



Transmission of United States Economic Policies to Indonesia's Financial Market in 2025

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Abstract

The shift in United States economic policy orientation in 2025, particularly through the trade protectionism policy of the Liberation Day Tariffs and the Federal Reserve's "higher-for-longer" monetary policy, has increased global economic and financial uncertainty. This condition has the potential to exert pressure on developing nations with strong ties to the international trade and financial system, including Indonesia. This study aims to analyze the impact of the 2025 U.S. economic policies on Indonesia's financial market and to explain the underlying transmission mechanisms and strategic interactions.

The research employs a qualitative descriptive method with a case study approach. Data were gathered through literature reviews and document analysis from academic publications as well as national and international institutions, and were subsequently analyzed through data reduction, data display, and conclusion drawing. The analysis utilizes the perspectives of International Political Economy and Game Theory to explain the asymmetric relationship between the United States and Indonesia.

The results indicate that U.S. economic policies are transmitted to Indonesia's financial market through four main channels: trade, exchange rates, international capital flows, and global risk and sentiment. These impacts are reflected in increased volatility and pressure on the Jakarta Composite Index (IHSG), the depreciation of the rupiah, and rising government bond (SBN) yields, particularly from the early to mid-2025 period. U.S. monetary policy, which maintains high interest rates, drives the strengthening of the U.S. dollar and portfolio reallocation toward U.S. assets, while tariff policies increase trade uncertainty and risk perceptions regarding developing economies. However, this pressure is dynamic and influenced by domestic factors as well as the policy responses of Bank Indonesia and the Indonesian government.

This study demonstrates that U.S. economic policies act as an external shock that amplifies the vulnerabilities of Indonesia's financial market, while highlighting the limited policy space available to developing countries when confronting policy shifts by nations holding a dominant position in the global financial system.

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1. Introduction

In 2025, the global economy faced increasing uncertainty due to changes in the orientation of United States economic policy under the second administration of President Donald J. Trump. The renewed emphasis on the *America First* doctrine through more protectionist trade policies generated pressure on international trade and increased volatility in global financial markets. After returning to office for his second term in 2025, President Donald Trump reaffirmed the *America First* doctrine through a combination of aggressive trade strategies and bilateral protectionist pressures. This shift in the political-economic landscape

had broad implications for the international order, triggering systemic protectionism and disrupting the stability of global supply chains. Historically, the trend toward U.S. protectionism has been shown to generate high levels of volatility. As noted by the World Trade Organization (WTO), during the 2018–2019 period, uncertainty surrounding the global trade outlook significantly reduced projections for global economic growth (Agustina *et al.*, 2025). In 2025, this dynamic evolved beyond a bilateral trade issue and developed into a structural threat to global economic stability (Li *et al.*, 2018).

The impact of U.S. trade policies directly interacted with the dynamics of domestic monetary policy implemented by the Federal Reserve (the Fed). Although the Federal Reserve is institutionally independent of the executive branch (Mishkin, 2019), the potential inflationary pressures arising from the imposition of import tariffs encouraged the central bank to maintain its policy interest rate at a high level under a *higher-for-longer* approach, within the range of 4.25–4.50 percent in early 2025. According to Ben Bernanke (2020), high interest rates are maintained when monetary authorities assess inflation risks as more detrimental than the potential slowdown in economic growth. The Fed's tight monetary stance contributed to higher U.S. Treasury yields and strengthened the DXY (U.S. Dollar Index) (Wang, 2024)^[27]. Rising U.S. interest rates and a stronger dollar generated external uncertainty (*policy uncertainty*), prompting defensive responses from international financial markets (Blinder, 2021).

U.S. monetary and trade policies in 2025 spilled over into emerging markets through the global financial cycle (Rey, n.d.). Maurice Obstfeld (2022) explains that when the Federal Reserve maintains high interest rates, emerging markets face three major pressures: exchange-rate depreciation, foreign portfolio capital outflows, and higher debt financing costs. The phenomenon of *flight to quality* encourages global investors to massively reallocate assets away from riskier instruments in emerging markets toward assets perceived as safe havens, such as the U.S. dollar, U.S. Treasury securities, and gold. This condition reinforces the view of Dornbusch and Fischer (2014) that emerging-market financial systems are highly sensitive to policy shocks originating from advanced economies due to their substantial dependence on foreign capital and limited market depth in absorbing external shocks (*Indonesia–U.S. Agree on the Substance of Reciprocal Trade Negotiations (Agreements on Reciprocal Trade) – Coordinating Ministry for Economic Affairs of the Republic of Indonesia*, n.d.).

As one of the emerging markets, Indonesia's financial markets which encompass the equity market, represented by the Jakarta Composite Index (JCI), the bond market, represented by Government Securities (SBN), and the foreign exchange market are highly vulnerable to such global portfolio adjustments. Bank Indonesia defines financial markets as platforms where the demand for and supply of financial assets interact, playing a central role in price formation, the effectiveness of monetary policy, and national financial system stability (Bank Indonesia, 2020). When U.S. Treasury yield expectations remain elevated, capital outflows from Indonesia tend to increase. This condition puts downward pressure on the Indonesian rupiah and raises SBN yields as foreign investors demand higher returns as compensation for risk (*risk premium*). At the same time, financial market uncertainty weakens the JCI, particularly

among manufacturing, textile, and technology-based issuers that face pressure from higher imported input costs and the potential decline in export demand (Tyas, 2025). The postponement of U.S. interest rate cuts ultimately narrows the policy space available to Bank Indonesia (BI Rate) in maintaining a balance between exchange-rate stability and domestic economic growth (Dwinata *et al.*, 2025)^[5].

2. Literatur Review

Protectionism is one of the key concepts in international economics that explains a state's efforts to protect domestic industries from the pressures of global competition. Krugman and Obstfeld (2018) explain that protectionism can be implemented through various trade instruments that restrict the cross-border flow of goods and services, with objectives including maintaining national economic stability, reducing dependence on imports, and protecting strategic domestic industries. Protectionist instruments include import tariffs, non-tariff barriers, domestic subsidies, and local content requirements. Tariffs are among the primary instruments because they can increase the prices of imported goods and provide relative protection for domestic products. In contemporary developments, protectionism is understood not only as an economic policy but also as a political and geopolitical instrument reflecting competition among states (Vo & Le, 2023).

