’s seemingly “us vs. them” approach to international relations.

“Securing a trade deal with the US will provide a quick fix to Indonesia’s predicament, although the current geopolitical situation may increase the difficulty of such a deal”

² Bilateral Trade Affairs

³ See: <https://ustr.gov/sites/default/files/US-VietNam-BilateralTradeAgreement.pdf>

Chart 1

Bad for electronics

Indonesia-made electronics are gaining share in the American import market, but the trend may stop if the US move to put a blanket tariff on imports

US imports from Indonesia, share per commodities (7CMA)

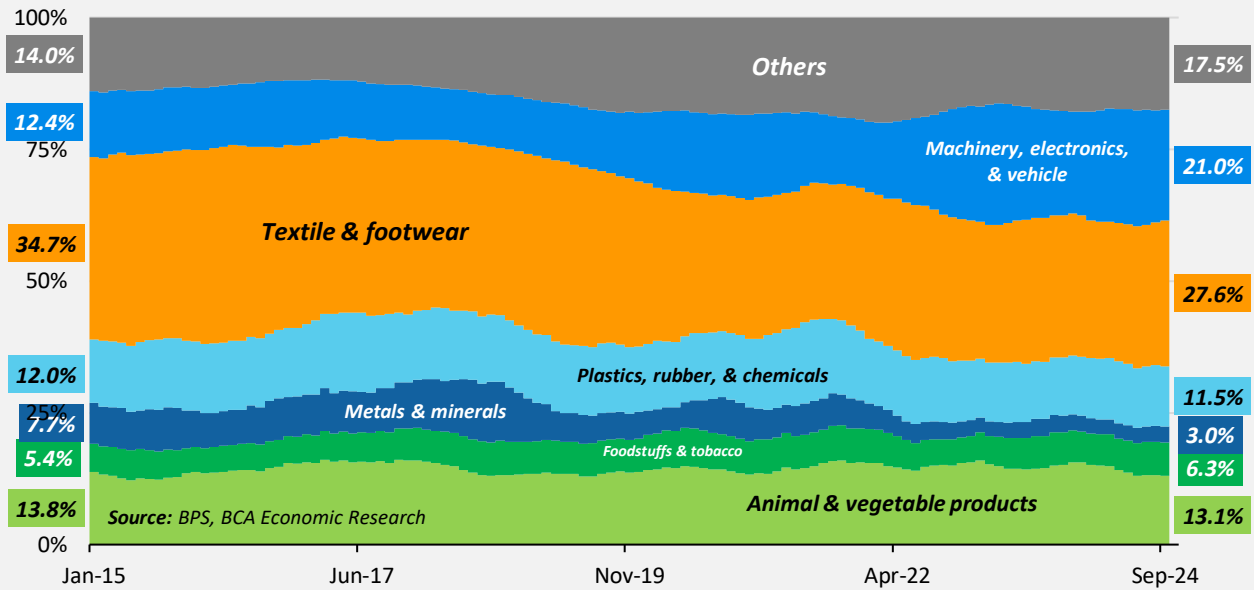


Chart 2

Manchester United of US exports

Bilateral FTAs and connectivity with China allow Vietnam and Cambodia to climb up the supply chain rank and exports to the US, while other ASEAN countries are stagnating behind.

