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Market Reaction to the Announcement Tariff and Import Policy: An Event Study Analysis

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A B S T R A C T

The purpose of this study is to empirically measure and analyze the Indonesian capital market's reaction to President Trump's announcement of import tariffs. The analysis focuses on changes in average stock prices and trading volume during the period from March 7 to March 14, 2025. This research is a quantitative event study focused on financial markets. The event study method is an empirical research approach used to test market efficiency and to measure how quickly and accurately the Indonesian capital market absorbs and reflects new information from a specific event, such as an import tariff policy, on stock prices or security returns. Statistical analysis results indicate that the market did not react significantly on the day of the policy announcement.

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INTRODUCTION

International trade has long been a cornerstone of global economic growth, fostering innovation, enhancing efficiency, and generating wealth by enabling countries to specialize based on their comparative advantages (Lee & Zareef Khan, 2025). On April 2, 2025—an Orwellian day of liberation President Donald J. Trump invoked the International Emergency Economic Powers Act (IEEPA) of 1977 to announce the largest U.S. tariff increase since the Smoot-Hawley Tariffs of 1930. The fallout from the policy caused financial markets to react swiftly and negatively, compelling Trump to grant certain sectoral exemptions and postpone the imposition of "reciprocal" tariffs for 90 days (McKibbin et al., 2025).

Indonesian companies, particularly those operating in labor-intensive sectors and heavily reliant on the U.S. export market such as textiles, footwear, and certain electronics may face significant pressure, leading to a decline in export performance. Projected decreases in the profits of exporting companies could generate negative sentiment, potentially depressing the share prices of related issuers on the Jakarta Composite Index (JCI). Moreover, U.S. protectionist policies risk triggering a global trade war and slowing worldwide economic growth. As global growth decelerates, demand for Indonesian commodities and exports overall is likely to decrease, which could strain the profits of large companies and adversely affect the overall performance of the JCI.

The most significant impact on capital markets is increased global uncertainty. While the Jakarta Composite Index (JCI) and the Indonesian Rupiah have often demonstrated resilience due to the significant role of domestic consumption, President Trump's protectionist tariff policies in 2025 have created a risky investment environment at the macroeconomic level. The Indonesian capital market is likely to react negatively in the short term, experiencing increased volatility and Rupiah depreciation, driven by foreign investors' concerns about Indonesia's export prospects and the risk of an escalating trade war that threatens the stability of the global financial system.

Referring to the JCI movement data from March 7 to 14, 2025, there were fluctuations followed by declines toward the end of the period. If the statement regarding import policies during or prior to this period is significant and anticipated by the market, it could be a contributing factor to the JCI movement through mechanisms such as investor sentiment, foreign capital flows, and both direct and indirect economic impacts. The tariff policy and import restrictions announced by President Trump represent significant macroeconomic events, the effects of which on the Indonesian capital market can be quantitatively analyzed using an event study framework.

To measure the impact of specific events on a company's stock price, economists employ event studies (Matselyukh, 2020). Event study models are powerful econometric tools designed to estimate the effects of dynamic treatments. These models originated in economics through financial applications and have been extensively reviewed in prior finance-related event studies (Miller, 2023).

Event studies are grounded in the efficient market hypothesis, which posits that markets are efficient and that the effects of events are promptly reflected in financial asset prices (Ji et al., 2024). This framework explains how information disclosure influences stock returns and investor reactions, as financial investors' evaluations and expectations are shaped by announcements or events. These changes affect the demand and supply of stock assets, leading to fluctuations in stock prices. Consequently, a significant new event should elicit an immediate market reaction and impact the asset's price.

Several studies (Heyden and Heyden, 2021; Ji et al., 2024; Matselyukh, 2020; Pandey and Kumari, 2021; Umar, 2022) have found that the market reacts negatively to certain events, causing short-term inefficiencies. Similarly, research on the Indonesian capital market (Kiky, 2018; Purwoto et al., 2019) has shown comparable results, indicating that the Indonesian capital market is not yet efficient, exhibiting only weak-form efficiency. Additionally, stocks that outperform the market tend to have low betas, suggesting they are less sensitive to market fluctuations. In contrast to previous studies by (Werastuti, 2012) and (Ţiţan, 2015), the absence of consistent evidence either supporting or refuting the efficient market hypothesis indicates that further research is necessary to achieve a more comprehensive understanding.

Although numerous studies have identified market inefficiencies (weak form efficiency) due to short-term negative reactions, some researchers contend that the existing evidence is inconsistent. This discrepancy highlights the need for further research employing different time periods, methodologies, or market contexts to conclusively determine the level of market efficiency. Moreover, this debate suggests that the finding of efficiency may not be stable or generalizable across all periods or event types in the Indonesian capital market. Additional research is necessary to clarify the conditions under which the Indonesian market is truly efficient and those that give rise to market anomalies. Specifically, it is important to investigate whether the capital market is informationally efficient concerning President Trump's tariff and import policy announcements and their impact on abnormal stock returns of manufacturing companies.

