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Global Economics & Market Strategy

Indonesia Trade: Dual Headwinds from US Tariffs and China Slowdown

- **We maintain our forecast for Indonesia's GDP growth at 4.5% in 2025, with downside risks potentially pushing growth lower toward the 3.0–3.5% range, should global trade tensions intensify.**
- **The quantitative assessment suggests that US trade tariffs imposed under our base case could reduce Indonesia's GDP by around 0.7 percentage point, and up to 1.0 percentage points in the worst case.**
- **Our Vector Error Correction Model (VECM) provides robust empirical evidence that Chinese manufacturing activity is the most influential driver of Indonesia's export performance, supported by both long-run structural linkages and short-term dynamic effects.**

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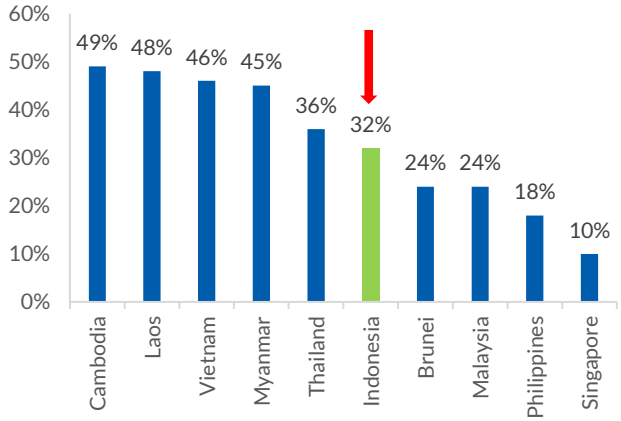
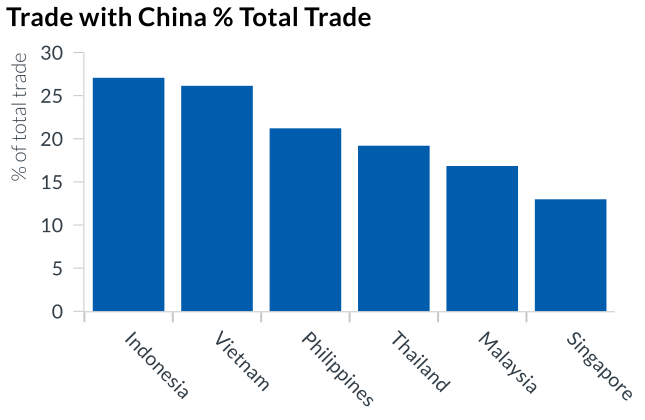
Figure 1: US has previously imposed a 32% reciprocal tariff on Indonesian exports, reducing their price competitiveness relative to other ASEAN peers



Source: RHB Economics & Market Strategy

Figure 2: Indonesia's export exposure to China is among the highest in the ASEAN region, potentially subjecting to greater pressure than other economies



Source: Macrobond, RHB Economics & Market Strategy

Growth Forecast Maintain at 4.5%, Downside Risk Persisted

We maintain our forecast for Indonesia's GDP growth at 4.5% in 2025, with downside risks potentially pushing growth lower toward the 3.0–3.5% range, should global trade tensions intensify. Our growth outlook remains underpinned by three key catalyst: (1) weakening external demand due to US tariff policies, (2) deteriorating domestic market sentiment, and (3) delays in the rollout of consumption-driven government initiatives. US trade policy dynamics remain fluid and highly uncertain. Despite a temporary pause in the rollout of higher reciprocal tariffs—from the originally proposed 32% to a baseline universal tariff of 10%, "light at the end of the tunnel" remains distant, as negotiations between the US and its trading partners, including Indonesia, have only just begun, leaving the existing policy framework vulnerable to abrupt shifts. In response to this uncertainty, we adopt a scenario-based approach to assess the potential impact of tariffs on Indonesia's economic outlook, particularly on export performance and overall GDP growth. This includes a base-case scenario where the universal tariff is moderately adjusted to 20% in 2H25, and a worst-case scenario in which reciprocal tariffs revert to the original 32% level following the expiration of the 90-day pause. Further details on the assumption may refer to Figure 26 or the Pathfinder 2Q25 Addendum.

The quantitative assessment suggests that US trade tariffs imposed under our base case could reduce Indonesia's GDP by around 0.7 percentage point, and up to 1.0 percentage points in the worst case. This impact is assessed through a structured analytical framework outlined in Annex 1, which deconstructs the aggregate tariff shock into five distinct transmission channels. These include direct and indirect effects from tariffs and demand slowdowns in the US and China, as well as shifts in global commodity demand. Figures 3 and 4 illustrate the respective transmission channels and their cumulative impact on Indonesia's exports. We further formulated the cumulative impact on GDP by quantifying the decline in net exports and translating it into a GDP effect. Using our base case scenario as the example, the total export shock—aggregating across all five identified channels—is estimated at **8.79%**. Applying an import-export correlation of **0.8**, this results in an implied import contraction of **7.03%**. Using a simplified trade balance identity, where exports and imports constitute **23.87%** and **19.90%** of GDP respectively, we compute the GDP impact as the difference in net exports before and after the trade shock. The results suggest that the tariff-induced deterioration in the trade balance would reduce GDP by approximately **0.70 percentage points** under the base case assumption.

Our Vector Error Correction Model (VECM) provides robust empirical evidence that Chinese manufacturing activity is the most influential driver of Indonesia's export performance, supported by both long-run structural linkages and short-term dynamic effects. As previously highlighted, spillover effects from a slowdown in China's economy pose a significant risk to Indonesia's external sector, given that China accounts for roughly 25% of Indonesia's total trade and is the largest importer of key commodities such as coal, nickel, and ferroalloys. Our model validates this assumption, showing that China's industrial activity is the primary determinant of Indonesia's export dynamics. Quantitatively, spillover effects stemming from both direct US-China trade frictions and broader Chinese economic deceleration are estimated to account for nearly a 5% decline in Indonesia's total exports, significantly larger than other channels. The VECM results reinforce this view: the long-run elasticity coefficient is estimated at 3.49%, while the short-run coefficient stands at 0.84%. This implies that a 1% increase in China's PMI leads to a 3.5% increase in Indonesia's exports over the long run, and a 0.84% increase in the subsequent quarter. Additionally, the impulse response function (IRF) in Figure 5, further support these findings, showing that a shock to China's PMI generates the strongest and most persistent impact on Indonesia's exports, underscoring the depth of trade and production linkages between the two economies.