Rank of countries which hold the highest annual trade surplus vs. the US

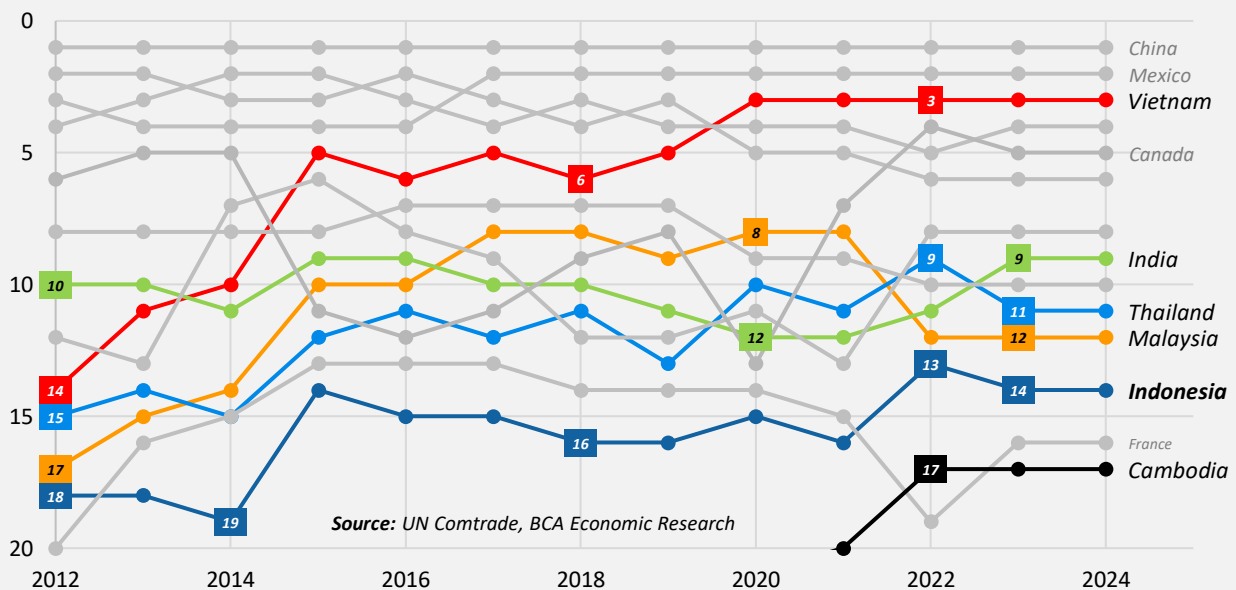
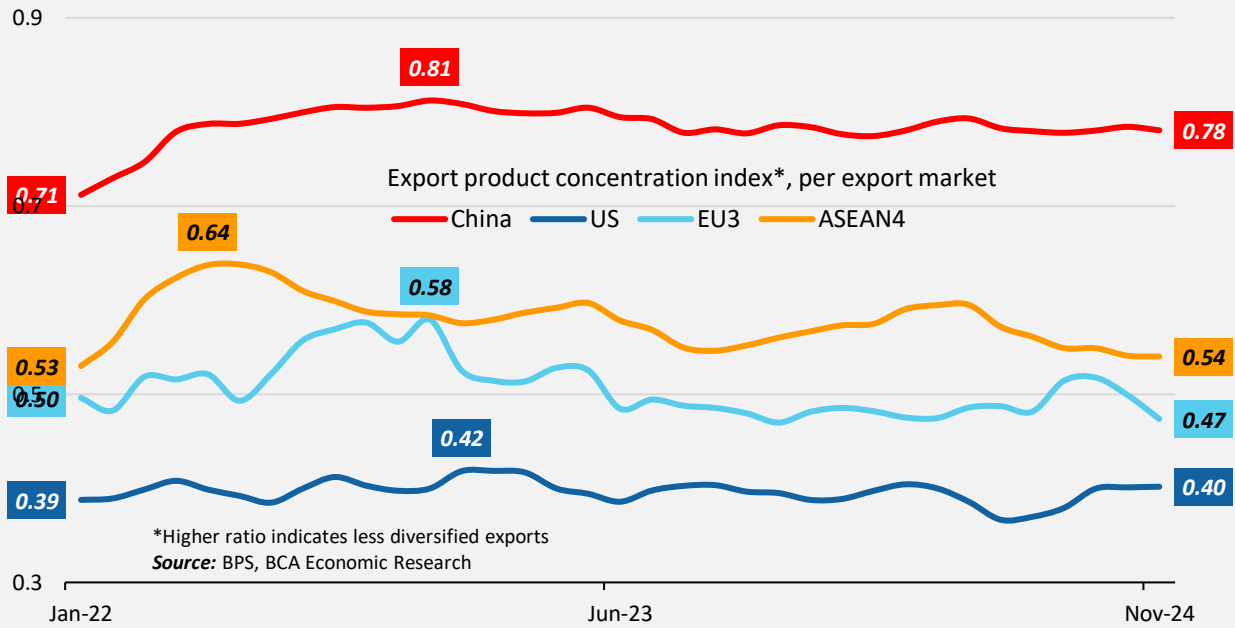


