A shock to the system

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Summary

- President Trump's "reciprocal" tariff may pose a significant risk to economic growth momentum, both in the US and globally, as the heightened uncertainty could deter investment decisions and weigh on business confidence.
- The Trump administration may adopt a tougher stance when negotiating bilateral trade deals with Asian counterparts, given the relatively low share of US imports in these economies and Washington's strategic objective to isolate China from the global supply chain.
- While Indonesia's direct export exposure to the US is relatively limited, the "reciprocal" tariffs' tail effects—particularly on global commodity prices and China's external demand—could deliver a disproportionate blow to Indonesia's balance of payments.

- US President Donald Trump started the month by sending the global trade system into a shock, announcing a minimum 10% "reciprocal" tariff on all US-bound imports. The tariff had been hinted at for some time, given President Trump's repeated accusations of trade injustice against the US, allegedly inflicted by both "friends" (such as the EU and other USMCA members) and "foes" (most importantly, China) alike.
- Interestingly, unlike the previous episode of US tariff threats on Mexico, Canada, and China, the recent tariff announcement did not trigger an upward move in the USD value. The DXY index fell 236.4 bps to its YTD low of 101.4 following the tariff announcement, before recovering to 104.2 as of the current date. How the market perceives the strength of the US economy in light of the new tariff appears to be weighing heavily on the USD, as reflected in the weakening of the USD index amid FFR futures now pricing in 75–100 bps of rate cuts in 2025, with US recession concerns beginning to gain traction. An important point to consider, however, is that the recent drop in the DXY does not appear to benefit Asian currencies, suggesting a flight-to-safety pattern primarily favouring European hard currencies, with investors moving away from both the USD and Asian currencies.
- Despite President Trump's promises to bring jobs and investment back to the US, his mercurial approach to tariffs and statecraft has arguably added uncertainty to the business landscape ***(see Chart 1)***, with many firms likely to delay investment decisions until the contours of US trade policy are more clearly

defined (or at least, less flip-floppy), clearly pointing towards slower global growth.

- It is unsurprising, then, that many analysts have begun describing President Trump's recent policy moves as yet another self-blunder, given that the "reciprocal" tariff measures may drag the US economy closer to the maw of stagflation. Alas, it is uncertain whether the now-growing economic pain will be enough to convince the president to again seek the advice of the free-trade camp within its circle of advisors (such as Treasury Secretary Scott Bessent). If anything, the president may be willing to endure the domestic pain caused by the tariffs, so long as he believes he can claim a "win" by inflicting greater pain on trading partners – perhaps signalled by their eagerness to send representatives to Washington for some deal-making and concession-seeking sessions.

To comply or to defect?

- Some economies have seemingly responded as the US intended, with several Asian manufacturing hubs – such as Japan, South Korea, and Thailand – seemingly complying with the US demand either by vowing to increase imports of US-produced goods or dispatching representatives to negotiate exemptions from the "reciprocal" tariffs. President Trump has lauded the Argentinian government's effort to negotiate a "zero-for-zero tariff" on bilateral trade with the US as a model for trade negotiation, a move the Vietnamese government has similarly offered. However, President Trump's differing responses to the Argentinian (yay) and Vietnamese (nay) proposals highlight the "no-size-fits-all" approach to his deal-making – especially since Vietnam has relatively little to lose by offering the US tariff-free export access ***(see Chart 2)***.
- Meanwhile, economies such as Canada, Mexico, and the EU have yet to provide clear guidance on their likely response to the US "reciprocal tariff", with EU Commissioner Ursula von der Leyen opening the door for negotiations but has not ruled out retaliation. Unlike most Asian economies, the EU and both USMCA members import a significant share of goods from the US, which may make an Argentina-style "zero-for-zero tariff" offer more appealing.

