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Indonesia's Strategic Legal and Economic Response to the US–China Trade War: Implications for Global Value Chains, Foreign Investment and MSMES

Zurria Sakinah[1], Mumtaz Muzaffar[2], Maudy Farras Raihan[3]
[1]Faculty of Law, Universitas Padjadjaran, Indonesia
[2,3] School of Business and Management, Institut Teknologi Bandung, Indonesia
[1]zurriasakinah2@gmail.com
[2]mumtaz.muzaffar@gmail.com
[3] maudyfar@gmail.com

Abstract

This study aims to analyse Indonesia's legal and economic responses to the global trade tensions triggered by the United States–China tariff war, with a particular focus on their impact on Indonesia's export-import structure, supply chain efficiency, and foreign direct investment (FDI) inflows. Employing a normative juridical method, supported by a policy and law-and-economics approach, this research examines international trade law frameworks, ratified agreements, and national policies in the context of global disruptions. The findings reveal that Indonesia, while not directly involved in the tariff conflict, has been significantly affected through rising production costs, decreased export competitiveness, and increased vulnerability of Micro, Small, and Medium Enterprises (MSMEs) in sectors such as textiles. Although trade agreement ratifications (e.g., RCEP, AFTA) offer strategic potential, bureaucratic inefficiencies and legal uncertainty continue to hinder optimal implementation. The study concludes that while Indonesia has adopted several adaptive measures such as market diversification, import substitution, and investment law reforms, structural challenges remain. To strengthen its role in global supply chains and enhance long-term resilience, Indonesia must integrate trade policy with regulatory enforcement, infrastructure development, and MSME empowerment. Recommendations include harmonising national trade regulations with international standards, optimising trade agreement benefits, and ensuring policy consistency across sectors.

Keywords: *US-China trade war, International trade law, MSMEs, Investment policy*

Introduction

The trade war between the United States and China (US-China), which began in 2018, has generated significant tensions within the global trading system.[1] This

[1] Nurul Isnaini, Kasanusi Kasanusi, and Bambang Widianto Akbar, "Kebijakan Proteksionisme Donald Trump Terhadap Dinamika Perang Dagang Amerika Serikat–Cina Tahun 2018-2022," *Agrapana: Jurnal Ilmu Sosial Dan Ilmu Politik* 1, no. 2 (2024): 70–78. https://e-journal.fisipol-undar.ac.id/index.php/agrapana/article/view/82

conflict is not confined to economic concerns alone, but also involves geopolitical competition, national protectionism, and the rivalry for technological supremacy and global market dominance. Both countries imposed high tariffs on each other's goods, which has directly transformed the structure of international trade and disrupted the smooth operation of a globally interdependent and integrated supply chain.

As a developing country with an essential role in the global trade network, Indonesia has also been affected by the consequences of this bilateral conflict. Indonesia’s dependence on exports and imports particularly in the manufacturing sector closely connected to global supply chains makes its position vulnerable to structural shifts in global trade dynamics. This is evidenced by empirical data indicating a decline in Indonesia’s export performance, particularly in indirect exports linked to regional manufacturing in China and the United State.

Indonesia's indirect exports could decrease by up to USD 300 million due to the imposition of U.S. tariffs on Chinese goods. Many Indonesian products are embedded in global manufacturing components exported through China before reaching the U.S. market. This domino effect has not only disrupted trade flows but also weakened Indonesia’s integration into the global value chain. These circumstances highlight Indonesia’s critical yet fragile position in a trade system increasingly shaped by external political and economic pressures.[2]

Additionally, the trade war has had a significant impact on the flow of Foreign Direct Investment (FDI) in Southeast Asia. In an effort to avoid high tariffs and regulatory uncertainty in China, multinational corporations have sought alternative locations to relocate their production facilities. Despite its strategic geographic and demographic position, Indonesia has underperformed in absorbing these

[2] Rudi Purwono et al., “The US-Tiongkok Trade War: Spillover Effects on Indonesia and Other Asian Countries,” Economics Bulletin 41, no. 4 (2021): 2370–85. https://scholar.unair.ac.id/en/publications/the-us-china-trade-war-spillover-effects-on-indonesia-and-other-a

investment relocations, while countries such as Vietnam, Thailand, and Malaysia have capitalized more effectively on the opportunity.

Jong notes that Indonesia continues to struggle in attracting meaningful levels of FDI when compared to its regional counterparts. Structural barriers such as complex investment licensing systems, bureaucratic inefficiencies, limited logistics infrastructure, and regulatory uncertainty remain major concerns among foreign investors. This raises serious questions regarding Indonesia's readiness to respond to global trade shifts, despite having visible potential.[3] From a legal and policy perspective, Indonesia also faces critical challenges. Current international trade regulations have not adequately protected domestic industries from unfair trade practices, such as the dumping of low-cost products from China via e-commerce platforms. These inexpensive goods often fail to meet national quality standards but still circulate freely in the domestic market. This situation creates unfair competition, particularly for Micro, Small, and Medium Enterprises (MSMEs), which are required to comply with strict regulations regarding product quality, safety, and distribution.

The absence of effective legal instruments to combat such practices underscores the urgency of strengthening Indonesia's trade law framework—both through the ratification of progressive international trade agreements and the revision of domestic regulations capable of addressing unfair competition in the digital age. This challenge has become more pressing as the trade war entered a new phase in early 2025, with aggressive policies introduced by U.S. President Donald Trump, including import tariffs of up to 145% on Chinese goods.

Once again, Indonesia became an indirect victim of such policies. As a country highly dependent on raw materials and industrial components from China, the imposition of high tariffs has significantly increased domestic production costs.

