Analyzing the Impact of Import Tariffs, Trade Dynamics, and Exchange Rates on Economic Growth in Indonesia

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ABSTRACT

This study examines the multifaceted relationship between import tariffs, trade dynamics, and exchange rates and their collective impact on economic growth in Indonesia. As a developing country integrated into the global economy, Indonesia's growth is heavily influenced by international trade policies and macroeconomic factors. This study investigates how various import tariffs change trade dynamics, which in turn affect Indonesia's economic growth. At the same time, the exchange rate is analyzed as an important mediator that shapes the trade balance and examines the effect of changes in import tariffs on economic growth. The estimation method used is path analysis, using 9 years of historical quantitative data (2016-2024). Econometric modeling and statistical analysis are used to capture the direct and indirect relationships among the variables of interest. This study finds that import tariffs negatively impact Indonesia's economic growth through various mediating variables, including the trade balance, exchange rate, and US imports and exports. Empirical analysis using Path Analysis reveals that higher tariffs reduce Indonesia's export volume, restrict foreign market access, and distort exchange rate stability, leading to trade imbalances and depressing GDP growth. In addition, reduced US imports from Indonesia weaken Indonesia's trade revenues, which affect investment and consumption capacity. The broader economic consequences highlight the need for a strategic trade policy that balances national interests with global competitiveness. These findings provide policymakers with a framework to optimize Indonesia's trade and monetary strategies to ensure sustainable long-term economic growth.

Keywords: Import Tariffs, Exchange Rates, Trade Balance, Economic Growth.

INTRODUCTION

In 2025, the Trump administration reintroduced an import tariff policy aimed at protecting US domestic industries from global competition. This policy is a continuation of the protectionist approach that has been a hallmark of his leadership. High import tariffs are imposed on a variety of products, including manufactured goods and commodities from developing countries such as Indonesia. Trump's protectionist policies have led to a wave of trade tariffs imposed on his trading partners. Trump imposed a 20% tariff on imports from the European Union, 34% on Indonesian goods, 46% on Vietnamese products, and 36% on Thai goods. The highest tariff for China is 245% (USA Today, 2025). This move not only affects bilateral trade relations between the United States and its trading partners but also creates a broader impact on global economic dynamics. Indonesia, as one of the countries that has significant trade relations with the United States, faces major challenges due to this policy. High import tariffs reduce the competitiveness of Indonesian products in the American market, which has the potential to reduce export volumes. In addition, this policy also affects the Rupiah exchange rate against the USD, due to changes in foreign exchange flows and global market uncertainty (Bhagwati, 2004; Dornbusch, 1976). In this context, it is important to understand how

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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).

Indonesia, as one of the largest economies in Southeast Asia, holds a significant position in the global trade network. Its abundant natural resources, strategic geographical location, and rapidly growing population provide immense opportunities for economic expansion and development. However, as a developing nation, Indonesia faces several structural and policy challenges in maintaining sustainable economic growth while navigating the complex landscape of international trade and monetary policies. Among the key factors influencing Indonesia's economic trajectory are import tariffs, trade dynamics, and exchange rate fluctuations, each of which plays a critical role in shaping the nation's economic performance.

The imposition of import tariffs, a common instrument of trade policy, has long been a subject of debate among policymakers and economists. On the one hand, tariffs are intended to protect domestic industries from foreign competition, ensuring that local producers can thrive and contribute to job creation. On the other hand, high import tariffs can lead to inefficiencies, increased production costs, and limited consumer choice, ultimately hindering economic growth. For Indonesia, a country with a diverse range of industries and a growing middle class, finding the right balance in tariff policies is crucial for fostering long-term economic resilience.

Trade dynamics, encompassing the flow of goods, services, and investments across borders, further underscore the interconnectedness of Indonesia's economy with the global market. As the nation strives to increase its export competitiveness, it must grapple with challenges such as non-tariff barriers, global demand fluctuations, and shifts in trade partnerships. Trade agreements, both regional and bilateral, also play a pivotal role in shaping Indonesia's trade landscape, offering both opportunities and potential constraints. Understanding these dynamics is essential for formulating policies that maximize the benefits of trade while mitigating associated risks.

