

Economic Bulletin – Issue 65

Trump’s “Reciprocal Tariffs”: Global Trade Shock and Implications for Indonesia

- In April 2025, **the United States launched a sweeping “reciprocal tariff” policy**, imposing a 10% baseline tariff on nearly all imports and up to 50% on goods from 57 countries with large trade surpluses. The policy aims to counter decades of non-reciprocal trade and reduce the \$1.2 trillion US trade deficit. However, exemptions apply to USMCA partners and selected critical goods.
- **The Trump administration’s method of defining “reciprocal tariffs” is unconventional**, basing the rate on the extent of the U.S. trade deficit with each country rather than mirroring their actual tariffs. This approach aims to balance bilateral trade but has drawn sharp criticism from economists, who argue that it oversimplifies trade dynamics and misrepresents actual protectionist barriers.
- Compared to the targeted measures of the 2018–2019 trade war, which focused on specific industries and countries, **the 2025 policy adopts a comprehensive, blanket approach affecting nearly all imports**. This shift not only heightens protectionism to unprecedented levels but also extends its impact to traditional allies, marking a stark departure from previous measures.
- **Indonesia faces major risks from the new US tariffs**, which now impose a steep 32% tariff on exports to US, including key sectors like apparel, footwear, electronics, rubber, and palm oil. These tariffs threaten billions in trade, potentially causing order cancellations, job losses—especially in the textile sector—and financial strain for local firms and banks. The rupiah may weaken amid falling exports and investor uncertainty, raising concerns over stagflation.
- **In the near term**, reciprocal tariffs will lead to disrupted trade, higher costs, and inflationary pressures, particularly in the US, which may face slower growth. **In the medium term**, the tariffs could drive shifts in global supply chains, with investments moving to countries exempt from US tariffs, and could prompt further regional trade bloc development. **Longer-term**, Indonesia may accelerate export diversification and structural reforms to reduce reliance on the US market and improve competitiveness, while global trade dynamics could fragment into US and China-centered blocs.

Ibrahim Kholilul Rohman

ibrahim.kholilul@ifg.id
Senior Research Associate
/ Universitas Indonesia

Mohammad Alvin Prabowosunu

Alvin.prabowosunu@ifg.id
Junior Lead Research
Associate

Kleovan Nathanael Gunawan

Kleovan.nathanael@ui.ac.id
Research Assistant

Overview of the New Reciprocal Tariff Policy

The White House has unveiled sweeping “reciprocal tariffs” as part of President Donald Trump’s renewed trade agenda. In a 2 April 2025 Rose Garden announcement, Trump declared a national emergency over foreign trade practices and announced new tariffs on virtually all imports¹. The plan imposes a “minimum baseline tariff of 10%” on all imported goods into the United States¹. In addition, countries with which the US runs large trade deficits will face higher, individualized tariffs ranging from 11% up to 50%². These higher rates, branded as *reciprocal tariffs*, target 57 nations and are set to take effect on April 9, 2025 (with announced 90-day delay, with the 10% base tariff effective April 5, 2025)².

Under the executive order titled “Regulating Imports with a Reciprocal Tariff to Rectify Trade Practices that Contribute to Large and Persistent US Goods Trade Deficits,” the administration is invoking emergency authority (the International Emergency Economic Powers Act of 1977, IEEPA) to justify the tariffs¹. The stated motivation is to counter what the White House calls decades of non-reciprocal trade that have hollowed out US manufacturing and driven up trade deficits¹. US officials argue that foreign tariffs, subsidies, currency manipulation, and other barriers have put American exporters at a disadvantage, contributing to a record goods trade deficit of over US\$1.2 trillion in 2024¹. By imposing across-the-board import taxes, Trump asserts the US will “strengthen [its] international economic position” and protect domestic industry¹.

Key features of the announcement include:

1. **10% Global Tariff:** A uniform 10% tariff on all countries’ imports into the US, with only limited product exceptions. This baseline applies universally as a starting point². (Notably, certain critical imports, e.g., some minerals, pharmaceuticals, and goods already under separate national security tariffs, are exempted per the order’s annex².)
2. **“Reciprocal” Tariffs up to 50%:** For countries deemed to maintain unfair trade practices or large trade surpluses with the US, the tariff will be higher than 10%, varying by country up to 50%². The highest rates fall on nations with the most pronounced trade imbalances with US.
3. **Exclusions for USMCA Partners:** Canada and Mexico are largely exempt from the new tariffs due to the existing USMCA trade agreement. Qualifying North American goods remain at 0% duty, while non-USMCA compliant imports from

¹ White House. (2025, April 2). Fact Sheet: President Donald J. Trump Declares National Emergency to Increase our Competitive Edge, Protect our Sovereignty, and Strengthen our National and Economic Security. The White House. Retrieved from <https://www.whitehouse.gov/fact-sheets/2025/04/fact-sheet-president-donald-j-trump-declares-national-emergency-to-increase-our-competitive-edge-protect-our-sovereignty-and-strengthen-our-national-and-economic-security/>

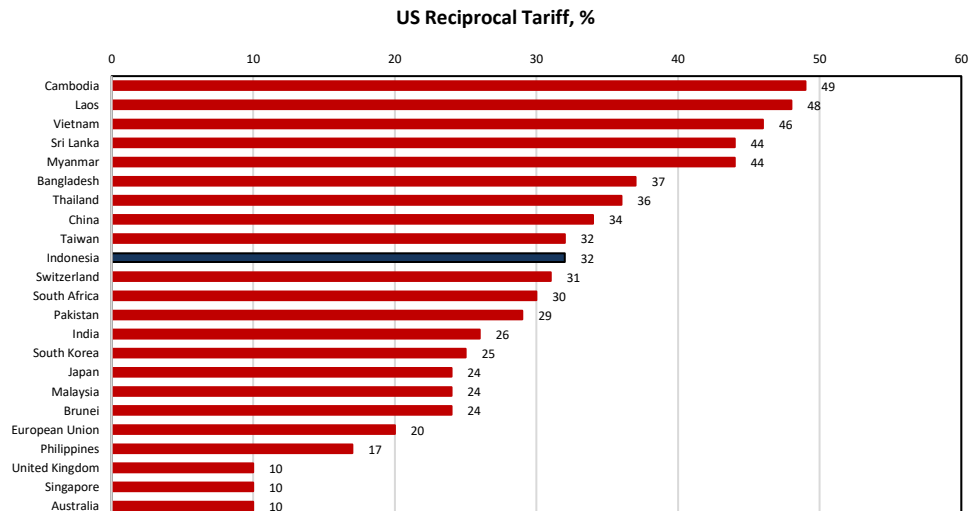
² Holland & Knight. (2025, April 3). President Trump Announces 10 Percent Global Tariff, 11 Percent to 50 Percent Reciprocal Tariffs. Holland & Knight. Retrieved from <https://www.hklaw.com/en/insights/publications/2025/04/president-trump-announces-10-percent-global-tariff-11-percent>

those neighbors stay subject only to pre-existing tariffs (such as a 25% levy imposed in March 2025 on certain goods)^{1,2}. This carves-out reflects geopolitical considerations (and ongoing separate disputes over immigration and security).