In the context of the United States, protectionism regained prominence during the administration of Donald J. Trump. The Liberation Day Tariffs policy in 2025 reflected a strengthening of the protectionist orientation through the imposition of a 10 percent baseline tariff and additional tariffs of up to 32 percent on Indonesia. The policy was not only aimed at protecting U.S. domestic industries but can also be understood as an instrument for strengthening the United States' economic bargaining position in international trade relations. Thus, U.S. tariff policies have consequences that extend beyond bilateral trade relations, as they can affect international trade, investor sentiment, and the financial market stability of emerging economies such as Indonesia (Putra Pratama & Wanusmawatie, n.d.).

In addition to trade policy, U.S. monetary policy also plays an important role in the global financial system. As the central bank of the United States, the Federal Reserve occupies a strategic position because the U.S. dollar serves as the world's primary reserve currency. Mishkin (2019) explains that changes in the Federal Reserve's interest rate policy can be transmitted to other countries through various mechanisms, including the interest rate channel, exchange rate channel, capital flow channel, and risk-premium channel. When U.S. interest rates remain high, dollar-denominated assets become relatively more attractive to global investors. This condition can encourage capital to move from emerging markets toward U.S. assets.

The transmission mechanism of U.S. monetary policy is particularly important for emerging economies that are highly integrated into the international financial system. An increase in U.S. interest rates can strengthen the dollar and intensify pressure on emerging-market currencies. At the same time, capital outflows can place pressure on domestic equity and bond markets. Rey (2015) explains that U.S. monetary policy can form part of the global financial cycle, whereby changes in U.S. financial conditions can generate synchronized capital movements across countries. In the Indonesian context, this mechanism can be reflected in rupiah depreciation, volatility

in the Jakarta Composite Index (JCI), and increases in Government Securities (SBN) yields (Rey, n.d.).

Strategic competition in international political economy also provides an important perspective for understanding U.S. economic policy. From this perspective, trade and monetary policies are not solely employed to achieve domestic economic objectives but can also serve as instruments for maintaining a state's position and power within the international system. Gilpin (2001) explains that a hegemonic state can utilize its economic advantages through trade, monetary, and financial policies to influence the structure and rules of the international economy. Therefore, U.S. tariff and monetary policies can be viewed as components of an economic-political strategy with consequences for other countries (Brigita & Hutapea, 2025a) ^[1].

Indonesia's vulnerability to changes in U.S. economic policy is also related to the characteristics of its domestic financial markets. Indonesia's financial market consists of the stock market, represented by the JCI; the government bond market, represented by SBN; the money market; and the foreign exchange market. A market structure that is relatively sensitive to foreign capital flows means that changes in global financial conditions can have substantial effects on domestic markets. When U.S. interest rates change or the dollar strengthens, investors may adjust their portfolios, subsequently triggering capital outflows, rupiah depreciation, higher bond yields, and pressure on the Indonesian stock market (Brigita & Hutapea, 2025b) ^[1].

These conditions can be further analyzed through Game Theory. Von Neumann and Morgenstern (1944) conceptualized game theory as an approach for understanding strategic decision-making in situations where the outcome obtained by one actor depends on the actions of other actors. In international relations, this approach is relevant for explaining strategic interactions among states with different levels of power. One of the concepts employed in this study is the zero-sum game, which refers to a condition in which the relative gains of one actor can be viewed as corresponding to the relative losses of another actor. In addition, the Stackelberg leadership model is used to explain asymmetric relationships in which one actor acts as the leader while another acts as the follower (Tanaka, 2018) ^[25].

In this study, the United States is positioned as the leader because of its structural advantages, including its large economic size, the dominance of the U.S. dollar, and the influence of the Federal Reserve over the global financial system. Indonesia, meanwhile, occupies the follower position and must adjust its economic policies when changes occur in U.S. policy. This structure helps explain why changes in U.S. trade and monetary policies can narrow Indonesia's policy space and increase pressure on its domestic financial markets. Several previous studies support the relationship between U.S. economic policy and Indonesian financial markets. Hamid (2022) found that exchange rates and global indices such as the S&P 500 have significant effects on movements in the JCI. Wardani and Astuti (2022) demonstrated that the rupiah exchange rate is one of the dominant variables influencing the JCI, while U.S. Quantitative Easing policies affect capital inflows into the Indonesian stock market. Furthermore, Lastauskas and Nguyen (2024), using a GVAR approach, found that increases in U.S. interest rates have negative effects on financial markets, exchange rates, and domestic output in emerging economies.

Based on this literature, there is a strong relationship between U.S. economic policy, global transmission mechanisms, and financial market stability in emerging economies. However, previous studies have focused predominantly on U.S. monetary policy, macroeconomic indicators, or periods preceding 2025. This study extends the existing literature by integrating protectionist policy through the Liberation Day Tariffs and the higher-for-longer monetary policy stance in 2025, while analyzing their effects on three key components of Indonesia's financial market: the JCI, the Indonesian rupiah exchange rate, and SBN.

Accordingly, this study employs the perspectives of protectionism, monetary policy transmission mechanisms, International Political Economy, and Game Theory as its theoretical foundation for explaining how U.S. economic policies are transmitted to Indonesia. This framework enables the study not only to examine direct economic impacts but also to understand the asymmetric relationship and strategic interaction between the United States as a hegemonic power and Indonesia as an emerging economy within the international economic system.

3. Research Method

This study employs a descriptive qualitative research design with a case study approach to examine the impact of United States economic policies on the stability of the Indonesian financial market in 2025. The study focuses specifically on the United States' protectionist trade policy, particularly the Liberation Day Tariffs, and the Federal Reserve's higher-for-longer monetary policy. The case study approach is used to provide a contextual and comprehensive understanding of the policy dynamics and their transmission to Indonesia's financial market.

