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# RECIPROCITY OR RECALIBRATION?

Indonesia's Industrial Leverage in the New  
U.S. Trade Agreement

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The recent U.S.-Indonesia Agreement on Reciprocal Trade was seen as a pragmatic breakthrough emphasizing tariff reductions from 32% to 19%. The agreement is described as strategic hedging, placing Indonesia between hostile countries while gaining advantages from both, in a time characterized by the competition between the United States and China. The optics are clear: lower tariffs, new investment and strengthened geopolitical relevance.

Yet reciprocity in international political economy cannot be measured solely by tariff percentages since it is rarely self-evident. Yes, trade agreements are able to reshape regulatory autonomy, industrial strategy as well as supply chain governance. But beneath the headline, there lies a structural adjustments that define who retains policy flexibility and who concedes it. The important question is not whether Indonesia gains short-term advantages, but whether this agreement preserves equivalent policy space on both sides.

At first glance, tariff reduction might suggest mutual benefit. Indonesian exporters, for example, may gain improved access to the U.S. market, especially in sectors facing competitive pressure. But trade agreements are not simply about tariffs. Under the agreement, Indonesia not only lowers tariffs but also eases elements of its local content requirements, aligning regulatory standards with U.S. benchmarks. These are not minor technical adjustments as they also affect how industrial policy can be deployed in the future.

From a structural perspective, the asymmetry becomes more visible when comparing policy trajectories. While Indonesia moderates elements of its industrial conditionality, the United States continues expanding its own. The contrast is difficult to ignore. For instance, one party liberalizes and relaxes certain conditionalities while the other reinforces domestic industrial entrenchment. This divergence reflects the reality and broader hierarchies of our current global economy. Advanced economies have the fiscal capacity and political backing to subsidize strategic industries. On the other hand, middle-income countries are often encouraged to open markets, align standards and scale back industrial policy tools. Within that context, reciprocity risks becoming a rhetorical framework that obscures structural power differences between advanced and middle-income economies.

Indonesia's local content policy, known as IKDN, has long functioned as a developmental instrument rather than a simple protectionist barrier. Local content -

requirements are commonly used by late industrializers to capture value domestically, encourage technology transfer, integrate domestic suppliers and prevent enclave-style extraction. The intention is to ensure that foreign investment produces spillovers rather than only isolated extraction zones. Such policies, of course, are not flawless. But they provide leverage in negotiations with multinational firms.

If TKDN provisions are removed without securing deeper domestic integration or durable technology transfer, Indonesia's bargaining power diminishes. Foreign investment may expand extractive and intermediate processing capacity without guaranteeing long-term industrial learning.

Industrial policy is often seen as legitimate when used by advanced economies but questioned when adopted by developing countries. If local content rules are weakened without real technological gains, Indonesia risks giving up one of its few sources of industrial leverage through negotiated liberalization rather than direct pressure.

The agreement's most strategic dimension concerns critical minerals. Indonesia possesses some of the world's largest nickel reserves, a resource that is central to electric vehicle battery production. In a decarbonizing global economy, control over mineral supply chains carries a very heavy geopolitical weight. Supporters argue that Indonesia can now stand at the center of the electric vehicle supply chain.

Yet what does it really mean to be in the "center"? Is Indonesia becoming a technology holder, patent owner, and standards setter? Or is it primarily consolidating its role as a resource extractor and processor of intermediate inputs? Historically, peripheral and middle-income economies occupy lower or mid-tier segments of global value chains, while advanced economies retain control over intellectual property, financing, branding and final assembly: segments where the value concentration is the highest. Without firm domestic requirements, Indonesia may play a larger role in supply chains without capturing their highest-value segments.

Diversifying economic partnerships away from China may reduce overreliance on a single external partner. Yet diversification alone does not produce technological sovereignty. Replacing one dominant anchor with another does not guarantee upward movement in the value chain. Moreover, one critical point is the fact that the environmental burden of nickel extraction and smelting remains local. If profits are concentrated abroad while environmental costs are borne at home, integration may reinforce uneven development rather than overcome it.

Regulatory alignment is another key element of the agreement. It is framed as modernization, aligning Indonesia with global best practices and improving market access. Yet, arguably, standards are not neutral tools. Domestic industries may be required to adjust to frameworks shaped –

by dominant economies, often without meaningful influence over the institutions that set those rules.

From a decolonial political economy perspective, sovereignty is measured not only by formal independence but by control over industrial upgrading, technological capacity and regulatory space. Strategic hedging between major powers is rational in a fragmented global order. Yet hedging should not translate into incremental erosion of industrial leverage. Integration must be negotiated in ways that preserve the tools necessary for domestic development.

The recent trade deal between the United States and Indonesia could be an example of practical statecraft. However, reciprocity needs to be assessed alongside tariff symmetry. Investment opportunities and market access are enhanced for Indonesia. The US gains access to vital minerals and a secure supply network. Indonesia aligns its regulatory norms more closely with U.S. frameworks and moderates its local content policies, while the United States retains significant influence over standard-setting and maintains expansive subsidy programs.

The risk is not an immediate decline. It is long-term structural repositioning. Over time, Indonesia could become more deeply embedded as a strategic supplier and processing hub in supply chains governed from abroad, indispensable yet not decisive. Reciprocity, in this light, becomes the language of balance overlaying calibrated asymmetry.

For Indonesia, the challenge is not withdrawing from global integration, but ensuring that integration preserves industrial policy space, builds technological capacity and protects regulatory autonomy. In the 21st century, sovereignty is rarely surrendered outright. More often, it is recalibrated gradually through supply chains, standards and conditional liberalization. That process deserves careful scrutiny.

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