

A decorative graphic consisting of three concentric, light gray arcs that curve from the left side of the page towards the center, creating a sense of depth and focus.

# Client Alert

US 'RECIPROCAL TARIFFS' AND  
INDONESIA'S RESPONSE

**CLIENT ALERT**



### Introduction

On April 2nd 2025, the Trump Administration announced the implementation of 'reciprocal tariffs' targeting countries with trade deficits with the United States. This policy has significantly impacted Southeast Asian nations, with Indonesia initially facing a 32% tariff rate. The announcement has raised concerns about potential global economic instability, disruptions to international trade flows, and even the possibility of a global trade war.

The Trump Administration has since backtracked on these tariffs – with the US subsequently instituting a 90-day pause on the 'retaliatory tariffs', reducing tariffs to a 10% blanket rate for all trade partners, with the exception of exports from the People's Republic of China. This period provides a crucial opportunity for affected countries, including Indonesia, to engage in negotiations for more favorable trade terms. However, uncertainty remains regarding the US's long-term trade policy intentions after the 90-day period.

### Potential for Pain

For Indonesia, these tariffs pose a substantial risk to various sectors of its economy. The US is one of Indonesia's largest trading partners, with Indonesian exports to the US valued at \$26.3 billion, representing approximately 10% of Indonesia's total exports. In a statement issued by the Ministry of Foreign Affairs in response to the original tariffs, the Government of the Republic of Indonesia acknowledged that "the imposition of reciprocal tariffs will cause a significant impact on the competitiveness of Indonesian exports to the US."

### No Retaliatory Tariffs – For Now

Other countries have mulled the possibility of responding in-kind to the US tariffs. China, for its part, has already announced 34% tariff on US exports to China, among other measures. Additionally, China has requested consultations from the World Trade Organization (WTO) regarding the US Tariffs –

though with the current deadlock regarding the appointment of members of the WTO Appellate Body, it is unclear if this effort will bear any results.

However, Indonesia, as well as most other ASEAN countries, seems to be adapting a more conciliatory approach in dealing with the tariffs, attempting to negotiate with the US for more favorable trading terms before taking any drastic measures.

According to the statement by the Ministry of Foreign Affairs, Indonesia will "...continue to communicate with the U.S. Government in various levels, including by sending a high-level delegation to Washington D.C. to negotiate directly with the U.S. Government." Additionally, according to the statement, Indonesia has communicated with Malaysia as the current chair of ASEAN to take coordinate their actions, seeing as all 10 ASEAN countries are subject to the new U.S. Tariffs.

### **Deregulation and Liberalization**

In line with this conciliatory approach, Indonesia has expressed a willingness to address US concerns regarding restrictive regulations and current non-tariff barriers to trade. In a speech given during an economic dialogue session on April 8th 2025, President Prabowo stated that he has given instructions to erase existing import quotas, especially for goods which "affect the lives of many." Under current law, a number of goods are subject to 'commodities balance' mechanism, where the number of import licenses granted to import these goods will depend on collected data on the number of such goods made in the domestic market, as well as the current expected demand.

President Prabowo has also stated that this administration will consider relaxing local content requirements currently in place. Under current law a number of items -- most notably telecommunications equipment -- must fulfill certain local content requirements in order to be distributed and sold in Indonesia. In a notable example, Apple Inc. was prevented from selling the iPhone 16 in Indonesia due to not fulfilling certain local content requirements, leading to extended negotiations between Apple and the Indonesian Government before a resolution was achieved.

To this end, on April 14th 2025, President Prabowo has announced the formation of a new 'Deregulation Task Force' which will focus on re-examining the current legal and regulatory regime surrounding trade, including Ministry of Trade Regulation No. 36 of 2023 on Trade Policies and Regulations -- the main umbrella regulation in force regarding international trade in force in Indonesia.

### **What Clients Need to Know**

This is a time of great market uncertainty for business actors, both foreign and domestic. With future developments regarding US tariff policy and the possible results of any negotiations between the US and other trade partners (including Indonesia) being difficult to predict -- Clients must adopt a cautious and prudent approach before committing to major decisions and investments.

The US retaliatory tariffs have also sparked volatility in global markets, though there has been some recovery following the announcement of the 90-day pause. In a turbulent global environment -- combined with a challenging domestic context, the risk of an economic slowdown in Indonesia remains very real. Additional concerns have been raised regarding the potential for Chinese businesses to 'dump' goods into global markets, including Indonesia, due to heightened US-China tariffs. This could threaten local business actors, particularly in sectors such as garment manufacturing, where Indonesia has previously experienced challenges from Chinese competition.

That being said -- if Indonesia successfully implements the proposed measures announced by President Prabowo, it may create a regulatory regime more conducive to foreign trade and investment. The

elimination of import quotas and relaxation of certain local-content requirements could increase opportunities for foreign companies to invest and export to Indonesia in the long term. Furthermore, if Indonesia secures favorable terms in negotiations with the US, it may ultimately enhance business relations between the two countries, potentially boosting bilateral trade and investment.

As the situation continues to evolve, businesses and investors should closely monitor developments in US-Indonesia trade relations, Indonesian regulatory reforms, and broader regional economic trends. Adapting to this changing landscape will be crucial for companies seeking to navigate the challenges and capitalize on emerging opportunities in the Indonesian market.

We will continue to follow the developments of this topic. Should you have any queries on this topic, please contact our consultants



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