4. **Duration and Retaliation Clause:** The tariffs will remain in effect indefinitely “until such a time as President Trump determines” that the trade emergency (massive deficits and nonreciprocal treatment) is resolved¹. The executive order also gives the President flexibility to raise tariffs further if trading partners retaliate, or conversely to lower them if other countries “take significant steps to remedy non-reciprocal trade arrangements” and align with US. economic and security objectives¹.

In short, the US has moved unilaterally to raise its average tariff from roughly 2% to an estimated 24%, a level not seen in over a century³. This marks a dramatic escalation of protectionism. Within days of the announcement, the first-phase 10% tariff has taken effect (from April 5), and the world is bracing for the second phase of country-specific increases. U.S. tariffs now slated to hit various countries under the “reciprocal” scheme, from the 10% minimum up to the highest rates (Exhibit 1).

Exhibit 1. List of US ‘Reciprocal Tariff’ Announced for Several Countries



Sumber: The Guardian, IFG Progress Analysis

³ Wikipedia. (2025). Tariffs in the second Trump administration. Retrieved from https://en.wikipedia.org/wiki/Tariffs_in_the_second_Trump_administration#:~:text=an%20escalation%20in%20protectionist%20,1
 14 April 2025

Defining 'Reciprocity': US. Calculation of Foreign Tariffs

Despite the “*tit-for-tat*” rhetoric, the US definition of ‘reciprocal’ tariffs is unconventional. It does not simply mirror the actual import duties that other countries impose on US’ goods. Instead, the Trump Administration has devised a formula based on trade deficits. According to a USTR fact sheet, the new tariffs were “calculated as the tariff rate necessary to balance bilateral trade deficits between the US and each of our trading partners”⁴. In effect, the White House is treating a country’s goods trade deficit with the US as a proxy for that country’s trade barriers.

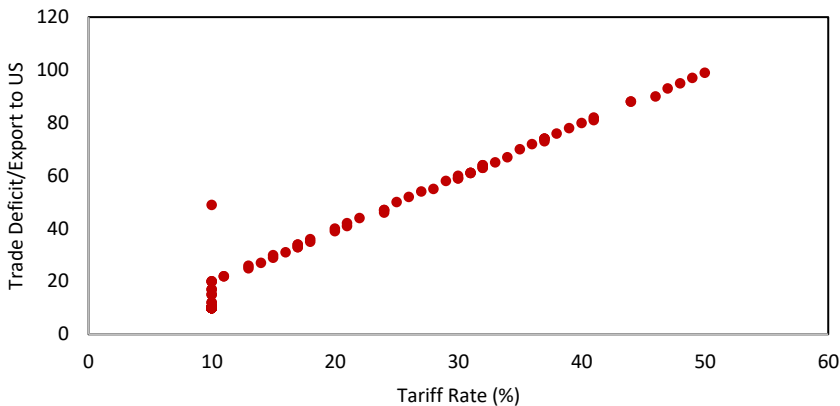
Under this approach, ‘tariffs charged to the USA’ by a given country are defined in a highly stylized way. The administration assumes that if the US imports more from a country than it exports to it (a US trade deficit), the gap must be caused by foreign barriers (tariff or non-tariff) that restrict US exports. They then compute a number that “can be proxied by... the tariff level consistent with driving bilateral trade deficits to zero”⁴. Practically, USTR took each country’s 2024 goods trade deficit with the US and divided it by the value of US imports from that country⁴. The result of that division, essentially the ratio of trade deficit to import volume, is treated as the percentage “tariff equivalent” that the country purportedly imposes on US trade.

For example, the US. had a US\$235.6 billion goods trade deficit with the EU in 2024, and imported US\$605.8 billion in goods from the EU. Dividing those figures yields 38.9%. The administration labeled this as the EU’s effective 39% tariff on US products⁴. (In reality, the EU’s average tariff is about 2.7%, the White House’s 39% figure is vastly inflated by including the trade imbalance itself as if it were a tariff). Trump then announced the US would charge half of that rate in retaliation, calling it a “USA Discounted Reciprocal Tariff”. Thus, imports from the EU will now face roughly a 20% US tariff, since 20% is about half of the ‘alleged’ 39% “barrier” the EU imposes on US goods⁴.

This pattern repeats across countries: the larger the US trade deficit with a country (relative to imports), the higher the tariff the US will levy, roughly half of that deficit/import ratio. For countries where the US runs only a small deficit or a surplus, the minimum 10% tariff applies. In the White House’s view, this method directly targets the worst trade imbalances. Trump officials explicitly state they want to “drive bilateral trade deficits... to zero.”⁴ Reciprocity, in their interpretation, means equalizing trade flows (Exhibit 2).

⁴ FactCheck.org, (2025, April 3). Trump’s Misleading Tariff Chart. Retrieved from <https://www.factcheck.org/2025/04/trumps-misleading-tariff-chart/>
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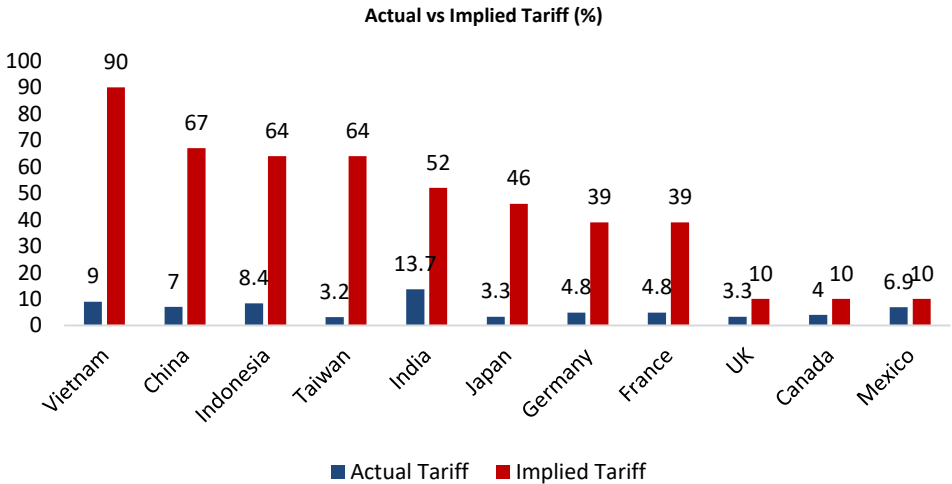
Exhibit 2. US Trade Deficit vs. “Reciprocal Tariff” Rate



