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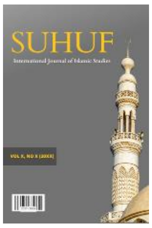

Analysis of the Influence of the US-China Trade War on the Indonesian Economy and the Potential of Sharia Investment as a Solution

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ABSTRACT

The trade war between the United States and China that began in 2018 significantly impacted the global economy, including Indonesia. The tariff policy implemented by the U.S., especially the one that will continue at its peak in 2025, causes global economic uncertainty, disrupts international supply chains, and lowers Indonesia's trade with the two countries. This study aims to analyze the role of sharia investment in reducing the impact of protectionist policies implemented by the U.S. and China on the Indonesian economy. Using a descriptive qualitative approach with thematic analysis methods and a systematic literature review, this study identifies that Sharia investment can strengthen Indonesia's economic resilience, especially by diversifying funding sources to real sectors such as infrastructure and renewable energy. The findings suggest that sharia investment, with the principles of prudence and sustainability, can be an alternative solution that reduces dependence on volatile global markets and enhances Indonesia's economic stability amid global uncertainty.

1. Introduction

1.1. Chronology of the U.S.–China Trade War (2018–2025)

1.1.1. Initial Phase

The U.S.–China trade war began in March 2018 when the United States imposed global tariffs of 25% on steel and 10% on aluminium. On July 6, 2018, the U.S. escalated the conflict by applying a 25% tariff on $34 billion worth of Chinese imports. In response, China imposed retaliatory tariffs on American goods. Between August and December 2018, the scope of tariffs expanded significantly, covering up to $250 billion in traded goods. In 2019, the U.S. imposed additional tariffs on another $300 billion in Chinese consumer products, with rates ranging from 10% to 25% [1], [2].

1.1.2. Static Phase

In January 2020, both countries signed the "Phase One" trade agreement under President Trump, which led to the reduction of some tariffs, though most remained in place. Between 2021 and 2023, under the Biden administration, no significant changes were made to the tariff structure. While there were no major escalations, most tariffs stayed in place at around 25%, and the trade relationship remained tense, though some dialogue for reform began to emerge [1].

1.1.3. Peak Phase

In 2024, during his presidential campaign, Donald Trump advocated for a more aggressive trade stance, referring to high tariffs as a "patriotic tool." At the beginning of 2025, anticipating

New U.S. trade policies, China significantly increased its exports to the U.S. in a practice known as frontloading. In March 2025, President Trump declared that tariffs of up to 50% could represent a “total victory.” The situation peaked in April 2025, when Trump announced plans to implement tariffs as high as 145% on selected Chinese imports, especially those related to technology and strategic manufacturing sectors [3].

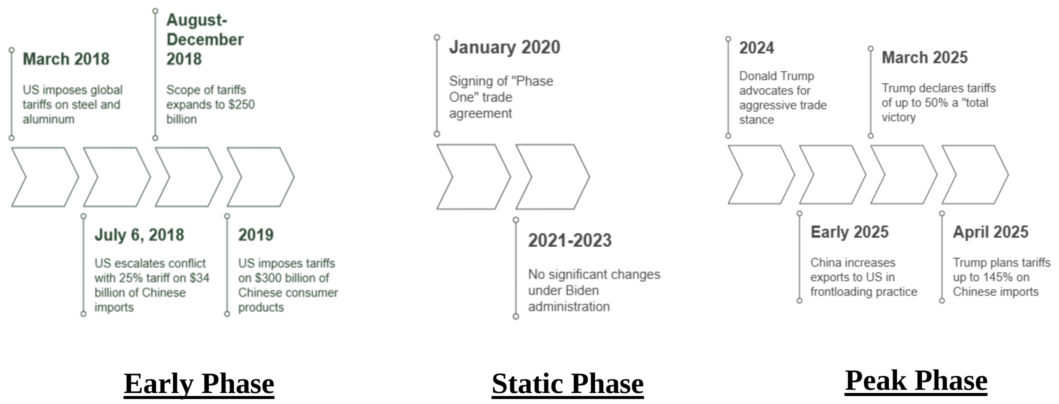

Fig.1. Timeline of the import tariff increase policy
Source: Executive Order 14257, April 2, 2025.

