



Trump-Prabowo's Trade Deal: Lingering Uncertainty and Looming Risks

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SYNOPSIS

US President Donald Trump has struck a trade deal with Indonesian President Prabowo Subianto, following “tough” negotiations to avoid steeper US tariffs. Although the deal highlights a significant step in bilateral trade relations, there are potential pitfalls and risks facing the Indonesian economy.

COMMENTARY

On 15 July, President Donald Trump [announced](#) that the United States had agreed to reduce reciprocal tariffs on Indonesian goods from 32% to 19% following the latter's commitment to erase all duties on imports from the United States and purchase more than US\$19 billion worth of American energy products, agricultural goods and transport aircraft. The deal was carved close to what Jakarta had reportedly [offered](#) earlier, including greater cooperation in critical minerals and defence.

The Trump-Prabowo trade settlement came a week after Washington had unveiled another barrage of tariffs. First, while pushing back the original 9 July deadline by three weeks, Trump [sent](#) warning letters to many US trade partners, including Indonesia, outlining updated import taxes they would face. Second, he also [threatened](#) a 10% levy on any nation deemed to be aligned with “anti-American” policies promoted by member countries of the BRICS grouping, which Indonesia joined in January this year.

Prolonged Uncertainty

After promising the American people that he would impose a flurry of tariffs to redress America's trade deficit, the Trump administration has been under mounting pressure to wrap up trade talks. It has so far struck only a handful of trade deals – with the [United Kingdom](#), [Vietnam](#), and most recently, [the Philippines](#) – alongside a truce to

temporarily lower “tit-for-tat” import duties with [China](#). Hence, the recent salvo of warning letters would serve both as a signal of readiness to impose sizeable tariffs and as a prod to trade partners slow in offering acceptable deals.

Learning from the [three other aforesaid deals](#), the US government deliberately left high tariffs in place while key issues and terms remained unconfirmed or unresolved. Likewise, it remains unclear when the 19% levy for Indonesia will come into force, let alone the period over which Indonesia’s various promised purchases will take place. Many details are still being negotiated, with questions lingering over whether the Trump-Prabowo agreement will be solid and legally binding.

The Trump administration has kept foreign governments and investors on edge about the president’s tariff agenda. As duties on most US-bound imports are due to rise on 1 August, wary countries – including Indonesia – will move swiftly to finalise their respective deals with the United States in the coming weeks. Given the short timeframe, the outcome will most likely take the form of loose framework agreements.

On 22 July, Indonesia’s chief negotiator and the coordinating minister for economic affairs, Airlangga Hartarto, issued a “[joint statement](#) on framework for (bilateral) agreement on reciprocal trade” with US Trade Representative Jamieson Greer. The statement clarifies the size of import taxes and includes additional information on non-tariff measures and commercial agreements. Both sides agreed to continue negotiations to finalise the bilateral pact, while undertaking domestic formalities in advance. Yet, the risk of a policy setback remains high if the political agreement is not turned into a legal instrument.

By and large, policy uncertainty has been haunting the global economy recently. The [Economic Policy Uncertainty Index](#) developed by three researchers spiked in the first half of 2025 and reached the highest recorded level since 1985, owing to increased ambiguity surrounding trade relations and regulatory frameworks under the Trump administration. Such uncertainty has led many economies to reduce their reliance on trade with the United States by leveraging [other free trade pacts](#), such as the Indonesia-European Union Comprehensive Economic Partnership Agreement.

Recent [studies](#) have further assessed that the rise in policy uncertainty could have an adverse impact on macroeconomic performance. Beyond the immediate drag from higher duties, the greater damage comes from the confusion surrounding trade talks. Sudden deal changes often lead to market jitters on future costs, supply chain routes and selling prices. Until US and foreign tariff schedules are fixed, the natural response of firms and households would be to defer consumption and investment plans.

Future Risks

Indonesia’s trade deal with the United States is far more favourable than those struck by its regional peers. Local business players [hail](#) the lower rate for helping to maintain a slight competitive advantage for the country’s key exports in the US market. A trade representative official [noted](#) that most of Indonesia’s US-origin imports are raw materials and capital goods. Indonesia’s promised abolition of trade barriers for American products could help lower production costs for local industries relying on imported goods. Arguably, the import concession for commodities that are rarely

produced in large quantities domestically – such as soybeans and wheat – would [result in](#) more affordable prices and competitive choices in the domestic market.

