

Adaptation Strategy in Addressing US Import Tariffs to Maintain Indonesian Exports

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ABSTRACT

This study elaborates on the adaptation strategies of how stakeholders in Indonesia address US import tariffs. Through a comprehensive literature review, conceptual framework and empirical juridical research, this paper examines the progress of US import tariff law and regulations which were issued by the US President Trump administration (volume 2). The study aims to analyse how these tariffs have affected Indonesian exports and to identify the practical, legal, and policy-level adjustments made by business entities (exporters), government institutions, and trade associations to mitigate the impact. The research reveals that the US tariff policies have challenged Indonesia's export competitiveness, particularly in sectors such as textiles, rubber, palm oil, and electronics. Indonesian stakeholders have responded through various strategies, including market diversification, trade diplomacy, renegotiation of trade agreements, compliance with non-tariff measures, and the enhancement of product value and certification standards.

The study contributes to the understanding of Indonesia's legal and strategic responses to unilateral US tariff increases, offering insights into how developing countries can adapt to disruptive changes in the global trade environment. The findings underscore the importance of multi-stakeholder collaboration and proactive legal strategies to sustain export performance amid shifting global trade policies. This study ultimately aims to inform policymakers, trade negotiators, and industry players of effective frameworks for managing future tariff-related challenges.

Keywords: Adaptation Strategy, US Import Tariffs, Empirical Juridical Analysis, Indonesian Exports, BATNA Strategies

1. Introduction

In the current global economic landscape, international trade is increasingly influenced by unilateral tariff measures implemented by major economies. One of the most significant developments in recent years has been the imposition of higher import tariffs by the United States under the Trump administration, particularly those associated with the "America First" policy. These measures have led to increased protectionism and trade tensions (Nuruzzaman & Zainab, 2025; Kang, 2022). The imposition of tariffs, especially on the People's Republic of China (PRC), has raised questions about their legality under WTO rules and international trade law (Nwoke, 2020). The use of various trade remedies has prompted retaliatory measures from affected countries, reshaping international trade movements and geopolitical

relations (Kang, 2022; Laha, 2025). While some domestic industries in the US have benefited from these policies, global economies have experienced increased inflation, market instability, and slower economic growth (Laha, 2025). These developments have significant implications for the future of international trade and the role of organizations like the WTO (Nwoke, 2020).

These tariff measures have targeted a broad range of products and countries, including key exports from developing nations such as Indonesia. As a result, Indonesian exporters have faced heightened barriers and uncertainty in accessing the US market, which has traditionally been a significant destination for various Indonesian goods.

Indonesia's export economy relies heavily on a range of sectors including textiles, rubber, palm oil, footwear, furniture, electronics, and other manufactured goods. These sectors have historically enjoyed competitive

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access to global markets, including the United States, through preferential trade agreements and relatively low tariff environments. However, the introduction of new or increased tariffs by the US has disrupted this equilibrium. Such policy shifts have threatened the viability of Indonesia's exports, reduced profit margins, and increased compliance costs. Consequently, the need for strategic and adaptive responses has become more urgent to maintain and enhance Indonesia's global trade competitiveness.

This research is driven by the core issue of how Indonesian stakeholders—comprising business actors, government agencies, and trade associations—have responded to the evolving US tariff regime. It investigates what legal, strategic, and institutional adjustments have been made to counter the negative implications of these tariffs. In particular, the research question of this study: what adaptation strategies can Indonesian exporters and policymakers adopt to maintain competitiveness in the US market under rising tariff pressure.

The primary objective of this study is to explore and analyze the adaptation strategies employed by Indonesian stakeholders in response to US import tariffs. The research utilizes a combination of comprehensive literature review, conceptual framework development, and empirical juridical analysis to assess these adaptation mechanisms.

The analysis focuses on both practical and policy-level strategies, ranging from market diversification and trade diplomacy to compliance with new regulatory standards and legal responses at international forums. It also highlights the role of government policy interventions and capacity building in supporting exporters. By documenting Indonesia's multidimensional response to tariff-related disruptions, the study contributes to the broader discourse on how developing economies can navigate asymmetric global trade policies and safeguard their economic interests.