In addition to our quantitative analysis, we recognise the presence of qualitative factors and policy responses that may either mitigate or amplify the overall impact of tariffs on Indonesia's exports and broader GDP. Notably, the Indonesian government is actively engaged in negotiations with the United States Trade Representative (USTR), with both parties agreeing to a 60-day deadline to resolve the 32% tariff imposed on Indonesian goods entering the US. As part of the negotiation strategy, Indonesia has proposed increasing its imports from the US by up to USD 19 billion—of which around USD 10 billion would be allocated to energy imports—while continuing to purchase key agricultural products such as wheat, soybeans, and soy-based products. Additionally, recent fiscal policy updates have been introduced to cushion the adverse effects of the US tariffs. According to Finance Minister Sri Mulyani, these measures include:

- **Tax and Customs Administration Reform** – Streamlining tax audits, restitution, and licensing to ease administrative burdens;
- **Lowering Import Income Tax (PPh)** – Cutting the import tax rate from 2.5% to 0.5%;
- **Adjusting Import Duty Rates** – Reducing import duties from 5%–10% to a range of 0%–5%;
- **Reducing Export Duty on Crude Palm Oil (CPO)** – Introducing a 5% reduction to enhance export competitiveness.

While these measures may help cushion export-oriented industries during periods of external demand shocks, it is crucial to assess which sectors are particularly vulnerable to tariff-related disruptions. The impact of tariffs may not be confined to trade figures alone—it could cascade into the domestic economy, especially if affected sectors begin to cut jobs or scale back capital investment amid heightened uncertainty. Figures 23 highlight several sectors that are especially exposed due to their heavy reliance on demand from a single trading partner, notably China and the United States. Specifically, iron and steel, as well as nickel exports, are heavily concentrated toward China, while apparel exports are largely dependent on the US market. At the same time, Indonesia's commitment to increase imports from the United States—particularly in energy and agricultural commodities—may gradually erode its bilateral trade surplus with the US. This could also result in a more concentrated source of imports for critical products, making the country more vulnerable to supply chain disruptions on the US side. For instance, soybeans are almost exclusively sourced from the US, accounting for around 89% of total imports, while petroleum gas imports from the US make up about 50% (Figure 24).

Figure 3: Impact on Indonesia Export and GDP Growth under Base Case Assumption

Channel	Impact Term	Share (a)	Elasticity (b)	Shock Factors (c)	Calculation
(1) Direct US Tariff on Indonesia	$W_{US}\ \mu_{US}^{T}\ T_{ID}$	$W_{US} = 0.10$	$\mu_{US}^{T} = -1.00$	$T_{ID} = 20\%$	$S_1 = 0.10 \times -1.00 \times 0.20 = -0.02000$
(2) US Consumption Slowdown	$W_{US}\ \mu_{US}^{D}\ \Delta D_{US}$	$W_{US} = 0.10$	$\mu_{US}^{D} = 1.15$	$\Delta D_{US} = -1\%$	$S_2 = 0.10 \times 1.15 \times -0.01 = -0.00115$
(3) US Tariff Spillover On China	$W_{CN}\ \mu_{US}^{T}\ T_{CN}$	$W_{CN}^{US} = 0.0403$	$\mu_{CN}^{T} = -1.00$	$T_{CN} = 145\%$	$S_3 = 0.0403 \times -1.00 \times 1.00^{*} = -0.0403$
(4) China Economic Slowdown	$W_{CN}\ \mu_{US}^{D}\ \Delta D_{CN}$	$W_{CN}^{ROW} = 0.2097$	$\mu_{CN}^{D} = 3.49$	$\Delta D_{CN} = -1\%$	$S_4 = 0.2097 \times 3.49 \times -0.01 = -0.00732$
(5) Global Commodity Demand	$W_{ROW}\ \mu_{ROW}^{D}\ \Delta D_{ROW}$	$W_{CN} = 0.65$	$\mu_{ROW}^{D} = 1.18$	$\Delta D_{ROW} = -2.5\%$	$S_5 = 0.65 \times 1.18 \times -0.025 = -0.01918$
Overall Impact	$\Delta X = X(\sum_{i=1}^{5} S) = -0.0879$ $\Delta M = \Delta X * 0.80 = -0.0703$ $\Delta GDP = X - M - \{E(1+\Delta X) - M(1+\Delta M)\}$ $\Delta GDP = (23.87 - 19.90) - \{23.87(1-0.0879) - 19.90(1-0.0703)\} = -0.70\%$				

Source: RHB Economics & Market Strategy.

*Note: * We price in the limit of declines in imports from China against US tariff rates at 100%, with price elasticity = -1*

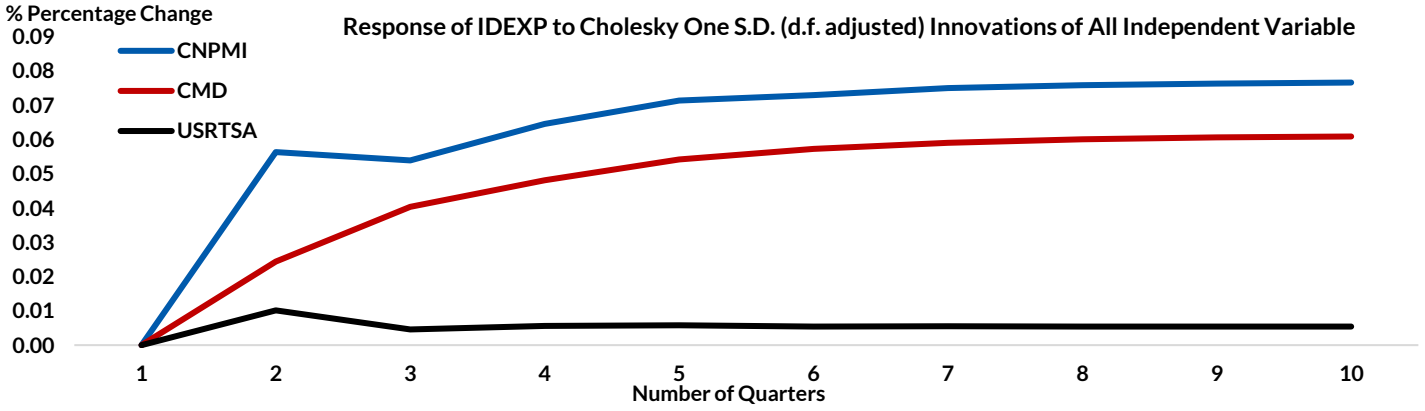
Figure 4: Impact on Indonesia Export and GDP Growth under Worst Case Assumption