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[3] Hilda Yanuar Jong, "Spurring Investments in Indonesia amidst the US–Tiongkok Trade War, *Global Journal of Emerging Market Economies* 14, no 2, 204-221 (2021) https://doi.org/10.1177/09749101211034110

According to World Bank (2023), Indonesia's logistics costs reached 23% of its Gross Domestic Product (GDP), a figure much higher than that of neighboring countries such as Vietnam (15%) and Malaysia (13%). This dependency on Chinese imports has led to disruptions in supply chains in the domestic manufacturing sector, rising raw material prices, and a decline in operational efficiency.

The Ministry of Trade reported that sectors such as electronics, automotive, and textiles were among the most severely impacted by increased import costs. Additionally, the decline in demand from both the China and U.S. markets has weakened Indonesia's export performance to its two largest trading partners. With both economies slowing down, Indonesian businesses must adapt quickly to explore alternative markets, improve production efficiency, and adjust strategies to a volatile global context.[4]

The global uncertainty resulting from the tariff war has also affected Indonesia's investment environment. While the opportunity to attract relocated investments from China remains, structural constraints including bureaucratic inefficiency, lack of inter-agency coordination, suboptimal implementation of onestop integrated services, and lagging infrastructure continue to hinder investor confidence. As a result, Indonesia has once again missed a strategic opportunity to benefit from global economic realignment.

In light of these developments, Indonesia must formulate a responsive and comprehensive strategy that not only addresses the economic aspects but also enhances the legal framework of international trade and trade policy. A critical evaluation of the effectiveness of bilateral and multilateral trade agreements is necessary for Indonesia to respond appropriately to geopolitical dynamics and protect its national interests. Reviewing various agreements such as the ASEAN-China Free Trade Area (ACFTA), the Regional Comprehensive Economic Partnership

[4] Kementerian Perdagangan Republik Indonesia, "Laporan Perkembangan Perdagangan Luar Negeri Indonesia.," 2022.

(RCEP), and the Generalized System of Preferences (GSP) should be directed toward building a more equitable and sustainable trade ecosystem.[5]

Therefore, this study aims to provide a comprehensive analysis of Indonesia's legal and policy responses to global trade war dynamics and to assess the effectiveness of its national legal instruments in safeguarding domestic industries. The primary focus of this research is to identify the gap between economic policies and trade law frameworks, and to propose strategic actions to enhance Indonesia's competitiveness in global value chains. The novelty of this study lies in its interdisciplinary perspective combining legal, economic, and geopolitical analysis which remains underexplored in the existing Indonesian academic literature.

Given the persistent global uncertainty in the post-COVID-19 era and the resurgence of protectionist policies by major powers, this research is both urgent and highly relevant. It is expected to contribute to the development of more robust, inclusive, and adaptive trade policies capable of strengthening Indonesia's position in an increasingly volatile global economic environment.

Methods

This study employs a normative juridical method, focusing on the analysis of legal norms governing Indonesia's international trade policy, as well as the national legal and economic strategic responses to global dynamics particularly the tariff war between the United States and China. To ensure a comprehensive understanding, the normative approach is complemented by a policy approach and law and economics analysis, aiming to examine the practical implications for the business sector and the national supply chain system.

[5] Stefano Inama, Pramila Crivelli, and Phan Manh Ha, "The Low Use by Firms of ASEAN Trade Preferences: Will RCEP Follow the Same Destiny? An Agenda for Rescue to Reform Rules of Origin in the Asian and Pacific Region," *Global Trade and Customs Journal* 17, no. Issue 6 (June 1, 2022): 248–51, https://doi.org/10.54648/GTCJ2022033.

Discussion

Legal Framework of International Trade and Indonesia's Trade Agreement Ratification Policies in Responding to the Tariff War between the United States and China.

AS duties to exert pressure on each other.[6] The higher tariff policies led to changes in the international trade structure, causing further tensions in global trade relations. As a member of the World Trade Organization (WTO) and various regional trade agreements, Indonesia must respond wisely to these policies to protect domestic economic stability while seeking opportunities to strengthen its bargaining position in the global market.

The tariff increase resulted in two main effects: first, a direct impact on goods flows and more expensive supplies due to increased import costs; and second, a shift in market preferences that might offer opportunities for Indonesia to strengthen trade relations with non-conflicted partner countries, such as ASEAN or RCEP members. Amid unstable global conditions, a law- and policy-based approach is essential to maintaining national economic sustainability. The ratification of various free trade agreements and regional frameworks provides Indonesia with room to navigate the adverse effects of the tariff war while pursuing new opportunities. [7]Therefore, understanding the dynamics of international trade law and Indonesia's capacity to utilize legal instruments is crucial in facing the increasingly complex geopolitical and global economic challenges.

The legal framework of international trade is based on several fundamental principles established by international organizations and bilateral or multilateral agreements. These principles aim to regulate trade relations between countries and

[6] Arendse Huld, "Trump Raises Tariffs on China to 145% – Overview and Trade Implications," China Briefing: https://www.china-briefing.com/news/trump-raises-tariffs-on-china-to-125-overview-and-trade-implications/, April 11, 2025.
[7] Sri Indah Haura'nisa, "Perlindungan Hukum Ciptakan Peluang Bagi UMKM Pada Perdagangan Bebas Dalam Menghadapi Resesi Global," *Majalah Hukum Nasional* 53, no. 2 (2023): 223–41. 10.33331/mhn.v53i2.243

create a fair and transparent system.[8] The World Trade Organization (WTO) plays a central role in governing international trade. The WTO was established to facilitate negotiations among member countries regarding tariffs and trade policies, and to provide dispute settlement mechanisms in case of disagreements. One of its primary functions is to set rules on tariffs and trade restrictions to reduce trade barriers and create a more fair, open, and transparent system.