The study relies on secondary data collected through a literature review and document analysis. Data sources consist of academic publications, including books and national and international scholarly journals, as well as official documents from international institutions such as the International Monetary Fund (IMF), World Bank, World Trade Organization (WTO), and the Federal Reserve. In addition, official publications from Indonesian institutions, including Bank Indonesia (BI), the Financial Services Authority (OJK), the Ministry of Finance, and the Indonesia Stock Exchange (BEI), are used to examine developments in the Indonesian financial market. These sources provide information on US economic policies, international economic conditions, and Indonesia's financial market indicators, particularly the IHSG, rupiah exchange rate, and government securities (SBN).

Data collection was conducted through three stages: identification, selection, and classification. First, relevant information was identified through academic databases such as Google Scholar and official websites of national and international institutions. Second, the collected information was selected based on its relevance and reliability, with particular attention to recent sources. Third, the selected data were classified according to the main themes of the study, including US protectionist trade policy, US monetary policy, global transmission mechanisms, and Indonesian financial market responses.

The data were analyzed using descriptive qualitative analysis following the stages of data reduction, data display, and conclusion drawing/verification proposed by Miles and

Huberman (2014). Data reduction involved selecting and organizing information relevant to US economic policies in 2025 and their effects on Indonesia. The reduced data were then presented through analytical narratives and conceptual relationships to identify patterns and transmission mechanisms through trade, exchange rates, international capital flows, and global risk. Finally, conclusions were drawn and repeatedly verified by comparing empirical findings with the theoretical framework and previous studies. Furthermore, the analysis applies a conceptual-theoretical approach using the framework of International Political Economy (IPE) and Game Theory. This framework is employed to interpret the impact of US economic policies not merely as an economic phenomenon but also as a consequence of asymmetric strategic interactions between states within the international economic system. The analysis therefore examines how US protectionist and monetary policies function as external shocks and how these shocks are transmitted to the Indonesian financial market, particularly through changes in the IHSG, rupiah exchange rate, and SBN.

The temporal scope of the study is limited to 2025, covering the period associated with the implementation of the Liberation Day Tariffs and the Federal Reserve's higher-for-longer monetary policy. The study does not conduct quantitative hypothesis testing or econometric analysis; instead, it focuses on interpreting policy developments, transmission mechanisms, and financial market responses based on secondary data and relevant theoretical perspectives

4. Result and Discussion

In 2025, the United States implemented a series of economic policies reflecting a strengthened orientation toward trade protectionism and tighter monetary policy. Two major policies that received significant attention during this period were the implementation of the *Liberation Day Tariffs* as a trade protection instrument and the *higher-for-longer* monetary policy stance adopted by the Federal Reserve. These two policies not only affected the domestic economy of the United States but also generated global implications, particularly for emerging economies integrated into the international trade and financial systems (Hanif Rizqi, 2025) [8].

The *Liberation Day Tariffs* represented a form of trade protectionism aimed at protecting U.S. domestic industries from global competitive pressures. Through this policy, the U.S. government increased import tariffs on a number of strategic commodities, citing the need to strengthen national industrial resilience, reduce the trade deficit, and reinforce the economic position of the United States in global competition. According to Krugman and Obstfeld (2018), protectionist policies are often employed by advanced economies as instruments to protect domestic industries; however, such policies may also create distortions in the international trading system and increase global economic tensions (Alifath *et al.*, 2025).

From an International Political Economy perspective, U.S. protectionist policies cannot be understood merely as technical economic responses but also as part of a hegemonic strategy to maintain its position within the global economic system. Gilpin (2001) explains that hegemonic states tend to employ economic instruments, including trade policies, as political tools to shape the international economic structure according to their national interests. Thus, U.S. trade

protectionism reflects an effort to maintain strategic advantages within an increasingly competitive global economic system (Hubungan *et al.*, 2012).

In addition to trade policy, the Federal Reserve maintained a *higher-for-longer* monetary policy stance during the same year, referring to the policy of keeping the benchmark interest rate at a relatively high level for an extended period. This policy was adopted in response to domestic inflationary pressures and efforts to maintain economic stability in the United States. Mishkin (2019) explains that high interest rates constitute a primary instrument used by central banks to control inflation; however, such policies may also generate spillover effects on the global economy (Unair News, 2025). As the central bank of a country whose currency serves as the world's dominant reserve currency, the Federal Reserve's monetary policy has significant cross-border effects. Rey (2015) explains that the global financial system operates within a global financial cycle that is strongly influenced by U.S. monetary policy. When U.S. interest rates remain high, global capital tends to flow back toward U.S. financial markets, thereby placing pressure on financial stability in emerging economies through the risks of capital outflows and exchange-rate depreciation (Tyas *et al.*, 2024) [26]. Thus, U.S. trade and monetary policies in 2025 demonstrate how the economic decisions of a hegemonic state can generate structural consequences for the international economic system. Consistent with Strange's (1996) concept of *structural power*, U.S. economic policies reflect the country's capacity to shape global market dynamics and influence the economic stability of other countries (Ummaya *et al.*, 2023).

4.1. Transmission Mechanisms of U.S. Economic Policies to Indonesian Financial Markets

U.S. economic policies in 2025, both in the form of trade protectionism through the *Liberation Day Tariffs* and the Federal Reserve's *higher-for-longer* monetary policy stance, were transmitted to emerging economies through various global mechanisms. In the context of Indonesian financial markets, these policies function as external shocks that affect market stability through several major channels, namely the export and import trade channel, exchange-rate channel, international capital flow channel, and global risk channel (Jurnal & Saham, 2024).

The first channel is the international trade channel. The implementation of U.S. protectionist policies affected global trade volumes and increased uncertainty within international supply chains. According to Krugman and Obstfeld (2018), increases in import tariffs imposed by major economies tend to constrain international trade as a whole, thereby affecting the economic performance of trading partners and countries integrated into global trade networks. In this context, the *Liberation Day Tariffs* not only directly affected countries that were primary targets, such as China, but also generated indirect spillover effects on other countries, including Indonesia. These effects occurred through export and import mechanisms.

On the export side, higher U.S. import tariffs reduced demand for foreign goods, thereby affecting the export volumes of trading partners. Indonesia, as a country dependent on the export of commodities such as coal, palm oil, and manufactured products, was also exposed to these effects through declining global demand. Furthermore, the global economic slowdown resulting from protectionist policies

could reduce the purchasing power of Indonesia's export destination countries, thereby weakening overall export performance (Mareta1 *et al.*, 2025)^[18].