LITERATURE REVIEW

The Efficient Market Hypothesis is a financial theory stating that the prices of financial assets, such as stocks, fully reflect all available information at any given time. In other words, in an efficient market, investors cannot consistently achieve abnormal returns by using publicly available information. According to Fama, (1970), the primary role of capital markets is to allocate ownership of the economy's capital stock. Ideally, a market is one in which prices provide accurate signals for resource allocation that is, a market where firms can make production and investment decisions, and investors can choose among securities representing ownership of firms' activities, assuming that security prices at any given time fully reflect all available information.

According to Malkiel, (2015), the stock market is essentially efficient, and stock price movements follow a random walk, meaning that future price changes cannot be accurately predicted based on past price data or other information. As a result, price changes are random. When new information emerges, investors immediately act on it, causing asset prices to adjust quickly to new levels. The most fundamental implication of the Efficient Market Hypothesis is that it is difficult, if not impossible, for investors to consistently earn above-average (abnormal) returns using information already reflected in prices. If prices move randomly and incorporate all available information, it becomes very challenging for investors to consistently buy assets below their fair value or sell them above it.

Asset pricing theory helps explain why the impact of tariffs varies across sectors, with those highly dependent on imports (e.g., the Industrial and Technology sectors) exhibiting greater risk sensitivity to tariff policies than more domestically focused sectors (Selmi et al., 2020). The negative stock price reaction (cost) identified by Selmi et al., (2020) reflects investors' demand for higher future returns to compensate for the increased risk and uncertainty caused by the trade war. Similar findings were reported in studies by Ali and Zafar (2021) and Matselyukh, (2020), where negative market reactions, indicated by abnormal returns, reflect investors' concerns that tariffs will raise input costs, disrupt global supply chains, and reduce corporate profitability.

Event studies primarily analyze how the market responds to an event or the announcement of new information. Abnormal price changes (abnormal returns) surrounding the event serve as key indicators of market reaction. According to market efficiency theory, all available information about a company is reflected in its stock price. Research by Selmi et al., (2020), Matselyukh, (2020) and, Ali and Zafar, (2021) applied this method to isolate and measure the specific impact of Trump's tariff announcement on sectoral stock returns. This approach effectively tests the degree of market efficiency by calculating abnormal returns around the event date.

Based on the theoretical framework developed, this study focuses on analyzing the reaction of the Indonesian capital market. The Indonesian capital market is recognized as a developing market characterized by weak efficiency in responding to announcements of US import tariffs. This is significant because the impact of US tariffs on capital markets in developing countries is often indirect mediated through global supply chains and investor sentiment and has not been consistently confirmed. This study offers further evidence of the weak market efficiency in the Indonesian market, particularly in response to major global political-economic events. Thus, the hypothesis in this study is:

H_{a1} : *There is an abnormal return on the day the tariff policy and import restrictions are announced.*

H_{a2} : *There is a significant difference in abnormal returns before and after the announcement of Tariff Policies and Restrictions on The Import of Goods.*

METHODOLOGY

This study employs a quantitative approach to assess the impact of tariff policies on the manufacturing sector within the Indonesia Stock Exchange. The data utilized in this event study are secondary data. The event study method is applied, with the observation period divided into two segments: (a) the estimation period before the announcement of the import tariff policy by United States President Donald Trump, and (b) the estimation period after the announcement of the import tariff policy by President Trump.

The population of this study consisted of 147 manufacturing companies listed on the Indonesia Stock Exchange (IDX). Using purposive sampling, a sample of 20 companies was selected. The observation period spanned nine days, from March 7 to March 14, 2025, employing the prior period estimation window. The analysis was conducted in several stages:

Actual Return (R_i)

Actual return is the total change in value (profit or loss) of an investment asset that is realized over a specific time period. It represents the real return based on actual historical market price data. The formula for actual return is as follows:

$$\boldsymbol{R_{i,t} = \frac{P_{i,t} - P_{i,t-1}}{P_{i,t-1}}}$$

Expected Return (ER_i)

Expected return is the rate of return (profit) that investors estimate or predict from an investment over a specific future time period. It is calculated using the following formula:

$$E(R_{it}) = \alpha_i + \beta_i R_{mt}$$

Where (R_{mt}) is the market rate of return on day (t), which, in this research, is the rate of return of the Composite Stock Price Index (IHSG), calculated using the following formula:

$$\boldsymbol{Rm = \frac{IHSG_t - IHSG_{t-1}}{IHSG_{t-1}}}$$

Abnormal Returns (AR) and Cumulative Abnormal Returns (CAR)