This study makes a significant contribution to the understanding of international trade resilience, legal adaptation, and strategic policy-making in developing countries. It provides valuable insights for policymakers, trade negotiators, industry players, and scholars by outlining effective responses to unilateral trade restrictions. The paper is structured to first provide an overview of the US tariff policy changes, followed by an analysis of their impact on Indonesian exports, and a discussion of the adaptation strategies employed. Ultimately, the research advocates for a cohesive and forward-looking trade policy that integrates legal, economic, and diplomatic tools to mitigate future risks in the global trading system.

2. Methods

This study employs a qualitative research approach that integrates three primary methodologies: literature review, conceptual framework development, and

empirical juridical research. The integration of these methods provides a holistic view of the subject, allowing the researcher to investigate the dynamic interaction between international trade law, economic policy, and national adaptation strategies. By combining legal analysis with empirical observations, this research aims to uncover both the structural and operational mechanisms used by Indonesia in responding to the US import tariffs.

The comprehensive literature review serves as the foundational stage of the research. It involves an in-depth examination of existing academic literature, government reports, trade policy papers related to US tariff policies, Indonesia's export sectors, and international trade strategies. The purpose is to identify the evolution of US protectionist measures, particularly under the Trump administration (Volume 2), and to understand their legal justification and broader economic implications. Sources are selected based on relevance, credibility, and publication within the last ten years to ensure the analysis reflects the most up-to-date developments.

Based on insights gained from the literature review, a conceptual framework is developed to guide the analysis. This framework outlines the interaction between unilateral trade measures (such as US import tariffs), their impact on Indonesian exports, and the multi-level responses by stakeholders. The framework identifies key variables including legal instruments, trade diplomacy mechanisms, market access strategies, and institutional support. It also categorizes responses into three levels: exporter-level adjustments, policy-level interventions, and legal-institutional measures, providing a structured lens through which to analyze Indonesia's adaptation strategies.

The empirical juridical research method is used to examine how Indonesia's legal and policy responses are formulated and implemented. This involves analyzing primary legal documents such as Indonesian trade laws, bilateral agreements, ministerial regulations, and US trade statutes and proclamations.

The document analysis involves systematically reviewing legal texts, policy documents, and trade data from credible institutions such as the Ministry of Trade (Indonesia), Indonesian Statistics and the US Government (White House) website. Data is then analyzed thematically, identifying patterns and gaps in stakeholder responses.

To ensure the validity and reliability of the research, multiple sources of data are triangulated and findings are cross-referenced. Legal interpretations are reviewed against international norms and institutional practices, while policy responses are assessed in the context of both domestic objectives and international obligations. This methodological rigor ensures the study provides a balanced and credible examination of Indonesia's adaptation strategies to US import tariffs.

3. Result and Discussion

3.1 Overview of Indonesia-US Economic and Trade Relations

Table 1. Macroeconomic Comparison between Indonesia and USA

No.	Indicators	Indonesia	USA
1.	Total Populations	281 million (the 4th most populated country)	340 million (the 3th most populated country)
2.	Gross Domestic Product (GDP) Total	US\$ 1.42 Trillion	US\$ 27.3 Trillion
3.	GDP per Capita	US\$ 5,027	US\$ 89,000
4.	Inflations (2024)	1.6 %	2.9 %
5.	Provinces / States	38 Provinces	50 States

Source: [Census.gov](https://www.census.gov), IMF, World Bank, BPS (2024, 2025), compiled

A macroeconomic data illustrates the comparison between the two countries. Indonesia, with a population of 281 million—the fourth largest in the world—has a GDP of US\$ 1.42 trillion (IMF and a GDP per capita of US\$ 5,027. The U.S. boasts a population of 340 million, a GDP of US\$ 27.3 trillion, and a significantly higher GDP per capita of US\$ 89,000. Inflation in Indonesia remains relatively low at 1.6% compared to 2.9% in the U.S., suggesting a more stable price environment. The number of administrative regions—38 provinces in Indonesia versus 50 states in the U.S.—which can influence regulatory coordination and policy implementation across both nations. Many potentials can be developed in terms of population and projected increases in product demand. Indonesia's exports to the US account for only around 2% of GDP, indicating limited macroeconomic exposure to US tariff shocks. However, the high tariff policy imposed by the US has also disrupted global trade flows, including those of other major trading partners of Indonesia.

