

Enough to float, but not to swim

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Summary

- The Indonesian government has announced a breakthrough in trade negotiations with the US, potentially making Indonesia the second ASEAN country to secure such an agreement.
- Securing more favourable deals than Vietnam is a precondition for Indonesia to reinvigorate its manufacturing sector. However, Indonesia's limited bargaining power could damage the possibility of such a deal.
- Fulfilling the pledged USD 34 Bn in imports from the US will likely require significant involvement from businesses and the public sector, given the limited purchasing power of Indonesian households.

- Political commentators speak of last week as President Trump's first major legislative victory in his second term, marked by the signing of the One Big Beautiful Bill Act into law. As expected, the US senate voted in favour of a more expansive amendment to the bill, raising the debt ceiling by USD 5 Tn, exceeding the USD 4 Tn increase proposed by the House, while the higher state and local tax (SALT) deduction is expected to push the total tax cuts package to around USD 4.5 Tn throughout the next 10 years. The Trump administration has argued that the higher deficit will 'pay for itself' through stronger GDP growth, with the independent Congressional Budget Office (CBO) estimating that the bill will add an

average of 0.5% to annual GDP growth over the next decade.

- However, whether the US economy urgently needs a debt-funded fiscal expansion to sustain its growth momentum is debatable, particularly in the short term. The US labour market remains tight (NFP rose by 147K in June 2025, vs 100K forecast), while Atlanta Fed's Nowcast continue to point to a robust 2.6% SAAR GDP growth in Q2-2025. Rather than the US economy, a debt-funded fiscal expansion may be more urgently needed in other economies, especially for those facing potential external demand shocks following the 1 August 2025 'reciprocal' tariff deadline.

What not to expect from the expected trade deal

- Fortunately for us, Indonesia and other Southeast Asian economies remain relatively insulated from President Trump's trade fury.

For instance, several ASEAN countries reported an uptick in their manufacturing PMIs between up until April 2025, driven by front-loaded

export demand from the US. Indeed, US imports from the regional bloc notably increased in May 2025 (*see Chart 1*), although **higher exports may reflect increases in transshipment activity while the share of US direct imports from China fell to its lowest level since China joined the WTO in 2001.**

- The recent announcement by Indonesia's Coordinating Minister for Economic Affairs regarding a potential Indonesia-US trade deal could help solidify this 'temporary' win, securing domestic manufacturers' access to the US market amidst weakening domestic demand. **Indonesia's potential success in securing a trade deal with the Trump administration would place it in a special group**, given the limited success of other major economies, such as Japan and South Korea, in striking similar agreements with the US. **However, whether this prospective deal will prove to be a gamechanger for Indonesia's manufacturing sector or merely serve as a lifebuoy to keep Indonesian exports afloat in the US market remains debatable**, with the latter scenario appearing more likely in our view.
- The Indonesian government's roadmap for raising GDP growth potential beyond the 5.0% benchmark envisions the country's emergence as a new manufacturing powerhouse, leveraging the trade war-driven recalibration of global supply chains and control over critical minerals to reinvigorate the domestic manufacturing sector.
- Alas, this scenario seems to be already out of reach. **Re-routing the global supply chain requires Indonesian officials to secure a more**

favourable trade deal with the US than those obtained by competing manufacturing hubs, an outcome that may prove difficult, given the 'low' 20% tariff rate recently secured by Vietnam (40% for trans-shipped goods). Government officials remain bullish that they can secure a lower headline tariff rate than Vietnam, but the Indonesian economy may not be flexible enough to limbo past the 20% low bar.

- **There are at least three conditions that, in our view, dampen Indonesian officials' ability to strike a better deal with their American counterparts.** First, the country's negotiation position stands on the promise to provide US companies with preferred access to minerals.

"A total victory will require Indonesia to strike a deal with the US and for the US to deny a better deal for Indonesia's competitor"

In hindsight, the same strategy was employed by China when negotiating with the US, with nickel replacing rare earth minerals in Indonesia's case.

- The problem with this preposition, however, is twofold. One, access to refined rare earth minerals is crucial to the US' military-industrial complex, whereas investments in EV and Li-Ion battery (and its underlying demand for nickel) are not high on President Trump's priority list. Two, US companies may not see access to Indonesian nickel to be particularly alluring in the first place. To pass the (Biden-era) subsidy programme, US EV and battery producers are required to cleanse their supply chain of foreign entities of concern; China being the central concern. As we know, **China's footprint is all over Indonesia's nickel and base metal sector (*see Chart 2*)**, encouraging some US companies to wire their supply chain elsewhere.