On the import side, global trade uncertainty and exchange-rate fluctuations also affected Indonesia's import patterns. Rupiah depreciation increases the price of imported goods, particularly capital goods and industrial raw materials that remain dependent on imports. This condition can increase domestic production costs and place pressure on industrial performance. At the same time, a slowdown in domestic economic activity may reduce import demand, although in many cases such a decline may be insufficient to offset weaker exports, potentially worsening the trade balance.

Furthermore, protectionist policies can encourage trade reorientation through *trade diversion*, whereby countries affected by tariffs seek alternative markets outside the United States. This condition increases competition in global markets, including Indonesia's major export markets. Consequently, Indonesian products may face greater competition in terms of both price and quality, which in the short term can place pressure on export performance and narrow the trade surplus.

Changes in exports and imports also directly affect the availability of foreign exchange. A decline in exports reduces foreign-currency inflows, while import requirements remain relatively high, particularly to support domestic production activities. This imbalance increases pressure on the rupiah exchange rate due to rising demand for U.S. dollars. In addition, uncertainty in global trade affects market participants' expectations and investment decisions, thereby increasing volatility in financial markets, particularly in export-oriented sectors.

Nevertheless, the impact of protectionist policies through the trade channel is not necessarily entirely negative. Under certain conditions, such policies may create opportunities for emerging economies, including Indonesia. One such opportunity arises through the *trade diversion* mechanism, whereby countries affected by U.S. tariffs seek alternative trading partners. This situation may provide Indonesia with an opportunity to increase exports to non-traditional markets and expand its share of global markets.

In addition, increased trade barriers may encourage import substitution, whereby domestic industries seek to reduce their dependence on imported goods by increasing the use of domestically produced products. In the medium term, this condition has the potential to strengthen the national industrial structure and increase domestic value added. External pressures may also encourage the government to adjust its economic policies, such as diversifying export markets and strengthening macroeconomic stability, which may ultimately enhance national economic resilience (*FIN-POLICY-BRIEF—Dampak-Kebijakan-Tarif-Resiprokal-Amerika-Serikat-Terhadap-Industri-Karet-Indonesia*, n.d.).

The second channel is the exchange-rate channel. The *higher-for-longer* monetary policy implemented by the Federal Reserve has contributed to the strengthening of the U.S. dollar against emerging-market currencies, including the Indonesian rupiah. According to Mishkin (2019), interest-rate differentials between advanced and emerging economies are among the key factors influencing exchange-rate movements and international capital flows. Central banks in emerging economies tend to adjust their policies in response to movements in major global currencies, particularly the U.S. dollar (Fajar, 2025). Empirically, in 2025, the rupiah–

U.S. dollar exchange rate experienced considerable fluctuations with a general tendency toward depreciation. Between January and May 2025, the average exchange rate was approximately IDR 16,474 per USD, while the weakest intraday level reached IDR 17,071 per USD in April 2025 (Warjiyo Gubernur *et al.*, n.d.).

The strengthening of the U.S. dollar placed depreciation pressure on the rupiah, which in turn increased exchange-rate risk in Indonesia's financial markets. Eichengreen (2011) emphasizes that currency depreciation in emerging economies often directly increases the cost of imports, inflationary pressures, and financial market instability. In Indonesia, this condition also increases the demand for foreign currency, particularly to finance imports and service external debt. However, rupiah depreciation does not necessarily have entirely negative effects. Under certain conditions, a weaker rupiah can improve the competitiveness of Indonesian exports in international markets because export prices become relatively cheaper. This may increase foreign-exchange earnings, particularly in export-oriented sectors.

Therefore, the rupiah exchange rate serves as one of the key indicators reflecting the transmission of U.S. monetary policy to the Indonesian economy. This finding demonstrates that exchange-rate dynamics are influenced not only by domestic factors but are also strongly determined by changes in global economic policies, particularly U.S. monetary policy.

The third channel is the international capital flow channel. High interest rates in the United States increase the attractiveness of U.S. financial assets to global investors. Consequently, capital flows may shift from emerging markets toward U.S. financial markets. Rey (2015) explains that this phenomenon constitutes part of the global financial cycle, in which monetary policy conducted by countries issuing dominant currencies has a substantial influence on global capital movements.

For Indonesia, this condition may trigger *capital outflows*, particularly from the equity and bond markets. Its effects can be observed through weakening movements in the JCI and increasing pressure on the Government Securities (SBN) market due to declining foreign investor demand. The IMF (2019) notes that sudden capital outflows can increase financial market volatility and narrow the domestic policy space available to emerging economies.

The fourth channel is the global risk and sentiment channel. The combination of trade protectionism and tight monetary policy increases global economic uncertainty. Bloom (2014) argues that global economic policy uncertainty has significant effects on investor behavior, particularly through increased *risk aversion*. Risk aversion refers to economic behavior in which investors reallocate their assets toward instruments perceived as safer, such as gold as a *safe-haven* asset and the U.S. dollar as a *safe-haven* currency (PT Bursa Efek Indonesia, n.d.).

Under conditions of heightened uncertainty, investors tend to reallocate their portfolios toward assets perceived as safer (*flight to safety*), such as U.S. government bonds. This change in investor sentiment directly affects Indonesian financial markets through declining asset prices, increased volatility, and broader pressure on financial stability. Empirically, during periods of heightened global uncertainty in 2025 resulting from U.S. trade tariff policies and the Federal Reserve's tighter monetary stance, Indonesian financial markets experienced pressure, reflected in a weakening JCI and increased daily volatility. Foreign investors tended to

reduce their exposure to riskier assets in emerging markets and reallocate their portfolios toward safer instruments such as U.S. Treasury securities (Fathulloh & Rachma, 2023). This condition generated selling pressure in the domestic equity market and increased yields in the government bond market (SBN).

