INDOPREMIER

MacroInsight

17 February 2025

Macroeconomics Indicator

	2023	2024E	2025F
GDP growth (%YoY)	5.05	5.03	5.23
Inflation (%YoY)	2.61	1.57	3.16
BI rate (% Year-end)	6.00	6.00	5.50
Rp/US$ (Average)	15,244	15,853	16,288
CA deficit (% of GDP)	-0.1	-0.7	-1.5
Fiscal deficit (% of GDP)	1.65	2.3	2.8

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Assessing economic opportunities from US tariffs & BRICS membership

- Trump had imposed an additional 10% tariffs towards China. Our simulation suggests Indonesia trade activity may decline by c.5-8% yoy.
- However, tariffs may bring FDI opportunities to Indonesia. Our simulation indicates stable FDI at c.+US$0.8bn Y+1 after tariff implementation.
- For now, we keep our GDP expectation at c.+5.2% in FY25.

Adverse impact of increased US tariffs to China

On 1st Feb25, President Trump had issued an official executive order to impose an additional 10% tariffs for all goods from China (Mexico & Canada in page 6-7). Given China and US large exposure in the global economy (10-11% each of total global trade), we believe the increased trade tension will have an adverse impact to the world trade. We use SVAR model to assess the economic impact of this tariff to Indonesia. In general, the imposed tariffs shall bring adverse impact in the 5th quarter (one year later), where: (1) world trade may contract by 1-2% annually, (2) Indonesia's exports and imports contracted by 3-8% yoy which shall impact Indonesia's GDP by -0.6% annually, and (4) commodity price will likely drop by 8% yoy, *ceteris paribus*. (see fig. 1)

Trade diversion opportunities from the tariff's retaliation

In response, China has also imposed 10-15% tariffs towards US goods, including coal and oil & gas. This retaliation shall present a possibility for a trade diversion. Optimistically, China demand on US coal may be diverted to Indonesia. By far, China is the largest coal importer from Indonesia at US$6.9bn in FY23 (55% of China's total coal imports in FY23).

Positive FDI to Indonesia, pointing to the potential factory relocation

Among the adverse impact, our model surprisingly suggests sustainable incoming FDI to Indonesia. One year post the tariff implementation, our model estimates a FDI inflow of US$0.8bn. In the trade tension event in FY18, FDI flows from China/Japan/Singapore to Indonesia rose by +70%/+45%/+10% yoy to +US$4bn/+US$6bn/+US$10bn aiming for electronics and steel sectors. The FDI was to set-up new plants/factories for exports, suggesting the empirical evidence of factory reallocation activities.

Potential higher trade activity with BRICS membership

Indonesia officially became the 10th BRICS member as of 6Jan25. The BRICS countries now represent 47.2% of the global population and 27% of the world's GDP. We view that the benefit from the membership includes: 1) increase in trade activity within BRICS members, 2) higher trade diversification beyond Asia-Pacific region and 3) potential access to the New Development Bank (NDB) to fund Indonesia's key government projects.

Expect higher economic growth at c.5.2% in FY25

Overall, we see both the US trade policies and the BRICS membership may bring a positive impact to Indonesia macroeconomic stability. We expect higher GDP growth at c.+5.2% in FY25F and c.+5.4% FY26F. We believe the main source of growth is from investment that will grow higher at c.+4.8% in FY25F from +4.6% in FY24 post political year uncertainty, primarily driven by private investment at c.+5.0% in FY25F (+4.2% in FY24) and FDI (at c.US$25bn).

Fig. 1: Economic impact simulation of the 10% US tariffs towards China

Variables	Accumulated response in				
	1Q	2Q	3Q	4Q	5Q
Shock of 10% increase in US tariffs to China					
+World Trade growth (%)	-0.2	-0.4	-0.9	-1.2	-1.4
+Indonesia Real GDP (%)	0.1	0.0	0.0	-0.5	-1.0
+China Real GDP (%)	0.1	0.2	-0.5	-0.7	-1.0
+Indonesia Exports (%)	0.8	-0.3	-2.4	-4.6	-7.7
+Indonesia Exports to China (%)	2.3	4.3	3.3	1.4	-2.0
+Indonesia Imports (%)	0.8	2.3	1.4	0.6	-2.2
+Indonesia FDI (US$mn)	124.8	542.2	890.2	1,005.1	875.0
+Indonesia FDI from China (US$mn)	220.0	211.5	116.4	86.9	86.2
+Commodity World Price (Index, I =100)	0.3	-0.8	-3.5	-5.5	-8.1