Since the trade war began in 2018, there has been a decline in GDP globally. Although relatively small, the world noted that global GDP decreased by 374 billion dollars or minus 0.3%. So, the world's GDP suffered a significant loss, namely 450 billion dollars, when the global value index was included [4].

The peak of this trade tension will be reached in 2025 when Donald Trump returns to office as U.S. President and launches a more aggressive tariff policy. On April 2, 2025, the U.S. raised import tariffs on goods from China to 54%, and on April 10, 2025, the tariff even increased drastically to 145%. In response to this move, China raised tariffs on imported goods from the U.S. On April 11, 2025, China raised tariffs on U.S. goods from 84% to 125% in retaliation for U.S. tariff policies that are increasingly burdening their economies [3].

The U.S.-China trade dispute led to a decline in trade, which prompted China to look for alternative suppliers for a variety of goods, including pulp and paper products. As a result, Indonesia's status as China's main trading partner in these sectors has increased, with the centre of gravity of Chinese paper product imports shifting from the U.S. and Japan to Indonesia and Russia [5].

The trade war has prompted global producers to relocate production out of China to avoid tariffs. This provides an opportunity for Indonesia, as the largest economy in ASEAN, to attract new investment. However, Indonesia has not benefited as much as some neighbouring countries, such as

Vietnam, in attracting producers who move exports. This lack of substantial gains is due to Indonesia's need for more accommodative investment policies and better trade-related assistance [2].

Sharia investment can also be a buffer against market shocks through the distribution of funds to the strategic and real infrastructure sectors [6] and support major projects for the progress of a country that are factors for the empirical economic growth of a country or in real sectors such as the productivity of goods and services [7].

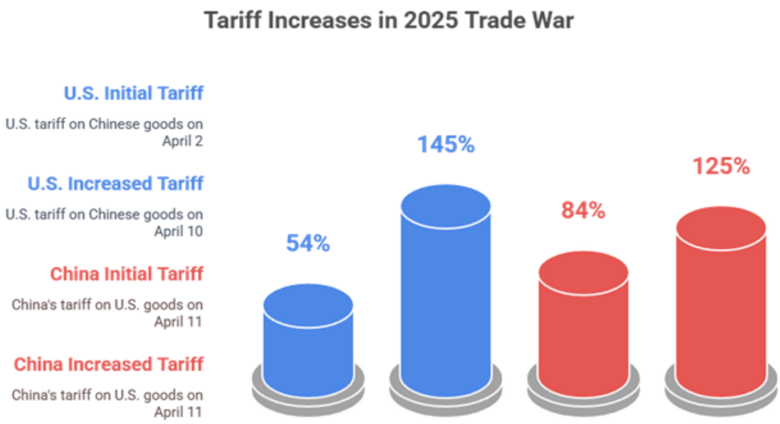

Fig.2. Peak of the U.S.-China tariff war
Source: Executive Order 14257, April 2, 2025

1.2. Research Gaps

Previous studies [4], [8] only analyze the impact of the trade war in general but have not explored the role of sharia investment as a solution to Indonesia's economic resilience. Islamic investments have proven to be a strategic alternative that offers the benefits of diversification and value protection in conventional portfolios [9], [10]. This study aims to investigate how sharia investment can be an effective instrument in mitigating the negative impact of high tariff policies in the US-China trade war on the Indonesian economy, especially in more realistic economic sectors.

This has a huge potential to guard against the negative impact of the peak of the trade war that occurred between the United States and China, especially the protectionist system carried out by President Donald Trump by raising basic tariffs on exports and imports on the distribution of circulating goods. In protectionism and trade wars, particularly between the U.S. and China, have a significant economic impact, while Islamic financial solutions, including Sharia-compliant credit and digitalization in Islamic banking, can enhance financial inclusion and new alternatives [11].