This summary compares macroeconomic indicators and economic growth between Indonesia and the United States. Both countries show long-term stability in macroeconomic variables, with Indonesia recommended to implement more active policies (Antoni, 2019). Indonesia's economic strength is growing globally, ranking 16th in GDP and predicted to reach 12th position by 2050 (Setiawati & Lestari, 2022). As a G20 member, USA and Indonesia control a significant portion of world trade alongside other major economies. The demographic bonus expected in Indonesia by 2050 may further boost its economic

power, positioning it as a key player in the global economy and trade (Setiawati & Lestari, 2022).

Indonesia's trade performance with the US continued to show a positive trend throughout 2024-2025. As presented in Table 2, Indonesia's total exports to the US increased from USD 26.54 billion in 2024 to USD 20.60 billion during the January-August 2025 period, marking a year-on-year growth of 14.03 %. The growth was mainly driven by the non-oil and gas sector, which rose by 14.11 %, while oil and gas exports remained relatively minor, contributing only 0.2 %. On the import side, Indonesia's total imports from the US reached USD 8.36 billion in the same 2025 period, expanding by 6.38 %, also dominated by non-oil and gas products. As a result, Indonesia maintained a substantial trade surplus with the US, reaching USD 14.09 billion for January-August 2025, an increase of 31.48 % compared to the same period in 2024. This data indicates that, despite the reciprocal tariff policy, Indonesia's trade balance with the United States remained resilient, supported by strong non-oil and gas export performance and steady import demand.

Table 2. Trade Balance between Indonesia and USA

No.	INFO	VALUE MILLION USD				Change (%)	Trend (%)
		2023	2024	JANUARY-AUGUST			
				2024	2025	25/24	23-24
I.	Export	23,272	26,538	17,121	20,604	20.34	14.03
	- Oil and Gas	16,461	0.09	0.02	0.00001	-99.94	-
	- Non Oil and Gas	23,255	26,538	17,121	20,604	20.34	14.11
II.	Import	11,298	12,019	7,957	8,399	5.56	6.38
	- Oil and Gas	2,054	2,498	1,609	1,885	17.20	21.60
	- Non Oil and Gas	9,244	9,521	6,348	6,514	2.61	3.00
III.	Total Trade	34,571	38,557	25,079	29,004	15.65	11.53
	- Oil and Gas	2,071	2,498	1,609	1,885	17.20	20.64
	- Non Oil and Gas	32,500	36,060	23,470	27,119	15.55	10.95
IV.	Trade Balance	11,973	14,518	9,163	12,204	33.19	21.26
	- Oil and Gas	(2,038)	(2,498)	(1,609)	(1,885)	-17.20	-
	- Non Oil and Gas	14,011	17,017	10,773	14,091	30.80	21.45

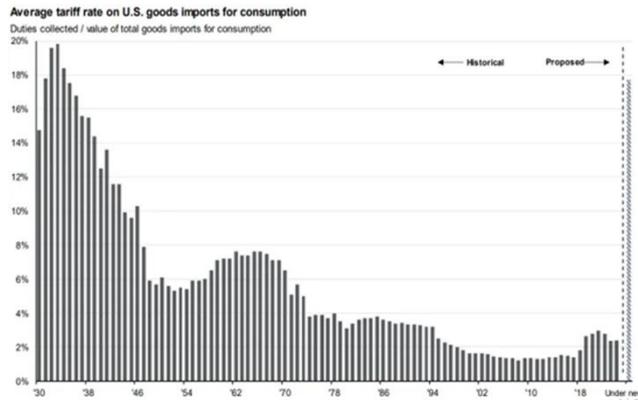
Source: Indonesian Statistics (2025), compiled.

A bilateral free trade agreement between Indonesia and the US could lead to significant tariff savings and boost economic growth for both countries (Wardani and Ziltener, 2018). According to Famalika et al. (2023), factors affecting Indonesia's bilateral trade with the US include international trade and non-trade aspects like agreements and relations.

3.2 Indonesia’s Export Performance to the US under Different Tariff Phases

In the last 30 years from 1995-2025, the US import tariff is around 2% on average which is quite low compared to other countries. US import tariffs for food increased 2% in 2019 (almost double than before), but it fell again 1% in 2020. In April 2025 there was a significant increase in import tariffs during Trump Administration 2.0, the highest since the 1930s.

