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## **How will Indonesia handle the US tariffs?**

**Sum Pichkanika**

U.S. President Donald Trump has announced immediate policy changes by imposing tariffs targeting countries worldwide. Over the last several decades, the US gave away its leverage by allowing free access to its trading partners without expecting fair treatment. However, Trump views this as a cost to the US's industrial base and national security. On January 20<sup>th</sup>, 2025, he signed the Presidential Memorandum “America First Trade Policy” to indicate a plan to accomplish the transformation to reverse America's economic decline by always putting America first on trade. He intends to lower the difference between the goods the US exports to other countries and the ones it purchases from. By putting tariffs in place, it will encourage the US's consumers to buy more American-made products, which could increase the amount of taxes and investments in the country.<sup>1</sup>

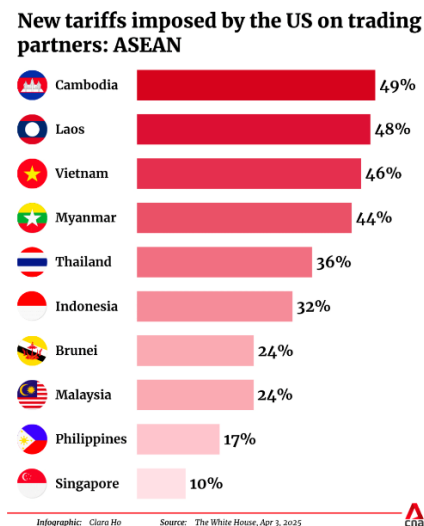
As one of the US's trading partners in ASEAN, Indonesia has been subjected to a 32% tariff on its exports to the US. This tariff is relatively high and could affect Indonesia's export sectors such as textiles, electronics, and the footwear industry. Consequently, the tariffs may also lead to the increasing prices of Indonesia's products in the US, which could reduce the competitiveness of its products in the US market. For instance, a 10\$ product would add 1\$ in tax, raising the total price of the product to 11\$.<sup>2</sup> The reciprocal tariff that is impending, 32%, will be imposed on Indonesia's

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<sup>1</sup> Clarke, Jennifer. 14 April 2025. “What Are Tariffs, How Do They Work and Why Is Trump Using Them?” BBC. <https://www.bbc.com/news/articles/cn93e12rypgo>.

<sup>2</sup> Clarke, Jennifer. 23 April 2025. “What Are Tariffs and Why Is Trump Using Them?” BBC. <https://www.bbc.com/news/articles/cn93e12rypgo>.

goods after a 90-day suspension period for negotiation. The question now is: will Indonesia adjust or resist?



Indonesia and the US have been trading partners for several decades. In 2024, the total value of goods that the US traded with Indonesia was estimated at \$38.3 billion. The US's goods exported to Indonesia were \$10.2 billion, a 3.7% increase from 2023. Imports from Indonesia to the US reached \$28.1 billion, representing a 4.8% rise compared to the previous year. This shows that the US experienced a trade deficit of \$17.9 billion with Indonesia.<sup>3</sup> The principal exports of Indonesia's products to the US were palm oil, broadcasting equipment, and other electrical machinery. Meanwhile, the US exported mainly soybeans, petroleum gas, and crude petroleum to Indonesia.<sup>4</sup> As Southeast Asia's largest economy, Indonesia has long maintained a significant trade surplus with the US; however, this has become a contentious point as President Trump announced a new trade policy reflecting a renewed U.S. protectionist stance by imposing a 32% tariff on Indonesia's imports.<sup>5</sup>

<sup>3</sup> United States Trade Representative. n.d. "Indonesia". Ustr. <https://ustr.gov/countriesregions/southeast-asia-pacific/indonesia>.

<sup>4</sup> OEC. n.d. "OEC - the Observatory of Economic Complexity". <https://oec.world/en/profile/bilateral-country/idn/partner/usa>.

<sup>5</sup> Ibid.

## **Key sectors facing the greatest pressure**

While the US perceives tariffs as a corrective measure to its trade policy, they pose serious risks to Indonesia's trade sector, especially those that rely on the US market. One of the affected sectors is Indonesia's textile and apparel industry, one of the key sectors on which Indonesia depends. Indonesia is known to be one of the leading textile and apparel exporters to the US, and its exports to the US amount to billions of dollars annually, particularly products including ready-made garments, fabrics, and synthetic fibers.<sup>6</sup> However, with the rising tariffs, Indonesia's products could be less competitive in the US market. And if a sharp decline in exports continued, it would force companies to cut jobs as well as close down the factories.