Abnormal Return (AR) is the difference between the actual stock return and the expected return over a specific time period. It can be expressed using the following formula:

$$\boldsymbol{AR_{i,t} = R_{i,t} - E[R_{i,t}]}$$

Meanwhile, the Cumulative Abnormal Return (CAR) is the total sum of all Abnormal Returns (AR) that occur during a specific time period known as the event window. The CAR is calculated using the following formula:

$$\boldsymbol{CAR = \sum_{t=1}^{n} AR_{i,t}}$$

RESEARCH RESULT

To provide an initial overview of the characteristics of the collected data, descriptive statistics are employed to summarize the mean, median, and standard deviation of the average abnormal return during the observation period.

Table 1. Descriptive Statistics of Abnormal Returns

	N	Minimum	Maksimum	Mean	Std Deviasi
AR Before	20	-0,0402	0,4930	0.0266	0,0227
AR After	20	-0,1003	0,6580	-0.0194	0.0344

Sources : Data Analysis,2025

Based on Table 1, the abnormal return prior to the announcement of the tariff and import policy has an average value of 0.0266, a minimum of -0.0043, a maximum of 0.4930, and a standard deviation of 0.0227. In contrast, the abnormal return following the announcement has an average value of -0.0194, with a minimum of -0.1003, a maximum of 0.6580, and a standard deviation of 0.0344. A small standard deviation indicates that the data points tend to cluster closely around the mean, while a larger standard deviation reflects greater variability.

Abnormal Return Analysis

Abnormal return analysis is a method used in event studies to evaluate the impact of a specific event on asset prices, typically stocks. An abnormal return (AR) is defined as the difference between the actual return of an asset during a specified period and the expected normal return had the event not occurred. Table 2 below presents the abnormal returns before and after the announcement.

Table 2. Abnormal Returns Before and After the Announcement

Period		Day	*Abnormal Return*
Abnormal Before	Return	T-4	-0,0036
		T-3	-0,0013
		T-2	0,0020
		T-1	0,0035
Abnormal After	Return	T+1	-0,0094
		T+2	-0,0046
		T+3	-0,0018
		T+4	-0,0095

Sources : Data Analysis, 2025

Table 2 shows a decline in abnormal stock returns during the observation period, indicating that stocks delivered lower-than-expected returns following the event announcement compared to the period before the event. In other words, the overall market responded negatively to the event. The information conveyed by the event may have been perceived as unfavorable news regarding the prospects of the company or industry in question. Although an immediate decline is less common, it is possible that a partial positive abnormal return occurred on the day of the event or within a few days afterward. These events may generate ongoing uncertainty in the market. As a result, investors might

become more cautious and hesitant to invest in the affected stocks, leading to lower average returns. A decline in average abnormal returns following an event generally indicates that the market views the event negatively. Investors collectively respond by selling shares or refraining from buying, causing the average stock price to fall below normal expectations. If the decline in abnormal returns is both significant and sustained, it may signal company underperformance or a negative fundamental change in its business.

Normality Test

The normality test is conducted to determine whether the data are normally distributed. The Shapiro-Wilk test is employed for this purpose. The results of the Shapiro-Wilk normality test are presented in Table 3.

Table 3. Shapiro-Wilk Test

Period	Sig.	Evidence
T-4	0,1820	Data is normally distributed.
T-3	0,5910	Data is normally distributed
T-2	0,9580	Data is normally distributed
T-1	**0,0000**	**Data is not normally**
T0	0,6340	**distributed**
T+1	0,7050	Data is normally distributed
T+2	0,1180	Data is normally distributed
T+3	0,3630	Data is normally distributed
T+4	0,7570	Data is normally distributed
		Data is normally distributed

Sources : Data Analysis, 2025

Based on the results of the Shapiro-Wilk test, the significance value must be greater than 0.05 for the data to be considered normally distributed. Therefore, all data from the observation period are normally distributed, except for the data in period T-1, which necessitated the use of the Wilcoxon Signed-Rank Test. According to the results of this test, the data in period T-1 can be treated as normally distributed, allowing the subsequent analysis to proceed.

One Sample Test

The one-sample test is a type of statistical hypothesis test used to determine whether the mean of a single sample significantly differs from a known or hypothesized population mean. The initial hypothesis is stated as follows:

H_{01}: *There is no significant abnormal return following President Trump's Announcements Tariff Policy and Imported Goods.*

H_{a1}: *There is a significant abnormal return following President Trump's Announcements Tariff Policy and Imported Goods.*

Table 4 presents the results of the one-sample test.