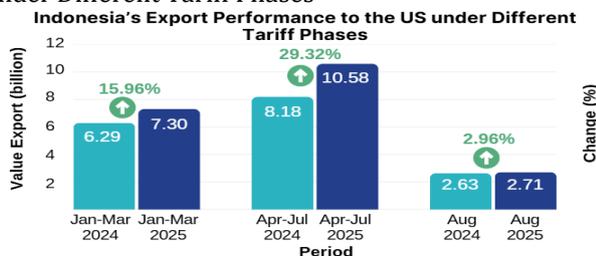
Figure 1. Trend of the US Import Tariff Policy from 1930-2025



Source: McCann, USITC, 2025 US (compiled).

In 2018-2019, tariff increases led to higher prices for intermediates and final goods, reduced imported varieties, and decreased US real income by \$1.4 billion per month (Amiti et al., 2019). These tariffs also negatively affected US exports, equivalent to a 2-4% ad valorem tariff (Handley et al., 2025). The trend continued into Trump's second term, with a 25% tariff imposed on Canadian products in March 2025, prompting retaliatory measures from Canada (Sulistyawati, 2024). In April 2025, Trump announced a sweeping 26% tariff on all imports from India, causing market turbulence but eliciting a measured response from New Delhi (Shukla & Kumar, 2025). These protectionist policies, rooted in the "America First" agenda, aim to address perceived unfair trade practices but have far-reaching economic consequences domestically and internationally.

Figure 2. Indonesia’s Export Performance to the US under Different Tariff Phases



Source: Indonesian Statistics (2025), processed.

Based on Figure 2, Indonesia’s total export to the US demonstrated mixed dynamics across the three tariff phases in 2025. During the pre-tariff period (January–March 2025), exports increased by 15.96% year-on-year, rising from USD 6.29 billion in 2024 to USD 7.30 billion in 2025. This early growth reflected stable demand and unadjusted trade conditions prior to the enforcement of the Reciprocal Tariff Policy. Meanwhile, the implementation phase of the 10% baseline tariff (April–July 2025) still recorded a 29.32% increase (from USD 8.18 billion to USD 10.58 billion), suggesting that exporters accelerated shipments and adapted temporarily to the tariff through price adjustments and logistical flexibility. The strong growth in this phase also implies that several sectors managed to sustain competitiveness due to established supply chains and steady US retail demand. However, after the tariff revision to 19% (August 2025), the growth rate moderated to only 2.96%, with total exports reaching USD 2.71 billion compared to USD 2.63 billion in August 2024. This indicates that the market began stabilizing after the uncertainty surrounding tariff postponements was resolved. The adjustment period thus reflects a transition from short-term adaptation to long-term equilibrium as both governments recalibrated trade policies post the July 2025 bilateral meeting.

3.3 Sectoral Impact on Top 10 Export Commodities to the US

Table 3. Export Performance of Indonesia’s Top 10 Commodities

(Value: Million USD)

HS	Jan-Mar		Change Jan-Mar 25/24 (%)	Apr-Jul		Change Apr-Jul 25/24 (%)	Aug		Change Aug 25/24 (%)
	2024	2025		2024	2025		2024	2025	
HS 85	1,043.00	1,217.34	16.72	1,255.90	2,086.51	66.14	466.72	481.95	3.26
HS 61	530.46	629.26	18.63	797.71	942.55	18.16	299.87	291.14	-2.91
HS 64	564.13	657.38	16.53	722.13	911.83	26.27	245.61	280.11	14.05
HS 62	560.31	568.59	1.48	677.12	689.41	1.81	216.79	172.82	-20.28
HS 40	421.72	397.90	-5.65	524.30	533.27	1.71	159.60	135.43	-15.15
HS 15	400.46	507.19	26.65	576.77	693.56	20.25	122.06	265.50	117.51
HS 94	342.34	410.14	19.80	418.58	431.25	3.03	130.28	107.90	-17.18
HS 03	244.37	286.06	17.06	332.53	390.27	17.36	107.63	85.29	-20.75
HS 84	260.01	245.33	-5.65	329.38	651.27	97.73	92.17	109.48	18.78
HS 16	213.14	207.59	-2.60	244.13	283.59	16.16	67.31	65.95	-2.02

Source: Indonesian Statistics (2025), processed

Table 3 presents Indonesia’s top ten export commodities to the US during 2024-2025 across three timeframes. Overall, the data suggest differentiated sectoral impacts, with high tech and labor-intensive sectors showing resilience, while resource-based commodities experienced contraction after August 2025. The electrical machinery sector (HS 85) consistently dominated export performance, growing 16.7% in Jan-Mar and 66.1% in Apr-Jul 2025, indicating robust integration into U.S. manufacturing supply chains. Textile and footwear industries (HS 61, HS 64) also recorded positive growth across the first two phases, reflecting their ability to absorb tariff costs through efficient production and diversified buyers. Conversely, palm oil (HS 15) and rubber products (HS

40) showed more volatility. Palm oil exports initially increased modestly by 10.25% in Jan-Mar but fell sharply by 20.6% in August, signaling demand sensitivity to tariff changes and logistics costs. Rubber exports followed a similar trend, with early recovery offset by a 15.1% decline in August.

