

The Domino Effect of Global Trade Tensions: Trump's Import Tariffs and Their Impact on Indonesia's Stock Market

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Abstract

This study aims to analyze the impact of the United States import tariff policy announced by President Donald Trump on August 7, 2025, on the movement of the Indonesia Composite Stock Index (IHSG) on the Indonesia Stock Exchange. The study uses an event study approach by observing IHSG closing price data for 30 days before and 30 days after the policy announcement. Statistical analysis with paired sample t-tests is used to test differences in mean return. The results show a significant increase in the IHSG after the announcement of the tariff, indicating a positive response from the Indonesian capital market despite rising global uncertainty. These findings reinforce the relevance of the Efficient Market Hypothesis in the context of emerging markets and highlight the importance of reading global policy signals contextually, as well as the role of domestic sentiment in determining market reactions. This study also indicates the need for adaptive risk management, information transparency, and strengthening of market communication by regulators so that the capital market remains attractive amid global dynamics. Practical implications and opportunities for further research are discussed as contributions for regulators, investors, and academics to understand emerging market responses to protectionist policies by developed countries.

Keywords: IHSG; tariff_policy; protectionism; emerging_market_investors

1. Introduction

The integration of global markets over the past decade has markedly increased the sensitivity of emerging economies to policy changes in developed countries. This phenomenon not only reflects the interconnectedness among nations within the international financial system, but also demonstrates how policy dynamics in one country can trigger a domino effect across different parts of the world. The Indonesian capital market, as reflected in the Indonesia Composite Stock Index (IHSG), often exhibits sharp responses to external shocks, particularly those originating from U.S. economic policy[1]. This indicates that the IHSG does not stand as an isolated entity, but rather as part of a global ecosystem vulnerable to shifts in policy direction by world powers.

A concrete example of such a phenomenon occurred on August 7, 2025, when President Donald Trump implemented a new import tariff policy targeting various trading partners amid escalating global trade wars. This policy directly induced volatility and uncertainty in international financial markets, with significant impacts felt on Indonesia's IHSG [2], [3]. The spike in uncertainty not only affected stock prices directly, but also created psychological pressure amongst market participants, especially domestic investors who tend to be more reactive to disruptive global news.

Numerous studies have explored the impact of U.S. foreign trade policy on IHSG and the Indonesian capital market. Most prior research employs the event study approach to measure abnormal returns and IHSG volatility following major trade policy announcements[4], [5]. This approach allows researchers to isolate the specific effects of an event on market performance,

thereby identifying consistent reaction patterns. Their results emphasize that market reactions are strongly influenced by investor sentiment and international capital flows[6], [7]. Such sentiment is frequently shaped by perceptions regarding global economic stability, policy credibility, and expectations for interest rate and inflation trends

Nevertheless, there remains a gap in the literature concerning the interaction between global policy uncertainty, the psychological response of domestic investors, and the timing of tariff announcements [1], [3]. The complexity of these relationships necessitates a more comprehensive and multidimensional approach, as market responses are not merely mechanistic but also influenced by behavioral factors that are difficult to quantify. Not all previous studies have adopted contemporary analytical frameworks to understand the combined effects of external shocks and market efficiency, nor the inherent weaknesses of the Indonesian capital market as an emerging market[8], [9]. Limitations in information infrastructure, market depth, and the dominance of retail investors are among the factors that amplify the impact of global uncertainty on the IHSG.

To fill this research gap, the present study adopts several core financial theories: the Efficient Market Hypothesis (EMH) [8], Signaling Theory [10], Event Study models [5] and the Theory of Economic Policy Uncertainty [7]. These theoretical perspectives are integrated not only to examine patterns of abnormal returns and volatility in response to Trump's tariff policy, but also to assess the transmission mechanism of global trade policy effects on domestic capital market behavior[1], [9]. By combining theoretical and empirical perspectives, this framework is expected to provide new insights into the rationale and mechanisms underlying IHSG reactions to global policies, while also contributing practical understanding for investors, policymakers, and academics[2], [5] [2]. Moreover, the findings are intended to serve as a foundation for the development of more adaptive risk mitigation strategies and to strengthen the resilience of Indonesia's capital market in facing increasingly complex and unpredictable global economic dynamics.

The primary objectives of this research are (1) to empirically analyze the impact of the United States import policy announced by President Donald Trump on August 7, 2025, on IHSG movements; (2) to map changes in abnormal returns and volatility in IHSG before and after the policy announcement using an event study approach; and (3) to identify the key external and domestic factors influencing the magnitude of market response to major international trade policy. Employing an event study approach with high-frequency IHSG performance data around the announcement date, the study seeks to enrich the literature on the spillover effects of global policies in emerging markets, as well as to inform risk management practices for market participants.