Another critical component of Indonesia's economic framework is its exchange rate regime. Exchange rates serve as a fundamental determinant of trade competitiveness, influencing the cost of imports and exports. For a developing economy like Indonesia, exchange rate volatility can have profound implications on trade balances, inflation, and foreign investment flows. As noted by Mundell (1961) and Dornbusch (1976), fluctuations in exchange rates are not merely a reflection of market forces but also a determinant of macroeconomic stability and competitiveness. The depreciation of the Indonesian rupiah, for instance, can stimulate export growth by making Indonesian goods more affordable in the global market—a view supported by Frankel (2008) as well as Eichengreen (2008), who emphasize the role of a competitive exchange rate in boosting export performance. However, such depreciation may also lead to rising import costs, higher inflation, and increased debt burdens for both businesses and the government, challenges that Rodrik (2011) has extensively discussed in the context of emerging economies. Moreover, insights from Krugman and Obstfeld (2006) illustrate that the interplay between exchange rate movements and trade flows is complex and requires carefully calibrated policy measures. Thus, managing exchange rate stability emerges as a key priority for Indonesia's monetary authorities, who must not only facilitate export-led growth but also safeguard domestic price stability. Drawing from the collective findings of these influential scholars, policymakers are encouraged to harness historical and contemporary economic research in crafting effective monetary and trade policies that mitigate volatility and support sustainable economic growth.

The intricate interplay between import tariffs, trade dynamics, and exchange rates creates a complex economic environment that requires careful analysis and strategic policymaking. While each of these factors independently impacts economic growth, their combined effects are often greater than the sum of their parts. For instance, a reduction in import tariffs might enhance trade flows but could be undermined by adverse exchange

rate movements. Similarly, efforts to stabilize the exchange rate might clash with trade policies aimed at protecting domestic industries. These interdependencies highlight the need for an integrated approach to economic policy formulation, one that accounts for the multidimensional nature of Indonesia's growth drivers.

This study aims to explore the nuanced relationships between import tariffs, trade dynamics, and exchange rates and their collective influence on Indonesia's economic growth. By employing a mixed-method approach that combines quantitative econometric analysis with qualitative insights, the research seeks to provide a comprehensive understanding of these factors. Historical data spanning the past two decades will serve as the basis for identifying trends and patterns, while expert interviews will offer valuable perspectives on the challenges and opportunities facing Indonesia's policymakers.

The findings of this study hold significant implications for Indonesia's economic development strategy. As the nation continues to pursue its vision of becoming a high-income country, crafting effective trade and monetary policies will be paramount. Policymakers must navigate the delicate balance between fostering domestic industry growth, enhancing global competitiveness, and ensuring macroeconomic stability. By shedding light on the impact of import tariffs, trade dynamics, and exchange rates, this research aims to contribute to the ongoing dialogue on optimizing Indonesia's economic policies in a rapidly changing global landscape.

The novelty of this research lies in its integrated analytical framework that concurrently investigates the interconnected effects of import tariffs, trade dynamics, and exchange rate fluctuations on Indonesia's economic growth—a perspective that has not been comprehensively addressed in previous studies.

THEORETICAL FRAMEWORK

1. Tariff Theory and Protectionism

According to classical protectionism theory, import tariffs are imposed to protect domestic industries from foreign competition. This view emphasizes that the measure is intended to create space for domestic industries to grow and compete before being exposed to pressure from the global market. However, contemporary economic theory highlights the negative side of the imposition of import tariffs. According to Grossman and Helpman (1994), tariffs not only disregard production efficiency—by disrupting the mechanism for optimal resource allocation—but also increase costs for consumers, hinder innovation, and reduce the long-term competitiveness of national industries. In the Indonesian context, the integration of these two perspectives is very important. On the one hand, the imposition of import tariffs can provide temporary protection for strategic sectors that are still developing, while on the other hand, negative impacts such as price increases and production inefficiencies can occur if the policy is not balanced with structural reforms and increased competitiveness. This approach helps to examine how import tariffs affect the structure of domestic industries and international trade patterns, taking into account Indonesia's specific conditions which are colored by global market dynamics, infrastructure limitations, and policy challenges.