> ***"The need to isolate China and Asia's lower share of imports from the US may encourage the US government to be less lenient on Asian economies"***

- Currently alone in the "defect-defect" box is China, which has threatened to impose a 34% reciprocal tariff on all imports from the US and has added seven more rare earth minerals to its export restriction list (including Samarium, which is crucial for nuclear reactors). Going back to our "pain endurance" allegory, China's decision to go tête-à-tête with the US may stem from its confidence that the Chinese political economy is better equipped to endure economic pressures than its American counterpart.
- Indeed, the Chinese economy has been in a recessionary mood for some time (its consumer confidence index has yet to return to pre-2022 Shanghai COVID outbreak levels), yet

Chinese authorities continue to enjoy firm support in executing their economic programmes – illustrated by the lack of surprises during the recent Two Sessions. Contrast that with the seemingly weakening bond between the coalition that delivers Donald Trump to the White House, with once-ardent supporters like Elon Musk already tweeting against the President's tariff policies.

Indonesia: Running out of wind

- Another factor that seems to have strengthened China's confidence (and chance) in standing tall against the US is its access to regional markets. The previous Belt and Road investment boom has granted Chinese manufacturers access to alternative markets such as South Asia (excluding India) and Africa, while the first US-China trade war has led to China-owned production capacities dotting Southeast Asia.
- President Trump may pressure Asian economies to limit access to China-made goods and increase imports from the US as a precondition for a trade deal. However, China's already deep-rooted presence in many of these markets may complicate efforts to meet such demands, a situation that appears to be true for Indonesia as well. The Trump administration's security concerns over the South China Sea (as articulated by Defence Secretary Pete Hegseth) may also explain the president's lack of leniency toward Asian countries, as the US aims to prevent potential Chinese trans-shipments—or, in a more extreme scenario, China's control over its neighbouring countries' supply chains.
- However, it is nigh impossible for Indonesia to abandon China as the US might hope, given China's already sizable role in Indonesia's industrialisation efforts—particularly in the vaunted EV manufacturing sector. While the US remains Indonesia's second-largest export market (and the largest for Indonesian manufactured goods), it does not truly offer a pathway toward deeper industrialisation. Meanwhile, although largely concentrated in metal-related sectors, Chinese investments have helped Indonesia ascend the global manufacturing supply chain. That said, aligning more closely with the China-driven supply chain has also left Indonesia increasingly exposed to a flood of cheap manufactured imports, which arguably explains domestic manufacturers' weakening competitiveness.

"Loosening the FDI requirement may help to secure a trade deal but likely to have an adverse impact on investment realisation in the short term"

- We should realise, then, that Indonesia's bargaining position vis-à-vis the US at present is not particularly strong, although there are still a few cards to play. Indonesia remains reliant on imports for a wide range of goods—from food to defence equipment—many of which are products the US exports to the global market. Re-routing Indonesia's imports of these products, then, may help narrow the trade surplus against the US, thereby appeasing President Trump's demands.
- The government has also floated the idea of relaxing its local content requirements (TKDN)