Two fundamental principles underpinning the WTO system are the Most Favoured Nation (MFN) and National Treatment principles. The MFN principle, as stipulated in Article I paragraph (1) of GATT 1994, requires every member country to grant equal treatment to all WTO members in terms of tariffs and trade policies.[9] This means that any benefit, tariff concession, or special treatment granted to the products of one country must be extended immediately and unconditionally to similar products from all other WTO members. Meanwhile, the National Treatment principle, as outlined in Article III paragraphs (1) and (4) of GATT 1994, stipulates that imported products that have entered the domestic market must not be treated less favorably than like domestic products.[10] This applies to all forms of regulation, taxation, and other policies.

Furthermore, the WTO provides a dispute settlement mechanism through the Understanding on Rules and Procedures Governing the Settlement of Disputes (DSU). According to Article 3 of the DSU, the WTO dispute settlement system aims to clarify the rights and obligations of members and ensure a prompt, objective, and effective.[11] The process starts with consultations as regulated in Article 4, and if no

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[8] Muh. Syah Quddus, "Analisis Konvergensi Hukum Ekonomi Internasional: Tantangan Hukum Bagi Indonesia Dalam Mengharmonisasikan Kepentingan Brics Dan Asean," *Equality : Journal of Law and Justice* 2, no. 1 (2025): 62–88. https://doi.org/10.69836/equality-jlj.v2i1.264

[9] Yicheng Ru, "The US Uyghur Forced Labor Protection Act: The GATT 1994 Perspective," *Journal of World Trade* 58, no. Issue 5 (July 1, 2024): 761–79, https://doi.org/10.54648/TRAD2024038.

[10] Dajio Blessing Leif, "Environmental Related Disputes on Trade Issues in GATT and WTO from 1982-2002," *International Journal of Advanced Engineering Research and Science* 9, no. 2 (2022): 124–35, https://doi.org/10.22161/ijaers.92.17.

[11] Sumit Raj Poswal and Rakesh Kumar, "A Critique on Dispute Settlement under WTO Regime," *Special Education* 1, no. 43 (2022): 4539–46. http://sumc.lt/index.php/se/article/view/552

agreement is reached, may proceed to panel formation as stipulated in Article 6.[12] If a country is found violating WTO provisions and fails to comply with recommendations, Articles 21 and 22 of the DSU allow the injured party to obtain compensation or, as a last resort, implement legally sanctioned retaliatory measures under international trade law.[13]

One significant regional agreement is the ASEAN Free Trade Area (AFTA). Through AFTA, Indonesia and other ASEAN member states aim to reduce tariff barriers and promote economic integration in Southeast Asia. Its primary goal is to enhance regional competitiveness and expand market access among member countries. Under AFTA, tariffs on products traded between ASEAN countries have been largely reduced or eliminated for many commodities, directly boosting intra-ASEAN trade volume. In addition, Indonesia is part of a broader multilateral trade agreement known as the Regional Comprehensive Economic Partnership (RCEP). RCEP includes 15 countries in the Asia-Pacific region, including China, Japan, South Korea, Australia, and New Zealand. This agreement constitutes one of the world's largest trade blocs, accounting for nearly one-third of global GDP. Indonesia's participation in RCEP provides strategic opportunities to increase national exports, expand investment networks, and strengthen regional supply chains.[14] More importantly, in the context of global competition and the United State-China trade war, Indonesia's membership in this agreement serves as a crucial instrument to diversify trade partners and reinforce its national economy.

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[12] Toni Vukušić, Vito Bobek, and Borut Kodrič, "The Role of the World Trade Organization (WTO) and the Dispute Settlement System in International Multilateral Trade," *Проблемы Современной Аграрной Науки*, 2021, 204. https://elibrary.ru/item.asp?id=47196477

[13] Uroš Zdravković, "The Relationship between the DSU Articles 21(5) and 22 and the Issue of the Litigation Deadlocks in the Dispute Settlement System of the World Trade Organization," *Teme–Časopis Za Društvene Nauke* 46, no. 2 (September 2, 2022): 615–38, https://doi.org/10.22190/TEME210623032Z.

[14] Rossa Amanda Santika, "Akibat Hukum Yang Ditimbulkan Oleh Masa Depan Organisasi Perdagangan Regional," *Dharmasisya: Jurnal Program Magister Hukum FHUI* 1, no. 2 (2021): 38. https://scholarhub.ui.ac.id/dharmasisya/vol1/iss2/38/

Within the international trade framework, tariffs are a key policy instrument used by countries to regulate cross-border goods flows. Tariffs, or import duties, are levied on imported products to protect domestic industries from cheaper foreign competition.[15] However, tariff policies can also trigger frictions between countries, as seen in the tariff war between the United State and China. These tensions significantly affect global trade stability, including third countries like Indonesia that depend on both major markets.