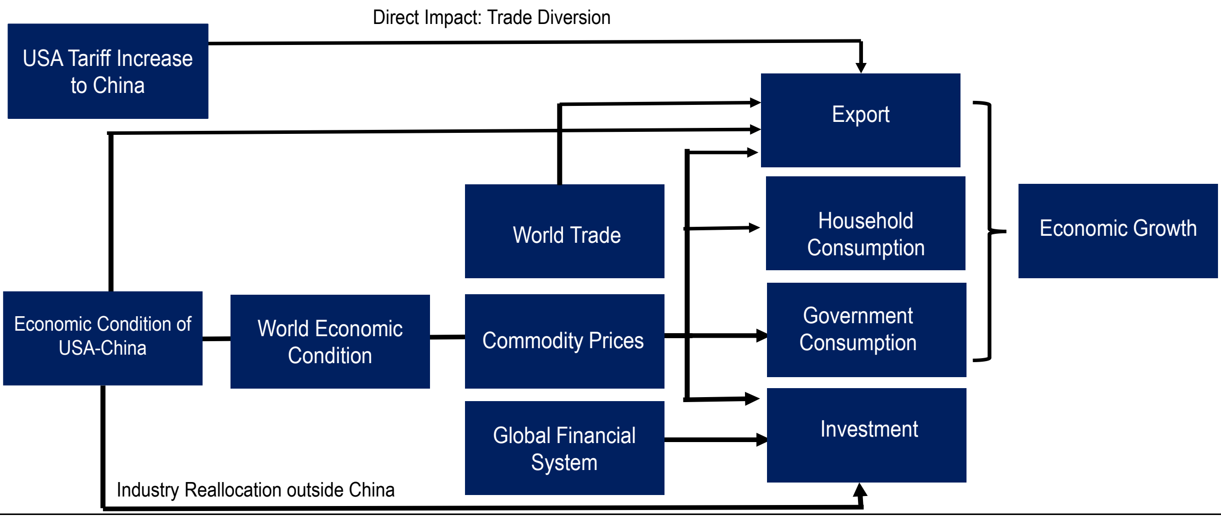
note: new equilibrium reached in 5Q

Sources: various, Indo Premier Simulation

Adverse impact of increased US tariffs to China

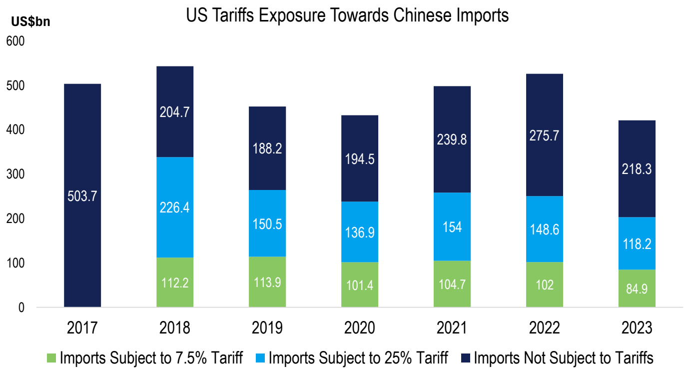
On 1st Feb25, President Trump had issued an official executive order to impose an additional 10% tariffs for all goods from China. Given China and US large exposure in the global economy (10-11% each of total global trade), we believe the increase in trade tension will have an adverse impact to the world trade. We use structural vector auto regression (VAR) model to assess the economic impact of this tariffs to Indonesia. In general, the imposed tariffs shall bring adverse impact in the 5th quarter (one year later), where: (1) world trade may contract by 1-2% annually, (2) Indonesia's exports and imports contracted by 3-8% yoy, which will impact to Indonesia GDP by -0.6% annually, and (4) commodity price will likely drop by 8% yoy, *ceteris paribus*. (see fig. 1)

Fig. 2: Flow chart of potential trade diversion from the new US tariffs policies



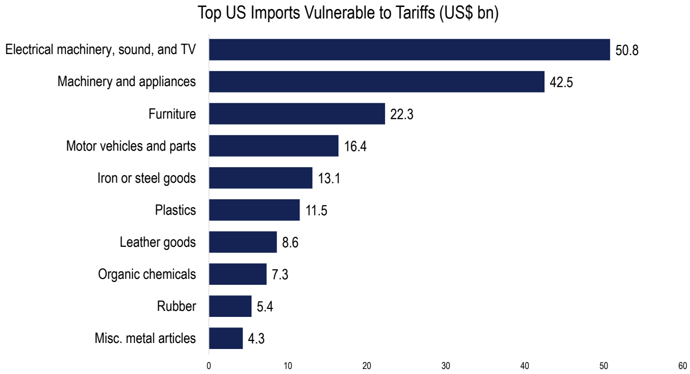
Sources: various, Indo Premier

Fig. 3: US tariffs exposure towards China's imports



Source: USITC, Indo Premier

Fig. 4: Most of this tariffs were directed towards electronic goods



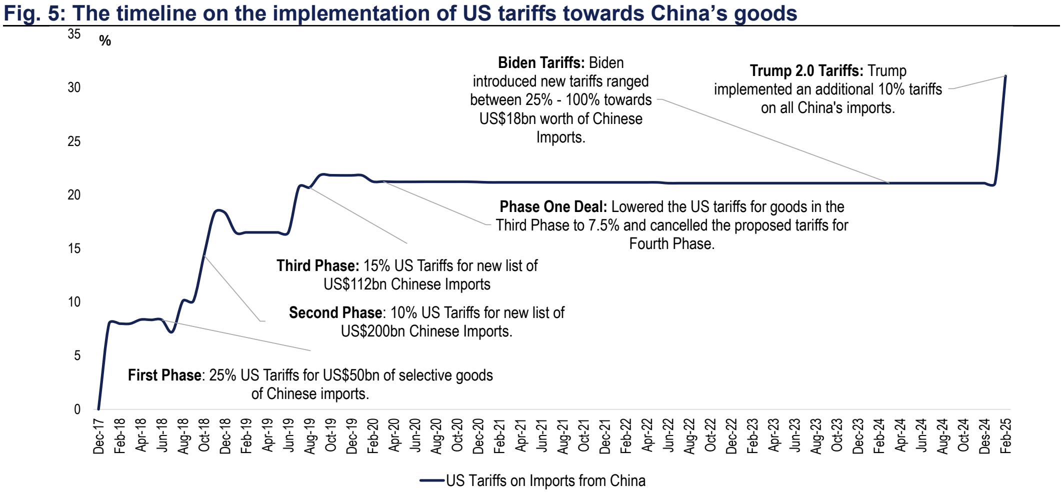
Source: USITC, Indo Premier

Increasing trade tension has reemerged (first in FY18-FY19) due to a new executive order by re-elected President Trump, which imposes a 25% tariff on all goods from Mexico and Canada (10% special tariff rate for Canada's energy imports). Additionally, an additional 10% tariff will applicable to all items coming from China. Trump justified these measures by citing the failure of these countries to curb illegal immigration and fentanyl trafficking into the US.

Currently, the tariffs on Canada and Mexico have been postponed for 30 days (until 6th Mar25) after both countries reached an agreement with the US to combat fentanyl trafficking. However, the additional tariffs on Chinese goods will still take effect as scheduled on 4th Feb25. The Chinese government has also retaliated by imposing a 10-15% tariffs towards various US goods, including coal and oil & gas, starting on 10th Feb25.

The US tariffs on Chinese goods were first implemented during the Trump administration in FY18. Of the total US$543.6bn imports from China to the US in FY18, around 62% were subjected to tariffs, with rates ranging from 7.5% to 25%, bringing the average tariff rate as high as 19.3% towards all Chinese imports. After the Phase One Agreement with China in FY20, the share of US imports affected by tariffs steadily declined, dropping to 48% by FY23. With the 10% new additional tariffs exposed to all list of goods, the average tariff rate of China's imports to US will rise to approximately c.29.3%.

