



# THE ECONOMIC IMPACT OF THE AGRI-FOOD SECTOR IN INDONESIA

2026

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## ABOUT FOOD INDUSTRY ASIA

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# EXECUTIVE SUMMARY

Indonesia's agri-food sector is a cornerstone of the national economy. It underpins food security, supports livelihoods, and serves as a major contributor to enterprise development, particularly among micro-, small- and medium-sized businesses. From farms and fisheries to processing plants, retailers, and restaurants, its reach extends across every province, making it central to the government's goal of inclusive economic growth.



In recent years, the sector has faced a markedly more complex operating environment. Shifting global trade dynamics, rising protectionism, and evolving consumer demand have introduced a new set of pressures both within Indonesia's borders and across its export markets. These structural headwinds have reshaped the landscape, compelling stakeholders across the value chain to re-examine long-standing strategies and to invest in greater resilience, adaptability, and innovation.

This moment of recalibration is not without opportunity. The agri-food sector remains uniquely positioned to drive inclusive economic growth if supported by coordinated policy and industry action. The scale of the sector's contribution to Indonesia's economy makes this a national imperative.

Oxford Economics was commissioned by ASEAN Food and Beverage Alliance (AFBA) and Food Industry Asia (FIA) to provide an analysis of the Indonesian agri-food sector's economic contribution in 2025. Our report also explores the broader macroeconomic outlook and identifies key policy considerations that will help shape the sector's future amid an evolving global context.

## THE AGRI-FOOD SECTORS' ECONOMIC IMPACT

In this analysis, we define the agri-food sector as comprising three core components: agricultural production, food and beverage (F&B) manufacturing, and F&B distribution, which includes wholesale, retail and hospitality services.

**The sector contributed USD 448.2 billion to national GDP in 2025**—equivalent to nearly one third of Indonesia's economy that year—and **supported 68.3 million jobs**, close to half of total employment.<sup>1</sup> It also **generated USD 50.2 billion in tax revenues**.

- **Agricultural production** contributed USD 217.2 billion to GDP and supported 40.4 million jobs,

reflecting its dominant role in the value chain.

- **F&B manufacturing** contributed USD 152.0 billion to GDP and supported 10.3 million jobs, underlining the higher productivity of the sector, relative to agriculture.
- **F&B distribution** contributed USD 79.0 billion in GDP and supported 17.6 million jobs, mainly through catering and retail services.

## MACROECONOMIC OUTLOOK AND POLICY IMPLICATIONS

The global economic landscape is undergoing rapid transformation, with rising trade tensions and policy fragmentation creating both risks and opportunities for Indonesia's agri-food sector. The tariffs imposed on Indonesian goods by the United States—Indonesia's second largest agri-food export market—highlights the potential scale of disruption. Oxford Economics estimates that under "worst-case scenario" conditions, escalating tariffs could reduce global GDP to 2.3% below baseline projections over the next five years, intensifying demand-side pressures and supply-side uncertainty.

However, amid these challenges lie new strategic opportunities. Indonesia's expanding network of regional trade agreements—most notably the Regional Comprehensive Economic Partnership (RCEP)—and growing ties with partners such as the Gulf Cooperation Council (GCC) provide a platform to diversify markets and strengthen resilience. Recent reforms—such as digital certification and traceability systems, cross-border paperless trade, and the priorities set out in the National Medium-Term Development Plan RPJMN 2025-2029—already lay the groundwork for progress.

### Short-term priorities (resilience and export readiness):

- Streamline border processes, and sanitary and phytosanitary (SPS) procedures, expand testing and traceability capacity, and accelerate port digitalisation to reduce export costs.

<sup>1</sup> Results from Oxford Economics' input-output economic impact modelling.



- Enhance logistics through cold-chain and reefer infrastructure on key corridors.
- Provide targeted fiscal and credit support (e.g., faster VAT refunds, duty drawbacks, export-credit guarantees) to cushion firms from cost shocks.
- Leverage RCEP provisions on origin rules and digital trade to widen market access.
- Ensure regulatory predictability.

**Long-term priorities (competitiveness and investment):**

- Attract higher-quality FDI through a predictable, open trade regime, simpler licensing, and consistent policy signals.
- Upgrade productivity enablers—logistics, quality-control infrastructure, and digital supply-chain systems—to move up the value chain.
- Foster partnerships between small medium enterprises (SME) and multinational enterprises (MNE) and support supplier-development programmes to diffuse technology and meet global certification standards.
- Develop integrated agri-food clusters combining processing, storage, testing, and R&D to anchor investors serving regional markets.

Delivering this agenda will require policy consistency and institutional coordination so that openness is matched by resilience. With sustained implementation, Indonesia can use RCEP and other partnerships to diversify demand, attract investment, and upgrade its role in regional and global value chains—ensuring the agri-food sector remains both a stabilising force and a driver of inclusive, innovation-led growth.

# THE AGRI-FOOD SECTOR: A CORNERSTONE OF INDONESIA'S ECONOMY

**Total Economic Impact in 2025**



A total contribution to GDP worth **\$448.2 billion**, equivalent to **nearly 1/3** of the national economy.



A total employment footprint of **68.3 million**, equivalent to **nearly 1/2** of national employment.

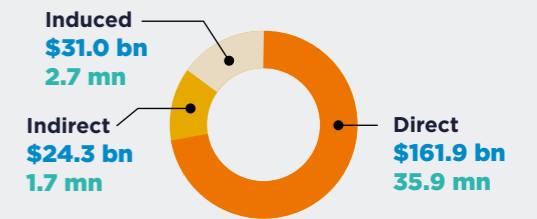
## From farm to table, the impact of the sector is wide-ranging

### Agricultural production



Total GDP Contribution: **\$217.2 bn**

Total Employment Supported: **40.4 mn**

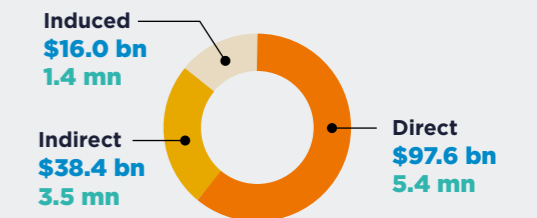


### F&B manufacturing



Total GDP Contribution: **\$152.0 bn**

Total Employment Supported: **10.3 mn**

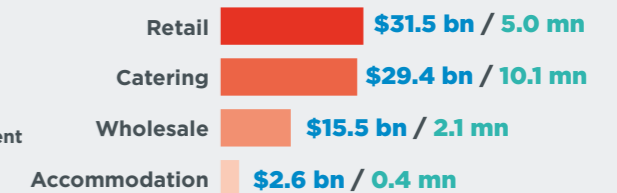


### F&B distribution



Total GDP Contribution: **\$79.0 bn**

Total Employment Supported: **17.6 mn**



## BUILDING RESILIENCE AND COMPETITIVENESS

Trade tensions and shifting demands have created a more uncertain environment. Strengthening the sector's domestic foundations is key.



# 1. INTRODUCTION

Indonesia's agri-food sector sits at the heart of the nation's economy and society. From plantations in Java to food vendors and supermarket shelves in Bali, the value chain that produces, processes, and delivers food sustains tens of millions of livelihoods and contributes in a fundamental way to Indonesia's economic dynamism. Its reach extends far beyond the farm gate, through manufacturing plants, logistics networks, and retail and hospitality businesses that connect rural producers with urban consumers.

Agriculture remains a bedrock of the economy, particularly in rural regions where it serves as a vital source of income and employment.<sup>2</sup> The sector is characterised by smallholder farmers, whose efforts underpin both food security and social stability.<sup>3</sup> Yet Indonesia's agri-food story is not only about primary production.

The transformation of raw agricultural goods into processed food and beverages drives one of the country's most vibrant and innovative industries. This segment is also a valuable enabler of entrepreneurship and female economic participation, with countless micro and small enterprises (MSEs) helping to raise household incomes and local welfare across the archipelago.<sup>4</sup> Downstream, distribution and hospitality services connect this vast system to consumers, supporting urban employment and expanding opportunities in logistics, retail, and tourism.

Together, these interlinked activities form an economic ecosystem that is deeply woven into Indonesia's economic model. The sector's scale and complexity mean that its performance has wide-reaching implications for economic stability, inclusion, and resilience.

This report assesses the full economic contribution of Indonesia's agri-food sector and the challenges it now faces in an increasingly uncertain global environment.

- **Chapter 2** quantifies the economic footprint of Indonesia's agri-food sector, highlighting its scale across agricultural production, manufacturing and distribution.
- **Chapter 3** examines the macroeconomic outlook and the external pressures now testing the sector, exploring how Indonesia can strengthen its resilience and competitiveness in response.
- **Chapter 4** sets out the key policy priorities and practical actions needed to sustain growth in a more uncertain global economy.
- **Chapter 5** concludes with the study's key takeaways.

