ASSESSING THE IMPACT OF US RECIPROCAL TARIFFS ON INDONESIAN TRADE BALANCE AND ECONOMIC GROWTH

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Abstract

The United States' trade policies, particularly the imposition of import tariffs on Indonesian products, have significant implications for Indonesia's trade balance and economic growth. This study examines the effects of US reciprocal tariffs on Indonesia's export performance and trade deficit, analyzing their broader macroeconomic impact. An econometric regression approach with time-series data from 2010 to 2024 indicates that higher US import tariffs negatively affect Indonesia's exports, exacerbating the bilateral trade deficit. The US trade deficit with Indonesia in 2025 is projected to reach US$ 28.091 billion, but reciprocal tariffs could reduce it by US$ 7.733 billion, bringing the deficit down to US$ 20.358 billion. This decline in trade balance is expected to slow Indonesia's economic growth by 0.17%, from 5.20% to 5.03%. The study underscores the need for Indonesia to adopt strategic policy measures to mitigate the adverse effects of US trade restrictions. Key recommendations include diversifying export markets, strengthening domestic manufacturing, and enhancing trade diplomacy to ensure economic resilience. By providing empirical insights into the trade balance and growth dynamics, this research offers valuable guidance for policymakers in crafting adaptive trade strategies that safeguard Indonesia's economic stability amid global trade uncertainties.

Introduction:-

International trade plays a crucial role in shaping global economic stability, particularly for countries that rely on exports for economic growth. The trade policies implemented by the United States, including higher import tariffs on products from developing countries, have been a central issue in global economic discussions (Krugman, 2019). In the context of Indonesia, changes in US trade policy directly affect Indonesia's export volume to the US and the trade balance between the two nations (Bhagwati, 2002). Therefore, exploring the relationship between US trade policies and their impact on Indonesia's trade balance and economic growth is essential.

On April 2, 2025, US President Donald Trump announced the implementation of a 32% import tariff on Indonesian products during the country's Independence Day celebrations (Kompas, 2025). The policy aims to protect US domestic industries from global competition. However, on April 9, 2025, Trump postponed the policy for 90 days (Money.Kompas, 2025). This decision reflects the continuation of his administration's protectionist approach, which has been a defining feature of his leadership. High import tariffs were imposed on various products, including manufactured goods and commodities from developing countries such as Indonesia. Trump's protectionist policies have triggered a wave of retaliatory trade tariffs among his trading partners. The US imposed a 20% tariff on imports from the European Union, 34% on Indonesian goods, 46% on Vietnamese products, and 36% on Thai goods, with China facing the highest tariff at 245% (USA Today, 2025). These measures not only affect bilateral trade relations but also create broader disruptions in global economic dynamics.

Indonesia, as a country with significant trade relations with the United States, faces major challenges due to these policies. High import tariffs reduce the competitiveness of Indonesian products in the American market, potentially leading to lower export volumes. Additionally, this policy impacts the Rupiah exchange rate against the USD, driven

by shifts in foreign exchange flows and heightened global market uncertainty (Bhagwati, 2004; Dornbusch, 1976). In this context, it is crucial to understand how US import tariff policies affect various aspects of the Indonesian economy, including bilateral trade dynamics, exchange rate stability, and economic growth. This study aims to explore the relationship between import tariffs, exchange rates, and economic growth, focusing on the complex interactions between these variables (Frankel, 2008; Rodrik, 2011). Higher import tariffs are often associated with a decline in export volume from trading partners due to increased costs for consumers and businesses in the destination country (Feenstra, 2015). Previous studies have shown that the rise in US tariffs on Chinese products led to a decline in exports and disruptions in global supply chains (Autor, Dorn, & Hanson, 2016). In Indonesia's case, more protectionist US trade policies could hinder market access for Indonesian products, particularly in the manufacturing and agricultural sectors. Research by Dornbusch and Fischer (1990) suggests that unbalanced trade policies can create volatility in international trade, leading to economic instability in partner countries. Furthermore, export declines due to US trade policies could worsen Indonesia's trade balance, especially if exports to the US constitute a significant portion of Indonesia's total trade (Rodrik, 2018). According to Bank Indonesia (2023), the US remains one of Indonesia's primary export markets, particularly for textiles, electronics, and agricultural products. Empirical studies by Helpman and Krugman (1985) indicate that export reductions often result in larger trade deficits, given a country's dependence on international markets. Thus, shifts in US trade policy could be a key factor influencing Indonesia's economic stability in the medium and long term.

