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## *The Effect of US Trade Policy Changes on Indonesia's International Trade*

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### **ABSTRACT**

Changes in US trade policy, particularly its protectionist stance, have significantly impacted Indonesia's international trade, especially in the textile and agriculture sectors. The imposition of high tariffs on certain goods has disrupted global trade dynamics, as evidenced by a decline in Indonesia's exports to the US, according to data from the Ministry of Trade of the Republic of Indonesia. This research aims to analyze the specific effects of US trade policy on Indonesia's trade performance and to provide actionable recommendations for mitigating these impacts. The study finds that the protectionist measures have particularly affected small and medium-sized enterprises in Indonesia's textile industry. Policy recommendations include diversifying export markets and increasing trade agreements with non-US countries. The findings of this research are intended to support trade policy decision-making, drawing on data from the World Bank and the Center for Strategic and International Studies.

**Keywords: exports, foreign investment, indonesia, trade policy, united states**

### **INTRODUCTION**

International trade is vital to the Indonesian economy. With a population of over 270 million and abundant natural resources, Indonesia holds significant potential in the global market. In 2019, international trade contributed approximately 36% to Indonesia's GDP (Hunter & Shaffer, 2022), emphasizing its role not just as an economic activity, but as a key driver of national economic progress. By participating in international trade, Indonesia can enhance the competitiveness of local products and access broader markets, capitalizing on its comparative advantages in sectors like agriculture, fisheries, and minerals. For instance, Indonesia's palm oil exports dominated the global market in 2020, accounting for 55% (Ministry of Trade of the Republic of Indonesia, 2021), illustrating how international trade can boost national income and welfare.

However, Indonesia faces challenges in navigating the complexities of international trade. Recent trade tensions, especially between the United States and China, have created volatility in the global market. Shifts in trade policies, such as tariffs and import restrictions, directly affect Indonesia's exports and imports, underscoring the need for adaptability. As a global trade leader, the United States plays a pivotal role in shaping international trade policies. The US, with the world's largest economy, contributes to approximately 24% of global GDP and serves as a major export destination for countries like Indonesia (Verico, 2023). Consequently, changes in US trade policy reverberate across the global economy, impacting trade partners like Indonesia.

Over the past few years, the US has witnessed substantial shifts in trade policy, particularly under Presidents Donald Trump and Joe Biden (VanGrasstek, 2021). Key changes, including the imposition of high tariffs on imports from countries such as China, have disrupted global supply chains and prompted other nations to rethink their trade strategies. For example, the 25% tariffs on Chinese goods have reshaped global market dynamics, influencing Indonesia's export patterns. Additionally, the US withdrawal from the Trans-Pacific Partnership (TPP) in 2017, which had promised enhanced trade ties within the Asia-Pacific, left Indonesia and other member nations grappling with uncertainty over market access to the US. The Biden administration's more multilateral and protectionist approach further complicates these dynamics.

Indonesia's trade has been notably impacted by shifts in US trade policy. One evident effect is the alteration of export and import patterns. For example, the US tariffs on Chinese goods have created opportunities for Indonesian exports, such as textiles and wood products, to fill the supply gaps left by China. Despite these opportunities, the broader implications of the evolving US trade policies are less understood, particularly regarding their sector-specific impacts on Indonesia's economy (Métivier et al., 2023).

This study aims to explore the effects of US trade policy changes on Indonesia's international trade. While globalisation has increased interdependence among economies, the policies of major players like the US have profound implications for developing countries such as Indonesia. This research will specifically examine how these policy shifts may influence Indonesia's investment, trade flows, and economic growth (Ridha & Parwanto, 2020). More concretely, this study seeks to identify which sectors of Indonesia's economy are most vulnerable to or benefitting from these changes, focusing on industries such as electronics, agriculture, and textiles. By analyzing trade data from the Ministry of Trade of the Republic of Indonesia and other relevant sources, this research will provide valuable insights into the sector-specific impacts of US trade policy on Indonesia's economy.

## **RESEARCH METHODS**

This research methodology follows a systematic approach to ensure the validity and reliability of the findings. The first step involves collecting secondary data from various credible sources, such as official reports from the Ministry of Trade of the Republic of Indonesia, the World Trade Organization, and the United States Department of Commerce. This data will include key metrics on investment, trade volumes, and relevant trade policies.

