



Economic Risks of Trump 2.0 Tariff on Indonesia's Export Performance and Industrial Sector: GTAP Model

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Abstract. President Trump's re-election has brought global economic uncertainty through the implementation of increased reciprocal tariffs imposed on many countries, including Indonesia. This study aims to analyze the effects of the US tariff policy during Trump's second term on Indonesia's export performance and industrial sectors. The analysis employs secondary data and the GTAP model version 11. The results indicate that Indonesia is likely to face economic risks in the form of declines in GDP, output, investment, and exports. At the microeconomic level, plant-based fibers, wheat, and metals nec emerge as sectors experiencing the largest positive impacts, while the manufacturing industry, wearing apparel, rubber and plastic products, textiles, and crops face the greatest threats of output contraction. These findings provide important policy implications for Indonesia in designing national strategies to strengthen trade resilience, particularly through export market diversification, industrial sector adjustment, and enhanced engagement in regional and multilateral trade frameworks to mitigate external trade shocks.

Keywords: Tariff reciprocal, export, industry, Indonesia, US, GTAP.

1 Introduction

The trade war between the United States and China began in February 2018 when the US government imposed import tariffs. These tariffs were imposed on washing machines and solar panels, as well as steel and aluminum. Although these tariffs technically apply to multiple countries, Trump has publicly stated that China is the primary target of the policy [1]. China imposed retaliatory tariffs, raising the average tariff on US exports from 8.0% to 8.4% in April 2018 [2]. In early 2020, the US progressively escalated tariff pressure: US tariffs on Chinese exports rose to 19.33% in February 2020, six times the January 2018 level, covering 66.6% of total US imports from China, valued at approximately USD 335 billion. Conversely, China raised tariffs on US exports to 21.3%, covering 58.3% of its imports, valued at USD 90 billion [3].

Trump's tariff policy, edition 1.0, or better known as the US-China trade war, has had an impact on the global economy. The escalation of the trade war reduces gross domestic product (GDP) in China and the USA by -1.41% and -1.35%, respectively [4]. Korea, Japan, and the European Union were affected by this tariff policy, although

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the effects varied depending on the trade structure of each country [5]. The trade war has benefited very little to European economic sectors opened to noninstitutional, private consumers in tourism, residential real estate, and education [6].

Despite the extensive literature examining the economic impacts of the US–China trade war during the Trump 1.0 period, most existing studies primarily focus on bilateral tariff escalation, short-term welfare effects, or generic trade war scenarios, with limited attention to the implications of renewed and broader reciprocal tariff regimes under Trump's second term. Previous studies largely assess partial tariff shocks concentrated on China or major trading partners ([4]; [5]; [7]), while relatively few explore the economy-wide transmission of global reciprocal tariffs affecting multiple countries simultaneously, including emerging economies such as Indonesia. Moreover, the existing literature on Indonesia mainly emphasizes trade diversion and investment relocation during Trump 1.0, without explicitly capturing sectoral vulnerabilities and macroeconomic risks arising from a more comprehensive and intensified tariff environment ([8]; [9]). This study addresses these gaps by employing the GTAP model version 11 to evaluate both microeconomic (sectoral output, exports, and imports) and macroeconomic (GDP, investment, and trade balance) impacts of Trump 2.0 tariff policies on Indonesia, thereby extending the literature beyond earlier trade war analyses and providing policy-relevant insights under an evolving global trade regime.

Trump's re-election as president in early 2025 brought escalation and a constellation of global economic and political uncertainty again. [3] reported that on February 4, the US imposed a 10% tariff on all imports from China under the authority of the International Emergency Economic Powers Act (IEEPA), to which China immediately responded with a similar measure on February 10. The escalation of tensions continued with the imposition of Section 232 tariffs on steel, aluminum, and derivative products, followed by a 25% tariff on cars in early April. Then, the US expanded the scope of tariffs to 1% to 74% on almost all countries that have a trade surplus with the US—including an additional 50% specifically for China, bringing the total tariff to 125%. China then retaliated with a tariff increase of up to 125%, targeting strategic products from the US [3]. Indonesia was among those subject to a tariff increase by the US of up to 19%.