<sup>2</sup> WRI Indonesia, Urgent Need to Safeguard Indonesia's Agricultural Future (2025)

<sup>3</sup> FFTC Agricultural Policy Platform, Brief Overview of the Indonesian Agricultural Census 2023 (2025)

<sup>4</sup> BPS Statistics Indonesia, Profile of Micro and Small Industry 2024 (2025)



# 2. THE ECONOMIC FOOTPRINT OF INDONESIA'S AGRI-FOOD SECTOR

Indonesia's agri-food sector is one of the country's most powerful engines of economic activity. Its reach extends across every province and through almost every major industry. This chapter quantifies that reach using Oxford Economics' input-output modelling framework, measuring the sector's contribution to gross domestic product (GDP), employment, and tax revenues in 2025, and mapping how those impacts flow through Indonesia's wider economy.



## 2.1 DEFINING AND MEASURING THE SECTOR

### 2.1.1 Scope of the agri-food system

For the purposes of this study, the agri-food sector encompasses the full chain of activity involved in producing, processing, distributing, and serving food and beverages in Indonesia. It therefore includes:

- **Agricultural production:** farming and fishing;
- **Food and beverage manufacturing:** processing and packaging of raw commodities into higher-value products; and
- **Food and beverage distribution:** wholesale and retail trade, and hospitality services (e.g., restaurants, catering, and accommodation) that bring food and beverage products to consumers.

This integrated definition captures the whole value chain, from the rural foundations of food production to the service-oriented activities that take the product to market.

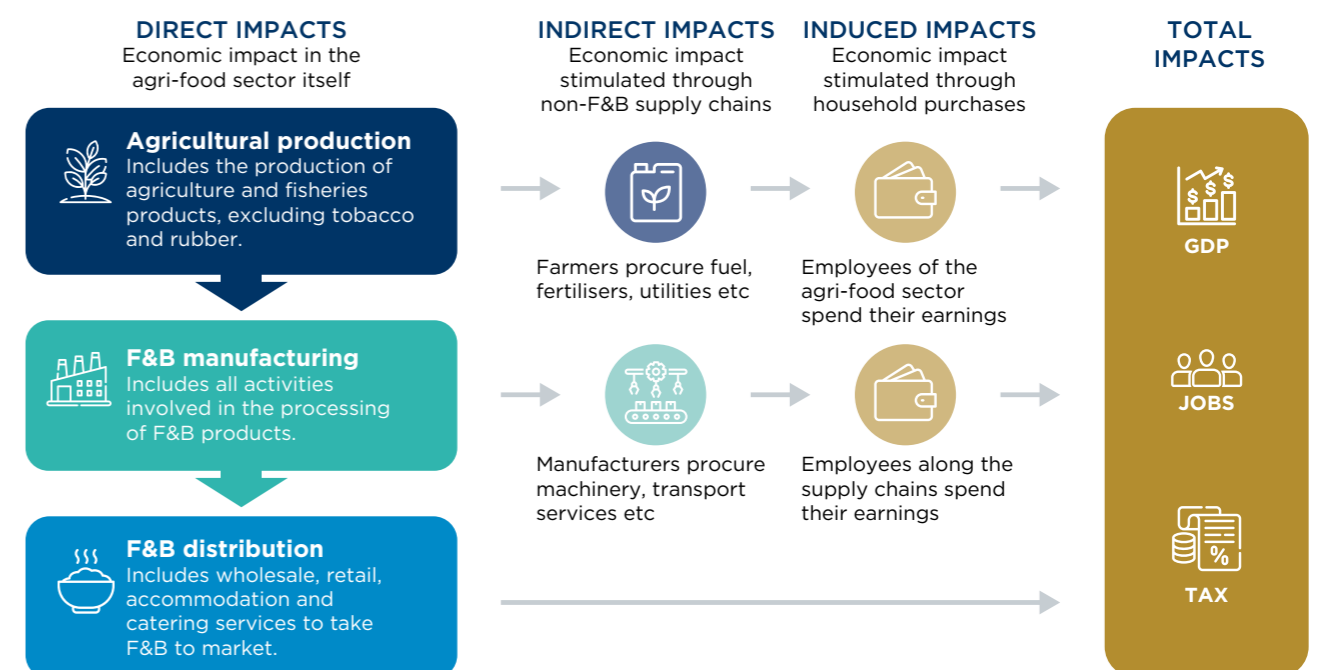
### 2.1.2 Modelling framework

Oxford Economics estimated the sector's economic footprint using an input-output modelling framework, which quantifies inter-industry linkages across the economy. The model traces three channels of impact (Fig. 1):

- **Direct impacts:** the value added, employment, and tax revenues generated within the agri-food industries themselves;
- **Indirect impacts:** demand for intermediate goods and services from suppliers such as transport, packaging, energy, and finance; and
- **Induced impacts:** household spending by workers employed directly or indirectly by the sector.

Results are expressed in 2025 prices and correspond to the most recent data on the structural relationships between sectors available in the official national accounts. To inform our modelling, we draw on data from Statistics Indonesia, the OECD, UNIDO, official statistics from business surveys, and Oxford Economics' proprietary databanks.

Fig. 1 The contribution the agri-food sector makes to the Indonesian economy



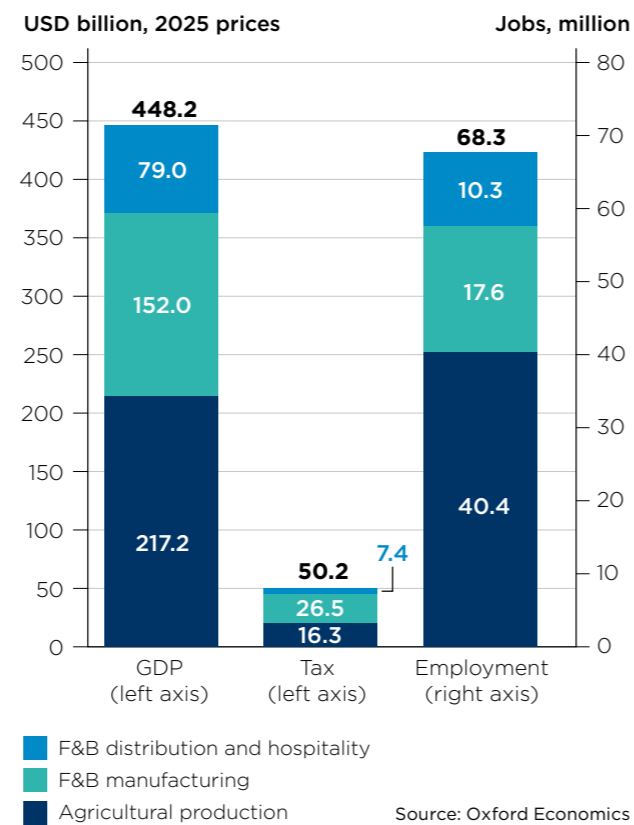
## 2.2. THE SECTOR'S TOTAL CONTRIBUTION TO THE ECONOMY

### 2.2.1 Headline results

In 2025, the economic impact of Indonesia's agri-food sector was equivalent to nearly one-third of national GDP and close to half of total employment when the three channels of impact are considered. The sector also generates substantial fiscal benefits through a mix of corporate and labour taxes, net taxes on production, and other taxes businesses paid on their inputs.

This equates to an estimated USD 448.2 billion contribution to national GDP, approximately USD 50.2 billion in tax revenues, and 68.3 million jobs (Fig. 2). Agricultural production accounts for a larger share of employment than GDP, and the same is true to a lesser extent for the F&B distribution and hospitality segment—reflecting the labour-intensive nature of those two industries in Indonesia. F&B manufacturing is the opposite. As a more capital-intensive industry, it generates relatively more economic value per worker.

Fig. 2 Economic contribution of the agri-food sector in Indonesia, by components, 2025



## 2.3 ECONOMIC LINKAGES ALONG THE VALUE CHAIN

### 2.3.1 Agricultural production

Agriculture is the foundation of Indonesia's agri-food economy. It supplies the raw materials that feed domestic food processors, retailers and exporters, while providing income to millions of rural households. In 2025, the agricultural base directly supported nearly 35.9 million people and contributed around USD 161.9 billion to GDP (Fig. 3). Indirectly, the sector's contribution to the economy extends beyond farm incomes: it supports local services, transportation, and small-scale trade through its supply chain.

In a sector characterised by smallholders and limited mechanisation, this segment of the agri-food sector is the least labour productive. Progress in the returns to labour inputs in the

sector, through higher and more resilient yields, could come from sustained investment in irrigation systems, good quality inputs, worker training such as extension services, more efficient logistics, and better access to finance.

