

Position Paper

The Agreement on Reciprocal Trade between Indonesia and the United States

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I. Background

The Indonesian Business Council (IBC) acknowledges the Government of Indonesia's effort to maintain stable trade relations with the United States amid rapidly changing policy dynamics. The Agreement on Reciprocal Trade (ART) aims to adjust reciprocal tariff arrangements and broaden bilateral cooperation, including in non-tariff measures and strategic investment sectors (The White House, 2026).

Prior to the ART, Indonesia-U.S. trade relations operated under the *most favoured nation (MFN)* framework. WTO data indicate that Indonesia's average MFN tariff stood at approximately 8 percent (simple average), with manufacturing tariffs generally ranging between 5–15 percent and some agricultural commodities subject to relatively higher rates (WTO, 2024; WITS, 2024). Against this baseline, Indonesia's commitment under the ART to reduce tariffs to 0 percent on around 99 percent of U.S. products represents a substantial adjustment to its previous tariff structure.

The initiative to reduce the reciprocal tariff from 32 percent to 19 percent reflects a concrete effort by the Government of Indonesia to mitigate tariff pressures that weigh on competitiveness and business sustainability, particularly in key sectors such as textiles, footwear, palm oil, coffee, cocoa, and rubber. With the effective average tariff burden estimated at 9–11 percent (CSIS, 2026), short-term cost pressures on exporters are moderated. The measure is projected to support approximately 4–5 million workers whose livelihoods depend on access to the U.S. market (CIPS, 2026).

However, the U.S. Supreme Court Decision No. 24-1287, which invalidated the use of the International Emergency Economic Powers Act (IEEPA) as the legal basis for global tariffs, has changed the policy landscape. Currently, a temporary 10 percent universal tariff is being applied under Section 122 for up to 150 days (Supreme Court of the United States, 2026).

In light of these developments, IBC has conducted internal discussions to assess the economic, legal, and institutional implications of the ART. **IBC considers a data-based evaluation essential to ensure that the agreement remains aligned with Indonesia's structural transformation and strategic economic interests.** This paper provides IBC's assessment of the economic and policy implications of the ART.

II. Status & Policy Space

IBC notes the following developments:

- The ART has not yet entered into legal force and will only become effective 90 days after the exchange of written notifications between the two governments;
- The currently applicable tariff is the 10 percent global tariff under Section 122; and
- Legal developments in the United States have created uncertainty regarding the legal basis for reciprocal tariffs previously applied.

Given these circumstances, Indonesia retains policy space to conduct further review and in-depth assessment prior to providing written notification to the Government of the United States. IBC views this space as an opportunity to ensure that all ART provisions align with Indonesia's long-term national interests.

III. Scope of ART

The ART framework reflects a degree of tariff asymmetry between the two countries. Indonesia has committed to reducing tariffs to 0 percent on 99 percent of U.S. products. By comparison, the additional 0 percent tariff treatment granted by the United States covers 1,819 Indonesian products, most of which already benefited from relatively low MFN tariffs (LPEM, 2026). Moreover, only around 24 percent of Indonesia's exports to the United States genuinely receive additional preferential treatment, and for many of these products, the U.S. is not their primary export market (CSIS, 2026).

Beyond tariff adjustments, the ART extends into a broader set of economic policy areas. The agreement includes:

- Non-tariff measures and standards harmonization;
- Digital trade and rules of origin;
- Regulation of state-owned enterprises and strategic investment;
- Critical minerals;
- Commitments related to commercial facilitation.

Given this breadth, the ART goes beyond a conventional tariff agreement and carries structural and cross-sectoral implications. Its implementation requires regulatory readiness, strong inter-ministerial coordination, and preparedness within the business sector.

IV. Economic Implications

Beyond the bilateral dynamics between Indonesia and the United States, recent geopolitical developments, notably rising tensions in the Middle East, add uncertainty to the global economic environment, with potential spillovers to trade flows, capital movements, and financial conditions. The United States remains one of Indonesia's principal trading partners. From January to December 2025, Indonesia's exports reached USD 282.91 billion, representing a 6.15 percent year-on-year increase (BPS, 2026). In this context, maintaining predictable market access in major partner economies remains an important factor in supporting export performance, supply chain integration, and employment across manufacturing and commodity value chains.

Against this macroeconomic backdrop, the ART presents both potential economic benefits and adjustment requirements.

Potential economic benefits may include:

- Greater certainty of access to the U.S. market;
- Improved access to industrial inputs, which may enhance production efficiency given Indonesia's continued reliance on imported raw materials;
- Further progress in regulatory rationalization, particularly with respect to non-tariff measures.

At the same time, several areas require careful assessment:

- The extent of domestic regulatory adjustments, including in non-tariff measures, rules of origin, SOE governance, and critical minerals policy;
- Potential fiscal implications associated with tariff adjustments;
- Increased competitive pressures on selected domestic industries and MSMEs;
- Possible implications for Indonesia's regional trade engagement.

Given these considerations, IBC considers it important to undertake a comprehensive, data-driven sectoral cost-benefit assessment prior to implementation. This would help ensure that the overall economic impact of the agreement is measurable and aligned with Indonesia's medium- and long-term development objectives.

V. Governance and Institutional Considerations

Given the breadth of the ART and its potential implications for domestic regulatory frameworks, IBC underscores the importance of an inclusive and transparent domestic consultation process involving:

- Relevant ministries and government agencies;
- The House of Representatives (DPR) in accordance with applicable legislation;
- Cross-sector business stakeholders;
- Academic and policy experts.

Such a participatory process would help strengthen policy legitimacy and support effective implementation.

VI. Recommendations

IBC recommends the following measures:

1. Provide clear and measured public communication indicating that the ART remains subject to the domestic consultation and legislative process prior to implementation;
2. Undertake a comprehensive cross-sector impact assessment prior to formal notification;
3. Ensure that the subsequent steps follow applicable domestic processes, including transparent consultation with relevant ministries and stakeholders, as well as legislative approval by the House of Representatives (DPR);
4. Strengthen regulatory and institutional preparedness to support effective implementation;
5. Continue structural reforms to enhance Indonesia's competitiveness and investment climate;
6. Maintain a diversified trade strategy to support Indonesia's long-term competitiveness and economic resilience.

VII. Closing

IBC supports fair and mutually beneficial trade cooperation and recognizes the importance of maintaining strategic economic relations with the United States. At the same time, international commitments must be carefully structured to reinforce Indonesia's long-term competitiveness and economic resilience.

IBC stands ready to engage in further dialogue and provide technical input to support policy decisions that deliver broad and sustainable benefits for the Indonesian economy.

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