Fig. 5: The timeline on the implementation of US tariffs towards China's goods

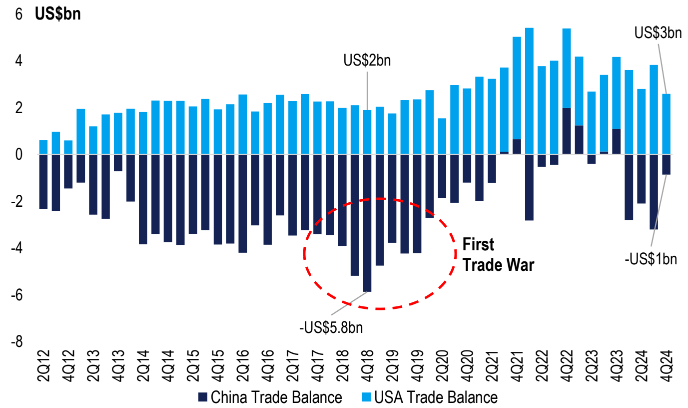


Sources: USITC, Indo Premier

Trade diversion opportunities from the tariff's retaliation

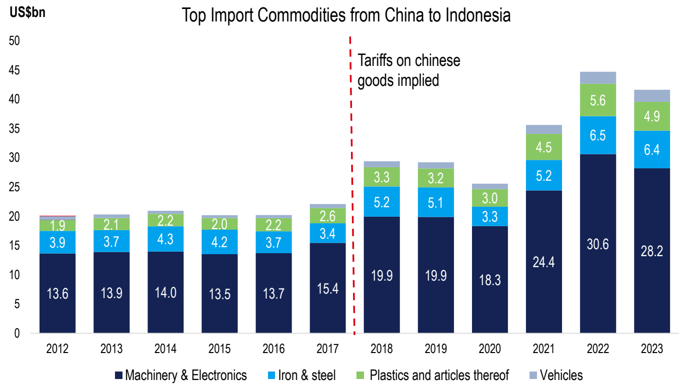
China has also imposed 10-15% tariffs towards US goods, including coal and oil & gas. This retaliation, though will increase the trade tension, presents a possibility for a trade diversion. Optimistically, China demand on US coal may be diverted to Indonesia to make higher coal demand from China to Indonesia. By far, China is the largest coal importer from Indonesia at US$6.9bn in FY23 (55% of China's total coal imports in FY23).

Fig. 6: Trade deficit with China's enlarged during trade tension…



Source: BPS, Indo Premier

Fig. 7: Indonesia's imports from China keep increasing after FY18



Source: CEIC, Indo Premier

Looking back to the FY18 trade tension, Indonesia experienced a trade deficit of -US$8.5bn (from a surplus of +US$11.8bn in FY17). This deficit was accounted from the combination of lower exports at +6.7% yoy in FY18 (+16.3% yoy in FY17) and higher imports at +20.2% yoy (+17.4% yoy in FY17). Moreover, the most noticeable impact of the previous Trade War was the trade diversion of China's goods from the US to the Indonesia's market. Indonesia's import from China increased by +27.3% yoy in FY18 (+16.1% in FY17), bringing the trade balance between Indonesia and China down by -US $5.6bn, from -US$12.7bn in FY17 to -US$18.4bn in FY18.

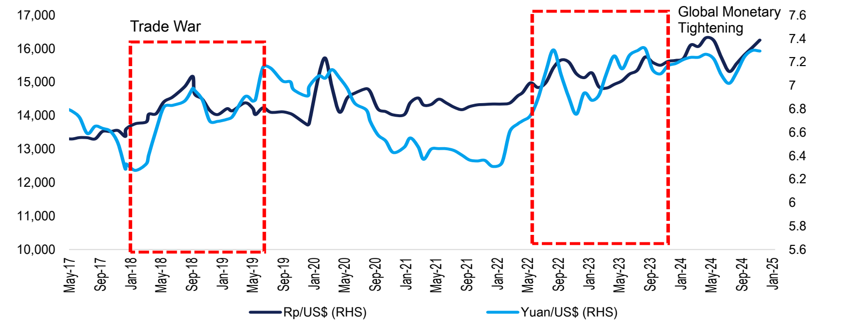
Although nearly all categories of goods from China experienced higher import growth into Indonesia (see fig. 5), the majority of this imports were concentrated in the machinery and electronics categories (HS 84 & 85), which rose by +29% yoy (+12.6% yoy in FY17). These categories accounted for c.43.7% of China's total imports to Indonesia in FY18 and were among the most impacted by Trump's tariffs during the year. Other notable categories affected by the tariffs include iron & steel and vehicles, with China's imports to Indonesia rising by +10.1%/+50.4% yoy (-6.2%/+30.2% yoy in FY17).

As electronics imports from China to Indonesia have continued to rise over the years, we anticipate a similar trend of a widening trade deficit with China to persist during the expected FY25 trade tension. Hence, we think it is necessary for the government to implement targeted protectionist policies, such as quotas for foreign goods imports and subsidies towards local manufacturers.

The risk of rising imports from China was further amplified by the actions of China's central government, which will likely devaluate the Yuan to maintain the competitiveness of its goods in the global markets. During FY18, the Yuan was devaluated by -10% against the US$. This had two main impacts which resulted in a wider trade deficit: 1) A shift in domestic consumer preferences toward cheaper Chinese goods, assuming domestic prices remained stable; and 2) further downward pressure on the Rupiah.

In FY18, the Yuan and Rupiah correlation reached 77.3% (see fig. 6), with the Rupiah depreciating -5% against the US$. Currently, both currencies seem to be following a converging trend again, with the Yuan having depreciated to its weakest level in 14 months since Nov23 at ¥7.3/US$ in Des24.

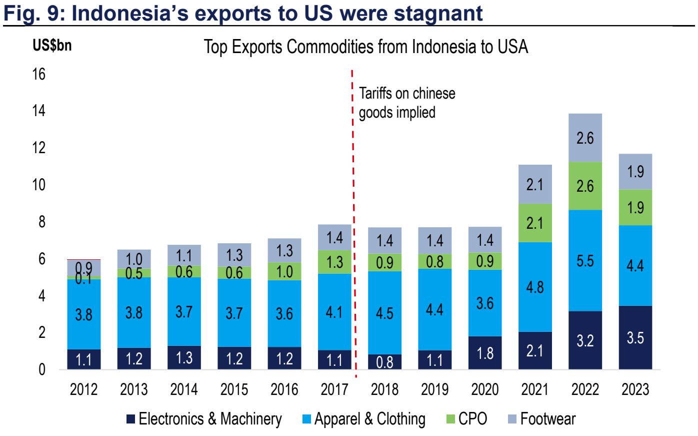
Fig. 8: Yuan and Rupiah tend to move simultaneously during the trade tension



Sources: Bloomberg, Indo Premier

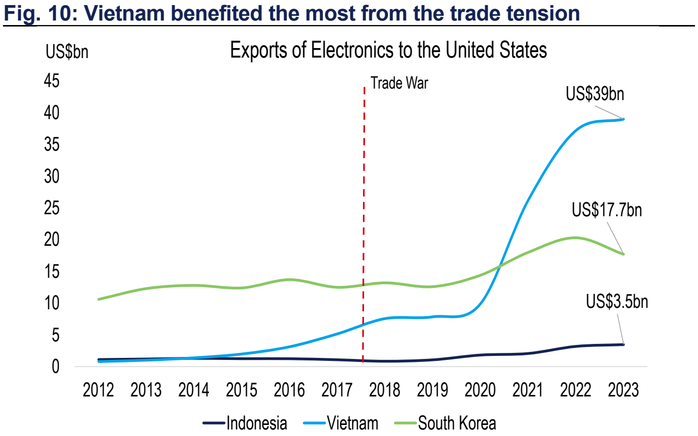
Theoretically speaking, Indonesia could counter the effect of a widening trade deficit with China by increasing its exports to the US. In other words, trade diversion could have occurred if US tariffs on China led to a shift in demand for these products to other market like Indonesia. The US is Indonesia's biggest net surplus trading partner, recording around +US$11.9bn in FY23. Some of Indonesia's top export commodities to the US are also similar as China's, such as apparels and electronics. Nevertheless, this might not seem to be the case, as total exports to the US decelerated in FY18 at +3.6% yoy (+10.9% yoy in FY17), with top commodities such as electronics declined further to -21.9% yoy (-13.6% yoy in FY17). This indicates that Indonesia did not benefit from the potential trade diversion caused by previous US tariffs.

