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Has Trump's Tariffs on Japanese Products Lowered the Stock Prices in Japan?

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Abstract: The second Trump administration announced that it would impose reciprocal tariffs on many countries, including friendly ones, in April 2025. The unprecedented high tariff rates except for the first half of the 1900s came as a significant shock to countries all over the world because many economies, especially developed ones have been exploring the path to free trade through lowering tariffs or removing regulations by concluding trade agreements etc. Japan was no exception. This study analyzes the impact of Trump's tariffs on Japanese stock prices. For example, maintaining the status quo in Japan's policy interest rate amid a possible increase suggests a rise in stock prices. A cut in the US policy interest rate would mean a narrowing of the interest rate differential between Japan and the US (US interest rates are significantly higher than Japan's), which would lead to a fall in Japanese stock prices through a stronger Japanese currency, yen. Furthermore, President Trump's posts (SNS), in Japan's case, are generally thought to have had a negative effect on Japanese stock prices. The suggestion of a significant increase in tariff rates by the post is one example of this. This study examines factors that have both positive and negative effects on Japanese stocks and consider the causes of changes in Japanese stock prices. Meanwhile, this study analyzes macroeconomic variables that are thought to affect stock prices: exchange rates and interest rates. The results show that various statements, policy announcements, and posts by President Trump had no impact on Japanese stock prices in a short time; only the exchange rate affected them. Furthermore, exchange rate shocks only affected stock prices for a few days.

Keywords: Exchange rate, Interest rate, Japan, Stock, Trump tariff, US.

INTRODUCTION

From the beginning of 2025, US President Trump has begun to conduct drastic policies. Among them, introducing ultra high-level tariffs on products all over the world surprised and shocked many countries. Except for the first half of the 1900's, nearly all countries have not experienced tariffs at a level this high. After the war, countries realized that economic disputes, especially tariffs, had increased tensions, and accelerated the movement toward free trade, including the creation of GATT. Tariffs and regulations were reduced or eliminated, and in fact, some progress was seen. Large trade and current account balances became problems between countries, and exchange rates became an issue, but these did not lead to major conflicts.

Japan is one the countries that has few natural resources and recently the population, namely economic scale has been decreasing comparatively. Also, the US is the main exporting country along with China for Japan. This issue caused a big uproar in Japan. Some believe that the cause of World War II was the imposition of high tariffs by the great

powers on countries other than their colonies. Regardless of its validity, the idea found in international economics textbooks is that tariffs bring no benefits and that free trade is desirable.

A few months have passed since the high-level tariffs have been applied, however, serious and tragic economic situations have not been realized on either the Japanese or the US economy. Another important factor is that an agreement between Japan and the United States has made it possible to implement tariffs at a lower level than the initial tariff rates. However, after the announcement of the reciprocal tariffs, the United States experienced a triple decline in stocks, bonds, and currency at the beginning of April 2025, and Japan was also affected, albeit temporarily. A stock price decline in April 2025 has been avoided.

This study focuses on the impacts of Trump tariffs on Japanese stock prices. Empirical method is used for this analysis. This proceeds as follows. Section 2 reviews existing papers. Section 3 provides the empirical methods to analyze this issue. Following section 3, the results of the empirical analyses are provided in section 4. Section 5 provides evidence of the relationship between Trump tariffs and Japanese stock prices. Finally, this study is concluded with a summary of this research and future work.

EXISTING STUDIES

In a short time after President Trump's announcements on April 2, a lot of papers on the drastic measures of tariffs have been published. This issue has received a lot of attention, not only from applied fields, but also from academic fields.

Calusing and Lovely (2024) showed that Tariffs create inefficiencies and mutual damage, resulting is difficulties cooperating with allies and partners to settle the most serious international problems. Georges (2025) concluded that the U.S. risks losing trust among its allies and diminishing its economic dominance due to aggressive trade policies.

Pempel (2019) showed that showed that the Trump administration has escalated economic challenges into existential threats, ignoring the numerous benefits of China policies and ignoring multiple areas in which China is a strong global partner. Larres (2020) revealed that President Trump has pushed the transatlantic relationship to the brink of collapse. Naude and Cameron (2025) suggested that the US's trade policies might push the Netherlands and the EU toward being closer allies with other global economies, reducing the US's geopolitical standing. Fetzer and Schwarz (2021) revealed that China appears to be focused on maximizing political targeting, while the EU seems to have succeeded in decreasing economic damage. Xiaochuan et al. (2024) showed that Trump tariffs on China in 2018 and 2019 lead to positive returns to China.