Indonesia's biggest exports, such as electrical and technological equipment, are also at risk. In 2024, according to the United Nations COMTRADE database on international commerce, the US imported \$4.83 billion worth of electrical and electronic equipment from Indonesia.<sup>7</sup> This illustrates that Indonesia's electronic sector relies highly on the US market. Any escalation in tariffs could significantly affect Indonesia's export performance, disrupt supply chains, and pose challenges to domestic manufacturing sectors.

The footwear industry is another sector affected by the tariffs. With a 32% tariff, many global footwear brands are expected to shift their products from Indonesia's manufacturers to other countries like Bangladesh and Vietnam, where the production costs are lower.<sup>8</sup> Furthermore, the higher import tariffs could also drive customers to move to countries with lower tariffs.<sup>9</sup> Recently, the Indonesian footwear association (Aprisindo) has urged the government to process the completion of the Indonesia-European Union Comprehensive Economic Partnership Agreement (IEU-CEPA) since it is considered to be essential for Indonesia to open up alternative markets and

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<sup>6</sup> Tradeasia. 8 April 2025. "Impact of US Tariffs on Indonesia's Textile Exports". <https://www.chemtradeasia.com/blog/indonesia-textile-impact-new-tariff>.

<sup>7</sup> Trading economics. 2025. "United States Imports from Indonesia of Electrical, Electronic Equipment - 2025 Data 2026 Forecast 1991-2024 Historical". Tradingeconomics.com. <https://tradingeconomics.com/united-states/imports/indonesia/electrical-electronic-equipment>.

<sup>8</sup> ASEAN Briefing. 10 April 2025. "Navigating U.S. Tariffs: A Strategic Outlook for Indonesia." ASEAN Business News. <https://www.aseanbriefing.com/news/navigating-u-s-tariffs-a-strategic-outlook-for-indonesia/>.

<sup>9</sup> Aguido Adri. 3 April 2025. "Footwear Industry Will Be Impacted by Trump Tariffs." Kompas.id. PT Kompas Media Nusantara. [https://www.kompas.id/artikel/en-industri-alas-kaki-terdampak-tarif-impor-32-persen-trump?utm\\_source=chatgpt.com](https://www.kompas.id/artikel/en-industri-alas-kaki-terdampak-tarif-impor-32-persen-trump?utm_source=chatgpt.com).

reduce Indonesia's import duties in 27 EU countries. By this, Indonesia can possibly mitigate the US tariffs.<sup>10</sup>

## **Strategic approaches to mitigate the impacts**

While the US tariffs pose significant challenges, Indonesia has strategic avenues to cushion the impacts and enhance long-term economic resilience. First, Indonesia stands to benefit from the fisheries sector, particularly shrimp export. As its main competitor, Vietnam, faces a 46% tariff, Indonesia could seize this opportunity to improve the quality of its fisheries sector, particularly shrimp.<sup>11</sup> Indonesia should focus on shrimp exports to the US, as it offers the cheapest price in the US market. With the right strategy, Indonesia could capture market share from its competing countries that are more affected.

Second, Indonesia is considering increasing cotton imports from the US to mitigate the impact on the textile and apparel sector. Indonesia ranks as the fifth-largest exporter of textiles and apparel to the US, accounting for approximately 40% of finished textile goods. However, the tariffs could accelerate layoffs across the board in Indonesia's textile sector, making Indonesia's products more expensive in the US market, leading to fewer exports and causing the factories to lose revenue.<sup>12</sup> To mitigate the tension, Redma, a trade expert, suggested that Indonesia increase its cotton imports from the US during its harvest season because the price is usually lower during this time.<sup>13</sup> This approach could help as a negotiation tactic as well as reduce the production costs and maintain the market share of Indonesia's products in the US market. This move could also serve as a strategic trade concession, which could balance trade relations with the US.

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<sup>10</sup> ITA. 8 April 2025. "Indonesian shoemakers push for IEU-CEPA deal to offset U.S.tariffs". Wwww.ice.it. <https://www.ice.it/it/news/notizie-dal-mondo/282189>.

<sup>11</sup> Frishanti, Cindy. 16 January 2025. "Indonesia Develops Collaboration, Boosting Fisheries Exports to the US." Antara News. <https://en.antaranews.com/news/341706/indonesia-develops-collaboration-boosting-fisheries-exports-to-the-us>.

