

Macro Note

Indonesia: Macro Impact from US Reciprocal Tariffs

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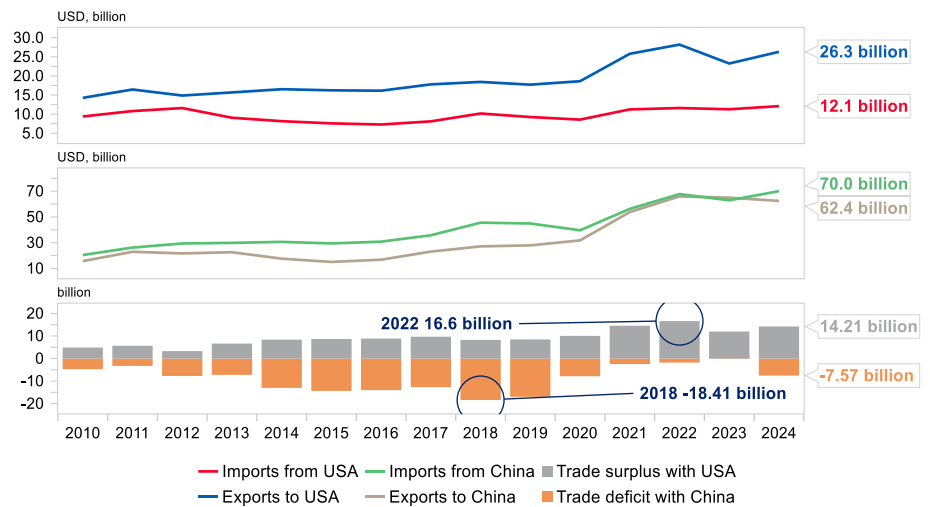
- Indonesia's trade surplus with the US almost quadrupled since 2010, reaching its peak of USD16.6bn in 2022 and has since narrowed to USD14.2bn in 2024. Last year, Indonesia exported a total of USD26.3bn worth of goods to the US.
- Pragmatically, we are of the view that the sweeping tariff treatment globally by the US is to bring countries to the negotiation table to improve US' terms-of-trade positions. This stands out in the case of Indonesia who only has less than 10% of its total exports to the US and Indonesia ranked close to the bottom of relative trading partner to the US but was charged a whopping 32% reciprocal tariff rate.
- However, we are cognizant of the adverse ramifications that US reciprocal tariffs can bring about to Indonesia's already dimming near-term growth prospects. Palm oil and derivatives, footwear products, low-value electrical apparatus, apparel, and furniture (altogether account for 51% of total surplus with the US) are sectors that will bear significant downside risks of lower exports revenue. These top 10 exports product accounted for a mere 3.4% of Indonesia's total exports to the world.
- In conclusion, though data suggests a relatively manageable exposure of Indonesia's exports with respect to the US reciprocal tariff, the ripple effects from other larger and export-oriented trading economies subjected to such tariffs, especially China, would likely have some bearings on Indonesia's economic growth prospects (current forecast of 5.2% will be reviewed after 1Q25 GDP data is released in May). This will also affect our forecast for BI to lower its benchmark rate by a greater extent (will be reviewed post 23 Apr MPC).

Point of contention

Indonesia's trade surplus with the US almost quadrupled since 2010, reaching its peak of USD16.6bn in 2022 and has since narrowed to USD14.2bn in 2024. In contrast, Indonesia runs a widening trade deficit with China up to the staggering tune of USD18.4bn back in 2018 though it has narrowed greatly to just under USD8bn last year, thanks to the strong exports of nickel and other mining & mineral goods as well as CPO to China.