Chart 3

(A potential) tragedy of the commons

Many Indonesian exporters will be negatively affected by lower access to the US import market, considering Indonesia's more diversified exports to the US



| Economic Calendar | | | | |
|-------------------|--|--------------|--------------|--------------|
| | | Actual | Previous | Forecast* |
| 02 January 2025 | | | | |
| ID | S&P Global Manufacturing PMI | 51.2 | 49.6 | 50 |
| ID | Inflation Rate YoY, % | 1.57 | 1.55 | 1.7 |
| US | S&P Global Manufacturing PMI | 49.4 | 49.7 | 48.3 |
| 07 January 2025 | | | | |
| US | Balance of Trade, USD Bn | -78.2 | -73.8 | -70 |
| 08 January 2025 | | | | |
| ID | Foreign Exchange Reserves, USD Bn | 155.7 | 150.2 | 152.0 |
| 09 January 2025 | | | | |
| ID | Consumer Confidence | 127.7 | 125.9 | 120 |
| CN | Inflation Rate YoY, % | 0.1 | 0.2 | 0.2 |
| EA | Retail Sales YoY, % | 1.2 | 2.1 | 1.7 |
| 10 January 2025 | | | | |
| ID | Car Sales YoY, % | -6.4 | -11.9 | - |
| ID | Motorbike Sales YoY, % | -5.5 | -10.3 | - |
| ID | Retail Sales YoY, % | 0.9 | 1.5 | - |
| US | Non-Farm Payrolls, th | 256 | 212 | 200 |
| 13 January 2025 | | | | |
| CN | Balance of Trade, USD Bn | 104.84 | 97.44 | 85 |
| 15 January 2025 | | | | |
| ID | Balance of Trade, USD Bn | 2.24 | 4.37 | 3.7 |
| US | Inflation Rate YoY, % | 2.9 | 2.7 | 2.9 |
| ID | Loan Growth YoY, % | 10.39 | 10.79 | 10 |
| 16 January 2025 | | | | |
| EA | Balance of Trade, USD Bn | 16.4 | 8.6 | 7.8 |
| 17 January 2025 | | | | |
| CN | Retail Sales YoY, % | 3.7 | 3 | 3.2 |
| CN | GDP Growth Rate YoY, % | 5.4 | 4.6 | 5 |
| 22 January 2025 | | | | |
| ID | M2 Money Supply YoY, % | | 7 | - |
| 24 January 2025 | | | | |
| ID | Foreign direct investment, % YoY | | 18.55 | - |
| 30 January 2025 | | | | |
| US | Fed Interest Rate Decision, % | | 4.5 | - |
| 31 January 2025 | | | | |
| US | PCE Price Index YoY, % | | 2.4 | 2.4 |

*Forecasts of some indicators are simply based on market consensus
 Bold indicates indicators covered by the BCA Monthly Economic Briefing report