This research aims to examine how Sharia investment can be an effective instrument in reducing the negative impact of trade carried out by the United States with China on the Indonesian economy. During a trade war, high tariff policies can affect the stability of certain sectors in exports and imports because Sharia investment focuses a lot on more realistic economic sectors such as agriculture, energy, and infrastructure, which have the potential to be a solution.

And from this research, it is hoped that it will be able to provide the best recommendations to policymakers in order to optimize the economic potential of Indonesia as a country with the largest Muslim majority population in the world.

2. Method

This study uses a descriptive qualitative approach to explore the role of sharia investment in reducing the negative impact of high tariff policies arising from the global trade war, especially between the United States and China, on the Indonesian economy [12]. This approach was chosen because it is able to explore the meaning, perception, and interpretation in depth related to the contribution of sharia investment in maintaining national economic resilience in the midst of global uncertainty [13].

The analysis method used in this study is thematic analysis [14]. The researcher identified key themes from the literature to understand the patterns, relationships, and narratives regarding Islamic investment in the context of trade wars. To ensure systematics in data selection, a systematic literature review approach is used [14], [15]. The selection stages are based on the following criteria:

a. Types of documents: academic journals, official reports of financial institutions (e.g., BPS, National Archives, BI), white papers of Islamic financial institutions, and financial market publications.
b. Period: Publication in the range of 2020–2025.
c. Keywords: sharia investment, trade war, Indonesia's economic resilience, trade tariffs, and sharia economic stability.

The literature selection process is visualized through the PRISMA flowchart. Starting from identification, screening, and eligibility to the final stage of data inclusion [16].

Data collection was carried out using literature and documentation study techniques, then analyzed in depth to build a theoretical understanding of how Sharia investment can be an alternative solution to global economic turmoil [17].

3. Results and Discussion

3.1. Projected Impact of the US-China Trade War on Indonesia (Peak Period)

The global trade war, especially between the United States and China, has had a very large influence on the world economy, one of which is Indonesia, which is a developing country. There are a few points that can be the basis for the review:

3.1.1. Indonesia is Hit by "Excess Supply" because China is Dumping

Exports from China jumped by 12.4% year-on-year to USD 313.9 billion in March 2025, well above market forecasts of 4.4% and up sharply from a 2.3% increase in the January-February period. This marked the fastest increase in overseas sales since last October, signaling the anticipation of expected frontloading ahead of U.S. tariffs under the Trump administration, which will take effect in April.

3.1.2. The Rupiah Suffers its Worst Weakening Since 1998

Fig.4. Exchange Rate of Indonesian Rupiah (IDR) to U.S. Dollar (USD), 2018–2025

Source: Trading Economics, 2025, https://tradingeconomics.com/indonesia/currency

The USD/IDR 2018–2025 movement chart shows a gradual trend of the rupiah weakening, with large fluctuations in crucial periods. At the beginning of the trade war (2018), the rupiah began to weaken slightly in line with global uncertainty, then soared sharply at the peak of the COVID-19 crisis in March 2020. After that, the rupiah strengthened until 2021, then weakened again when U.S. interest rates were raised, and macro conditions worsened until it reached a new record low after the announcement of aggressive U.S. tariffs in April 2025. The important periods reflected in the chart are the beginning of the 2018 trade war, the escalation of tensions in 2019–2020, the impact of the pandemic, economic recovery in 2021–2023, and Trump's April 2025 tariffs [18].

Unexpected U.S. policies (e.g., Trump's tariff spike) further reinforce the effect of risk sentiment. In the April 2025 scenario, for example, a sudden announcement of U.S. tariffs unsettles global markets. Concerns about capital flight from America (capital outflows from the U.S. market) made the dollar index weaken to its lowest level. However, for Indonesia, the impact is the opposite: the slowdown in export demand and the global confidence crisis continue to trigger capital flight from the domestic market and weaken the rupiah [19].