The impact of trade balance fluctuations also has direct implications for Indonesia's economic growth. Research by Sachs and Warner (1995) states that trade imbalances can slow economic growth by reducing investment and consumer purchasing power. Further studies by Baldwin and Robert-Nicoud (2014) show that countries experiencing prolonged trade deficits tend to face challenges in maintaining stable economic growth. Given the interconnectedness between trade balance and economic growth, it is crucial to analyze how US trade policies contribute to macroeconomic shifts in Indonesia.

Although US protectionist trade policies have been extensively studied in economic literature, most research has focused on their impact on China, while specific analyses of their effects on Indonesia's exports remain limited (Autor et al., 2016; Feenstra, 2015). Additionally, previous studies have primarily examined the relationship between global trade and economic growth in general (Krugman, 2019; Rodrik, 2018), with few investigations quantitatively linking the Indonesia-US trade balance as a key variable in national economic growth. Furthermore, research on Indonesia's mitigation strategies in response to US trade policies remains scarce, as most literature emphasizes US protectionist strategies rather than the economic adaptation of its trading partners (Bhagwati, 2002; Baldwin & Robert-Nicoud, 2014). This study contributes to filling this gap by exploring the relationship between Trump's Reciprocal Tariff policy, Indonesia's trade balance, and economic growth through an empirical approach. By providing a quantitative assessment of these interactions, the research aims to offer valuable insights into Indonesia's economic resilience and policy responses amid shifting global trade dynamics. This study examines the effects of US trade policies on Indonesia's trade balance and economic growth. Specifically, it highlights how US import tariffs on Indonesian products lead to export declines, increased trade deficits, and negative impacts on national economic growth. This phenomenon is particularly relevant in the context of rising global protectionism and Indonesia's reliance on exports as a key driver of economic expansion.

Theoretical Review:-

1. Comparative Advantage Theory & Trade Elasticity Theory in the Context of Trump's Reciprocal Tariffs

The Comparative Advantage Theory, introduced by David Ricardo (1817), suggests that countries should allocate resources to produce goods at a relatively lower cost than others. Indonesia holds a comparative advantage in sectors such as manufacturing, agriculture, and textiles. However, Trump's Reciprocal Tariff policy increases export costs, reducing Indonesia's competitiveness in the US market. Higher tariffs raise the price of Indonesian exports, leading to lower demand (Krugman & Obstfeld, 2003). The Trade Elasticity Theory (Marshall-Lerner Condition) explains

that the impact of tariffs on trade balance depends on the elasticity of export and import demand. If Indonesia's exports to the US have low elasticity, tariff increases will have minimal effects on export volume. However, if elasticity is high, even a slight tariff increase can significantly reduce exports. Studies by Autor et al. (2016) show that higher tariffs on Chinese products led to short-term export declines due to high demand elasticity. In Indonesia's case, if manufactured exports have high elasticity, the Reciprocal Tariff policy could worsen the trade deficit. Additionally, Indonesia's industrial structure plays a crucial role in determining the tariff's impact. Sectors heavily reliant on US exports will face greater pressure than those with alternative markets. Feenstra (2015) found that countries with low export diversification are more vulnerable to protectionist policies. Given Indonesia's strong trade ties with the US, failure to shift exports to other markets could pose significant challenges.