In the US, too, studies have begun to be presented. Selmi et al. (2020) showed that initial impact of trade tensions was larger than expected, suggesting that it may reflect an uncertainty shock on IT (information technology), industrial, and energy parts. Clausing and Obstfeld (2024) showed that replacing income taxes with high tariffs would harm the U.S. economy, increase the tax burden on the poor and middle class, and provoke trade wars with allies. While tariffs could generate revenue for income tax cuts, they would distort economic activity and have regressive distributional effects. Furthermore, tariffs could strengthen the U.S. dollar, hindering global economic growth and potentially impeding

international cooperation. Lee and Zareef (2025) showed that such trade policies have an impact on international trade, supply chain.

Gjerstad et al. (2021) suggested that the US and the Chinese stock market respond negatively; gold price responds positively. Piserà et al. (2025) indicated the EU market's dependence on US trade policies and demonstrates a negative opinion about the EU's vulnerability. Wengerek et al. (2025) found that tariffs result in negative stock returns. Furthermore, this negative effect is driven primarily by announcements related to China and varies across sector, tariff, trade, and firm characteristics. However, since not much time has passed, there is little study focusing on stock prices, especially Japanese prices. This study empirically focuses on this issue. Employing empirical methods, it examines the relationship between Trump's tariffs and Japanese stock prices.

EMPIRICAL METHODS

Stock prices in general are influenced by many factors. For macroeconomic variables, interest rates and exchange rates have been said to be important factors. This study examines the effect of Trump's tariffs on Japanese stock prices employing these two variables. Along with these two variables, positive news and negative news on Japanese stock prices are used for estimations. Moreover, President Trump's posts (SNS) on Japanese tariffs are used. It can be judged that all of the posts on tariffs have negatively impacts on Japanese stock prices without any exceptions.

For example, maintaining the status quo in Japan's policy interest rate amid a possible increase suggests a rise in stock prices. A cut in the US policy interest rate would mean a narrowing of the interest rate differential between Japan and the US (US interest rates are significantly higher than Japan's), which would lead to a fall in Japanese stock prices through a stronger yen. Furthermore, President Trump's posts, in Japan's case, are generally thought to have had a negative effect on Japanese stock prices. The suggestion of a significant increase in tariff rates is one example of this. Table 1 is the list of positive news, negative news, and President Trump's posts.

Table 1: News and POSTS for Japanese stock prices.

	Positive news	**Negative news**	**President Trump's posts**
February 3		President Trump signed a document imposing an additional 25% tariff on steel and aluminum products imported by the United States.	
February 13			President Trump called for the introduction of "reciprocal tariffs" that would raise tariffs to a level equal to that of trading partners.

February14			President Trump stated that tariffs on imported automobiles would be announced "around April 2nd," and also mentioned the introduction of additional tariffs on semiconductors and pharmaceuticals.
February19			President Trump announced automobile tariffs of "around 25%" in April; similar level for pharmaceuticals under consideration.
March 27		President Trump announces 25% automobile tariffs, effective April 3rd for all imported vehicles.	
April 3		President Trump announces reciprocal tariffs, with Japan at 24% and individual country-specific tariff rates.	
April 25	No demand for "correction of the strong dollar" at Japan-US finance ministers' meeting regarding Trump's tariffs	Japanese and U.S. finance ministers agree to continue constructive discussions on currency issues.	
April 26			President Trump said Japan-US tariff negotiations are "going well"; there is "no chance" of extending the suspension.
April 30	The US administration announces automobile tariff reductions; Trump calls for "a short transition period"		
May 1	The Bank of Japan's Governor Ueda says Trump's tariffs are "not negligible"; further interest rate hikes postponed		
May 13	US and China agree to reduce tariffs by 115%		

	for 90 days, with tariffs on China at 30%		
May 22	No discussion of exchange rate "targets"; Japan-US finance ministers hold second meeting; tariffs discussed at G7		
May 29	Prime Minister Ishiba and Trump hold approximately 25-minute phone call; tariffs "will be worked out between cabinet ministers in charge"		
May 31	Japan said "progress is being made toward an agreement" in Japan-US tariff negotiations after fourth round of negotiations		
June 4		President Trump signed agreement to double steel and aluminum tariffs to 50%, excluding the UK.	
June 7		Japan-U.S. tariff talks fail to reach agreement after fifth round; just over a week until summit.	
June 13			President Trump mentions raising automobile tariffs; further headwinds for Japan?
June 19	The Federal Reserve Board kept interest rates unchanged for four consecutive meetings; forecast maintains two rate cuts this year		
July 2			President Trump says "Agreement with Japan is questionable" and hints at imposing 30-35% tariffs
August 4		Opposition parties pursue discrepancies between Japan and the U.S. over	

		unwritten tariff agreement; first Diet debate since House of Councilor's election.	

