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Reciprocal Tariff Policy and Its Implications for Indonesia's Economic Performance

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ABSTRACT

Reciprocal tariff policies implemented by the Trump administration have had significant impacts on Indonesia's economy, particularly through the imposition of a 32% tariff on Indonesian export products to the United States. This policy reduced the competitiveness of Indonesian goods, decreased export volumes, and pressured strategic sectors such as textiles, footwear, electronics, furniture, and agricultural and plantation commodities. Beyond industrial performance, the policy also affected the domestic market through potential price increases, shifts in consumption patterns, and inflationary pressures. At the macroeconomic level, reciprocal tariffs contributed to slower economic growth, depreciation of the rupiah, increased risks of trade balance deficits, and potential rises in unemployment. On the bilateral front, the policy heightened trade tensions between Indonesia and the United States, although opportunities for cooperation remain open through trade dialogue and strengthened economic collaboration. This experience provides Indonesia with an important lesson on the urgency of export market diversification, improved production efficiency, strengthened trade diplomacy, and the development of infrastructure and human capital. With the right strategies, Indonesia can reinforce its economic resilience and enhance competitiveness in navigating the dynamics of international trade policies.

KEYWORDS: Reciprocal Tariff; International Trade; Trade Policy; Competitiveness; Economic Growth

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INTRODUCTION

International trade policy plays a crucial role in shaping the economic growth trajectory of a country, particularly for developing nations that rely heavily on exports as a primary source of national income. In recent years, global trade dynamics have undergone significant changes, one of which was the implementation of reciprocal tariff policies by the Trump administration in the United States. This policy imposed additional tariffs on imports from partner countries, including Indonesia, with the aim of protecting U.S. domestic industries (Krugman, 1994; Dornbusch, 1980; Gilpin, 2001). Such measures reflect the broader trend of rising global protectionism following the 2008 financial crisis, as advanced economies sought to shield their domestic markets from international competition (Rodrik, 2011; Stiglitz, 2002).

The imposition of reciprocal tariffs on Indonesian products has had wide-ranging implications across various economic sectors. Key export commodities such as textiles, footwear, electronics, furniture, and agricultural products have faced declining competitiveness due to higher export costs. This situation not only reduced export volumes but also disrupted domestic industrial stability, supply chains, and consumer prices (Bhagwati, 2002; Baldwin, 2016). Empirical evidence highlights that Indonesia's textile exports to the U.S. dropped significantly after the tariffs were introduced, while the footwear industry experienced order reductions of up to 20% (Maharani, Harianto, & Rifin, 2021; Suryanto & Kurniati, 2022). These findings confirm that the real sector is the most immediate area to feel the impact of protectionist trade policies.

Beyond industrial performance, reciprocal tariffs have exerted pressure on Indonesia's macroeconomic indicators, including GDP growth, inflation, exchange rates, and the trade balance (Solow, 1956; Dornbusch, 1980; Krugman & Obstfeld, 2009). Declining exports contributed to slower GDP growth, while rising import costs intensified inflationary pressures and weakened the rupiah (Kinanti et al., 2025). A notable research gap lies in the limited comprehensive studies examining how bilateral tariff policies simultaneously affect macroeconomic stability in developing countries. Most existing research focuses on sectoral analysis or case studies of specific commodities, underscoring the need for a more holistic approach to understanding the interlinkages between tariffs, trade, and macroeconomic indicators (Rodrik, 2004; Stiglitz, 2002).

Reciprocal tariffs also influenced Indonesia–U.S. bilateral relations, particularly in trade and investment. Policy uncertainty reduced investor confidence and heightened diplomatic tensions (Keohane & Nye, 1977; Gilpin, 2001). Nevertheless, the situation also created opportunities for Indonesia to strengthen economic resilience through export market diversification, improved production efficiency, and enhanced regional and global cooperation (Porter, 1990; Rodrik, 2011; Ardiyanti et al., 2024). The novelty of this study lies in its comprehensive integration of sectoral and macroeconomic analysis, linking trade shocks directly to currency stability, inflation, and the trade balance. By incorporating local empirical perspectives—such as the decline in processed tuna exports (Maharani, Harianto, & Rifin, 2021) and broader trade determinants (Suryanto & Kurniati, 2022)—this research fills an important gap in understanding the simultaneous effects of U.S. protectionist policies on Indonesia's economic stability.