Indonesia's export turmoil has not been seen significantly; this is because Indonesia has a large non-bloc market to maneuver exports outside the U.S. and China. However, even so, financial and stock markets were hit hard, as the two charts above depict.

This is due to global investors looking for alternatives from developing countries (including Indonesia) to safe-haven assets such as U.S. dollars, gold, and U.S. Treasury bonds. This then has an impact on the weakening of the rupiah and the plummeting of the JCI.

3.1.3. Indonesia's Composite Stock Price Index Crashes.

The Composite Stock Price Index (JCI) chart reflects the high sensitivity of the Indonesian capital market to global dynamics, especially the protectionist policies of major countries. After the announcement of an import tariff of 145% by the President of the United States, Donald Trump, on April 4, 2025, the JCI, which was previously at a peak position of around 7,820 points, experienced a drastic decline of more than 1,300 points or around 17%, touching the lowest level in the range of 6,480 points in less than a month [18].

This sharp correction is one of the largest declines since the beginning of the post-COVID-19 pandemic recovery in 2020, which at that time also recorded a decline in the JCI of up to 2,000 points within two months.

The latest decline reflects the panic of foreign and domestic investors who are worried about the risk of further global trade wars, the potential for the weakening of Indonesia's exports, and the depreciation of the rupiah exchange rate. As a developing country with a fairly high economic openness, Indonesia's market fluctuations are highly susceptible to external turmoil, and this graph is empirical evidence that unilateral policies of large countries such as the U.S. can directly suppress the liquidity and valuation of the Indonesian stock market in the short term [18].

This situation shows that Indonesia's resilience is still very vulnerable to uncertain dynamics in the US-China trade war. Therefore, alternative strategies are needed that can be used as solutions to survive this wave, such as by using sharia investment based on the real sector and strengthening domestic resources.

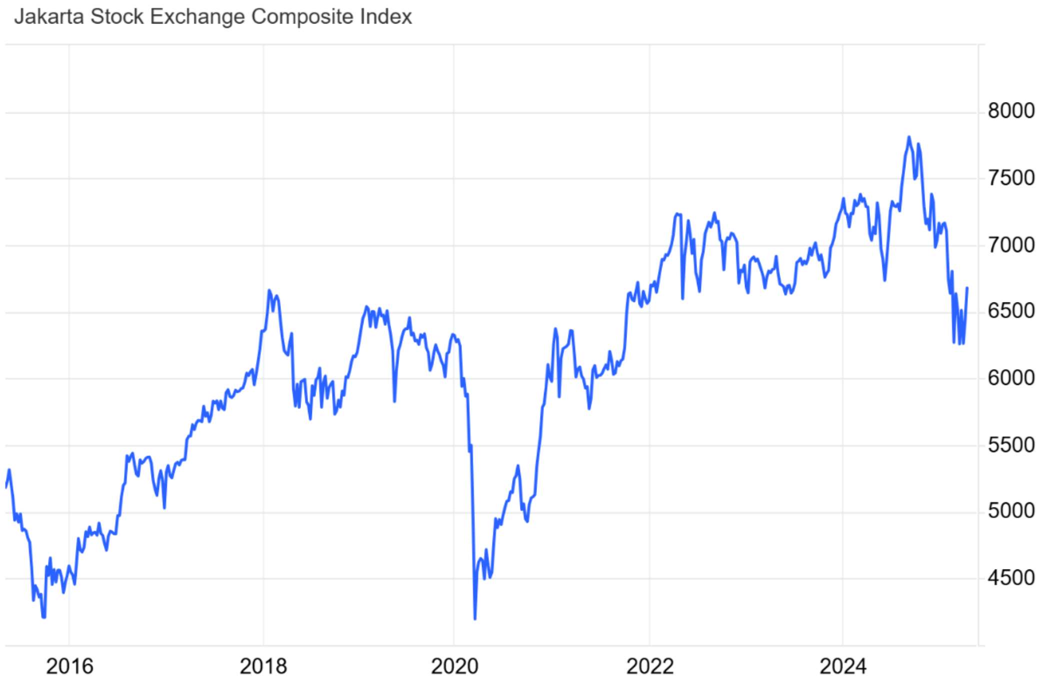

Fig.5. Jakarta Composite Index (JCI) Performance, 2016–2025.