### 2.3.2 Food and beverage manufacturing

Food processing represents an important source of value creation within the agri-food sector, transforming raw commodities into higher-value products. Indonesia's food and beverage industries contribute around USD 97.6 billion to GDP directly, and an additional USD 38.4 billion through its extensive supply-chain spending in packaging, machinery, logistics, and services (Fig. 4). Around 5.4 million jobs are supported directly in the F&B manufacturing operations, which serve as

an important platform for entrepreneurship and female economic empowerment. In Indonesia, 44%

of micro and small enterprises (MSEs) operate in this space, many of which are run by women.<sup>5,6</sup>

Fig. 3 Economic contribution of agricultural production in Indonesia, by channels of impact, 2025

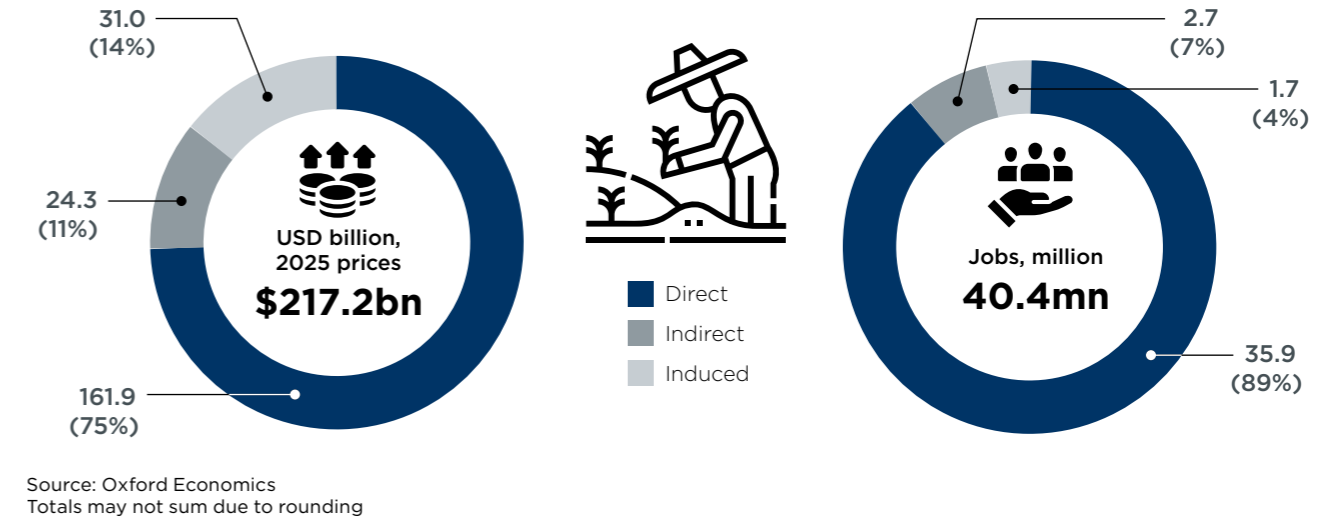
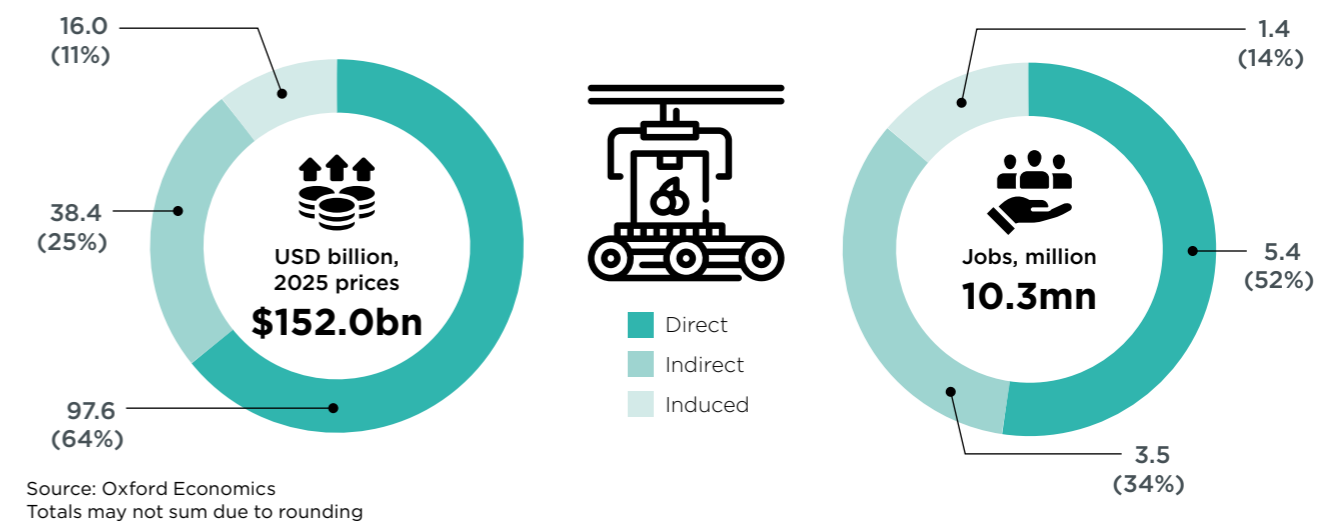


Fig. 4 Economic contribution of F&B manufacturing in Indonesia, by channels of impact, 2025



### 2.3.3 Food and beverage distribution

Downstream distribution and hospitality functions connect producers and consumers, sustaining millions of service-sector jobs. Restaurants and catering make up the largest share of the total employment impact, supporting 10.1 million jobs,

while F&B retail further supported another 5.0 million (Fig. 5). While the downstream sector currently draws heavily from workers with lower education levels, accelerating digital adoption is reshaping workforce demands.<sup>7,8</sup> This creates a strategic opportunity to shift towards higher-value roles and productivity gains.

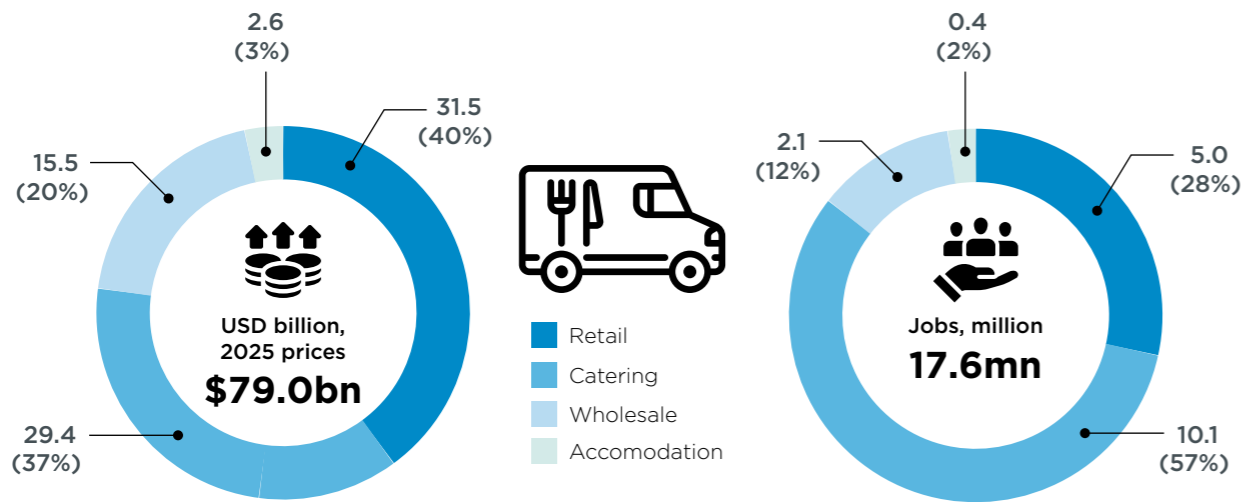
5 BPS Statistics Indonesia, Profile of Micro and Small Industry 2024 (2025)

6 Antara, MSMEs drive growth, exports, and job creation: Bank Indonesia Governor (2025)

7 BPS Statistics Indonesia, Food and beverage services activities statistics 2023 (2024)

8 Asian Development Bank, Reaping the benefits of Industry 4.0 through skills development in high-growth industries in Southeast Asia (2021)

Fig. 5 Economic contribution of F&B distribution in Indonesia, by sub-components, 2025



Source: Oxford Economics  
Totals may not sum due to rounding

## 2.4 IMPLICATIONS FOR INDONESIA'S ECONOMY

Indonesia's agri-food sector is not only a keystone of the economy, but also a stabilising force for employment, fiscal revenues, and regional investments. The extensive value chain linkages characterised by the sector mean that policies affecting agriculture, manufacturing, and services are deeply connected. The evidence presented in this chapter underscores the sector's central role in Indonesia's growth model—and why global economic shifts, the costs of trade, and global investment conditions have far-reaching consequences for its performance.

The next chapter explores these external and domestic forces in detail, assessing how evolving trade patterns, policy choices and market conditions are set to test the sector's resilience, and influence its prospects in the years ahead.

# 3. OUTLOOK FOR INDONESIA'S AGRI-FOOD SECTOR

Indonesia's agri-food sector has expanded steadily over the past two decades, supported by rising domestic demand, diversification of exports, and continued investment in production capacity. Yet the environment that has underpinned this growth is shifting. The global trading system is becoming more fragmented, with new tariffs, subsidies, and industrial policies reshaping long-established flows of goods, capital, and technology. For a sector that depends on both imported inputs and open access to export markets, these developments pose material risks to competitiveness and growth.

While Indonesia's agricultural base remains resilient, it is not immune to global turbulence. Supply chain reconfiguration, rising input costs and currency fluctuations are among the factors that are altering production incentives and trade dynamics. The challenge now is to preserve the hard-won gains of recent decades while adapting to an environment in which external shocks are more frequent and supply chains are more susceptible to disruptions.