Indonesia runs consistent trade surplus with the US and deficit with China in recent years

Source: National Statistical Office, Macrobond, UOB Global Economics & Markets Research

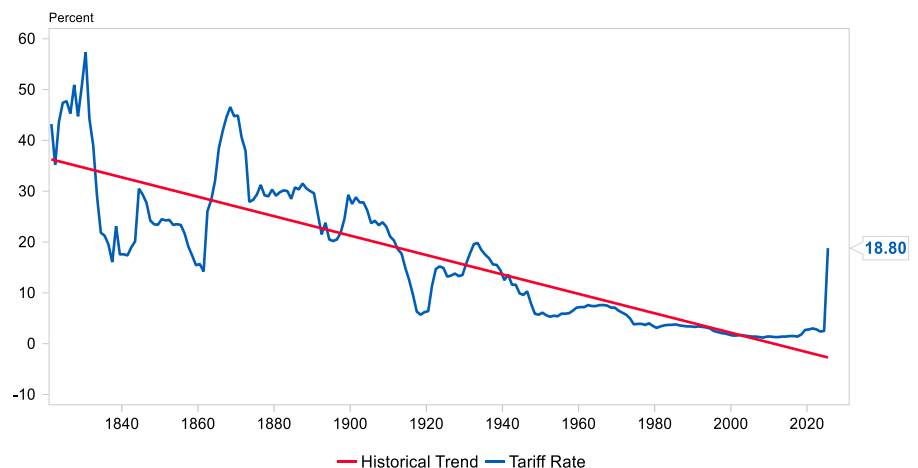


Last year, Indonesia exported a total of USD26.3bn worth of goods to the US. Putting it differently, US runs a trade deficit and the point of contention according to the US is by formula, Indonesia is charged a tariff rate of 64% and hence US will now impose a discounted reciprocal tariff rate of 32%.

Average American tariff rate is set to blast off from low single digit levels

Source: Tax Foundation, Macrobond, UOB Global Economics & Markets Research

Average American Tariff Rate on All Imports

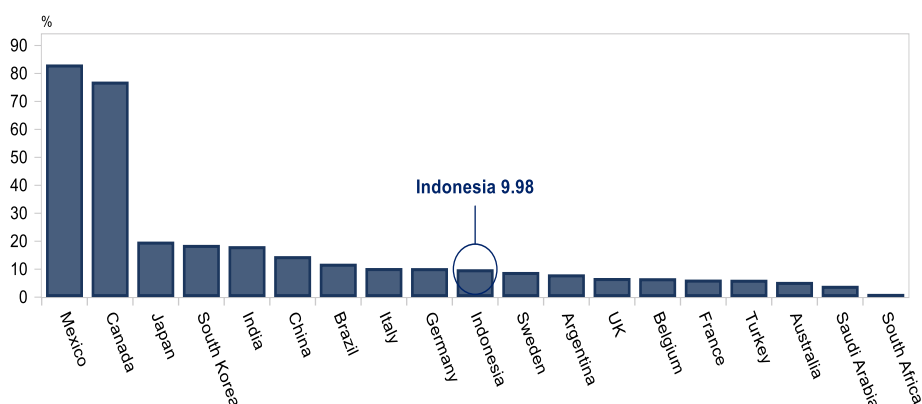


Pragmatically, we are of the view that the sweeping tariff treatment globally is brought about, including to Indonesia, by the US to bring countries to the negotiation table to improve US' terms-of-trade positions. This stands out in the case of Indonesia who only has less than 10% of its total exports (2024: USD265bn) to the US and Indonesia ranked close to the bottom of relative trading partner to the US but was charged a whopping 32% reciprocal tariff rate.

Indonesia exports about 10% of its total exports to the US, one of the lowest among G20

Source: Macrobond, UOB Global Economics & Markets Research

Exports to the United States as % of Total Exports Across G20 Economies



In reality, average import tariff charged by Indonesia towards imported goods and materials coming from the US hardly moved by much with an average level of 8.56% last recorded in 2022. If sustained, then the reciprocal tariff rate of 32% will definitely impact negatively Indonesian exports to the US.