2. International Trade Theory

Referring to the Comparative Advantage Theory introduced by Ricardo (1817/1981), international trade allows countries to improve their economic welfare through specialization. Each country should focus its production on goods that can be produced more efficiently than other countries, so that through the mechanism of trade, they can obtain goods from other countries at a lower cost. This theory continues to be developed, such as by Krugman and Obstfeld (2006), who highlight the role of trade policy in optimizing global market efficiency. The Trade Gravity Model also provides a strong empirical approach to analyzing trade patterns, stating that the volume of trade between two countries is influenced by the size of their economies and the geographical distance separating them (Tinbergen, 1962; Anderson, 1979; Anderson & van Wincoop, 2003). In the Indonesian context, these two theories provide a comprehensive theoretical

framework for understanding trade dynamics. By integrating the perspectives of comparative advantage and structural factors that influence trade patterns, this study reveals how specialization in certain sectors and global market conditions impact Indonesia's exports and imports. This approach provides a solid basis for evaluating how international trade contributes to national economic development by considering structural and external factors.

3. Exchange Rate Theory

Purchasing Power Parity (PPP) states that the exchange rate between two countries will adjust so that the prices of identical goods and services have an equivalent value in the same currency. This concept was first proposed by Cassel (1918) and further developed by Balassa (1964) and Rogoff (1996), who highlighted that in the long run, differences in price levels between countries drive exchange rate adjustments. In the Indonesian context, PPP helps explain how inflation and changes in domestic and international prices affect the rupiah exchange rate and the competitiveness of Indonesian products in the global market. Meanwhile, Interest Rate Parity (IRP) links differences in interest rates between countries with exchange rate movements, stating that the interest rate differential should be proportional to the expected changes in the exchange rate. Fama (1984) and Solnik (1974) showed that interest rate differentials can be an indicator in evaluating exchange rate fluctuations, which have an impact on economic stability and foreign investment flows in Indonesia.

By integrating the PPP and IRP perspectives, this study offers a comprehensive approach to examining how relative price fluctuations and interest rate differentials affect the rupiah exchange rate. This approach is relevant for Indonesia, where exchange rate stability is important not only for export competitiveness but also in attracting foreign investment and maintaining sustainable economic growth (Krugman & Obstfeld, 2006).

4. **Theory of Economic Growth**

Traditional economic growth theories, such as the Harrod-Domar model and the neoclassical model, emphasize the role of physical capital and labor accumulation in increasing national productivity (Solow, 1956; Swan, 1956). The neoclassical model highlights the role of technology in long-run growth, assuming that capital accumulation experiences diminishing marginal returns. The Solow Growth Model explains the contribution of production factors and economic policies to growth, which is the basis for this study to understand the impact of trade and monetary policies on the Indonesian economy. In addition to the traditional approach, endogenous growth theory emphasizes the role of innovation, research and development (R&D), and improving the quality of human resources in creating positive spillover effects for national productivity (Romer, 1990; Lucas, 1988). In the context of developing countries such as Indonesia, economic growth does not only depend on capital accumulation, but also on the quality of institutions, stable fiscal policies, and the adoption of technological innovation. Studies by Barro (1991) and Mankiw, Romer, and Weil (1992) show that the integration of structural and endogenous aspects is a crucial factor in driving sustainable economic growth.

METHOD

This study uses a quantitative approach with the simultaneous equations that can be described in a path analysis method, to explore the relationship between import tariffs, exchange rates, US imports from Indonesia, US exports to Indonesia, trade balance, and Indonesia's economic growth. This approach allows the analysis of direct and indirect relationships between variables and identifies mediating mechanisms in the economic model. All the variables can be described in a path diagram, as presented in Figure 1, and the estimation method used is Multiple linear regression.

