Rupiah weakens further: an analysis of export challenges and opportunities

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Abstract

Research Aim: *This study aims to analyze the impact of Rupiah depreciation on Indonesia's export sector, highlighting both its risks and opportunities for trade competitiveness and economic resilience.*
Design/Method/Approach: *The study adopts a qualitative descriptive approach using secondary data analysis from economic reports, policy briefs, and trade statistics.*
Research Findings: *Rupiah depreciation increases import costs for raw materials and technology, raising production expenses and potentially weakening global competitiveness. It may also trigger inflation and reduce consumer purchasing power. However, a weaker currency improves export price competitiveness, boosts demand for commodities such as palm oil and coal, encourages the use of domestic raw materials, and can attract foreign investment.*
Theoretical Contribution/Originality: *This research contributes to the discourse on exchange rate policy by emphasizing the dual nature of currency depreciation in developing economies, providing a balanced view of its macroeconomic implications.*
Practical/Policy Implications: *Policymakers are encouraged to diversify export destinations, strengthen domestic supply chains, and enhance industrial efficiency to maximize the benefits of currency depreciation.*
Research Limitations:*The analysis is limited to secondary data and does not include empirical modeling or case-specific data from individual exporting firms.*
Keywords: *Rupiah depreciation, export challenges, trade competitiveness, exchange rate impact.*

1. Introduction

The weakening of the rupiah against foreign currencies, particularly the US dollar, is a major concern in the Indonesian economy. Fluctuations in the rupiah have a complex impact on the international trade sector, particularly exports. On the one hand, a weaker rupiah makes the price of Indonesian products more competitive in the global market, thereby increasing export demand. However, on the other hand, many domestic industries still depend on imported raw materials, whose prices rise with the weakening rupiah. This poses a major challenge for exporters, who must balance the benefits of a lower exchange rate with rising production costs. Therefore, it is important to understand how the weakening rupiah affects the export sector as a whole, both in terms of challenges and opportunities that can be taken advantage of.

A number of studies have highlighted the relationship between exchange rates and exports. For example, research by Widodo et al. (2022) shows that a weakening rupiah can indeed boost exports in the short term. However, in the long term, the effect becomes more complex as many industries still depend on imported raw materials. Another study by Santoso and Lestari (2021) reveals that natural resource-based sectors, such as palm oil and rubber, benefit more than manufacturing sectors that have global supply chains. Although many studies have discussed the impact of the weakening rupiah on exports, most studies still look at it from a macroeconomic perspective and have not specifically discussed how it affects various industrial sectors.

In addition, there are still few studies that examine how industry players adjust to exchange rate fluctuations. Most studies highlight the direct impact of the weakening rupiah on export volumes, without exploring the strategies implemented by exporters to mitigate risks and maximize opportunities (Yusuf et al., 2023). Therefore, this article seeks to fill this gap by looking at not only the challenges posed by the weakening rupiah, but also the strategies that industry players can implement to remain competitive in the global market.

The uniqueness of this article is its more applied approach in understanding how exporters adapt to exchange rate fluctuations. It not only discusses the relationship between the weakening rupiah and export performance, but also reviews strategies that can be applied, such as production efficiency, the use of local raw materials, and the application of hedging to reduce financial risks. As such, this article not only contributes to academic understanding but also provides practical insights for industry players and policymakers.

This article aims to explore the challenges and opportunities for Indonesian exports in the face of a weakening rupiah. The discussion will start by looking at how rupiah depreciation affects the export sector in general, then examine the most affected sectors, as well as adaptation strategies that can be implemented by exporters. Finally, the article will present policy recommendations that can help exporters and the government respond to exchange rate changes in order to remain competitive in the global market.

1.1. Statement of Problem

The continuously weakening rupiah against the US dollar and other foreign currencies is a major challenge for the Indonesian economy, especially in the export sector. In theory, a weaker rupiah should make Indonesian products cheaper on the international market, thereby increasing export competitiveness. However, the reality is not that simple. Many domestic industries still rely on imported raw materials, so a weak rupiah increases production costs and can reduce exporters' profits.