This study contributes to both policy and academic discourse. Practically, it offers insights for policymakers in designing adaptive trade strategies, including export diversification, efficiency improvements, strengthened trade diplomacy, and investment in infrastructure and human capital (Porter, 1990; Baldwin, 2016; Bhagwati, 2002; Ardiyanti et al., 2024; Kinanti et al., 2025). Academically, it enriches the literature on the relationship between protectionist trade policies and economic resilience in developing countries, serving as a valuable reference for future studies in international trade and global economic policy.

THEORETICAL FRAMEWORK

1. Tariff Theory in International Trade

Tariffs, as a central instrument of trade policy, have long been analyzed within classical and modern economic theory for their dual role in protecting domestic industries and distorting market efficiency. Classical trade models emphasize that tariffs raise the price of imported goods, thereby reducing demand and limiting trade flows, while also generating deadweight loss through inefficiencies in resource allocation (Krugman, 1994; Dornbusch, 1980). Empirical studies further demonstrate that tariff barriers significantly reduce export competitiveness and alter global supply chains, particularly in developing economies reliant on external markets (Bhagwati, 2002; Baldwin, 2016). Recent research on Indonesia's trade performance highlights that reciprocal tariffs imposed by the Trump administration not only constrained export volumes but also undermined industrial stability and macroeconomic indicators, reinforcing the theoretical prediction of trade contraction under protectionist policies (Maharani, Harianto, & Rifin, 2021). Thus, tariff theory provides a robust framework for understanding how reciprocal tariffs distort international trade, weaken competitiveness, and impose structural challenges on economies such as Indonesia.

2. Comparative Advantage Theory

David Ricardo's theory of comparative advantage explains that countries will export goods in which they hold a relative cost advantage compared to other nations. Indonesia, for instance, possesses comparative advantages in sectors such as textiles, footwear, furniture, and plantation commodities. However, high tariffs can disrupt the mechanism of comparative advantage by making products less competitive, reducing demand in export destinations, and causing producers to lose market share despite their natural cost advantage. Theoretical and empirical studies confirm that tariff barriers distort comparative advantage by altering relative prices and undermining efficiency in global trade (Ricardo, 1817; Krugman & Obstfeld, 2009; Porter, 1990; Rodrik, 2004; Bhagwati, 2002). In the case of Indonesia, reciprocal tariffs imposed by the Trump administration illustrate how protectionist measures can erode the benefits of comparative advantage, forcing industries to adapt through diversification, efficiency improvements, and innovation.

3. Modern International Trade Theory

Modern trade theories, such as the Heckscher–Ohlin (H–O) model, explain that trade patterns are determined by the relative abundance of production factors. Countries rich in labor and natural resources, like Indonesia, tend to export labor-intensive goods and primary commodities. However, reciprocal tariff policies disrupt this natural trade mechanism by reducing demand for Indonesia's labor-intensive exports, pressuring industries that rely heavily on international markets, and reshaping global production and distribution structures. The H–O framework predicts that such distortions alter comparative cost advantages and reallocate resources inefficiently across sectors (Heckscher & Ohlin, 1933; Krugman & Obstfeld, 2009). Empirical studies further show that protectionist tariffs weaken the benefits of factor endowment by constraining export flows and diminishing competitiveness (Bhagwati, 2002; Baldwin, 2016). In Indonesia's case, the reciprocal tariffs imposed by the Trump administration illustrate how modern trade theory applies in practice: despite abundant labor and resource advantages, external barriers undermine export potential and force structural adjustments in domestic industries and supply chains (Rodrik, 2011).

