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SYNOPSIS

Indonesia's tariff deal with US President Donald Trump is more than damage control – it is strategic positioning. Beyond short-term relief, it signals Jakarta's evolving economic strategy and a recalibrated bid for relevance in shifting global dynamics.

COMMENTARY

When US President Donald Trump announced a 19% tariff on Indonesian goods, down from the 32% he had previously threatened, Jakarta celebrated. Indonesian President Prabowo Subianto hailed it as a "new era of mutual benefit". At the same time, his spokesperson Hasan Nasbi described the outcome as a "meeting point" between two nations, after an "extraordinary struggle" by Indonesia's negotiating team. Indonesia's agreement with the United States was the fourth tariff renegotiation, after China, the United Kingdom, and Vietnam, ahead of newly concluded deals with Japan and the European Union. The otherwise higher tariffs would have threatened an estimated 300,000 jobs in Indonesia, including what remained of its textile sector. While the 19% rate does not eliminate risk, it represents a crucial reprieve from the original tariff threat, which could have severely impacted Indonesia's manufacturing base. Final details were still under negotiation, including the exclusion of palm oil, of which Indonesia supplied 85% of total US imports in 2024.

Some critics may dismiss the outcome as "a one-sided agreement", as Indonesia had committed to purchases of US$15 billion in energy, US$4.5 billion in agricultural products and 50 Boeing planes as part of negotiations. To meet these targets, Indonesia aimed to raise the proportion of US-sourced Liquefied Petroleum Gas (LPG) imports from 54% to at least 65% of total LPG imports, and boost US-sourced crude oil imports from under 4% to over 40%. Planned agricultural imports included wheat, soybeans, and corn – the latter two seemingly clashing with Indonesia's food self-sufficiency goals. Others warned that footwear and textile exports would still "take a hit" under the 19% rate. Yet, a pessimistic reading of the deal misses the bigger picture.

In 2023, Indonesia was heavily reliant on a few countries for key agricultural imports: Argentina (50.5%) and Brazil (47.8%) for corn; India (48%) and Australia (38.8%) for soybeans; and Australia (39.8%) and Canada (25.2%) for wheat. Purchasing these from the United States would help Indonesia enhance food security by diversifying sources and reducing reliance on any single exporter, thereby mitigating the risk of failed harvests or export policy changes.

As for the Boeing purchase, Indonesia had already revived plans to expand Garuda Indonesia's fleet since December 2024. The national carrier also received an injection of IDR 6.65 trillion (S$525 million) from the newly established Danantara sovereign wealth fund to support this effort. Before tariff negotiations, Indonesia had considered Airbus and China's Comac as alternatives, especially after a prior deal with Boeing in 2014 (for 50 "737 Max 8" planes) was halted due to safety concerns.

Why 19% Matters

At first glance, 19% may not seem like a breakthrough – nearly double the 10% global baseline imposed by the Trump administration. However, the 19% rate is among the lowest in the region and, importantly, it has brought the Prabowo's administration time to stabilise Indonesia' industrial policy.

While neighbouring countries like Vietnam experienced strong industrial growth in recent years, Indonesia suffered an industrial contraction. Since 2022, more than 60 textile plants have closed, triggering more than 250,000 layoffs. Early 2025 brought further shutdowns culminating in the collapse of Sritex – once Southeast Asia's largest textile producer. Regulatory friction only added pressure: Apple's iPhone 16 was temporarily barred for missing a 40% local-content rule and only cleared after a pledge of US$150 million to build accessory facilities in Bandung and Batam; a modest sum compared to its US$15.8 billion manufacturing build-out in Vietnam since 2019. Indonesia's growth barely budged, easing from 5.05% in 2023 to 5.03% in 2024.

Against this backdrop, the 19% tariff deal gives Indonesia time to recover lost ground and reaffirm Indonesia's manufacturing relevance. It is now up to the Indonesian government and manufacturers to make the most of this opportunity – assuming that the Trump administration does not shift the goalposts.

Playing the Game: Trump, China, and Strategic Pragmatism

For Prabowo, the deal was not just about shielding exports – it was a show of strategic pragmatism. Trump sought a clear win: Boeing jets, US energy, and agriculture. Indonesia delivered, agreeing to major purchases and a clause limiting third-country transshipments. In return, it avoided a 32% tariff. If purchased and delivered on time, the planes will help revive Garuda, and the United States remains a vital export market. Prabowo moved quickly and secured greater certainty in return.

The tariff deal with the United States demonstrates Indonesia's strategic pragmatism. This must now be matched by economic execution. *Image source: Unsplash.*

The deal also reflected Indonesia's ongoing effort to maintain strategic balance in its foreign policy. While past years saw closer ties with China through Belt and Road projects and nickel downstreaming, Jakarta has since diversified. Alongside the United States' deal, Indonesia agreed to conclude trade agreements with the European Union by September 2025 and the Eurasian Economic Union (EAEU) by end-2025 and is pursuing entry into multilateral frameworks like the Organisation for Economic Co-operation and Development (OECD) and Comprehensive and Progressive Trans-Pacific Partnership (CPTPP). Rather than tilting toward any single bloc, Indonesia is upholding its long-standing *bebas aktif* principle, seeking pragmatic partnerships across competing alignments.

The Trump deal capped a whirlwind five-country tour – Saudi Arabia, Brazil, Belgium, France, and Belarus – over 15 days and three continents. In Saudi Arabia, Indonesia secured US$27 billion in investments spanning clean energy, petrochemicals, and aviation fuel. Prabowo also pushed to expand Indonesia's halal industry into one of the fastest-growing consumer markets. In Brazil, he debuted at the BRICS Summit and deepened defence cooperation. In Brussels, Indonesia agreed with European Union to move ahead on the long-delayed Indonesia–EU Comprehensive Economic Partnership Agreement (CEPA), set to make 80% of Indonesian exports tariff-free within two years. In France, Prabowo stood beside Emmanuel Macron at the Bastille Day parade, underscoring growing defence and symbolic ties. A final stop in Belarus to complete Indonesia's trade agreement negotiations with the Russia-led EAEU underscored Jakarta's hopes of opening new market access for crude palm oil, copra, coffee, natural rubber, and cocoa butter. Beyond mere optics, these developments signalled Indonesia's intent to act as a middle power with global reach, deepening bilateral cooperation and multilateral ties along the way. If US tariffs fail to yield a beneficial trade relationship, these agreements offer an alternative demand for Indonesia's exports.

Concluding Thoughts

The Trump deal was the finale, but the wider tour was the overture. Together, they demonstrate that Prabowo can be a nimble global operator, though it is still early days. The focus now shifts to how well Indonesia can execute the various agreements reached, particularly the one with the United States.

To capitalise on the Trump deal, Indonesia must maximise the access it has secured – negotiating exemptions wisely and ensuring its products can compete in the US market. But trade terms alone are not enough – domestic bottlenecks must also be addressed. Equal attention is needed for the alternative markets Prabowo has opened. Intra-ASEAN trade and regional supply integration remain the backbone of the region's economic resilience. Even as Indonesia finds reprieve, it must not let tariff-driven competition undermine regional cohesion. Strategic diplomacy must now be matched by economic execution. The devil is in the details, and Indonesia's challenges – like those faced by many economies – are increasingly complex. Finding a balance between external commitments and domestic priorities will perhaps be Prabowo's biggest test.

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