The imposition of tariffs on all US trade products from Indonesia is expected to negatively impact the Indonesian economy. Indonesia's two main export destinations are the US and China, with exports reaching US\$67.7 billion and US\$26.7 billion, respectively, in 2023 [10]. The imposition of such high tariffs by the US poses economic risks for Indonesia.

This study aims to analyze economic risks, microeconomic and macroeconomic in Indonesia resulting from the US tariff policy during Trump's second term. Specifically, the objective of this study is to analyze impacts of the US tariff policy during Trump's second term to Indonesia's export and industrial sectors. This research can be used by policymakers and business actors to anticipate the effective implementation of Trump's tariffs.

This study uses a general equilibrium model between countries to examine the microeconomic and macroeconomic impacts felt not only by the US, China, and Indonesia, but also by other countries. The model and underlying data used are the Global Trade Analysis Project (GTAP) model.

2 Literature Review

2.1 International Trade Theory

International trade theory began with the theory of mercantilism. This theory, widely applied during the European colonial era, held that each country should maximize the amount of wealth it stored to improve its well-being [11]. Mercantilism required countries to maximize exports and minimize imports. As a result, protectionist policies were intensively implemented by each country, restricting the flow of trade between countries at that time [11].

Adam Smith introduced the next fundamental theory of international trade, the Theory of Absolute Advantage [11]. This theory argues that international trade should not be restricted by protectionist policies. Instead, countries can engage in mutually beneficial trade if each country specializes in the product in which it has an absolute advantage. A "superior" product, in this theory, can be defined as a product that a country can produce more cheaply and quickly than other countries can produce similar goods [11]. This theory states that a country can focus on producing just one or a few products for export and import other products in which it does not have an absolute advantage.

The Theory of Absolute Advantage was further developed by David Ricardo in his theory called the Theory of Comparative Advantage. This theory explains that a country that does not hold an absolute advantage in some products can still trade with a country that holds an absolute advantage in those same products. This theory uses the concept of opportunity costs to explain this trade [12]. Based on this Theory of Comparative Advantage, a country that does not have an absolute advantage will specialize in producing goods that have a smaller absolute disadvantage, and vice versa for more efficient countries.

International trade theory has been further developed with the discovery of the Heckscher-Ohlin theory, which looks at factors of production, not the quantity or cost of goods themselves. This theory explains that countries can achieve comparative advantage by specializing in goods whose factors of production they possess in abundance. A concrete example of this in the 21st century is the widespread production of labor-intensive goods by countries with large populations, such as China and India [11].

A country must engage in international trade when it intends to gain profits from trade. Two countries trading will gain profits even if one of them produces goods or services more efficiently. The concept of international trade benefits a country by exporting goods or services that are efficient in production and importing goods or services that are less efficient [13].

2.2 The Impact of Trade Wars on Developing Countries' Economies

Some developing countries have benefited from the shifting trade patterns brought about by the trade war. Research by [14] shows that Vietnam experienced an increase in foreign direct investment (FDI) as many companies relocated their manufacturing operations from China to avoid high tariffs imposed by the US. However, the impact of the trade war is not evenly distributed across developing countries. A study by [15] revealed that economic growth in several countries stagnated due to their heavy dependence on commodity exports to the US and China. Trade disruptions between the two countries negatively impacted the economies of countries reliant on raw material exports. Countries with more flexible economic structures, such as Vietnam and Indonesia, were able to adapt and capitalize on opportunities arising from shifts in global trade. Conversely, countries heavily dependent on raw material exports experienced greater economic pressure.

Furthermore, China's policy of increasing exports of low-cost goods as a strategy to strengthen economic ties with developing countries has actually created new challenges. A study published in the [16] shows that the flood of low-cost products from China has led to unfair competition and weakened local industries in various developing countries. Several countries have begun implementing economic protectionist policies to protect domestic markets from the dominance of cheaper imported products. On the other hand, China's policy of restricting exports of technology and strategic minerals has impacted developing countries that still depend on access to Chinese manufacturing technology.