In addition, exchange rate fluctuations also impact investor confidence, logistics costs, and price stability in the country. If the rupiah continues to weaken without an appropriate strategy, the competitiveness of Indonesian export products could decline. Various previous studies have indeed discussed the relationship between exchange rates and exports, but most still see it from a macroeconomic perspective. In fact, what is also important is how industry players adjust to this situation in order to remain competitive.

Therefore, this article will review how the weakening rupiah is affecting Indonesia's exports and the strategies that exporters can implement to face this challenge. By understanding the risks and opportunities, it is hoped that exporters and policymakers can take more effective steps to maintain Indonesia's competitiveness in the global market.

1.2. Research Objectives

This research focuses on Indonesia's export sector, which has been affected by the weakening of the rupiah against foreign currencies, particularly the US dollar. Some of the main aspects that will be discussed include:

Industries Affected:

Natural resource-based sectors, such as palm oil, rubber, and coal, which tend to benefit as their products are more competitive in the global market when the rupiah weakens. Manufacturing industries, such as textile, automotive, and electronics, which are more vulnerable to the weakening rupiah as they are still dependent on imported raw materials, resulting in higher production costs.

Export-oriented small and medium-sized enterprises (SMEs), which often face difficulties in adjusting prices and managing production costs amid changes in the exchange rate. Impact of Rupiah Weakening on Exports.

Benefits for exporters, as Indonesian products become cheaper in the international market. Increase in production costs, due to higher prices of imported raw materials, which can reduce company profits. Strategies implemented by companies, such as switching to local raw materials, increasing production efficiency, or using hedging strategies to reduce the risk of exchange rate fluctuations. Government's Role in Addressing the Impact of Rupiah Weakness.

Policies and incentives provided by the government to help exporters deal with exchange rate challenges. Bank Indonesia's efforts to maintain rupiah stability and its impact on the business world. Through this research, it is hoped that a clearer picture of how the weakening rupiah affects the export sector can be obtained as well as steps that can be taken by businesses and the government to overcome the challenges that arise.

2. Method

This research uses the literature study method, which is an approach carried out by collecting and analyzing various relevant literature sources, such as scientific journals, books, research reports, and official publications related to the impact of rupiah depreciation on Indonesian exports. Literature study was chosen because it allows researchers to gain in-depth insights based on previous research as well as economic trends that have been analyzed by various experts.

The data used in this study were sourced from academic publications, reports from economic institutions such as Bank Indonesia (BI) and the Central Statistics Agency (BPS), as well as articles from credible economic media. The analysis was conducted using a qualitative descriptive approach, namely by reviewing and interpreting information from various sources to identify challenges and opportunities for exports due to the weakening of the rupiah. Data analysis consisted of three stages: data reduction, data presentation, and data interpretation.

3. Results and Discussion

3.1. Results

3.1.1. Challenge

3.1.1.1. Increase in Raw Material Import Costs:

The weakening of the rupiah against foreign currencies, especially the US dollar, has a direct impact on the rising cost of imported raw materials for industries in Indonesia. Many manufacturing sectors, such as textiles, automotive, and electronics, still rely on imported raw materials due to limited local resources that can meet production quality and quantity standards. When the rupiah exchange rate weakens, raw material prices in rupiah become more expensive, increasing overall production costs. This may force companies to raise the selling price of their products, potentially reducing competitiveness in international markets, especially if competing countries have more stable currencies or lower production costs.

In addition, rising raw material import costs can also squeeze a company's profit margin, especially for exporters operating with fixed-price contracts denominated in foreign currencies. If companies are unable to adjust their selling prices due to intense competition in the global market, they may experience reduced profitability or even losses. In the long run, this may hinder the growth of export-based industries and reduce investment in the manufacturing sector. Therefore, import substitution strategies with local raw materials as well as diversification of supply sources are becoming increasingly important to maintain the competitiveness of Indonesian industries in the international market.

3.1.1.2. Domestic Inflationary Pressures:

The weakening of the rupiah against foreign currencies often leads to domestic inflationary pressures, especially as Indonesia is still dependent on imports for various needs, such as industrial raw materials, energy, and consumer goods. When the rupiah weakens, the price of imported goods increases, so producers have to spend more to obtain raw materials and energy. This increase in production costs will usually be passed on to the selling price of goods in the domestic market, which in turn drives inflation. This inflationary pressure not only affects people's purchasing power but also increases the operational burden for industry players, especially those that are export-oriented.