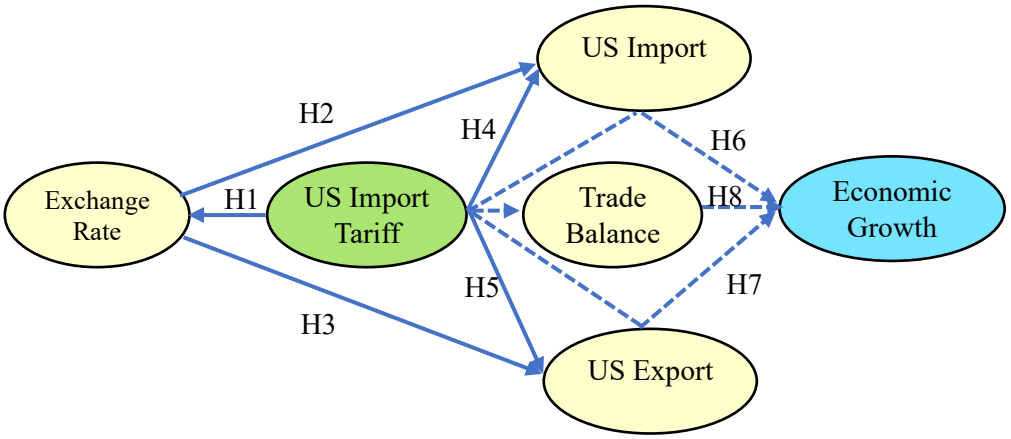

Figure 1. Research Paradigm

The research paradigm above is further stated in the following equation.

$Indonesian\ Exchange\ Rate_{-t} = b_{01-t} + b_{11-t}\ US\ Import\ Tariff + e_1$ ..... (1)

$US\ Imports_{-t} = b_{02-t} + b_{12-t}\ Exchange\ Rate_{-t} + e_2$ ..... (2)

$US\ Exports_{-t} = b_{03-t} + b_{13-t}\ Exchange\ Rate_{-t} + e_3$ ..... (3)

$US\ Imports_{-t} = b_{04-t} + b_{14-t}\ Import\ Tariff_{-t} * Exchange\ Rate_{-t} + e_4$ ..... (4)

$US\ Exports_{-t} = b_{05-t} + b_{15-t}\ Import\ Tariff_{-t} * Exchange\ Rate_{-t} + e_5$ ..... (5)

$Growth_{-t} = b_{06-t} + b_{16-t}\ Import\ Tariff_{-t} * US\ Imports_{-t} + e_6$ ..... (6)

$Growth_{-t} = b_{07-t} + b_{17-t}\ Import\ Tariff_{-t} * US\ Exports_{-t} + e_7$ ..... (7)

$Growth_{-t} = b_{08-t} + b_{18v}\ Import\ Tariff_{-t} * Trade\ Balance_{-t} + e_8$ ..... (8)

$US\ Trade\ Balance = US\ Exports_{-t} - US\ Imports_{-t}$ *(identity equation)*..... (9)

Research Hypothesis

Referring to the research results of Bhagwati, (2004); Krugman, & Obstfeld, (2006); Dornbusch (1976); Frankel (2008) and Rodrik (2011), the following research hypothesis can be formulated..

1. H1: $b_{11-t} > 0$ Import tariffs imposed by the United States on Indonesian products will depreciate the rupiah exchange rate against the US dollar.
2. H2: $b_{12-t} > 0$ The exchange rate (Rupiah per USD) has a positive effect on US imports from Indonesia. The higher the exchange rate, the higher the volume of trade in goods from Indonesia to the United States.
3. H3: $b_{13-t} > 0$ The exchange rate (Rupiah per USD) has a positive effect on US exports to Indonesia. The higher the exchange rate, the higher the volume of trade in goods from the United States to Indonesia.
4. H4: $b_{14-t} < 0$ US import tariffs have a negative effect on the value of US imports from Indonesia through Exchange Rate Mediation. (The higher the import tariff, the lower the volume of US imports from Indonesia.)
5. H5: $b_{15-t} < 0$ Import tariffs imposed by the United States on Indonesian products have a negative effect on the value of US exports to Indonesia through Exchange Rate Mediation. (The higher the import tariff, the value of US exports to Indonesia tends to decrease.
6. H6: $b_{16-t} < 0$ Import tariffs contribute negatively to Indonesia's economic growth through the value of US imports from Indonesia as a mediating variable.
7. H7: $b_{17-t} < 0$ Import tariffs have a negative effect on Indonesia's economic growth through the value of US exports to Indonesia as a mediating variable.
8. H8: $b_{18-t} < 0$ Import tariffs have a negative effect on Indonesia's economic growth through the trade balance as a mediating variable