This chapter explores the nature of current and emerging trade headwinds and their potential impact on Indonesia's agri-food sector through exports and production costs.

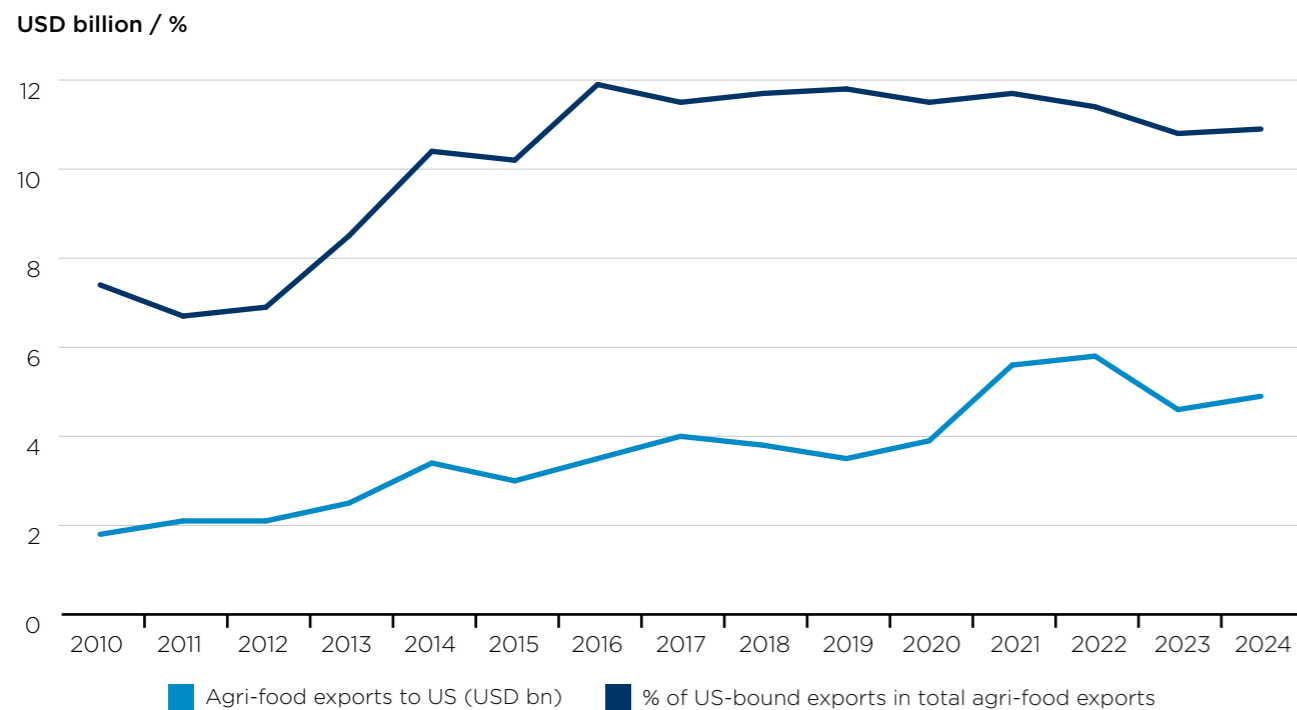


### 3.1 SHIFTING CONDITIONS IN GLOBAL TRADE AND INVESTMENT

The global trade environment is facing renewed strain as major economies raise import barriers to protect their domestic industries. Thanks to the new US tariff regime of President Trump's second administration, average tariff rates have climbed to their highest levels in decades. This comes on top of the proliferation of new non-tariff measures in recent years, with the number of harmful interventions introduced in 2024 estimated to be about 50 times higher than in 2019<sup>9</sup>. These actions have disrupted global supply chains and created uncertainty in cross-border investment decisions.

Indonesia's agri-food sector, which has long benefited from export-oriented growth especially in relation to the US, is highly exposed to these developments. The US remains a critical market for Indonesian agri-food exports as its second largest export destination, and its fourth largest source of agri-food imports. Since 2010, agri-food exports to the US have grown by around 7.5% per year, increasing the US share of Indonesia's total agri-food exports from 7% to 11% (Fig. 6).

Fig. 6 Indonesia's agriculture exports to the US, 2010 to 2024



Source: Oxford Economics, International Trade Center (ITC)

First and foremost, the external demand shock from the protectionist shift could damage Indonesia's agri-food export outlook. Based on the United Nation's Trade Intelligence and Negotiation

Adviser's (TINA) tariff simulation, a hypothetical addition of 19% tariff on Indonesian imports to the US in 2025 will reduce the flow of agri-food products by almost 30%.<sup>10</sup> The products most

likely to be affected are palm oil, coffee, crab, cocoa butter and palm kernel, which constitute

more than half of the total US imports in 2023 (Fig. 7).

Fig. 7 Top five most impacted agri-food products under the US reciprocal tariff

Agri-food products	US imports 2023 (USD mil)	Trade destruction (USD mil)	% of impact on US imports
All products	5,380.1	-1,596.6	-29.7
(1) Palm oil	1,716.9	-242.0	14.1
(2) Coffee	264.9	-236.3	89.2
(3) Crab	324.2	-183.9	56.7
(4) Cocoa butter	218.8	-167.8	76.7
(5) Palm kernel	393.2	-164.4	41.8
<b>Top 5 total</b>	<b>2,918.0</b>	<b>-994.4</b>	<b>34.1</b>

Source: Oxford Economics, UN TINA

Furthermore, heightened policy uncertainties also present risks to Indonesia's agri-food industry as investors postpone or cancel investments. The exact level of US tariffs and the list of sectoral carve outs remains highly fluid due to shifting priorities and the threat of tariff litigation in the US supreme court. For instance, bilateral negotiations between the US and Indonesia in 2025 led to the agreement of a 19% US tariff on all Indonesian goods imports in July, followed by the later removal of over 200 agriculture products from the tariffs globally in November, which included Indonesia's key export commodities to the US such as coffee, tea, rice and more.

In the meantime, the changing trade environment may also create competitive pressures for Indonesian producers in their domestic market from an influx of competitively priced imports. Producers in large economies affected by US tariffs, such as China and Mexico, may divert their excess capacity to alternative destinations like Indonesia. At the same time, the bilateral trade deal struck in 2025 between the US and Indonesia, which includes tariff concessions on a full range of imports from the US—including food and agricultural products—could expose Indonesian agri-food producers to increased competition from US imports, too. Indonesia's success

in concluding its Comprehensive Economic Partnership Agreement (CEPA) with the European Union also heightens the need for the industry to strengthen its competitiveness.

This volatile global environment poses significant challenges to Indonesia's longer term developmental goals, as set out in BAPPENAS' VISION 2045. An important pillar of this vision is the government's push for downstream industrialisation of agricultural commodities, such as processing palm oil and cocoa, to move the sector up the value chain. Escalating trade uncertainties could complicate this strategy. Certain downstream products now face higher tariff and non-tariff barriers in major export markets like the US, while a broader global growth slowdown adds further demand-side uncertainty, making it harder for Indonesia's agri-food sector to capture greater value from its exports. For example, the World Trade Organisation (WTO) received a record number of sanitary and phytosanitary (SPS) notifications from developing economies in 2024.<sup>11</sup> New opportunities may also arise from diverting exports to new destinations and deepening Indonesia's FTA networks. However, realising these opportunities will take time and require further policy support for the sector to transition.

9 Global Trade Alert (n.d.)

10 To facilitate modelling at granular product level, TINA follows a partial equilibrium approach which does not take into account second-round effects such as the effects from tariffs imposed on domestic wages, expenditure and cross-sectoral feedback.

11 World Trade Organisation, Members conclude Sixth Review of SPS Agreement, note record notifications (2025)

## BOX 1: “WORST-CASE TRADE WAR” SCENARIO

In Oxford Economics’ worst-case trade war scenario, trade negotiations turn far more acrimonious and disruptive. The US imposes much higher tariff hikes that mimic the Liberation Day announcements on 2 April 2025, including a 120% tariff on Chinese imports. Key tariff exemptions, such as pharmaceuticals and agricultural products are also removed, while the expected USMCA renegotiation fails to materialise. Overall, this brings US’ overall effective tariff rate to 31% in Q4 2025, more than double the level in the baseline projection. Additionally, affected trading partners hit back with corresponding tariffs on US exports.

Escalation in the trade war impacts global economies through two key channels—a drag in investment confidence and disruption in global trade flows. Heightened US trade policy uncertainty causes businesses and consumers to delay or even cancel investment decisions and spending on durable goods, thereby dragging US domestic demand. The effect is expected to spill over into the global economy, as trading partners’ exports are hit by higher tariffs and weaker US and global demand. Besides, supply chain disruptions are also set to take place as traders navigate the new tariff landscape. This would inevitably raise costs and price pressures globally.