Fig. 9: Indonesia's exports to US were stagnant



Source: CEIC, Indo Premier

Fig. 10: Vietnam benefited the most from the trade tension



Source: BPS, Trading Economics, Indo Premier

This might be occurred as the electronic goods exported by China to the US differ significantly from those exported by Indonesia, as China has steadily shifted towards high-end manufacturing, including advanced chips and circuits. In contrast, Indonesia's electronics exports to the US primarily consist of low-value-added items, such as insulated wires and line telephony equipment. As a result, Indonesia's potential for trade diversion has been challenged by competition from countries such as Vietnam, which export similar high-end electronic products to those of China. From the period after the trade tension in FY18 – FY23, cumulative Vietnam's electronics exports to the US reached US$127.7bn (vs US$13.4bn on FY12 – FY17) (see fig. 9).

Fig. 11: Top exports to China from US in FY23

Top USA Exports to China	Value (US$bn)	Exports Value from Indonesia to China (US$bn)
Mineral fuels, oils, distillation products	19.7	17.6
Oil seed, oleagic fruits, grain, seed, fruits	15.9	0.3
Machinery, nuclear reactors, boilers	13.7	0.3
Electrical, electronic equipment	11.6	0.4
Optical, photo, technical, medical apparatus	11.3	0.0
Pharmaceutical products	9.9	0.0
Vehicles other than railway, tramway	8.1	0.1
Plastics	7.5	0.4
Aircraft, spacecraft	6.8	0.0

Sources: Bloomberg, Indo Premier

Although Indonesia faces challenges in capturing trade diversion from China, trade opportunities may emerge from tariff's retaliation in the targeted countries. During FY18, China has implemented a series of tariffs towards several US agricultural goods, including soybean, with average tariffs rate reaching 19.3%. Following the recent US additional tariffs, China has fought back by imposing a 10-15% tariffs on different set of US goods, targeting coal, oil & gas, and agricultural machinery valued at around US$20bn. This put Indonesia on a competitive advantage, as it still by far the top supplier of coal to China at US$6.9bn (55% of total China's coal imports in FY23). As a result, we expect Indonesia's coal exports to China to increase, which should help mitigate the severity of the trade deficit compared to FY18.

Fig. 12: Top exports to United States from China, Mexico, and Canada in FY23

Top China Exports to United States	Value (US$ bn)	Exports Value from Indonesia to USA (US$bn)
Electrical, electronic equipment	124.5	3.5
Machinery, nuclear reactors, boilers	89.0	0.8
Furniture, lighting signs, prefabricated buildings	30.7	1.3
Toys, games, sports requisites	29.4	0.3
Plastics	23.3	0.2
Articles of apparel, knit or crocheted	18.9	2.3
Top Mexico Exports to United States	**Value (US$ bn)**	**Exports Value from Indonesia to USA (US$bn)**
Vehicles other than railway, tramway	112.1	0.2
Machinery, nuclear reactors, boilers	91.4	0.8
Electrical, electronic equipment	85.5	3.5
Optical, photo, technical, medical apparatus	20.9	0.1
Furniture, lighting signs, prefabricated buildings	12.0	1.3
Plastics	10.3	0.2
Top Canada Exports to United States	**Value (US$ bn)**	**Exports Value from Indonesia to USA (US$bn)**
Mineral fuels, oils, distillation products	128.5	0.0
Vehicles other than railway, tramway	58.2	0.2
Machinery, nuclear reactors, boilers	33.8	0.8
Commodities not specified according to kind	20.5	0.0
Plastics	14.1	0.2
Pearls, precious stones, metals, coins	12.4	0.3

Sources: CEIC, Indo Premier

Moreover, if the tariffs towards Canada and Mexico continue to take effect on Mar25, we see a slight potential of another trade diversion. Although it might be limited given the two countries relatively small exposure towards the global world trade at 4.4% combined (vs China at 10.8%). Nonetheless, both Mexico and Canada export products similar to those from Indonesia, such as electronics, machinery, and furniture. The tariffs rate could reach 25% of Canada and Mexico's combined export value to the US, totaling US$891.9bn in FY23.

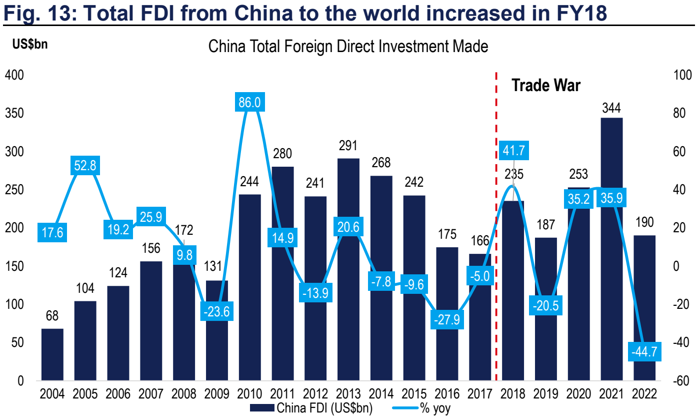
Notably, Mexico's electronics exports to the US, which valued at US$85.5bn (vs Indonesia's US$3.5bn in FY23), align more closely with Indonesia's offerings than with China's. Both countries primarily export low-value-added electronics, as Mexico's manufacturing sector has not yet transitioned to high-end products, similar to Indonesia. This alignment creates a strategic opportunity for Indonesia to position itself as an alternative supplier to the US market, capitalizing on the shifting trade dynamics. Thus, we expect a higher exports growth to US in FY25, reinforced by robust IMF GDP projections for US at +2.8% in FY25 (advanced economies avg projection: +1.9% in FY25).

Positive FDI to Indonesia, pointing to the potential factory relocation

Among the adverse impact, our model surprisingly suggests sustainable incoming FDI to Indonesia. One year post the tariff implementation, our model estimates a FDI inflow of US$0.8bn. In the trade tension event in FY18, FDI flows from China/Japan/Singapore to Indonesia rose by +70%/+45%/+10% yoy to +US$4bn/+US$6bn/+US$10bn aiming for electronics and steel sectors factories. The FDI was to set-up new plant for exports, suggesting the empirical factory reallocation activities. We see the factory reallocation to be the next step post trade diversion.