Beyond trade balance, tariffs also affect Indonesia's economic growth through comparative advantage mechanisms. If higher tariffs reduce exports and worsen the trade deficit, international trade revenues will decline. Endogenous Growth Theory (Romer, 1986) states that investment in trade and exports enhances economic productiv. A weakened export sector due to Trump's Reciprocal Tariff policy could lead to long-term economic slowdown. Sachs and Warner (1995) found that countries with prolonged trade deficits experience slower investment and GDP growth. In conclusion, Trump's Reciprocal Tariff policy disrupts donesia's comparative advantage by increasing trade costs and reducing export competitiveness. Trade elasticity plays a key role in determining the extent of tariff impact on Indonesia's trade balance and exports. Empirical studies indicate that Indonesia's reliance on US exports and low market diversification could amplify the negative effects of protectionist trade policies on national economic growth. Therefore, mitigation strategies such as export market diversification and domestic industrial efficiency improvements are essential to maintaining Indonesia's trade competitiveness amid global protectionism.

2. Trade Balance Equilibrium Theory (Thirlwall's Law) in the Context of Indonesia's Exports and Economic Growth

The Trade Balan Equilibrium Theory, known as Thirlwall's Law, was introduced by Anthony Thirlwall (1979) and emphasizes that a country's economic growth is highly dependent on export performance and its ability to finance imports. In the context of Indonesia's economy, declining exports due to US protectionist policies, such as Trump's Reciprocal Tariffs, could worsen the trade deficit and limit Indonesia's capacity to finance imports of raw materials and capital goods essential for domestic production. Thirlwall argues that countries experiencing prolonged trade deficits often struggle to sustain long-term economic growth due to foreign exchange constraints, which restrict investment and international trade (Thirlwall, 1979). In an open trade system, exports serve as a key driver of economic growth, particularly for developing nations that rely on international trade as a primary source of national income. McCombie and Thirlwall (1994) found that countries with higher export levels tend to maintain stronger economic growth compared to those with negative trade balances. When exports decline, foreign exchange earnings decrease, which can hinder domestic investment and slow the expansion of manufacturing and other productive sectors. In Indonesia's case, key export industries such as textiles, manufacturi and agriculture face pressure from US tariff policies, reducing the competitiveness of Indonesian products in global markets and exacerbating the trade deficit.

The impact of trade deficits on economic growth can be explained through the relationship between national income and import financing capacity. If Indonesia's exports decline significantly, the country's ability to fund imports of raw materials and technology will be constrained, leading to stagnation in domestic industrial productivity (Pacheco-López & Thirlwall, 2006). Empirical studies indicate that countries experiencing sustained export declines often struggle to maintain investment levels and innovation, which are c ial for long-term economic growth (Blecker & Ibarra, 2013). Additionally, export and import demand elasticity plays a critical role in determining the impact of tariff policies on trade balance. If Indonesia's exports to the US have high elasticity, protectionist measures such as Trump's Reciprocal Tariffs could cause a sharp decline in export volume, further increasing the trade deficit (Thirlwall & Hussain, 1982). Eichengreen and Irwin (1995) found that developing countries heavily reliant on

exports to advanced economies are more vulnerable to protectionist trade policies, as even small tariff adjustments can significantly affect trade volume and economic stability.

3. Endogenous Growth Theory & Keynesian Economics in the Context of Trade Balance and Indonesia's Economic Growth

The Endogenous Growth Theory, introduced by Romer (1986) and Lucas (1988), emphasizes that economic growth is not solely dependent on external factors such as foreign investment, but also on internal variables like innovation, technology, and economic policies that support domestic industrial expansion. In the context of Indonesia, a declining trade balance due to US protectionist policies could hinder investment in export and manufacturing sectors, ultimately reducing economic productivity. Grossman and Helpman (1991) found that countries with strong export-oriented industries tend to experience more stable economic growth compared to those suffering from persistent trade deficits. If Indonesia faces a significant decline in exports, capital accumulation and innovation in export industries may be affected, leading to slower national economic growth. Additionally, Keynesian Economics highlights the importance of aggregate demand in maintaining economic stability. According to Keynes (1936), exports are a key component of aggregate demand, directly influencing national output. A decline in Indonesia's exports to the US due to trade tariffs would reduce corporate revenues, leading to lower investment, job losses, and weakened domestic purchasing power. Kaldor (1966) argued that economic growth is highly dependent on export dynamics and productive investment, meaning that a weakened export sector could trigger negative ripple effects on domestic consumption and overall economic output. The negative trade balance also affects domestic investment, which can be explained through the accelerator effect proposed by Samuelson (1939). When export-oriented firms face pressure from tariff policies, they tend to reduce investments in production expansion and technology (Aghion and Howitt, 1992)