Notably, furniture (HS 94) and machinery (HS 84), both capital intensive and shipping cost sensitive, experienced cumulative declines exceeding 15% in August 2025, implying slower recovery compared to labor-intensive sectors. These results highlight that tariff volatility disproportionately affects resource-based and bulky commodities, while sectors integrated into established value chains (such as electronics and apparel) are more adaptable.

Palm oil, cocoa, and paper are key commodities in Indonesia's trade with the US. Indonesia is a major global producer and exporter of palm oil, accounting for over 80% of world exports along with Malaysia (Lokollo, 2016). The palm oil industry faces challenges in sustainability, leading to the implementation of RSPO and ISPO certifications (Lokollo, 2016; Ali et al., 2020). Indonesia's crude palm oil exports to the USA have shown higher competitiveness compared to the Indian market, with an RCA index of 26.50% (Ali et al., 2020). The Indonesian government has recognized the importance of these commodities, launching strategic research grants for oil palm to address global trade challenges and improve competitiveness (Sa'id, 2009).

Indonesian exporters in strategic commodities such as palm oil, cocoa, and paper have also demonstrated adaptive responses to counter the impact of US import tariffs and reciprocal trade pressures. Major palm oil producers such as PT Smart Tbk and Wilmar International have increasingly emphasized sustainability compliance, traceability systems, and certification schemes (including RSPO and ISPO) to maintain market access and strengthen their positioning in environmentally sensitive markets like the United States (Pasaribu, 2025; Dermoredjo et al., 2025; Mayrintina et al., 2024). These firms have also invested in downstream processing and value-added products to reduce reliance on bulk commodity exports and improve price resilience.

In the cocoa sector, companies such as PT Cocoa Ventures Indonesia have focused on quality upgrading, supply chain improvement, and farmer capacity-building programs, aligning their products with international standards and buyer requirements in premium markets (Bemelmans and Maertens, 2025; Deporter et al., 2025). Meanwhile, in the paper industry, Asia Pulp and Paper (APP) has responded to external trade pressures by strengthening its sustainability commitments, legality verification, and international certification (e.g., FSC, PEFC), while also expanding its portfolio toward higher value-added paper-based

products (Hicks, 2025). Collectively, these corporate strategies reflect a broader pattern of adaptation in which Indonesian exporters seek to mitigate tariff-related risks not only through price competition, but through compliance, differentiation, reputation-building, and structural upgrading of their export offerings.

3.4 Impact of the US Reciprocal Tariff Policy on Indonesia's Overall Export Performance

Figure 3. Indonesia's Total Export Performance to the World (2024-2025)



Source: Indonesian Statistics (2025), processed

As shown in Figure 3, Indonesia's total exports to the world continued to increase across all three tariff phases in 2025. During the pre-tariff period (January–March 2025), total exports rose by 6.53% compared with the same period in 2024, indicating a stable upward trend prior to policy implementation. When the 10% reciprocal tariff took effect (April–July 2025), export performance remained resilient, posting a 9.13% year-on-year increase, suggesting that the immediate impact of the tariff policy on Indonesia's overall exports was limited. Following the tariff adjustment to 19% in August 2025, total exports grew by another 5.78% compared to August 2024.

These results indicate that while the US reciprocal tariff policy may have affected specific sectors and Indonesia–U.S. bilateral trade, it did not significantly disrupt Indonesia's aggregate export performance. This resilience can be attributed to Indonesia's diversified export structure and robust demand from US and non-US markets, which offset the potential losses arising from tariff related uncertainty. Hence, the macro level impact of the US tariff policy on Indonesia's total exports remained minimal.

Although the US ranks as Indonesia's second largest export destination after China, its share of Indonesia's total exports accounts for only 10%. Therefore, the overall impact of the US tariff policy on Indonesia's national export performance remained limited.