Nevertheless, the Trump-Prabowo trade deal potentially has downside effects that can affect prospects for Southeast Asia's largest economy in the foreseeable future. First, the 19% tariff would be a sharp increase from the 5% average US levy on Indonesian goods in 2024. Bloomberg Economics [estimates](#) that the country may lose 25% of its exports to the United States, putting 0.3% of its GDP at risk. Amid a steady decline of Indonesia's trade surplus, the forecast is alarming given that around [half](#) of that excess used to come from the United States.

Second, sectors like the automotive industry, electronics and consumer gadgets will face stiffer competition from zero-barrier US products. While President Prabowo has [called for](#) "flexible" and "realistic" local content rules in domestic production, how far his administration is willing to go with such a policy remains [unclear](#). A complete removal of the local content requirement will be politically sensitive as the domestic industrialisation policy has received nationwide support. The move could also spark concern among foreign investors already operating production lines in the country and syphon off potential investments looking to enter the Indonesian market.

Third, Indonesia's significant economic overtures to the United States could create friction with other trade partners. Reversing the local content regime will lead to complaints from corporations such as Korean electronics giant Samsung or Chinese mobile phone manufacturer Oppo, which have invested billions of dollars to build local factories.

For its part, Beijing has [warned](#) countries against striking any economic deal with the United States at China's expense. China's mining companies, which dominate Indonesia's extractive industry, have agreed to comply with Indonesia's new [export proceeds](#) rule requiring resource exporters to hold the proceeds of their sales onshore for a year. While Indonesia will remove restrictions on the export of critical minerals to the United States under the interim framework, it is unknown whether the final US-Indonesia reciprocal trade deal would exempt American firms from the export proceeds regulation. Any such exemption agreement would put Chinese companies at a disadvantage, potentially upsetting Beijing.

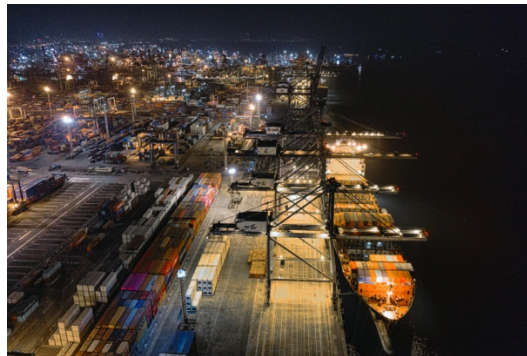
The risk will heighten further if the interim trade deal falls short of a formal agreement. Under the World Trade Organization (WTO) framework, trade privileges conceded to one member must be extended to all, unless part of a treaty. Any concession granted by Indonesia to the United States can lead to disputes with other trade partners if it is perceived as unfairly discriminating against other countries, potentially violating the "most favoured nation" principle of the General Agreement on Tariffs and Trade. Resolving these trade disputes is likely to be prolonged due to the current dysfunction of the WTO Appellate Body, the second-tier mechanism for international trade dispute settlement.

Lastly, Jakarta needs to be aware of the ripple effects of its trade deal with Washington on Indonesia's broader network of economic ties. For one, it could complicate [ongoing negotiations](#) with the South American economic bloc Mercosur, which might demand that the Indonesian government remove all tariffs and eliminate other trade barriers

for their products. The unusual bilateral concessions to the United States could also affect the intra-ASEAN trade relationship, as Southeast Asian countries compete to avoid higher US import levies.

Politics Outweighs Economic Gains?

Personal rapport and a transactional style of diplomacy were most notable in shaping the outcome of the US-Indonesia trade talks. Trump's public acknowledgement of a direct deal with Prabowo is not a mere symbolic act, but arguably a political success for the Indonesian leader. It showcases his ability to make bold economic decisions amid intense geopolitical rivalry, signalling strength and credibility to both domestic constituents and international stakeholders.



Whether Indonesia's trade deal with the United States will benefit the Indonesian people depends on job creation, productivity gains, and alignment with domestic priorities. *Image source: [Pexels](#).*

As far as economics is concerned, the US-Indonesia trade deal may align with Indonesia's pursuit of high-income status and its long-term infrastructure ambitions. However, whether its trade concessions benefit the Indonesian people will depend on how they create jobs and improve productivity, as well as their integration with other domestic policy priorities. Smart negotiation and careful implementation are critical to take advantage of economic opportunities amid global uncertainties, alongside the necessary budget and a healthy fiscal space.

Otherwise, Indonesia's gains from the trade pact with the United States will be more of a political win than an economic one.

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