<sup>12</sup>Business & Human Rights Resource Centre. 2025. "Indonesia: US Tariffs May 'Accelerate Layoffs' in Textile Industry. <https://www.business-humanrights.org/en/latest-news/indonesia-us-tariffs-may-accelerate-layoffs-in-textile-industry/>

<sup>13</sup> Yuvraj. 16 April 2025. "Indonesia's Textile Sector Seeks Increased US Cotton Imports." Global Textile Times. <https://www.globaltextiletimes.com/news/indonesias-textile-sector-seeks-increased-us-cotton-imports/>.

Third, the new tariffs present an opportunity for Indonesia in the investment sector. US protectionist policies are considered to shift global supply chains, which makes companies that operate their manufacturing in China and Vietnam seek new locations for their production. As some companies might move their manufacturing from China to avoid tariffs, Indonesia could be a potential location for those factories to relocate.<sup>14</sup> This would make Indonesia an attractive destination for both investment and advanced manufacturing technologies. However, Indonesia should also prepare itself to provide an attractive investment ecosystem and supportive policies to attract those manufacturing investments.

Furthermore, Indonesia should reconsider its dependency on key trading partners and focus on a more diversified market. The 32% tariffs are not just an economic setback for the nation but also mark a shift in how Indonesia positions itself within the geopolitical landscape. As US-China tension continues to escalate, the tariffs from the US could make Indonesia grow closer to China.<sup>15</sup> Indonesia could seek more support from China regarding investments and digital technologies under the Belt and Road Initiative (BRI). However, Indonesia must be more proactive and spread its trade across multiple regions by building stronger, more resilient trade strategies, rather than relying on the US and China.

Another approach that Indonesia could use to mitigate the risk is through diplomacy. President Trump announced a 90-day pause on tariffs, which could be considered a sign allowing room for negotiation. Although the immediate pressure has been reduced, uncertainty remains about how both sides will pursue dialogue. Indonesia announced concessions by lowering import taxes on electronics and steel from the US as part of goodwill measures.<sup>16</sup> Recently, Indonesia prepared a high-level delegation to Washington to negotiate the tariffs. After the meeting, the two countries agreed to a 60-day timeline to finalize their cooperation.<sup>17</sup> Several key proposals have been

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<sup>14</sup> Muhammad Zulfikar Rakhmat. 10 April 2025. "US Tariffs: Challenges and Opportunities for China-Indonesia Trade and Investment." Think China. <https://www.thinkchina.sg/economy/us-tariffs-challenges-and-opportunities-china-indonesia-trade-and-investment>.

<sup>15</sup> Ibid.

<sup>16</sup> Sulaiman, Stefano, and Ananda Teresia. 8 April 2025. "Indonesia Announces Trade Concessions for US ahead of Talks." Reuters. <https://www.reuters.com/markets/indonesia-announces-trade-concessions-us-ahead-talks-2025-04-08/>.

<sup>17</sup> Ismoyo Bambang. 18 April 2025. "Indonesia Begins 60-Day Trade Talks with US, Offers Commodity Imports for Tariff Relief". Jakarta Globe. <https://jakartaglobe.id/business/indonesia-begins-60day-trade-talks-with-us-offers-commodity-imports-for-tariff-relief>.

discussed during the meeting, such as Indonesia's commitment to increase the import volume of petroleum gas, crude oil, and gasoline from the US. Moreover, Jakarta is willing to purchase Washington's agricultural products such as soybeans, soybean meal, wheat, and more capital goods. Additionally, the government has highlighted its commitment to supporting US businesses in the country by offering incentives and easing the process of obtaining permits.<sup>18</sup> This diplomacy reflects Jakarta's intention to avoid escalation and preserve good trade relations with Washington.

## Conclusion

Indonesia's response to the new US tariffs will be a critical test of its ability to cope with the pressure and economic resilience. While the tariffs pose a real threat to Indonesia's export sectors, including textiles, electronics, and footwear, they also present an opportunity for Indonesia to learn how to handle the pressure as well as rethink its strategies for broadening trade partnerships. By focusing on the reallocation of the export market, strengthening local productivity, diversifying the markets, and engaging in negotiation, Indonesia could cushion the impact and enhance long-term economic resilience.

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<sup>18</sup> Putu Indah & Tegar Nurfitri. 18 April 2025. "Indonesia among First Nations US to Negotiate Tariffs With: Minister." Antara News. [https://en.antaranews.com/news/352205/indonesia-among-first-nations-us-to-negotiate-tariffs-with-minister?utm\\_source=antaranews&utm\\_medium=desktop&utm\\_campaign=related\\_news](https://en.antaranews.com/news/352205/indonesia-among-first-nations-us-to-negotiate-tariffs-with-minister?utm_source=antaranews&utm_medium=desktop&utm_campaign=related_news).