



## ***AN UNEASY DEAL MAY REVITALIZE US-INDONESIA TRADE RELATIONS***

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Indonesia, facing a high tariff wall to its most important surplus market, has agreed to a new trade agreement with the United States that may prove an important win for the Trump administration's international campaign on trade and tariffs. Indonesia is one of the top 10 global economies in terms of purchasing power parity, the largest economy in Southeast Asia, and a member of important global groupings such as G20 and BRICS. The framework agreement, the United States' third such deal in Southeast Asia and fourth in Asia, came on the heels of the Trump administration's similar trade deals with Japan, the Philippines and Vietnam. Since then, three more ASEAN countries—Cambodia, Malaysia and Thailand—have signed similar [deals](#) with the US. These trade deals have given new momentum to Trump's tariff policy and may put pressure on other major economies in Asia, such as India, to negotiate with the United States' tariff demands.

As per the details laid out in the [joint statement](#) and the [fact sheet](#), released by the White House on July 22, the US has been able to extract important economic concessions from Indonesia in the key areas of tariff reduction, American access to the Indonesian agricultural market, potential export of Indonesian critical minerals and cross-border data transfer. Indonesia has agreed to eliminate tariff barriers on over 99% of US exports to Indonesia across all sectors, whereas the US will reduce the reciprocal tariffs from 32% to 19%. In addition, Indonesia will purchase aircrafts and agricultural and energy products worth

\$23 billion. Indonesian coordinating minister for economic affairs, Airlangga Hartarto, [declared](#) that both sides agreed to the contents of the joint statement. These terms are subject to change until the final agreement is realized.

The Trump administration claims to have succeeded in convincing Indonesia to remove restrictions on exports to the United States of industrial commodities, including critical minerals. However, Indonesia's secretary general of the Energy and Mineral Resources Ministry, Dadan Kusdiana, has [clarified](#) that the provisions of the agreement applied only to processed minerals, rather than raw ores. He claimed that the deal did not override the national policies that the government had put in place over the years regarding the ban on the export of critical minerals to safeguard the domestic downstream industries. The two countries had almost forged a limited free trade agreement on critical minerals in November 2023 during the visit of then President Joko Widodo to the United States.

A key Indonesian concession may have come in the form of its recognition of the United States as a country that provides “adequate data protection under Indonesia's law,” a provision that will permit American companies to store personal data in the United States. Indonesia's Personal Data Protection Law of 2022 permits cross-border transfer of personal data to another country provided the recipient country is recognized as having “an equal or higher level of data protection than afforded under the PDP law.” As per the Joint Statement, Indonesia will “provide certainty regarding the ability to transfer personal data out of its territory to the United States.” However, a few Indonesian civil society groups, such as ELSAM (the Institute for Policy Research and Advocacy) have [asked](#) the government to reconsider data-transfer provisions of the trade agreement over the fear of increased digital surveillance.

The White House Factsheet on US-Indonesia trade deal claims that Indonesia has agreed to exempt US companies from meeting the local content requirements that has proven to be a key challenge in US-Indonesia economic relations. In contrast, the Joint Statement that Indonesia will adhere to is less

direct on this matter. The Joint Statement states, “The United States and Indonesia will work together to address Indonesia’s non-tariff barriers that affect bilateral trade and investment in priority areas, including exempting US companies and originating goods from local content requirements.” The Trump administration may still have to negotiate the exemption before the agreement takes final shape and is formally signed. Indonesia has [developed](#) a complex set of rules pertaining to local content requirement that mandates foreign companies to have locally sourced components in their products and investment.

Why did Indonesia sign a trade deal that the Trump administration views as a “huge win” for the US and some Indonesian news reports paint as a [concession](#)? Though the government explanations have been minimal on the matter, three considerations may have driven Indonesian decision. First, the United States remains the most important trade surplus market for Indonesia and the latter would not have wanted to upset this equation. With the favorable trade balance of nearly \$17 billion, the United States returned the maximum trade surplus to Indonesia in 2024. Indonesian officials have [argued](#) that the labor-intensive nature of Indonesian exports to the US makes the trade relationship disproportionately important.

Second, the fear of losing out to ASEAN competitors, such as Vietnam and the Philippines, may have pushed the policymakers in Jakarta to agree to the deal. President Trump had earlier asserted that he had reached trade deals with the Philippines and Vietnam. The head of the Indonesian National Economic Council, Luhut Pandjaitan, [claimed](#) that the reduced tariff would boost the GDP by 0.5% and give a significant competitive edge to the country.

Finally, the deal may help Indonesia address various issues in the bilateral economic relations, spur fresh American investment and deepen ties with a key strategic partner. Indonesian President Prabowo Subianto [termed](#) the trade deal as “the beginning of a new era of mutual benefit.” Indonesian leaders expect that with the greater certainty in the bilateral economic relations, US companies will invest more in

the economy. Indonesia’s sovereign wealth fund, [Danantara](#), formed in 2025, is planning to [sign](#) an investment contract of worth \$8 billion with the US engineering firm KBR Inc.

However, it is yet to be seen how American products would compete in a free trade agreement-wired Indonesian market receiving cheaper products from other Asian economies. Indonesia has signed 16 FTAs and offers greater market access to most of the economies in the western Indo-Pacific region. For example, though President Trump [hailed](#) the deal on July 15 as a “huge win for American automakers,” it seems a fairly uphill task for the American automakers, which have struggled to compete against the Japanese cars in the US, to compete against them in the Indonesian auto market.

Overall, any deal is better than no deal since it injects new momentum into the US-Indonesia economic relations that have encountered various hurdles during the last quarter century. In fact, the biggest achievement of the trade agreement may come in the form of jumpstarting the US-Indonesia trade relations that seemed to have stuck in a rut after the falling through of Trans-Pacific Partnership and Indo-Pacific Economic Framework.

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