3.5 Empirical Juridical Analysis of US Import Tariff

International trade has become increasingly politicized, with tariffs used not only as economic tools but also as instruments of foreign policy. This trend is especially evident among major economies, where tariffs have shifted away from their traditional role as mere tools of economic regulation. Rather than simply protecting domestic industries, tariffs are now often deployed to exert strategic pressure in broader geopolitical and economic negotiations. This global shift has raised concerns among developing nations, whose export-driven economies are vulnerable to the volatility of unilateral trade actions.

The United States, under President Donald J. Trump, has been a key architect of this transformation. While Trump's initial term (2017–2021) was marked by controversial tariff measures against PRC and other trade partners, his second term—particularly post-2025—saw a more systematized and aggressive use of tariffs as a response to what was perceived as long-standing trade imbalances. A central pillar of this new direction was the Reciprocal Tariff Policy, initiated through Executive Order (EO) 14257, titled “Regulating Imports with a Reciprocal Tariff to Rectify Trade Practices that Contribute to Large and Persistent Annual United States Goods Trade Deficits”, signed on April 2, 2025. The EO was officially published in the Federal Register on April 7, 2025, under document number 2025-06063 (90 FR 15041 (The White House, 2025a)).

This policy sought to recalibrate the U.S. trade deficit by matching the tariff rates imposed by its trading partners, effectively introducing a mechanism of retaliation and alignment. For Indonesia, the tariff policy was implemented in two distinct phases:

- Baseline tariff of 10%, which came into effect at 12:01 AM EDT on April 5, 2025, and
- Reciprocal tariff of 32%, scheduled to take effect at 12:01 AM EDT on April 9, 2025.
- Further modifying the reciprocal tariff of 19%, effective August 7, 2025.

Certain products listed in the EO were exempted from both tariffs. On April 5, the 10% baseline tariff was enforced, with US Customs and Border Protection (CBP) issuing guidance for tariff collection. While the EO allowed temporary exemptions for goods already in transit before the effective date, CBP declared that these exemptions would end on May 27, 2025.

However, in response to mounting international and domestic pressure, President Trump announced a 90-day postponement of the 32% reciprocal tariff on April 9, 2025. This decision, affecting 57 trading partners including Indonesia, was formalized in Executive Order (EO) 14266, titled “Modifying Reciprocal Tariff Rates to Reflect Trading Partner Retaliation and Alignment” (the White House, 2025b). Under the revised provisions:

- The 10% baseline tariff remained in place.
- The 32% reciprocal tariff was suspended for all countries except PRC.

- In retaliation against PRC's countermeasures, the tariff on Chinese imports was sharply raised to 125%, effective from April 10 to July 9, 2025.

From the perspective of WTO law, the US tariff policy may be challenged under the General Agreement on Tariffs and Trade (GATT), particularly Articles I and II, which prohibit discrimination among WTO members and the application of tariffs beyond bound commitments. However, the United States has defended its measures under GATT Article XXI on national security grounds—a clause that remains controversial due to its broad and evolving interpretations.

As of this writing, Indonesia has not formally initiated a dispute through the WTO's Dispute Settlement Body (DSB), but may have expressed concerns through diplomatic channels or WTO Council meetings. This measured approach may reflect Indonesia's preference to avoid direct legal confrontation while maintaining engagement within the multilateral, rules-based trading system. Furthermore, to maintain export performance, stakeholders including companies can employ product strategies such as adaptation, quality improvement, and innovation (Adidarma, 2015).

3.6 Adaptation Strategy Response

Introduction to innovation and differentiation innovation and product differentiation are crucial strategies in addressing external trade measures such as US import tariffs. This section presents detailed findings on how Indonesian stakeholders are adopting innovation-driven and differentiation-based approaches to maintain and enhance their export performance to the US market.

The importance of product innovation as strategic response to higher U.S. tariffs, particularly affecting PRC-origin products. There is a growing strategic opportunity for Indonesian exporters to fill the supply gap. However, mere availability is not sufficient; innovation in product design, utility, and application becomes essential to compete in premium market segments. Thus, Indonesia can offer products that are not only of high quality but also possess distinctive characteristics, enabling the country not merely to replace the lost volume but to meet the expectations of the premium market segment previously served by PRC.

Product uniqueness as a market advantage Indonesian products that highlight cultural uniqueness, sustainable practices, or indigenous materials—such as batik textiles, rattan furniture, or herbal wellness products—can differentiate themselves from generic mass-manufactured items from other Asian countries. This uniqueness can be further enhanced through participation in trade exhibitions, business matching events, and targeted branding initiatives in key US cities.