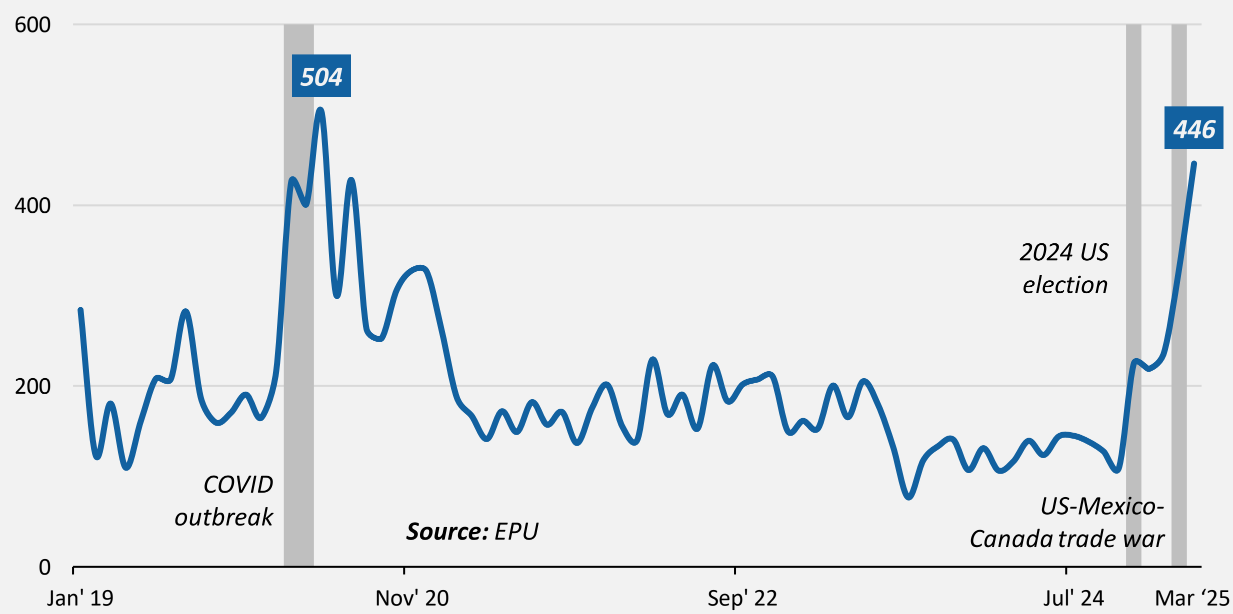
for American technology companies as a bargaining chip in trade negotiations with the US, which may also help to attract US investments to Indonesia. However, until a deal is struck, the lingering uncertainty may discourage investors from realising their investment commitments in Indonesia ***(see Chart 3)***, as businesses are likely to wait for more favourable deals to be formalised before proceeding with their investments.

- Hence, while Indonesia's exports to the US only accounted for a little over 1.88% of GDP in 2024, it may be best not to underestimate the tail effects of the "reciprocal" tariffs on the broader economy. China's declining demand for commodities, coupled with a watershed of cheap imported goods flooding the domestic market (as China attempts to substitute the US with Indonesia and other regional partners), is more likely than not to worsen Indonesia's current account. There is, of course, the broader question of weakening investor confidence in Indonesia's growth momentum, which has insofar contributed to near-constant outflows that have pummelled the Rupiah.
- Despite the challenging external condition, it should be noted that the condition facing the Indonesian economy is not all doom and gloom, at least relative to other economies with more exposure to global trade such as Vietnam. The weakening Rupiah (-4.81% YTD) may help to limit the demand for imported goods, considering those other currencies such as the CNY has not weakened as much (-0.55% YTD). The domestic demand condition, while showing signs of stagnating momentum, may still provide a floor to support GDP growth. However, a more meaningful lift from the public sector is increasingly necessary to keep the government's 5% growth target within reach.

Chart 1

Rising uncertainty

Tightening credit and higher uncertainty due to tariff shocks may stultify investments, dragging the US economy closer to the stagflation risk

