Policy Analysis Focus 25-10
Economic Implications of US Reciprocal Tariffs on Indonesia: Comparison of Two Scenarios[1]

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I. Introduction

On April 2, 2025, Trump Administration announced "reciprocal tariffs" on all countries, with a baseline of 10% tariff on almost all US imports. Specific tariffs for each country were also applied, with a 32% tariff would be imposed on imported goods from Indonesia. Following a negotiation in July 2025, US and Indonesia agreed upon 19% tariff on US imports of Indonesian goods and tariff removal of all US goods imported into Indonesia. In addition, Indonesia also agreed on potential purchase of American Boeing jets by Indonesian government or Garuda Indonesia (a state-owned company) and potential commitments on imports of oil, gas, and wheat.[2]

This study quantitatively investigates the comparison of US reciprocal tariffs' implications on Indonesia's economy under two scenarios:
- April 2025: 32% tariff on US imports of Indonesian goods (prior to negotiation);
- July 2025: 19% tariff on US imports of Indonesian goods (after negotiation);

by considering multilateral US tariffs on other countries/regions as well. The study simulates the impact using a computable general equilibrium (CGE) model of global trade.[3]

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[1] The modelling studies in this paper largely benefit from Spring 2025 GRIPS Course "International Economic Policy Analysis" instructed by Professor Kenichi Kawasaki. The views expressed in this article are the author's own and do not represent those of GRIPS or other organizations to which the author belongs.
[2] Indonesia Cabinet Secretary Office. https://setkab.go.id/indonesia-as-sepakati-penurunan-tarif-presiden-prabowo-kita-lindungi-pekerja-dan-kepentingan-rakyat/
[3] This study uses Global Trade Analysis Project (GTAP) data and is based on the version 11c GTAP Data Base, with 2017 as the base year. The model is solved by RunGTAP software, incorporating dynamic effects of capital. The baseline data for GDP and population are updated to those of year 2025 based on the World Economic Outlook (WEO) Database, International Monetary Fund (IMF).

II. Macroeconomic impacts

Table 1 presents the estimates of macroeconomic impacts of reciprocal tariffs in both scenarios.

Table 1 Impact on real GDP and trade balance

	Real GDP (%)		Trade Balance (Mil USD)	
	Apr 2025	Jul 2025	Apr 2025	Jul 2025
Indonesia	0.08	0.46	-2,128	-1,592
US	-2.83	-2.47	43,198	38,527
Japan	0.03	0.33	-1,246	-1,111
China	-0.29	-0.26	-17,511	-18,497
European Union	0.21	0.31	-8,240	-6,615
Malaysia	0.02	0.27	-1,261	-803
Singapore	0.39	0.15	-693	-497
Thailand	-0.58	0.65	-1,736	-396
South Korea	0.01	0.31	-2,397	-690
Rest of World	-0.25	-0.28	-7,983	-8,327

Source: Author's simulations.

The US reciprocal tariffs in both scenarios would decrease Indonesia's trade balance but increase its real GDP. Moreover, the impact of US tariff hikes without negotiation (0.08% on real GDP and -USD2,128 million on trade balance) would have been worse than that after negotiation (0.46% on real GDP and -USD1,592 million on trade balance). This suggests that negotiation which leads to tariff reduction from 32% to 19% helps to minimize adverse effects on trade and even boost Indonesian economy.

As of 2024, the US is Indonesia's top destination for exports, which accounts for approximately 9.96% of Indonesia's total exports, the second after China.[4] Therefore, US tariff hikes are considered to have significant implications on Indonesia's trade. Indonesia's trade balance with the US is USD14,571 million (exports = USD26,538 mil; imports = USD11,967 mil). The decrease in trade balance of USD2,128 million (April 2025) and USD1,592 million (July 2025) account for approximately 14.6% and 10.9% of Indonesia trade balance with the US, respectively.

Even though US trade balance increases in both scenarios, suggesting less imports due to the tariff hikes, this simulation suggests negative impacts on US economy. US real GDP is contracted by 2.83% and 2.47% before and after negotiation, respectively. Raising tariffs will lead to less imports and less production in commodities which require

[4] Data source is from Indonesia Statistics, "Export Value by Main Destination Country (FOB Value: million US$), 2000-2024", analyzed by author.

those imported materials. This also results in increase in domestic prices in the US due to scarcity of commodities in domestic market (cost-push inflation).