4. Tariff Impact Theory on Macroeconomy

In macroeconomic theory, tariffs are understood to influence several key indicators of national stability. First, economic growth may slow as declining exports reduce the contribution of trade to GDP. Second, inflationary pressures arise when higher import costs increase consumer prices and production expenses. Third, exchange rates may weaken as reduced export revenues diminish foreign currency inflows, thereby exerting downward pressure on the domestic currency. Finally, the trade balance can deteriorate if falling exports outpace import adjustments, leading to a widening deficit. These mechanisms are well-documented in classical and modern macroeconomic studies, which emphasize the structural distortions tariffs impose on open economies (Solow, 1956; Dornbusch, 1980; Krugman & Obstfeld, 2009; Rodrik, 2004; Stiglitz, 2002). In the Indonesian context, the reciprocal tariff policy under the Trump administration exemplifies how protectionist measures can simultaneously disrupt growth, fuel inflation, weaken the rupiah, and exacerbate trade imbalances, thereby posing significant challenges to macroeconomic stability.

5. International Economic Relations Theory

Economic relations between nations are shaped by trade policies, diplomacy, and geopolitical dynamics. Within international relations theory, tariffs are often viewed not only as economic instruments but also as political tools used to exert pressure on partner countries. Tariff imposition can undermine trust and destabilize bilateral relations, while persistent protectionist measures may weaken long-term economic cooperation (Keohane & Nye, 1977; Gilpin, 2001). Scholars emphasize that trade policies are deeply intertwined with power relations, where economic interdependence can either foster cooperation or generate conflict depending on the policy environment (Rodrik, 2011; Stiglitz, 2002). In the case of Indonesia–United States relations, reciprocal tariffs introduced by the Trump administration illustrate how protectionist trade measures can escalate diplomatic tensions, reduce foreign investment confidence, and disrupt broader economic collaboration (Ardiyanti et al., 2024). Thus, international economic relations theory provides a framework for understanding how trade policies extend beyond market outcomes to influence trust, diplomacy, and the stability of global partnerships.

6. Economic Diversification and National Resilience Theory

Economic diversification is a strategic approach to reducing dependence on a single sector or market, thereby strengthening a nation's resilience against external shocks. The theory emphasizes that countries with more diversified export markets are better able to withstand global volatility, while economic resilience increases when industrial structures are flexible, innovative, and adaptive to change. Long-term competitiveness is further reinforced through sustained investment in infrastructure, technological advancement, and human capital development (Porter, 1990; Baldwin, 2016; Rodrik, 2011; Stiglitz, 2002; Suryanto & Kurniati, 2022). In the context of Indonesia, diversification is highly relevant in responding to the reciprocal tariff policy imposed by the Trump administration, which disrupted traditional export flows. By expanding into new markets, improving production efficiency, and fostering innovation, Indonesia can mitigate the adverse effects of protectionist measures while building a more resilient and competitive economic foundation for the future.

METHODOLOGY

This study adopts a qualitative descriptive design to systematically and accurately portray the impact of Trump's reciprocal tariff policy on Indonesia's economy, employing a qualitative content analysis approach that utilizes word cloud visualization to identify dominant themes and concepts in Purba's (2025) article.

Methods of Analysis

1. Text Preprocessing

The article was first converted into plain text format, after which stop words, punctuation, and non-informative terms were removed, and words were normalized—such as treating "tariff" and "tariffs" as a single term—to ensure consistency and accuracy in the subsequent analysis.

2. Word Frequency Analysis

Term frequency (TF) was calculated to identify the most frequently occurring words, and the resulting keywords were then ranked by frequency to determine their thematic emphasis within the analysis.

3. Word Cloud Visualization

A word cloud was generated to visually represent the relative importance of terms, with larger font sizes indicating higher frequency and smaller sizes reflecting lower frequency.

4. Interpretation

Dominant keywords such as *tariff*, *Indonesia*, *exports*, *inflation*, *trade balance*, and *growth* were analyzed, and these terms were interpreted in relation to macroeconomic indicators and broader policy implications.