Methods:-

This study employs a quantitative approach using econometric regression methods to analyze the relationship between US trade tariff policies, Indonesia's export performance, the impact of exports on trade balance, and the implications of trade balance fluctuations on national economic growth. The dataset consists of Indonesia-US trade time-series data from 2010 to 2024, incorporating key variables such as US import tariffs, Indonesia's export volume to the US, Indonesia-US trade balance, and Indonesia's GDP growth. Primary data sources include Bank Indonesia, the World Bank, the US Trade Representative (USTR), and annual economic reports from Indonesia's Ministry of Trade. The regression model is tested using the Ordinary Least Squares (OLS) technique to assess the significance of variable relationships and determine the extent to which US tariff policies impact Indonesia's trade balance and economic growth.

The equation model developed is presented in the following set of equations.

$$US\ Imports_t = \beta_{01t} + \beta_{11t}\ Import\ Tariff_t * Exchange\ Rate_t + e_1 \quad \text{..... (1)}$$

$$US\ Exports_t = \beta_{02t} + \beta_{12t}\ Import\ Tariff_t * Exchange\ Rate_t + e_2 \quad \text{..... (2)}$$

$$Growth_t = \beta_{03t} + \beta_{13t}\ Import\ Tariff_t * Trade\ Balance_t + e_3 \quad \text{..... (3)}$$

$$US\ Trade\ Balance = US\ Exports_t - US\ Imports_t\ (identity\ equation) \quad \text{..... (4)}$$

The equation model above can also be viewed within the research paradigm as follows.

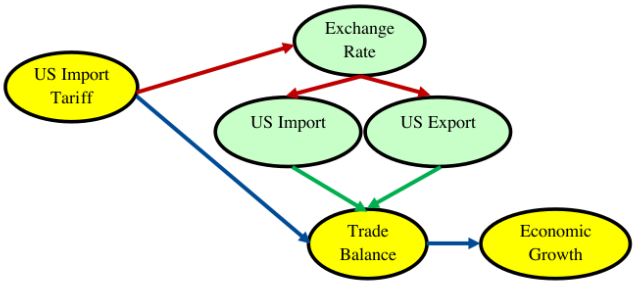


Figure 1. Research Paradigm

Research Hypothesis:

Based on the theoretical review, the following research hypothesis is formulated.
1: Higher US import tariffs on Indonesian products reduce Indonesia's export volume to the US.
2: The decline in Indonesia's export volume to the US leads to a larger trade balance deficit.
3: The Indonesia-US trade balance has a negative impact on Indonesia's economic growth.

Result:-

The results of data processing from the 3 structural equations above can be presented with concise information or important findings, namely the regression coefficient, R^2 (coefficient of determination), suitability of the relationship between variables and the hypothesis, and the level of significance of each equation, which are presented in table 1 below.

Table 1. Research Results, R^2 and Hypothesis Testing

No	The Equation (Relationship between Variables)	Coefficient	R^2 (%)	Hypothesis testing	
				True/false	p-value
1	Import Tariff → Exchange Rate→ Imports	-0.531	61.5^{s}	- (true)	.012**
2	Import Tariff → Exchange Rate→ Exports	-0.109	64.3^{s}	- (true)	.009***
3	Import Tariff → Trade Balance → Growth	-0.154	71.9^{vs}	- (true)	.004***

Note: *** significance level 1%, ** significance level 5%; R^2: vs=very strong, s=strong; m=moderate

Hypothesis testing confirms that all research result parameters align with the proposed hypotheses, indicating no occurrence of Type I or Type II Errors. The t-statistic test demonstrates that all models are statistically significant, with t-values exceeding the critical threshold. This significance is further validated by the P-value, which falls within the predefined significance levels of 1% (***), 5% (**), and 10% (*). Consequently, hypothesis testing across equations 1 to 3 consistently shows a significant impact, reinforcing the robustness of the findings.