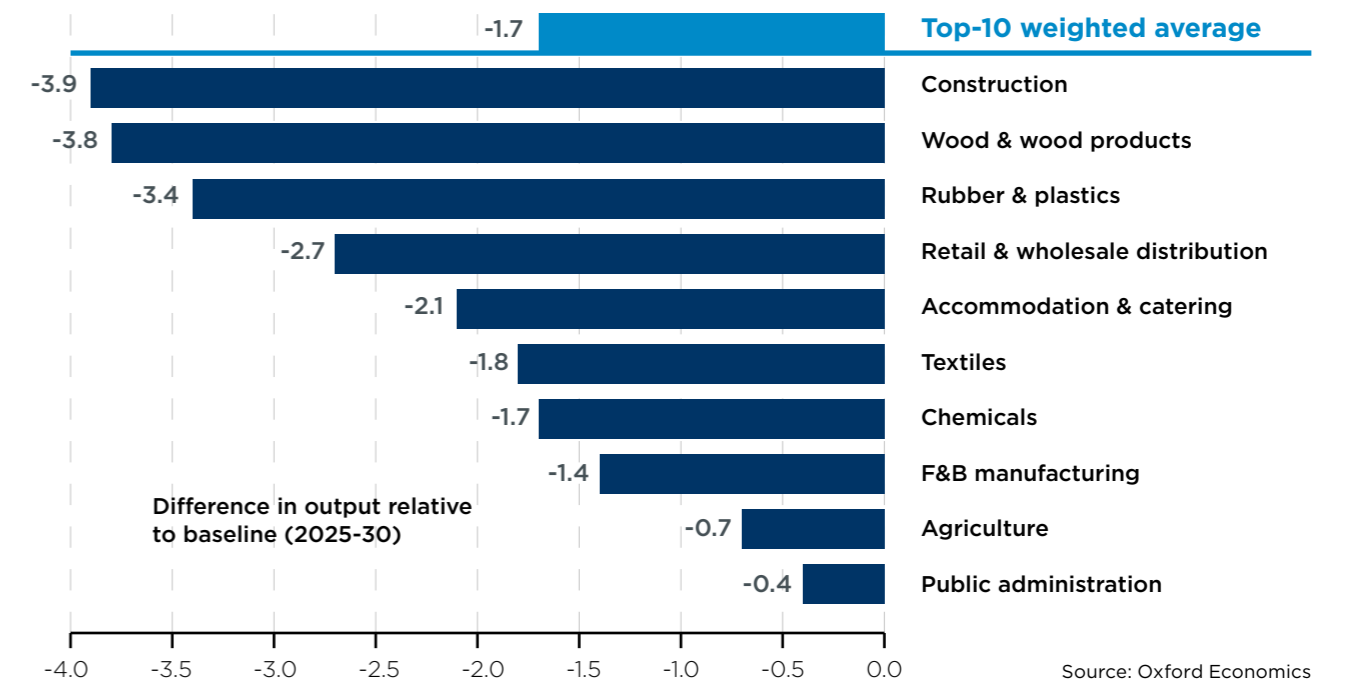
### 3.2 BRACING FOR TOMORROW’S TRADE SHOCKS

The imperative for strengthening the competitiveness of Indonesia’s agri-food outputs grows as the global trading system becomes ever more fragmented. Countries increasingly adopt policies designed to secure domestic supply and promote self-sufficiency through food security policies. This fragmentation is evident in both tariff and non-tariff measures, which are now increasingly used to achieve industrial or strategic goals rather than purely economic efficiency. This environment leaves both importers and exporters vulnerable to shifts in market access, duty levels, and enforcement practices such as origin verification or trans-shipment controls.

Such uncertainties pose ongoing challenges for Indonesia’s agri-food exporters, who depend heavily on reliable global supply chains and stable access to overseas markets. Scenario analysis by Oxford Economics suggests that—in a “worst case trade war” scenario—a further escalation of tariffs among major economies could lead to a drop in global GDP to 2.3% below baseline projections over the next five years (see Box 1 for a summary of the scenario).

Under such a scenario, the global slowdown in economic activity would translate into dampened downstream demand for Indonesia’s agri-food products. Our analysis suggests the top ten downstream market segments for Indonesia’s agri-food sector would see their total production shrink by 1.7% relative to the baseline projection between 2025 and 2030. Among them, the construction and wood manufacturing sectors will be the most severely hit, with their output slashed by nearly 4% (Fig. 8).

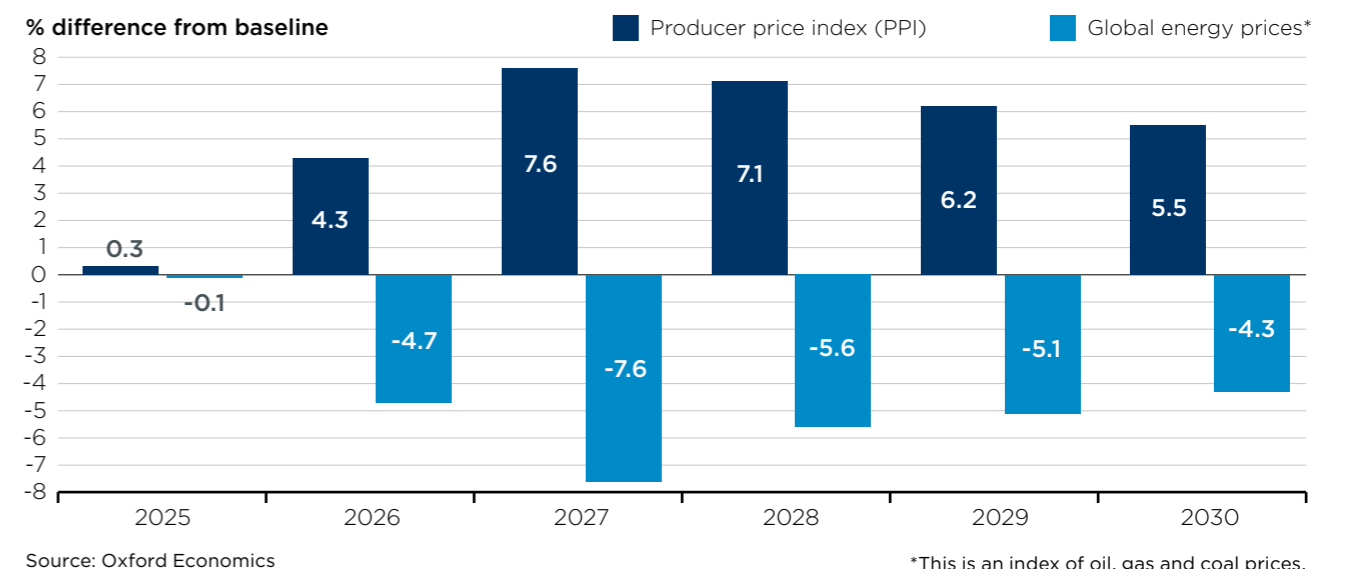
Fig. 8 “Worst-case” trade war impact on Indonesia’s top 10 agri-food downstream demand sectors, 2025 to 2030



On the supply side, tariff pass-through and supply chain disruption triggered by trade conflicts would translate into higher costs of production for Indonesia’s agri-food producers. Under the worst-case scenario, global producer prices are projected to rise by up to 8% above the baseline forecast in 2027 (Fig. 9).

That said, global energy prices would be expected to moderate should the trade war worsen, as subdued global economic activity dampens energy demand. Global energy prices, including oil, gas and coal, are projected to fall 4-8% below baseline level between now and 2030 in this worst-case scenario, offering some relief to industries (Fig. 9).

Fig. 9 “Worst-case” trade war impact on prices, 2025 to 2030



### 3.3 NEW OPENINGS IN A CHANGING TRADE LANDSCAPE

Even in a high tariff environment, Indonesia could still find opportunities in the uneven application of tariffs across exporting countries. Using the July 2025 US tariff schedule as a reference point, Indonesia's agri-food exports faced a tariff rate of around 19%. Amongst the key competitors for Indonesia's top 10 agri-food export products in the US market, only Côte d'Ivoire (15%) enjoyed

a lower tariff rate; the tariffs on China (34%) and South Africa (30%) were significantly higher (Fig. 10). However, Indonesia's ability to capture diverted trade depends on two critical factors: i) its ability to scale supply, and ii) its ability to compete effectively with established players in specific product segments in the US market.

Fig. 10 Indonesia's selected competitors for its top 10 export products to US markets and the respective latest reciprocal tariff level

Competitor	Competing export products to US markets	Additional tariffs
China	Prepared crab/seafood; processed foods	34%
South Africa	Canned fruit (pineapple alt.); processed foods	30%
India	Shrimp; coffee	25%
Taiwan	Tuna/seafood processing	20%
Vietnam	Shrimp (frozen/prepared); tuna; coffee	20%
Philippines	Coconut oil; tuna; canned pineapple	19%
Malaysia	Palm oil; palm-kernel oil	19%
Thailand	Shrimp (frozen/prepared); tuna fillets; canned pineapple	19%
Côte d'Ivoire	Cocoa butter/fats & oils	15%

Source: Oxford Economics based on analysis of latest trade data and tariff announcement from Trump 2.0 tariff tracker (accessed October 14, 2025).