2. Methodology

This research employs a quantitative approach using the event study method to examine the impact of President Donald Trump's import tariff policy, announced on August 7, 2025, on the movement of the Indonesia Composite Stock Index (IHSG). The event study is an empirical method designed to measure the capital market's reaction to a specific event, in this case, the formal announcement of the tariff policy[11] [12].

The data source utilized is secondary data from the Indonesian capital market obtained from the Indonesia Stock Exchange (IDX). The data consists of daily IHSG closing prices. The observation period comprises 30 days before and 30 days after the tariff policy announcement, specifically from July 8, 2025, to September 7, 2025..

To test the impact of the policy on the IHSG, the researchers apply a paired sample t-test. This test is selected to compare the mean stock prices (or returns) before and after the announcement in order to determine whether there is a statistically significant difference caused by the policy [13].

The paired sample t-test is an appropriate statistical tool for testing hypotheses regarding the effect of a treatment or event on paired data—in this case, IHSG returns over two different periods related to the analyzed event. This method enables the empirical assessment of policy effectiveness and market reaction while controlling for other variables that may influence market movements during the observation window[13] [14].

The research analysis begins with the calculation of daily IHSG returns throughout the observed period. A paired sample t-test is then conducted to compare the mean returns before and after the date of Trump's tariff policy announcement. The interpretation of the test results provides insight into the direct impact of the policy on Indonesia's stock market, as well as the levels of volatility and abnormal returns arising from the external shock [11], [12], [15].

The quantitative approach adopted in this study is chosen for its ability to yield objective and measurable results, which align with the main goals of the research: to identify and explain the specific impact of tariff policy on the IHSG. By integrating statistical rigor and a robust theoretical framework, this methodology is expected to produce findings that are valid, reliable, and beneficial for the development of policy and investment strategies in the future.

3. Result and Discussion

This study was initiated on the backdrop of global turbulence when President Donald Trump announced an import tariff policy on August 7, 2025, which instigated notable volatility within international financial markets [15]. The policy not only affected major trading partners of the United States but also generated widespread uncertainty across various global capital markets. Within this context, Indonesia—as an emerging market increasingly interconnected with the global financial system—inevitably experienced the impact.

The IHSG was selected as the key indicator due to its sensitivity to policy changes in developed countries and its frequent use as a barometer for both foreign and domestic investor confidence. As the primary index reflecting the aggregated performance of Indonesia's stock market, the IHSG is characterized by its responsiveness to external information, particularly that which originates from major global economic centers such as the United States. By adopting the framework of the Efficient Market Hypothesis (EMH) [8], [10], [16], [7]. this study examines the extent to which global trade policy influences Indonesia's capital market. EMH posits that an efficient market will promptly internalize new information into stock prices, so that public economic policy changes are immediately reflected in index movements. In the context of the import tariff policy announced by President Trump, the IHSG represents an ideal object for testing the validity of this theory within an emerging market environment. This

research also aims to investigate whether Indonesia's capital market exhibits characteristics of informational efficiency in the face of sudden and far-reaching external shocks

To answer this question, daily IHSG closing prices were observed for the 30 days before and 30 days after the tariff announcement, following the event study approach [14], [17]. This window was chosen based on the consideration that this period is sufficiently representative to capture both the initial market reaction and market adjustment to the new policy information. As an analytical method, the event study enables researchers to isolate the specific impact of a given event on stock returns under the assumption that other factors remain relatively constant during the observation period. The paired sample t-test analysis was employed to identify significant changes in the average IHSG return between the two periods. The purpose of this test is to determine whether there is a statistically meaningful difference in returns before and after the policy announcement, thereby providing evidence of an actual market impact resulting from the event.

The Kolmogorov-Smirnov normality test revealed that IHSG returns were not fully normally distributed in the pre-announcement period ($p = 0.021$), whereas the post-announcement period was relatively normal ($p = 0.078$); however, the t-test remained robust. This finding indicates that, although the data distribution does not entirely satisfy the normality assumption, the analysis can still be validly performed because the t-test is resilient to assumption violations under certain conditions. Descriptive statistics showed that the mean IHSG value increased from 7.22 to 7.86 after the announcement. This rise suggests a shift in investor perceptions regarding the prospects of the Indonesian market following the United States' protectionist policy announcement. The correlation between the pre- and post-event periods was weak and not statistically significant (-0.158 ; $p = 0.403$), confirming that the market reaction after the event was not strongly related to prior conditions. This implies that IHSG movements after the announcement were more influenced by new information than by previously established historical trends.

