

## The Impact of the America-China Trade War on the Indonesian Economy

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**Abstract** The escalation of the trade war between the United States and China from 2018 through 2025 has created structural shocks that have forced Indonesia to reassess its national economic resilience strategies amidst shifting global geopolitics. While the conflict has provided opportunities through increased manufacturing export penetration into the U.S. market as a substitute for Chinese products, Indonesia continues to face severe pressure from declining demand from its primary trading partners and a slump in global commodity prices, which has slowed national economic growth. This vulnerability is further exacerbated by the domestic industry's massive dependence on raw materials from China and the depreciation of the Rupiah, which has significantly increased production costs. Furthermore, Indonesia's inability to optimally capture the potential for foreign investment relocation compared to other ASEAN nations highlights an urgent need for reforms in logistics costs and bureaucracy, while tensions in the South China Sea demand a strengthened maritime defense posture to safeguard trade route sovereignty. Consequently, Indonesia requires strategic solutions through a Whole-of-Government approach, encompassing accelerated industrial downstreaming and export market diversification to non-traditional regions, in order to transform trade war challenges into a momentum for more competitive and resilient economic independence.

**Keywords:** Trade War; Indonesian Economy; National Resilience; Foreign Investment

### INTRODUCTION

The trade war between the United States (US) and China is a global economic conflict that has been ongoing since 2018, marked by the imposition of high US tariffs on hundreds of billions of dollars of Chinese products, which were then retaliated against by Chinese tariffs. This conflict is not simply a tariff dispute, but also reflects strategic competition in economic, technological, and geopolitical dimensions, the impact of which has spread to various countries, including Indonesia (Research and Development Agency of the Ministry of Defense of the Republic of Indonesia, 2025). This tension has created systemic uncertainty in the global supply chain and put pressure on emerging market currencies, forcing countries like Indonesia to adopt neutral diplomatic strategies and more aggressive market diversification (Alifat et al., 2025).

Indonesia, as a developing country with close economic ties to the US and China, faces uncertain export demand, disruptions to the global supply chain, and pressure on international commodity prices. This decline in global demand is particularly felt for leading commodities such as rubber and coal, where oversupply in the international market due to trade barriers between the two giants has led to highly volatile commodity prices (Amalia et al., 2025). For example, Indonesia's exports to China declined in 2019, while exports to the US increased, partly due to the substitution of tariff-imposed Chinese products.

The impact of the trade war is also evident in Indonesia's economic growth. Global uncertainty contributed to a slowdown in national economic growth, with the economy growing 5.02% in 2019 compared to 5.17% in 2018. Furthermore, pressure on the

manufacturing sector was exacerbated by the depreciation of the rupiah, which increased the cost of importing raw materials and energy (Bhakti & Mustika, 2021). Recent analysis shows that the trade war has a significant impact on both the short- and long-term on inflation and exchange rate stability in Indonesia, complicating national monetary policy management (Retnasih & Syahda, 2025).

Academic studies show that the trade war affects key macroeconomic indicators such as exports, imports, interest rates, and inflation. For example, the Trade Tension Index (TTI) is directly correlated with fluctuations in the Jakarta Composite Index (JCI), particularly in export-dependent sectors such as energy and mining. This requires strengthening economic resilience through structural reforms and strengthening domestic industries to ensure they can survive amidst global trade fragmentation.

In addition to the challenges, this conflict also presents opportunities for Indonesia to attract foreign investment (FDI) through the "China Plus One" strategy, where global companies seek alternative production locations outside China to avoid US tariffs. However, Indonesia faces stiff competition from neighboring countries such as Vietnam and Thailand for the relocation of this manufacturing industry (Haryoprato, 2025). Therefore, accelerating infrastructure development and simplifying bureaucracy are crucial to ensure Indonesia can optimally utilize investment opportunities from this shift in the global supply chain (Research and Development Agency of the Ministry of Defense of the Republic of Indonesia, 2025).

## **METHOD**

This research employs a qualitative approach, employing descriptive analysis. This qualitative approach is used to understand the impact of the trade war between the United States and China on the Indonesian economy. The descriptive analysis method was chosen to systematically interpret and analyze the various economic impacts arising from the dynamics of the global trade war.

The data collection technique for this research was library research. This technique involved reviewing, analyzing, and collecting data from books, scientific journals, official reports, and policy documents related to the trade war and its impact on the Indonesian economy. The data used in this study was secondary data, obtained from various sources, such as scientific journals and articles from credible sources.

