INDONESIAN INSTITUTE FOR FOREIGN AFFAIRS AT UIII

IIFA POLICY BRIEF

IIFA Policy Brief IIFA-PB2026001

23 February 2026

Indonesian Trade Agreement After the US Supreme Court and President Trump Debacle: What It Means for Indonesia

Teguh Yudo Wicaksono, Rima P Artha, and Philips J. Vermonte | Indonesian Institute for Foreign Affairs (IIFA), UIII | February 2026

Executive Summary

1. A Deal Invalidated the Day After It Was Signed

- **February 19, 2026**: Indonesia and the US signed the Bilateral Agreement of Reciprocal Trade (ART), reducing the reciprocal tariff from 32% to 19% and granting zero-tariff exemptions to 1,819 tariff lines — including palm oil, rubber, coffee, and cocoa.
- **February 20, 2026**: The US Supreme Court ruled 6–3 in Learning Resources, Inc. v. Trump that IEEPA does not authorize the President to impose tariffs — invalidating the entire legal basis of the ART, one day after it was signed.
- **February 21, 2026**: The Trump administration invoked Section 122 of the Trade Act of 1974, initially at 10%, then escalated to 15% — **the statutory maximum** — within 24 hours.
- The Trump administration responded within hours by invoking Section 122 of the Trade Act of 1974 at 10%, then escalating to 15%—the statutory maximum—on February 21, 2026.
- **Indonesia's effective tariff rate (ETR) now stands at 20.3%, exceeding the negotiated deal rate of 19.7%** by 0.6 percentage points.
- This ETR level assumes that the Trump administration imposes the statutory maximum of 15% on top of MFN rates
- If **the administration set the 15%, including the MFN rates, the estimated ETR will 17.7%.**
- Yet it remains unknown which rates the administration will impose.

Bottom Line: After the US Supreme Courts' Decision and President Trump's Response, Indonesia Is Now Worse Off Than Under the Deal It Just Signed

Indonesia's effective tariff rate (ETR) now stands at 20.3% — exceeding the negotiated deal rate of 19.7% by 0.6 percentage points, and representing a **15.3 percentage point increase** over the pre-crisis 5.0% baseline.

This translates to approximately **$4.3 billion in additional annual duties** relative to normal Most-Favoured-Nation (MFN) treatment. A flat, uniform tariff with no exemptions imposes a higher aggregate burden than a targeted deal with product carve-outs.

2. Winners and Losers Across Sectors

- **Hardest hit — deal-exempted commodity exporters** lose zero-tariff protections and face the full 15% flat rate:
  - **Palm oil ($1.74B):** tariff rises from 2% (deal) to 17% (+15 pp) — adding $261M in annual duties. Indonesia holds an 85% US market share, offering some limited pass-through capacity to US buyers.
  - **Rubber ($1.96B):** tariff rises from 3% to 18% (+15 pp) — adding $294M in annual duties.
  - **Coffee ($0.50B)** and **cocoa ($0.32B):** effective tariff rises from 1.5–3% to 16.5–18% (+15 pp).
  - **Combined additional duty burden on commodities: $670 million** relative to the deal.
- **Modest relief — manufacturing exporters** benefit from a lower flat rate compared to the deal:
  - **Textiles & apparel ($4.22B,** employing ~4 million workers): tariff falls from 29.1% to 27% (-2.1 pp).
  - **Footwear ($2.57B):** tariff falls from 30% to 26% (-4 pp) — saving $103M annually.
  - **Furniture ($1.57B):** tariff falls from 20.5% to 16.5% (-4 pp).
  - **Combined manufacturing savings: approximately $500 million** relative to the deal.
- **Unaffected — steel and aluminum** remain under Section 232 at 50%, as this authority is independent of IEEPA and exceeds the 15% Section 122 rate

Table 1: Sector-Level Effective Tariff Rate — Deal vs. Section 122 at 15%

Sector	Export Value	Deal Rate	S122 at 15%	Change
Rubber (HS 40)	$1.96B	3%	18%	+15 pp
Palm Oil (HS 15)	$1.74B	2%	17%	+15 pp
Coffee (HS 09)	$0.50B	1.5%	16.5%	+15 pp
Cocoa (HS 18)	$0.32B	3%	18%	+15 pp
Textiles & Apparel (HS 61–62)	$4.22B	29.1%	27%	-2.1 pp
Footwear (HS 64)	$2.57B	30%	26%	-4.0 pp
Furniture (HS 94)	$1.57B	20.5%	16.5%	-4.0 pp

Red = sectors worse off; Green = sectors better off relative to the deal.