Besides tariffs, countries often use non-tariff instruments such as quotas, domestic subsidies, technical regulations, and certification standards as forms of market protection or trade negotiation tools. During tariff wars, countries tend to implement retaliatory measures to maintain competitiveness and protect domestic businesses. In this situation, countries like Indonesia are required to have adaptive, flexible trade policies based on long-term national interest. [16]

As a WTO member, Indonesia is obliged to comply with fundamental international trade principles, including MFN and National Treatment.[17] However, membership also grants Indonesia access to international trade dispute resolution and opportunities to utilize multilateral trade negotiation mechanisms. Beyond the WTO, Indonesia maintains strong bilateral trade relations, such as the Indonesia–Japan Economic Partnership Agreement (IJEPA), Indonesia–Korea Comprehensive Economic Partnership Agreement (IK-CEPA) [18] and the Indonesia–Australia Comprehensive Economic Partnership Agreement (IA-CEPA). These agreements

[15] Montayana Meher et al., "Akibat Hukum Perjanjian Perdagangan Bebas Di Asean Indonesia-Malaysia," *Jurnal Ilmiah Penegakan Hukum* 11, no. 1 (June 30, 2024): 81–94, https://doi.org/10.31289/jiph.v11i1.11993.
[16] M. Muhlis Darmawan and Jauhary Arifin, "Perdagangan Kopi Indonesia-Malaysia: Kajian Pengaruh Kebijakan Tarif Dan Non-Tarif Dalam Meningkatkan Ekspor," *Journal of Economics and Business UBS* 12, no. 6 (2023): 3931–46. https://doi.org/10.52644/joeb.v12i6.1344
[17] Arie Widjaya Chandra, "Implikasi Dan Implementasi Prinsip Most Favoured Nation Terhadap Penanaman Modal di Indonesia," *Jurnal Darma Agung* 31, no. 2 (2023): 420–27. https://jurnal.darmaagung.ac.id/index.php/jurnaluda/article/view/3827/3548
[18] Salismi Zulfi Maulidita and Darmanto Darmanto, "Indonesia's Opportunities and Challenges in IK-CEPA: Bilateral Free Trade Agreement with South Korea," Insignia: Journal of International Relations 11, no. 1 (2024): 19–35. https://doi.org/10.20884/1.ins.2024.11.1.9926

provide Indonesia with opportunities to access new export markets and attract foreign direct investment.

In response to the US-China tariff war, Indonesia has taken proactive measures. The impact is widely felt, especially in Indonesia's export sector, which is indirectly affected by disruptions in global supply chains and decreased demand in key markets. To anticipate this, the Indonesian government has implemented export market diversification strategies. This diversification not only targets new trading partners but also deepens trade relations with ASEAN countries and RCEP members. In addition to export diversification, the government is promoting import substitution policies. The aim is to strengthen domestic production capacity and reduce dependence on imported raw materials and finished goods from countries involved in the trade conflict.[19] Through import substitution, Indonesia can stimulate local manufacturing growth, create jobs, and enhance national economic independence.

Moreover, the tariff war and global political dynamics require Indonesia to conduct comprehensive evaluations of existing trade policies. Facing external pressures, Indonesia must balance compliance with international obligations and protection of domestic economic sectors. This process is complex, requiring harmonization of national regulations with international standards, structural reforms, and institutional capacity strengthening.

Flexibility in implementing trade agreements is key for Indonesia to seize opportunities and mitigate risks from global economic policy fluctuations. [20] The government must carefully align national strategies with global geopolitical developments and strengthen Indonesia's bargaining position in international forums. Furthermore, synergy among central and regional governments, business

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[19] Haya Marshella Lifnatin Nada et al., "Determinan Kinerja Industri TPT Indonesia," *Jurnal Ekonomi Pembangunan* 12, no. 1 (April 26, 2023): 27–41, https://doi.org/10.23960/jep.v12i1.1483.
[20] Andi Krisnajati Putra et al., "Peran Pemerintah Meningkatkan Perdagangan Internasional Khususnya Ekspor," *Jurnal Ilmu Ekonomi* 2, no. 3 (December 30, 2023): 1–10, https://doi.org/10.59827/jie.v2i3.94.

actors, and research institutions needs enhancement so that trade agreements yield positive impacts for the national economy comprehensively.

Bilateral and multilateral trade agreements play a vital role in Indonesia's trade policy. Amid complex global dynamics such as the US-China tariff war, Indonesia is required to pursue adaptive strategies grounded in national interests. Through optimizing trade agreements, export diversification, and import substitution policies, Indonesia strives to build a resilient, competitive, and sustainable economy in the long term. As a WTO member and participant in various international trade agreements, Indonesia has a legal framework supporting the management of stable international trade. Although not directly involved in the US-China tariff war, Indonesia's ratification policies for trade agreements provide a legal basis to respond to trade tensions. [21] Through export market diversification and import substitution, Indonesia has adapted to challenges posed by the tariff war. Nonetheless, Indonesia must continuously strengthen its bargaining position in trade agreements, maintain domestic economic stability, and develop adaptive and sustainable trade policies.

Indonesia's Economic Response to the Changing Dynamics of Global Trade Due to the US-China Trade War

The trade war between the United State (US) and China, which began in 2018, represents one of the most significant global trade dynamics in the past decade. This trade tension involved reciprocal policies between the world's two largest economies and had widespread effects on other countries integrated into global value chains. Indonesia, as an open economy with close trade relations to both countries, experienced direct and indirect impacts from this conflict.

Indonesia's exports are highly dependent on commodities and intermediate goods, making them vulnerable to changes in partner countries' trade policies.