Selected Macroeconomic Indicator

| Key Policy Rates | Rate (%) | Last Change | Real Rate (%) | Trade & Commodities | 17-Jan | -1 mth | Chg (%) |
|--|---------------|---------------|--------------------|---------------------------------|------------|------------|------------------|
| US | 4.50 | Dec-24 | 1.60 | Baltic Dry Index | 987.0 | 1,053.0 | -6.3 |
| UK | 4.75 | Nov-24 | 2.25 | S&P GSCI Index | 578.0 | 538.8 | 7.3 |
| EU | 3.15 | Dec-24 | 0.75 | Oil (Brent, \$/brl) | 80.8 | 73.2 | 10.4 |
| Japan | 0.25 | Jul-24 | -3.00 | Coal (\$/MT) | 121.6 | 133.3 | -8.7 |
| China (lending) | 2.00 | Sep-24 | 4.25 | Gas (\$/MMBtu) | 9.33 | 2.84 | 228.5 |
| Korea | 3.00 | Nov-24 | 1.10 | Gold (\$/oz.) | 2,703.3 | 2,646.8 | 2.1 |
| India | 6.50 | Feb-23 | 1.28 | Copper (\$/MT) | 9,081.9 | 8,869.0 | 2.4 |
| Indonesia | 5.75 | Jan-25 | 4.18 | Nickel (\$/MT) | 15,885.6 | 15,268.9 | 4.0 |
| Money Mkt Rates | 17-Jan | -1 mth | Chg (bps) | CPO (\$/MT) | 1,015.5 | 1,116.4 | -9.0 |
| SPN (1Y) | 6.84 | 6.88 | -3.5 | Rubber (\$/kg) | 1.96 | 2.00 | -2.0 |
| SUN (10Y) | 7.12 | 7.04 | 7.6 | External Sector | Dec | Nov | Chg (%) |
| INDONIA (O/N, Rp) | 5.75 | 6.13 | -37.2 | Export (\$ bn) | 23.46 | 24.00 | -2.24 |
| JIBOR 1M (Rp) | 6.39 | 6.63 | -24.1 | Import (\$ bn) | 21.22 | 19.63 | 8.10 |
| Bank Rates (Rp) | Oct | Sep | Chg (bps) | Trade bal. (\$ bn) | 2.24 | 4.37 | -48.73 |
| Lending (WC) | 8.72 | 8.87 | -15.48 | Central bank reserves (\$ bn)* | 155.7 | 150.2 | 3.65 |
| Deposit 1M | 4.78 | 4.81 | -2.76 | Prompt Indicators | Dec | Nov | Oct |
| Savings | 0.66 | 0.67 | -0.14 | Consumer confidence index (CCI) | 127.7 | 125.9 | 121.1 |
| Currency/USD | 17-Jan | -1 mth | Chg (%) | Car sales (%YoY) | -6.4 | -11.9 | -3.9 |
| UK Pound | 0.822 | 0.787 | -4.26 | Motorcycle sales (%YoY) | -5.5 | -10.3 | 5.4 |
| Euro | 0.973 | 0.953 | -2.08 | Manufacturing PMI | Dec | Nov | Chg (bps) |
| Japanese Yen | 156.3 | 153.5 | -1.82 | USA | 49.4 | 49.7 | -30 |
| Chinese RMB | 7.325 | 7.284 | -0.56 | Eurozone | 45.1 | 45.2 | -10 |
| Indonesia Rupiah | 16,365 | 16,065 | -1.83 | Japan | 49.6 | 49.0 | 60 |
| Capital Mkt | 17-Jan | -1 mth | Chg (%) | China | 50.5 | 51.5 | -100 |
| JCI | 7,154.7 | 7,157.7 | -0.04 | Korea | 49.0 | 50.6 | -160 |
| DJIA | 43,487.8 | 43,449.9 | 0.09 | Indonesia | 51.2 | 49.6 | 160 |
| FTSE | 8,505.2 | 8,195.2 | 3.78 | | | | |
| Nikkei 225 | 38,451.5 | 39,364.7 | -2.32 | | | | |
| Hang Seng | 19,584.1 | 19,700.5 | -0.59 | | | | |
| Foreign portfolio ownership (Rp Tn) | Dec | Nov | Chg (Rp Tn) | | | | |
| Stock | 3,521.3 | 3,402.4 | 118.98 | | | | |
| Govt. Bond | 876.6 | 872.5 | 4.15 | | | | |
| Corp. Bond | 5.9 | 7.1 | -1.18 | | | | |

Source: Bloomberg, BI, BPS

Notes:

*Data from an earlier period

For changes in currency: **Black indicates appreciation against USD, **Red** otherwise

***For PMI, **>50** indicates economic expansion, **<50** otherwise

Indonesia – Economic Indicators Projection

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024E | 2025E |
|-------------------------------------|--------|--------|--------|--------|--------|---------|--------|
| Real GDP growth (% YoY) | 5.0 | -2.1 | 3.7 | 5.3 | 5.0 | 5.0 | 4.9 |
| Nominal GDP growth (% YoY) | 6.7 | -2.5 | 9.9 | 15.4 | 6.7 | 7.0 | 7.9 |
| GDP per capita (USD) | 4175 | 3912 | 4350 | 4784 | 4920 | 4975 | 5005 |
| CPI inflation (% YoY) | 2.7 | 1.7 | 1.9 | 5.5 | 2.6 | 1.6# | 2.3 |
| BI Rate (%) | 5.00 | 3.75 | 3.50 | 5.50 | 6.00 | 6.00# | 5.50 |
| SBN 10Y yield (%) | 7.04 | 5.86 | 6.36 | 6.92 | 6.45 | 6.97# | 7.47 |
| USD/IDR exchange rate (end of year) | 13,866 | 14,050 | 14,262 | 15,568 | 15,397 | 16,102# | 16,887 |
| Trade balance (USD Bn) | -3.2 | 21.7 | 35.3 | 54.5 | 37.0 | 31.0# | 26.2 |
| Current account balance (% of GDP) | -2.7 | -0.4 | 0.3 | 1.0 | -0.1 | -0.6 | -0.9 |

Notes:

- USD/IDR exchange rate projections are for fundamental values; market values may diverge significantly at any moment in time
- Numbers marked with (#) for 2024 are final; other numbers for 2024 are our projections

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