- Our second concern stems from the growing footprint of Chinese producers in Indonesia's manufacturing sector. **The US government's insistence on imposing higher tariffs on transhipped goods (as seen in the US-Vietnam trade deal) reflects its demand for a stricter country-of-origin clause, which may require that US-bound goods be not only manufactured outside of China but also produced by entities not under Chinese control.** Indonesian officials may find it hard to explain China's growing investments, especially with President Trump threatening an extra 10% tariffs for countries siding with BRICS.
- Thirdly, it remains to be seen how Indonesia will fulfil its pledge to import USD 34 Bn worth of US products. **As with the case with other emerging economies, Indonesian consumers' limited purchasing power may make it hard for them to absorb a higher share of US-manufactured goods (see Chart 3),** although the proposed 0% tariff on selected goods (up to 1200 items) may help to address this affordability problem.
- **The business sector will be mobilised to help drive the domestic demand for US exports.** Indeed, the Indonesian government specifies agricultural and energy products as part of its USD 34 Bn promised imports, which will feed into the domestic manufacturing sector. The room to deepen the relationship between the US agricultural sector and the Indonesian processed food industry remains open. For instance, Indonesia has imported wheat to the tune of USD 1.05 Bn between January and April

"Given the household sector's limited purchasing power, the public sector may need to play an outsized role to fulfil the pledged USD 34 Bn imports from the US"

2025, of which only USD 45.8 Mn is imported from the US.

- American energy exporters have also been gaining market share in Indonesia, with 9.8% of Indonesia's mineral fuel imports between January and April 2025 originating from the US, up from 7.1% in the same period last year. However, there may be a limit to how much energy, especially oil, Indonesia can import from the US, given the limited capacity of domestic refineries to process the sweet, low-sulphur crude that characterises US shale oil.
- **It is not far-fetched, then, to expect that the public sector will play an outsized role in absorbing these promised imports.** Rumours have circulated that the Indonesian government is exploring the possibility of engaging US arms manufacturers for its ongoing weapon system modernisation programme, while several SOEs have reportedly been encouraged to place orders for US-made aviation and railway products. However, we should note that most SOEs do not seem to have much appetite for expansion, while the government has also submitted a long list of orders to European arms manufacturers.
- Beyond this threefold concern, the US demand for a country to pledge outbound investments as a precondition for a trade deal may also serve as a significant obstacle. While some private corporations have registered their interest to invest in the US, Indonesia's status as a CA-deficit country could constrain its capacity to deliver on these commitments. **That being said, this (potential) partial win should be acknowledged for its significance in**

sustaining export orders coming Indonesia's way; although it remains too early to expect

the country to emerge as the primary conduit for US-Asia trade.

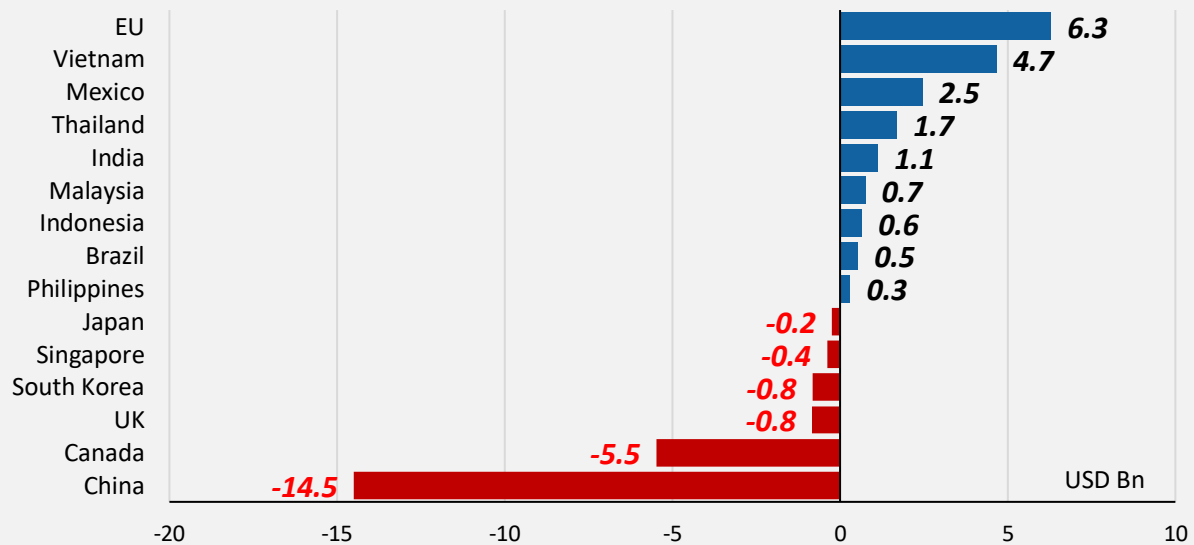
Chart 1

No new champion

Chinese transshipment and front-loaded US imports demand benefits Vietnam and Mexico, highlighting the slim chance of new trade routes emerging from the ongoing trade war

