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NEWSLETTER

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THE UNITED STATES' RECIPROCAL TARIFFS ON INDONESIA'S PRODUCTS: NAVIGATING THROUGH CHALLENGES

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An Overview

In light of the current geopolitical and geoeconomics developments, on April 2, 2025, President Donald Trump of the United States (US) announced the imposition of sweeping reciprocal tariffs on most of its trading partners, including Indonesia. The tariffs were calculated by dividing a country's trade deficit with the US by its exports to the US and then halving the result. This is despite the US' claim that the calculation is based on the tariffs charged by the trading partner on American products, while also factoring in other trade barriers and currency manipulation. While the US' unilateral and arbitrary increase of tariffs appears to contradict its commitments under the World Trade Organization (WTO), it is pertinent to assess the potential impacts of such measures and identify possible mitigation strategies.

Key Updates

In this International Trade Series, we highlight important information on the US Reciprocal Tariff Policy

A. Overview of the US Reciprocal Tariff Policy on Indonesian Products

Under the US Reciprocal Tariff policy, Indonesia is deemed to have imposed a 64% tariff on US products, considering non-tariff barriers and currency manipulation. In response, the US has imposed a 32% ad valorem tariff on goods originating from Indonesia, with exceptions for dual-use goods, steel/aluminium and autos/auto parts, lumber, bullion, and energy or minerals not available in the US. The new tariffs will take effect on April 9, 2025. In simple terms, the calculation is based on

Indonesia's trade deficit with the US, divided by its exports to the US, and then halved. Details of this calculation can be found on the United States Trade Representative's website here.

B. The US Reciprocal Tariff Policy and its International Trade Obligations

The US Reciprocal Tariff Policy may be in breach of several WTO obligations under the 1994 General Agreement on Tariff and Trade (**GATT**), particularly given its discriminatory nature and its deviation from the US' schedule of commitments. Since taking office earlier this year, Trump has imposed various unilateral trade measures. Several countries including Canada and China have lodged WTO complaints against the US before the WTO Dispute Settlement Body for the last two months. However, the current paralysis of the WTO Appellate Body may render any panel decision ineffective, as the US can simply 'appeal into the void'.

At the bilateral or plurilateral level, the US has several free trade agreements (FTAs), though none with Indonesia. It remains to be seen whether any of the US' FTA partners will raise a complaint under those agreements.

C. Assessing Potential Impacts of the US Tariff Policy on Indonesian Exporters

The US' imposition of a 32% tariff on Indonesian exports to the US may lead to significant adverse impacts on Indonesia's domestic industries. The Indonesian Economic National Committee has identified electronics, textiles and apparel, footwear, palm oil, rubber, furniture, shrimp, and fisheries as the most affected sectors. Previously, many of these products benefited from the US Generalized System of Preferences (GSP) and were subject to a 0% tariff—except shrimp, which was subject to a 3.9% to 6.3% anti-dumping duty. Therefore, the reciprocal tariffs may severely reduce the competitiveness of Indonesian exports, potentially lowering demand. Notably, the US is Indonesia's second-largest trading partner after China.

In the long run, the reciprocal tariffs may lead to broader market disruptions. If domestic industries cannot remain competitive, reduced demand may lead to decreased production and employment. Moreover, foreign investors in Indonesia, particularly those targeting the US market, may consider relocating operations to countries that have negotiated more favourable tariff arrangements with the US.

Although some have speculated that Chinese investors might shift production to Indonesia due to the high tariffs on Chinese goods, Indonesia must still compete with other Southeast Asian countries in attracting manufacturing investment. Factors such as labour costs, infrastructure, ease of doing business, and final tariff rates for exports to the US will be decisive for potential investors.

A more robust prediction of the impact of the US' reciprocal tariffs will be possible only after their implementation. Currently, Indonesia, along with other affected countries, are engaged in negotiations with the US government to seek concessions.

D. Next Steps for Indonesia and Indonesian Businesses

Several countries have already offered concessions to the US as part of their negotiation efforts. For instance, Vietnam has agreed to reduce import tariffs on American goods to 0%, while Thailand and Cambodia have reduced theirs to 9% and 5%, respectively. Indonesia's exports that compete directly with those of these countries include textiles and garments, footwear, and agricultural products.

Recognizing the potentially severe impact of the reciprocal tariffs, the Indonesian government has taken steps to engage with the US government. Reportedly, it is preparing a package aimed at reducing both tariff and non-tariff barriers for American goods. Simultaneously, the government is exploring alternative export markets, particularly the European Union (EU). These recent geoeconomics developments may provide momentum to accelerate the ongoing negotiations for the EU–Indonesia Comprehensive Economic Partnership Agreement (CEPA).

While awaiting the outcome of government negotiations with the US, Indonesian businesses should consider conducting preliminary impact assessments of the US Reciprocal Tariff Policy as a worst-case scenario. This may include comparing competing markets' tariff rates, identifying possible exemptions, exploring alternative markets, and reviewing existing contracts which may be impacted by the tariffs.

Our team is available to assist businesses in conducting regulatory impact assessments and business contract reviews related to the US Reciprocal Tariff Policy.