Channel	Impact Term	Share (a)	Elasticity (b)	Shock Factors (c)	Calculation
(1) Direct US Tariff on Indonesia	$W_{US}\ \mu_{US}^{T}\ T_{ID}$	$W_{US} = 0.10$	$\mu_{US}^{T} = -1.00$	$T_{ID} = 32\%$	$S_1 = 0.10 \times -1.00 \times 0.32 = -0.03200$
(2) US Consumption Slowdown	$W_{US}\ \mu_{US}^{D}\ \Delta D_{US}$	$W_{US} = 0.10$	$\mu_{US}^{D} = 1.15$	$\Delta D_{US} = -2\%$	$S_2 = 0.10 \times 1.15 \times -0.02 = -0.00230$
(3) US Tariff Spillover On China	$W_{CN}\ \mu_{US}^{T}\ T_{CN}$	$W_{CN}^{US} = 0.0403$	$\mu_{CN}^{T} = -1.00$	$T_{CN} = 145\%$	$S_3 = 0.0403 \times -1.00 \times 1.00^{*} = -0.04030$
(4) China Economic Slowdown	$W_{CN}\ \mu_{US}^{D}\ \Delta D_{CN}$	$W_{CN}^{ROW} = 0.2097$	$\mu_{CN}^{D} = 3.49$	$\Delta D_{CN} = -2\%$	$S_4 = 0.2097 \times 3.49 \times -0.02 = -0.01464$
(5) Global Commodity Demand	$W_{ROW}\ \mu_{ROW}^{D}\ \Delta D_{ROW}$	$W_{CN} = 0.65$	$\mu_{ROW}^{D} = 1.18$	$\Delta D_{ROW} = -5\%$	$S_5 = 0.65 \times 1.18 \times -0.05 = -0.03835$
Overall Impact	$\Delta X = X(\sum_{i=1}^{5} S) = -0.1276$ $\Delta M = \Delta X * 0.80 = -0.1021$ $\Delta GDP = X - M - \{E(1+\Delta X) - M(1+\Delta M)\}$ $\Delta GDP = \{(23.87 - 19.90) - \{23.87(1-0.1276) - 19.90(1-0.1021)\} = -1.02\%$				

Source: RHB Economics & Market Strategy.

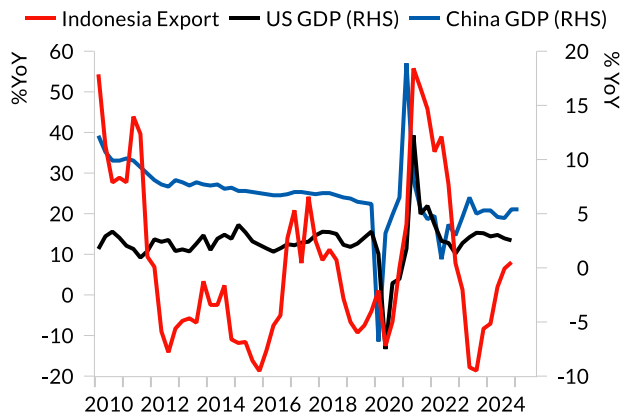
*Note: * We price in the limit of declines in imports from China against US tariff rates at 100%, with price elasticity = -1*

Figure 5: Impulse response analysis indicates Indonesia shows the strongest reaction to shocks in Chinese manufacturing activity, followed by global commodity prices and US retail trade



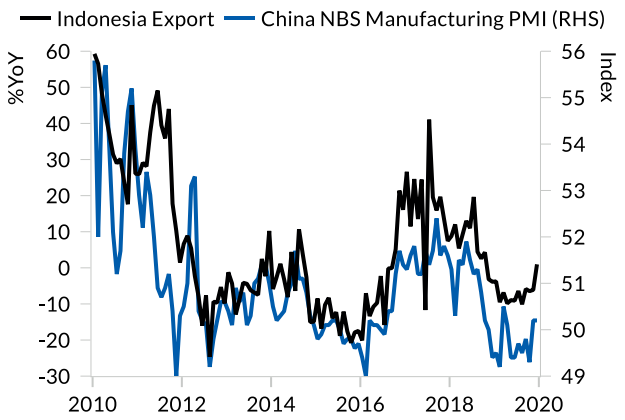
Source: RHB Economics & Market Strategy.

Figure 6: Indonesia's exports show limited correlation with US and China GDP…



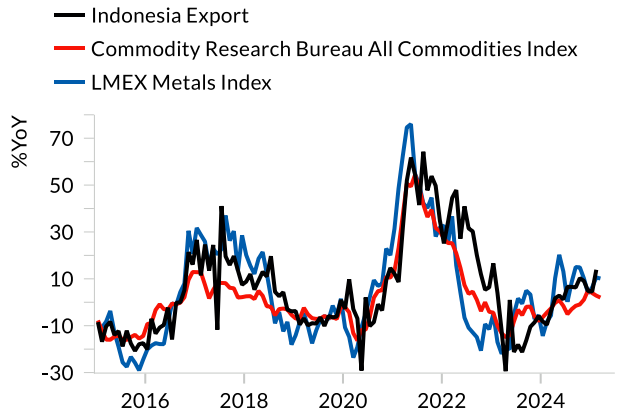
Source: Macrobond, RHB Economics & Market Strategy

Figure 7: …but trend closely with China's NBS Manufacturing PMI…



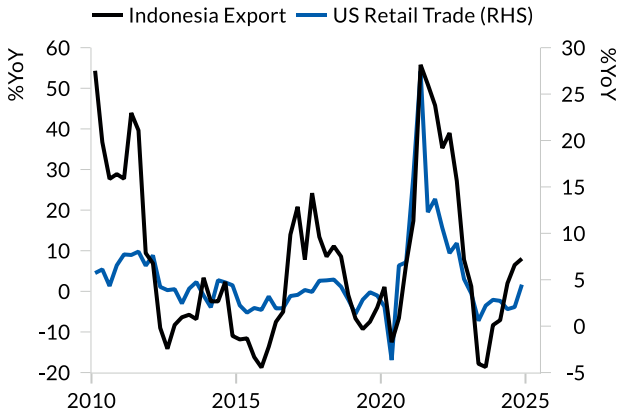
Source: Macrobond, RHB Economics & Market Strategy