The government's renewed push to deepen regional cooperation has also strengthened its prospects for diversifying its trade networks. The WTO database shows that in the past five years, Indonesia had concluded a total of 13 new Regional Trade Agreements (RTAs), far surpassing its Asian peers, such as Malaysia (+8 RTAs), India (+6) and Vietnam (+6).

Growing commercial ties with the Gulf Cooperation Council (GCC) are particularly significant, including a new USD 27 billion agreement signed between Indonesia and Saudi Arabia in July 2025, and the ongoing negotiations to establish an Indonesia-GCC Free Trade Agreement (FTA). The GCC already accounts for 17% of Indonesia's agri-food exports, and demand in the region is projected to remain robust.

The GCC market is relatively resilient to global trade shocks. Oxford Economics scenarios suggest GDP in the GCC economies would fall only 1.3% below the baseline projection in the worst-case trade war scenario for 2030, compared to the global average of 2.3%. Moreover, the growing demand for trusted halal products makes the GCC a valuable market for Indonesia's agri-food exporters. Indonesia's production scale, established halal certification ecosystem, and growing capabilities in processed meats, snacks, plant-based products and seasonings position it well to capture this shifting demand.

However, capitalising on these opportunities will not be automatic. Many firms face capacity and compliance constraints that limit their ability to pivot quickly toward new export markets. A survey of firms in Yogyakarta Special Region, for example,

suggest that only 44% of Indonesian firms involved in trading with FTA partners utilised the preferential access available to them.<sup>12</sup> Moreover, smaller producers often lack the financing, market intelligence, and distribution networks needed to enter alternative destinations, meaning that much of the trade diversion benefit may be concentrated among larger, more established exporters.

The challenges outlined above underscore the need for Indonesia's agri-food sector to reinforce its domestic foundations. The next chapter explores how both near-term and longer-term actions can strengthen the sector's resilience and competitiveness.



12 Nasution, Utilization of Free Trade Agreement in Indonesia: Firm-Level Data Analysis of the Yogyakarta Special Region (2019)

# 4. BUILDING RESILIENCE AND COMPETITIVENESS

The external risks outlined above underscore the importance of strengthening the industry’s domestic foundations. There are opportunities available to mitigate short-term risks and advance towards a more efficient, innovative industry. Indonesia can strengthen both its resilience today and its competitiveness in the decade ahead.



## 4.1 SHORT-TERM RESPONSES AND TRADE DIVERSION OPPORTUNITIES

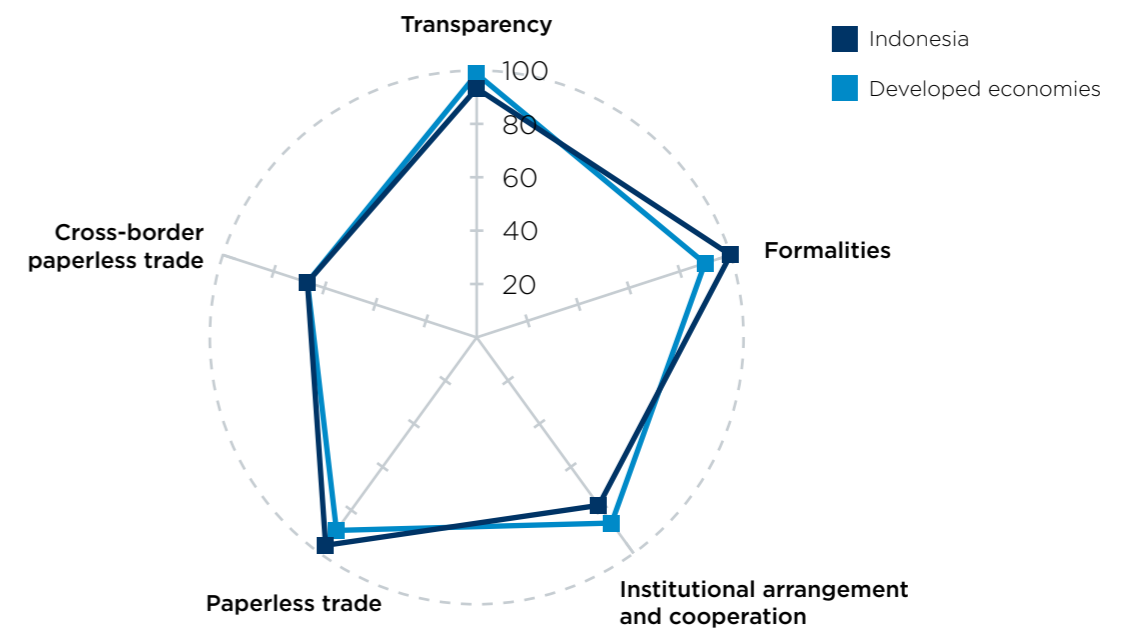
In the near-term, swift and well-targeted interventions are critical to helping the sector sustain competitiveness. Removing key operational bottlenecks that constrain agri-food exports would help de-risk and accelerate sectoral upgrading. Strengthening trade facilitation, customs procedures, and logistics connectivity would also help reduce transaction costs. Targeted policy support—such as temporary fiscal measures (e.g. accelerated duty drawback or faster VAT refunds for exporters), export credit guarantees, and measures to stabilise input costs—can cushion firms from sudden tariff shocks and supply chain disruptions.

Streamlining border and sanitary and phytosanitary (SPS) procedures, strengthening national standards and certification systems, and enhancing testing and traceability capacity would also be critical enablers, helping producers meet changing international market requirements more efficiently. These measures will not only improve

compliance with evolving import regulations in major markets but also boost confidence among exporters to access diverse markets as they navigate volatile global trade conditions. Complementary investments in port, cold-chain, and reefer infrastructure will strengthen the physical backbone of export activity, ensuring that agri-food producers can deliver higher-value products efficiently and maintain Indonesia’s position in key global value chains.

Health-related regulations are also a significant feature of the policy landscape for the agri-food sector, shaping incentives for product upgrading and innovation. As in many countries, Indonesia is considering public health measures—such as sugar-sweetened beverage (SSB) taxes, front-of-pack labelling and marketing restrictions—to address rising rates of non-communicable diseases (NCDs). The way these measures are designed and implemented will influence the operating environment for businesses. Health-

Fig. 11 UN Global Survey on Digital and Sustainable Trade Facilitation score, 2025



Sources: Oxford Economics, United Nations  
 Note: Higher scores indicate better performance.

related regulations sit alongside trade policy, SPS requirements and investment rules as part of the broader regulatory environment that shapes long-term business decisions. In this context, policy coherence is critical. Clear regulatory objectives, evidence-based impact assessments and coordination across ministries can help ensure that health goals are met while supporting innovation, competitiveness, and opportunities for SMEs within the formal sector. This approach reflects international good practice and helps maintain investor confidence while advancing public health priorities.

Taken together, these regulatory pressures—whether driven by trade, health, or standards compliance—reinforce the need for an investment climate that is predictable, well-coordinated, and geared toward long-term competitiveness.

## 4.2. LONG-TERM UPGRADING AND INVESTMENT ATTRACTION

Over the longer term, Indonesia's agri-food sector will need to strengthen its competitiveness by upgrading productivity, technology, and market reach. Exposure to new market demand and competitive pressures often spurs firms in developing economies—particularly those in agriculture and light manufacturing—to improve processes, upgrade products and adopt higher standards and certification such as through demonstrable improvements in food safety management.<sup>13</sup> Crucially, the firms that succeed in this transition are typically supported by favourable local institutions, such as coherent industrial policies, workforce training, and effective public-private coordination.

Indonesia's policymakers have already identified various areas for action. The National Medium-Term Development Plan (RPJMN) 2025-2029 emphasises institutional strengthening of farmers

Indonesia has already taken important steps in this direction. For example, the country continues to post improving trade facilitation scores according to the United Nations' Trade Facilitation Survey 2025. Progress was achieved particularly in the area of cross-border paperless trade thanks to the full implementation of a legal framework for digital authentication. However, Indonesia continues to lag behind the global average for developed economies in terms of trade facilitation, especially in the area of transparency and institutional arrangement for governance and stakeholder engagement (Fig. 11). This suggests that further progress is needed to streamline inter-agency coordination, accelerate digitalisation of certification and traceability systems, and upgrade port-side cold-chain and inspection facilities to fully align with global best practices and support higher-value food exports.

through cooperatives, investment in agricultural research and human capital, and the overall modernisation of production systems.<sup>14</sup>

### 4.2.1 Revitalising investment flows

The volatile trade environment may require a strategic pivot towards attracting and integrating globally competitive agri-food firms. The high fixed cost of serving multiple markets—such as conducting market intelligence, complying with diverse standards, and maintaining overseas distribution networks—tend to favour larger firms that can spread these costs over greater sales volumes. Thanks to their global presence, multinational enterprises (MNEs) are also typically better positioned to reconfigure supply chains, absorb short-term shocks, and leverage existing networks to redirect exports or source alternative inputs. Strengthening linkages between these