Changes in US imports (May 2025 vs. 2024)

In nominal terms



In relative terms

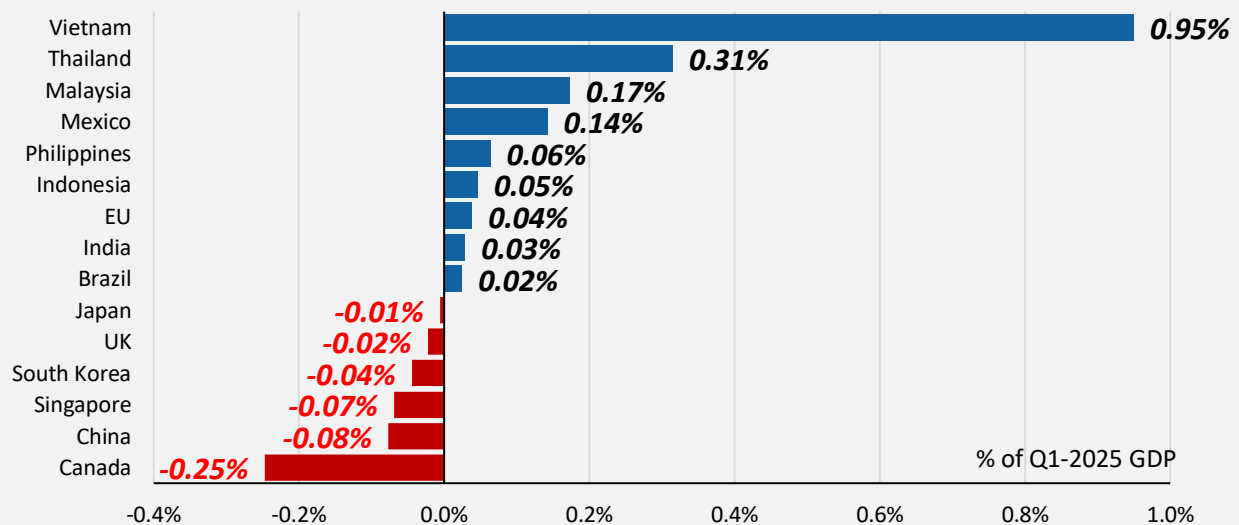


Chart 2

Still in bed with the enemy

Indonesia may be one of the countries in the crosshair if the US continue to push for a strengthened country-of-origin clause, given the increasing footprint of Chinese firms.