The study highlights several key insights, including the strong statistical validity of the tested models, the absence of hypothesis testing errors, and the clear empirical evidence supporting the proposed relationships. These results provide a solid foundation for further analysis and policy recommendations.

The study examines the direct impact of US import tariffs on exchange rates, highlighting their role in shaping international trade dynamics. Exchange rate fluctuations influence price competitiveness, affecting both imports and exports. The findings indicate that higher US import tariffs negatively impact US imports (-0.531) and US exports (-0.109). A decline in imports reduces foreign exchange transactions, reinforcing protectionist effects through

exchange rate adjustments. The study confirms that the negative impact on US imports is greater than the pressure on US exports to Indonesia, as reflected in the parameter differences.

By analyzing bilateral trade between the US and Indonesia, the study confirms that the US trade balance remains in deficit. The increase in US import tariffs further reduces the US trade balance, negatively impacting Indonesia's economic growth, as shown by the parameter coefficient of -0.154. These findings reinforce the hypothesis, demonstrating statistical significance at the 1% level (equation 3). The study underscores the broader economic consequences of US protectionist policies, emphasizing the need for strategic trade adjustments to mitigate adverse effects on Indonesia's economic stability.

Discussion:-

1. The Impact of US Import Tariffs on US Imports through IDR Exchange Rate Mediation

US import tariffs on Indonesian products not only reduce bilateral trade volume but also influence exchange rate dynamics. Higher prices for Indonesian goods in the US market suppress demand from US importers, affecting foreign exchange flows. As Krugman & Obstfeld (2006) explain, exchange rate fluctuations determine price competitiveness, meaning that a decline in imports leads to adjustments in foreign currency demand. When foreign exchange transactions decrease, the exchange rate strengthens protectionist effects, further complicating trade conditions. Bhagwati (2004) highlights that protectionist measures distort trade flows and shift foreign exchange dynamics. A decline in US imports from Indonesia reduces the need for Rupiah-to-dollar conversions, causing the Rupiah to appreciate. This exchange rate adjustment amplifies the negative effects of tariffs, making Indonesian exports more expensive in international markets. Empirical findings confirm this relationship, with a negative parameter coefficient of -0.531, significant at alpha 5%, demonstrating that tariff effects extend beyond direct trade suppression.

Import tariffs can also trigger temporary exchange rate shifts, with the Rupiah strengthening as import demand declines. Overshooting effects add additional pressure on Indonesian exports, as a stronger exchange rate makes local products less competitive internationally. Eichengreen (2008) emphasizes that during global uncertainties, trade and exchange rate interventions significantly influence trade patterns. These insights reinforce the conclusion that exchange rate mediation amplifies the negative impact of US tariffs on Indonesian imports, limiting purchasing power and reducing trade efficiency (Purba, 2025).

2. The Impact of US Import Tariffs on US Exports through the Mediation of IDR Exchange Rate

US import tariffs on Indonesian products not only reduce bilateral trade volume but also disrupt foreign exchange flows, affecting the supply and demand of US dollars and Rupiah. These exchange rate fluctuations influence price competitiveness, impacting both US exports to Indonesia and Indonesian imports. If tariffs trigger market intervention and boost investor confidence, they may lead to Rupiah appreciation, making US exports more expensive in local currency and reducing their attractiveness to Indonesian consumers. Krugman & Obstfeld (2006) argue that exchange rate fluctuations directly influence trade volumes by altering relative prices, while Frankel (2008) emphasizes that exchange rate shifts play a central role in shaping international trade patterns. When import tariffs contribute to Rupiah appreciation, the cost of converting Rupiah to dollars declines, making US exports relatively more expensive, thereby suppressing demand in Indonesia. Empirical findings indicate that the coefficient for the impact of import tariffs via exchange rate mediation is negative (-0.109) and significant at alpha 1%, reinforcing the adverse effects of protectionist policies

