

The USA-Indonesia trade deal: Checkmate for Beijing in Southeast Asia?

As current events have demonstrated how critical particular maritime chokepoints can be to the world's economy, all eyes have been firmly set on the Strait of Hormuz. Its outstanding significance to maritime trade and global supply chains is matched by only one narrow waterway several thousand kilometres to the east: the Strait of Malacca. Wedged in between the Malay peninsula and the Island of Sumatra, the strait serves as China's and the rest of East Asia's lifeline for trade with India, the Middle East, Africa and Europe.

On the strait's southern shores sits Indonesia, now a nation of over 280 million inhabitants of various ethnic origins and projected to become the world's fourth largest economy by the middle of this century. [1] Even though Singapore and Malaysia are also neighbouring the Strait of Malacca, Indonesia is by far the most pivotal country out of the three in terms of securing reliable trade routes since all viable alternative shipping lanes in the region cross entirely through Indonesian waters.

Jakarta is thus a valued partner for any power looking to exert influence in the region, both in terms of protecting trade routes as well as security policy. Reluctant to be pulled into a distinct camp of one superpower vying for global dominance, Indonesia has been pursuing a non-alignment policy ever since during the days of the cold war under the slogans "free but active" and "thousand friends, zero enemies". [2] Yet putting non-alignment into practice was undeniably easier to achieve with two far-away superpowers. More recently, the rise of China and the ensuing Sino-American antagonism put growing pressure on Southeast Asian countries to pick sides between Washington and Beijing. Within the ASEAN (Association of Southeast Asian Nations) group, Indonesia has long played the role of the balancing act between the various foreign interests interfering in the region. [3]

At the same time China is steadily expanding into the South China Sea where the PRC wants to reign supreme despite Indonesia's foothold there called the Natuna Regency. [4] The Archipelago sits north of Indonesia's main islands of Sumatra and Kalimantan and thus forms a bulge of Indonesia's Exclusive Economic Zone reaching deep into the South China Sea. In the face of Chinese encroachment such as repeated intrusions of Chinese Coast Guard vessels into Indonesian waters, Jakarta remains committed to upholding its national sovereignty and international law. [5]

Despite lingering political tension, China's and Indonesia's economies became growingly intertwined in the past decades. Some Chinese companies even used Indonesia as a launchpad to bypass American regulations and have Chinese products entering American markets without having to bother with US restrictions imposed especially on China. [6] Apart from the offshoring of Chinese companies' operations to Indonesia, another concern of American policymakers is China's perceived stranglehold on critical minerals within Indonesia. [7]

This represents one of the key issues addressed by the US-Indonesia Reciprocal Trade Deal signed on February 19th this year. Apart from eliminating or significantly lowering tariffs for a plethora of goods within bilateral trade, [8] Jakarta has agreed to introduce restrictions on 'excess production' by foreign-owned mineral processing facilities. Production will have to adhere to Indonesian mining quotas affecting minerals such as nickel, bauxite, copper, cobalt and manganese. [9] Indonesia also promised to take action against companies that are being controlled by foreign countries operating within its jurisdiction when their business goes against American economic interests. Moreover, Jakarta will facilitate U.S. investment in critical minerals and energy resources as well as cooperate with U.S. companies on expediting development of its rare-earth sector. The deal's provisions cater heavily to the USA's economic agenda, especially curbing China's ability to anchor supply chains in Indonesia, while Jakarta's diversification in key sectors is being compromised. [10]

In the wake of the current economic deal between the US and Indonesia, there is also rapprochement taking place between Jakarta and Washington security-wise. The meeting of the

respective secretaries of defense Pete Hegseth of the US and Sjafrie Sjamsoeddin of Indonesia in Washington D.C. on March 13th established a “major defence cooperation partnership” between the two countries. [11] Even though Jakarta reaffirmed its role as a mediator in the region between Chinese and American interests, an agreement for “blanket aerial access” of Indonesian territory is in discussion. This would enable US aircraft as well as military vessels to cross Indonesian territory and waters without bureaucratic delay. [12]

Any situation in which Jakarta merely leans towards the US camp will probably raise serious concerns in Beijing. To avoid another situation resembling the severance of key trade links following the blockade of the Strait of Hormuz, Chinese policymakers might increasingly focus on Southeast Asia in the coming years, which could elevate the region towards becoming a key battleground of the Sino-American antagonism. Washington being able to move its military assets through Indonesian territory more rapidly could moreover seriously compromise the prospects of a PRC attack against Taiwan.