Sumber: The Guardian, IFG Progress Analysis

While this calculation method provides a tidy logic for the administration's purposes, economists are highly skeptical. Trade experts note that actual foreign tariff rates “are far, far lower” than the numbers Trump’s chart proclaimed⁴. For instance, the EU’s true average tariff of ~3% bears no resemblance to a 39% barrier. Likewise, including VAT taxes in these figures (as Trump alluded) is misleading, a VAT is applied equally to domestic and imported goods and “does not provide any trade advantage”¹³. Non-tariff barriers and currency practices are even harder to quantify objectively. In reality, the White House’s deficit-based metric is a “made-up measure”, as one analyst put it⁴, equating trade imbalance to a tariff. This approach essentially blames the entire deficit on foreign protectionism, ignoring other factors (like macroeconomic imbalances, consumer demand, or the dollar’s strength) (Exhibit 3).

Exhibit 3. Actual vs Implied Tariff Imposed to the US



Sumber: World Trade Organization, IFG Progress Analysis

In sum, 'reciprocity' as defined by the Trump trade team means balancing the accounts. If a trading partner sells considerably more to the US than it buys, the US interprets that as evidence of unfair barriers, and imposes a tariff roughly equal to half the import shortfall percentage to "reciprocate". However, rather than matching another country's tariff schedule line by line, the US is using blunt aggregate figures. This represents a significant conceptual shift in trade policy, prioritizing bilateral balance as the end goal.

Comparison to the First Trump Administration's Trade War Measures

The new reciprocal tariff regime goes far beyond the trade actions seen in Trump's first term (2017–2021). During the 2018–2019 trade war, the Trump administration's tariffs were substantial but targeted: the US imposed import taxes on specific products (steel, aluminum, solar panels, washing machines) and on certain countries (most prominently China) under trade laws like Section 232 (national security) and Section 301 (unfair trade practices)³. By the end of 2019, roughly US\$380 billion worth of imports (about 15% of total US Imports) were subject to new tariffs from that phase⁵. These included a 25% tariff on steel and 10% on aluminum globally, and tariffs of 10–25% on roughly half of all Chinese exports to the US³. Major US trading partners like the EU, Canada, and China retaliated in kind on tens of billions of US exports. The result was a *tit-for-tat* trade war that roiled financial markets and supply chains in 2018–2019.

By contrast, the 2025 reciprocal tariff policy hits all countries and nearly 100% of US imports (about US\$2.5 trillion in goods)⁵. No recent precedent exists for such *across-the-board* protectionism. The trade-weighted average US. tariff has now jumped to ~24%, a level “not seen for over a century” (since the pre-WWII era of Smoot-Hawley tariffs)⁵. Even US allies and WTO partners that were spared in the first trade war (or saw tariffs lifted under Biden) are now swept in, unless they have a special agreement. For instance, China faced extensive tariffs in the first term, but still “only” about 60% of US–China trade was affected at roughly 20% rates³. Now, China will face an even higher US. tariff (reportedly 145% on the latest announcement)⁶ on 100% of its exports to America. Even close allies like Japan (24%) and South Korea (25%) are hit with hefty import taxes⁷, whereas in 2018 they were largely exempt aside from metals. The breadth of this policy, a blanket tariff on every country, marks a fundamental break with past US trade practice (Exhibit 4).

Another difference is the rationale and trigger. The first-term tariffs were justified case-by-case (e.g., Chinese IP theft prompting Section 301 tariffs; steel imports threatening national security under Section 232). The new tariffs are justified by a sweeping national emergency declaration about the trade deficit¹. This invocation of IEEPA is unusual for trade; it suggests an urgent, holistic economic threat. Essentially, the administration is framing chronic trade imbalances themselves as a national security risk, an argument not widely accepted by economists or the WTO. The tone is also more unilateral: instead of negotiating new trade deals or pressuring via targeted duties, the US has simply imposed

⁵ Tax Foundation, (2025). Trump Tariffs: The Economic Impact of the Trump Trade War. Retrieved from <https://taxfoundation.org/research/all/federal/trump-tariffs-trade-war/#:~:text=%2A%20The%20first%20Trump%20administration,5%20trillion%20of%20US>

⁶ Times of India, (2025). Donald Trump's reciprocal tariffs: Which countries take the hardest hit and which escape. Retrieved from <https://timesofindia.indiatimes.com/world/us/donald-trumps-reciprocal-tariffs-which-countries-take-the-hardest-hit-and-which-escape/articleshow/119925598.cms#:~:text=Indonesia%2032,China%2034>

⁷ Times of India, (2025). Trump's tariff tsunami - What they mean for the World and India. Retrieved from <https://timesofindia.indiatimes.com/business/international-business/toi-explainer-donald-trumps-tariff-trump-tariffs-and-india/articleshow/119926059.cms#:~:text=Trump%27s%20tariff%20tsunami%3A%20What%20they>

a global tariff and invited countries to come “earn” reductions by changing their behavior¹. In Trump’s words, previous leaders “ignored” the deficit crisis, but he “refuses to let the United States be taken advantage of”¹.

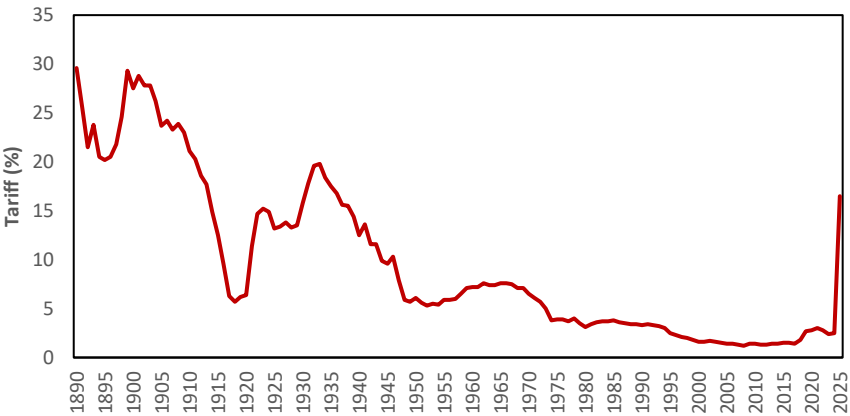
That said, there are also continuities with the first term. The underlying philosophy of using tariffs as leverage and protection is the same, now amplified. Trump’s longstanding belief that other nations “rip off” the US on trade is again front-and-center¹. Many figures from the first trade war (for instance the trade advisor Peter Navarro, USTR officials) are leading the charge on reciprocity, armed with years of grievance data (as seen in the USTR’s 397-page report of foreign trade barriers released just before the announcement)⁸. Also, some earlier tariffs remain in effect or are folded in: for example, the 25% steel/aluminum tariffs from 2018 are still active (and those products are exempt from the new tariff to avoid double taxation)². The North America carve-outs reflect continuity of the USMCA deal (which ended the NAFTA-era zero tariffs for Mexico/Canada on paper, but those partners now benefit from separate arrangements)².