The results of the paired sample t-test indicated a significant difference ($t = -10.687$; $p < 0.001$), wherein the IHSG increased following the policy announcement. This suggests a positive shift in investor expectations after the initial shock. Such a positive response can be interpreted as a form of market adaptation to global uncertainty, wherein investors perceive Indonesia as offering opportunities to attract capital flows as an alternative to markets directly impacted by tariff policies. In this analysis, three principal theoretical perspectives are used as the main references in interpreting the findings.

In this analysis, three principal theoretical perspectives provide the foundation for interpreting the findings. First, the Efficient Market Hypothesis posits that the IHSG responds swiftly to changes in economic policy, whereby stock prices rapidly reflect newly released public information. This view is highly relevant to the observed increase in the Indonesian capital market following the United States import tariff announcement, consistent with Fama's assertions [8] and the examination of market efficiency in developing countries [18]. The theory offers a framework for understanding how external, publicly available information can directly influence stock prices, even in markets that are Second, from the perspective of signaling theory, investor behavior in response to U.S. protectionist policies—such as those enforced by Trump—can be interpreted as reactions to signals conveyed by the policy. Protectionist signals

may redirect investment flows to emerging markets, including Indonesia, as discussed by Spence [10] and more recent financial literature by Sion [16]. In this context, tariff policies are not merely economic actions, but also strategic signals that reshape global investors' perceptions of risks and opportunities across regions. Indonesia, as a relatively stable emerging market, stands to benefit from shifts in investment flows prompted by such signals. Third, the aspect of economic policy uncertainty highlights the role of short-term expectations in the domestic market in sustaining the IHSG, even amid global uncertainty. When external risks are perceived as manageable by domestic market players, they tend to remain optimistic, allowing the market to persist or even strengthen after the announcement of potentially disruptive external policies. This theory underscores the significance of investor perception and psychology in determining market direction, especially in conditions where available information is ambiguous or uncertain. In the Indonesian context, domestic investor optimism can act as a buffer against external pressures, enabling the IHSG to maintain positive performance..

These three theoretical frameworks are highly relevant to the main objectives of this study, namely: (1) to analyze the impact of United States import policy on the IHSG; (2) to map abnormal returns and market volatility following the policy event; and (3) to empirically and theoretically identify the key external and domestic factors driving market movements. By integrating a quantitative approach with a comprehensive conceptual framework, this research is expected to make a significant contribution to the development of financial literature in Indonesia as well as serve as a reference for policymakers and market participants in responding to global economic dynamics more adaptively and evidence-based.

3.2 Discussion

The findings of this study reveal a significant difference in the average IHSG following the tariff policy announcement, with the market actually strengthening. This is an intriguing outcome, as it demonstrates that the Indonesian capital market does not always react negatively to protectionist policies from developed countries, particularly the United States. Theoretically, this result aligns with the Efficient Market Hypothesis (EMH), indicating that the market responds quickly and efficiently to new information [8], [18]. Within the EMH framework, a positive market reaction suggests that market participants have interpreted the policy information as an opportunity rather than a threat and have promptly internalized this information into stock prices.

However, contrary to some previous studies that reported selling pressure or increased volatility following U.S. protectionist policy announcements [15], this research found a strengthening of the IHSG. This difference can be explained through a contextual approach that considers the timing of the announcement, domestic macroeconomic conditions, and investor perceptions regarding the stability of Indonesia's market. In some cases, protectionist policies may spark global concern and capital outflows from developed markets, which subsequently flow into emerging markets as a form of risk diversification. Therefore, these findings underline the importance of considering the timing of announcements, domestic investor expectations, and the dynamics of global capital flows [17].

Support for Signaling Theory [10], [16] is also evident, as the IHSG's response shows that investors identify new opportunities in emerging markets when the U.S. adopts a more protectionist stance. From a signaling theory perspective, restrictive tariff policies can be

interpreted as signals that the U.S. domestic market is facing pressure, prompting global investors to seek more promising alternatives. Indonesia, with its relatively stable economic fundamentals and positive growth prospects, has emerged as an attractive destination for investors wishing to avoid protectionist risks. The positive reaction of the IHSG reflects an interpretation of these signals as strategic opportunities rather than threats..

The limitations of market efficiency in Indonesia are also evident, given that psychological factors and domestic sentiment still play a dominant role [14]. Although the EMH asserts that markets respond rationally to new information, reality in emerging markets shows that behavioral factors—such as excessive optimism, herd behavior, and information bias—continue to influence investment decisions. This indicates that market efficiency in Indonesia is partial and situational, depending on the type of information and the collective perceptions of investors. Consequently, analysis of the Indonesian market requires consideration of behavioral finance aspects as a complement to the classical approach.

The theoretical implications of this study reinforce the EMH within the context of emerging markets, although further research is needed using different time frames or other global events [18]. Future studies could explore market responses to various types of external policies, such as changes in interest rates, trade agreements, or geopolitical crises, to examine the consistency of informational efficiency in Indonesia's capital market. Additionally, longitudinal or comparative approaches across emerging markets could offer broader insights into the characteristics of market responses to global policy changes.