[21] Muhammad Nailul Fathul Wafiq, "Pembingkaian (Framing) Fox News Pada Kebijakan Tarif Donald Trump Dalam Perang Dagang Amerika Serikat–Tiongkok: Doctoral Dissertation" (Universitas Islam Indonesia, 2024). https://dspace.uii.ac.id/handle/123456789/49026

Approximately 74% of Indonesia's total exports consist of raw materials and intermediate goods.[22] When the imposed high tariffs on Chinese imports, demand for intermediate goods produced in Indonesia and included in China's export supply chain to the US also declined. Economic simulations indicate that a 25% tariff scenario could reduce Indonesia's exports to the US by USD 330 million and to China by USD 40 million, resulting in a total estimated decrease of USD 370 million.[23]

Purwono et al. (2022) noted that some of the negative impacts were partially offset by increased demand for Indonesian substitute products in the Chinese market, following retaliatory tariffs on US products. However, this positive effect was limited and insufficient to fully compensate for losses from reduced exports through global value chains.[24] Furthermore, demonstrated that Indonesian exports to the US increased in certain sectors such as textiles, footwear, and electronics, which successfully captured market shares previously held by Chinese products. These products became alternative choices for American consumers as they were not subject to additional tariffs.[25] This presented medium-term opportunities for Indonesia to improve competitiveness in non-traditional export markets through enhanced product quality and production efficiency. Exporting companies in Indonesia also diversified their markets to regions such H South Asia and the Middle East to reduce dependence on the two main markets, the US and China.[26] This

[22] Aries Dwi Adiguna, Bayu Krisnamurthi, and Erwidodo Erwidodo, "Analisis Daya Saing Ekspor Rumput Laut Olahan Indonesia," *Jurnal Agribisnis Indonesia* 10, no. 1 (June 16, 2022): 31–39, https://doi.org/10.29244/jai.2022.10.1.31-39.
[23] Nugroho Pratomo and Akbar Ramadhan, "Peluang Dan Ancaman Dari Perang Tarif AS–China," ValidNws:https://validnews.id/opini/peluang-dan-ancaman-dari-perang-tarif-asndashchina, April 30, 2025.
[24] Rudi Purwono et al., "The American–China Trade War and Spillover Effects on Value-Added Exports from Indonesia," *Sustainability* 14, no. 5 (March 7, 2022): 3093, https://doi.org/10.3390/su14053093.
[25] Andi Kurniawan and Khoirur Rizal Luthfi, "Impact of the US-China Trade War on Foreign Trade of Emerging Economies: Brazil, South Africa, and Indonesia," *Jurnal Ilmu Sosial Dan Ilmu Politik* 27, no. 2 (December 4, 2023): 157–75, https://doi.org/10.22146/jsp.69215.
[26] Carmela Andrena, "Strategi Indonesia Dalam Merespon Pelemahan Pengaruh AS Serikat Dan Peningkatan Pengaruh Tiongkok Dalam Bidang Ekonomi," *Global Insight Journal* 10, no. 1 (2025): 25–49. https://journal.uta45jakarta.ac.id/index.php/GIJ/article/view/8061

strategy was considered effective in maintaining national export performance during global uncertainty.

Indonesia's imports were also affected by the trade war, albeit more indirectly. The main concern was the potential influx of low-cost Chinese consumer goods into the domestic market due to slowed Chinese exports to the US These products risked disrupting domestic industries because of their highly competitive prices. Observed that global protectionist policies caused a decline in import values worldwide, including Indonesia. Nonetheless, Indonesia began diversifying import origins, especially raw materials for industries, toward ASEAN countries to reduce dependence on China.[27]

This shift in import patterns requires support from the domestic logistics sector. Relatively high logistics costs in Indonesia remain a barrier to optimizing import substitution. Therefore, the government promotes logistics infrastructure development such as ports, toll roads, and integrated industrial zones to improve distribution efficiency of raw materials to production centers. The US-China trade conflict opened opportunities for ASEAN countries to attract foreign investment exiting China. However, initially Indonesia could not fully capitalize on this opportunity. Jong (2022) highlighted that factors such as complex bureaucracy, regulatory uncertainty, and high logistics costs hindered investment realization in Indonesia.[28]

After 2020, Indonesia showed a positive trend with an increase in ASEAN's manufacturing FDI share, reaching 30% between 2018 and 2024.[29] Key sectors attracting investment included nickel processing, electric vehicle batteries, and

[27] Liliek Nur Sulistiyowati and Sandhika Vistaylen Pratama, "Indonesia's Macroeconomic Conditions during United States-China Trade War," *Jurnal Ekonomi Dan Bisnis* 26, no. 2 (December 22, 2023): 509–30, https://doi.org/10.24914/jeb.v26i2.6252.
[28] Hilda Yanuar Jong, "The Art of Trade War: Spurring Investments in Indonesia Amidst the US–China Trade War," *Global Journal of Emerging Market Economies* 14, no. 2 (May 26, 2022): 204–21, https://doi.org/10.1177/09749101211034110.
[29] Steven Raja Ingot and Kiki Verico, "Global Value Chains (GVC) Pada Komoditi Primer Dan Manufaktur: Studi ASEAN 6," *Cendekia Niaga* 5, no. 1 (2021): 44–59. https://jurnal.kemendag.go.id/JCN/article/view/577

automotive industries. This growth was driven by the implementation of the Undang-Undang Cipta Kerja (2020), which simplified licensing and provided fiscal incentives. The government also focused on developing green industrial zones, such as in North Kalimantan, to attract environmentally friendly investments.