Source: Trading Economics, 2025, https://tradingeconomics.com/indonesia/stock-market

3.2. Sharia Investment as an Alternative

3.2.1. Avoiding Dependence on Global Supply Chains and Real Asset-Based economic stability

China's exports jumped by 12.4% on an annual basis in March 2025, which reached USD 313.9 billion and recorded the fastest growth since October of the previous year, shows a strong indication of the acceleration of the delivery of goods or frontloading by Chinese exporters.

This is believed to be a strategic response to the new tariff policy that will be imposed by the United States under the Trump administration in April. This acceleration has the potential to encourage a flood of Chinese products in the global market, including in Indonesia, thereby creating significant pressure from the supply side [20].

In this context, one of the mitigating strategies that Indonesia can adopt is to strengthen Sharia-based investment. Islamic investment, with the principle of prudence and attachment to the real sector, is considered more resilient in the face of external turmoil [21]. The profit-sharing system in Islamic investment not only encourages a fairer economic distribution but also minimizes speculative elements that often exacerbate market volatility [22]. Thus, sharia investment can act as an adaptive stabilization instrument in responding to global pressures due to the dynamics of trade wars and international oversupply [23].

For example, by 2024, Pakistan is showing significant progress in the Islamic finance sector. Meezan Bank, the country's largest Islamic bank, posted a jump in net profit of 88% to Rs 84.5 billion (about $305 million), making it the most valuable bank in Pakistan, with a market capitalization of $1.5 billion [24].

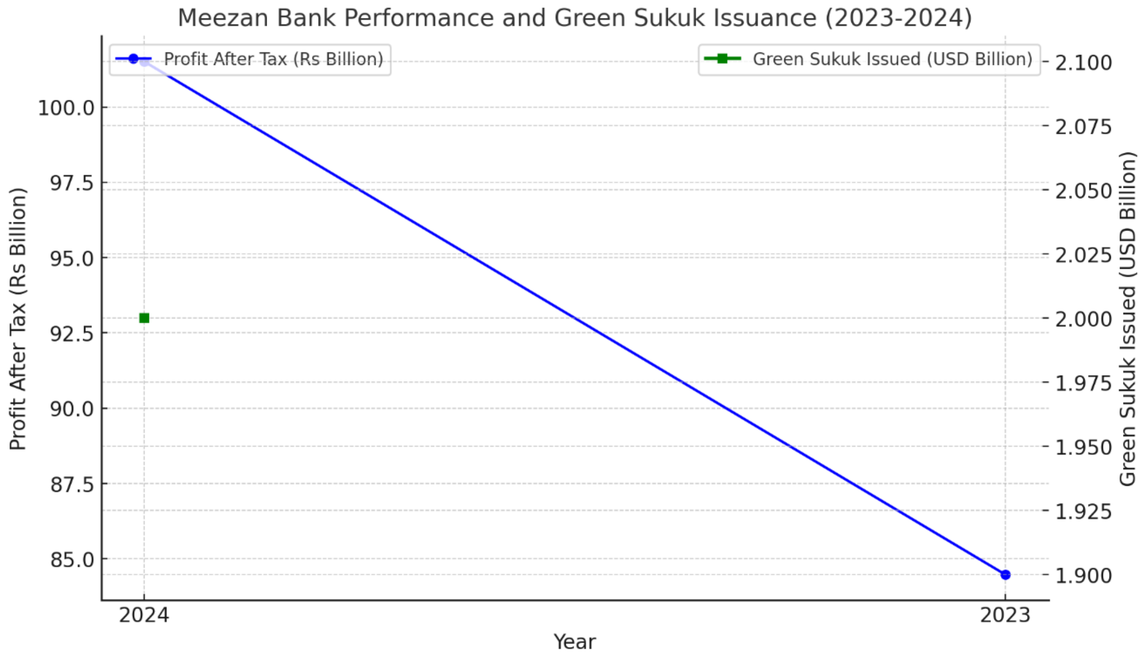

Fig.6. Meezan Bank Performance and Sukuk Issuance (2023-2024)