The key opportunity from the trade tension will indeed relates with China's strategic use of Foreign Direct Investment (FDI). Instead of exporting directly to the US, Chinese companies could invest heavily in regions like Southeast Asia, leveraging trade agreements and lower tariffs to maintain access to the US market. This could be achieved through factory relocations, joint ventures, or establishing new production facilities abroad.

Fig. 13: Total FDI from China to the world increased in FY18



Source: CEIC, Indo Premier

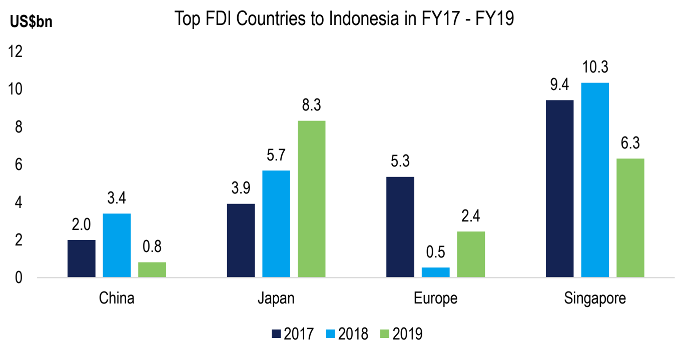
Fig. 14: Also increased to Indonesia, mainly in manufacturing sector

Source: CEIC, Indo Premier

After the tariffs were imposed, China's Foreign Direct Investment (FDI) flows globally rose by +41.7% yoy in FY18, reaching US$235bn, (vs -5% yoy in FY17). This higher investment trend also impacted Indonesia, with FDI from China to Indonesia increasing by +70.4% yoy in FY18 (+462% yoy in FY17). The majority of this FDI from China to Indonesia was directed toward the manufacturing sector, which accounted for 89.7% of overall FDI in Indonesia in FY18 (vs 26.8% in FY17). This likely reflects factory relocations and production facilities expansion from China, primarily in the priority sectors, e.g. electronics, steel, textile, etc.

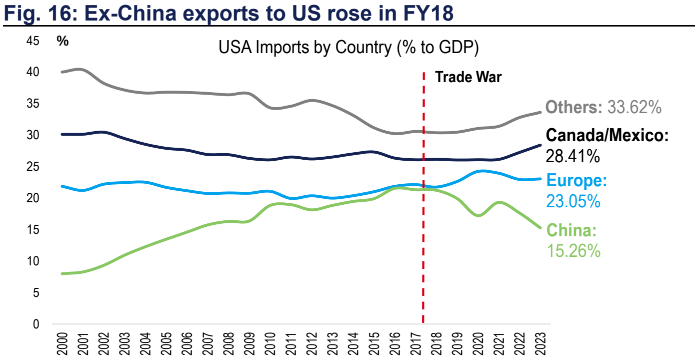
Moreover, we think the source of the FDI opportunities are not going to be limited exclusively from China, but also from other industrialized countries, e.g. Japan, South Korea, and Singapore. This occurs as tariffs imposed by the US would also affect many other countries who have direct investments position in China, whether it's in the form of factories, production facilities, etc. Most of them will seek alternative locations in Southeast Asia to avoid increased costs and trade barriers, which is evident in the significant rise of FDI from Singapore and Japan to Indonesia in the previous trade tension, reaching US$10.3bn/US$5.7bn in FY18 (vs US$9.4bn/US$5.6bn in FY17).

Fig. 15: FDI from Japan and Singapore also increased in FY18



Source: CEIC, Indo Premier

Fig. 16: Ex-China exports to US rose in FY18



Source: CEIC, Indo Premier

The immediate impact of the tariffs towards FDI & trade diversion was visible during FY18–FY23, when China's share of exports to US as % of US's GDP fell from 21.2% in FY18 to 15.3% in FY23, highlighting the adverse effects of the tariffs. This reduction was soon compensated by an equal increased exports from other regions, with Canada & Mexico/Europe/Other regions share of exports as % of US's GDP rising to 28.4%/23.1%/33.6% in FY23 (from 26.2%/21.8%/30.4% in FY18). This shift in export trends partially underscores a notable realignment of production hubs as some countries sought FDI alternatives away from China.

Higher trade activity with BRICS membership

Indonesia officially became the 10th BRICS member as of 6Jan25. The BRICS countries now represent 47.2% of the global population and 27% of the world's GDP. We are of the view that the benefit from the membership includes: 1) increased trade activity within BRICS members, 2) higher trade diversification beyond the Asia-Pacific region and 3) potential access to the New Development Bank (NDB) to fund Indonesia's key government projects. Moreover, President Trump has previously threatened to impose a 100% tariff on BRICS countries if they create a new currency to challenge the U.S. dollar. We see this scenario as unlikely, as the creation of a new currency within BRICS member struggles to find agreement among the founding nations.