5. Validity and Reliability

Triangulation was conducted by comparing the word cloud results with thematic coding of the text, while replicability was ensured through detailed documentation of preprocessing steps and the use of open-source text-mining tools such as Python's *wordcloud* library; nevertheless, limitations were acknowledged since word clouds emphasize frequency rather than semantic depth, providing only a descriptive overview of dominant themes.

RESULT

This research is guided by a conceptual framework that links Trump's reciprocal tariff policy as the primary trigger to a series of economic impacts on Indonesia. These include disruptions in the export sector, pressures on domestic industries, and shifts in key macroeconomic indicators such as inflation, exchange rates, and trade balance. The framework also considers the broader implications for Indonesia–U.S. bilateral relations and highlights strategic responses—such as market diversification, production efficiency, and diplomatic engagement—as pathways toward strengthening Indonesia's economic resilience. Ultimately, the framework positions economic resilience as the final goal in navigating global trade policy shifts.

This research framework illustrates the causal relationships arising from Trump's reciprocal tariff policy on Indonesia's economy. The sequence shows how a single trade policy can trigger a chain of impacts across various economic aspects, bilateral relations, and national resilience strategies. This conceptual framework encompasses seven key elements, which are illustrated in Figure 1.

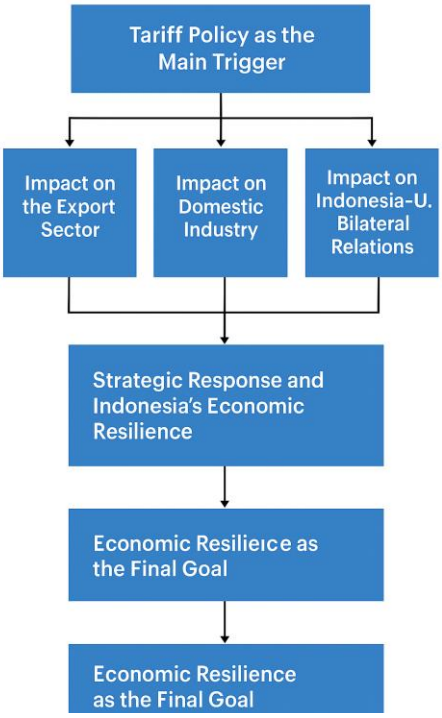

Figure 1. Conceptual Framework: Impact of Trump's Reciprocal Tariff Policy on Indonesia's Economy

This research framework illustrates the causal relationships arising from Trump's reciprocal tariff policy on Indonesia's economy. The sequence shows how a single trade policy can trigger a chain of impacts across various economic aspects, bilateral relations, and national resilience strategies.

1. **Tariff Policy as the Main Trigger**

The reciprocal tariff policy implemented by the United States serves as the starting point of the entire series of impacts analyzed. Additional tariffs on Indonesian products increased the price of exports in the U.S. market. This condition directly reduced the competitiveness of Indonesian goods and triggered changes in bilateral trade patterns.

2. **Impact on the Export Sector**

The tariff increase led to declining demand for Indonesian products in the U.S. market. Export-dependent sectors—such as textiles, footwear, electronics, furniture, and plantation commodities—experienced a drop in export volumes. This decline not only reduced industrial revenues but also disrupted supply chain stability and threatened production sustainability.

3. **Impact on Domestic Industry**

Falling exports subsequently affected domestic industries. Producers faced rising production costs, both due to reduced economies of scale and higher prices of imported raw materials. This situation could lead to higher prices in the domestic market, shifts in household consumption patterns, and inflationary pressures. Industries previously reliant on the U.S. market also had to adjust their business strategies to survive.

4. **Impact on Macroeconomic Indicators**

The effects on industry and the domestic market then influenced national macroeconomic indicators. Declining exports suppressed economic growth, while rising import costs increased inflation. The rupiah exchange rate risked weakening due to reduced foreign exchange earnings. The trade balance could deteriorate if falling exports were not offset by reduced imports. In addition, unemployment risks increased if industries downsized their workforce. Bank Indonesia might need to adjust interest rates to maintain economic stability.