Source: Meezan Bank Annual Report 2024

This success is driven by investments in government sukuk and efficient cost management strategies. In addition, Pakistan issued $2 billion worth of green sukuk to finance renewable energy projects, which are in demand by up to 300%, attracting investors from the UAE and Singapore [24].

3.2.2. Diversification of Funding Sources

Reliance on funding injections from the United States and China is particularly risky, as both countries typically limit capital infusions. Meanwhile, Sharia investment can actually widen the reach to the world of funding of Islamic countries in the world, such as the UAE, Saudi Arabia, or countries that are members of the OIC [25].

For example, Green Financing and Green Sukuk represent the diversification of funding sources that are increasingly important in the Malaysian economy. With green sukuk and ESG-based financing, Malaysia is not only relying on traditional funding, such as loans or investments from major countries (e.g. the United States and China) but also tapping into the funding potential of Islamic countries and global investors interested in investments that support sustainability and social responsibility [26].

The following is a bar graph illustrating Green Financing and Green Sukuk Issuance in Malaysia for 2024. This graph shows the amount of RM 240 billion for green financing, while the issuance of green sukuk was recorded at RM 194 billion. These figures reflect Malaysia's commitment to encouraging sustainable investment based on Environmental, Social, and Governance (ESG) principles [27].

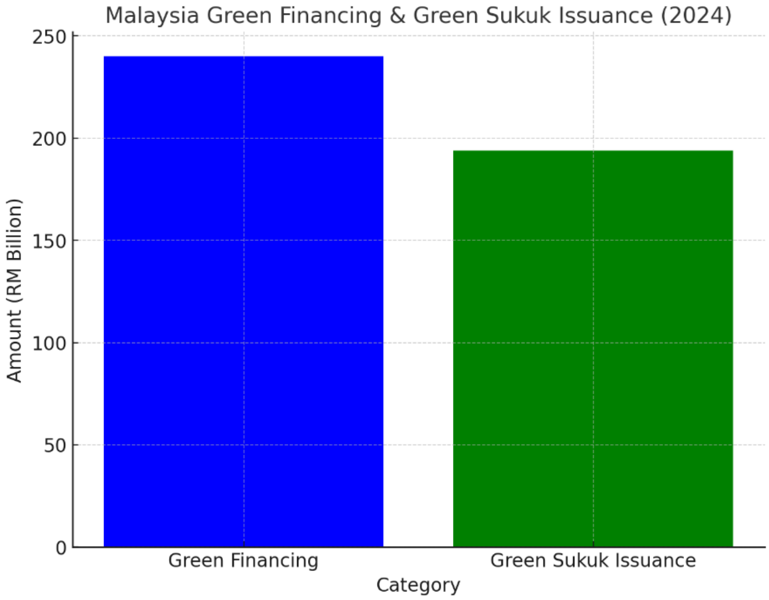

Fig.7. Green Financing and Green Sukuk Issuance in Malaysia, 2024.

Source: Bank Negara Malaysia Annual Report 2024

The RM240 billion green financing represents significant growth in sectors that support environmental and social sustainability, while the issuance of RM194 billion in green sukuk strengthens Malaysia's position as a global hub for sharia sukuk, attracting interest from OIC (Organisation of Islamic Cooperation) countries such as Qatar and Saudi Arabia. This increase not only strengthens the country's financial resilience but also reduces dependence on conventional funding, creating diversification in more sustainable and stable sources of financing [27].

3.2.3. Economic Stability is Based on Real Assets and Renewable Energy.

Prioritizing ownership of real assets such as property, commodities, or infrastructure whose value is not dependent on uncertain speculation. These assets are far from abstract financials that are susceptible to price shocks. In recent trade wars, market volatility is often triggered by tariff policies that affect investor confidence [28].