3. The Influence of US Import Tariffs on Indonesian Economic Growth Through Trade Balance as a Mediating Variable

Import tariffs increase the price of imported goods, reducing trade volumes and altering Indonesia's international trade structure. This contraction negatively affects imports and exports, weakening the trade balance and limiting foreign exchange flow, which is essential for sustaining economic growth. Krugman and Obstfeld (2006) argue that tariffs distort relative prices and resource allocation, reducing the competitiveness of domestic products and harming

trade balance. Bhagwati (2004) further contends that excessive protectionism restricts technology transfer and capital flows, which are crucial for productivity improvements. Dornbusch (1976) highlights that tariff-induced economic shocks lead to exchange rate volatility, further diminishing export competitiveness and worsening trade balance. Frankel (2008) provides empirical evidence linking trade openness to economic growth, showing that tariffs distort trade balance and slow GDP expansion. Eichengreen (2008) reinforces the argument that global trade integration is key for economic development, and tariffs disrupt these interactions, limiting long-term growth potential.

Empirical findings indicate that the coefficient of import tariffs affecting trade balance as a mediating variable is negative (-0.154) and statistically significant at 1% alpha, reinforcing the adverse effects of protectionist policies. Tariffs reduce trade openness, lower net exports, and induce exchange rate instability, ultimately contributing to slower economic growth in Indonesia. These findings underscore the broader implications of trade policy shifts, emphasizing the need for strategic economic responses to mitigate exchange rate volatility and trade disruptions (Purba, 2025).

Policy Implication

By using the regression analysis above, it can be analyzed more deeply, first: the impact of reciprocal tariffs on the reduction of the US trade deficit in 2025; second: prediction of Indonesian economic growth in 2025.

1. Impact of Reciprocal Tariffs on US Trade Balance in 2025

a. US Imports from Indonesia

Over the past decade, US imports from Indonesia grew from US$ 20.127 billion in 2016 to US$ 38.536 billion in 2024, averaging an annual increase of US$ 1.856 billion. The linear trend equation, US Imports = 1.856x + 16.898, represents this upward movement. Based on this model, US imports from Indonesia are projected to reach US$ 40.392 billion in 2025

b. US Exports to Indonesia

In 2016, US exports to Indonesia amounted to US$ 6.024 billion, rising to US$ 10.159 billion in 2024. The export trend equation, US Exports = 0.353x + 6.422, reflects an annual average growth of US$ 0.353 billion. Following this trend, US exports to Indonesia in 2025 are projected to reach US$ 10.865 billion.

c. US-Indonesia Trade Balance Deficit

The data indicates that from 2016 to 2024, US exports averaged US$ 8,384 billion per year, while US imports stood at US$ 26,922 billion annually—more than three times higher. This imbalance resulted in an average trade deficit of US$ 18,538 billion per year for the US.

$$Reciprocal\ Tariff = \frac{X - M}{M} = \frac{18.538}{26.992} = 68.9\%; charged\ half, amounting\ to\ 34.35\%$$

(Note: The data above is derived from 2016–2024 time series calculations, which differ from Trump's reciprocal tariff rate of 32% due to variations in data sources. However, the formula applied remains consistent across both calculations. Further analysis is needed to determine the exact tariff rate adjustment required to mitigate the deficit while maintaining trade competitiveness).

d. US-Indonesia Trade Balance Estimates in 2025

With the reciprocal tariff, the US import tariff on Indonesian products (Most-Favored Nation Tariff), previously set at 6.75%, has increased to 32%. This increase is projected to reduce the value of US imports from Indonesia by 25.25%, amounting to US$ 9,730 billion (calculated as 25.25% x US$ 38,536 billion). Consequently, US imports from Indonesia in 2025 are predicted to decrease to US$ 29,251 billion. Using the regression parameter coefficients from equation 4 (import decrease coefficient = 0.531) and equation 5 (export decrease coefficient = 0.109), the decline in US exports to Indonesia is estimated at (0.109/0.531) x 9,730 = US$ 1,997 billion. Therefore, US exports to Indonesia in 2025 are predicted to drop from US$ 10,891 billion to US$ 8,894 billion.