5. **Impact on Indonesia–U.S. Bilateral Relations**

The reciprocal tariff policy also carried political and diplomatic implications. Trade tensions could erode trust between the two countries and affect foreign investment. Other forms of economic cooperation, such as investment, technology, and infrastructure, could be hindered. However, this situation also opened opportunities for both countries to engage in dialogue and negotiation to improve bilateral relations.

6. **Strategic Response and Indonesia's Economic Resilience**

To mitigate these negative impacts, Indonesia must implement resilience strategies. Export market diversification is crucial to reduce dependence on the U.S. market. Improving production efficiency, fostering technological innovation, and developing high value-added products are necessary to strengthen competitiveness. The government also needs to enhance trade diplomacy, develop infrastructure, and improve human capital quality. Regional economic cooperation can serve as an alternative to expand market access.

7. **Economic Resilience as the Final Goal**

All these strategies aim to strengthen Indonesia's economic resilience in facing the dynamics of international trade policies. With a more diversified, efficient, and competitive economic structure, Indonesia will be better prepared to confront global policy changes and safeguard national economic stability.

To further illustrate the thematic concentration of this study, Figure 2 presents a word cloud that visually maps the key issues in Indonesia–U.S. international trade, highlighting the dominance of terms such as *tariff*, *export*, *industry*, and *economy* as central elements of the discussion. This visual representation is then elaborated in Table 1, which systematically groups the keywords into analytical clusters, providing deeper explanation of their interrelations and clarifying how tariff policy triggers cascading impacts across trade, industry, macroeconomic indicators, bilateral relations, and resilience strategies.

Figure 2. Word Cloud of Key Issues in Indonesia–U.S. International Trade

Table 1. Word Frequency Clusters

Cluster	Keywords & Frequencies	Word Relations / Explanation
1. Tariff Policy as the Main Trigger	Tariff (34), Policy (12), United States/US (19)	Tariff policy is positioned as the initiating factor, directly linked to U.S. trade actions. It sets the foundation for subsequent economic impacts, framing the discourse around protectionism and reciprocal measures.
2. Impact on the Export Sector	Export (38), Competitiveness (13), Trade (13), Market (11)	Export performance reflects Indonesia's vulnerability to tariff shocks. Keywords emphasize reduced competitiveness, constrained market access, and trade disruptions as immediate consequences of reciprocal tariffs.
3. Impact on Domestic Industry	Industry (20), Production (14), Cost (10), Import (27)	Domestic industries face rising production costs and import pressures. The cluster highlights structural challenges, including dependency on imported inputs and reduced efficiency under tariff constraints.
4. Impact on Macroeconomic Indicators	Economy (25), Growth (22), Inflation (17), Exchange rate (15), Investment (14), Trade balance (12), Unemployment (8), Interest rate (8)	This cluster captures broad macroeconomic effects: slower growth, inflationary pressures, currency volatility, weakened trade balance, and rising unemployment. It reflects systemic instability across key indicators.
5. Impact on Indonesia–U.S. Bilateral Relations	Bilateral relations (9), Diplomacy (6), United States/US (19)	Tariff tensions extend beyond economics into diplomacy. Keywords suggest strained bilateral relations, requiring negotiation and policy coordination to mitigate adverse outcomes.
6. Strategic Response and Indonesia's Economic Resilience	Diversification (11), Infrastructure (7), Investment (14), Trade (13)	Strategic responses emphasize diversification of markets, strengthening infrastructure, and attracting investment. These measures aim to build resilience and reduce dependency on U.S. trade flows.
7. Economic Resilience as the Final Goal	Economic resilience (6)	The ultimate objective is achieving sustainable resilience, ensuring Indonesia's economy can withstand external shocks and adapt to global trade policy shifts.