For market practitioners, these results highlight the importance of interpreting global policy signals contextually. Investors need to develop analytical capabilities not only based on historical data, but also by considering policy direction, political rhetoric, and the long-term impact on capital flows. The positive response of the IHSG in this study demonstrates that investment opportunities can arise even in seemingly challenging situations, provided that available information is interpreted accurately and strategically.

For regulators and policymakers, there is a need for communication strategies and regulatory strengthening to maintain investor confidence during global shocks [15]. Policy transparency, macroeconomic stability, and coordination among financial institutions are essential for building market resilience. Additionally, investor education and the development of market information systems can help foster a more rational and efficient investment environment. In the long run, these efforts will support the vision of Indonesia Emas 2045 by reinforcing the role of the capital market as a pillar of inclusive and globally competitive national economic development..

4. Conclusion

This study aims to analyze the impact of the United States import tariff policy announced by President Donald Trump on August 7, 2025, on the movement of the Indonesia Composite Stock Index (IHSG). The policy was part of a broader protectionist strategy intended to shield the United States' domestic industries from global competition. However, such measures often generate uncertainty in international financial markets, especially for emerging economies that are closely interconnected with global trade and investment flows. In this context, Indonesia—

as an actively engaged emerging market with increasingly integrated capital markets—represents a relevant subject for analysis.

By applying an event study approach using data from 30 days before and after the announcement, and employing a paired sample t-test, empirical evidence was found indicating a significant difference between the average IHSG before and after the event [17] [7]. This approach enables the identification of changes in abnormal returns that occur as a direct response to the policy announcement, under the assumption that other factors remain relatively constant during the observation window. The analysis results show that the IHSG experienced a significant increase after the announcement, illustrating that the Indonesian capital market is capable of responding rapidly to external shocks; however, such responses are not always negative as commonly predicted [8], [10], [18].

Theoretically, this study enhances the relevance of the Efficient Market Hypothesis by reaffirming that markets react swiftly to new information, although the direction of the response may be shaped by domestic context. Within the EMH framework, an efficient market will promptly internalize available information into asset prices, so that public policy changes are instantly reflected in index movements. However, the direction of market reactions is not always uniform, as it is influenced by investors' interpretations of the policy's impact, domestic macroeconomic conditions, and expectations regarding the stability and growth prospects of the national economy

In practical terms, this study emphasizes the importance for investors and portfolio managers to interpret global policy signals contextually, rather than simply following historical patterns [10], [16]. In an increasingly complex and dynamic investment landscape, the ability to accurately interpret external policy is key to making strategic decisions. Investors must consider not only the substance of a policy, but also the timing of its announcement, accompanying political rhetoric, and broader global market responses. Thus, an adaptive and context-based approach can help investors identify opportunities amid uncertainty. From a policy perspective, these findings underscore the need for regulators and government to maintain domestic stability and strengthen market communications to keep the capital market attractive during global uncertainty. Macroeconomic stability, policy transparency, and coordination between financial institutions are crucial elements in building investor confidence. Furthermore, effective communication strategies can help mitigate market panic and reinforce positive perceptions of national economic prospects. In the long term, these efforts will support the development of a more resilient and competitive capital market, in line with Indonesia's economic development vision..

Academically, this research provides a new perspective in the literature on capital markets in emerging economies, showing that not all protectionist policies from the United States have a negative impact on the IHSG. On the contrary, with stable domestic conditions and positive investor expectations, the market can respond with strengthening [18]. This finding challenges the general assumption that protectionist policies always exert pressure on emerging markets, demonstrating that market responses are largely dependent on investors' perceptions of risk and opportunity. The discoveries support behavioral finance literature in emerging markets, emphasizing that psychological biases and herding can significantly influence market dynamics

during events. Factors such as collective optimism, reliance on public information, and the tendency to follow dominant trends are crucial determinants in shaping index movements.

Finally, this research opens avenues for future studies—such as extending the observation period, comparing with other global trade policies, or integrating behavioral finance analyses to understand the psychological factors influencing investor responses to global events [19] [20]. Subsequent research could also consider comparative approaches across emerging markets to identify patterns of similar or divergent responses to protectionist policies. Moreover, integrating quantitative and qualitative approaches can provide a more holistic understanding of the dynamics of capital markets in the face of global policy shifts. Thus, the findings of this study not only explain the specific phenomenon of Trump’s import tariff policy, but also enrich understanding of the dynamic interaction between global policy and capital markets in emerging economies and contribute to the development of more adaptive and evidence-based policy and investment strategies.

5. Reference

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