Fig. 17: The economic comparison between BRICS and OECD

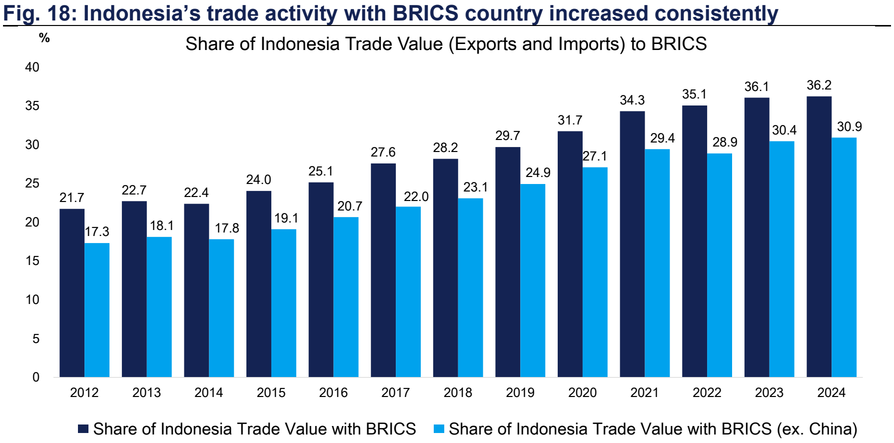
Aspect	BRICS	OECD
Formation	2006 (as BRIC), 2010 (South Africa joined, renamed BRICS)	1961
Member Countries	10 (Brazil, Russia, India, China, South Africa, Egypt, Ethiopia, Indonesia, Iran, UAE)	38 (including most of the world's advanced economies)
GDP (Nominal)	US$28tn (27% of global GDP)	US$60tn (62% of global GDP)
Combined Population	3.8bn people (47.2% of global population)	1.4bn people (16.9% of global population)
Notable Members	Brazil, Russia, India, China, South Africa, Egypt, Indonesia, Iran, UAE	United States, Canada, Germany, France, Japan, United Kingdom, South Korea, and other developed nations.
Membership Criteria	Invitation-based, expanding from 5 to 10 member countries	Membership is by invitation, typically limited to democratic, free-market economies.
Key Objectives	Reform of global financial institutions, promoting fairer trade practices, infrastructure development, boosting economic growth in member countries, fostering a multipolar global order.	To stimulate world trade, promote better economic governance, improve social well-being, and support sustainable economic policies among its member nations.
Geopolitical Focus	Emerging markets, Global South, multipolar world order	Advanced economies, developed countries, and their shared policies
Influence on Global Economy	BRICS countries increasingly shape global economic discussions, advocating for reforms to western-dominated global financial systems and institutions like the IMF and World Bank to ensure better representation of emerging economies. BRICS is seen as a counterweight to the global dominance of the USA and Western nations.	OECD is central in setting global economic policy frameworks and regulations, with significant influence on international trade, taxation, and public sector reforms.
Key Institutions	New Development Bank (NDB), BRICS Contingent Reserve Arrangement (CRA), BRICS Business Council	OECD Economic Policy, OECD Development Centre, International Energy Agency (IEA)
Trade Alliances	BRICS countries have been promoting a range of bilateral trade agreements within the bloc, while seeking alternatives to the dollar in trade (e.g., using local currencies in trade agreements).	OECD facilitates cooperation on a range of policies, including international trade, but its membership largely comprises economies that are part of existing global trade alliances (e.g., EU, WTO).
Criticism	Critics argue that BRICS is often divided by differences in political systems and economic models. Some believe the group lacks cohesiveness and a clear long-term vision. Others question its ability to challenge established institutions without facing internal conflicts.	OECD faces criticism for its limited membership (primarily developed countries), which some argue excludes emerging economies. It's also criticized for enforcing policies that may favor neoliberalism or the interests of wealthy nations.

Sources: various, Indo Premier

In terms of bilateral trade, Indonesia's trade activities with BRICS nations have shown an upward trajectory in both exports and imports. In FY24, Indonesia's trade with BRICS accounted for 36.2% of Indonesia's total foreign trade (vs 21.7% in FY12). This growth remains largely driven by China, which dominates 60-70% of Indonesia's trade activity with BRICS. However, India's influence has been increasing over the past decade, as Indonesia's exports to India almost doubled in the last four years to US$19bn in FY24 (vs US$10bn in FY20), making Indonesia's share of trade with BRICS without China rose to 30.9% in FY24 (vs 17.3% in FY12).

Overall, the total exports value from Indonesia to BRICS countries has reached US$83bn in FY24 (vs US$41bn in FY12), with 90.5% of the exports going to China & India. Indonesia's commodity exports to BRICS countries are heavily focused on natural resources and metals, primarily directed to China & India as its main consumer. In FY23, the combined export value of coal, CPO, and iron & steel to China and India reached US$57bn.

Fig. 18: Indonesia's trade activity with BRICS country increased consistently



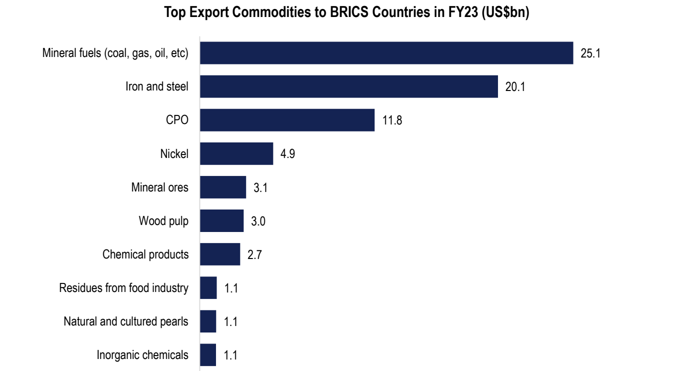
Sources: CEIC, Indo Premier

In contrast, exports to other BRICS countries, such as South Africa, Brazil, and Russia, were relatively small, with CPO as the leading commodity, contributing a combined export value of US$1.5bn to those three countries in FY23. This disparity arises mainly from the absence of free trade agreements and the significant distance between Indonesia and BRICS countries other than China & India. Additionally, CPO faces competition from substitutes like soybean and olive oil, which are extensively produced in neighbouring countries such as Argentina, Spain, and Turkey.

Fig. 19: Indonesia's exports to India has been rising

Source: CEIC, Indo Premier

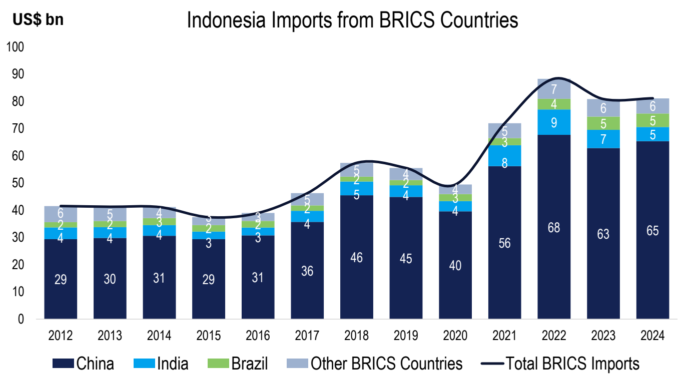
Fig. 20: Coal, iron & steel, and CPO were top exports to BRICS



Source: CEIC, Indo Premier

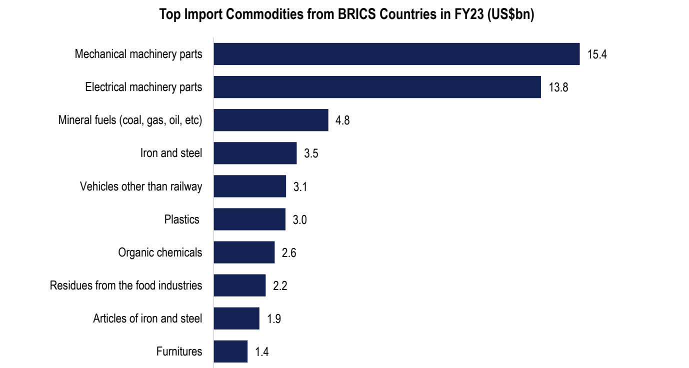
Indonesia's total imports from BRICS countries mirrored the upward trend seen in exports, with the total import value reaching US$81.1bn in FY24 (vs US$41.5bn in FY12). Notably, around 80.5% of these imports originated from China, dominated by mechanical and electrical machinery parts, which together accounted for US$29.9bn in FY23. India followed with a 6.4% share, primarily driven by refined petroleum product imports valued at US$1.6bn in FY24. Brazil ranked third, contributing 6% of total imports from BRICS, as Indonesia remained highly reliant on Brazil's agricultural goods, particularly soybean meal and raw sugar, valued at US$2.06bn in FY23. Fertilizer imports from Russia were also worth mentioning, amounting to US$0.56bn in FY24.