2.3 GTAP Model Application

The Global Trade Analysis Project is a series of models, databases, and software for the global economy founded at Purdue University in 1992. The GTAP model is a computable general equilibrium (CGE) model that allows researchers to analyze the international economy within an extensive economic framework. CGE is a macroeconomic model that explains the motivations and behavior of all producers and consumers in an economy and the relationships between these aspects [17]. The assumptions in this model are perfect competition and constant returns to scale. The GTAP model also applies the Armington Trade assumption, which assumes that two identical goods are imperfect substitutes based on their country of origin [18]

The GTAP model has been widely used by economists to analyze the impact of various macroeconomic policies, particularly trade policies between countries. For example, [19] used the GTAP model to predict the optimal tariffs the United States should impose on China and Mexico as part of Trump's trade war policy during his first presidency. Meanwhile, [20] used the GTAP model to measure the impact of economic friction between the United States and China on the Chinese economy in the context of the People's Republic of China's 14th Five-Year Plan. [18] also examined the impact of tariff policies on Indonesia's agricultural sector using the same model.

3 Method

3.1 Data

The main data used in this research was GTAP version 11 which was 2017 data consisting 160 countries and 65 sectors. GTAP data was built by the Global Trade Analysis Project, a network of researchers and policymakers headquartered at Purdue University. For analytical purposes in this research, the GTAP data is aggregated into 56 countries/regions and 132 commodities/industries. The discussion of the analysis results selects the sectors and countries that are most affected, both by positive impacts and the greatest negative impacts. The data and model were run by RunGTAP software.

3.2 Model of GTAP

The basic concept of GTAP as an analysis used in this study refers to [21]. The GTAP model and the CGE model are models that share the basic concepts of expenditure and purchasing among economic actors. The two models are structural models built on the basis of microeconomic theories, where behaviors in each economic agent (behavioral parameters) are explained in detail.

The model employed in this study is the GTAP model version 11, which includes five reference years (2004, 2007, 2011, 2014, and 2017). It distinguishes 65 sectors across 141 countries and 19 aggregated regions, with individual countries representing 99.1% of global GDP and 96.4% of the world's population [22]. The extensive country and sector coverage of GTAP makes it a valuable tool for conducting comprehensive, economy-wide analyses of global economic issues.

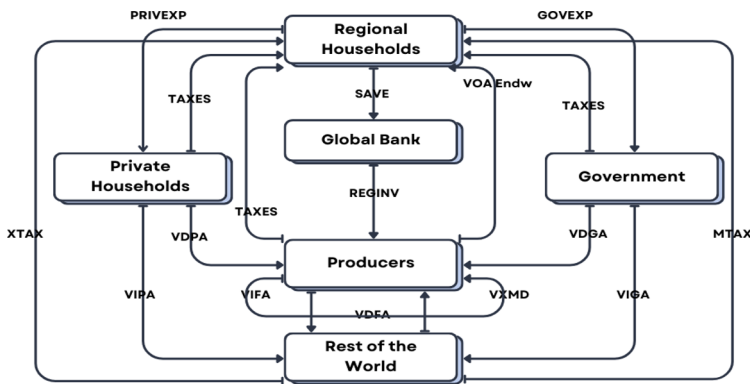


Fig. 1. Standard GTAP model structure.

Source: [23]

In the basic structure of GTAP standard model, there is a social welfare function composed of private consumption, government consumption, and national savings. Since the function takes the form of Cobb-Douglas, each share is held constant. Each commodity demand of private consumption is driven by income, relative prices, and initial quantity of demand. Domestic demand is comprised of domestic supply and aggregate imports, which are elastic to relative price changes. For the purposes of this study, the differences between economic activities in the GTAP mode will be explained. Government intervention and trade are the main focus that will be discussed in the model. The images presented are the flow of value (money) in the economy and not

a real flow (flow of goods), where the relationship between the two flows is opposite [24]. The GTAP model structure depicts global trade relationships, economic sectors, and connectivity between countries [23] which are illustrated in Figure 1.

3.3 Scenario

The economic impact of the US tariff increases on Indonesia is calculated using different macroeconomic closures to analyze the three causes of changes. In the trade agreement between the United States and Indonesia announced on July 22, 2025, it was agreed that Indonesian exports to the US would be subject to a 19% tariff [25]. Previously, Trump had threatened that tariffs on Indonesian products could reach 32%, but this figure was later reduced during negotiations. This "reciprocal" tariff applies generally to most Indonesian exports to the US, with the exception of certain later negotiated exceptions.