Furthermore, negative global sentiment also affected the rupiah, which tended to weaken as demand for the U.S. dollar increased as a *safe-haven currency*. Under such circumstances, market movements are driven not only by domestic economic fundamentals but also by perceptions of global risk arising from the policies of advanced economies. This demonstrates that investor psychology and market expectations play an important role in transmitting external shocks to domestic financial markets.

From the perspective of International Political Economy (IPE) and Game Theory, the transmission mechanisms of U.S. economic policy reflect an asymmetric strategic relationship between a hegemonic power and an emerging economy. The United States acts as the *leader*, formulating policies based on its domestic interests, while Indonesia occupies the position of a *follower* that must adjust to the consequences of those policies.

The concept of Stackelberg *leadership* in Game Theory explains that the decisions of a dominant actor can constrain the range of choices available to a weaker actor. U.S. economic policies, both in the trade and monetary domains, create incentive structures and pressures to which Indonesia must respond through financial market stabilization policies. Within a *zero-sum game* framework, the relative gains obtained by the United States in maintaining domestic stability may potentially generate relative losses for emerging economies through increased financial market volatility and vulnerability (Sarti, n.d.).

Therefore, the transmission of U.S. economic policies to Indonesian financial markets is neither linear nor merely technical; rather, it results from structural and strategic interactions within the global economic system. Understanding these mechanisms provides an important foundation for analyzing the concrete effects of U.S. economic policies on the JCI, the Indonesian rupiah exchange rate, and the SBN market, which will be discussed in the following subsection.

4.1.1. The Impact of U.S. Economic Policies on the Indonesian Stock Market (JCI)

The stock market is one of the financial market instruments most sensitive to changes in global economic policies. In 2025, U.S. economic policies, particularly trade protectionism through the *Liberation Day Tariffs* and the Federal Reserve's *higher-for-longer* monetary policy stance, placed significant pressure on emerging-market stock markets, including Indonesia. This impact was reflected in movements in the Jakarta Composite Index (JCI), which experienced increased volatility and downward pressure. From early to mid-2025, pressure on the JCI primarily stemmed from a combination of two external shocks: the strengthening of U.S. protectionism through reciprocal tariff policies and the Federal Reserve's continued restrictive monetary stance, or *higher-for-longer*, whereby the policy interest rate was maintained at a high level throughout 2025 (Lech Design, n.d.).

Movements in the JCI throughout 2025 were not determined solely by domestic dynamics but were significantly influenced by changes in the global economic landscape originating from the United States. This influence primarily operated through two major channels: trade protectionist policies and the Federal Reserve's restrictive monetary policy stance during the first half of 2025 (Tabor, 2025). In this context, the Indonesian stock market responded to changes in U.S. economic policy through valuation adjustments, changes in portfolio capital flows, increased *risk-off* sentiment, and revisions to expectations regarding the performance of sectors with strong links to international trade (Devani Anas Tasya & Usep Syaipudin, 2026) ^[4].

From the trade perspective, external pressure intensified following the U.S. government's announcement of reciprocal tariffs on April 2, 2025. The Indonesian government subsequently responded through the Coordinating Ministry for Economic Affairs, confirming that Indonesia was among the countries subject to a 32 percent reciprocal tariff. The policy was considered likely to weaken the competitiveness of Indonesian exports to the U.S. market, particularly in the electronics, textiles and textile products, footwear, palm oil, rubber, furniture, shrimp, and fisheries sectors. Although the two countries reached a new trade agreement framework on July 22, 2025, which reduced Indonesia's tariff rate to 19 percent, during the early to mid-2025 period the dominant condition was increased uncertainty and the repricing of risk by market participants (*Indonesia–U.S. Agree on the Substance of Reciprocal Trade Negotiations (Agreements on Reciprocal Trade) – Coordinating Ministry for Economic Affairs of the Republic of Indonesia*, n.d.).

The monetary transmission mechanism operated through the Federal Reserve's decision to maintain its policy interest rate within the range of 4.25–4.50 percent (Federal Reserve Board, 2025). In this context, the term *higher-for-longer* refers to the persistence of interest rates at elevated levels rather than further rate increases. As explained by Destry Damayanti (2025), this condition remained challenging for domestic markets because it maintained the attractiveness of dollar-denominated assets and prevented a decline in the global cost of capital, thereby prolonging pressure on riskier assets such as equities (Devani Anas Tasya & Usep Syaipudin, 2026) ^[4].

The first identifiable transmission channel is the valuation channel. Theoretically, equities represent claims on future cash flows and are therefore highly sensitive to changes in discount rates. When global interest rates and sovereign bond yields in advanced economies remain elevated, equity valuations tend to experience compression, particularly in *long-duration* sectors. In Indonesia, this pressure was reflected in the increase in the 10-year SBN yield from approximately 6.96 percent at the end of January 2025 to around 7.13 percent at the end of March 2025. The increase in the domestic benchmark yield reinforced pressure on equity valuations, although this pressure began to ease after April as domestic markets stabilized and policy interventions took effect.

The second channel is the portfolio capital flow channel. Data from Bank Indonesia indicate that pressure on the JCI occurred alongside foreign capital outflows from the domestic stock market. As of April 30, 2025, non-resident investors recorded net equity sales of IDR 49.56 trillion, and

by June 25, 2025, this figure had increased further to IDR 52.05 trillion. Nevertheless, outflows from the stock market did not necessarily indicate that foreign investors were withdrawing from Indonesian financial assets as a whole, as non-residents simultaneously recorded net purchases in the SBN market. This finding indicates that global investors did not perceive Indonesia as a homogeneous asset class but instead rebalanced their portfolios by reducing equity exposure and increasing exposure to more defensive instruments. Consequently, pressure on the JCI was more pronounced than that observed in the government bond market (Adhitya Wardhono, 2025) (*Bursa Siang: IHSG Makin Tergerus, Tarif Baru Trump Ancam Saham Asia*, n.d.). The third channel is *risk-off* sentiment and increased global volatility. The European Central Bank (ECB) recorded that following the announcement of tariffs on April 2, 2025, financial market volatility increased sharply and became increasingly synchronized with the surge in Economic Policy Uncertainty (EPU) (European Central Bank, 2025). The International Monetary Fund (IMF), in its *World Economic Outlook* published in April 2025, similarly emphasized that rising trade policy uncertainty could abruptly tighten global financial conditions and trigger capital outflows, particularly from emerging markets. Under such conditions, stock markets in emerging economies, including Indonesia, tend to adjust more rapidly than real-economy indicators (*World*

Economic Outlook, April 2025: Policy Pivot and Trade Tensions, IMF). This sensitivity was clearly illustrated by the JCI trading halt on March 18, 2025, indicating that the domestic market was already vulnerable even before the April tariff shock had fully taken effect. Therefore, U.S. economic policies should not be understood as the sole cause of the JCI's decline, but rather as an external trigger that amplified pre-existing pressures (Bhima Yudhistira, 2025) (Ekonomika *et al.*, n.d.).