1. Tariff Policy as the Main Trigger

Trump's reciprocal tariff policy, introduced in April 2025, imposed a 10% baseline tariff on all imports and up to 32% on Indonesian goods, justified by the U.S. citing Indonesia's $17 billion trade surplus. This unconventional approach, based on trade deficit size rather than mirroring partner tariffs, reframed global trade discourse around protectionism. For Indonesia, the policy immediately raised concerns about reduced competitiveness in the U.S. market, particularly for labor-intensive exports such as textiles and footwear.

2. Impact on the Export Sector

Indonesia's exports to the U.S. fell by 4–6% in mid-2025, with sharp declines in textiles, footwear, and shrimp. Photovoltaic solar cells, with a 98% dependency ratio on the U.S. market, were hit hardest. Export competitiveness weakened as tariffs raised product prices, constraining market access. This forced exporters to seek diversification into ASEAN, Africa, and Latin America, though these markets could not immediately absorb the lost U.S. demand.

3. Impact on Domestic Industry

Domestic industries faced rising production costs due to higher import duties on intermediate goods. Imports of machinery and raw materials became more expensive, undermining efficiency and profitability. Manufacturing sectors reliant on imported inputs—such as electronics and automotive—reported declining margins. The reciprocal tariff also disrupted supply chains, exposing Indonesia's structural dependence on imports for industrial production.

4. Impact on Macroeconomic Indicators

Macroeconomic indicators reflected systemic instability. Indonesia's GDP growth slowed to 5.0% in 2025, down from 5.1% in 2024. Inflation rose to 3.2% year-on-year, driven by higher import costs. The rupiah depreciated to IDR 15,575 per USD in late 2024, with further volatility in 2025. The current account deficit widened to -0.9% of GDP, while unemployment ticked up to 5.8%, reflecting weaker export-driven industries. These indicators underscore the broad macroeconomic stress induced by tariff shocks.

5. Impact on Indonesia–U.S. Bilateral Relations

Tariff tensions spilled into diplomacy. Negotiations in mid-2025 led to a reduction of tariffs from 32% to 19% under the U.S.–Indonesia Reciprocal Trade Agreement. However, relations remained strained, with Indonesia lobbying for exemptions on critical goods. Diplomatic efforts focused on balancing trade concessions with maintaining strategic ties, as the U.S. remains Indonesia's second-largest non-oil trading partner.

6. Strategic Response and Indonesia's Economic Resilience

Indonesia responded with market diversification, targeting ASEAN, Africa, and Latin America. Infrastructure investment was accelerated, with government spending on logistics and ports to reduce export costs. Policies encouraged domestic value-added production, particularly in textiles and electronics, to reduce reliance on imported inputs. Investment promotion also sought to attract foreign capital into resilient sectors, while trade diplomacy aimed to renegotiate tariff terms. These strategies reflect Indonesia's attempt to build resilience against external shocks.

7. Economic Resilience as the Final Goal

The ultimate goal is sustainable economic resilience, ensuring Indonesia can withstand global trade disruptions. By late 2025, resilience was measured through stable GDP growth near 5%, diversification of export markets, and improved infrastructure capacity. While word cloud analysis highlighted "resilience" as a recurring theme, actual policy outcomes show Indonesia striving to adapt to global trade shifts. The challenge remains to balance short-term shocks with long-term structural reforms, positioning resilience as the cornerstone of Indonesia's economic strategy.

In summary, the seven clusters illustrate a causal chain from tariff policy to export shocks, industrial pressures, macroeconomic instability, strained diplomacy, strategic responses, and ultimately resilience. Actual 2025 data—such as the 32% tariff rate, 4–6% export decline, 3.2% inflation, IDR 15,575/USD exchange rate, and 19% negotiated tariff—ground this framework in empirical evidence