Figure 8: …highly correlated with global commodity prices…



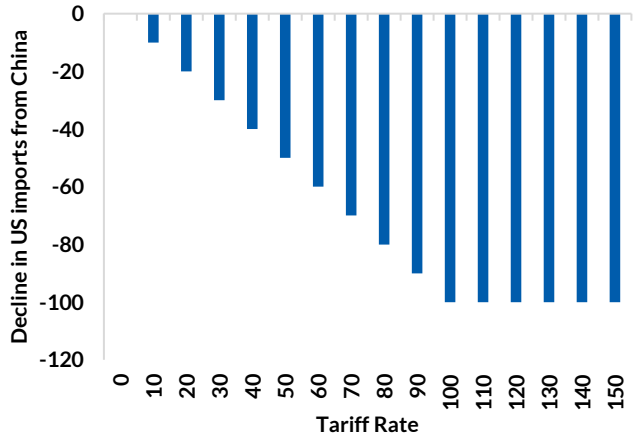
Source: Macrobond, RHB Economics & Market Strategy

Figure 9: …and moving together with US retail trade growth



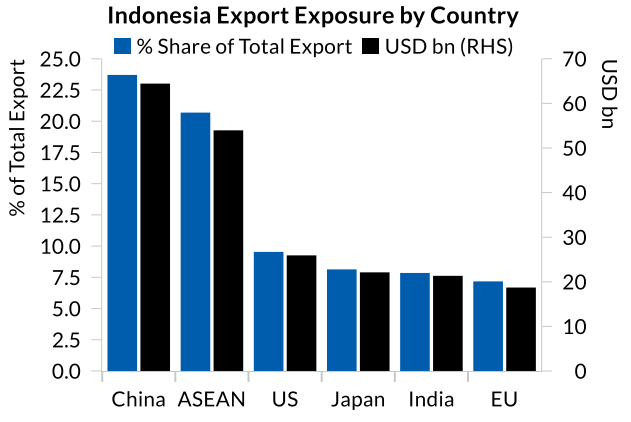
Source: Macrobond, RHB Economics & Market Strategy

Figure 10: There is a limit of declines in imports from China against US tariff rates (assuming elasticity = -1)



Source: Macrobond, RHB Economics & Market Strategy

Figure 11: Indonesia's export destinations are heavily concentrated in China and ASEAN markets



Source: Macrobond, RHB Economics & Market Strategy

Annex 1: Five Transmission Channels of US Tariffs Impacts on Indonesia's Exports

We developed a structured analytical framework to assess the macroeconomic implications of the recent US tariff measures—specifically, the introduction of a global reciprocal tariff, including a 32% tariff rate applied to Indonesian goods (subject to a 90-day suspension and temporary reduction to a baseline universal tariff of 10%). Our objective is to quantify the impact of these measures on Indonesia's total exports and GDP growth. The analysis decomposes the overall tariff shock into five distinct transmission channels, estimating long-run sensitivities using a Vector Error Correction Model (VECM), and capturing short-run dynamics via Impulse Response Functions (IRFs).

Our analysis is built on the premise that Indonesia's export performance is predominantly influenced by three primary factors: US consumer demand, China's industrial activity, and global commodity prices. These variables serve as proxies for external demand conditions from Indonesia's major trading partners and the broader global market. To reflect the complex and overlapping nature of trade shocks, the model separates the effects into the following components:

1. **Direct impact of the US tariff on Indonesian goods**, which reducing price competitiveness in the US market;
2. **Indirect impact from a potential slowdown in US consumption**, affecting overall import demand from Indonesia;
3. **Spillover from US tariffs on China**, which may disrupt regional value chains and reduce Chinese imports from Indonesia;
4. **Broader slowdown in China's economic activity**, diminishing its import demand for raw materials and intermediate goods from Indonesia;
5. **Weakening global commodity demand**, captured through global commodity price movements and measured by Indonesia's exports to countries excluding the US and China.

The total export impact equation is formalised as:

$$\Delta X = X\left[W_{US}\,\mu_{US}^{T}\,T_{ID} + W_{US}\,\mu_{US}^{D}\,\Delta D_{US} + W_{CN}\,\mu_{US}^{T}\,T_{CN} + W_{CN}\,\mu_{US}^{D}\,\Delta D_{CN} + W_{ROW}\,\mu_{ROW}^{D}\,\Delta D_{ROW}\right]$$

Where:

- X = Total Indonesian exports
- W_{US}, W_{CN}, W_{ROW} = Share of exports to US, China, and Rest of World respectively,
- T_{ID}, T_{CN} = US tariffs on Indonesia and China
- $\Delta D_{US}, \Delta D_{CN}, \Delta D_{ROW}$ = Decline in demand in the respective regions
- μ terms = Elasticities/sensitivities to each channel

Weighting Factors, W

To account for the relative importance of each channel, we assign weights based on the five-year average export shares for the period of 2020-2024. (US ≈ 10%, China ≈ 25%, and ROW = 65%). Within the China-related channel W_{CN}, we further disaggregate the weight as follows:

- W_{CN}^{US} , share of Indonesia's exports to China that may directly affected by US tariff on China, (0.25*0.1613= 0.0403)
- W_{CN}^{ROW} ,remaining share of Indonesian exports to China not directly affected by US tariff on China, (0.25*0.8287= 0.2097)

For the elasticity terms (μ), we apply the following assumptions: (1) Price elasticity of demand for exports affected by tariffs is assumed to be unity (μ^{T} = -1), consistent with standard trade elasticities in empirical literature; (2) For components associated with economic slowdown or demand shocks, μ^{D} (e.g., US consumption, China industrial activities, and global commodity demand), we estimate long-run elasticities using a Vector Error Correction Model (VECM) framework. The VECM captures both short-run dynamics and long-run equilibrium relationships between Indonesia's exports and external demand indicators, using quarterly time series data. (Read Annex 2 for VECM details)

For the shock variables, T and $\Delta D$the tariff shock (T) reflects the **direct increase in trade costs** associated with the imposed US tariff. The **economic slowdown effects (ΔD)** represent the **reduced external demand** from each major partner or region under different stress scenarios. These shock factors are varied under different **scenario assumptions** developed in the 2Q25 Pathfinder Addendum, ranging from base cases (moderate tension) to adverse cases (intensified trade conflicts). In the **optimistic scenario**, where trade tensions ease and tariffs are suspended, the simulation results show negligible macroeconomic impact, hence the result are not reported.

Annex 2: Econometric Estimation: Long-Run Elasticities & Short-Run Dynamics

To estimate the long-run relationship between Indonesia's export performance and global demand drivers, we utilise a Vector Error Correction Model (VECM) framework, with dependent variable as Indonesia's total exports (IDEXP), modelled as a function of China's Manufacturing PMI (CNPMI), the Commodity Research Bureau All Commodity Price Index (CMD), and US Retail Sales (USRT).