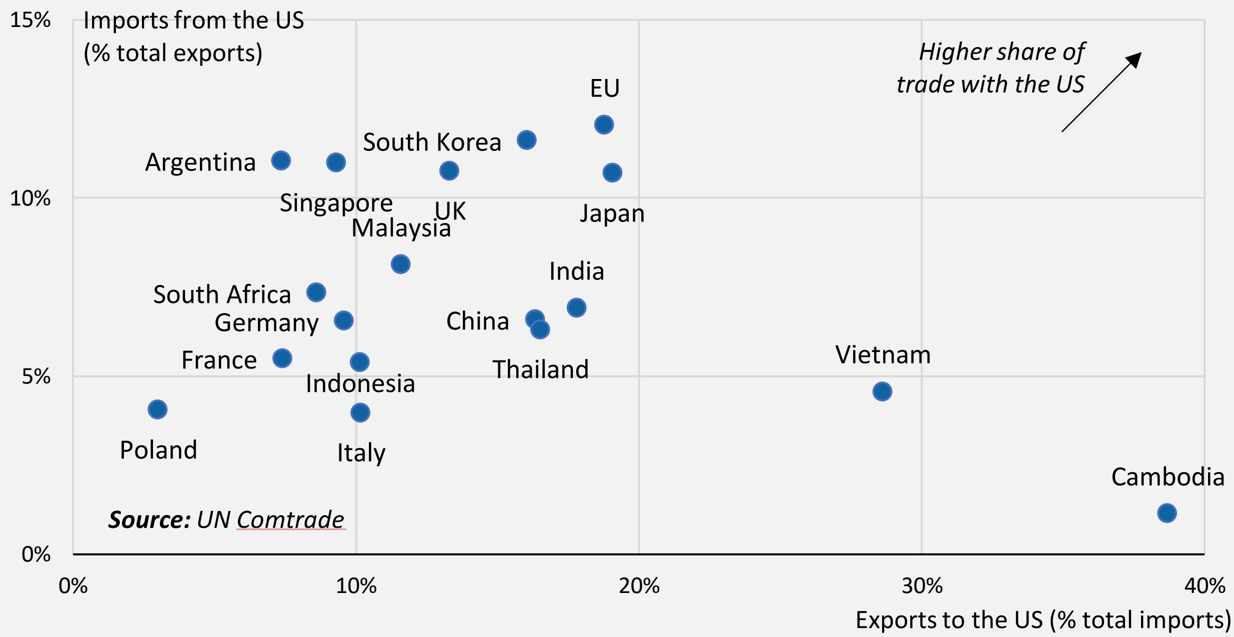


Source: *EPU*

Chart 2

Ersatz offer

The low share of imports from the US means that most Asian economies may need to offer something more than a "zero-for-zero tariff" proposal to negotiate a trade deal with the US.

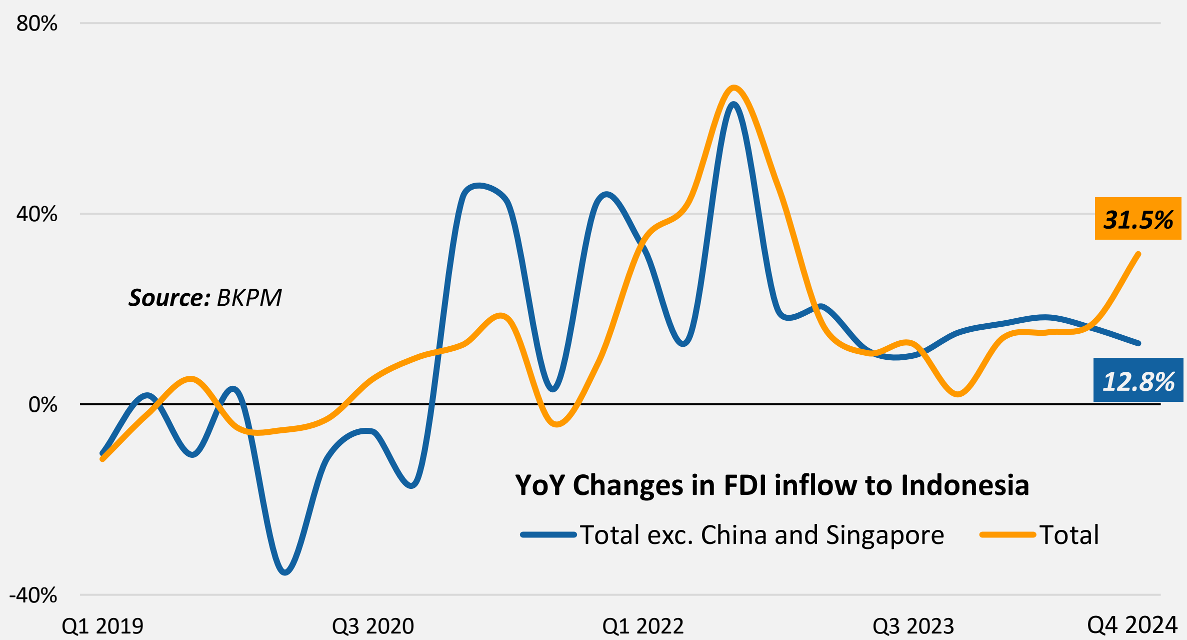


Source: *UN Comtrade*

Chart 3

Waiting for the requirement to change

The Indonesian government is ready to loosen its investment requirements to strike a trade deal with the US, which may incentivise investors to wait for a better deal to be agreed.