The role of Indonesian and US stakeholders—comprising exporters, government agencies, and trade associations—has been instrumental in promoting innovation. Export training programs, trade shows, and

matchmaking with foreign buyers have fostered a mindset of continuous product improvement.

The value of certification and compliance with US certification standards significantly boosts market access. For example, organic certification by USDA has allowed Indonesian agricultural products such as coconut sugar, spices, and coffee to penetrate high-value US health-conscious markets. Adherence to these standards enables Indonesia to reduce the likelihood of technical barriers in international trade while enhancing its reputation as a supplier of high-quality products.

Empirical data on premium market trends according to the USDA and USITC, there is a marked increase in US consumer demand for certified organic and sustainable goods. This demand trend aligns with the strategy of innovation and differentiation for Indonesian exports. Organic certification and sustainability are key drivers in creating this added value. Consequently, a strategy centered on quality and sustainable practices serves as a shield against tariff measure.

Substitution opportunities from other countries such as the People's Republic of China (PRC) trade measures, the imposition of the US tariffs on PRC products has inadvertently opened pathways for Indonesian goods. Buyers looking to avoid Chinese-origin products due to higher costs or geopolitical concerns are now considering Indonesia as an alternative sourcing hub.

Research indicates that Indonesian firms face challenges in adapting to US import tariffs, particularly in the textile and agricultural sectors (Sugianto, 2025). Textile and apparel case study in the apparel sector, Indonesian exporters have developed unique offerings such as performance batik, organic cotton activewear, and culturally infused design lines which appeal to niche US consumer segments interested in authenticity and ethical sourcing.

For agricultural sectors, the stakeholders need to have adaptation strategy on increasing the quality of pre-production and post-production : maintaining product quality (clean, hygienic and healthy), increasing product added value (cleaning, grinding, sorting, sterilizing, packaging and distributing); following the latest market demand trends (innovative, creative, productive). International trade policies directly impact the competitiveness of agricultural products, necessitating comprehensive strategies to enhance value and achieve food security (Fitriyani et al., 2025).

Industrial goods and differentiation beyond consumer products, industrial components from Indonesia—such as eco-friendly rubber-based goods, electrical components, or furniture parts—have seen rising demand in B2B supply chains disrupted by the US-PRC tensions.

The strategies like product innovation, differentiation, and market repositioning are important

to help soften the impact of U.S. tariffs, however it will not be enough, especially if trade fails to deliver favorable outcomes. Therefore, besides strengthening export competitiveness, Indonesia needs to develop strong alternatives, which called as the Best Alternative to a Negotiated Agreement (BATNA). Through this approach, Indonesia can maintain its bargaining position and protect the nation's economy amid growing trade tensions.

The concept of BATNA (Best Alternative to a Negotiated Agreement), was first introduced by Fisher and Ury (1981). The concept emphasizes the importance of having alternative plan when a negotiation does not produce favorable results (Pandey et al., 2025). Based on theory, a strong BATNA empowers parties to negotiate more assertively, particularly in asymmetrical relationships where power imbalances exist. The principle is very relevant to the Indonesian–U.S. trading relationship scenario, particularly in the Trump administration's "Tariff 2.0" scenario.

Based on the explanation above, in practice the elements of BATNA have been partially implemented by Indonesian businesses and policymakers, albeit not always explicitly. BATNA is one of the alternatives to counterbalance the US pressure and strengthen negotiating leverage. Indonesia exporters have increasingly diversified trade through expanded market access beyond United States, particularly within Indonesia-EU Comprehensive Economic Partnership Agreement (IEU-CEPA), Indonesia's active engagement within ASEAN and Regional Comprehensive Economic Partnership (RCEP), the Middle East, and Africa relationships.

At the firm level, Indonesian exporters, particularly SMEs, also responded to U.S. tariff pressures by reallocating exports toward non- U.S. destinations and adjusting supply chains to cater buyers seeking alternatives to PRC-origin products. The SMEs' participation in international trade exhibitions, business-matching program, and government facilitated trade mission has enabled the firms to test the alternative demand, therewith implementing BATNA through market diversification rather than only diplomatic negotiation.