The VECM framework follows the Johansen procedure. Preliminary unit root tests using the Augmented Dickey-Fuller (ADF) method confirm that all variables are integrated of order one, I(1). The optimal lag length (lag length =1) is selected using the Akaike Information Criterion (AIC), and the Johansen test confirms the existence of at least one cointegrating relationship among the variables. Further diagnostic tests validate the model: residual autocorrelation and heteroskedasticity issues are addressed, ensuring robustness of the results. The model estimation is presented in figure 27.

The estimated long-run cointegration equation is as follows:

$$\boldsymbol{IDEXP_t = 3.49CNPMI_t + 1.18CMD_t + 1.15USRT_t + C}$$

All long-run coefficients are statistically significant at the 1% level, indicating strong and stable long-run relationships. The negative signs are depicted in the estimation result (due to the normalisation on IDEXP = 1) indicate a positive relationship in economic terms between Indonesia's exports and each of the external variables when we rearrange the equation. These values quantify the percentage change in Indonesia's exports associated with a 1% change in China's industrial activities, global commodity prices, and US retail trade, respectively, in the long run, hence this make them appropriate as the sensitivity or elasticity of Indonesia export when global economic variable slow down. Where:

$\boldsymbol{CNPMI_t}$ has a significant positive long-run coefficient of 3.49 (p-value = 0.0028), 1% decline in China's Manufacturing PMI is associated with a 3.49% decline in Indonesian exports;

$\boldsymbol{CMD_t}$ has a coefficient of 1.18 (p-value = 0.0000), 1% fall in global commodity prices leads to a 1.18% decline in Indonesian exports

$\boldsymbol{USRT_t}$ has a coefficient of 1.15 (p-value = 0.0000), % drop in US retail trade results in a 1.15% Indonesian export decline

The constant that capture others unexplained variance, $\boldsymbol{C = -28.46}$.

Short-Run Dynamics and Impulse Response:

The VECM also provides insight into short-run adjustments through the error correction term (ECT), which measures the speed at which exports revert to their long-run equilibrium following a shock.

ECM coefficient = -0.377 (p-value = 0.0000)

The error correction term ($\Delta\boldsymbol{IDEXP_{t-1}}$) is negative and significant, which indicates a relatively fast speed of adjustment to long-run equilibrium: approximately 38% of the deviation from long-run equilibrium is corrected within one quarter. This implied Indonesia's export volumes don't languish far from their equilibrium path for long. Short-lived shocks—whether tariff-induced price jumps or temporary demand dips—start to unwind relatively quickly, which softens but does not eliminate the cumulative hit, indicating that export levels gradually revert to their long-run path after a shock.

Additionally, short-run coefficients on the lagged differences show some significant contemporaneous effects,

For instance: $\Delta\boldsymbol{CNPMI_{t-1}}$ has a positive and significant effect (coefficient = 0.84, p-value = 0.0375),

This implies that a 1% increase in China's PMI in the previous quarter is associated with a 0.84% rise in Indonesia's exports in the current quarter. These findings underscore that China's industrial activity influences Indonesia's exports not only in the long run but also in the short term. The rapid transmission of China's manufacturing cycle to Indonesia's trade flows is likely driven by both final goods and intermediate inputs within regional value chains. This dynamic is further supported by Granger causality tests, which confirm a unilateral causal relationship running from China's PMI to Indonesia's exports.

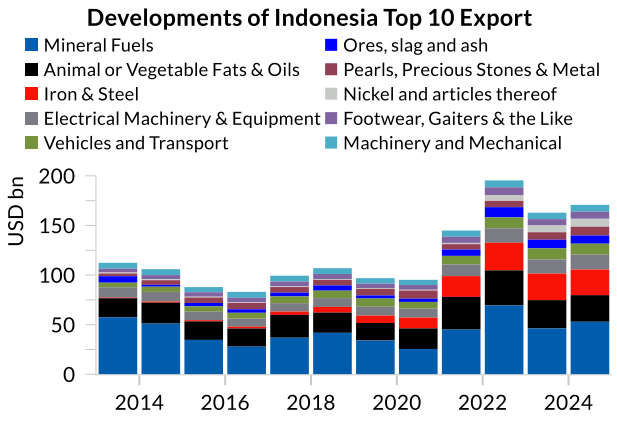
We further conducted Impulse Response Functions (IRFs) that derived from the VECM to quantify how Indonesia's exports respond over time to shocks in each explanatory variable. The result suggests:

- A **shock to CNPMI (China demand)** generates the strongest and most persistent impact on Indonesia's exports, reflecting close trade and production linkages.
- A **commodity price shock (CMD)** also produces a sustained response, indicating the role of Indonesia as a major commodity exporter.
- The response to a **US consumption shock (USRTSA)** is smaller in magnitude but still positive, suggesting a more modest but significant trade link.

Figure 12: Top 10 export products are primarily commodities…

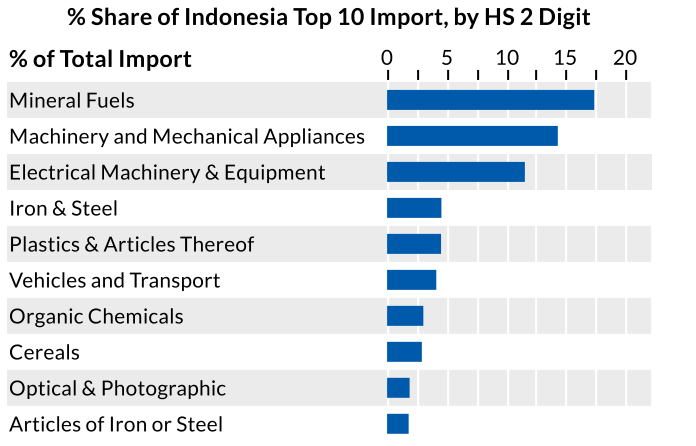
Source: Macrobond, RHB Economics & Market Strategy

Figure 13: …which experienced a significant boom in 2022 amid a price surge, but have moderated over the past two years.