Market reactions and economic impacts also show parallels but on a larger scale. The initial trade war contributed to bouts of financial volatility in 2018, but the 2025 announcement triggered an immediate global market sell-off on fears of a far-reaching trade slump. US stock indices fell sharply, and global markets were rattled. Analysts warned of protectionism at a scale not seen since the 1930s, raising recession risks⁶. Indeed, some forecasters now predict the US economy will contract in the near term (JP Morgan, for example, projects a modest recession in late 2025 as a result of the tariff shock)³. During the first trade war, the US economy proved resilient overall, though certain sectors (like agriculture and manufacturing) suffered and by 2019 growth had slowed. This time, the tariff costs on US consumers and businesses are much larger, roughly US\$1900 per household per year by one estimate, essentially a sizable tax increase. In fact, the new tariffs constitute the largest tax hike (as % of GDP) since 1982⁵.

Where the 2018-19 measures were called a “trade skirmish” by some, the current stance is more aptly a global trade shock or “tariff tsunami”. The first trade war’s objectives included pressuring China into a trade deal (which yielded the limited “Phase One” agreement in early 2020) and renegotiating NAFTA. By contrast, the reciprocal tariff policy’s objective is more blunt: force systemic change by taxing imports until trade imbalances shrink. It remains to be seen if this approach will succeed or if it will repeat the pattern of the first trade war, which was widely judged as “a failure for the United States” in reducing the deficit or altering China’s core practices³. Notably, by 2024 the US goods trade deficit had ballooned to record levels despite the earlier tariffs¹.

⁸ Reuters. (2025). USTR releases trade barriers report ahead of Trump’s reciprocal tariffs. Retrieved from <https://www.reuters.com/world/us/ustr-releases-trade-barriers-report-ahead-trumps-reciprocal-tariffs-2025-03-31/#:~:text=trading%20partners%20with%20reciprocal%20tariffs>
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Exhibit 4. US Average Tariff Rate (1890 – 2025)



Sources: Yale Budget Lab, IFG Progress Analysis

Indonesia–US Trade Relations: Exposure and Key Sectors at Risk

Indonesia is among the countries significantly exposed to the new US tariffs. The United States is a major market for Indonesian goods. In 2024, the US imported about US\$28.1 billion in goods from Indonesia, while exporting US\$10.2 billion to Indonesia⁹. This gave Indonesia a substantial trade surplus (the US trade deficit was US\$17.9 billion)⁹. Under the “reciprocal” tariff formula, that imbalance has translated into a steep US tariff. The Trump administration has assigned Indonesia a 32% tariff rate on its exports to the US. This represents a huge jump from the status quo *ante*, previously many Indonesian goods entered the US either duty-free or at low normal rates (often under 5–15%). A flat 32% duty dramatically raises the cost of Indonesian products in the American market.

Which Indonesian export sectors will feel the most pain? Indonesia’s shipments to the US are concentrated in a few key categories, notably textiles and apparel, electronics, rubber products, and palm oil. The US is a top destination for Indonesian garments and footwear, in particular. In 2022, for example, Indonesia exported roughly US\$5.5 billion of apparel to the US¹⁰, making the US Indonesia’s number one market for apparel (over half of its clothing exports). Major global clothing brands source from Indonesian factories, everything from knitwear to sportswear, and these goods will now face a 32% tariff at US ports. Similarly, Indonesian-made footwear is heavily sold in the US (Indonesia is among the top 5 suppliers of shoes to the US market, alongside China and Vietnam). In 2024, Indonesia’s footwear exports to the US were about US\$2.4 billion by value¹¹. American consumers of sneakers and leather goods will see price increases as those imports get tariffed, which could reduce demand and thus production in Indonesia’s footwear industry (Exhibit 5).

Another vulnerable sector is electronics and electrical machinery. Indonesia has been building up an electronics manufacturing base (though smaller than some Asian peers). Key products include parts of broadcasting equipment, telecom equipment, and electrical machinery. Prior to the tariffs, two of Indonesia’s top export items to the US were categorized as “Other Electrical Machinery” (US\$1.23B in 2024) and “Broadcasting Equipment” (US\$1.22B)¹². These likely include things like electronic components, appliances, and communication devices. For example, Indonesia has become a production location for certain smartphone assembly and consumer electronics (attracted by the China+1 strategy). US import data for January 2025 showed telephones and phone parts among the top imports from Indonesia (about US\$78 million in that month alone)¹². The 32% cost increase could make Indonesian electronics far less competitive in the

⁹ Office of the United States Trade Representative. (2024). Indonesia. Retrieved from <https://ustr.gov/countries-regions/southeast-asia-pacific/indonesia#:~:text=U,923%20million%29%20over%202023>

¹⁰ Statista. (2024). Export value of wearing apparel from Indonesia in 2023, by destination. Retrieved from <https://www.statista.com/statistics/1143341/indonesia-wearing-apparel-export-value-by-destination/#:~:text=Export%20value%20of%20wearing%20apparel,5%20billion>

¹¹ Statista. (2024). Indonesia: Footwear export value in 2023, by country. Retrieved from <https://www.statista.com/statistics/1230464/indonesia-footwear-export-value-by-country/#:~:text=Indonesia%3A%20footwear%20export%20value%20by,dollars>

¹² OEC - The Observatory of Economic Complexity. (2024). Indonesia / United States. Retrieved from <https://oec.world/en/profile/bilateral-country/ind/partner/usa#:~:text=The%20main%20products%20that%20Indonesia,22B>

price-sensitive US market, potentially leading US importers to scale down orders or seek alternative suppliers (perhaps in tariff-exempt countries).