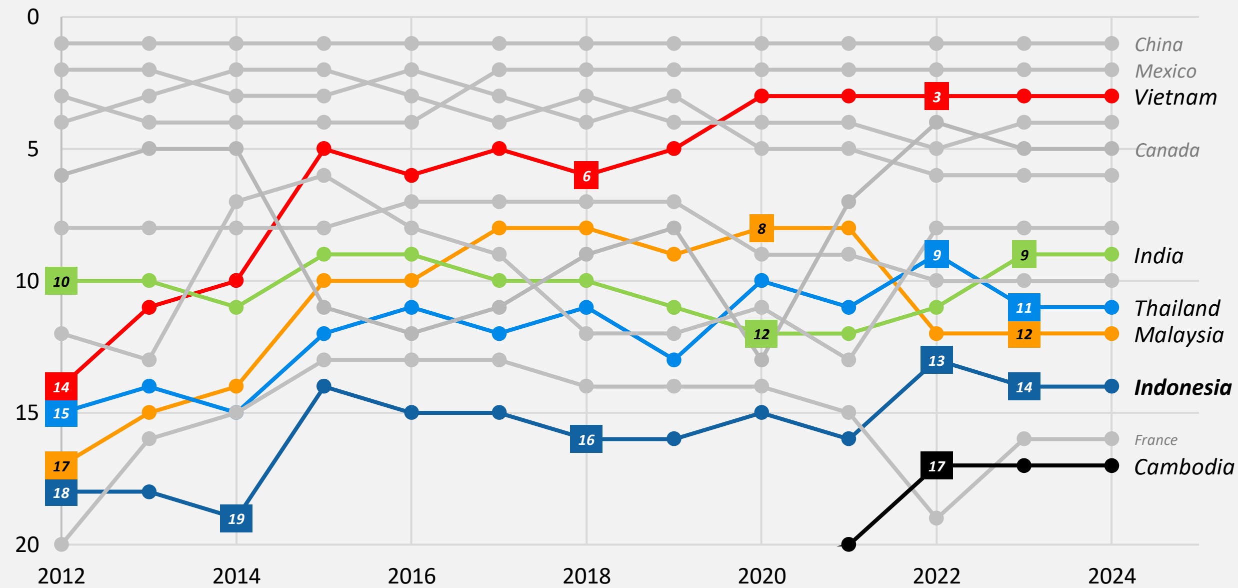


Source: *BKPM*

Preferred target

Lower share of imports from the US and China's strong regional presence makes many Asian countries an easy target for the Trump administration