Fig. 21: Indonesia's imports from BRICS are dominated from China



Source: CEIC, Indo Premier

Fig. 22: Top imported products from BRICS is machinery goods



Source: CEIC, Indo Premier

In terms of trade balance, Indonesia has maintained a surplus with BRICS countries since FY21, supported by the commodity price boom in FY21–FY22, which boosted mineral resource exports to China and India. In FY24, however, the trade surplus with BRICS narrowed to US$2.0bn (US$11.6bn in FY23), driven by further normalization of commodity prices and weaker exports demand from China.

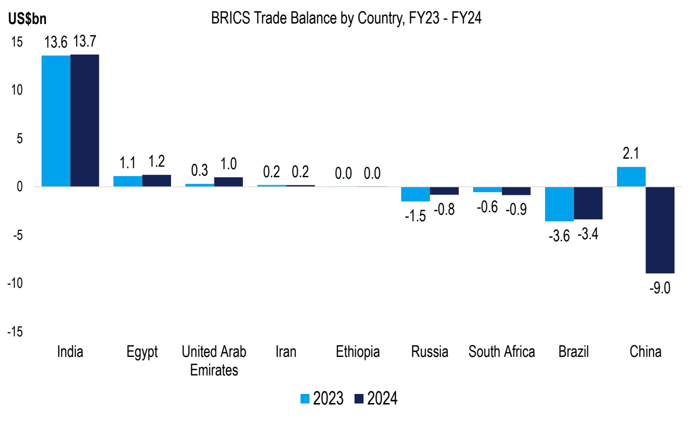
Moreover, India's reliance on Indonesia's CPO and coal sustained a consistent trade surplus with the country over the last decade, contributing the most to Indonesia's trade balance at US$13.7bn in FY24 (US$13.6bn in FY23). Nevertheless, this surplus was partially offset by trade deficits with China and Brazil at -US$9.0bn/-US$3.4bn in FY24 (-US$2.1bn/-US$3.6bn in FY23), reflecting Indonesia's dependence on Brazil's agricultural goods and China's machinery goods.

Nevertheless, we project Indonesia's trade surplus with BRICS to persist higher in FY25, supported by higher mineral resource exports to India, where GDP growth is forecasted by the IMF to be the highest among other partner countries at 6.5% in FY25 (vs emerging market avg at 4.2%). Risks to this call include potential disruptions from worse-than-expected Trump tariffs, which could lead to higher trade deficit with China.

Fig. 23: From FY21, trade balance with BRICS countries is surplus

Source: CEIC, Indo Premier

Fig. 24: India dominates Indonesia's trade surplus contribution

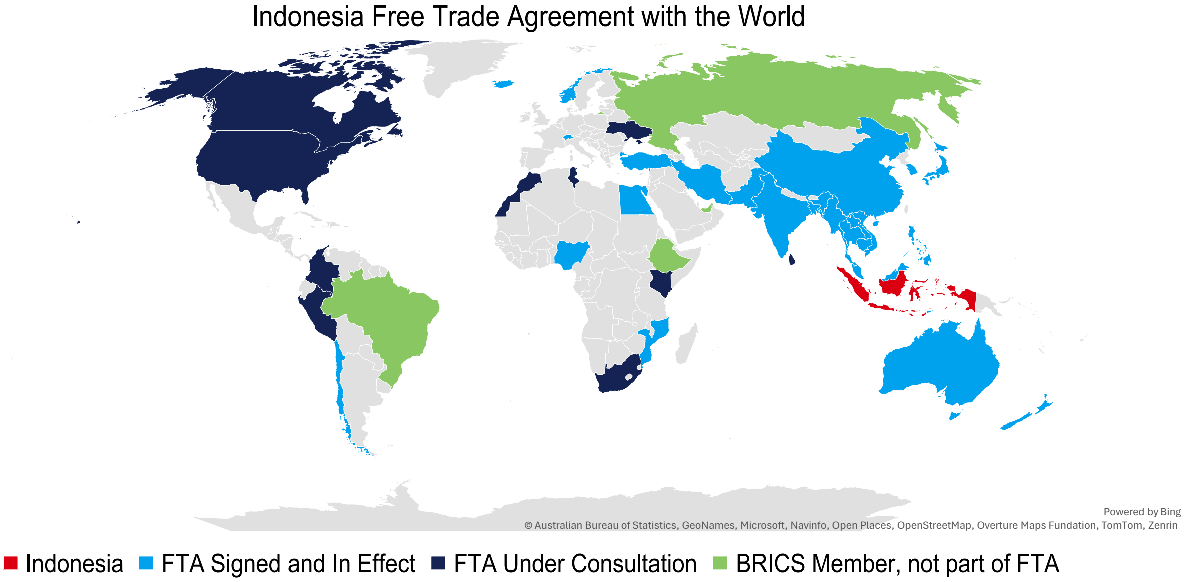


Source: CEIC, Indo Premier

Although Indonesia's imports from BRICS countries show greater diversification in terms of countries than exports, China and India continue to dominate overall trade activity, largely due to regional proximity and numerous free trade agreements. Since 1992, Indonesia's free trade agreements have been predominantly concentrated in the Asia-Pacific region, e.g. ASEAN – China Free Trade Area (ACFTA) & ASEAN – India Free Trade Area (AIFTA), with limited engagement with other continents such as North and South America, Africa, and the Middle East (see fig. 22 and 23).

Therefore, Indonesia's inclusion in BRICS is expected to intensify trade activity, driven by more favorable trade agreements among the BRICS countries, which will contribute to higher trade diversification beyond the Asia-Pacific. This expansion could not only boost trade surpluses but also help mitigate risks from price volatility or geopolitical disruptions, particularly concerning Indonesia's main trading partners, e.g. China and United States which might engage in another trade tension with each other.

Fig. 25: Most FTAs agreement of Indonesia still concentrated in the Asia-Pacific region



Sources: various, Indo Premier

For instance, the inclusion of the United Arab Emirates (UAE) in BRICS in FY24 introduces potential opportunities for Indonesia to diversify its crude oil imports. Currently, Indonesia's oil imports from the UAE are limited, amounting to only US$52.3mn in FY23 (~0.1% of total crude oil imports from Indonesia), despite UAE exporting US$105bn of crude oil in the same year. Indonesia could also seize the opportunity to expand its mineral resource and CPO exports to Brazil, Russia, and South Africa, which if combined, still represent a small share of Indonesia's total export to BRICS at 4.3% in FY23. This could offset the expected slowing down of China's export demand (China GDP growth projection from IMF at +4.5% in FY25 vs +5% in FY24).