Indonesia is also one of the world's largest producers of natural rubber and related products (like tires). The US automotive industry depends on imported rubber and tires, and Indonesia has been a significant supplier. For instance, US imports of rubber tires from Indonesia were around US\$65 million in January 2025 (annualized over US\$700 million)¹². While some rubber goods (especially for automobiles) were previously subject to US tariffs in the low single digits, the jump to 32% will squeeze demand and margins. American tire manufacturers might try to pass costs to consumers or shift sourcing to countries like Mexico (not subject to the new tariffs under USMCA). Likewise, raw natural rubber exports (used by US tire makers) will be pricier. However, Indonesia competes with Thailand¹³ and Vietnam⁶ in this commodity, and if those countries face higher tariff rates, it could be advantageous for Indonesia's rubber market share within the US import market.

Another major export to the US is Palm Oil and related palm products. The US imported roughly US\$1.7 billion of Indonesian palm oil in 2024¹², used in food processing and consumer goods. Palm oil was Indonesia's single biggest export item to the US by value. This too now falls under the 10% base tariff at minimum, and likely the higher 32% since Indonesia is not exempt. A 32% tariff on palm oil could make it significantly more expensive for US buyers, possibly leading them to source palm oil from Malaysia (24% US tariff)⁶ or switch to substitute oils if feasible. That threatens Indonesia's palm exporters.

Other sectors worth mentioning include furniture and wood products, seafood, and automotive parts. The US buys a variety of Indonesian furniture (wooden furniture, seats, etc.), and Indonesia has a niche in that market. Those goods (previously often duty-free under GSP or low tariff) now get 32%. Moreover, The US is a big consumer of Indonesian shrimp, with over US\$1 billion of crustaceans imported yearly, and again¹⁴, it would likely decline. Indonesia exports some wiring harnesses and components for vehicles. Albeit a smaller volume, the auto industry is now broadly affected by tariffs across all sources (the Trump administration also separately implemented a new 25% tariff on autos/parts globally in March 2025)¹⁵.

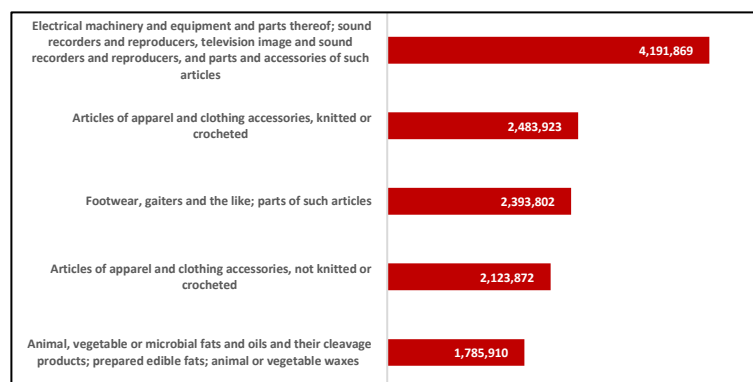
The impact on Indonesia's economy and financial sector from these trade disruptions could be significant. The US accounts for roughly 10% of Indonesia's total goods exports. In the near term, Indonesian exporters will likely see order cancellations or cutbacks from US buyers. Factories in sectors like textiles that were already under strain (Indonesia's

¹² Reuters. (2025, April 3). Southeast Asia nations hit particularly hard by US tariffs, prep talks with Trump. Retrieved from <https://www.reuters.com/world/asia-pacific/southeast-asia-nations-hit-particularly-hard-by-us-tariffs-prep-talks-with-trump-2025-04-03/#:~:text=Vietnam%2C%20slapped%20with%2046,it%20had%20expected>

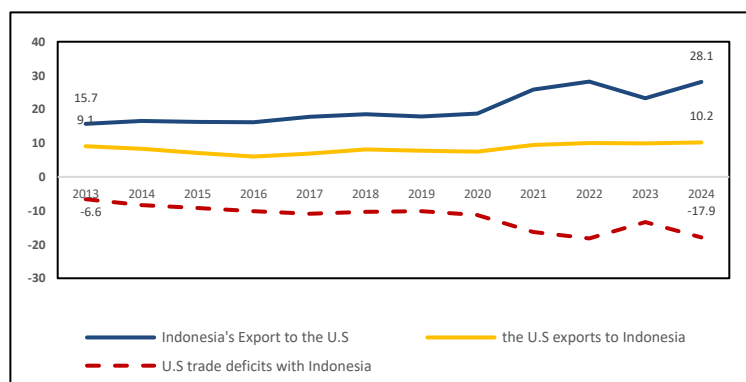
¹⁴ DHL. (2024). Exporting from Indonesia to the US: Everything you need to know. Retrieved from <https://www.dhl.com/discover/en-id/e-commerce-advice/shipping-guides-by-country/exporting-from-indonesia-to-the-us#:~:text=Everything%20you%20need%20to%20know,Furniture%20and%20related>

¹⁵ Reuters. (2025, March 31). USTR releases trade barriers report ahead Trump's reciprocal tariffs. Retrieved from <https://www.reuters.com/world/us/ustr-releases-trade-barriers-report-ahead-trumps-reciprocal-tariffs-2025-03-31/#:~:text=Trump%27s%20reciprocal%20tariffs%2C%20expected%20to,exports%20at%20a%20disadvantage>

textile industry has faced recent layoffs and competitiveness issues)¹⁶ could be pushed into deeper trouble. Lower export production means potential job losses, many of which employ large numbers of Indonesian workers (the textile/garment sector alone employs nearly 4 million workers)¹⁶. Regions specialized in export manufacturing, including West and Central Java for textiles, may feel the pinch in employment and incomes (Exhibit 6).

Exhibit 5. Indonesia's Exports to the U.S. by Sector ('000 USD)

Sumber: ITC, IFG Progress Analysis

Exhibit 6. US.-Indonesia Goods Trade Balance (USD Billion)

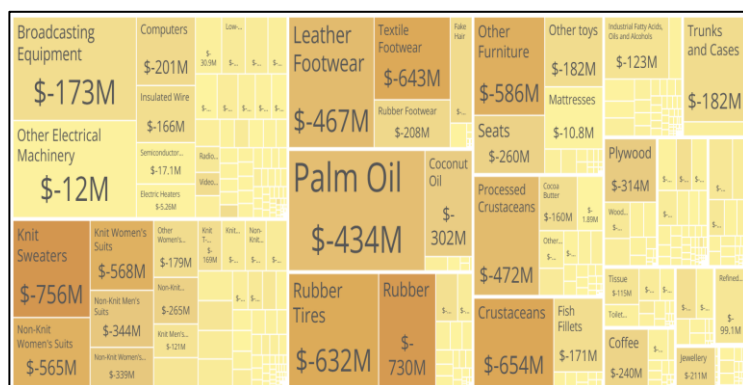
Sumber: US Census Bureau, IFG Progress Analysis

Using the extended gravity model developed by the OEC—which incorporates current trade flows, GDP, population, distance, cultural and geographic proximity, and relatedness across products and countries—the ex-ante direct effect simulation of a 32% tariff shock reveals a substantial projected decline in Indonesia's exports to the U.S., particularly in key labor-intensive sectors. The most affected products include Knit Sweaters (–\$755M), Rubber (–\$730M), Crustaceans (–\$654M), Textile Footwear (–\$643M), and Rubber Tires (–\$632M) (Exhibit 7). These sectors not only contribute significantly to Indonesia's export revenues but also serve as vital sources of employment.