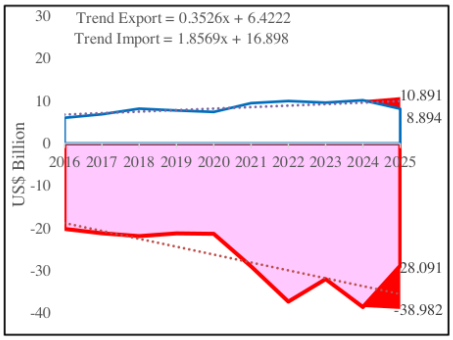
Without any tariff changes, the US trade deficit with Indonesia in 2025 is projected to be US$ 28,091 billion. However, with the imposition of reciprocal tariffs, the deficit gap is expected to narrow by US$ 7,733 billion, reducing the US-Indonesia trade deficit to US$ 20,358 billion. This calculation illustrates how the Trump 2025 reciprocal tariff policy is anticipated to decrease the bilateral trade deficit between the US and Indonesia.

Table 2. US Deficit in US$ Billion

	US Import	US Export	US Deficit
2016	20.127	6.024	-14.102
2017	21.148	6.863	-14.285
2018	21.832	8.172	-13.660
2019	21.187	7.758	-13.429
2020	21.287	7.416	-13.871
2021	28.953	9.479	-19.474
2022	37.263	9.986	-27.277
2023	31.965	9.598	-22.368
2024	38.536	10.159	-28.378
2025	38.982	10.891	-28.091
	- 9.730	- 1.997	-7.733
2025	29.251	8.894	-20.358

Source: U.S. Census Bureau (2025); World Integrated Trade Solution (WITS), (2025)

Figure 2. US Trade Balance Estimates for 2025



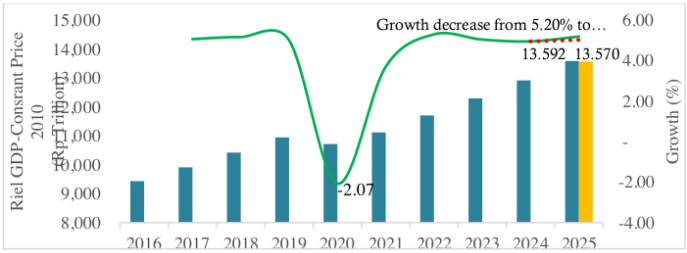
2. Estimates of Indonesian Economic Growth in 2025 After Reciprocal Tariffs

The imposition of a 32% reciprocal import tariff has successfully reduced the US trade balance deficit by US$ 7.733 billion, a 27.53% decline compared to the previous deficit (ceteris paribus). From Indonesian perspective, this translates to a reduction in Indonesian trade balance surplus by the same amount, equivalent to IDR 129.3 trillion. Given the magnitude of this shift, the Indonesian government is prioritizing key strategies to safeguard economic interests and enhance global competitiveness.

With the decline in net exports as a component of GDP, the potential impact on Indonesian economic growth needs to be assessed. As illustrated in Figure 3, Indonesian real GDP (constant 2010 prices) in 2024 stands at IDR 12,920 trillion (Bank Indonesia, 2025). The Ministry of Finance projects economic growth of 5.2% in 2025, as outlined in the State Budget Draft (RAPBN). Based on this projection, Indonesian real GDP real in 2025 is expected to reach IDR 13,591.84 trillion.

The impact of the decline in Indonesian Net Export (NX) on GDP can be calculated as follows (in Rp trillion), and then presented in Figure 3:

1. Calculation of potential GDP decline:
   - Trade Surplus decreased by US$ 7.733 billion = Rp 70.234 trillion
   - Impact on GDP based on Regression Equation 3 (coefficient -0.154) → -0.154 × 70.234 = Rp 10.8161 trillion
   - Multiplier Effect (1 / (1 - MPC) = 2) → 2 × 10.8161 = Rp 21.632 trillion
2. GDP estimates in 2025 = 13,591.84 - 21.632 = Rp 13,570.21 trillion
   (Note: The calculations above are primarily mathematical, serving as an illustrative model of how reciprocal import tariffs influence GDP contraction and Indonesian economic growth slowdown. They provide a structured approach to quantifying the potential economic impact and policy implications).



