Slowing Indonesian economy battered by flow-on from Trump tariffs

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The collapse of the Indonesian textile company, Sritex, last month, with the loss of more than 10,000 jobs, underscores the mounting problems facing the country's economy resulting from lower global growth and the impact of Trump tariffs and economic warfare.

Sritex, one of the largest textile manufacturers in south-east Asia, had been experiencing financial problems for some time but was tipped over the edge of bankruptcy by the flow-on effects of the Trump war against China.

Under conditions where they are increasingly being excluded from the US market by tariffs, Chinese textile and clothing manufacturers are seeking to find markets for their surplus products elsewhere.

The flow-on effects of the Trump tariff were set out in a letter last month to the *Financial Times* by two leading officials of the Bank of Indonesia.

"The increased supply of Chinese textiles in the global market has led to downward pressure on prices. Indonesian textile exporters have had to lower their prices to remain competitive, which has squeezed profit margins and affected the overall viability of the Indonesian industry," the letter said.

The two authors, Darmo Wicaksono, senior economist at the bank, and Illinia Ayuhia Riyado, an economist in the bank's international department, said similar problems were confronting Indonesia's rubber producers.

Problems in the economy, however, go far beyond textiles and rubber.

Last month the rupiah fell to its lowest level in currency markets since the Asian economic crisis of 1998, with a fall in the stock market by 7.1 percent in a single day. The leading stock market index has fallen by almost 15 percent in the past year and is one of the worst performers globally.

This prompted the central bank to intervene in the foreign exchange market with the executive director of its monetary department telling the FT saying it was acting "boldly in the market to ensure the balance of FX (foreign exchange) supply and demand … in order to maintain market confidence."

The bank said the recent moves in the rupiah were "primarily driven by global factors that remain highly uncertain … These include Trump's tariff policies and their impact on other countries, the Fed's [US Federal Reserve] potentially more hawkish policy and ongoing political tensions."

In addition to the Trump factor, there are two other concerns shaking confidence. These are a general slowdown in the economy and whether the government's major spending program costing $28 billion to provide free daily lunches to the country's 83 million schoolchildren and pregnant mothers can be financed.

The populist measure was at the centre of president Prabowo's election campaign last October and one of the key factors in his victory in which he won 59 percent of the vote.

The gyrations in the financial markets are an indication that international capital considers the spending measures could lead to a crisis of government finances under conditions where the economy is slowing markedly.

The growth target of the Prabowo government is 8 percent this year. No one believes that will be met, certainly not the central bank. Back in January it cut interest rates to try to boost growth and lowered its growth forecast for year to the range of 4.7-5.5 percent from 4.8-5.6 percent.

One of the reasons is falling consumer confidence and spending. The consumer price index shows year-on-year deflation in February, the first time that has happened in 25 years with a fall in consumer confidence for the second consecutive month.

With large sections of the population struggling to make ends meet, the prospects for increased consumption spending rest on the middle class, defined in government statistics as those who spend between $122 and $605 a month. Up until 2018 this cohort of the population had been expanding, accounting for some 23 percent of the population.

But it has been falling since then and last year was down to 17 percent. Over the same period employment in the so-called informal sector, where workers are very poorly paid and have no job security, leading to a day-to-day struggle just to obtain food, has been rising—from 57 percent of the population in 2018 to 59 percent in 2023.

Former finance minister Chatib Basri, now a government adviser, said the "culprit" was in the inability of the formal sector to produce jobs and "from 2019, most of the jobs created were basically in the informal sector."

The general decline in formal employment is hitting those sections of the youth that are able to go to university and young people more broadly. According to the latest government data from August last year, the unemployment rate among those aged between 15 and 24 was 17.3 percent compared to the national rate of 4.9 percent. University and college graduates have been making this impact.

One of the underlying structural factors has been the orientation of the Indonesian economy towards the export of commodities rather than the development of manufacturing and other industries. Manufacturing as a proportion of GDP has been falling steadily over the past two decades.

Accordingly, unlike Malaysia and Vietnam, which have been able to benefit to some extent from the shift of production out of China as firms seek to dodge the effect of US tariffs, Indonesia has not been the target of new investment.

The focus on raw materials is exemplified by the fact that Indonesia is the world's largest producer of nickel, used in stainless steel and also in electric vehicle batteries, and accounts for 57 percent of the market. It is also a major producer of coal and palm oil.

The price of nickel has been falling—the metal is notorious for sharp swings in its price—and is now down by 40 percent over the past two years.

These underlying economic problems are being exacerbated by the program of sweeping cuts ordered by the Prabowo regime to pay for its free lunches program, many of them hitting higher education facilities.

The cuts include a 70 percent reduction in public works, 52 percent for economic affairs and 40 percent for investment. The overall objective is cuts totalling $19 billion. Education has been hard hit with funding for primary and secondary education reduced by $480 million and the higher education ministry reduced by 25 percent.

The education cuts provoked widespread protests by students in every major city in February as they denounced the measures saying they would mean rising fees, cancellation of scholarships and worsening teaching conditions.

However, opposition to the Prabowo regime cannot be based on any sectional demands—such as free meals versus higher education or vice versa.

That will only strengthen the government as it works to divide the growing opposition to it and the deep hostility to its austerity agenda, not least because of the demands of international financial markets as reflected in the fall in the rupiah and the stock market.

The poorest sections of the population, the working class and the student youth must be unified in a common struggle against the Prabowo regime and that unification can be only achieved in the fight for a socialist program based on the expropriation of the wealth of the wealth of the corporate elites.

This program, as the experience of Indonesia is showing, must be based on an internationalist perspective because the crisis in its society is a particular expression of the breakdown of the entire global capitalist economy and its descent into economic and ultimately military warfare.