Beyond the direct impacts, there are considerable indirect spillover effects channelled through China, Indonesia's major trading partner and intermediary in global value chains. Several upstream commodities exported from Indonesia to China—such as Ferroalloys (\$14.4 billion), Lignite (\$10.2 billion), Coal Briquettes (\$6.79 billion), Nickel Mattes (\$5.29 billion), and Palm Oil (\$3.79 billion)—face potential declines due to reduced Chinese exports to the U.S. following the imposition of 145% tariffs (Exhibit 8). This includes sectors such as Electric Vehicles (EVs), which are heavily dependent on Indonesian nickel. Consequently, Indonesia risks a dual blow: diminished direct exports to the U.S. and a secondary slowdown in demand from China, underlining the vulnerability of commodity-based economies to disruptions in global trade dynamics.

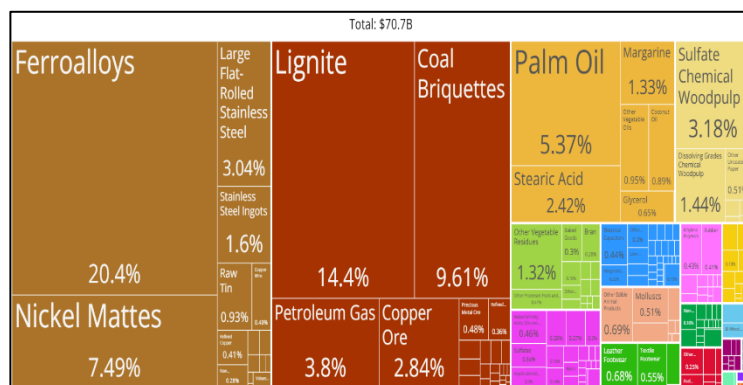
¹⁶ Fibre2Fashion, (2024). Indonesia Year End Review 2024: Facing multiple challenges. Retrieved from <https://www.fibre2fashion.com/news/textile-news/indonesia-year-end-review-2024-facing-multiple-challenges-299903-newsdetails.htm#:~:text=In%202024%2C%20Indonesia%E2%80%99s%20textile%20industry,the%20business%20of%20Indonesian%20manufacturers>

Exhibit 7. Direct Effect of Trump's Tariff from Indonesia's Export to US



Sumber: OEC, IFG Progress Analysis

Exhibit 8. Indirect Tariff Effect of from Indonesia's Export to China



Sumber: OEC, IFG Progress Analysis

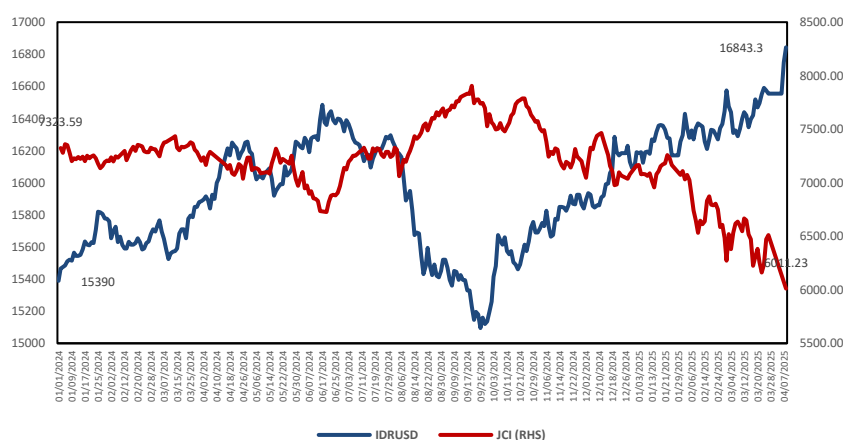
The Indonesian financial sector might be impacted with second-order effects. Banks with significant loan exposure to manufacturing companies might see rising credit risks. Corporate earnings for Indonesia's big textile/apparel companies (some of which are publicly listed) will likely drop, potentially affecting the local stock market. The Indonesian rupiah may face depreciation pressure if export earnings fall and if investors grow skittish about emerging markets in a trade war environment. Currencies like the Vietnamese dong hit all-time lows after the tariff announcement¹³. A weaker Rupiah could complicate Indonesia's inflation outlook by raising import costs, even as output slows: a stagflationary concern.

On the other hand, the rupiah's depreciation could partially offset the tariffs by making Indonesian goods cheaper in dollar terms. For example, if the rupiah drops ~10%, that cushions some of the 32% tariff impact by reducing export prices in USD. Bank Indonesia (the central bank) will have to balance supporting growth with maintaining currency stability. We might see monetary easing if growth forecasts are cut, but BI will also monitor capital outflows carefully (Exhibit 9).

Indonesia's policy response so far has been measured. Unlike some countries, it has not announced any immediate retaliatory tariffs against US exports. (Indonesia imports US\$10+ billion from the US, including aircraft, soybeans, machinery, and cotton⁹. It could theoretically impose counter-tariffs on those, but doing so risks escalating tension with a powerful partner). Instead, Indonesia is likely to pursue diplomatic engagement. Reports indicate several Southeast Asian nations are seeking talks with Washington to reconsider or obtain relief from these tariffs¹³. Vietnam has been very vocal, and Thailand's leaders have also pushed for negotiations after being hit with higher rates than expected¹³. Indonesia will probably join forces with ASEAN neighbors to argue against such punitive measures, possibly highlighting the friendly strategic ties and the fact that high tariffs harm both sides.

In addition, Indonesian officials may look to alternative markets to redirect exports. For instance, Europe and regional partners (China, Japan, etc.) could potentially absorb more Indonesian garments or electronics if the US market becomes uneconomical. Indonesia is part of the Regional Comprehensive Economic Partnership (RCEP), a large Asia-Pacific trade pact, which could facilitate increased intra-Asian trade. However, replacing the US market will not be easy; American consumers are uniquely important for certain products. Some Indonesian firms might explore shifting production locations, for example, investing in facilities in a country that has better US market access. One obvious workaround would be producing in Mexico or Canada to leverage USMCA preferences (indeed, the exemption of USMCA-origin goods from the tariffs creates an incentive to relocate supply chains to North America)². Indonesian textile or furniture companies might consider joint ventures in Mexico to serve US clients tariff-free, though such moves take time and capital.