For the quantitative analysis, regression analysis will be employed to assess the impact of changes in US trade policy on Indonesia's trade volume. The independent variable, US trade policy, and the dependent variable, Indonesia's trade value with the US, will be examined to explore their relationship (Kurniawan & Managi, 2018). To ensure the reliability and generalizability of the results, the sampling method will be explained in detail, including the selection criteria for data points and the rationale behind it.

In addition to quantitative analysis, the research will incorporate qualitative insights gathered from interviews with experts and stakeholders in the trade sector. This method is intended to provide a deeper understanding of the trade dynamics and complement the statistical data with first-hand perspectives. The selection of experts will be based on their experience and expertise in international trade, with the interview process designed to ensure that the information obtained is both relevant and reliable.

The data will be processed and analyzed using statistical software to ensure the accuracy and consistency of the results. Furthermore, the research will address the potential influence of external factors, such as technological advancements, global economic trends, and political changes in both Indonesia and the US, by including them as control variables in the analysis.

The combined findings from both the quantitative and qualitative analyses will be used to formulate comprehensive policy recommendations for the Indonesian government. This mixed-methods approach will provide a thorough and nuanced understanding of the impact of US trade policy on Indonesia's trade relations, offering valuable insights for future policy-making (Shoddo, 2024).

## **RESULTS AND DISCUSSION**

### **The most affected products**

Various products imported from Indonesia are greatly affected by changes in US trade policy. Clothing and textiles are among the most affected products. According to data from the Ministry of Trade of the Republic of Indonesia, the textile industry contributes about 10% of Indonesia's exports to the US. This could reduce the competitiveness of Indonesian products in the international market if the US imposes higher tariffs on certain goods from China (Nugroho et al., 2021). However, in 2019, Indonesia had the opportunity to increase its exports to the US. This potential, however, is threatened by new, more protectionist policies.

In addition, changes in trade policies have a significant impact on the palm oil sector. With 3.4 million tons of Indonesian palm oil exports in 2020, the United States remains one of the main markets for Indonesian palm oil (Rum et al., 2022). However, the increasing awareness of sustainability and environmental issues, as well as pressure from environmental groups, can lead to stricter US trade policies towards products deemed unsustainable. This could result in a decrease in demand for Indonesian palm oil in the US market.

In addition, electronic products such as semiconductor components are experiencing significant effects. Based on data from the United States Department of Commerce, Indonesia is one of the main suppliers of electronic components to the United States. However, trade tensions between the US and other countries, especially China, can impact the global supply chain. Indonesia could lose a significant market share if the US imposes additional tariffs on certain electronic goods.

Because Indonesia is one of the largest coffee producers in the world and the US is one of the main markets for this product, the agricultural sector, particularly coffee and spice products, is

also affected by US trade policies. However, the price of Indonesian coffee in the US market may increase due to the new tariff policies, which in turn could reduce consumer purchasing power. As a result, the volume of Indonesian coffee exports to the US may decrease, which could negatively impact the agricultural sector as a whole (Arifah & Kim, 2022).

Overall, when US trade policies change, various Indonesian export products are significantly affected. Indonesia faces challenges in optimizing its export potential to the US, such as declining competitiveness, changing market demand, and global trade tensions.

### **Impact on certain industries**

A report from the Center for Strategic and International Studies states that Indonesia's textile and garment industry is one of the most affected by changes in US trade policy; this industry has experienced a significant decline in exports as a result of the tariff policies implemented by the United States. Higher tariffs made Indonesian products more expensive in the US market, making them less competitive against their rivals.

The palm oil industry is also affected. Stricter US trade policies could lead to a decrease in demand for Indonesian palm oil products due to pressure from environmental groups demanding sustainability (Wardhani & Rahadian, 2021). This will directly impact the income of palm oil farmers and the regional economy that relies on this industry. According to data from the ASEAN Secretariat, changes in trade policies can adversely affect the palm oil industry, which contributes approximately 4.5% of Indonesia's exports.

Global trade tensions are also disrupting the electronics industry. Many electronics businesses in Indonesia rely on hardware from China and other countries (Lund et al., 2020). If the United States decides to impose tariffs on electronic goods, it could disrupt the supply chain and increase production costs. A report from the International Monetary Fund states that investment and sector growth can be hindered by trade policy uncertainty.

