

Indonesia-US Bilateral Trade Agreement: A New Chapter in Global Trade Dynamics

Key Provisions and Outcomes:

Reduced Tariffs on Indonesian Goods: The U.S. has agreed to reduce its proposed tariff rate on Indonesian imports from an earlier threatened 32% to 19%. While this is a reduction, it's worth noting that this 19% is still higher than previous rates.

Full Access for US Exports to Indonesia: A significant aspect of the deal is Indonesia's commitment to provide "complete and total access" for American goods, including agricultural products, to its market of over 280 million people. U.S. exports to Indonesia are reportedly to face no tariffs or non-tariff barriers.

Indonesian Purchase Commitments: As part of the agreement, Indonesia has pledged to make substantial purchases from the U.S., including:

- \$15 billion in U.S. energy exports (including LNG and oil).
- \$4.5 billion in U.S. agricultural products (wheat, soy, corn).
- 50 Boeing jets, many of them long-haul 777 models.

Transshipment Penalties: The agreement includes provisions to prevent tariff circumvention, meaning penalties will apply for goods transhipped from higher-tariff countries (like China) via Indonesia.

"Asymmetric" Trade Gains for US: U.S. officials have described the deal as an "asymmetric reset" of trade, aimed at favoring American industries by eliminating tariffs on U.S. exports while maintaining a tariff on Indonesian imports.

Context and Driving Factors:

Trump Administration's Tariff Strategy: This agreement is part of the broader strategy by the U.S. President Donald Trump administration to reset global trade terms and address trade deficits with various countries. The U.S. had sent tariff threat letters to numerous countries, with an August 1 deadline for new reciprocal tariffs.

Indonesia's Negotiations: Indonesian officials, including President Prabowo Subianto, engaged in direct negotiations to secure a more favorable tariff rate than initially proposed, describing it as an "extraordinary struggle."

Trade Imbalance: The U.S. had a significant goods trade deficit with Indonesia, amounting to nearly \$18 billion in 2024. The agreement aims to address this imbalance.

Potential Benefits for Indonesia:

Avoidance of Higher Tariffs: The primary benefit for Indonesia is avoiding the previously threatened 32% tariff, which would have severely impacted its exports to the U.S.

Positive Market Reaction: The deal has been seen as a positive catalyst for economic activities in Indonesia, with its stock index showing an uptick.

Competitive Advantage (Compared to some peers): Some analysts suggest that the 19% tariff rate for Indonesia is better than those imposed or proposed for some other Southeast Asian nations, potentially offering a competitive edge.

Challenges and Concerns:

Still a Tariff: While reduced, the 19% tariff on Indonesian goods is still a cost that may impact the competitiveness of certain Indonesian non-oil exports like footwear and textiles.

"One-Sided" Concessions: Critics argue that the agreement showcases a coercive approach, where the U.S. threatens extreme tariffs and then demands largely one-sided concessions.

Impact of US-China Tensions: Analysts warn that Indonesia's economy could still be affected by U.S. tariffs on China, as China is Indonesia's biggest trade partner.

Details Yet to Be Fully Disclosed: The full details of the agreement, including precise mechanisms for U.S. market access and implementation dates, are still being finalized and await official documentation.

In essence, the Indonesia-US BTA represents a new chapter in their trade relationship, driven by U.S. efforts to rebalance trade flows. While it offers a reprieve for Indonesian exports from even higher tariffs, it also entails significant concessions from Jakarta, particularly in opening its market to U.S. goods and making substantial purchases.

Conclusion in the benefit of India: -

While the Indonesia-US Bilateral Trade Agreement (BTA) directly benefits Indonesia by reducing US tariffs and securing market access for American goods, it offers India valuable insights and potential indirect advantages. The deal sets a precedent for the US's "asymmetric" trade approach, which India, currently negotiating its own BTA with the US, can leverage to aim for lower tariffs than Indonesia's 19% and gain a competitive edge in key export sectors in the US market. Furthermore, as the US seeks to diversify supply chains, India could emerge as an attractive alternative manufacturing hub, and a

successful BTA would strengthen bilateral ties, offering strategic benefits. Understanding the US's negotiation tactics, evident in the Indonesia deal, also provides crucial lessons for India's trade negotiators.

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