CHAPTER V
CONCLUSION

Exchange rate is undoubtly a significance factor determining exports. Theoretically the link have been establish by economist decades ago that exchange rate depreciation is positively effecting exports. However despite many empirical studies support the theory there are also some studies found contrary result. This paper used real effective exchange rate as indepenSdent variable and it combine the effect of domestic and foreign price as well as exchange rate of Indonesian export partners.

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% and manufacturing export at 3.87%. Otherwise devaluation has no effect on mining export in the long run. This result indicates that mining export did not influence by the change in price or exchange rate. It probably because of mining sector need long time to adjust their input. In the short run manufacturing and agricultural exports is negative and significantly affected by real effecting exchange rate. It is fit with J curve theory in which exchange rate will deteriorate export in the short run because of demand is inelastic. Mining sector also did not show any significant result affected by exchange rate.

Regarding of this result Indonesian government have to give more attention on the movement of domestic and foreign price as well as 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. Support from government as well as exchange rate depreciation will help industry expand more internationally.

However government in the long run cannot depend on devaluation of exchange rate. Government have to increase the quality of the product as well as more focus on final product rather than basic product. Devaluation of exchange rate could only be done in the short run. Depreciation of exchange rate in a long time could deteriorate economy since it will hurt the industry that depend on import of raw material and increase the price. It will also increase the foreign debt since government have to pay with foreign currency.