For Indonesia itself, the trade deal could on the one hand bring fresh business opportunities for key sectors. On the other hand, increased competition from abroad could cause major problems for the country’s vast number of small and medium enterprises. Therefore already existing regional disparities could be aggravated. [13] Indonesia is a multiethnic state and has long been plagued by internal unrest. [14] Economically disadvantaged regions are often those populated by disaffected minorities. Putting the country’s internal cohesion at risk will certainly not align with Indonesian policymakers’ grand strategy. It remains to be seen whether the current rapprochement between Indonesia and the US will translate into a peaceful and prosperous future for the Indonesian Archipelago and on a wider scale Southeast Asia as a whole. A lack of stability in this region could have cataclysmic repercussions for the global economy as well as for the everyday life of Indonesia’s vast population.

[1] Joshua Kurlantzick (February 2018) Keeping the US-Indonesia Relationship Moving Forward, *Council on Foreign Relations*, Council Special Report February 2018, page 14

[2] See Fn. 1, page 7

[3] Rafyoga Jehan Pratsama Irsadanar (2023) Indonesia’s South China Sea Policy under Joko Widodo: Building Credibility in Indo-Pacific Geostrategic Circuit, *Jurnal Hubungan Internasional* Vol. 12 No. 1 (2023)

[4] See Fn. 1, page 9

[5] Alfin Febrian Basundoro (10 January 2025) Indonesia-China Agreement and Jakarta’s Inconsistence on the South China Sea Issue, *RSIS Commentary No. 003 10 January 2025*

[6] Ebehi Iyoha, Edmund Malesky, Jaya Wen, Sung-Ju Wu (April 2025) Exports in Disguise?: Trade Rerouting during the US-China Trade War, *Centre for Inclusive Trade Policy*, Working Paper No. 022

[7] Christina Lu (August 8 2024) Can Jakarta Break Free From China’s Grip? *Foreign Policy* (Accessed 13 April 2026)
<https://foreignpolicy.com/2024/08/08/indonesia-nickel-china-us-critical-mineral-inflation-reduction-act/>

[8] The White House (19 February 2026) Factsheet: Trump Administration Finalizes Trade Deal With Indonesia (Accessed 15 April 2026)
https://www.whitehouse.gov/fact-sheets/2026/02/fact-sheet-trump-administration-finalizes-trade-deal-with-indonesia/?utm_source=chatgpt.com

[9] Divya Kariza (February 27 2026) Indonesian industry players warn against disrupting nickel ecosystem under US trade pact, *The Jakarta Post* (Accessed 14 April 2026)

<https://asianews.network/indonesian-industry-players-warn-against-disrupting-nickel-ecosystem-under-us-trade-pact/>

[10] Larry Luckey (2 March 2026) Inside the US-Indonesia Reciprocal Trade Agreement: A Quiet Reordering of Economic Relations, *The Diplomat* (Accessed 14 April 2026)
<https://thediplomat.com/2026/03/inside-the-u-s-indonesia-reciprocal-trade-agreement-a-quiet-reordering-of-economic-relations/>

[11] Hegseth, Indonesian Counterpart announce Defense Partnership (April 14 2026) U.S. Embassy & Consulates in Indonesia (Accessed 15 April 2026)
<https://id.usembassy.gov/hegseth-indonesian-counterpart-announce-defense-partnership/>

[12] Reuters (15 April 2026) Indonesia Considering US overflight proposal, foreign ministry says (Accessed 15 April 2026)
<https://www.reuters.com/world/asia-pacific/indonesia-says-has-no-policy-granting-unrestricted-air-space-access-foreign-party-2026-04-15/>

[13] Maria Rina Santoso (1 August 2025) Indonesia's Trade Deal with US: A Balancing Act Amid Global Tensions, *Broadsheet Asia* (Accessed 18 April 2026)
<https://broadsheet.asia/2025/08/01/indonesias-trade-deal-with-us-a-balancing-act-amid-global-tensions/>

[14] Paul Antonopoulos, Drew Cottle (2019) Forgotten Genocide in Indonesia: Mass Violence, Resource Exploitation and Struggle for Independence in West Papua, *Genocide and Mass Violence in Asia*, page 160-188