The global trade conflict generally caused uncertainty affecting economic growth performance. Kementerian Keuangan RI estimated that the trade war reduced Indonesia's GDP growth by 0.3 to 0.5 percentage points from the original target. Declining exports and investor caution were major growth inhibitors.[30] However, mentioned a positive side to the trade war, namely increased real household income due to improved terms of trade. Indonesia obtained better export prices from new trading partners, raising export value per unit.[31]

The Ministry of Trade RI added that household consumption remained the main driver of Indonesia's economic growth during 2022–2024, supported by government fiscal stimulus policies and social assistance that maintained purchasing power. Impact on Indonesia's Trade Balance and Current Account Indonesia recorded its highest trade surplus in a decade during 2020–2023.[32] The Asian Development Bank (ADB), stated that rising prices of key export commodities such as coal, palm oil, and base metals were the main drivers of this surplus.[33] Trade surplus with the US remained high due to increased exports of light manufacturing, while the deficit with China shrank due to import diversification and domestic product substitution. Indonesia's current account also improved with increased export values and reduced services deficit. Foreign exchange reserves from strategic

[30] Kementerian Keuangan RI, "Laporan Tahunan Kinerja Ekonomi 2023," https://ppiddjkn.kemenkeu.go.id/, 2023.
[31] Anda Nugroho et al., "Does the US–China Trade War Increase Poverty in a Developing Country? A Dynamic General Equilibrium Analysis for Indonesia," *Economic Analysis and Policy* 71 (September 2021): 279–90, https://doi.org/10.1016/j.eap.2021.05.008.
[32] Kementerian Keuangan RI, "Ekonomi Indonesia 2024: Pertumbuhan Stabil Berkat Kebijakan Tepat," Fiskal: https://fiskal.kemenkeu.go.id/baca/2025/02/11/4527-ekonomi-indonesia-2024-pertumbuhan-stabil-berkat-kebijakan-tepat, February 11, 2025.
[33] Asian Development Bank (ADB), "Asian Development Outlook April 2025: Trade Uncertainty Challenges Asia's Resilience" (Manila, Philippines, April 1, 2025), https://doi.org/10.22617/FLS250135-3.

commodity exports helped strengthen Indonesia's external position and maintain rupiah exchange rate stability.[34]

The trade war did not cause inflation spikes in Indonesia. Instead, inflation fell from 3.6% in 2018 to 1.7% in 2020.[35] The main factors for this decline were falling global oil prices and weak domestic demand during the pandemic. Bank Indonesia took preventive steps by raising interest rates early in the conflict and later easing monetary policy to encourage growth as inflationary pressures eased.[36]

Bank Indonesia actively intervened in the foreign exchange market to maintain exchange rate stability and managed inflation expectations through transparent policy communication. Consequently, inflation remained within target throughout the trade war period.[37] Facing external pressures, Indonesia developed market diversification strategies and policy reforms, including signing new trade agreements such as the Regional Comprehensive Economic Partnership (RCEP) and Indonesia-Bangladesh Preferential Trade Agreement (PTA) to expand market access and reduce dependence on the United State and China.

Domestically, the government focused on improving the business climate through structural reforms, regulatory simplification, and digitalization of licensing. Additionally, fiscal and monetary coordination was strengthened to maintain national economic competitiveness. Recent Developments in 2025 Entering 2025, the US-China trade war dynamics remain uncertain, although diplomatic signals from both countries suggest a possible de-escalation. The new US administration has shown interest in reviewing some tariff policies from previous administrations,

[34] Dewi Mahrani Rangkuty and Muhammad Hidayat, "Does Foreign Debt Have an Impact on Indonesia's Foreign Exchange Reserves?," *Ekuilibrium : Jurnal Ilmiah Bidang Ilmu Ekonomi* 16, no. 1 (March 18, 2021): 85, https://doi.org/10.24269/ekuilibrium.v16i1.3365.

[35] Sulistiyowati and Pratama, "Indonesia's Macroeconomic Conditions during United States-China Trade War.", Jurnal Ekonomi dan Bisnis 26, no. 2 (2023) https://doi.org/10.24914/jeb.v26i2.6252

[36] Inayatul Bariah et al., "Strategi Kebijakan Moneter Indonesia Dalam Menghadapi Dampak Perang Dagang AS-China," *Jurnal Humaniora: Jurnal Ilmu Sosial, Ekonomi Dan Hukum* 4, no. 2 (2020): 155–67. http://jurnal.abulyatama.ac.id/index.php/humaniora/article/view/1023

[37] Hernawaty Hernawaty, "Analisa Hedging Syariah Untuk Utang Luar Negeri Indonesia (Mitigasi Risiko Nilai Tukar Berdasarkan Prinsip Syariah): Doctoral Dissertation" (UIN Sumatera Utara Medan, 2024). http://repository.uinsu.ac.id/25290/

particularly those directly affecting supply chains and domestic consumer goods prices. This offers some hope for stabilizing global trade conditions in the medium term.

For Indonesia, this situation provides room to strengthen its position in global value chains. Early 2025 data show increased Indonesian manufacturing exports to North America and Europe, alongside growing demand for non-Chinese substitute products. Commodities such as furniture, light electronics, and agro-industrial products underpin Indonesia's non-traditional export growth in the first quarter of 2025.

Meanwhile, in investment, the trend of relocating industries from China to Southeast Asia continues. Indonesia again showed strong performance in attracting strategic projects, especially in renewable energy and electric vehicles. The Indonesian government through the Ministry of Investment announced new investment commitments exceeding USD 12 billion in the first quarter of 2025, mostly from China, South Korea, and the United Arab Emirates. This indicates that US–China tensions remain a catalyst for shifts in global manufacturing structures.

On the domestic policy side, the government continues to strengthen investment competitiveness by revising derivative regulations from the Job Creation Law and enhancing digital licensing services. Additionally, Indonesia increased budgets for workforce skill enhancement programs to prepare human resources capable of meeting the demands of relocated industries. In the monetary sector, Bank Indonesia maintained accommodative interest rate policies while remaining vigilant against external pressures. The rupiah exchange rate remained relatively stable in early 2025 despite global market volatility caused by the Federal Reserve's interest rate policies and other geopolitical factors.