Tabel 4. One-Sample Test

Period	Sig.	Hypothesis	Evidence
T-4	0,4120	Accepting Ho	There are no significant abnormal returns
T-3	0,6650	Accepting Ho	
T-2	0,5090	Accepting Ho	There are no significant abnormal returns
T-1	1,000	Accepting Ho	
T0	0,4820	Accepting Ho	There are no significant abnormal returns
T+1	0,0100	**Rejected Ho**	**There are significant abnormal returns**
T+2	0,3000	Accepting Ho	There are no significant abnormal returns
T+3	0,6070	Accepting Ho	There are no significant abnormal returns
T+4	0,0660	Accepting Ho	There are no significant abnormal returns

Sources : Data Analysis,2025

The results presented in Table 4 indicate a significant abnormal return in period T+1. The presence of abnormal returns at the time of the announcement suggests that the information contained in the announcement was not fully anticipated by the market prior to its release. Upon release, the market assesses this new information and adjusts its expectations regarding the value of the asset in question. If the announcement contains unfavorable or negative news that was not fully anticipated, the asset's price is likely to decline more sharply than expected, resulting in greater losses for investors holding the asset.

The emergence of abnormal returns at the time of an announcement is often associated with the concept of market efficiency. In an efficient market, asset prices should quickly and accurately incorporate all available information. If significant abnormal returns occur following an announcement, it may indicate that the market was not fully efficient in processing the information prior to its release. The presence of abnormal returns at the time of an announcement signifies the existence of information surprises in the market. The magnitude and direction of the abnormal return whether positive or negative reflect how the market assesses the impact of the new information on asset value. Analyzing abnormal returns is a crucial tool for understanding market reactions to information and is frequently employed in event studies to test market efficiency and evaluate the impact of various events on firm value.

The primary purpose of the t-test is to determine whether the observed differences between groups are genuine or simply the result of random variation in sampling. The second hypothesis is stated as follows:

H_{02}: *There is no significant difference in abnormal returns before and after President Trump's term. The tariff and import policies were announced.*

H_{a2}: *There is a significant difference in abnormal returns before and after President Trump's term. The tariff and import policies were announced.*

Tabel 5. Paired Samples Test

		Mean	Std Deviation	Std. Error mean	t	df	Sig. (2-tailed)
Pair ARBEFORE-ARAFTER	1	0.0220	0.0418	0.0093	2.360	19	0.029

Sources : Data Analysis, 2025

Table 5 shows that the significance value is less than 0.05, leading to the rejection of the null hypothesis (H_0). Therefore, it can be concluded that there is a significant difference in abnormal returns before and after President Trump announced the tariff and import policies.

DISCUSSION

The presence of abnormal returns before the official announcement likely results from information leaks or rumors circulating in the market. When investors believe this information, they initiate transactions that cause stock price movements and generate abnormal returns prior to the announcement. In less efficient markets, price adjustments may occur more slowly, allowing abnormal returns to persist longer. Consequently, the market may overreact or underreact to the announcement, leading to notable abnormal return patterns following the announcement date

The Indonesian capital market tends to react negatively in the short term, as evidenced by a significant decline in the Jakarta Composite Index (JCI) and depreciation of the rupiah. Key concerns include potential capital outflows and adverse effects on the export sector. The findings of this study are consistent with those of Ali and Zafar, (2021), Ji et al., (2024), Matselyukh, (2020), and Selmi et al., (2020). The results of this study suggest that understanding the factors that cause abnormal returns is crucial for various market participants. Investors can use the concept of abnormal returns to evaluate their portfolio performance. Significant abnormal returns following an event can serve as an early indicator of whether the market will respond positively or negatively to that event.

CONCLUSIONS AND RECOMMENDATIONS

There were no significant abnormal returns during the observation period. This indicates that, following the policy announcement, the returns of the affected stocks did not deviate significantly from prior expectations. However, the market may react in the days following the announcement (a lag effect) or even before the announcement if there is information leakage.

There was a significant difference in abnormal returns before and after the announcement. The capital market responded notably to the policy announcement, as evidenced by the change in returns of affected stocks surrounding the announcement date. This difference in abnormal returns indicates that the policy introduced new, relevant information to investors, thereby altering their expectations and reflecting these changes in stock prices.

For further research, a comprehensive cross-sectional regression analysis could be conducted to identify specific firm characteristics (e.g., export revenue ratio, debt level, raw material import intensity) that increase their vulnerability or resilience to tariff announcements.

ADVANCED RESEARCH

This study has several limitations, including the following:

a. Event Window Determination Problems: If the event window selected is too short, the study may fail to capture market reactions that occur before the official announcement date, such as those caused by rumors or information leaks.
b. Limitations of the Normal Return Model: Event studies rely on models such as the Capital Asset Pricing Model (CAPM) or the Market Model to calculate the expected return (normal return).
c. Event studies are designed to measure instantaneous and short-term market reactions, typically occurring over a few days or weeks.

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