The fourth channel is the sectoral channel, particularly affecting export-oriented issuers. The Indonesian government emphasized that sectors most exposed to U.S. tariffs included electronics, textiles, footwear, rubber, furniture, and fisheries. This indicates that tariff risks were not merely macroeconomic in nature but also affected micro-level expectations regarding profit margins, sales volumes, and the competitiveness of issuers dependent on export markets (Ministry of Trade of the Republic of Indonesia, 2025). Nevertheless, trade data during the initial phase did not indicate an immediate and drastic contraction (*IHSG Anjlok Usai Tarif Trump, Risiko Resesi Global Meningkat – DW – 08.04.2025*, n.d.). Therefore, the correction in the JCI during the first half of 2025 is more appropriately interpreted as a *repricing* of expectations and risk premiums rather than a direct reflection of a decline in realized export performance at that time (Aviliani, 2025).

Table 1

Month	The Closing Price of JCI	Month	The Closing Price of JCI
January	7.109,20	July	7.484,34
February	6.270,60	August	7.830,49
March	6.510,62	September	8.061,06
April	6.766,80	October	8.163,88
May	7.175,82	November	8.508,71
June	6.927,68	December	8.646,94

Monthly Closing Data of the Jakarta Composite Index (JCI) in 2025 (Indonesia Stock Exchange, 2025)

From a market-cycle perspective, the movement of the JCI throughout 2025 can be divided into four phases. The first phase, from January to April, was a phase of risk repricing, during which the JCI experienced a sharp correction, a trading halt occurred in March, and the tariff shock in April further deteriorated market sentiment. The second phase, from May to July, was characterized by an uneven stabilization process. During this phase, the JCI temporarily recovered to 7,175.82 at the end of May, declined again to 6,927.68 at the end of June, and subsequently increased to 7,484.34 at the end of July (PT Bursa Efek Indonesia, n.d.). The third phase, from August to October, represented a period of rebound and rerating, as Bank Indonesia began cutting the BI-Rate, the Federal Reserve began lowering its policy rate, and tariff uncertainty subsided following the establishment of a new trade framework between the United States and Indonesia. The fourth phase, from November to December, was characterized by consolidation followed by year-end strengthening, with the JCI closing at 8,508.71 at the end of November and 8,646.94 at the end of December. Thus, the movement of the JCI throughout 2025 indicates that external shocks originating from the United States exerted significant pressure on the market during the first half of the year, although this influence gradually weakened as global

uncertainty declined and the domestic policy mix became more effective (Sriyono 2025; PT Bursa Efek Indonesia, n.d.).

4.1.2. The Impact of U.S. Economic Policies on the Rupiah Exchange Rate

The rupiah exchange rate is one of the financial market instruments that is highly sensitive to changes in global economic conditions, particularly U.S. monetary and trade policies. In 2025, the combination of trade protectionism and the Federal Reserve's higher-for-longer monetary policy stance placed pressure on rupiah stability. Based on exchange-rate movement data, the rupiah experienced relatively high volatility, fluctuating within a range of approximately IDR 14,700–17,000 per U.S. dollar. From January to May 2025, the average exchange rate stood at approximately IDR 16,474 per U.S. dollar, with the strongest intraday pressure occurring in April, when the exchange rate in the research data reached IDR 17,071 per U.S. dollar (Perkembangan Indikator Stabilitas Nilai Rupiah (24 Desember 2025), n.d.).

These movements indicate that pressure on the rupiah did not originate from a single factor. From the external side, U.S. tariff policies increased trade uncertainty and concerns regarding Indonesia's export prospects, while persistently high U.S. interest rates increased the attractiveness of U.S.

dollar-denominated assets. Differences in rates of return encouraged global investors to reallocate their portfolios toward U.S. assets, thereby increasing capital outflow pressures from emerging markets, including Indonesia. Mishkin (2019) explains that differences in interest rates across countries constitute an important factor influencing short-term exchange-rate movements. Under conditions of heightened trade uncertainty, the flight to safety mechanism also encourages investors to shift funds toward assets perceived as safer, thereby strengthening demand for the U.S. dollar (Krugman, 2020).

These pressures were further amplified by several domestic factors. Bank Indonesia's interest-rate adjustments aimed at supporting economic growth may reduce the relative attractiveness of rupiah-denominated assets when the yield differential with dollar-denominated assets narrows. In addition, domestic political and policy uncertainty, the current account deficit, high demand for imported raw materials and capital goods, foreign-currency liabilities, and changes in global commodity prices also influenced the supply and demand for foreign currency. Weaknesses in regional currencies could further intensify these pressures through contagion effects. Therefore, rupiah depreciation in 2025 is more appropriately understood as the result of interactions between external shocks and domestic vulnerabilities, rather than solely as a consequence of U.S. policies (Rupiah Tertekan, Pakar Ekonomi IPB University Urai Faktor-Faktor Penyebabnya - IPB University, n.d.).

Rupiah depreciation subsequently has the potential to increase the cost of imported goods and raw materials and generate inflationary pressures through the exchange-rate pass-through mechanism. Sectors with a high dependence on imported inputs are particularly vulnerable to rising production costs. This condition demonstrates the interconnected relationship between U.S. economic policies, the foreign exchange market, the real sector, and domestic price stability.