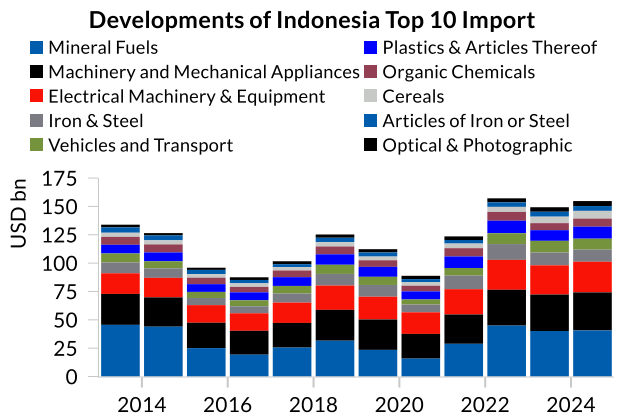
Source: Macrobond, RHB Economics & Market Strategy

Figure 14: Indonesia's top 10 imports consist mainly of intermediate goods for manufacturing…



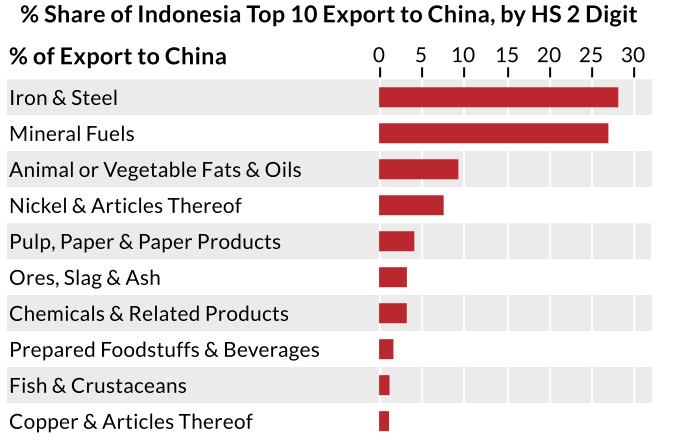
Source: Macrobond, RHB Economics & Market Strategy

Figure 15: …with a stable composition over the past three years



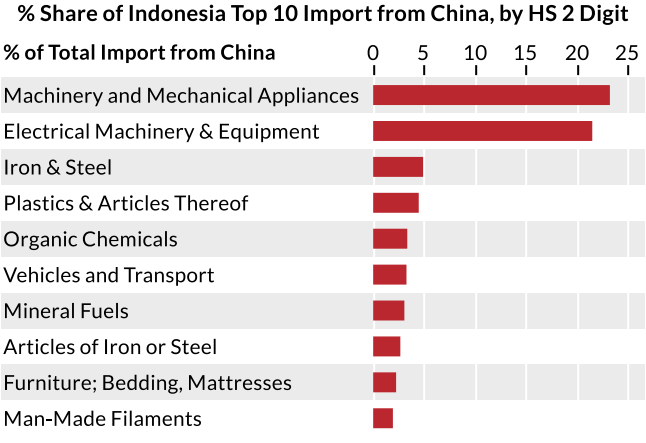
Source: Macrobond, RHB Economics & Market Strategy

Figure 16: Iron & steel and coal—used in industrial production—make up 50% of Indonesia's exports to China…



Source: Macrobond, RHB Economics & Market Strategy

Figure 17: …while China exports machinery and equipment to Indonesia as capital goods

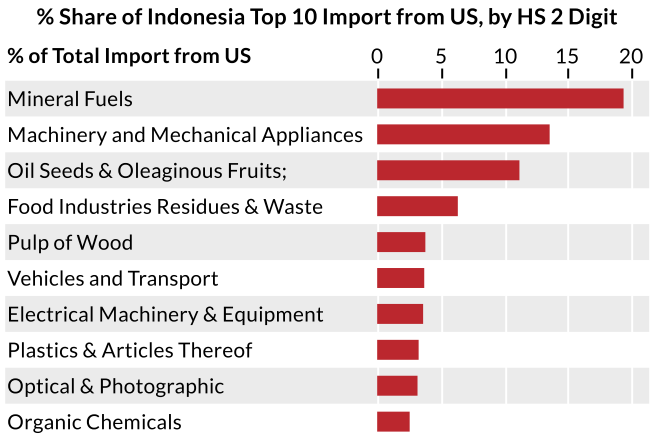


Source: Macrobond, RHB Economics & Market Strategy

Figure 18: Indonesia's exports to the US are more diversified and less concentrated in primary commodities…

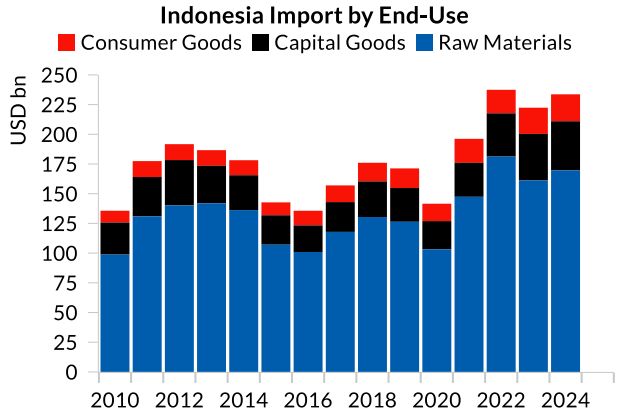
Source: Macrobond, RHB Economics & Market Strategy

Figure 19: …while its imports from the US mainly comprise fuel and agricultural products.



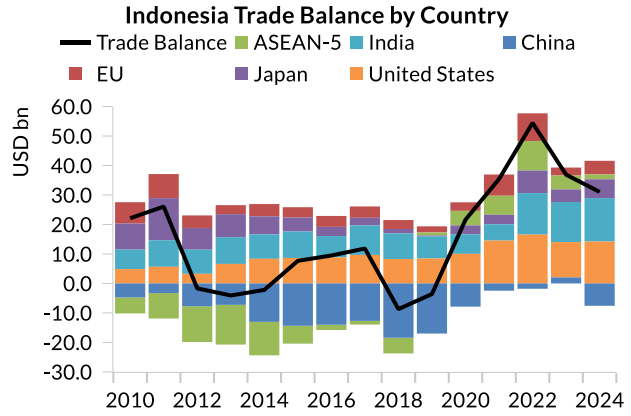
Source: Macrobond, RHB Economics & Market Strategy

Figure 20: Indonesia's imports, categorized by end-use, are largely composed of raw materials