In addition to the tariff increases imposed on Indonesia, the US also imposed tariffs on nearly all countries. However, the largest and most central issue in global trade was the US tariffs on China. On April 2, 2025, Trump enacted the "Liberation Day" tariff policy through Executive Order 14257, which, among other things, mandated a base tariff of 10% on nearly all imports from any country (starting April 5, 2025). Furthermore, special tariffs ("reciprocal tariffs") for China were announced: initially 34% (added on top of existing tariffs) on April 9, 2025 [26]. These tariffs were then increased in stages: from 34% to 84%, then to 125%, bringing the total effective tariff on Chinese imports (after considering pre-existing tariffs) to 145% at its peak. However, these high tariffs were "temporarily" suspended until November 10, 2025. During this suspension period, China's additional "reciprocal" tariffs were set at just 10% [27].

Based on the explanation above, the GTAP model scenario used in this study involves a 19% reciprocal increase in import tariffs between the US and Indonesia for all products, and a 10% reciprocal increase in import tariffs between the US and China for all products. Reciprocal tariffs are defined as reciprocal tariff policies imposed by a country on its trading partners at the same level or treatment as the country itself applies to them [28]. The consequences of the tariff reciprocal will be analyzed by the Global Trade Analysis Project Model (GTAP) version 11.

4 Results and Discussion

4.1 Microeconomic Impacts

In order to know economic risks on the microeconomics and macroeconomics of Indonesia, this research assessed a scenario if Trump's 2.0 reciprocal tariff is applied to Indonesia and China by 19% and 10%. The microeconomics results were assessed by industrial output, export and import variables.

The results of the simulation scenario on output in each industry in Indonesia show that the industries or sectors that receive the greatest positive impact are plant-based fibers, wheat, and metals nec. This is evident from the largest increase in output in the

three industries as shown in Table 1. Plant-based fiber products that are widely imported by Indonesia include cotton, man-made staple fibers, jute, single yarn of jute, and other fibers. This is reasonable because Indonesia imports the most from China, Brazil, and Australia. In 2024, Indonesia's cotton imports reached around US\$ 1.5 billion from the largest country of origin, China (27%), followed by Brazil (21%) and Australia (16%) [29]. Meanwhile, Indonesia imported more man-made staple fibers from China [30].

Table 1. Impacts on industrial output in Indonesia (percentage change).

Industries	Percentage change
Plant-based fibers	5.87
Wheat	4.05
Metals nec	3.98
Transport equipment nec	2.95
Chemical products	2.73
Oil products	0.27
Crops nec	-2.04
Textiles	-2.52
Rubber and plastic products	-4.70
Wearing apparel	-7.61
Manufactures nec	-9.82

Indonesia's largest imports from the United States in 2023 were mineral fuels, oils, and distillation products, valued at approximately US\$2.20 billion [31]. Other major imports from the US included machinery, nuclear reactors, and boilers, valued at US\$1.54 billion, and oilseeds, oleic fruits, grains, seeds, and fruits, valued at US\$1.27 billion in 2023. The policy of increasing import tariffs on all commodities traded between Indonesia and the United States has resulted in products becoming uncompetitive, impacting the oil product industry, which only grew by 0.27 percent. The manufacturing industry, particularly for machinery, nuclear reactors, and boilers, will be worst affected, falling by 9.82 percent.

Meanwhile, if we look at the impact of tariff increases on Indonesia's exports and imports in industry, the results are shown in Tables 2 and 3. Indonesia's rice, meat, and processed dairy sectors are able to maintain exports. This shows the potential of rice and processed food commodities that can be relied upon for export. However, products in the plant-based fibers, rubber and plastic products, wearing apparel, and manufactured goods industries will experience a significant decline in exports, ranging from 10 to 17 percent.

Table 2. Impacts on industrial export in Indonesia (percentage change).