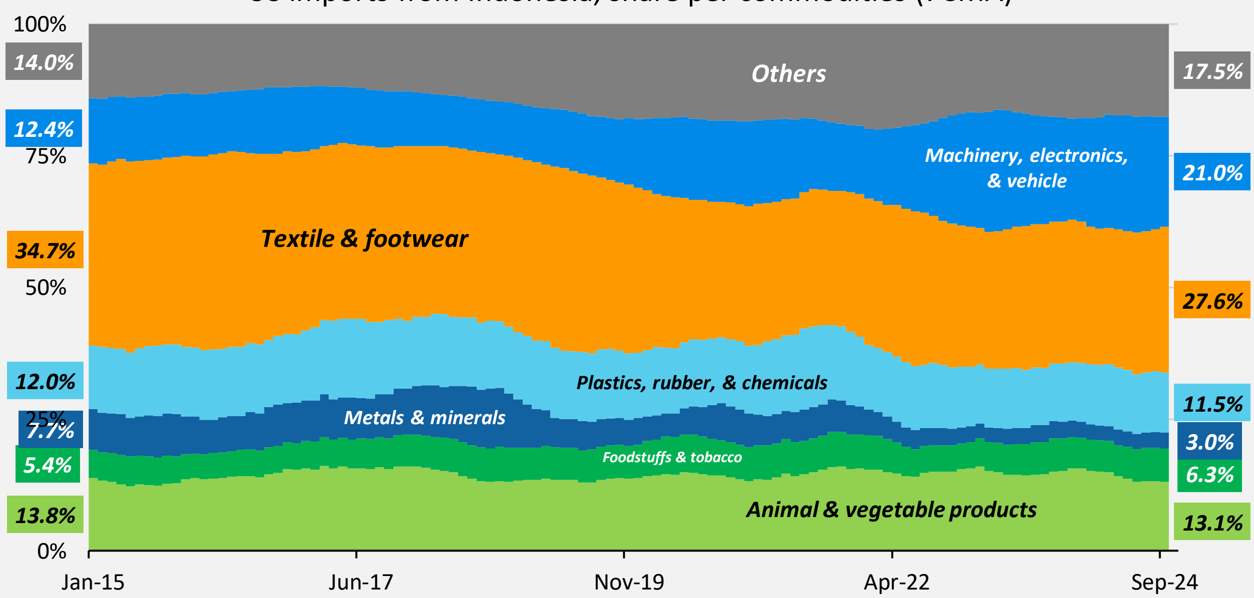
US Annual Trade deficits, ranked by biggest net exporting countries



Bad for electronics

Indonesia-made electronics are gaining share in the American import market, but the trend may stop following the US "reciprocal" tariffs

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



Economic Calendar

		Actual	Previous	Forecast*
01 April 2025				
US	S&P Global Manufacturing PMI	50.2	52.7	49.8
02 April 2025				
ID	S&P Global Manufacturing PMI	52.4	53.6	52.2
03 April 2025				
US	Balance of Trade, (Bn)	-122.7	-130.7	-122
04 April 2025				
US	Non-Farm Payrolls, th	228	117	100.0
07 April 2025				
EA	Retail Sales YoY, %	2.3	1.8	2.1
08 April 2025				
ID	**Inflation Rate YoY, %**	**1.03**	**-0.09**	**1.3**
09 April 2025				
ID	Motorbike Sales YoY, %		4.0	-
10 April 2025				
CN	Inflation Rate YoY, %		-0.7	0.0
US	Inflation Rate YoY, %		2.8	2.5
11 April 2025				
ID	Car Sales YoY, %		2.2	-
12 April 2025				
CN	Balance of Trade, (Bn)		170.52	84
14 April 2025				
ID	Consumer Confidence		126.4	127.3
ID	**Foreign Exchange Reserves, USD Bn**		**154.5**	**155.0**
15 April 2025				
ID	Retail Sales YoY, %		0.5	-
16 April 2025				
CN	Retail Sales YoY, %		4	2
US	Retail Sales YoY, %		3.1	2.6
21 April 2025				
ID	**Balance of Trade, USD Bn**		**3.12**	**4.2**
22 April 2025				
EA	Balance of Trade, (Bn)		1	-
23 April 2025				
ID	**Interest Rate Decision, %**		**5.75**	**-**

