



UNIVERSITAS ANDALAS

EFFECT OF REAL EFFECTIVE EXCHANGE RATE ON THREE EXPORT SECTOR



FEBIYAN RAMADONA

THESIS ADVISOR: ABDUL KHALIQ, SE.MA

1510511044

FACULTY OF ECONOMICS

DEPARTEMENT OF ECONOMICS

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Effect of Real Effective Exchange Rate on Three Export Sector in Indonesia

by
Febiyan Ramadona
1510511044

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Abstract

This study examines the effect of real effective exchange rate on Indonesian exports performance using data from Q1 2004 until Q1 2019. Regression analysis is used to see the relationship between Indonesia export in agricultural, manufacturing and mining with real effective exchange rate. This paper will regress the variables used ARDL Bound test model. ARDL Bound test is preferable to use in time series analysis when the variables in mix stationary condition. Exports as dependent variable will be divided into agricultural, manufacturing and mining sector.

Indonesian export sector did not shows outstanding performance in the last several years. Data from the world bank official website showed that annually growth of Indonesian export of goods and services from 2010 until 2019 only 1.96%. This value is only ranked eighth out of eleven countries in south east asia. Indonesia only outperformed Timor Leste, brunei Darussalam, and Malaysia. Indonesian export composition is still dominated by the basic commodity as well as slow diversification of value added. Data of export indonesia in 2017 also shows that indonesia export left behind some of other south east asian countries. Depreciation of Indonesian exchange rate in the last several years theoretically should be boost Indonesian export. However the data above indicates the link is still questionable. This paper will examine whether or not exchange rate has significant effect on export separately in manufacturing, agricultural and mining sector.

The regressions result show that devaluation of real effective exchange rate is positive and significant affecting agricultural and and manufacturing exports in the long run. Devaluation of real effective exchange rate at 1% will increases agricultural export at 3.62% in the long run. Devaluation of real effective exchange rate will also increase manufacturing export at 3.87% in the long run. Otherwise devaluation has no effect on mining export in the long run. In the short run manufacturing and agricultural exports is negative and significantly affected by real effecting exchange rate. Mining sector also did not show any significant result affected by exchange rate. Depreciation of exchange rate in the last several years have to be a momentum to encourage manufacturing and agricultural exports by investing more on those sectors.

Keyword: export, exchange rate, depreciation, manufacturing, agricultural, mining

Thesis Advisor: Abdul Khaliq, SE.MA