These three contents are employed in estimations as explanatory variables using 1 (existing case) or 0 (non-existing one). This study also uses daily macroeconomic variables that are thought to affect stock prices: exchange rates and interest rates. NIKKEI 225 is used for stock price and yen-dollar exchange rate are used. The data is the daily average and the rate of change is used. The data are from NEEDS-FinancialQuest. Before conducting regression analyses, statistical descriptions of the daily Japanese stock price and exchange rate are presented in Table 2. The sample period is from February 3 (Monday) to August 15 (Friday) in 2025 according to the Table 1.

Table 2: Statistical descriptions.

	Stock Price	Exchange Rate
Average	0.0003	-0.0001
Standard error	0.0006	0.0002
Medium	0.0006	2.97E-05
Standard deviation	0.007	0.003
Variance	5.47E-05	1.08E-05
Kurtosis	9.887	0.529
Skewness	0.152	-0.335
Minimum	-0.035	-0.010
Maximum	0.037	0.008

The estimated estimations are (1) and (2).

$$\text{STOCK PRICE} = a1 + a2\text{EXCHANGE RATE} + a3\text{INTEREST RATE} \quad (1)$$

$$\text{STOCK PRICE} = a1 + a2\text{EXCHANGE RATE} + a3\text{POSITIVE} + a4\text{NEGATIVE} + a5\text{POSTS} \quad (2)$$

The estimation methods are OLS (Ordinary Least Squares) and RLS (Robust Least Squares). The RLS method has a strong advantage over outliers: even if the data contains noise or abnormal values, the accuracy of the model is unlikely to be significantly affected. This method is also useful because data often does not follow an ideal normal distribution. The reason why interest rate differential is excluded in the equation is explained after the results of the equation is presented.

Finally, the sample period is from February 3 to August 15 in 2025.

EMPIRICAL RESULTS

First, only exchange rate and interest rate are used to estimate. The estimated equation is (1). The results are in Table 3.

Table 3: The results of the equation (1).

	OLS	RLS
C (t-statistic/z-statistic)	0.012 (0.258)	0.039 (1.332)
EXCHANGE RATE	1.038*** (5.660)	0.753*** (6.578)
INTEREST RATE	0.003 (0.248)	0.011 (1.313)
Adj.R^2	0.198	0.154
F-statistic/Rn^2 statistic Prob (F-statistic/Rn^2 statistic)	16.030 (0.000)	44.004 (0.000)
Schwartz criterion	7.105	159.307

Note: *** denotes significant at 1% level.

Depreciation of Japanese yen has led to rising in stock prices as expected. Large Japanese companies owe profits to exports, so depreciation of the currency contributes to the rising in stock prices. However, it is interesting to note that interest rate differential has not had an impact on Japanese stock prices. During the estimation period, there were no changes in policy interest rates in either Japan or the U.S. Therefore, market interest rates did not fluctuate significantly, and it is believed that the impact of interest rates in Japan on stock prices was minor. The results of the equation (2) are in Table 4. Instead of the equation (1), three dummy variables (the coefficients are a3, a4, and a5) are included for estimation, however, the interest rate differential is excluded because in the equation (1), the coefficient is insignificant. The results of the equation (2) are in Table 4.

Table 4: The results of the equation (2).

	OLS	RLS
C (t-statistic/z-statistic)	0.000 (0.538)	0.000 (1.279)
EXCHANGE RATE	1.024*** (5.572)	0.743*** (6.321)
POSITIVE	0.002 (1.107)	0.000 (0.578)

NEGATIVE	-0.000 (-0.112)	-0.000 (-0.382)
POSTS	-0.001 (-0.574)	-0.002 (-01.121)
Adj.R^2	0.196	0.145
F-statistic/Rn^2 statistic Prob (F-statistic/Rn^2 statistic)	8.390 (0.000)	43.082 (0.000)
Schwartz criterion	7.039	164.119

Note: *** denotes significant at 1% level.