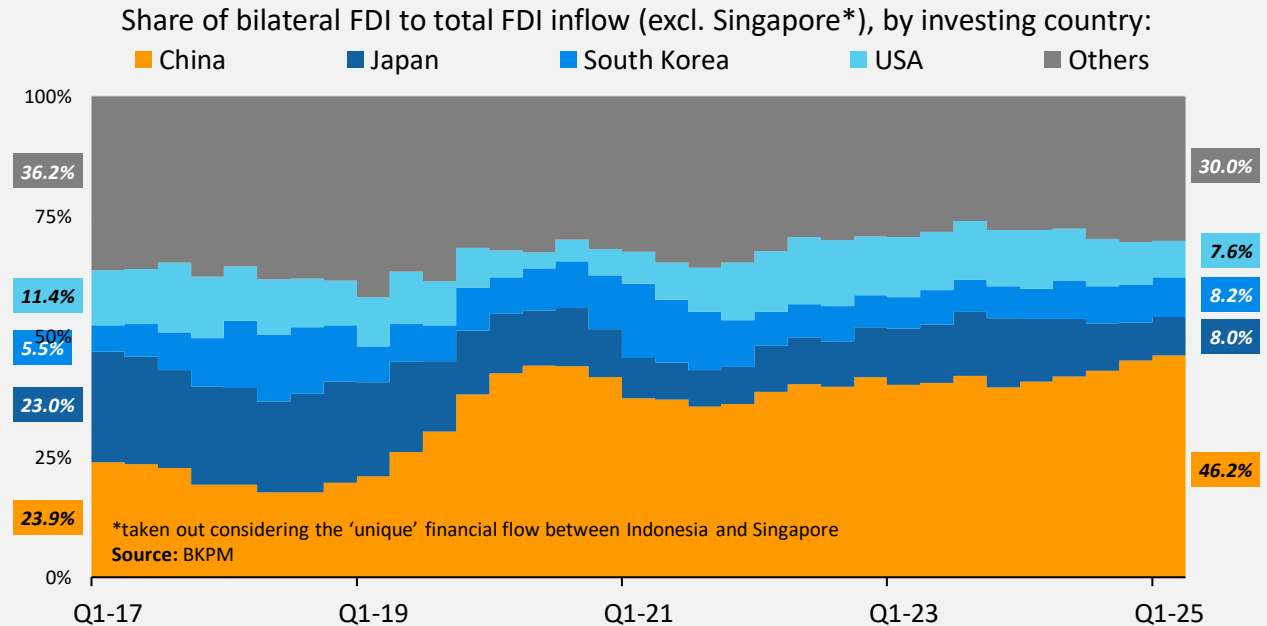
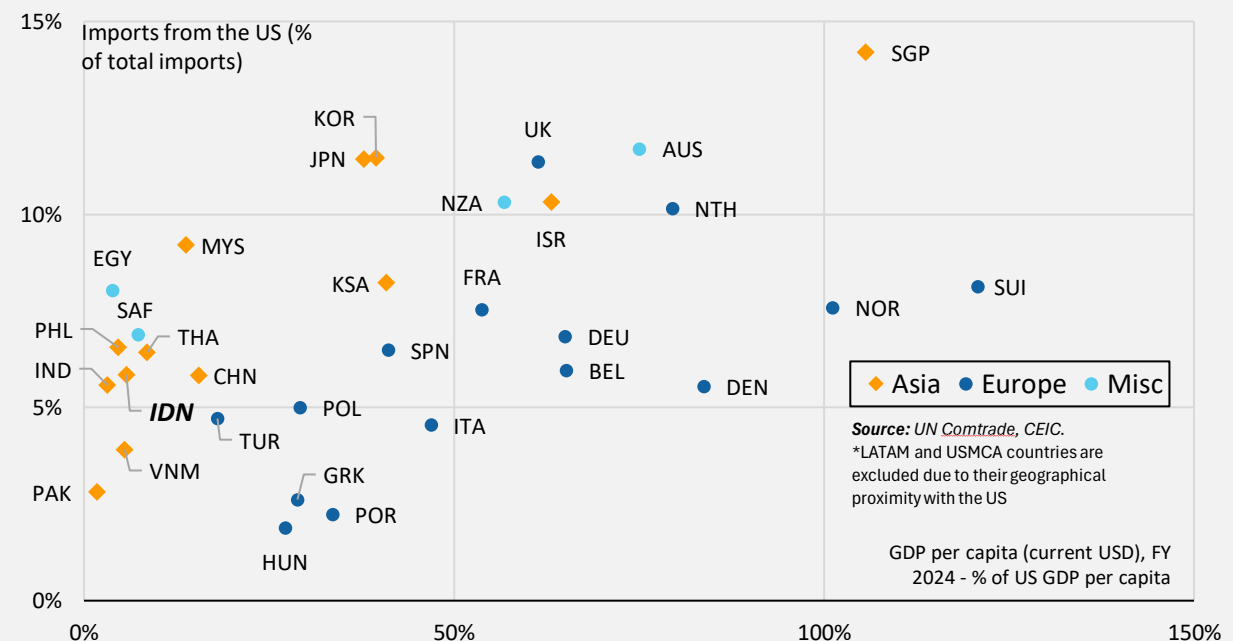


Chart 3

Only the rich go to Disneyland

Zero tariffs may not greatly solve the US' trade deficit problems, as emerging market consumers (including Indonesia) remain priced out of US products



Economic Calendar				
		Actual	Previous	Forecast*
01 July 2025				
ID	S&P Global Manufacturing PMI	46.9	47.4	48.5
ID	Trade balance (May-25), USD Bn	4.3	0.16	1.0
ID	Inflation Rate YoY, %	1.87	1.6	1.7
US	S&P Global Manufacturing PMI	52.9	52	52
03 July 2025				
US	Trade balance, USD Bn	-71.5	-60.3	-72
US	Non Farm Payrolls, th	147	144	100.0
07 July 2025				
ID	Foreign Exchange Reserves, USD Bn	152.6	152.5	157.0
EA	Retail Sales YoY, %	1.8	2.7	1.7
ID	Motorbike Sales YoY, %	-0.3	-0.1	-
08 July 2025				
ID	Consumer Confidence		117.5	123
09 July 2025				
ID	Retail Sales YoY, %		-0.3	0.3
CN	Inflation Rate YoY, %		-0.1	0.1
10 July 2025				
ID	Car Sales YoY, %		-15.1	-
12 July 2025				
CN	Trade balance, USD Bn		103.22	100
15 July 2025				
CN	GDP Growth Rate YoY, %		5.4	4.1
CN	Retail Sales YoY, %		6.4	4.6
US	Inflation Rate YoY, %		2.4	2.5
16 July 2025				
ID	BI-Rate Decision, %		5.5	-
17 July 2025				
ID	Loan Growth YoY, %		8.43	8.5
US	Retail Sales YoY, %		3.3	3.6
22 July 2025				
ID	M2 Money Supply YoY, %		4.9	-
29 July 2025				
ID	Foreign Direct Investment YoY, %		12.7	-