Differences in tariff rates between actual charged and that planned to be reciprocated

Partners	Tariff rate % (average for all products) imposed on US products		US' bilateral trade gap (USD bn)	Exports to US (2024, USD bn)	US trade deficit/exports to US (%)	Reciprocal tariff to be imposed by US wef 9 Apr 2025
	imported	imported				
	2017	2022				
China	10.73	7.11	-295.40	438.95	67.30	34.00
Cambodia ^A	13.45	12.90	-12.34	12.66	97.46	49.00
France ^{**}	5.04	4.79	-235.57	605.76	38.89	20.00
Germany ^{**}	5.23	5.01	-235.57	605.76	38.89	20.00
India	11.13	12.63	-45.66	87.42	52.24	26.00
Indonesia (A)	8.41	8.56	-17.88	28.08	63.67	32.00
Indonesia (B)	8.41	8.56	-14.21	26.30	54.03	32 (27 by formula)
Ireland ^{**}	4.77	4.80	-235.57	605.76	38.89	20.00
Japan	4.63	3.63	-68.47	148.21	46.20	24.00
Malaysia ^A	5.90	5.47	-24.83	52.53	47.26	24.00
Philippines	6.14	6.13	-4.88	14.18	34.42	17.00
South Korea	3.56	2.66	-66.01	131.55	50.18	25.00
Thailand [*]	11.52	9.82	-45.61	63.33	72.02	36.00
Vietnam	9.17	9.13	-123.46	136.56	90.41	46.00
United States (average tariff on all imports)	3.36	2.77	-	-	-	likely above 20%
Total table average (excl. US)	7.72	7.23				
Total ASEAN5 average (excl. Cambodia)	7.07	6.55				

A - USTR/Census Bureau Data

B- Statistical Office of Indonesia

^A 2016; no data 2017-2019

^{*} 2021; no data 2016-2020

^{**}US Reciprocal tariff calculated using aggregated EU data

Source: World Integrated Trade Solutions (WITS), USTR

<https://wits.worldbank.org/CountryProfile/en/Country/MYS/StartYear/2000/EndYear/2022/TradeFlow/Import/Indicator/AHS-SMPL-AVRG/Partner/USA/Product/all-groups>

Export sectors impacted

We are cognizant of the adverse ramifications that US reciprocal tariffs can bring about to Indonesia's already dimming near-term growth prospects. Palm oil and derivatives exports, footwear products, low-value electrical apparatus, apparel, and furniture (altogether account for 51% of total surplus with the US) are export sectors that will bear significant downside risks of lower exports revenue. These top 10 exports product accounted for a mere 3.4% of Indonesia's total exports to the world.

That said, majority of exporters in these categories are likely to be smaller to medium size companies and tariff rates rising as much as being quadrupled are likely to weigh much on their margins and may hurt their operations substantially. This probably also explains, amongst other possibly more important reasons, that President Prabowo, though Indonesia is still in holidays for Eid-al-Fitr, instructed key ministries to start negotiating the terms of trade agreement and tariff with the US immediately.

Low-value added exports will likely be hit, dominated by MSMEs

Source: Macrobond, UOB Global Economics & Markets Research

United States: Major Trade Balances by Categories (4-digit HS) with Indonesia, USD												
Data: US Census Bureau	billion								2024	2023	2022	2019
	-1.75	-1.50	-1.25	-1.00	-0.75	-0.50	-0.25	0.00				
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■ 2024 ▲ 2019

Revisiting our growth forecast and monetary policy stance

Though data suggests a relatively manageable exposure of Indonesia's exports with respect to the US reciprocal tariff, the ripple effects from other larger and export-oriented trading economies subjected to such tariffs, especially China, would likely have some bearings on Indonesia's economic growth prospects. We will review our current forecast of 5.2% after the 1Q25 GDP data are released in May. This will also affect our forecasts for BI to lower its benchmark rate by a greater extent (will be reviewed post 23 Apr MPC).

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