With regards to other economies, even though trade balances in all regions (other than US) decrease, real GDP would be suggested to increase in Singapore, Malaysia, and big economies except China in both scenarios (with higher increase in July). While Thailand's real GDP would suffer under 36%-tariff scenario in April, the economy will surge in July scenario. With insignificant reciprocal tariff reduction from 34% to 30%, China is projected to suffer from decreases in both real GDP and trade balance.

III. Impacts by Sector

As shown in Table 2, while impacts of reciprocal tariffs on Indonesia exports to the US by sector are mostly negative in both scenarios (with less magnitude after negotiation), the impacts on Indonesia exports to the world are mixed. There are positive impacts on chemical products, metals, automotive, and other machinery (even though with less magnitude after negotiation). While tariff hikes have negative impacts on mining and other manufacturing in both scenarios, magnitude on mining will increase in July scenario, while that on other manufacturing will decrease.

Table 2 Impact on trade and output by sector in Indonesia

	Exports to the US (%)		Exports to the World (%)		Output (%)	
	Apr 2025	Jul 2025	Apr 2025	Jul 2025	Apr 2025	Jul 2025
Agriculture and food	-46.01	-22.29	0.31	-1.99	0.29	0.10
Mining	-71.25	-6.42	-3.49	-3.99	-0.67	-0.92
Textiles and apparel	-37.80	6.47	-13.41	0.55	-9.82	0.12
Other manufacturing	-52.10	-18.83	-4.96	-3.47	-1.95	-1.17
Chemical products	-48.51	-18.68	2.52	2.35	1.77	1.60
Metals	-54.32	-17.78	6.42	3.85	3.84	2.52
Motor vehicles	-43.94	-16.70	13.08	7.21	5.62	3.34
Other machinery	-55.89	-20.20	8.29	4.17	4.92	2.24
Electronic products	-44.62	1.51	-1.28	0.77	0.32	0.35
Services	14.96	9.03	1.90	2.14	0.02	0.61

Source: Author's simulations.

Before negotiation, textiles and apparel sector would have been hit the hardest, since US is the main destination country for textile export (around 50% of "confectionery from textile" is exported to the US[5]). After negotiation, textiles and apparel gain from

[5] Data source is from Indonesia Statistics (Exports of Ready-Made Clothing (Confectionery) from Textiles by Main Destination Countries, 2012-2024), analyzed by author.

positive impacts of reciprocal tariff reduction, both on exports to the world (0.55%) and to the US (6.47%), as well as output/production (0.12%).

It requires further investigation on why the negotiation would cause adverse impacts on exports to the world and output in some sectors, such as agriculture and food and mining; as well as less positive magnitude on chemical products, metals, automotive, and other machinery. One explanation might be that increase in exports to the US does not compensate trade diversion (reduction on exports) to other regions. For example, negotiation leads to minimizing the negative impact on exports of agriculture and food to the US from -46.01% to -22.29%. However, the portion of exports to the US in this sector might not be dominant, which leads to reduction in exports to other regions to be larger than increase in exports to the US.

Another example is that Indonesia exports of metals to the US account for only 2.24% of total exports in 2024.[6] The main destinations for metals exports are China (21.56%), Chinese Taipei (15.26%), and India (11.65%).[7] Therefore, reciprocal tariffs do not seem to affect metal exports negatively. This might apply to other sectors which experience positive impact, that the portion of exports to the US is not significant.

IV. Concluding Remarks

US reciprocal tariffs turn out to have positive impacts on Indonesian economy. Negotiation can help to protect domestic industries, especially in textile and apparel sector, and it boosts the economy further. Have not Indonesia negotiated the reciprocal tariff, the impact on Indonesian trade and economy would have been worse, not to mention when other countries and neighboring countries successfully reduced the reciprocal tariffs. This simulation also suggests that protectionism has the potential to backlash. Even though US trade balance increases, real GDP contracts, which potentially leads to increase in unemployment and other adverse effects.

This simulation considers macroeconomic implications due to changes in tariffs. It does not consider other commitments of the negotiation from fiscal perspective, such as potential purchase of American Boeing jets and commitments on imports of oil, gas, and wheat. Further cost benefit analysis might complement the result of this study with a more comprehensive perspective.

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[6] Data source is from Indonesia Statistics (Iron/Steel Exports by Main Destination Countries, 2012-2024), analyzed by author.
[7] Idem.