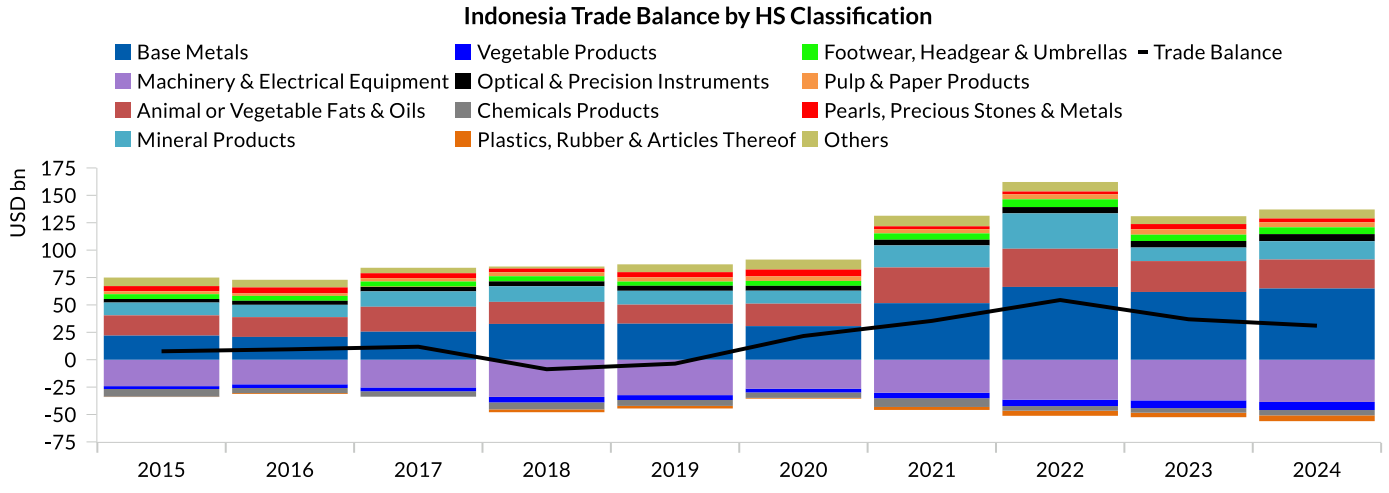
Source: Macrobond, RHB Economics & Market Strategy

Figure 21: Indonesia runs a trade deficit with China but maintains a surplus with most other trading partners



Source: Macrobond, RHB Economics & Market Strategy

Figure 22: Base metals and palm oil are the largest contributors to Indonesia's trade surplus, while machinery and electrical equipment consistently account for trade deficits



Source: Macrobond, RHB Economics & Market Strategy.

Figure 23: A detailed sectoral analysis (highlighted in red) identifies industries at greater risk due to heavy dependence on a single country—for example, iron & steel, and nickel for China, and apparel for US

	HS 2 Code	Product	Share to Total Export, A/X, %	Export to World, A, USD bn	Export to China, B, USD bn	Export to US, C, USD bn	B/A (%)	C/A (%)
TOP 20 Export	27	Mineral Fuels	22.99%	59.49	17.58	0.02	29.55%	0.03%
	15	Animal, vegetable fats and oils	10.99%	28.45	6.08	1.95	21.37%	6.85%
	72	Iron and steel	10.32%	26.70	18.34	0.13	68.67%	0.47%
	85	Electrical machinery and equipment and parts	5.54%	14.34	0.38	3.46	2.63%	24.10%
	87	Vehicles and parts and accessories thereof	4.31%	11.15	0.14	0.20	1.24%	1.83%
	26	Ores, slag and ash	3.37%	8.72	2.13	0.00	24.38%	0.01%
	71	pearls; precious stones & metals	2.90%	7.51	0.00	0.25	0.04%	3.34%
	75	Nickel and articles thereof	2.63%	6.82	4.95	0.01	72.58%	0.09%
	84	Machinery and mechanical appliances	2.50%	6.46	0.25	0.80	3.90%	12.35%
	64	Footwear; gaiters and the like; parts of such articles	2.49%	6.44	0.69	1.92	10.75%	29.83%
	38	Chemical products N.E.C.	2.42%	6.25	2.12	0.39	33.96%	6.28%
	40	Rubber and articles thereof	1.97%	5.10	0.43	1.64	8.38%	32.17%
	48	Paper and paperboard	1.85%	4.79	0.50	0.32	10.49%	6.67%
	62	Apparel and clothing accessories; not knitted	1.63%	4.22	0.09	2.07	2.24%	48.98%
	44	Wood and articles of wood; wood charcoal	1.54%	3.98	0.43	0.60	10.81%	15.04%
	61	Apparel and clothing accessories; knitted	1.46%	3.78	0.06	2.29	1.70%	60.58%
	3	Fish and crustaceans, molluscs	1.40%	3.62	0.80	1.09	22.22%	30.08%
	47	Pulp of wood or fibrous cellulosic material	1.35%	3.49	2.70	0.00	77.32%	0.00%
	29	Organic chemicals	1.15%	2.98	0.75	0.31	25.29%	10.55%
	39	Plastics and articles thereof	1.08%	2.79	0.38	0.20	13.64%	7.18%
		Sum of the Rest	**16.11%**	**41.68**	**6.12**	**5.65**	**14.68%**	**13.54%**
		Total Export (X)	**100.00%**	**258.77**	**64.93**	**23.28**	**25.09%**	**9.00%**

Source: UN Comtrade, RHB Economics & Market Strategy.

Figure 24: Further analysis reveals that many of Indonesia's key export products to the US face higher Most-Favoured Nation (MFN) tariff rates, signalling a need for renegotiation with US authorities.

HS4 Code	Description	2024 Export Value (USD Millions)	% of Indonesia's Total Export	% of Indonesia's Export to US/World	US MFN Tariff	Indonesia MFN Tariff
1511	Palm oil and its fractions	1,299.40	4.90%	6.50%	Free	Free – 5%
6403	Footwear with outer soles of rubber or plastics	1,198.40	4.50%	37.60%	Free – 10%	25%
8543	**Electrical machines and apparatus**	1,025.80	3.90%	**63.30%**	Free – 2.6%	Free – 5%
8517	Telephone sets, incl. smartphones and other telephones	910.40	3.50%	45.90%	Free	Free – 10%
4011	**New pneumatic tires, of rubber**	800.40	3.00%	**49.70%**	3.4 – 4%	15%
6404	Footwear with outer soles of rubber or plastics	791.80	3.00%	31.70%	7.5 – 37.5%	25 - 30%
1605	**Crustaceans, mollusks and other aquatic invertebrates**	750.70	2.80%	**78.50%**	Free – 10%	5% - 15%
0306	**Crustaceans, whether in shell or not (fresh/frozen)**	685.00	2.60%	**49.30%**	Free	5%
4001	Natural rubber, balata, gutta-percha, guayule	673.00	2.60%	23.20%	Free	5%
6110	**Jerseys, pullovers, cardigans, waistcoats and similar knitwear**	670.50	2.50%	**68.10%**	5 – 32%	25%
Others	—	17,559.30	66.60%	7.71%		
Grand Total	—	**26,364.80**	**100.00%**	**9.96%**		

Source: Indonesia Coordinating Ministry for Economic Affairs. RHB Economics & Market Strategy.