By prioritizing these assets, Sharia investment can become a better economic foundation. For example, the wealth of port or power plant development remains stable because it relies on real projects, even when the trade war causes major shocks in the stock sector. A 2021 study by Bank Indonesia shows that Sharia investments in the Southeast Asian region are more resilient to crises than conventional investments because there are very narrow opportunities for speculation [29].

For example, Saudi Arabia is currently diversifying its economy by shifting from dependence on the oil sector to the development of real assets and renewable energy. This strategy has proven effective in counteracting the impact of global economic shocks, such as those caused by the trade war between the United States and China.

Here is a graph showing the movement of the Saudi Arabian currency (SAR):

Fig.8. Exchange Rate of Saudi Riyal (SAR) to U.S. Dollar (USD), 2025.
Source: Trading Economics, 2025, https://tradingeconomics.com/saudi-arabia/currency

From the chart above, it appears that SAR remains stable amid global economic uncertainty despite some oil price fluctuations and international trade policy announcements, such as tariffs imposed by the United States on China. In the period January to April 2025, the USD/SAR exchange rate showed relatively small fluctuations, with a slight increase in late March to early April, which could be due to market sentiment or other external factors. Overall, the Saudi Riyal (SAR) showed strong stability, largely influenced by the peg to the U.S. dollar policy implemented by Saudi Arabia. This ensures that the Riyal exchange rate remains within a narrow range despite global volatility, such as in the trade war between the United States and China.

The Saudi government's policies of large foreign exchange reserves and large investments in the non-hydrocarbon and renewable energy sectors also help maintain economic stability and support market confidence in the country's economy. Thus, despite the global economic shocks, the Saudi Riyal has managed to reduce dependence on oil price fluctuations and maintain exchange rate stability in the long run. In addition, Islamic investment, which is growing rapidly in the financial and infrastructure sectors, has also played an important role in stabilizing the Saudi economy, providing a more sustainable financing alternative and strengthening market confidence in the country's financial stability [30].

4. Conclusion

4.1. Impact of the U.S.-China Trade War

a. The US-China trade war has reduced global trade, affecting Indonesia, especially in the export-import sector. The tariffs imposed by the U.S. on goods from China cause significant disruptions to supply chains and fluctuations in the global economy.

b. Indonesia experienced a decline in exports and foreign capital releases, which led to the depreciation of the rupiah exchange rate, while Indonesia's Composite Stock Price Index (JCI) also fell drastically after the announcement of high tariffs in 2025.

c. Indonesia has not made substantial gains compared to countries such as Vietnam in attracting investment from the relocation of production due to the trade war, which shows the need for more adaptive and supportive investment policies.

4.2. The Role of Sharia Investment

a. Islamic investment has proven to be an instrument that can mitigate the negative impact of trade wars, especially by diversifying funding sources through the real sector and infrastructure that is not dependent on volatile global markets.

b. With the principles of fairness and attachment to the real sector, sharia investment can help stabilize the Indonesian economy, reduce market speculation, and provide a fairer economic distribution.

c. For example, the success of sharia investments in other countries such as Pakistan and Malaysia show that green sukuk and ESG-based financing can be attractive alternatives to sustainable financing.

4.3. Recommendations

a. Development of the Halal Industry and Real Sector. The Indonesian government can further develop the halal industry sector and strengthen the Sharia-based investment framework in real sectors such as renewable energy and infrastructure. The issuance of sukuk or sharia bonds should be further encouraged as an alternative source of financing that does not depend on global economic influences, which can provide stability for Indonesia in the face of international trade uncertainty.

b. Policies Supporting Sharia Investment. There needs to be more accommodative policies to attract more Sharia investments, especially those that could involve Islamic countries with greater funding potential, such as those from the UAE and Saudi Arabia. Sharia investment based on real and sustainable projects can be a long-term solution that helps Indonesia maintain economic resilience amid global turmoil.

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