The data used in this study consists of secondary data obtained from: World Bank, IMF, BPS Indonesia, U.S. Census Bureau and World Integrated Trade Solution (WITS), over a period of 9 years (2016–2024).

RESULT AND DISCUSSION

The results of data processing from the 8 structural equations above can be 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	US Import Tariff → Exchange Rate	1390.492	46.1[m]	+ (true)	.044**
2	IDR Exchange Rate → US Imports	7.469	87.3[vs]	+ (true)	.000***
3	IDR Exchange Rate → US Exports	1.452	82.6[vs]	+ (true)	.001***
4	Import Tariff → Exchange Rate→ Imports	-0.531	61.5[s]	- (true)	.012**
5	Import Tariff → Exchange Rate→ Exports	-0.109	64.3[s]	- (true)	.009***
6	Import Tariff → Imports → Growth	-0.020	89.3[vs]	- (true)	.000***
7	Import Tariff → Exports → Growth	-0.096	95.9[vs]	- (true)	.000***
8	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

The test results of the 8 equations built in this study, obtained an R^2 value or coefficient of determination between 46.1% to 95.9%. This means that the equation model can predict the outcomes (Turney, 2022). More deeply, it can be seen that equation 1 is included in the fairly good category, equations 4 and 5 are included in the good category and equations 2, 3, 6, 7, 8. are included in the very good category, meaning that the model is very capable of explaining the variability in the data.

Hypothesis testing shows that all signs of the research result parameters are in accordance with the hypothesis (true), so that in this case no Type I Error and Type II Error problems were found in hypothesis testing. Using the t-statistic test, all models are significant, where the t-statistic value is greater than the critical value limit. And this can also be seen from the significant value of the P-value. The significance levels used are 1% (***), 5% (**) and 10% (*). Thus, it can be seen that the results of hypothesis testing in equations 1 to 8 all have a significant influence.

The findings of this study emphasize the following key points:

1. The effect of US import tariffs on the IDR exchange rate can be seen in the parameter coefficient of 1390.492. Both have a positive relationship according to the research hypothesis. Pressure on the Rupiah currency decreased, resulting in the Rupiah depreciating, from IDR 16,500 (February 2025) to IDR 17,006 (April 2025) after Trump's announcement. The parameter coefficient of 1390 means that if import tariffs increase by 1 unit, the exchange rate will depreciate by IDR 1390 per USD. With Trump's tariff increase of 0.32, an increase of IDR 445 per USD was obtained, and empirically it is relatively close to this increase. However, what is more important than this finding is that an increase in import tariffs will have an impact on the weakening of the exchange rate, and this has been empirically proven.
2. The effect of the increase in the IDR exchange rate (depreciation of the rupiah) increases the value of US imports from Indonesia and also drives the value of US exports to Indonesia. This can be seen from the parameter coefficients of 7.469 (equation 2) and 1.452 (equation 3), respectively. If the Rupiah depreciates, the relative price of Indonesian products will be felt to be cheaper by US residents, so that demand will increase, or the volume of US imports from Indonesia will increase.