Industries	Percentage change
Paddy rice	12.26
Meat products nec	11.49
Dairy products	8.30

Industries	Percentage change
Transport equipment nec	7.61
Basic pharmaceutical products	7.39
Food products nec	-10.08
Plant-based fibers	-10.43
Rubber and plastic products	-10.44
Wearing apparel	-12.50
Manufactures nec	-17.96

Looking at the impact of Trump's second-term policy on Indonesian commodity imports, all sectors will experience import declines of varying magnitudes. The largest import declines are in meat products, down 26.58 percent, oilseeds 24.69 percent, and gas manufacturing and distribution down 12.82 percent. The import declines in these industries are primarily due to the significant volume of their products being imported from the United States.

Table 3. Impacts on industrial import in Indonesia (percentage change).

Industries	Percentage change
Gas	-0.21
Minerals nec	-0.48
Coal	-0.49
Ferrous metals	-0.70
Machinery and equipment nec	-0.89
Cereal grains nec	-7.59
Animal products nec	-8.58
Gas manufacture, distribution	-12.82
Oil seeds	-24.69
Meat products nec	-26.58

4.2 Macroeconomic Impacts

In addition to the microeconomic impact, this study also examines the impact on macroeconomic performance in Indonesia, the US, China, and other countries. The variables highlighted include GDP, investment demand, and exports and imports.

With the increase in tariffs imposed by the US, Indonesia will experience a 0.05 percent decline in real GDP (Figure 1). The US will also experience growth of -0.05 percent. China will be the most disadvantaged by this policy, with a 0.12 percent decline in GDP. The decline in Indonesia's GDP poses a threat of economic risk due to American policies. Decreased GDP in Indonesia indicates that it is better prepared to anticipate the effects. Indonesia must focus on the export market diversification. Several countries that can benefit from the increase in import tariffs between the US Indonesia, and the US-China are those that are not directly involved in trade. This is evident in their still positive GDP growth. These findings are supported by previous literature by [32] that the GDP in the US and China drops while other countries and regions slightly gain through trade diversion effects because of drop the total output.

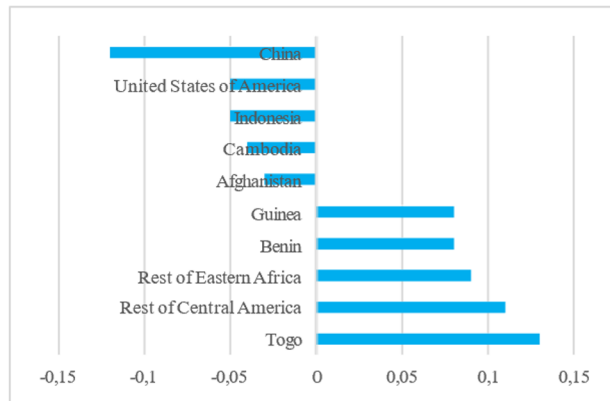


Fig. 2. Impacts on real GDP of Indonesia, US, China and other countries (percentage change).

Looking at the impact of Trump's tariffs imposed in phase 2.0 on investment in each country, Figure 3 shows that Indonesia, the United States, and China experienced a decrease in investment of -0.35, -0.48, and -0.46 percent, respectively. This poses an economic risk threat to Indonesia. Other developing countries will benefit from increased investment, indicating that both America and China will seek investment diversification in other developing countries.

These results align with research by [32]. Countries not directly involved in US-Indonesia and US-China trade experienced an overflow of increased slightly investment. This finding is also consistent with the results of [32], which indicate that GDP in the United States and China declines, while other countries and regions slightly benefit from trade diversion effects resulting from the overall reduction in total output.

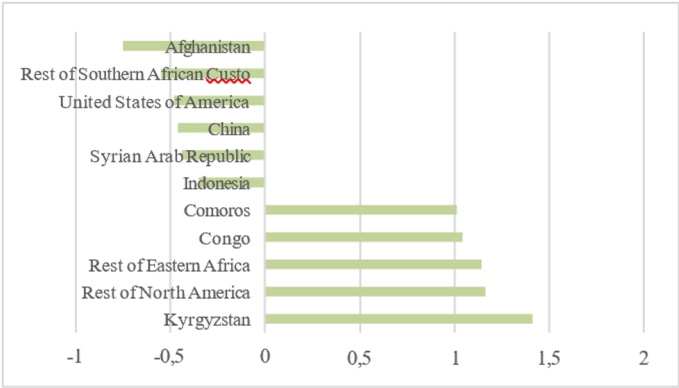


Fig. 3. Impacts on investment of Indonesia, US, China and other countries (percentage change).