Figure 25: As part of its negotiation strategy, the Indonesian government has committed to increasing imports from the US, especially fuel, to help narrow the bilateral trade surplus

HS4 Code	Description	2024 Export Value (USD Millions)	% of Indonesia's Total Imports	% of Indonesia's Import to US/World	US MFN Tariff	Indonesia MFN Tariff
2711	**Petroleum gas and other gaseous hydrocarbons**	2,033.50	16.90%	**53.40%**	Free	5%
1201	**Soya beans, whether or not broken**	1,249.00	10.40%	**89.10%**	Free	Free
2709	Petroleum oils and oils obtained from bituminous minerals,	430.90	3.60%	4.20%	Free	Free
2701	Coal; briquettes, ovoid, and similar solid fuels	425.00	3.50%	11.70%	Free	5%
2303	**Residues of starch manufacture**	350.60	2.90%	**79.00%**	Free	5%
2901	Acyclic hydrocarbons	226.60	1.90%	17.40%	Free	Free
8802	**Powered aircraft (e.g., helicopters and aero planes)**	223.80	1.90%	**76.20%**	Free	Free
1001	Wheat and meslin	198.20	1.70%	5.50%	0.35 cents/kg	5%
8411	Turbojets, turbo propellers, and other gas turbines	196.00	1.60%	38.50%	Free – 2.4%	5%
2301	**Flours**	187.20	1.60%	**49.40%**	Free	Free
Others	–	6,478.50	54.00%	3.10%		
Grand Total	–	**11,999.70**	**100.00%**	**5.10%**		

Source: Indonesia Coordinating Ministry for Economic Affairs. RHB Economics & Market Strategy.

Figure 26: Global Economic Assumption from Pathfinder 2Q25 Addendum

	Bad - Look Down (40%)	Base - Clean Nose (55%)	Good - Thumbs Up (5%)
Tariffs	- Universal Tariffs 10% in 2Q25 - Higher reciprocal tariffs 2H25 - Tariffs to China > 145% - China: 125% tariff on US goods	- Universal Tariffs 10% in 2Q25 - Universal Tariffs 20% in 2H25 - Tariffs to China = 145% - China: 125% tariff on US goods	- Universal Tariffs 10% in 2Q25 - No tariffs in 2H25 - No tariffs on China - China: 0% tariff on US
Asset Allocation Strategy	Safe haven is king; UW equities and bonds	OW fixed income; MW equities; UW cash	OW equities; MW fixed income; UW cash
United States	Growth slows to 0 - 1%, biased towards downside	Growth slows to 1.0 - 1.5%, balanced risks	Steady growth around 2 - 3%, biased towards top-point
China	Negative domestic conditions intensify; growth to slow to < 3.0%; China dumps US treasuries, limit rare earth exports	Engages supportive monetary conditions, growth slows to 4.0 - 4.5%	Domestic conditions improve drastically, growth accelerates > 5.0%
ASEAN	US tariffs intensify on ASEAN economies which trades with China; labelled as a China-supply route	No increase tariffs on ASEAN trade with China. Losers Indonesia, Vietnam	Status quo growth potential, strong external trade. Winners include Vietnam, Malaysia & Singapore
Global Inflation	Severe supply chain congestions; consumer prices surge extensively across the globe	Moderate supply chain congestions lead US inflation higher; ASEAN prices turn soft on lower commodity prices	Status quo inflation potential, Brent oil to average US$70 - 80 per barrel, stable food prices on favourable weathers
Global Interest Rates	Global central banks race to cut rates to support growth and labour conditions. FFR down 125bps (five cuts)	FFR down 75bps (three cuts). BNM keeps rate unchanged, BOT and BI cuts 2 - 3 times	FFR down 50bps (two cuts). Less rate cuts across ASEAN given stable price conditions
Currency Trend (End 2025)	DXY plummets < 100. Fund flows exit global markets, cash is king. Gold prices surge to US$3,800/oz	DXY stabilisesat 101 - 102 handle. Fund flows improve into US+ASEAN, negative for China	DXY surges > 105. Fund flows improve into US shores, positive for China

Source: RHB Economics & Market Strategy.

Figure 27: VECM estimation Output

Cointegrating Equation:	CointEq1
IDEXP(-1) – Indonesia Export	1.000000
CNPMI(-1) – China Manufacturing PMI	**-3.489266***** (1.16506) [-2.99494] {0.0052}
CMD(-1) – Global Commodity Price Index	**-1.175794***** (0.14858) [-7.91345] {0.0000}
USRT(-1) – US Retail Trade	**-1.151587***** (0.16380) [-7.03027] {0.0000}
C – Constant	**28.46010**
Short-Term Dynamics	
Error Correction:	D(IDEXP)
CointEq1– Error Correction Term	**-0.377310***** (0.08406) [-4.48865] {0.0000}
D(IDEXP(-1)) – Indonesia Export	**-0.263988**** (0.12682) [-2.08161] {0.0375}
D(CNPMI(-1)) – China Manufacturing PMI	**0.840205**** (0.38875) [2.16130] {0.0314}
D(CMD(-1)) – Global Commodity Price Index	-0.109221 (0.22563) [-0.48406] {0.6288}
D(USRT(-1)) – US Retail Trade	0.449275 (0.51462) [0.87302] {0.3836}
C– Constant	0.009134 (0.01005) [0.90920] {0.3643}
R-squared	**0.628952**
Adj. R-squared	**0.574386**
Sum sq. resids	0.093191
S.E. equation	0.052354
F-statistic	11.52648
Log likelihood	64.48216
Akaike AIC	-2.924108
Schwarz SC	-2.670776
Mean dependent	0.010843
S.D. dependent	0.080249
Determinant resid covariance (dof adj.)	3.79E-13
Determinant resid covariance	1.98E-13
Log likelihood	357.9867
Akaike information criterion	-16.49933
Schwarz criterion	-15.31712

Source: RHB Economics & Market Strategy.

*Noted: 1) *** and ** denote significance at the 1% and 5% levels, respectively.*

2) Standard errors in ( ), t-statistics in [ ], and p-value in {}

3) D() denotes the first difference of a variable, calculated as $X_t - X_{t-1}$

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