The BATNA-related strategies have given mixed but tangible effectiveness. Market diversification can reduce exposure to unilateral U.S. trade measures, particularly in sectors such as process foods, furniture and selected agricultural commodities. Indonesian exporters offering certified organic, sustainable products are able to sell their goods at premium price in non- U.S. market and these can help to cover for the increased costs and reduced competitiveness impacted by U.S. import tariffs. Moreover, Indonesia can also gain greater participation in the regions and the multilateral forums like APEC and the G20 to generate mutual pressure in reaction to

unilateral trade policies. Furthermore, readjustment of commodity exports to the high-growth economies (e.g., India) and value-added industry investment in the domestic area can reduce the heavy reliance on US markets. These are the components of Indonesia's BATNA.

However, the effectiveness of BATNA not always benefit all exporters equally. Large firms with sufficient financial support and have international business networks are better to diversify export markets. Conversely, small and medium sized exporters often face hurdle such as high certifications costs, logistical challenges and limited access to market information. Therefore, the effectiveness of BATNA at the firm level depends heavily on government support and firm capacity.

Despite these efforts, implementing BATNA for Indonesia faces several limitations, trade diversification is inherently medium to long term strategy, thus it will limiting its immediate effectiveness as leverage in short-term tariff negotiations. Indonesia can more effectively implement BATNA in international trade when integrate with broader industrial, trade and diplomatic strategy rather than treated as only negotiation concept.

Despite these constraints, BATNA remains relevant particularly for long term leverage building strategy rather than as short-term solution to tariff pressures. According to Fisher and Ury's explanation, the well-developed BATNA is not only an insurance policy but also supports negotiating leverage (Pandey et al., 2025). Through the clear signaling of having viable alternatives to propose, Indonesia could put the United States on the negotiating table to change its policies of tariffs, the line of argument being that Indonesia is not going to bet on the bilateral alone. In short, the stronger the Indonesia's BATNA, the more likely it is to avoid unfavorable outcomes and shape more balanced trade terms.

4. Conclusion

The imposition of a 10% US import tariff in April 2025 significantly affected Indonesian exports, resulting in a substantial 21% overall decline—from USD 2.6 billion in March 2025 to USD 2 billion in April 2025. Key export commodities such as palm oil (HS 15), cocoa (HS 18), and paper experienced the sharpest declines, with drops of 46%, 41%, and 34% respectively. These figures highlight the vulnerability of Indonesia's traditional export commodities to external trade shocks and the urgent need for adaptation strategy response mechanisms to sustain Indonesia's market share in the United States.

Innovation and product differentiation have emerged as critical strategies for maintaining competitiveness amid rising US tariffs. Indonesian exporters must not rely solely on price competitiveness; instead, they should focus on developing unique, high-value offerings that cater to shifting consumer preferences in the US. Products emphasizing sustainability, cultural heritage, and functional innovation—such as certified organic

goods, performance batik, and eco-friendly industrial goods—are increasingly in demand and provide an opportunity for Indonesian businesses to penetrate niche, premium market segments.

The role of Indonesian and US stakeholders—comprising business entities, government agencies, and trade associations, is essential in facilitating export adaptation. Policies should prioritize export diversification, trade diplomacy, and support for SMEs in meeting international standards. Additionally, companies may consider market diversification and strengthening trade agreements with non-US countries to improve trade resilience (Sugianto, 2025).

Business entities capacity-building through training, digital platforms, and participation in trade expos can enhance readiness to comply with US market requirements and develop differentiated, competitive products.

To improve access to the US market, Indonesian business people must increase compliance with international certifications such as USDA Organic, RSPO, ISPO, and FSC for forest-based products. Strengthening national certification schemes, improving traceability systems, and providing subsidies or incentives for certification can significantly increase the exportability of Indonesian goods. Certified sustainable and traceable products will not only meet tariff-linked regulations but also align with the growing consumer trend in the US favouring ethical and eco-conscious consumption. While these strategies offer potential solutions, implementing them may be challenging and costly for businesses (Contractor, 2025).

In the long term, Indonesia should develop a comprehensive trade adaptation strategy that includes (1) enhancing product innovation ecosystems; (2) accelerating R&D investment for key commodities like palm oil and cocoa; (3) negotiating bilateral agreements to reduce tariff exposure; and (4) capitalizing on substitution opportunities created by US-PRC trade tensions. Strengthening Indonesia's positioning as a reliable, sustainable, and value-added export hub can help mitigate the risks of future tariff shocks and ensure continued growth of Indonesian exports to the US.

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