From Indonesia's side as an exporter, it also benefits from this rupiah depreciation, because the value of the USD will be greater if converted to rupiah domestically. Thus, the hypothesis that states that the exchange rate has a positive effect on US imports from Indonesia, is empirically proven true in this study, indicated by a positive coefficient of 7.469. On the other hand, what about US exports to Indonesia? Why does it have a positive parameter sign? Don't Indonesian residents have to pay the same rupiah for the same dollar? Frankel (2008) shows that a higher exchange rate positively contributes to US exports if trade contracts and prices anticipate such fluctuations. US products are more expensive for Indonesian importers in physical units, but the pricing mechanism, long-term contracts, can result in an increase in the value of exports when expressed in dollars, so that depreciation has the potential to increase the value of US exports in nominal terms. Thus, the hypothesis that the exchange rate has a positive effect on US exports to Indonesia, is empirically proven true in this study, indicated by a positive coefficient of 1.452. The difference in this coefficient is also interesting, where the US import coefficient (7.469) is greater than the US export coefficient (1.452). This is very logical, where the depreciation of the rupiah will encourage higher US imports, or encourage Indonesian exporters to increase their export volume, because the demand of the US population increases and Indonesian exporters get a larger exchange rate difference in local current units.

3. The description above shows the direct impact of import tariffs on the exchange rate, and the exchange rate also has a positive effect on international trade, both on the import and export sides. Furthermore, this study examines the impact of both, namely the impact of import tariffs on imports and exports through the exchange rate as a moderating variable. The results of the study show that the effect of import tariffs imposed by the US has a negative effect, both on US imports by -0.531 and on US exports by -0.109. Exchange rate fluctuations play a role in determining price competitiveness between countries. An increase in import tariffs by the US will reduce US imports. A decrease in imports causes a decrease in foreign exchange transactions, and the exchange rate will strengthen the effect of protectionism. This explains why the parameter coefficients above have a negative relationship. The findings of this study are in line with the hypothesis that was built, meaning that the results of this study are empirically proven and acceptable. If explored further, the findings of this study are also interesting, where the negative effect of the influence of import tariffs on US imports is greater than the pressure on the decline in US exports to Indonesia, as shown in the difference in the parameter coefficients above. Furthermore, with the decline in Import and Export (equations 4 and 5), this decline will have a negative impact on Indonesia's economic growth, as presented in equations 6 and 7, with parameter coefficients of -0.020 (import impact) and -0.096 (export impact) respectively. The results of this empirical study are in accordance with the hypothesis that was built and have a significance level at alpha 1%.
4. Overall, by combining US imports and US exports in bilateral trade with Indonesia, the amount of trade balance is obtained. In line with research data, the US trade balance is a deficit. The impact of increasing US import tariffs on the US trade balance will decrease, and its impact will reduce Indonesia's economic growth, as seen in the parameter coefficient of -0.154. The results of this study are in line with the hypothesis that was built and are significant at the 1% level of significance (equation 8).

The impact of US import tariffs on the IDR exchange rate

The description above highlights the direct impact of import tariffs on exchange rates, which, in turn, influence international trade on both import and export sides. This study examines the combined effect, specifically analyzing how import tariffs affect imports and exports through exchange rate fluctuations as a moderating variable. Findings indicate that US-imposed import tariffs negatively affect both US imports (-0.531) and US exports (-0.109). Since exchange rates determine price competitiveness between countries, a tariff-induced reduction in US imports leads to fewer foreign

exchange transactions, amplifying protectionist effects. This explains the negative relationship between the parameter coefficients. The findings align with the study's hypothesis, confirming the empirical validity of these results.

A deeper analysis reveals an intriguing pattern: the negative effect of tariffs on US imports is more pronounced than their impact on US exports to Indonesia, as reflected in the disparity between parameter coefficients. Moreover, declines in imports and exports (as presented in equations 4 and 5) have further negative consequences for Indonesia's economic growth, as seen in equations 6 and 7, with parameter coefficients of -0.020 (import impact) and -0.096 (export impact). These empirical results support the hypothesis and are statistically significant at the 1% alpha level, underscoring the broader economic implications of tariff policies.

The Impact of the IDR Exchange Rate on US Imports from Indonesia

Exchange rate fluctuations play a crucial role in shaping international trade volume, as a depreciating Rupiah makes Indonesian goods more competitive in global markets. Krugman and Obstfeld (2006) emphasize that lower relative prices due to depreciation increase demand for Indonesian exports in the US, facilitating higher import volumes. Frankel (2008) further highlights that long-term exchange rate shifts positively affect trade, as lower domestic currency values boost foreign demand.