Source : Bank Indonesia, 2025

Figure 3. Impact of US Import Tariff on Indonesian GDP and Economic Growth (Estimations for 2025)

With these adjustments, Indonesian real GDP in 2025 is estimated to reach IDR 13,570.21 trillion, compared to IDR 12,920 trillion in 2024. Thus, Indonesian economic growth was corrected to 5.03%. This reflects the negative impact of reciprocal import tariffs, which resulted in a decrease in Indonesian economic growth by 0.17%, from 5.20% to 5.03% (ceteris paribus).

These results highlight the potential challenges posed by higher import tariffs and their implications for Indonesian overall economic performance. This scenario highlights the importance of adapting trade policies to offset the potential slowdown in export earnings and minimize the negative impact of reciprocal import tariff reductions on Indonesian economic growth.

Policy Recommendations

1. Export Market Diversification

To reduce Indonesia's dependence on the US market, export diversification is essential. Expanding trade access to China, the European Union, and the Asia-Pacific region can help mitigate risks associated with US protectionist policies. Strengthening trade agreements with countries offering more favorable trade conditions will enhance Indonesia's export competitiveness and create new market opportunities. By fostering bilateral and multilateral trade partnerships, Indonesia can reduce vulnerability to external tariff fluctuations and maintain stable export growth.

2. Enhancing Domestic Industry Competitiveness

Improving domestic industrial competitiveness is crucial for sustaining Indonesia's position in global trade. Developing high-tech manufacturing and enhancing production efficiency will enable Indonesian industries to compete internationally. Providing incentives for export-oriented industries affected by US tariffs will encourage innovation and expansion into alternative markets. By investing in technology-driven industrial growth, Indonesia can strengthen its export base and reduce reliance on traditional trade partners.

3. Fiscal and Monetary Policies for Economic Stability

Fiscal and monetary policies play a vital role in maintaining economic stability amid trade disruptions. Adjusting interest rates and exchange rate policies can help stabilize export prices and enhance global competitiveness. Optimizing fiscal stimulus measures, such as export subsidies and tax reductions for affected industries, will ensure continued trade resilience. These policies will help mitigate the negative effects of tariffs, allowing Indonesia to sustain economic growth despite external trade pressures.

4. Strengthening Economic and Trade Diplomacy

Strengthening economic diplomacy and trade negotiations is necessary to address tariff-related challenges. Intensifying bilateral discussions with the US can help find solutions to trade barriers that negatively impact Indonesia. Leveraging international trade forums, such as the WTO and ASEAN, will reinforce Indonesia's position

in global trade and provide strategic leverage against protectionist policies. By actively engaging in trade diplomacy, Indonesia can advocate for fair trade practices and protect its economic interests.

5. Digital Transformation in International Trade

Digital transformation in international trade is key to enhancing efficiency and reducing tariff-related obstacles. Utilizing digital technologies in global supply chains will improve trade operations and minimize logistical barriers. Accelerating the digitalization of export systems and logistics will boost Indonesia's competitiveness in the technology-driven trade era. By integrating digital solutions, Indonesia can streamline trade processes, reduce costs, and strengthen its global trade presence.

Conclusion:-

This study highlights the significant impact of US reciprocal tariffs on Indonesia's trade balance and economic growth. The imposition of higher US import tariffs on Indonesian products has led to a decline in export volume, increasing pressure on Indonesia's trade deficit. This reduction in exports not only worsens the trade imbalance but also hinders investment and domestic purchasing power, aligning with Thirlwall's Trade Balance Theory and Keynesian Aggregate Demand Theory, which emphasize the importance of trade stability in sustaining economic growth.

In the long term, Indonesia must implement mitigation strategies to reduce its dependence on US trade and enhance export diversification. Policies such as strengthening domestic industry competitiveness, expanding export markets to other countries, and providing fiscal incentives for affected sectors could serve as solutions to global trade uncertainties. By adopting strategic trade policies, Indonesia can minimize the adverse effects of protectionist measures and maintain economic resilience despite external trade pressures.

This study provides data-driven insights for policymakers to design adaptive trade strategies that safeguard Indonesia's economic stability amid evolving global trade dynamics. By leveraging economic diplomacy, industrial innovation, and market diversification, Indonesia can strengthen its trade position and ensure sustainable economic growth in the face of international trade challenges.

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