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## Trump's Tit-for-Tat Tariffs and Prabowo's Strategic Shock Therapy

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Indonesia's economy is at a crossroads after the United States imposed new tariffs on all its trading partners. **Iis GINDARSAH** examines the impact of Washington's aggressive trade policy on Southeast Asia's largest economy and the strategic rationale behind Jakarta's non-confrontational response.



Low consumer confidence and sluggish spending, even during the Ramadan and Eid al-Fitr festivities, means that Bank Indonesia's inflation target of 1.5–3.5% might not be met.

Image courtesy of *Unsplash*.

On 2 April 2025, US President Donald Trump announced sweeping changes to the country's tariff regime. These include a baseline 10% levy on all imports and additional "reciprocal tariffs" to about 60 economies. Although the United States has suspended these tit-for-tat tariffs for 90 days, the looming threat of renewed protectionism remains a profound risk to global trade, especially for emerging economies like Indonesia.

The Indonesian government was particularly caught off guard by the 32% tariff rate imposed on the country's exports to the United States. This new levy comes close to that imposed on China (34%) and higher than those on some BRICS nations, such as South Africa (30%) and India (26%), and even most ASEAN members, including Malaysia (24%), the Philippines (17%), and Singapore (10%).

### **Renewed External Shocks**

The effects of Trump's new tariffs will be observable in commerce and capital markets. Key export-oriented sectors, such as textiles, footwear, and automotive parts, will likely see declining demand due to rising costs and narrower profit margins. Labour-intensive industries could also see more layoffs and restructuring. Consequently, the country's current trade surplus may shrink further due to falling commodity prices and weaker external demand.

Additionally, Indonesia's financial markets are under heavy pressure, with foreign investors [withdrawing](#) approximately US\$1.67 billion from the domestic stock exchange year-to-date. In response to global monetary tightening and sustained high US yields, Bank Indonesia (BI) [kept](#) its benchmark rate at 5.75% and [intervened](#) in the bond market, purchasing around US\$4.21 billion in government securities to support liquidity.

Furthermore, capital flight is placing additional pressure on the Rupiah, which has [plunged](#) to a historic low, nearing the psychological barrier of IDR17,000 per US\$1. The country's foreign [reserves](#) remained relatively robust at US\$154.5 billion in late February. However, a protracted trade war will likely deplete the monetary cushion due to a continued intervention to stabilise the Rupiah and safeguard economic growth.

Global economic uncertainty will remain elevated in the short-to-medium term. If US-China trade tensions escalate further, they could trigger a global period of "stagflation" — a macroeconomic environment with low growth and high inflation. Trump's expansive tariffs may decelerate Indonesia's 2025 GDP growth by 0.3–0.5 percentage points and disrupt President Prabowo Subianto's high-growth ambition.

### **Bearish Domestic Market**

Nevertheless, Indonesia's economy had shown signs of demand-side weakness even before the US tariff shock. First, inflation [rebounded](#) to 1.03% year-on-year (YOY) in March after two months of deflation. Although the increase was driven by higher electricity and food prices, the rate remained below BI's inflation target of 1.5–3.5%. This reflects tepid household consumption and fragile purchasing power.

Second, consumer confidence and spending projections during Ramadan and Eid al-

Fitra festivities waned. The Consumer Confidence Index [declined](#) to 121.4 in March, signalling public concerns about employment prospects and income stability. With mass layoffs and fewer travellers, Eid spending is projected to contract by 12.3% from the previous year, even as it injects a total expenditure of US\$8.33 billion into the economy.

Third, the sluggishness of domestic demands has been complicated by fiscal pressures in the first quarter of 2025. With tax incomes [plummeting](#) by 30% YOY, the Indonesian government recorded an early budget deficit of US\$1.85 billion (0.13% of GDP) in February. The fiscal revenue shortfall is largely attributed to lower commodity prices and corporate earnings, as well as technical delays in implementing the new tax system.

Still, the Indonesian government's spending remains expansionary, with populist programmes — including US\$10.18 free nutritious meals and energy subsidies — continuing apace. The severity of the revenue slump and the widening deficit could increase the likelihood of additional government bond issuance. However, credit rating agencies have recently [warned](#) of the country's downgrade risks if fiscal consolidation efforts stall.

Fourth, governance concerns further erode investor confidence. Capital owners appear wary of the current course of economic policymaking, considering that extensive austerity measures on the state budget were taken amidst a shrinking middle class and massive layoffs in the manufacturing and technology sectors. [Doubts](#) over transparency and political influence at Indonesia's new Sovereign Wealth Fund have also added to market jitters.

## **Tariffs Shock Therapy**

Trump's sweeping tariffs have served as a wake-up call for the Prabowo administration. Instead of retaliation, the incumbent president adopted a "strategic shock therapy" that combines regulatory easing, trade concessions, and fiscal offsets in response to the impending US tariff threats. This calibrated approach suggests a shift in Indonesia's trade diplomacy — from reactive nationalism to strategic pragmatism.

There are three key factors in Jakarta's strategic calculus. First, Indonesia has limited scope in disrupting the US economy. Indonesian goods account for less than 1% of total US imports. The imposition of higher US tariffs on Indonesian goods also reduces their ability to substitute Chinese products and dims Indonesia's prospects of benefiting from China's outbound foreign direct investment. Additionally, Indonesia's reliance on US military hardware makes a direct retaliatory measure highly unlikely.

Second, Indonesian policymakers remain optimistic about renegotiation. Indonesia's non-tariff measures, such as local content requirements, import licensing regimes, and foreign exchange rules on natural resource exports, are currently at the [centre of bilateral disputes](#). During Trump's first term, the country successfully negotiated to retain access to the US Generalized Scheme of Preferences by offering concessions on non-trade barriers.

The delay of the reciprocal tariff enforcement offers a valuable window for Jakarta's diplomatic engagement. President Prabowo has dispatched a high-level trade delegation to Washington. Indonesia's trade diplomacy will hinge on [incentives](#) to reduce trade barriers and increase import volumes, with hopes of defusing tensions and gaining strategic leverage.

Third, US tariffs provide the current Indonesian government with external momentum to promote domestic agendas. On 19 March 2025, President Prabowo [proposed](#) significant deregulations at a meeting with the National Economic Council, a bold move given that several prominent business figures with close party ties benefit from the existing import quota regime.

Improving the business climate, lowering production costs, and boosting productivity are essential for the country to weather the shifting global trade landscape. To cushion the tariff impact and facilitate bilateral trade, the Ministry of Finance has recently [inducted](#) a regulatory reform package, including relaxed local content rules, reduced import duties, and streamlined tax and customs procedures.

## Looking Ahead

In the next few months, economists and market practitioners will focus on four key issues: (i) the pace and consistency of regulatory implementation; (ii) the sustainability and sectoral scope of local content rules flexibility; (iii) the alignment of business adaptation with government incentives; and (iv) the nature and scale of the US response. The outcome of Indonesia's high-profile trade mission to Washington will be pivotal in shaping fiscal direction, investor sentiment, and the country's evolving trade partnerships.

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