In addition, US trade policies affect the agricultural industry, especially coffee and spices. Higher tariffs can lead to a decrease in demand for these products (Nguyen et al., 2019). According to a report by The Economist, Indonesian agriculture is highly sensitive to changes in the global market, and changes in US trade policy could worsen this situation.

Overall, the changes in U.S. trade policy towards certain industries in Indonesia are very significant. Each sector faces different challenges, but they can all impact the national economy and the overall well-being of society (Tamers et al., 2020). Therefore, it is very important for the Indonesian government to create a plan to respond to these changes so that they can reduce the negative impacts and take advantage of the available opportunities.

### **Indonesia's Response to Policy Changes**

#### **1) Indonesia's trade policy**

The Indonesian government has developed strategies to maintain and strengthen its position in international trade in the face of changes in US trade policy. To enhance the competitiveness of local products in the global market, Indonesia's trade policy is proactive. According to data from the Ministry of Trade of the Republic of Indonesia, Indonesia's exports in 2020 reached USD 163.3

billion, despite a decline due to the COVID-19 pandemic. Nevertheless, the government is striving to recover and improve those figures by implementing more transparent and flexible policies.

In reaction to the protectionist policies of the United States, the Indonesian government is focusing on diversifying export markets. By reducing its dependence on the US market, the government is trying to expand its reach to other markets, especially in Asia and Europe. World Bank data shows that ASEAN is one of Indonesia's main export destinations; it accounts for about 25% of the country's total exports. The goal of this policy is to enhance economic stability and reduce the risks associated with changes in U.S. trade policy.

In addition, the Indonesian government has implemented incentive policies for sectors such as agriculture and manufacturing, which are projected to make significant contributions to exports. By providing subsidies, training, and access to technology, it is hoped that Indonesian products can compete in the international market, according to the CSIS report (Alta et al., 2021).

Indonesia is also actively participating in negotiations to reach mutually beneficial agreements in international trade agreements. For example, Indonesia has signed several free trade agreements with countries in the Asia-Pacific. The goal of these agreements is to expand trade and reduce barriers. This is in line with the idea put forward by Baldwin (2016), which states that regional economic integration can be a successful strategy for addressing global trade issues.

Overall, Indonesia's flexible trade policy and responsiveness to changes in US trade policy demonstrate the government's commitment to ensuring sustainable economic growth. They strive to minimize the negative impact of uncertain trade policies by prioritizing market diversification, sector support, and participation in trade agreements.

## **2) Economic diplomacy**

One important way for Indonesia to respond to changes in U.S. trade policy is through economic diplomacy. To ensure market access and create more favorable trade conditions, the Indonesian government strives through diplomacy to build stronger relationships with trading partner countries, including the US. Bilateral negotiations are not the only goal of this economic diplomacy; it also involves engaging in multilateral organizations such as the G20 and APEC.

One concrete example of Indonesia's economic diplomacy is the effort to enhance trade cooperation with the United States through high-level discussions and meetings. According to the report by the United States Department of Commerce, Indonesia and the United States have held several meetings to discuss trade issues, including non-tariff and tariff barriers. Indonesia strives to convey its interests and positions and seek solutions to existing problems through these discussions.

In addition, the Indonesian government uses its relationships with other countries to strengthen its position in the face of the US. For example, they are trying to cooperate with ASEAN member countries to create a collective strength to face potentially harmful trade policies. In this case, the ASEAN Trade in Goods Agreement becomes one of the important tools that support economic integration in the region and enhance the competitiveness of its member countries.

Economic diplomacy also includes promoting Indonesian goods in international markets.

The government actively organizes trade missions and trade exhibitions to sell local goods to international buyers. As part of efforts to increase exports and expand trade networks, Indonesia successfully organized more than 50 trade missions to various countries in 2021, according to data from the Ministry of Trade.

Indonesia's economic diplomacy has shown that a comprehensive and coordinated approach is crucial in facing the challenges posed by changes in US trade policy. Indonesia strives to maintain its trade interests and remain competitive on the international stage through diplomacy, both bilateral and multilateral.