Meanwhile, the impact on exports and imports in each country is shown in Figure 4. Mexico's largest export increase was reached 1.54%, then Viet Nam. Export of Indonesia, US and China will decline. This finding is parallel with the study by [9]. For Indonesia, the problem with the structure and effectiveness of investment is thought to be the reason why investment is difficult to drive export performance.

Based on Figure 4, the tariff increase due to Trump's policy will result in a decline in US and Chinese exports and imports. The decline in US exports is greater than that of China and Indonesia. Meanwhile, the decline in Chinese imports is greater than that of the US. This higher decline in imports in China than in the US aligns with the findings of [32].

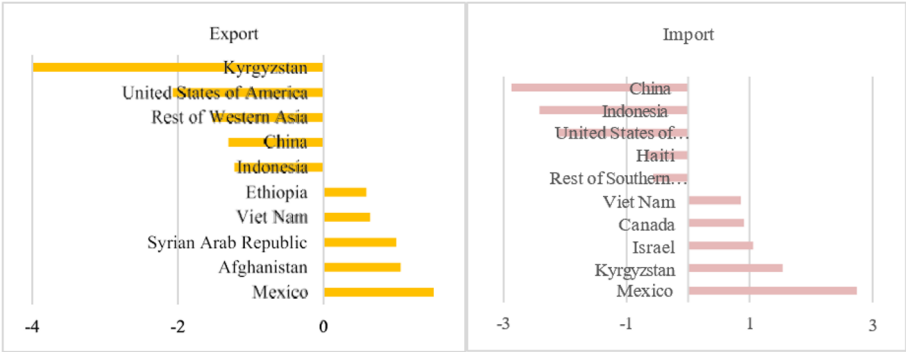


Fig. 4. Impacts on export and import of Indonesia, US, China and other countries (percentage change).

These findings indicate trade diversion to other developing countries. The excess supply from the US and China, resulting from increased reciprocal tariffs, has lowered global prices for commodities widely traded between the two countries, such as textiles, electronic products, wood products, metal products, machinery and equipment, and

non-food crops. Other developing countries will receive an influx of commodities at lower prices. With increased import tariffs for these two countries, importers in both countries will seek alternative import sources. This will create demand from developing countries and increase their exports. These findings align with those of [9]. Similarly, a 19% reciprocal increase in US-Indonesia tariffs would result in increased exports from developing countries surrounding Indonesia and the US, such as Vietnam and Mexico.

5 Conclusion

The escalation of tariff policies under President Trump's second term has intensified global economic uncertainty and increased the exposure of many countries to trade-related risks. This study demonstrates that the implementation of reciprocal tariff increases—10% between the United States and China and 19% between the United States and Indonesia—poses significant economic risks for Indonesia. The simulation results indicate a decline in Indonesia's GDP, driven by contractions in output, investment, and export performance. In addition, the imposition of higher tariffs across a wide range of commodities triggers trade diversion effects, whereby excess supply from the United States and China is redirected toward other developing countries.

At the sectoral level, the results show heterogeneous impacts across industries. Plant-based fibers, wheat, and metals emerge as sectors benefiting from positive output effects, while manufacturing, wearing apparel, rubber and plastic products, textiles, and crops face the greatest risk of output contraction under the intensified tariff regime. These findings highlight the uneven distribution of tariff-induced shocks across sectors and the vulnerability of Indonesia's industrial structure to external trade disruptions.

Based on these findings, Indonesia needs to adopt a more proactive approach through strategic trade risk management, which emphasizes early identification, assessment, and mitigation of external trade shocks. This includes accelerating export product and market diversification to reduce excessive dependence on the United States, strengthening domestic industrial resilience in vulnerable sectors, and enhancing policy coordination to respond to global trade uncertainty. Furthermore, deeper engagement in regional and multilateral trade frameworks such as BRICS and RCEP can serve as a strategic instrument to expand access to non-traditional markets, improve trade resilience, and reduce exposure to unilateral trade policies in the evolving global trade landscape.

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