Eichengreen (2008) and Mundell (1961) reinforce this by showing that currency depreciation enhances trade competitiveness, increasing US imports from Indonesia. Empirical results confirm this relationship, with a positive exchange rate coefficient of 7.469, significant at alpha 1%, indicating a direct link between Rupiah depreciation and rising US import volumes.

The findings suggest that exchange rate dynamics should be integrated into trade and monetary policy frameworks. A weakening Rupiah can serve as a stimulus for export growth, increasing Indonesia's trade performance by improving price competitiveness in foreign markets.

The Influence of the IDR Exchange Rate on US Exports to Indonesia.

Krugman and Obstfeld (2006) argue that exchange rate fluctuations impact the relative competitiveness of goods between countries. When the Rupiah depreciates (higher Rupiah per USD), US exports become cheaper when converted into Rupiah, potentially increasing demand. While depreciation generally suppresses imports, Frankel (2008) suggests that trade contracts and pricing mechanisms can allow differentiated, value-added US exports to benefit in nominal terms.

Eichengreen (2008) highlights that exchange rate shifts can create opportunities for exporters from countries with high-quality and innovative products. Long-term contracts and price adjustments enable US exporters to maintain nominal profits despite currency fluctuations. Findings from this study show a positive exchange rate coefficient of 1.452 on US exports to Indonesia, significant at 1% alpha, supporting the argument that depreciation may boost nominal export values.

Integrating insights from Krugman and Obstfeld (2006), Frankel (2008), Dornbusch (1976), Mundell (1961), and Eichengreen (2008), this research confirms that while Rupiah depreciation makes US goods more expensive for Indonesian importers in physical units, the pricing mechanism and overshooting effects can increase US export values when expressed in dollars. These findings align with empirical studies showing that exchange rate fluctuations play a crucial role in shaping trade dynamics.

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

Import tariffs imposed by the US on Indonesian products not only reduce bilateral trade volume but also impact exchange rate dynamics. Higher prices for Indonesian goods in the US market suppress demand from US importers, and in turn, affect foreign exchange flows. As Krugman and Obstfeld (2006) explain, exchange rate fluctuations determine price competitiveness, meaning that a decline in imports also leads to adjustments in foreign currency demand. When foreign exchange transactions decrease,

the exchange rate strengthens the effects of protectionism, further complicating trade conditions.

Bhagwati (2004) highlights that protectionist measures distort trade flows and shift foreign exchange dynamics. A decrease 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 by 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%, showing that tariff effects extend beyond direct trade suppression.

Import tariffs can also trigger temporary exchange rate shifts, with Rupiah strengthening as import demand declines. Overshooting effects, as described by Dornbusch (1976) and Frankel (2008), add additional pressure on Indonesian exports, as a stronger exchange rate makes local products less competitive internationally. Eichengreen (2008) further emphasizes that during global uncertainties, trade and exchange rate interventions 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.

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

Import tariffs imposed by the US not only reduce demand for Indonesian products but also disrupt foreign exchange flows, affecting the supply and demand of US dollars and Rupiah. These exchange rate fluctuations impact price competitiveness, including US export products to Indonesia. If tariffs trigger market intervention and boost investor confidence, they may lead to Rupiah appreciation, making US exports more expensive in local currency and decreasing their attractiveness to Indonesian consumers.

Krugman and Obstfeld (2006) argue that exchange rate fluctuations directly influence trade volumes by altering relative prices. Frankel (2008) further emphasizes that changes in exchange rates 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 their demand in Indonesia.

Empirical findings show that the coefficient for the impact of import tariffs via exchange rate mediation is negative (-0.109) and significant at alpha 1%. Bhagwati (2004) and Eichengreen (2008) highlight that protectionist policies can have indirect consequences on exchange rates, worsening trade conditions for exporters. Their research supports the view that tariffs, through exchange rate adjustments, amplify the negative effects on US exports to Indonesia, ultimately restricting international trade efficiency and economic growth.