The reciprocal tariff policy imposed by the United States has significantly reduced Indonesia's export competitiveness by raising the prices of its goods in both the U.S. and global markets. This decline in competitiveness has led to lower export volumes, disrupted trade flows, and weakened demand for Indonesian products abroad. The impact extends to domestic industries, where reduced foreign demand translates into lower production levels, rising costs, and greater dependence on imported raw materials. Labor-intensive sectors are particularly vulnerable, as they struggle to maintain efficiency and competitiveness under higher input costs and limited market access. These pressures ripple through Indonesia's macroeconomic indicators, contributing to slower economic growth, rising inflation, currency depreciation, and a strained trade balance. Investment levels have declined, unemployment has risen, and monetary authorities have been forced to adjust interest rates to stabilize the economy. At the diplomatic level, tariffs have created tensions in Indonesia–U.S. relations, necessitating negotiations and policy adjustments. To mitigate these challenges, Indonesia must strengthen its economic resilience through diversification of export markets, infrastructure investment, and policies that encourage both domestic and foreign investment, thereby ensuring long-term stability and sustainable growth in the face of global trade disruptions.

The word cloud analysis reinforces these findings by revealing a clear thematic pattern in the study of reciprocal tariff impacts on Indonesia's economy. The dominance of words such as *Indonesia*, *Export*, *Import*, *Tariff*, and *Economy* highlights the central focus on international trade dynamics and the destabilizing effects of U.S. protectionist policies. Meanwhile, the appearance of terms like *Industry*, *Production*, *Investment*, and *Cost* emphasizes the immediate pressures felt in the real sector, particularly through declining competitiveness and production efficiency. Broader macroeconomic effects are captured by words such as *Inflation*, *Exchange Rate*, *Growth*, and *Unemployment*, which illustrate structural vulnerabilities that must be anticipated. In terms of policy response, the emergence of terms like *Diversification*, *Economic Resilience*, and *Competitiveness* reflects the strategies Indonesia needs to adopt to reinforce its economic foundation amid global uncertainty. Finally, the presence of words such as *United States*, *Diplomacy*, and *Policy* underscores the importance of bilateral relations and trade diplomacy in managing external pressures. Ultimately, the word cloud serves not only as a visual representation but also as a comprehensive depiction of the research's reasoning flow: beginning with the tariff policy as the trigger, continuing with its cascading impacts across economic sectors, and concluding with the strategic responses required to safeguard national stability and resilience.

DISCUSSION

The reciprocal tariff policy implemented by the administration of Donald Trump has had broad and interconnected impacts on Indonesia's economy. To provide clarity and coherence, the discussion is organized into five major parts: the tariff policy as the trigger, its effects on trade and industry, implications for macroeconomic indicators, consequences for bilateral relations, and Indonesia's strategies for resilience.

1. Tariff Policy as the Trigger

The reciprocal tariff policy serves as the initiating factor that reshaped Indonesia's trade dynamics. By imposing tariffs of up to 32% on Indonesian goods, the United States raised the cost of exports, setting in motion a chain of economic pressures that reverberated across multiple sectors. Recent studies, such as Purba (2025) in *IJAR* and the IFG Progress Economic Bulletin (2025), emphasize that the unconventional design of Trump's reciprocal tariffs—based on trade deficit size rather than actual tariff parity—created disproportionate burdens for Indonesia despite its relatively small share of U.S. imports.

2. Impact on Trade and Industry

The most immediate effects were felt in the export sector and domestic industries. Key exports such as textiles, footwear, electronics, and plantation commodities experienced declining demand in the U.S. market. This decline reduced industrial revenues and disrupted production capacity. At the same time, domestic industries faced rising costs due to more expensive imported raw materials, eroding efficiency and household purchasing power. Ginting (2025) highlights a 4–6% decline in exports and supply chain disruptions, while Rifa'i (2025) demonstrates through a GTAP model that Indonesia's textile industry is particularly vulnerable to tariff shocks.

3. Impact on Macroeconomic Indicators

The ripple effects extended to Indonesia's macroeconomic performance. Slower export growth contributed to weaker GDP expansion, while higher import costs fueled inflationary pressures. The rupiah depreciated as foreign exchange earnings declined, and the trade balance risked deficit. Rising unemployment and declining investment further underscored systemic instability, prompting monetary authorities to adjust interest rates to maintain stability. Analysts such as Radhika Rao (DBS Group Research, 2025) and OECD (2025) note that tariff overhangs have weakened fiscal stability, pressured inflation, and increased volatility in Indonesia's exchange rate.