The positive/negative signs of the coefficients of the three dummy variables are expected, however, all of the variables are not significant. The interpretations are difficult, however, there is a possibility that the market had factored in stock prices.

EXCHANGE RATE AND STOCK PRICE

Finally, the relationship between exchange rate and stock price is analyzed in detail. It would be useful to analyze some effects from the equation (2). VAR model is employed for estimations. First, Augmented Dickey-Fuller test statistic is used to find unit roots. The results of the unit root tests are in Table 5.

Table 5: Augmented Dickey-Fuller test statistic.

	Stock price	Exchange rate
t-statistic (probability)	-13.289*** (0.000)	-6.534*** (0.000)

Note: *** denotes significant at 1% level.

The two variables do not have unit roots at the 1% level. The main reason why a unit root was not found is thought to be due to the use of rate of change. Next, unrestricted Cointegration rank test is employed to judge whether the relationship of cointegration exists or not. The results are in Table 6.

Table 6: Unrestricted Cointegration Rank Test.

	Eigenvalue	Statistic	Critical value	Probability
None	0.129	47.850	25.872	0.000
At most	0.145	18.597	12.517	0.004

There is a cointegration relationship between stock price and exchange rate. So instead of VAR model, VECM (Vector Error Correction Model) is used for estimation. The results are in Table 7 and the impulse response function is in Figure 1. The shock of exchange rate on stock price continues several days. It seems not so long. So, the three dummy variables may have not impacted stock prices significantly.

Table 7: VECM estimation.

	D (exchange rate)	D (stock price)
D (exchange rate (-1))/t-statistic	0.065 (0.462)	-0.9132** (-2.055)
D (exchange rate (-2)) /t-statistic	-0.088 (-0.097)	0.719** (2.061)
D (stock price (-1)) /t-statistic	-0.030 (-0.725)	-0.843*** (-8.249)
D (stock price (-2)) /t-statistic	0.028 (0.675)	-0.151 (-1.476)
Adj. R-squared	0.604	0.548
F-statistic	37.4335	29.962
Schwartz SC	-8.4569	-6.649

Note: *** and ** denotes significant at 1% and 5% level respectively.

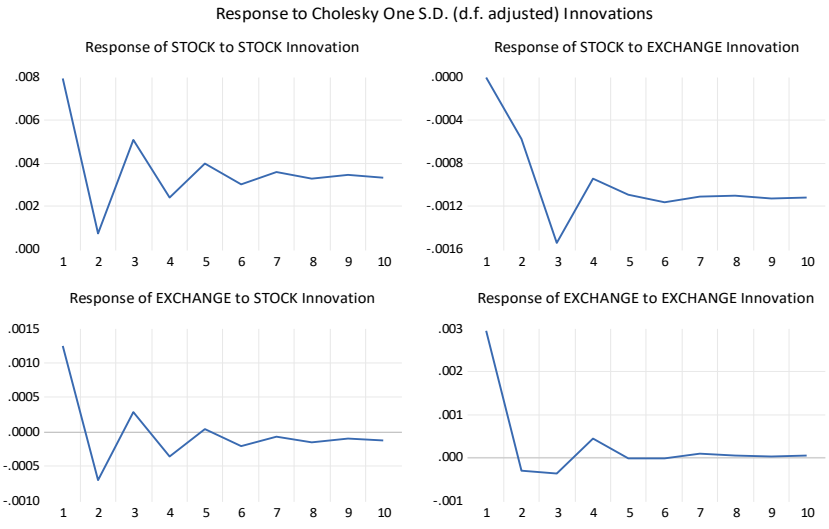

Figure 1: Impulse response function

CONCLUSION

The second Trump administration announced that it would impose reciprocal tariffs on various countries in April 2025. The high tariff rates came as a shock to economists who had

been exploring the path to free trade. Japan was no exception. This paper analyzes the impact of Trump's tariffs on Japanese stock prices. The main results show that various statements and policies had no impact on Japanese stock prices; only the exchange rate affected them. Furthermore, exchange rate shocks only affected stock prices only for a few days. Therefore, it is likely that announcements of various policies that are thought to affect stock prices, as well as President Trump's social media posts, were already factored into the market, or that they influenced stock prices through exchange rates. However, due to the small sample size and short period, it was unable to analyze the announcements of each policy or President Trump's views on his post. This will be an issue for the future. Since then, the tariff issue between the United States and China has been resolved for the time being, and global stock prices have remained stable, with Japan being no exception. However, the world is at the mercy of political and diplomatic issues. Further research is anticipated.

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