*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 (%)
US	4.50	Dec-24	1.70
UK	4.50	Feb-25	1.70
EU	2.65	Mar-25	0.45
Japan	0.50	Jan-25	-3.20
China (lending)	2.00	Sep-24	5.05
Korea	2.75	Feb-25	0.65
India	6.25	Feb-25	2.64
Indonesia	5.75	Jan-25	4.72
Money Mkt Rates	**27-Mar**	**-1 mth**	**Chg (bps)**
SPN (1Y)	6.01	6.03	-1.8
SUN (10Y)	6.99	6.77	21.8
INDONIA (O/N, Rp)	6.67	5.83	84.1
JIBOR 1M (Rp)	6.38	6.38	0.4
Bank Rates (Rp)	**Jan**	**Dec**	**Chg (bps)**
Lending (WC)	8.62	8.62	0.57
Deposit 1M	4.87	4.92	-4.27
Savings	0.68	0.68	-0.18
Currency/USD	**27-Mar**	**-1 mth**	**Chg (%)**
UK Pound	0.772	0.792	2.57
Euro	0.926	0.955	3.18
Japanese Yen	151.1	149.7	-0.88
Chinese RMB	7.262	7.246	-0.22
Indonesia Rupiah	16,560	16,275	-1.72
Capital Mkt	**27-Mar**	**-1 mth**	**Chg (%)**
JCI	6,510.6	6,749.6	-3.54
DJIA	42,299.7	43,461.2	-2.67
FTSE	8,666.1	8,659.0	0.08
Nikkei 225	37,800.0	38,776.9	-2.52
Hang Seng	23,578.8	23,341.6	1.02
Foreign portfolio ownership (Rp Tn)	**Mar**	**Feb**	**Chg (Rp Tn)**
Stock	3,144.7	3,083.7	61.05
Govt. Bond	891.9	890.2	1.72
Corp. Bond	5.2	5.1	0.06

Trade & Commodities	27-Mar	-1 mth	Chg (%)
Baltic Dry Index	1,621.0	1,002.0	61.8
S&P GSCI Index	562.3	567.1	-0.9
Oil (Brent, $/brl)	74.0	74.8	-1.0
Coal ($/MT)	111.4	113.3	-1.7
Gas ($/MMBtu)	3.87	3.86	0.3
Gold ($/oz.)	3,057.3	2,951.7	3.6
Copper ($/MT)	9,800.2	9,489.5	3.3
Nickel ($/MT)	16,023.4	15,235.4	5.2
CPO ($/MT)	1,055.3	1,086.3	-2.9
Rubber ($/kg)	1.98	2.08	-4.8
External Sector	**Feb**	**Jan**	**Chg (%)**
Export ($ bn)	21.98	21.43	2.58
Import ($ bn)	18.86	17.94	5.18
Trade bal. ($ bn)	3.12	3.49	-10.75
Central bank reserves ($ bn)*	154.5	156.1	-1.01
Prompt Indicators	**Feb**	**Jan**	**Oct**
Consumer confidence index (CCI)	126.4	127.2	121.1
Car sales (%YoY)	0.0	-11.3	-3.7
Motorcycle sales (%YoY)	0.0	-6.0	5.4
Manufacturing PMI	**Mar**	**Feb**	**Chg (bps)**
USA	50.2	52.7	-250
Eurozone	48.6	47.6	100
Japan	48.4	49.0	-60
China	51.2	50.8	40
Korea	49.1	49.9	-80
Indonesia	52.4	53.6	-120

Source: Bloomberg, BI, BPS
Notes:
Car and motorcycle sales data to be released on the third week of January 2022
^Data for January 2022
*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	2024	2025E
Real GDP growth (% YoY)	5.0	-2.1	3.7	5.3	5.0	5.0	4.8
Nominal GDP growth (% YoY)	6.7	-2.5	9.9	15.4	6.7	6.0	5.7
GDP per capita (USD)	4175	3912	4350	4784	4920	4960	4996
CPI inflation (% YoY)	2.7	1.7	1.9	5.5	2.6	1.6	2.1
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	7.68
USD/IDR exchange rate (end of year)	13,866	14,050	14,262	15,568	15,397	16,102	16,943
Trade balance (USD Bn)	-3.2	21.7	35.3	54.5	37.0	31.0	26.0
Current account balance (% of GDP)	-2.7	-0.4	0.3	1.0	-0.1	-0.6	-1.0

Notes:

- *USD/IDR exchange rate projections are for fundamental values; market values may diverge significantly at any moment in time*

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