4. Impact on Bilateral Relations

Beyond economics, the tariff policy strained Indonesia–U.S. relations. Trade tensions eroded trust and discouraged foreign investment, while diplomatic negotiations became necessary to recalibrate cooperation. Despite these frictions, opportunities remained for dialogue and collaboration in areas such as infrastructure, technology, and investment, which could serve as bridges to ease tensions. Shekhar (2025) argues that U.S.–Indonesia trade relations entered a period of "uneasy recalibration," where tariff disputes coexisted with new framework agreements aimed at revitalizing cooperation. Purba (2025) also underscores that tariff disputes directly influenced Indonesia's trade balance and growth trajectory

5. Strategies for Economic Resilience

To mitigate these challenges, Indonesia must strengthen its resilience through diversification of export markets, investment in infrastructure, and promotion of high value-added industries. Enhancing trade diplomacy, fostering technological innovation, and improving human capital are critical steps. Regional cooperation, particularly within ASEAN, offers alternative pathways to expand market access and reinforce Indonesia's role in global supply chains. Ginting (2025) emphasizes diversification into ASEAN, Africa, and Latin America, while Judijanto (2025) highlights the strategic implications of the Reciprocal Trade Agreement for sovereignty and resilience. BCA Research (2025) further notes that resilience strategies helped Indonesia maintain a trade surplus despite declining exports.

CONCLUSION

The reciprocal tariff policy imposed by the United States has produced wide-ranging and interconnected impacts on Indonesia's economy. Tariffs acted as the initial trigger, undermining export competitiveness and reducing demand for key commodities. This disruption cascaded into domestic industries, where rising production costs and dependence on imported raw materials eroded efficiency and household purchasing power. At the macroeconomic level, slower GDP growth, rising inflation, currency depreciation, and a strained trade balance reflected systemic instability, compounded by declining investment and higher unemployment.

Beyond economic indicators, the policy strained Indonesia–U.S. bilateral relations, creating diplomatic frictions that required negotiation and recalibration of cooperation frameworks. These challenges underscored the urgency of resilience strategies, including diversification of export markets, infrastructure development, technological innovation, and strengthened trade diplomacy. Regional cooperation, particularly within ASEAN, offers additional opportunities to reinforce Indonesia's role in global supply chains. Ultimately, reciprocal tariffs are not merely trade measures but systemic shocks that reverberate across industry, macroeconomy, and diplomacy. Indonesia's ability to adapt through resilience strategies will determine whether these pressures remain temporary disruptions or become catalysts for structural transformation toward sustainable growth.

RECOMMENDATIONS

1. **Export Diversification**
   - Expand market access beyond the United States by strengthening trade ties with ASEAN, Africa, and Latin America.
   - Promote niche and high value-added products to reduce vulnerability to tariff shocks.
2. **Industrial Upgrading**
   - Encourage technological innovation and efficiency improvements in labor-intensive industries such as textiles and footwear.

- Reduce dependence on imported raw materials by developing domestic supply chains and upstream industries.

3. Macroeconomic Stabilization
- Strengthen monetary and fiscal coordination to manage inflation, stabilize the rupiah, and maintain investor confidence.
- Enhance investment incentives to attract foreign capital into resilient sectors such as renewable energy, infrastructure, and digital industries.

4. Diplomatic Engagement
- Intensify trade diplomacy with the United States to negotiate tariff reductions and safeguard strategic commodities.
- Utilize multilateral platforms (WTO, ASEAN, G20) to advocate for fairer trade practices and reduce protectionist pressures.

5. Resilience and Regional Cooperation
- Invest in logistics and infrastructure to lower export costs and improve competitiveness.
- Strengthen ASEAN-led initiatives to build collective resilience against global trade disruptions, positioning Indonesia as a regional hub in supply chains.

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