### **Adaptation of the Private Sector**

#### **1) Industry response to change**

Many industries in Indonesia are affected by changes in US trade policy. Indonesian industries have faced many problems since early 2020, when the US government began imposing new tariffs on certain goods from its trading partners. A report from the United States Department of Commerce (2022) shows that protectionist policies have reduced demand for Indonesian goods, especially agricultural and textile products. To maintain their competitiveness in the international market, Indonesian companies must quickly adapt in this context.

For example, the Indonesian textile industry now has to seek new markets to rely on exports to the United States. Data from the Central Statistics Agency shows a 15% decrease in clothing exports to the United States in 2021. This has encouraged clothing manufacturers to expand their reach to ASEAN and European countries. This response shows how important market diversification is to reduce dependence on a single main market.

In addition, changes in US trade policy have impacted the Indonesian automotive industry, as reported by the Center for Strategic and International Studies (CSIS). Many car manufacturers need to change their production strategies to meet domestic and regional market demand. Automotive companies are starting to invest more money in R&D to make their products more competitive and meet global standards.

The Indonesian government must support the private sector in facing these policy changes, including providing training and technical assistance to improve product quality and production efficiency. With these actions, the private sector is expected to adapt more quickly and maintain its relevance in the global market.

Overall, the industry's response to changes in U.S. trade policy indicates that despite significant challenges, there are still opportunities for innovation and growth through diversification and product quality improvement. This aligns with the idea of Obstfeld and Obstfeld that countries capable of quickly adapting to changes in global trade policies will have a greater competitive advantage.

#### **2) Innovation and market diversification**

The Indonesian private sector heavily relies on innovation to cope with changes in US trade policy. In this regard, many businesses are starting to invest in new technologies and more efficient production processes. The World Bank report indicates that investment in information and

communication technology (ICT) will increase by 25 percent in 2021. This shows that businesses in Indonesia are beginning to realize the importance of innovation to enhance their competitiveness.

Indonesian industries extensively use product diversification strategies. For example, the agricultural sector has started developing value-added products, such as processed foods and organic products, to attract global market interest. According to data from the Ministry of Trade of the Republic of Indonesia, agricultural product exports increased by 10% in 2021, largely due to demand from European and Asian markets.

In this case, collaboration between the private sector and the government is very important. The Indonesian government should provide incentives to businesses that invest in R&D and help them enter international markets through better trade agreements. For example, free trade agreements with ASEAN countries and other trading partners can offer Indonesian products new opportunities in international markets (ASEAN Secretariat).

Another example is the IT sector, where Indonesian startups are beginning to attract foreign investors. A report from *The Economist* states that investment in technology startups in Indonesia has surged, and many local companies have successfully entered the global market. This shows that innovation and market diversification are not only limited to conventional industries but also to rapidly growing new industries.

Overall, the Indonesian private sector's response to changes in US trade policy heavily relies on innovation and market diversification. With the right strategy, the private sector can survive and thrive amidst the ever-changing global challenges.

## CONCLUSION

Indonesia's international trade has been significantly impacted by shifts in US trade policy, particularly the protectionist measures, including high tariffs on imports from various countries, including Indonesia. The US Department of Commerce (2022) reports that these policies have led to a reduction in Indonesia's exports to the US, especially in the textile and agricultural sectors. According to data from Indonesia's Ministry of Trade (2021), exports to the US in 2020 fell by 15% compared to the previous year. The effects of changes in US trade policy on Indonesia's trade are broad and multifaceted. Notably, the protectionist measures may compel Indonesia to explore more profitable markets, as suggested by Bhagwati (2019) in *In Defense of Globalization*, which stresses the importance of market diversification to reduce reliance on a single market. In response to the potential loss of the US market, Indonesia must strengthen its trade relationships with other regions, particularly in Asia and Europe. To address these challenges, specific recommendations can be made for both policymakers and industry players. Policymakers should prioritize developing strategies to diversify Indonesia's trade partnerships and minimize overdependence on the US market. Additionally, more targeted research is necessary to assess how US trade policies affect different sectors of the Indonesian economy. Researchers are encouraged to explore the sector-specific impacts in greater depth, which will provide policymakers with the data needed to

formulate evidence-based strategies. Moreover, it is crucial that the policy implications of these findings are highlighted to serve as actionable guidance for Indonesia's policymakers, ensuring that they can craft informed decisions that effectively navigate the evolving global trade landscape.

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