Amid this situation, new challenges arise related to increased protectionism in European countries and geopolitical tensions involving the Cina Laut Selatan. The Indonesian government responds by strengthening intra-ASEAN trade cooperation and accelerating ratification of new trade agreements such as the Indonesia-Kenya

PTA and ongoing discussions of an FTA with the European Free Trade Association (EFTA). Overall, 2025 marks an important moment for Indonesia to consolidate economic reform achievements and reinforce foreign trade strategies amid evolving global dynamics. Indonesia must continue to play an active role in international forums such as the G20 and ASEAN to promote a fair, open, and inclusive multilateral trading system.

The US–China trade war exerted significant pressure on the global economy, but Indonesia demonstrated relatively strong resilience. Various adaptive policies such as export diversification, investment reforms, and macroeconomic stabilization helped mitigate the conflict's negative impacts. In the long term, structural challenges such as logistics and human resources must be addressed to ensure Indonesia's competitiveness amid shifting geopolitical trade environments.

Economic Impact of the US–China Tariff War on Indonesian Business Actors, Especially Regarding Supply Chain Efficiency, Export-Import Performance, and Investment Interest

At the beginning of 2025, the re-imposition of high import tariffs by the President of the United State, Donald Trump, on Chinese products triggered accelerated shipments by several Indonesian exporters. This measure increased the volume of logistics activities at Tanjung Priok Port, causing severe congestion and operational disruptions. These conditions directly affected distribution efficiency, particularly for micro, small, and medium enterprises (MSMEs) in Jakarta's textile sector. Additional factors, such as truck operation restrictions during holiday seasons and a surge in export volume, further worsened the situation. Consequently, logistics costs rose, shipment waiting times increased, and production processes were delayed. Furthermore, since most textile raw materials still depend on imports from China rising import prices further pressured MSMEs' production cost structures.

Meanwhile, market imbalances caused by the surplus of Chinese exports redirected to Indonesia led to a flood of cheap products in the domestic market.[38] Local textile products could not compete on price, resulting in stock accumulation, reduced inventory efficiency, and disrupted cash flow for MSMEs. Exchange rate fluctuations exacerbated the condition. Rupiah depreciation made imported materials more expensive, including yarn and dyes. MSMEs faced margin pressures, while short-term substitution with local materials remained suboptimal due to limitations in upstream industries.

The United State as one of Indonesia's main trading partners for textile exports, imposed new import tariffs ranging from 32% to 37% on Indonesian textile products. This reduced the competitiveness of national products compared to those from countries with lower tariffs. Prior to the enforcement of this policy, several US buyers reportedly delayed or canceled orders, impacting export volumes in the textile sector, especially in Jakarta's garment industry.[39] Domestically, the situation was exacerbated by fiscal policies increasing the burden on business actors, especially the rise in Value Added Tax (VAT), which directly affected production costs. This made it increasingly difficult for MSMEs with limited capital to maintain profit margins. Export declines also raised the potential for workforce reductions, particularly in labor-intensive industries such as textiles.

On the import side, there was an increase in Chinese textile products entering the market due to market redirection following China's loss of access to the US market. These cheap products created unbalanced competition in the domestic market. Weak supervision in distribution channels also led to the circulation of illegal and counterfeit products in wholesale markets, especially in Jakarta, further

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[38] Irfandy H Simanungkalit et al., "Implikasi Pelaksanaan ASEAN–China Free Trade Area (ACFTA) Terhadap Perdagangan Internasional Indonesia," *PALAR (Pakuan Law Review)* 10, no. 4 (2024): 191–203. https://journal.unpak.ac.id/index.php/palar/issue/archive

[39] Apparel Resources, "Indonesia: US Tariffs May Accelerate Layoffs in Textile Industry. Business & Human Rights Resource Centre," Business & Human Rights Resource Centre: https://www.business-humanrights.org/en/latest-news/indonesia-us-tariffs-may-accelerate-layoffs-in-textile-industry/, April 15, 2025.

pressuring the competitiveness of local MSME products. Investment dynamics, both in terms of new capital investment and business expansion, were also influenced by global trade tensions, particularly as a consequence of the US tariff policy implemented under President Donald Trump in 2025. In the short term, increasing global uncertainty significantly lowered investor sentiment. The tariff announcement shook global capital markets: the S&P 500 index fell by up to 10.5% within the first few days of April 2025. The S&P 500, which measures the performance of 500 large publicly traded companies across various sectors such as technology, finance, healthcare, energy, and consumer goods, is considered the most accurate representation of overall US stock market conditions. Indonesia's Composite Stock Price Index (IHSG) also sharply declined in response to escalating global tensions.[40] Investors chose to hold back expansion or allocate funds to safe-haven instruments such as gold. Meanwhile, rising production costs and declining demand discouraged aggressive business expansion.

However, there were strategic opportunities from foreign investment relocation. High tariffs on Chinese products made global companies seek new production bases. Indonesia became one of the options, although competition with Vietnam and Thailand remained intense. Some investors have reviewed industrial areas around Jakarta to establish new facilities. The government responded with policy incentives, such as deregulation, relaxation of local content requirements, and tax cuts. The aim was to create a more competitive business climate attractive to investment. However, the effects of these reforms remain long-term and have yet to be fully felt by MSMEs.