3. Critical Features of Section 122 That Define Indonesia's Position

- **Non-differentiating**: Section 122 applies uniformly to all countries. Indonesia faces the same 15% as Vietnam (previously 46% under IEEPA) and the EU (20%). This eliminates US leverage for bilateral deal-making, but also creates a window of relative competitive parity for Indonesian exporters.
- **Temporary**: The 150-day statutory limit expires approximately July 20, 2026. Without congressional action, non-Section 232 tariffs could revert toward the 5.0% baseline — a potential significant relief for Indonesian exporters.
- **At its ceiling**: At 15%, the administration has exhausted its unilateral authority. Any further escalation requires an Act of Congress. The current 20.3% ETR is therefore the **worst-case scenario under existing executive power**.

4. Indonesia's Concessions Are Now in Legal Limbo

- Under the ART, Indonesia committed to: **$33 billion in US purchase commitments** (energy, Boeing aircraft, agricultural products); elimination of tariffs on 99% of US exports to Indonesia; and extension of PT Freeport Indonesia's mining license from 2041 to 2061.
- These concessions were given in exchange for tariff terms that **can no longer be legally delivered**.
- International trade law principles of reciprocity provide Indonesia with legitimate grounds to **pause or withdraw its commitments** until the legal framework is clarified.

5. Key Policy Strategies

1. **Do not prematurely implement deal concessions**. Pause tariff reductions on US products and agricultural market access until the legal status of the ART is resolved. The statutory basis for Indonesia's obligations has been invalidated.
2. **Prepare for the July 2026 cliff**. Develop contingency plans for three outcomes: (a) congressional renewal of tariff authority; (b) expiry without replacement — most

favourable for Indonesia; or (c) replacement under alternative authority (Section 301, 201, or 338).

3. **Renegotiate from a position of relative strength**. Non-differentiation under Section 122 temporarily levels the playing field. Indonesia should use this window to secure more favourable differentiated terms than competitors such as Vietnam in any future bilateral framework.
4. **Closely follow current U.S domestic political developments which consequences are relevant to our national interest**. This can be done by enlarging the size of stakeholders consulted in the thought-process of Indonesian trade negotiation.
5. **Protect commodity exporters immediately**. Palm oil and rubber exporters face the sharpest tariff increases. Hedging and inventory strategies should be activated now. Given Indonesia's dominant US market share, partial cost pass-through to US buyers is possible for palm oil (85% market share) and rubber (48%).
6. **Accelerate export market diversification**. Leverage Indonesia's other multilateral cooperations and deepen trade ties with RCEP partners, advance EU–Indonesia CEPA negotiations, and expand into emerging markets to reduce dependence on US market access.

The pace of change — two executive orders, a Supreme Court ruling, and a tariff escalation within 72 hours — signals that Indonesia must treat this as an ongoing and rapidly evolving situation requiring active diplomatic monitoring and adaptive economic strategy, not a concluded negotiation.

IIFA Policy Brief provides concise, evidence-based analysis on key global and regional developments relevant to Indonesia. Drawing on research and policy expertise, it outlines practical considerations and clear recommendations to support informed discussion and decision-making. For enquiries, email us at iifa@uiii.ac.id or visit our website at iifa.or.id.

Indonesian Institute for Foreign Affairs (IIFA), Universitas Islam Internasional Indonesia (UIII),
Faculty B Building, Jl. Raya Bogor KM 33.5, Cisalak, Sukmajaya, Depok 16416, West Java, Indonesia.