Exhibit 9. IDR/USD Exchange Rate and Jakarta Stock Index (2024–2025)



Sources: Bloomberg, IFG Progress Analysis

Near-Term Implications: Turbulence and Adjustments

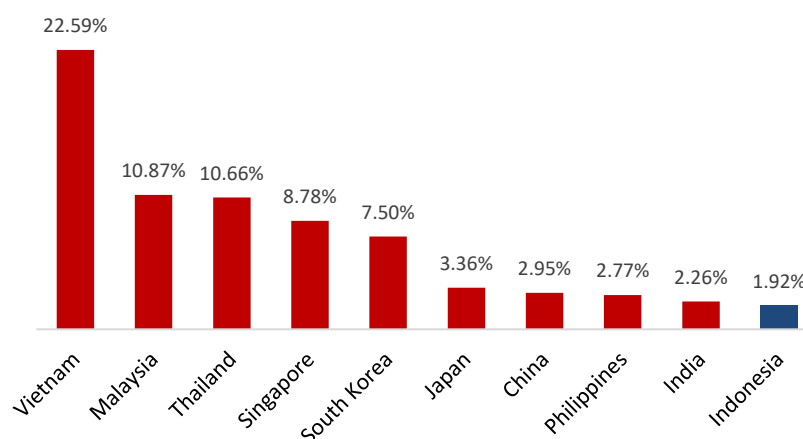
In the immediate future, the reciprocal tariffs policy injects significant uncertainty into the global economic outlook. For the next 6–12 months, we can expect disrupted trade flows, higher costs, and policy maneuvering as countries react. In the US, import prices will rise sharply. American businesses and consumers will bear the brunt of the tariffs in the form of costlier goods. This is essentially a sudden inflationary shock. US inflation, which had been moderating, may tick up as the new import taxes feed through to retail prices (from food to electronics). The Federal Reserve will face a dilemma if inflation rises while growth slows due to weaker demand and investment, a stagflation scenario is a risk. Major banks have warned that the tariffs could dent US GDP growth. One estimate by analysts sees a drag of about 1 percentage point on US GDP in the second quarter of 2025⁶, potentially tipping the economy into a mild recession later in the year³. Financial markets have already reacted negatively; equity prices globally fell on the announcement⁶, reflecting fears of lower corporate earnings and broken supply chains.

Globally, export-driven economies will feel pain from lost US sales. Many of the hardest-hit countries are emerging Asian economies that rely on manufacturing exports (textiles, electronics, etc.), for example, Vietnam (46% tariff), Bangladesh (37%), Cambodia (49%), Sri Lanka (44%)⁶. These countries enjoyed a boom in exports to the US during the last few years (partly as companies diversified away from China), and now they face a sudden bust. The immediate response from these governments has been to seek dialogue rather than retaliation. Southeast Asian nations, in particular, are coordinating responses. As noted, Vietnam and Thailand quickly called for talks and expressed hopes the US would reconsider “unfair” duties.¹³ Retaliatory tariffs by US trading partners have so far been limited in the very short run, partly because many of these countries have less capacity to retaliate (their markets for US exports are smaller, and some are hesitant to confront Washington). The European Union, Canada, and China, however, have indicated they will respond in kind to protect their interests³. The EU has floated targeted counter-tariffs focusing on areas of US strength (for instance, a tariff on US digital services exports was suggested by one EU official as a countermeasure). China will likely re-escalate its own tariffs on US goods and could leverage regulatory measures against US firms in China. A full-blown round of global retaliatory tariffs could emerge over the coming months if negotiations fail, risking a breakdown of the multilateral trading system’s norms (Exhibit 10).

For Indonesia in the near term, the focus will be damage control. Policymakers in Jakarta will likely pursue a two-track approach: diplomacy and domestic support. Diplomatically, Indonesia may work through ASEAN and the G20 to urge the US to restore more normal

trade terms. There could be an effort to highlight how punitive tariffs on developing countries run counter to the spirit of cooperation and might even violate WTO rules. Though the US can claim the national emergency justification, affected countries could bring a case to the WTO, arguing the tariffs are safeguard measures in disguise. Domestically, Indonesia might consider short-term support for exporters, such as tax breaks or subsidies to industries most affected, to help them weather the storm. The government could also adjust fiscal or monetary policy if needed to offset the hit to growth. Fortunately, Indonesia entered 2025 with a relatively healthy economic momentum (~5% GDP growth, moderate inflation)¹⁶, so it has some buffer. But forecasts for Indonesia's 2025 growth may be revised down by 0.2–0.5 percentage points due to the trade shock, depending on how long the US tariffs stay in place.

Exhibit 10. Regional Export Exposure to US. (% of GDP)



Sources: World Bank, IFG Progress Analysis

An important near-term variable is whether the US will show flexibility for certain partners. The executive order's "modification authority" means President Trump can exempt or reduce tariffs for countries that come to the table with concessions¹. We might see a flurry of bilateral talks as countries lobby for relief. Reports suggest some countries are proactively lowering their own tariffs on US goods to appease Washington. Israel and Vietnam moved to cut tariffs on US imports in hopes of negotiation⁶. If Indonesia were to, say, announce reductions in its tariffs on US products or address specific US complaints (such as easing certain import restrictions that the US deems barriers), it might strengthen its case for a tariff rollback. The USTR's recent National Trade Estimate report certainly provides a menu of issues (it listed hundreds of foreign trade barriers, Indonesia included, spanning everything from agricultural quotas to local content rules)¹⁵. How much the Trump administration is willing to compromise remains to be seen, it may insist on seeing US trade deficits shrink first before lifting tariffs.

Medium- to Longer-Term Implications and the “Mar-a-Lago Accords”

Looking slightly further ahead (1–3 years), several possible developments could shape the trajectory:

1. A New Global Trade Equilibrium or Prolonged Trade War: If the reciprocal tariffs remain in force, the global trading system will likely reorient. Companies will adjust supply chains to circumvent the tariffs where possible. We may see increased investment in countries exempt from US tariffs (notably Mexico and Canada, due to USMCA, which effectively gives them a competitive edge in serving the US market)². This could **draw manufacturing activity away from Asia** to North America. Countries hit by high tariffs might deepen trade with each other and with China/EU to compensate, potentially accelerating regional trade blocs. However, if the shock is too great, it could trigger a broader global downturn that dampens trade everywhere.