Foreign investment interest in Indonesia faced pressure due to high levels of legal uncertainty perceived by prospective investors. Before committing capital, investors tend to consider fundamental aspects such as legal protection guarantees,

[40] Kurnia Ekaptiningrum, "FEB UGM Strengthens Steps to Support Circular Economy Through Waste Management," Universitas Gadjah Mada Faculty of Economics and Business : https://feb.ugm.ac.id/en/news/4492-feb-ugm-strengthens-steps-to-support-circular-economy-through-waste-management, April 16, 2024.

simplicity and consistency in bureaucracy, and availability of supporting infrastructure. Unfortunately, Indonesia still faces various obstacles, including complex licensing systems, taxation and customs issues, as well as challenges in labor systems and infrastructure. These problems create barriers to establishing a comfortable and competitive investment climate. Without strong law enforcement and regulatory harmonization between central and regional governments, the risk of investor withdrawal to other countries will increase.[41]

This condition indicates that to regain foreign investor interest, Indonesia needs to strengthen the foundation of investment law and regulations to be more certain and efficient. This becomes increasingly important considering the significant contribution foreign direct investment (FDI) can make to national economic development. FDI plays a significant role in advancing recipient countries by improving infrastructure quality, enhancing technical skills, developing entrepreneurship, creating jobs, and contributing to state revenue and foreign exchange reserves. FDI also acts as a catalyst for sustainable economic growth due to its long-term nature and relative resilience to economic fluctuations. Therefore, FDI inflows are highly expected to strengthen the long-term investment climate in developing countries like Indonesia. FDI is understood as an investment in assets or goods aimed at generating future income.[42]

In the short term, MSMEs in Jakarta face a series of multidimensional disruptions. Logistic disruptions due to distribution congestion, rising prices of imported raw materials, and declining export volumes simultaneously pressure production capacity and operational stability. Moreover, the entry of cheaper

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[41] Eldbert Christanto Anaya Marbun, "Mengkaji Kepastian Hukum Dan Perlindungan Hukum Terhadap Investasi Di Indonesia Melalui Lembaga Perizinan Online Single Submission (OSS)," *Dharmasisya: Jurnal Program Magister Hukum* 2, no. 3 (2022): 1243–56. https://scholarhub.ui.ac.id/dharmasisya/vol1/iss4/8/

[42] Desmintari Desmintari and Lina Aryani, "Pengaruh Tata Kelola Pemerintahan, Indeks Pembangunan Manusia Dan Total Productivity Terhadap Investasi Asing Di Indonesia," *Jurnal Aplikasi Bisnis Dan Manajemen* 8, no. 2 (May 31, 2022): 601–10, https://doi.org/10.17358/jabm.8.2.601.

imported products worsens the intensity of competition in the domestic market, especially in the textile and garment sectors.

In response, the government implemented safeguard tariffs and strengthened trade regulations to limit the inflow of imported products. However, the effectiveness of these policies heavily depends on technical implementation, including customs supervision, inter-agency coordination, and consistent regulatory enforcement. In the long term, if trade tensions persist, Indonesia needs to shift export focus to non-traditional markets and encourage industrial transformation. MSMEs need to improve efficiency, product quality, and digital adoption to survive in the global market. Industrial relocation from China could also present opportunities if Indonesia can guarantee regulatory stability, adequate infrastructure, and skilled labor.

The US–China tariff war in 2025 brought systemic impacts on Indonesian business actors, especially MSMEs in the textile sector. Regarding supply chain efficiency, sudden export surges and logistical restrictions caused port congestion and rising distribution costs. Dependence on imported raw materials from further in China creased production cost pressures due to Rupiah depreciation. Additionally, the influx of cheap Chinese products distorted the domestic market and weakened local competitiveness. In terms of export-import performance, high US tariffs on Indonesian textile products reduced competitiveness and caused export declines, especially to key markets such as the US. VAT hikes and rising cheap textile imports worsened pressures on MSMEs, with potential job losses as a subsequent risk.

Regarding investment interest, increasing global uncertainty and falling international stock markets after the tariff announcement led investors to hold back expansion. Although Indonesia gained strategic opportunities from global industrial relocation, structural obstacles such as legal uncertainty, complex bureaucracy, and inadequate infrastructure reduced Indonesia's appeal compared to regional competitors like Vietnam and Thailand.

For the long term, Indonesia must undertake industrial transformation and export market diversification to reduce dependency on major countries. Investment policy reforms, improved logistics quality, and strengthening MSME competitiveness through digital adoption and productivity enhancement are essential prerequisites so that Indonesia can become not only a market for redirected exports but also a strategic production hub amid global geopolitical disruptions.

Conclusion

The trade war between the United State and China has significantly disrupted the global value chain, indirectly impacting Indonesia's export performance, especially in intermediate goods that are closely linked to the manufacturing hubs of both countries. The Indonesian economy, characterized by its dependence on exports of raw and semi-finished materials, is particularly vulnerable to these disruptions. Micro, small, and medium-sized enterprises (MSMEs), especially in the textile sector, are among the most affected, facing higher production costs, supply chain inefficiencies, and increased competition from cheaper Chinese imports redirected to the domestic market. Furthermore, although Indonesia stands to benefit from the relocation of global manufacturing due to rising tariffs on Chinese goods, its potential has not been fully realized due to persistent internal constraints such as bureaucratic inefficiencies, legal uncertainty, and inadequate infrastructure. In addition, the ratification and implementation of various trade agreements—including AFTA, RCEP, and bilateral agreements—have not been optimally utilized to mitigate Indonesia's dependency on major economies. Nevertheless, the Indonesian government has initiated several adaptive policies, including export market diversification, import substitution, and regulatory reforms. These efforts must be sustained and integrated across sectors to enhance national economic resilience and ensure Indonesia's competitiveness in a rapidly changing global geopolitical and economic landscape.

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