## **RESULTS AND DISCUSSION**

The dynamics of the trade war between the United States and China, which began in 2018 and escalated in 2025, have created significant structural shocks to the global and national economic order. This phenomenon is not simply a tariff conflict between two major powers, but rather a reflection of geopolitical and geoeconomic shifts that are forcing developing countries like Indonesia to reassess their economic resilience strategies. According to data from the Ministry of Defense, this protectionist policy has had an ambivalent impact, with global market uncertainty coexisting with opportunities for market diversion (Research and Development Agency of the Ministry of Defense of the Republic of Indonesia, 2025). This hegemonic struggle has created a domino effect that impacts various Indonesian macroeconomic indicators, from trade performance and monetary stability to the national investment climate (Nurhaeni et al., 2025).

In terms of foreign trade, Indonesia faces the reality of declining demand from China, its main trading partner, due to its domestic economic slowdown. Indonesia's exports to

China contracted by 2.6 percent in 2019 to USD 25.85 billion. This situation requires Indonesia to no longer rely on a single economic pole and begin expanding its market reach to alternative partner countries. This decline serves as a warning to national exporters that the internal stability of major trading partners is crucial for the performance of the domestic trade balance.

However, amidst these pressures, there is a positive trend, with Indonesian product penetration increasing by 4.5 percent to USD 18.64 billion in the same period. This indicates that Indonesia has successfully exploited the market gap left by China in the United States through product substitution mechanisms. Manufacturing sectors such as electronics, clothing, and footwear are the main drivers in filling the supply gap in the US market. This success is confirmed by a study by Syahfitri et al. (2024), which highlights Indonesia's significant potential to take over light manufacturing market share amid tariff barriers affecting Chinese products.

Despite the potential for export substitution, the negative impact on the commodity sector continues to exert significant pressure on national economic growth. Indonesia, whose economy remains heavily dependent on energy and raw material exports, must contend with plummeting global commodity prices due to a decline in industrial activity in China. The decline in energy demand from Beijing automatically reduces the selling price of Indonesia's leading commodities on the international market. This situation demonstrates how vulnerable the national economy is to fluctuations in the industrial policies of partner countries experiencing conflict.

As an illustration, coal prices plummeted from USD 101 per ton in 2018 to just USD 69 per ton in 2019, directly contributing to Indonesia's economic growth slowing to 5.02 percent. This decline in revenue from the commodity sector is a strong signal that dependence on raw products makes Indonesia vulnerable to external shocks. This commodity price volatility is unavoidable as long as Indonesia's export structure has not fully shifted to high-value-added processed products through downstreaming programs.

The domino effect of this global uncertainty has also spread to the financial sector and domestic monetary stability. Negative market sentiment toward assets in developing countries during the trade war has triggered pressure on the Rupiah exchange rate against the US dollar. Investors tend to withdraw their capital from emerging markets in favor of assets perceived as safer (safe havens). This dynamic exacerbates volatility in the domestic capital and money markets, which are heavily dependent on foreign capital flows.

Data shows that the Rupiah has depreciated by around 10-11 percent, which automatically increases import costs for the domestic manufacturing industry. Although Bank Indonesia has implemented various monetary policy interventions, these fluctuations continue to impose additional burdens on production costs and inflation. This increase in the cost of importing manufacturing components ultimately triggers price increases for consumers. Alifath et al. (2025) emphasize that exchange rate stability is the most crucial challenge for Indonesian monetary authorities in dealing with prolonged trade tensions.

One of the most glaring structural vulnerabilities is found in the manufacturing industry supply chain, where approximately 70 percent of raw materials for the Indonesian electronics industry still come from China. This massive dependence places the national manufacturing sector in a highly vulnerable position if distribution disruptions occur. The increase in input prices in China due to US tariff policies directly impacts the Indonesian economy. This will trigger a productivity slowdown in the national industry, which lacks raw material self-sufficiency.

This situation demands accelerated development of domestic upstream industries and diversification of raw material sources to strengthen national industry resilience. The current fragmentation of the global supply chain provides an opportunity for the government to encourage industrial integration from upstream to downstream. Without strong import substitution, Indonesia's manufacturing industry will continue to be affected by the dynamics of Washington and Beijing's trade policies. Retnasih & Syahda (2025) state that supply chain resilience is key to maintaining economic growth momentum in an era of protectionism.