2. Impact on Global Growth and Supply Chains: If the tariffs persist, the global economic outlook skews weaker. The IMF and World Bank would probably downgrade growth forecasts for 2025–2026, citing reduced trade volumes. Some economists are drawing parallels to the Plaza Accord of 1985 – an international effort to adjust currencies and trade balances. Uniquely, Trump’s approach tariffs with talk of currency realignment. There is speculation of a so-called “Mar-a-Lago Accord”, named after Trump’s Florida resort, which would aim to **coordinate a depreciation of the US Dollar** to further reduce trade deficits¹⁷. In the 1980s, the Plaza Accord successfully brought down the overvalued dollar by joint intervention, improving US export competitiveness. Today’s context is different, but reports suggest Trump’s economic team (including new advisers like Stephen Miran) are contemplating a modern redux: convincing major economies to strengthen their currencies versus the dollar. The idea is that a weaker dollar, alongside tariffs, would double-team the trade deficit problem – making imports costlier and US exports cheaper abroad.

If such Mar-a-Lago accords were attempted, it would have profound financial implications. A substantial dollar weakening could *reprice global exchange rates*, benefiting countries that export to the US in currency terms (since their currencies would appreciate, partially offsetting tariffs). However, **forcing a dollar decline carries risks**. As Harvard economist Jeffrey Frankel noted, a “coercive” Mar-a-Lago currency deal, especially if done unilaterally by the US pressuring others, could undermine confidence in the US Dollar¹⁷. If foreign central banks and investors believe the US is actively debasing its currency to gain trade advantage, they may reduce their holdings of US Treasury bonds or seek alternatives to the dollar for reserves¹⁷. In the extreme, this could threaten the dollar’s

¹⁷ Financial Express. (2024). *Engineering dollar’s decline: The Mar-a-Lago Accords risk to US economic power*. Retrieved from <https://www.financialexpress.com/opinion/engineering-dollars-decline-the-mar-a-lago-accords-risk-to-us-economic-power/3787333/#:~:text=In%201985%2C%20US%20officials%20met,the%20president%E2%80%99s%20anonymous%20Florida%20resort>

status as the leading global reserve currency. The Trump administration appears willing to risk some of this to fix trade imbalances. Some proponents (like economist Zoltan Pozsar) have even floated more radical ideas under a “Bretton Woods III” concept, involving linking currencies to gold or commodities and revaluing gold to strengthen the US balance sheet. Such ideas remain speculative, but they underscore that the trade policy is part of a larger potential shake-up of the international economic order.

For Indonesia, a coordinated dollar weakening (if it occurred) would have mixed effects. On one hand, a weaker USD means the Indonesian rupiah (and other EM currencies) would strengthen in relative terms, that could **hurt Indonesian export competitiveness further** (making its goods more expensive in USD terms). On the other hand, if the dollar’s decline is managed and global growth resumes, Indonesia could benefit from stronger regional currencies and possibly higher commodity prices (since a weaker dollar often lifts dollar-denominated commodity prices, as Indonesia exports commodities like coal, metals, and palm oil). However, if the process “goes wrong” and erodes the dollar’s primacy, emerging markets might face financial turmoil (e.g. capital flight from US assets could create volatility, higher US interest rates to compensate investors could spill over). These are long-tail risks, but policy advisors in Indonesia will keep an eye on any discussions of a Mar-a-Lago currency accord at forums like the G20. Ideally, Indonesia would prefer a stable global financial environment, extreme exchange-rate gyrations would add to the uncertainty already caused by tariffs.

3. Potential Policy Responses in Indonesia and Region: In the longer run, Indonesia may accelerate efforts to reduce reliance on any single export market. The tariff shock could spur export diversification, both in terms of markets and products. For instance, Indonesia might invest more in moving up the value chain (producing higher-tech goods or finished products for regional markets) so that it’s not just a low-cost supplier to the US. It might also seek more free trade agreements. Currently, Indonesia has been negotiating or considering trade deals with the EU (the Indonesia-EU CEPA) and others. Regionally, ASEAN integration and RCEP provide a cushion – intra-Asian trade can grow when global trade frays.

On the financial front, Indonesia’s central bank might increase its currency swap lines and dollar liquidity arrangements with other countries to guard against any dollar funding issues. If a Mar-a-Lago Accord weakens the dollar significantly, Bank Indonesia might intervene to smooth rupiah appreciation to keep exports competitive. The government could also use this episode to justify structural reforms, for example, by improving domestic logistics and productivity so that Indonesian exporters can better absorb shocks like tariffs. The crisis could spur a sense of urgency in enhancing competitiveness (reducing high shipping costs, energy costs, etc., which have been challenges for Indonesian industry)¹⁷.


From a global perspective, Trump's reciprocal tariffs and any associated currency moves (Mar-a-Lago accords) may mark a shift toward a more fragmented, multi-bloc world economy. The US, by wielding tariffs, is forcing countries to choose either reduce barriers and align more with US demands (to get relief), or face marginalization from the US market and pivot elsewhere. Some observers worry this could solidify a China-centered Asian trade bloc versus a US-centered Americas bloc, undermining decades of global integration. There is also the question of how long such a policy can last. If it persists through Trump's term, businesses will eventually adapt. But if there's a change in US leadership or strategy (for instance, a future administration might roll back these tariffs if they prove too costly domestically), it could again shift the landscape.


In summary, the reciprocal tariff policy represents a high-stakes gamble in international economics. In the near term, expect significant strain on export-dependent economies like Indonesia, higher prices and volatility, and active efforts at negotiation and mitigation. In the medium term, the world could see a realignment of supply chains and possibly coordinated actions on currencies (the "Mar-a-Lago accords") that seek to address imbalances but carry their own risks¹⁷. Indonesia's economy, while resilient, will need to navigate this storm by protecting key industries, finding new markets, and maintaining financial stability. Policymakers, executives, and investors should remain alert to further developments, be it tweaks to tariff levels, bilateral exemptions, or broader agreements. The situation is fluid, but one thing is clear: the era of hyper-globalization and ever-freer trade has given way to an era of strategic protectionism, and the repercussions will be felt across both advanced and emerging economies.


PT. Bahana Pembinaan Usaha Indonesia (Persero)


Gedung Graha CIMB Niaga, 18th Floor
 Jl. Jendral Sudirman Kav. 58


RT.5/RW.3, Senayan, Kebayoran Baru
 Kota Jakarta Selatan, DKI Jakarta 12190

 (+62) 021 2505080

 Indonesia Financial Group

 PT. Bahana Pembinaan Usaha Indonesia – Persero

 @indonesiafinancialgroup

 @ifg_id

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