13 Pipkin and Fuentes, Spurred to Upgrade: A Review of Triggers and Consequences of Industrial Upgrading in the Global Value Chain Literature (2017)

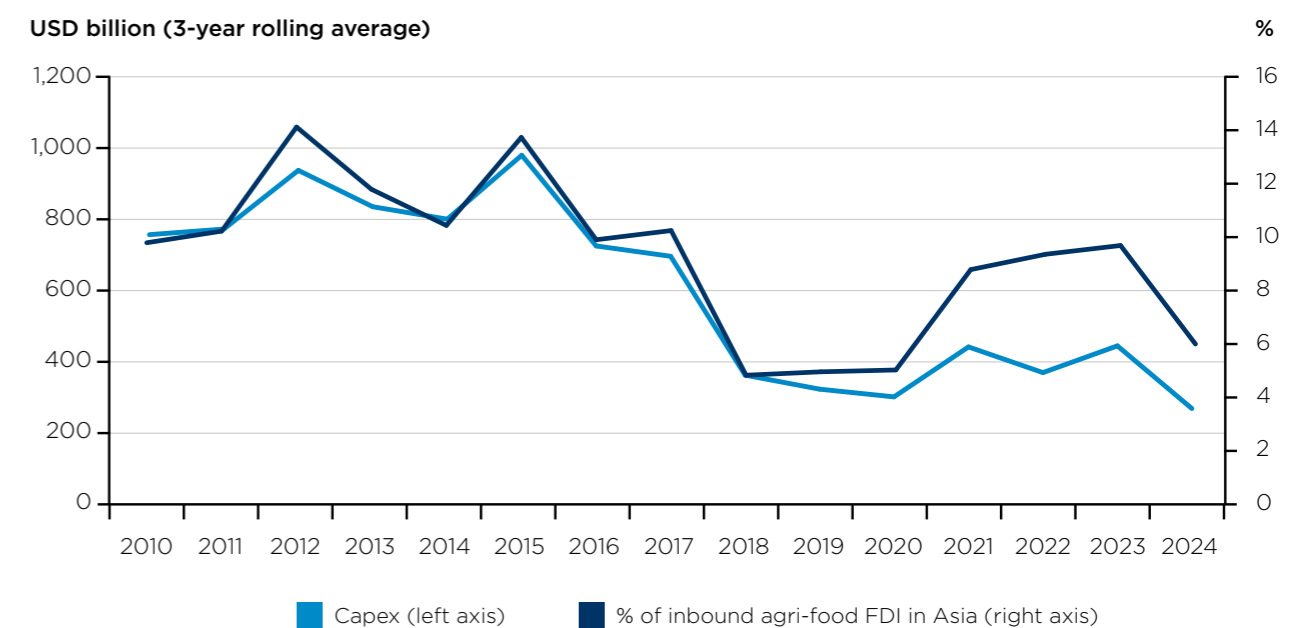
14 FFTC Agriculture Policy Platform, National Agricultural Development Planning of Indonesia 2025-2029 (2025)

lead firms and domestic suppliers can help diffuse knowledge, technology, and market access benefits more broadly across Indonesia's agri-food base.

The decline in Foreign Direct Investment (FDI) into Indonesia's agri-food sector over the past decade points to the need for renewed efforts to attract high quality, export-oriented investors. Financial

Times data suggests greenfield FDI into the sector since 2010 contracted at a compound annual rate of 8.5%. Consequently, Indonesia's share of total inbound agri-food FDI in Asia has almost halved, dropping from 10% in 2010 to just 6% in 2024 (Fig. 12). A sustained decline in FDI risks undermining Indonesia's long-term ability to capture higher value from global agri-food value chains and compete globally.

Fig. 12 Inbound FDI to Indonesia's agri-food sector



Sources: Oxford Economics, fDi Markets

### 4.2.2 Leveraging regional and global partnerships

In this context, regional trade agreements such as the Regional Comprehensive Economic Partnership (RCEP) present a crucial opportunity to reinvigorate investment flows. On the one hand, tariff reductions may lower incentives for MNEs to establish production facilities in Indonesia. On the other hand, these regional agreements can promote investment through other channels: firstly, by making it cheaper for multinationals to source and assemble components across different countries; and secondly, by encouraging “export-

platform FDI”, with investors using Indonesia as a base to serve the wider regional market.

In the context of rising trade protection, a consistent outward-looking policy stance reinforces Indonesia's position as a reliable base for MNEs seeking to serve both regional and global markets, helping attract higher-quality, export-oriented FDI across manufacturing, logistics, and agri-food industries. Empirical research suggests that the spillover effects for RCEP members and non-members could raise Indonesian exports by 7.2% through the expansion of Indonesia's role in the global supply chain.<sup>15</sup>

15 Aprilianti, Will RCEP be beneficial for Indonesia? (2019)

#### 4.2.3 Maintaining an open, rules-based trade regime

Reaffirming Indonesia's commitment to an open, rules-based, and predictable trade regime will be vital to attracting multinational agri-food investors.

Reducing non-tariff barriers—whether through mutual recognition of SPS measures or through clearer, more predictable technical-standards regimes—will help reduce compliance costs for exporters and improve market access. In this regards, Indonesia's recent reform to its halal certification framework is a positive step: under the new decree by Badan Penyelenggara Jaminan Produk Halal (BPJPH), halal certificates issued by recognised foreign halal certification bodies with a mutual-recognition arrangement (MRA) no longer require re-certification in Indonesia, easing conformity assessment burdens and facilitating smoother entry for imported agri-food products.<sup>16</sup> Coupled with stronger implementation of trade agreement commitments—such as digital certification platforms, traceability systems and rule-of-origin helpdesks—these measures would collectively reinforce Indonesia's credibility as a predictable, rules-based partner in regional food-value chains.

Equally important is to avoid abrupt policy shifts—such as ad hoc import or export restrictions or new domestic market obligations—that may introduce planning uncertainty to businesses and investors. The Ministry of Finance's recent proposal on excise for sugar-sweetened beverages in April 2025 highlights the importance of signalling reforms early and ensuring alignment with broader regulatory objectives.<sup>17</sup> A consistent, predictable environment will strengthen investor confidence and demonstrate long-term openness to global agri-food value-chain participation.

#### 4.2.4 Enhancing competitiveness and domestic linkages

Indonesia's ability to attract quality FDI and defend its comparative advantage in regional value trains means enhancing its competitiveness—which requires a multi-faceted approach:

##### Upgrading productivity and infrastructure:

Cutting logistics bottlenecks and modernising quality-control infrastructure can significantly reduce export costs, particularly for perishable and processed foods. Targeted upgrades, such as cold-chain facilities, food testing laboratories and integrated logistics hubs would lower spoilage, improve reliability and increase export margins. An example is Vietnam, which has invested heavily in cold-chain logistics and food-quality infrastructure through public-private partnerships under its National Logistics Action Plan. Projects such as the Cai Mep-Thi Vai logistics hub and new regional food testing laboratories have improved compliance with export standards and reduced post-harvest losses. These targeted investments have helped Vietnamese agri-food exporters, particularly in seafood and processed fruit, cut delivery times and raise product reliability in key markets like Japan and the EU.

##### Strengthening the investment environment:

Whereas Indonesia has significantly liberalised FDI restrictions in recent years, this agenda is not yet finished. Among the 104 countries featured in the OECD FDI Regulatory Restrictiveness Index, Indonesia ranks 12th globally in term of FDI restrictions in the food manufacturing sector, including restrictions on key foreign personnel (ranked 2nd most restrictive) and discriminatory local content requirements (4<sup>th</sup>).<sup>18</sup> According to the OECD, implementing an ambitious and wide-ranging reform programme to substantially lower FDI restrictions could boost Indonesia's FDI stock by as much as 85%.<sup>19</sup>

**Deepening SME-MNE linkages:** Fostering stronger linkages between domestic agri-food small and medium-sized enterprises (SMEs) and MNEs will be vital to deepening value-chain integration and diffusing technology. Supplier development programmes, joint ventures and contract-farming partnerships can help local producers meet international standards for food safety, traceability and sustainability, propelling them to become reliable partners for MNEs in global production networks. A good example is Thailand, which has successfully fostered SME-MNE linkages in its agri-food sector through supplier development initiatives led by the Board of Investment (BOI) and partnerships with global firms such as CP Foods and Nestlé. These programmes provide technical training, quality certification support, and financing access for local suppliers, enabling Thai SMEs to integrate into export-oriented value chains and meet international food safety and sustainability standards.

##### Cluster-based innovation ecosystems:

Encouraging partnerships between SMEs and global food processors, especially in precision agriculture, packaging and cold-chain storage management, is crucial. Agri-food industrial clusters and digital supplier platforms (such as Malaysia's Halal Park and Thailand's Food Innopolis initiatives) can create ecosystems where local firms connect with lead investors, access market intelligence, and collaborate on innovation. Within these clusters, tailored support such as affordable finance, food-processing technology adoption and certification assistance (e.g. halal, ISO and HACCP) can help SMEs upgrade capacity and integrate into export-oriented production networks.