In responding to these pressures, Bank Indonesia employed a combination of stabilization policies, including interest-rate adjustments, foreign exchange market interventions through the spot market and Non-Deliverable Forward (NDF), the use of Domestic Non-Deliverable Forward (DNDF), and purchases of Government Securities (SBN) in the secondary market. The Foreign Exchange Proceeds from Natural Resources (DHE SDA) policy was also directed toward increasing the domestic supply of foreign currency. These measures demonstrate that domestic authorities functioned as shock absorbers to reduce exchange-rate volatility and prevent external pressures from developing into broader financial instability (Kebijakan Bank Sentral Teori Dan Praktik, n.d.).

From the perspective of International Political Economy, the dominance of the U.S. dollar provides the United States with a strong structural position within the global monetary system. Cohen (2015) refers to this advantage as exorbitant privilege, namely the ability of a dominant currency to exert extensive influence over the international financial system. Consequently, changes in U.S. monetary policy can generate cross-border consequences, particularly for emerging markets that remain dependent on capital flows and dollar-denominated transactions.

Meanwhile, from a Game Theory perspective, the relationship between the United States and Indonesia demonstrates the characteristics of asymmetric interdependence. The United States occupies the position of a leader because its policy decisions can alter the structure of incentives and risks in global markets, whereas Indonesia occupies the position of a follower that must adjust its domestic policies accordingly. Pressure on the rupiah illustrates Indonesia's limited policy space in responding to external changes, resulting in a policy response primarily focused on stabilization and damage control. The concept of relative gains is more appropriate for explaining this condition than viewing the relationship as a literal zero-sum game, because the strengthening of the U.S. dollar and U.S. assets does not necessarily imply an absolute loss for Indonesia, but it can widen the asymmetry in bargaining power within the global financial system (Rey, n.d.; Sarti, n.d.).

Thus, the impact of U.S. economic policies on the rupiah in 2025 was significant but did not occur in isolation. U.S. monetary policy and trade protectionism increased pressure through dollar appreciation, changes in capital flows, and heightened global uncertainty, while domestic factors also determined the intensity of exchange-rate responses. Rupiah fluctuations throughout the year and the appreciation phase during the middle of 2025 demonstrate that the effects of external shocks were dynamic. The effectiveness of Bank Indonesia's interventions and domestic policy coordination became important factors in maintaining rupiah stability amid changing global financial conditions.

4.1.3. The Impact of U.S. Economic Policies on the Indonesian Government Bond Market (SBN)

The yield on Indonesian Government Securities (SBN), particularly the 10-year tenor, showed an upward trend from the beginning to the middle of 2025. The yield, which stood at approximately 6.5% at the beginning of the year, gradually increased to around 7.3% by mid-2025. This increase reflected significant pressure on the domestic bond market. Based on the research analysis, the increase in SBN yields was found to be correlated with U.S. monetary policy, which maintained a high interest-rate environment under a *higher-for-longer* approach. This policy increased the yields on U.S. government bonds (*U.S. Treasuries*), encouraging global investors to reallocate their portfolios away from emerging markets toward U.S. dollar-denominated assets perceived as safer and more attractive (Devani Anas Tasya & Usep Syaipudin, 2026)^[4].

This phenomenon is consistent with Hélène Rey's (2015) concept of the *global financial cycle*, which argues that U.S. monetary policy has a dominant influence on global capital flows. Under high-interest-rate conditions, emerging markets such as Indonesia tend to experience pressure in the form of *capital outflows* and increased bond-market volatility. In addition, Maurice Obstfeld (IMF, 2022) explains that monetary policy tightening in advanced economies tends to increase bond yields in emerging markets, as investors demand higher risk compensation amid heightened global uncertainty (IMF Working Paper, 1999).

In Indonesia, this perspective is supported by Bank Indonesia (2025), which recorded foreign capital outflows from the domestic bond market during the early to mid-2025 period.

These outflows resulted in declining bond prices and directly contributed to higher SBN yields. The increase in yields reflected the higher *risk premium* demanded by investors for emerging-market assets.

From a domestic perspective, this view is reinforced by Perry Warjiyo (2025), Governor of Bank Indonesia, who emphasized that Indonesia's monetary stability in 2025 was strongly influenced by global developments, particularly the direction of U.S. interest-rate policy. Bank Indonesia's relatively cautious policy stance indicates that external pressures were a major factor in maintaining financial market stability, including stability in the SBN market. In addition, the Directorate General of Budget Financing and Risk Management (DJPPR) of the Ministry of Finance indicates that movements in SBN prices and yields are important indicators for assessing conditions in the domestic bond market. The increase in SBN yields in 2025 reflected the market's demand for higher risk compensation amid heightened global uncertainty.

Furthermore, Barry Eichengreen (2019) emphasizes that the dominance of the U.S. dollar in the global financial system creates structural dependence for emerging markets (Katusiime, 2025) ^[14]. Under such conditions, changes in U.S. interest-rate policy directly affect the cost of sovereign debt financing in emerging markets through increases in bond yields. From a policy perspective, Ghosh *et al.* (2016) argue that domestic policy responses, such as central bank interventions and liquidity management, are important factors in mitigating the effects of *capital outflows*. In Indonesia, Bank Indonesia intervened through purchases of SBN in the secondary market and strengthened foreign exchange reserves to maintain bond-market stability. In addition, higher SBN yields have significant fiscal implications. Rising yields increase the government's *cost of borrowing*, potentially constraining fiscal space over the medium term. Therefore, developments in the bond market affect not only the financial sector but are also directly related to the sustainability of Indonesia's fiscal policy.

From an International Political Economy perspective, this condition demonstrates that Indonesia's bond market remains subject to the influence of the hegemonic power, namely the United States. The dominance of the U.S. dollar provides the United States with the capacity to influence global capital flows through its domestic policies. Within the framework of Game Theory, this dynamic reflects an asymmetric strategic interaction. The United States acts as the *leader*, while Indonesia occupies the position of a *follower* that must adjust to changes in global policy. Indonesia does not possess sufficient *bargaining power* to influence the *outcome*; consequently, its policy response tends to be reactive rather than proactive.

Thus, the increase in SBN yields in 2025 reflected not only domestic conditions but also external pressures originating from U.S. economic policies. These findings indicate that the stability of Indonesia's bond market is strongly influenced by global dynamics and reflects the limitations of domestic policy space in responding to the economic dominance of advanced economies.