*Some forecasts 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	4-Jul	-1 mth	Chg (%)
US	4.50	Dec-24	2.10	Baltic Dry Index	1,436.0	1,430.0	0.4
UK	4.25	May-25	0.85	S&P GSCI Index	552.6	538.3	2.7
EU	2.15	Jun-25	0.15	Oil (Brent, \$/bbl)	68.3	65.6	4.1
Japan	0.50	Jan-25	-3.00	Coal (\$/MT)	110.9	108.8	1.9
China (lending)	2.00	Sep-24	4.45	Gas (\$/MMBtu)	3.11	2.84	9.5
Korea	2.50	May-25	0.30	Gold (\$/oz.)	3,337.2	3,353.4	-0.5
India	5.50	Jun-25	2.68	Copper (\$/MT)	9,959.9	9,686.3	2.8
Indonesia	5.50	May-25	3.63	Nickel (\$/MT)	15,100.9	15,237.4	-0.9
Money Mkt Rates	4-Jul	-1 mth	Chg (bps)	CPO (\$/MT)	955.6	931.6	2.6
SPN (1Y)	5.73	6.01	-28.0	Rubber (\$/kg)	1.68	1.62	3.7
SUN (10Y)	6.57	6.83	-25.8	External Sector	May	Apr	Chg (%)
INDONIA (O/N, Rp)	5.06	5.74	-68.5	Export (\$ bn)	24.61	20.74	18.66
JIBOR 1M (Rp)	6.15	6.16	-0.8	Import (\$ bn)	20.31	20.59	-1.32
Bank Rates (Rp)	Mar	Feb	Chg (bps)	Trade bal. (\$ bn)	4.30	0.16	2,608.75
Lending (WC)	8.66	8.67	-0.75	Central bank reserves (\$ bn)*	152.5	152.5	0.01
Deposit 1M	5.01	5.02	-0.47	Prompt Indicators	May	Apr	Mar
Savings	0.68	0.68	0.16	Consumer confidence index (CCI)	117.5	121.7	121.1
Currency/USD	4-Jul	-1 mth	Chg (%)	UK Pound	0.733	0.740	0.98
UK Pound	0.733	0.740	0.98	Euro	0.849	0.879	3.57
Euro	0.849	0.879	3.57	Japanese Yen	144.5	144.0	-0.35
Japanese Yen	144.5	144.0	-0.35	Chinese RMB	7.166	7.188	0.32
Chinese RMB	7.166	7.188	0.32	Indonesia Rupiah	16,185	16,290	0.65
Indonesia Rupiah	16,185	16,290	0.65	Capital Mkt	4-Jul	-1 mth	Chg (%)
Capital Mkt	4-Jul	-1 mth	Chg (%)	Manufacturing PMI	Jun	May	Chg (bps)
JCI	6,865.2	7,044.8	-2.55	USA	52.9	52.0	90
DJIA	44,828.5	42,519.6	5.43	Eurozone	49.5	49.4	10
FTSE	8,822.9	8,787.0	0.41	Japan	50.1	49.4	70
Nikkei 225	39,810.9	37,446.8	6.31	China	50.4	48.3	210
Hang Seng	23,916.1	23,512.5	1.72	Korea	48.7	47.7	100
Foreign portfolio ownership (Rp Tn)	Jun	May	Chg (Rp Tn)	Indonesia	46.9	47.4	-50
Stock	3,336.8	3,435.7	-98.91				
Govt. Bond	918.7	995.6	-76.96				
Corp. Bond	4.3	5.2	-0.92				

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	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	2.0
BI Rate (%)	5.00	3.75	3.50	5.50	6.00	6.00	5.00
SBN 10Y yield (%)	7.04	5.86	6.36	6.92	6.45	6.97	7.02
USD/IDR exchange rate (average)	14,141	14,529	14,297	14,874	15,248	15,841	16,350
USD/IDR exchange rate (end of year)	13,866	14,050	14,262	15,568	15,397	16,102	16,625
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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