In the context of foreign direct investment (FDI), the trade war has triggered factory relocations from China to the ASEAN region, but Indonesia has not been able to optimally utilize this potential. Of the 33 large companies that relocated their production bases in 2020, the majority chose Vietnam as their new home. Indonesia only managed to attract seven companies, a stark contrast considering its vast territory and market potential. This phenomenon indicates a fundamental problem in Indonesia's investment competitiveness in the eyes of global business players. This lag is due to high national logistics costs, which reach 23 percent of GDP, far exceeding Vietnam's 15 percent. Furthermore, bureaucratic obstacles and inconsistent central and regional regulations continue to be a significant burden for investors. Haryoprato (2025) emphasized that logistics efficiency and legal certainty are key determining factors for companies seeking to exit China. Without radical improvements in these areas, the potential investment "bonus" from the trade war will continue to be enjoyed by neighboring countries.

Beyond the purely economic impact, these trade tensions have serious implications for Indonesia's maritime security and sovereignty. The power rivalry between the US and China often manifests itself in increased military activity in strategic trade routes, particularly in the South China Sea and Natuna. As a strategic response, the Indonesian government has increased its maritime defense budget allocation by 21 percent in 2023 to modernize radars and patrol vessels. This step is crucial to ensuring international shipping lanes remain safe for national economic activity amidst the tension between two major powers.

In closing, Indonesia must immediately implement strategic solutions through a Whole of Government approach to mitigate long-term risks. Key steps that must be taken include diversifying export markets to non-traditional regions in Africa and South Asia and accelerating industrial downstreaming policies. Strengthening national economic resilience depends not only on fiscal and monetary policies but also on Indonesia's ability to reform the business climate. Through synergy between ministries and institutions, Indonesia is expected to transform the challenges of this trade war into momentum for a more independent and competitive economic transformation.

## CONCLUSION

Based on the entire series of analyses presented, it can be concluded that the trade war between the United States and China constitutes a structural shock with ambivalent impacts and is a real test of Indonesia's national economic resilience. At a macro level, this phenomenon has triggered a significant slowdown in economic growth due to the plunge in global commodity prices and the depreciation of the Rupiah exchange rate, which reached 11 percent due to fluctuating market sentiment. Nevertheless, Indonesia has demonstrated resilience through trade diversion mechanisms, increasing the penetration of manufactured products into the United States market as a substitute for Chinese products. This confirms

that behind global uncertainty, there are strategic gaps that can be exploited if the domestic industry is strong in competitiveness and able to respond swiftly to changes in protectionism.

This research also reveals deep structural vulnerabilities in the Indonesian manufacturing sector, particularly the dependence on imported raw materials from China, which reaches 70 percent in strategic sectors such as electronics. This dependence, if not addressed immediately through accelerated upstream and downstream industrial development, will continue to place Indonesia vulnerable to future global supply chain disruptions. Furthermore, Indonesia's low investment competitiveness compared to neighboring countries like Vietnam, driven by high logistics costs, which account for 23 percent of GDP, and bureaucratic hurdles, demonstrates that Indonesia still needs radical structural reforms. Improving the investment climate and logistics efficiency are essential to prevent Indonesia from becoming a mere spectator in the global industrial relocation trend seeking alternatives outside China.

Furthermore, another important conclusion is the close link between economic stability and national territorial sovereignty. Economic tensions between these two major powers have indirectly driven increased military activity in strategic shipping lanes such as the South China Sea and Natuna, which in turn requires Indonesia to strengthen its maritime defense posture through a significant budget increase. Integration of defense and economic policies is essential to ensuring the security of international logistics routes (Sea Lanes of Communication), the lifeblood of national trade. Strengthening radar and patrol fleets is not merely a military issue, but a strategic investment to ensure the smooth flow of goods and services amidst the escalation of hegemonic conflict, which is predicted to continue until 2025.

As a final reflection, Indonesia's success in addressing the impacts of the trade war depends heavily on the implementation of Whole of Government policies, or integrated cross-sectoral synergy between fiscal, monetary, and defense authorities. A long-term strategy that includes diversifying export markets to non-traditional regions in Africa and South Asia, as well as accelerating downstream processing to create added value, must be a top government priority. Through these proactive and transformative steps, Indonesia is expected to transform the challenges of the trade war into a golden opportunity to build stronger economic independence. With strong synergy, Indonesia will be able to emerge as a new, sovereign and competitive economic power on the international stage, independent of the dynamics of competition among major global powers.

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