By strengthening these linkages, Indonesia can ensure that foreign investments drive not only export growth but also wider industrial upgrading, job creation, and long-term productivity gains in the agri-food sector.

### 4.3 IMPLICATIONS FOR INDONESIA'S TRADE AND INDUSTRIAL POLICY

The analysis in this chapter highlights both the vulnerabilities of Indonesia's agri-food sector and its capacity to adapt to a more fragmented global economy. Sustaining growth and competitiveness will depend on policies that deepen resilience—through open and diversified trade links, improved logistics and standards infrastructure, and stronger linkages between global and domestic firms.

Together, these efforts can secure Indonesia's position as a trusted regional hub in global food supply chains and ensure that future growth remains both inclusive and internationally competitive.

<sup>16</sup> BPJPH, Keputusan Kepala BPJPH Republik Indonesia tentang Prosedur Pelaksanaan Registrasi Sertifikat Halal Luar Negeri (2025)

<sup>17</sup> Kementerian Keuangan RI, Pengenaan Cukai atas Minuman Berpemanis dalam Kemasan (2025)

<sup>18</sup> OECD, FDI Regulatory Restrictiveness Index (2025)

<sup>19</sup> OECD, Investment Policy Reviews: Indonesia 2020 (2020)

## 5. KEY TAKEAWAYS

**A cornerstone of Indonesia's economy:** The agri-food sector's economic footprint is equivalent to nearly one-third of GDP, supports close to half of national employment, and anchors food security and regional development.

### **Exposure to global volatility:**

Trade tensions, tariff escalation, and shifting consumer and regulatory demands have created a more uncertain environment for producers and exporters.

### **The strategic opportunity:**

With sustained focus on openness, innovation, and institutional strength, Indonesia's agri-food sector can remain both a stabilising force and a driver of inclusive, innovation-led growth.

### **Short-term resilience measures matter:**

Streamlining border procedures, improving logistics, and offering targeted fiscal or credit support can cushion firms from external shocks and sustain export momentum.

### **Long-term competitiveness requires reform:**

Attracting quality investment, strengthening infrastructure and standards systems, and modernising production will position Indonesia to capture higher-value opportunities in regional and global markets.

### **Policy consistency builds confidence:**

Transparent and predictable trade and investment policies, and regulatory measures relating to food, that avoid abrupt shifts are essential to maintain investor trust and integration in global value chains.

### **Collaboration is key:**

Stronger coordination between the government, industry, and international partners can turn policy goals into action through regional trade agreements, facilitation of cross-border investments, and engagement with international associations and trade bodies to better harmonise standards and share best practices.



## 6. TECHNICAL ANNEX

The methodology for estimating the economic impact of the agri-food sector in this study is consistent with our previous report with Food Industry Asia, *The Economic Impact of the Agri-Food Sector in Southeast Asia 2022*. We elaborate on the definitions and methodological steps taken in the sections below.

### 6.1 DEFINING THE AGRIFOOD SECTOR

The agri-food sector contains three main components:

**Component 1: Agricultural production:** This includes the production of goods that are either exclusively or primarily used for food. Rubber and tobacco products, as well as forestry, are excluded.

**Component 2: Food and beverage manufacturing:** Adjustments are made to exclude tobacco manufacturing. As a variation to previous studies, the production of alcoholic beverages is included in the estimation.

**Component 3: Food and beverage distribution:** This includes wholesale and retail activities, as well as hospitality which covers catering and accommodation. To estimate the proportion of activity in this sector that is F&B-related, we draw on a range of data sources, including official national accounts and business surveys conducted by government agencies that detail the activities of service providers.<sup>20</sup> Data gaps are addressed using modelling assumptions about the structure of the industry, based on international benchmarks.

### 6.2 ECONOMIC IMPACT METHODOLOGY

#### 6.2.1 Metrics presented

We present the impact in three ways:

- **Gross value added (GVA) contribution to Gross Domestic Product (GDP):** the value of the output produced by a firm minus its expenditure on inputs that are used in production. When aggregated across all economic operators in the economy, this sums to GDP (plus production taxes and subsidies).
- **Employment:** measured on a headcount basis to facilitate comparisons with national statistical agencies' employment data. It therefore

includes anyone who is paid wages regardless of the length of their working week or whether they work all year round.

- **Tax receipts:** an estimate of all corporate profit taxes, personal income taxes, and net taxes on production and products, generated by firms and employees that form part of the economic footprint.

Our results are presented on a gross basis. They do not consider what those resources currently used by the agri-food sector, or by their suppliers, could produce in the absence of the sector's activity.

<sup>20</sup> This includes national accounts data from Statistics Indonesia and the Philippine Statistics Authority business surveys conducted by the national statistical agencies such as the Annual Survey of Philippine Business and Industry (ASPBI) and benchmarks from Thailand's Business Trade and Services Survey when data for Indonesia are unavailable.

### 6.2.2 Direct contribution of agricultural production and F&B manufacturing

Our analysis begins with an estimation of the direct contributions of agricultural production and F&B manufacturing.

**Agricultural production.** Data was collected data the whole of the agriculture, forestry, and fisheries industry from the national accounts for 2024, which was the latest year available.<sup>21</sup> This was forecasted to 2025 using the sectoral growth rates informed by Oxford Economics' proprietary forecasts. We removed the share of sectors that are outside the scope of this study using detailed product-level data sourced from the national Input-Output (IO) tables published by the respective national statistical agencies.

Employment in agricultural production was calculated by forecasting the latest 2024 employment figures from the respective national labour force surveys for the overall agricultural, forestry, and fisheries sector to 2025, before scaling to the size of the sector that is considered in scope.

**Food and beverage manufacturing.** National accounts data from the statistics agency were used as the basis for estimating direct GDP contribution. This was forecasted to 2025 using sectoral growth rates informed by Oxford Economics' proprietary forecasts.

National statistics only provide employment data for the whole manufacturing sector. To estimate employment only for F&B-manufacturing, we used relative productivities—or GVA per worker—of the sub-sector relative to the whole of manufacturing. This was sourced from the United Nations Industrial Development Organisation (UNIDO) INDSTAT database.

### 6.2.3 Indirect and induced impacts

Our model utilises national input-output (I-O)

tables to model the supply chains that sustain activity in the indirect and induced impact. An I-O table is a detailed representation of an economy, showing the major interactions and spending flows between different industries, households, government, and the external sector.

For the **indirect impact**, we estimated the structure of intermediate purchases of goods and services across the entire supply chain that flowed from our direct impacts. We focused only on the non-F&B supply chains to avoid double counting the activities that are already captured in the direct impact.

The **induced impact** considers the value accrued in the economy as wage earners spend the wages they derive via the direct and indirect impacts. Employee wage spending was adjusted to account for the value of household spending as a share of total earnings, to consider taxes and savings. The value of this spending was distributed across sectors based on the structure of household spending in each country, and we traced the impact that this had across the economy. We excluded household expenditure on agricultural production and F&B manufacturing to avoid double counting these activities.

### 6.2.4 Estimating the economic impact of F&B distribution

We consider four distribution channels within our model—wholesale, retail, catering, and accommodation.

**Wholesale and retail.** Statistics on the overall contribution of the wholesale and retail sector to national GDP were available from the national accounts of both countries. We extrapolated the latest 2024 published data to 2025 levels using the sectoral growth rates informed by Oxford Economics' propriety forecasts. To estimate the share that could be attributed to agri-food, we accessed consumer spending data from Oxford Economics' databanks, as well as detailed

official statistics from business services surveys for the Philippines.<sup>22</sup> For Indonesia, as granular information was not available, this share was estimated based on official Thai business services survey data.<sup>23</sup>

For employment, we similarly obtained latest 2024 figures for the overall wholesale and retail trade sector from the national labour force surveys and forecasted this to 2025 values. To estimate the employment only for F&B-related segments, we leveraged the relative productivity of the agri-food segments within the broader retail and wholesale industry derived from the detailed business services surveys datasets mentioned above.

**Accommodation and catering.** GDP and employment estimates of both accommodations and F&B services for 2024, sourced from the national statistics agencies, were similarly forecasted to 2025 levels. Only a portion of the hospitality industry was considered part of the agri-food sector. We leveraged the same proportions used in the previous iteration of this study, which were decided via an analysis of detailed product-level input-output data, as well as consultation with FIA and their members.

### 6.2.5 Tax model

Our model captured four categories of taxes—corporate profit taxes, labour taxes, and taxes on products (e.g., import duty and value added tax) and production (i.e., other business taxes).

These are modelled based on tax ratios, which are the amount of tax generated relative to a suitable denominator, such as the compensation of employees, gross operating surplus, or GVA. To estimate these ratios, we draw on Oxford Economics' macroeconomic databases and tax revenues from the OECD. These ratios were applied to the relevant results for each component of the agri-food sector to estimate the tax impacts.

21 National accounts data for 2024 taken from Statistics Indonesia and the Philippine Statistics Authority.

22 Data taken from the Annual Survey of Philippine Business and Industry (ASPBI) published by the Philippine Statistics Authority.

23 Data taken from the Business Trade and Services Survey published by National Statistical Office Thailand.



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