Fig. 26: List of Indonesia's Free Trade Agreement (FTA) with the world since 1992

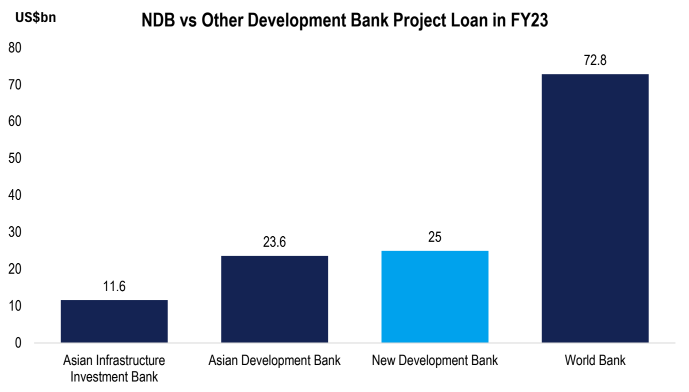
Agreement	Key Details	Year Signed	Key Partners
Indonesia-Korea Comprehensive Economic (IK-CEPA)	Removes 95% of Indonesia's tariffs on exports to Korea. Boosts automotive, fisheries, and agriculture sectors.	2023	South Korea
Indonesia-Mozambique Preferential Trade (IM-PTA)	Lowers duties on textile, rubber, and cotton. Facilitates African market access.	2022	Mozambique
Regional Comprehensive Economic Partnership (RCEP)	Eliminates 92% of tariffs among 15 member states. Estimated to boost Indonesia's trade surplus and GDP.	2022	15 countries (ASEAN, China, Japan, South Korea, Australia, New Zealand)
Indonesia-Australia Comprehensive Economic (IA-CEPA)	Market access for services, investments, and agricultural products. Supports cattle industry and work exchanges.	2020	Australia
Indonesia-European FTA (IECEPA)	Eliminates tariffs on most goods traded. Covers trade, IP, and sustainable development.	2018	EFTA (Iceland, Liechtenstein, Norway, Switzerland)
Indonesia-Chile Comprehensive Economic (ICCEPA)	Eliminates tariffs on 9,000+ items. Promotes bilateral trade in vehicles, fruits, and other goods.	2017	Chile
Indonesia-Pakistan Preferential Trade (IPPTA)	Reduces tariffs on 200+ Indonesian products. Major imports include palm oil and Pakistani Kinnow oranges.	2012	Pakistan
Preferential Trade (D-8 Members)	Reduces tariffs from 25% to 10% on key products. Supports intra-trade within D-8 nations.	2011	D-8 Countries (Bangladesh, Egypt, Indonesia, Iran, Malaysia, Pakistan, Nigeria, and Turkiye)
ASEAN-Australia-New Zealand FTA (AANZFTA)	Covers goods, services, and sustainable development. Focus on post-pandemic recovery.	2010	Australia, New Zealand
ASEAN-India Free Trade Area (AIFTA)	Covers tariff liberalization on over 90% of products. Creates one of the largest free trade markets.	2010	India
Indonesia-Japan Economic Partnership (IJEPA)	Eliminates/reduces tariffs on 90% of goods. Facilitates tech transfers and workforce training.	2007	Japan
ASEAN-China Free Trade Area (ACFTA)	Reduces tariffs to zero on over 7,000 products. Simplifies rules of origin and investment procedures.	2004	China
ASEAN Free Trade Area (AFTA)	Aims to create a single market among ASEAN members. Reduce tariffs through the Common Effective Preferential Tariff (CEPT) scheme.	1992	ASEAN Countries

Sources: various, Indo Premier

Joining BRICS could also offer Indonesia an additional advantage beyond trade agreements, such as access to the New Development Bank (NDB), the multilateral development bank established by BRICS founding member in FY14. This would provide Indonesia with a broader array of funding options for its expanding government programs, e.g. the free nutritious lunch program. The NDB is growing rapidly, with total project loans in FY23 already surpassing those of the Asian Infrastructure Investment Bank (AIIB) and the Asian Development Bank (ADB), reaching US$25bn (vs AIIB/ADB at US$11.6bn/US$23.6bn ADB in FY23). Indonesia has been invited to join the NDB since FY22, and an ongoing assessment is still in progress.

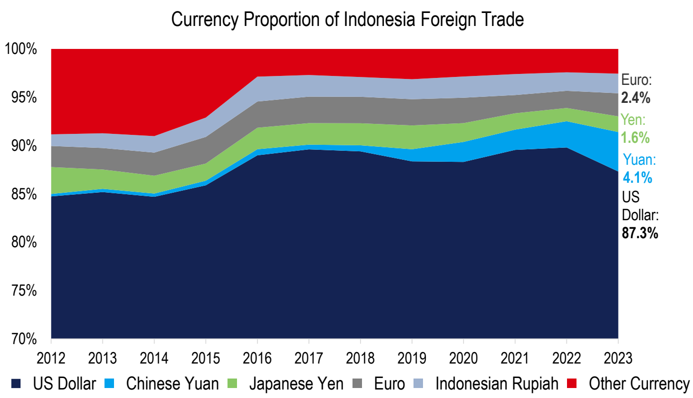
On the other side, one of the primary concerns regarding BRICS membership is its ambition to reduce the dependency of dollar and introduce a new currency to challenge the US Dollar. This could provoke a response from the US, potentially leading to tariffs on BRICS countries threaten by Donald Trump to be as high as 100%. The concept was first proposed through a project called BRICS Pay in FY18, a decentralized payment messaging system intended to rival the currently utilized SWIFT network which cover around US$150tn annual financial transactions.

Fig. 27: NDB's project loan has surpassed ADB and AIIB



Source: various, Indo Premier

Fig. 28: Relatively, US Dollar still dominates Indonesia's trade activity



Source: CEIC, Indo Premier

However, we believe BRICS Pay remains a distant goal and is far from being realized, as it continues to face challenges even among the founding countries. Russia is the strongest proponent, seeing it as a way to counter Western sanctions, while other members, such as China, remain unsure about the project due to the country reliance on controlling the Yuan. Furthermore, around 80% of global trade transactions still use the US Dollar, with an even higher proportion of 87.3% in Indonesia in FY23. Therefore, we assess that abandoning the US Dollar is an unlikely objective in the near term, so that the implied US tariffs of 100% towards BRICS member will unlikely happen.

ANALYSTS CERTIFICATION

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