The Impact of US Import Tariffs on Indonesia's Economic Growth Through US Imports

The value of US imports from Indonesia serves as a crucial indicator of foreign exchange flows and trade volumes that support Indonesia's economic activities. A decline in US imports not only reduces foreign exchange earnings but also limits incentives for investment and industrial innovation. If import tariffs lead to a decrease in US imports, they indirectly hinder Indonesia's economic growth. Findings from this study confirm this negative relationship, with import tariffs affecting Indonesia's GDP via US imports as a mediating variable, showing a negative coefficient of -0.020, significant at alpha 1%.

This aligns with prior research, demonstrating that trade policy fluctuations—such as tariff imposition—impact relative prices and international trade volumes. When tariffs suppress demand for Indonesian products in the US market, the resulting decline in imports reduces foreign exchange that would otherwise be used for investment and consumption, slowing economic growth (Krugman & Obstfeld, 2006; Bhagwati, 2004; Frankel, 2008; Eichengreen, 2008). Historically, global trade integration has driven technological and capital transfer, fostering economic expansion. However, when tariffs

restrict US imports from Indonesia, the country loses strategic trade benefits, leading to weaker long-term economic performance.

The Impact of US Import Tariffs on Indonesia's Economic Growth through US Exports

The import tariffs imposed by the US make products more expensive in the destination market, reducing the attractiveness of US exports to Indonesia and leading to a decline in export value. This decrease in the flow of goods not only limits product variety in Indonesia's domestic market but also restricts productivity-enhancing imports such as advanced technology and capital equipment, ultimately hindering economic growth. The role of US exports as a mediating variable is crucial in the relationship between tariff policies and economic expansion, as a decline in export value disrupts the transfer of capital and technological expertise, negatively impacting domestic investment efficiency.

Empirical findings support this relationship, showing a significant negative effect of import tariffs on Indonesia's economic growth, with US imports as a mediating variable (coefficient -0.154, significant at alpha 1%). Changes in tariff structures and relative prices influence export flows, reducing the competitiveness of US products and limiting market efficiency. Krugman and Obstfeld (2006) emphasize that declining exports weaken technology and capital transfer mechanisms, further slowing economic development.

Bhagwati (2004) highlights that protectionist policies like import tariffs create trade distortions, limiting access to high-quality goods and intellectual capital essential for economic progress. In Indonesia-US trade relations, a reduced flow of US exports negatively impacts Indonesia's capacity for growth. By hindering free trade benefits such as technological advancements, import tariffs indirectly suppress economic expansion, making strategic imports less accessible and constraining long-term development potential.

The Influence of US Import Tariffs on Indonesia's 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 while weakening the trade balance, 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. The combined perspectives of Krugman and Obstfeld (2006), Bhagwati (2004), Dornbusch (1976), Frankel (2008), and Eichengreen (2008) confirm that tariffs reduce trade openness, lower net exports, and induce exchange rate instability, ultimately contributing to slower economic growth in Indonesia.

CONCLUSION

This study integrates international trade and economic growth theories to examine the negative impact of import tariffs on Indonesia through multiple mediating variables. While tariffs aim to protect domestic industries, they disrupt trade balance, foreign exchange flow, and technological access—key drivers of economic growth. The findings confirm that reduced US imports and exports, combined with exchange rate fluctuations, hinder investment and trade intensity, ultimately slowing GDP growth. The trade balance

further deteriorates due to tariff-induced distortions in trade volume, limiting foreign exchange earnings and the synergy between exports and imports necessary for sustained economic expansion.

By incorporating insights from Bhagwati (2004), Dornbusch (1976), Frankel (2008), Eichengreen (2008), and Krugman & Obstfeld (2006), the study highlights how all mediating channels—US imports, US exports, exchange rate, and trade balance—reinforce the adverse effects of tariffs on Indonesia's economic growth. Policymakers must carefully design import tariff strategies to avoid unintended economic slowdowns, considering multidimensional impacts. Future research should explore long-term effects on industrial structure and economic resilience while evaluating alternative policies, such as trade diversification and domestic production efficiency, to mitigate negative outcomes.

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