4.1.4. Synthesis of the Impact of U.S. Economic Policies on Indonesian Financial Markets

The discussion in the preceding subsections demonstrates that U.S. economic policies in 2025, encompassing both trade protectionism and the Federal Reserve's *higher-for-longer*

monetary policy stance, had broad and interconnected effects on Indonesian financial markets. These effects did not occur independently across individual financial instruments but instead formed a pattern of systemic pressure reflecting the structural interconnectedness of the global economic and financial system (Dwinata *et al.*, 2025) ^[5].

U.S. protectionist policies through the *Liberation Day Tariffs* contributed to increased global uncertainty and weakened the trade outlook for emerging economies, including Indonesia. This pressure deteriorated investor sentiment and strengthened perceptions of risk toward the domestic market. Meanwhile, the Federal Reserve's monetary policy of maintaining high interest rates strengthened the U.S. dollar and encouraged global portfolio reallocation toward dollar-denominated assets, thereby triggering *capital outflows* from Indonesian financial markets.

The impact of these policies was consistently reflected across the three major instruments of the Indonesian financial market. In the stock market, the JCI came under pressure due to foreign investor outflows and increased global *risk aversion*. In the foreign exchange market, the rupiah depreciated in response to U.S. dollar appreciation and increased demand for foreign currency to meet international payment requirements. Meanwhile, in the bond market, the yield on Government Securities (SBN) increased as a result of higher *risk premiums* and declining foreign investor demand for emerging-market government bonds. This pattern is consistent with Rey (2015), who argues that the monetary policies of core countries generate a global *financial cycle* that constrains the policy autonomy of emerging economies.

From an International Political Economy perspective, these findings demonstrate that U.S. economic policies are not neutral but reflect the strategic interests of a hegemonic power in maintaining its economic stability and dominance. The effects of these policies on Indonesia demonstrate an asymmetric relationship within the global economic system, in which developing countries tend to remain vulnerable to policy changes in advanced economies (Strange, 1996).

This synthesis can also be explained through Game Theory, particularly the concept of Stackelberg *leadership*. The United States acts as the *leader*, establishing policy strategies based on its domestic interests, while Indonesia occupies the position of a *follower* that must adjust its economic and financial policies to mitigate external effects. In this context, U.S. protectionist and monetary tightening policies create a situation that approaches a *zero-sum game*, in which greater economic stability in the United States is accompanied by increased pressure on emerging economies.

Thus, this synthesis demonstrates that the impact of U.S. economic policies on Indonesian financial markets is multidimensional and interconnected. U.S. trade and monetary policies function as external shocks that simultaneously amplify volatility in the JCI, the rupiah exchange rate, and SBN yields. These findings underscore the importance of understanding Indonesian financial market dynamics not only from a domestic perspective but also within the framework of strategic interactions and power structures in the international economic system.

4.1.5. Theoretical and Empirical Implications

The analysis provides several important theoretical and empirical implications for the study of International Political Economy and financial markets in emerging economies.

Theoretically, the findings reinforce the relevance of the International Political Economy (IPE) approach in explaining the effects of economic policies implemented by hegemonic states on developing countries. U.S. protectionist and monetary policies cannot be understood merely as domestic economic policies but rather as strategic instruments with cross-border consequences.

The findings also contribute to the application of Game Theory in the context of international economic relations. The dynamics of the relationship between the United States and Indonesia reflect a pattern of Stackelberg *leadership*, in which the United States acts as the *leader* that determines its policy strategy, while Indonesia occupies the position of a *follower* that must adjust its economic policy response. This situation demonstrates that global economic interactions are not always *positive-sum* in nature but may approach a *zero-sum game* when one country's policies strengthen its position while increasing pressures on another country.

Empirically, this study demonstrates that Indonesian financial markets are highly sensitive to changes in U.S. economic policies. Pressure on the Jakarta Composite Index (JCI), rupiah depreciation, and increases in Government Securities (SBN) yields occurred through interconnected global transmission mechanisms, including the trade channel, exchange-rate channel, capital-flow channel, and risk channel. These findings are consistent with the perspective of Obstfeld and Taylor (2017), who argue that financial openness increases the vulnerability of emerging economies to external shocks.

Another empirical implication concerns the importance of domestic policies in mitigating these external effects. Although this study does not focus specifically on Indonesia's domestic policies, the analysis indicates that domestic financial market stability is strongly influenced by the ability of national authorities to maintain monetary policy credibility, fiscal stability, and effective policy communication with market participants. This supports the argument of Ghosh *et al.* (2016) that domestic policy responses are a key factor in determining the magnitude of spillover effects from policies implemented by advanced economies.

Thus, the theoretical and empirical implications of this study demonstrate that U.S. economic policies in 2025 not only affected short-term fluctuations in Indonesian financial markets but also reflected structural challenges faced by emerging economies within an asymmetric global economic system. Understanding these implications provides an important foundation for formulating more adaptive economic and financial policies in response to future global dynamics.

5. Conclusion

U.S. trade and monetary policies in 2025, particularly the *Liberation Day Tariffs* and the Federal Reserve's *higher-for-longer* policy stance, exerted pressure on Indonesian financial markets through the trade, exchange-rate, international capital-flow, and global risk and sentiment channels. These effects were reflected in increased JCI volatility, depreciation pressures on the rupiah, and rising SBN yields, particularly during the early to mid-2025 period. The analysis indicates that U.S. monetary policy primarily affected Indonesian markets through U.S. dollar appreciation

and portfolio reallocation toward U.S. assets, while tariff policies increased trade uncertainty and market risk. Nevertheless, the intensity of these effects was also influenced by domestic conditions and the policy responses of the Indonesian government and Bank Indonesia in maintaining financial market stability.

From the perspectives of International Political Economy and Game Theory, these conditions demonstrate an asymmetric relationship between the United States, which possesses substantial influence over the global financial system, and Indonesia as an emerging economy. Therefore, U.S. economic policies not only represent external factors affecting the performance of Indonesian financial markets but also highlight the limited policy space available to emerging economies when responding to economic policy changes implemented by hegemonic powers.

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