In the context of exports, high inflation can reduce the competitiveness of Indonesian industries due to higher production costs compared to competing countries. If the price of export products rises due to rising production costs, international buyers may switch to suppliers from other countries that offer more competitive prices. In addition, high inflation can also increase interest rates to curb price increases, which in turn can make access to financing for businesses more expensive. Therefore, exchange rate stability and appropriate economic policies are critical to maintaining the competitiveness of Indonesia's export industry amidst global economic challenges.

3.1.1.3. Dependence on Imported Technology and Machinery:

Indonesia's manufacturing sector is still heavily dependent on imports of machinery and technology from abroad to increase production capacity and efficiency. Many industries, especially in the automotive, electronics, and textile sectors, require modern equipment that mostly still has to be imported from developed countries such as Japan, Germany, and China. When the rupiah weakens, imported machinery and technology become more expensive in rupiah terms, increasing investment costs for industry players. This can hinder technological renewal and innovation, which in turn can reduce the competitiveness of Indonesia's export products compared to other countries that have more efficient production costs.

In addition, rising investment costs in production equipment may slow the expansion of Indonesia's export industry. Companies looking to increase their production capacity or update their technology may have to postpone investment plans due to budget constraints. As a result, the growth of the manufacturing industry could slow down, and Indonesia could lose momentum in global competition. To overcome these challenges, the government and industry players need to encourage domestic technology development, increase cooperation with local manufacturers, and look for alternative sources of more affordable technology to reduce dependence on imports.

3.1.1.4. Global Economic Uncertainty

The weakening of the rupiah often coincides with global economic uncertainty, which can have a direct impact on Indonesia's export sector. Factors such as rising interest rates in the United States cause capital outflows from developing countries, including Indonesia, thus depressing the rupiah exchange rate. In addition, an economic slowdown in major trading partners, such as China and Europe, can reduce demand for Indonesia's export products, such as mining commodities, palm oil, and manufactured products. If global demand weakens, Indonesian exporters will face challenges in maintaining export volumes and maintaining competitive prices in international markets.

Global uncertainty can also trigger volatility in the prices of commodities on which Indonesia's exports depend. For example, if coal or palm oil prices fall due to the global economic slowdown, revenues from the export sector will decrease, ultimately impacting national economic growth. In addition, protectionist policies from some countries, such as higher import tariffs or trade restrictions, may further worsen the situation for Indonesian exporters. Under these conditions, diversifying export markets and increasing value-added products are important strategies so that Indonesia is not overly dependent on certain markets and remains competitive amid global economic uncertainty.

3.1.1.5. Exchange Rate Fluctuation Risk

Exchange rate fluctuations are a major challenge for exporters as they can affect their revenue stability and business planning. When the rupiah exchange rate weakens suddenly, exporters may benefit more as foreign currency revenues are converted to rupiah at a higher rate. However, if the rupiah strengthens again or experiences unexpected fluctuations, this can disrupt the calculation of selling prices and operational costs. This uncertainty makes it difficult for exporters to set competitive pricing strategies in the global market, especially for those who have long-term contracts with overseas buyers.

In addition, exchange rate fluctuations can increase financial risks for companies that have foreign currency-denominated debt or rely on imported raw materials. If the rupiah weakens sharply, the cost of debt repayment and imports will increase, which can erode profit margins. To address this risk, companies need to implement hedging strategies through financial instruments such as forward contracts or currency options. In addition, currency diversification in business transactions and expanding export markets to countries with more stable currencies can also help reduce the negative impact of exchange rate fluctuations.

3.1.2. Possibility

3.1.2.1. Increased Price Competitiveness of Export Products:

A weakening rupiah can benefit Indonesian exporters as it makes domestic products cheaper when converted into foreign currency. With more competitive prices, Indonesian export products, such as textiles, processed foods, and agricultural commodities, become more attractive to international buyers. Export destination countries that previously bought from competitors may switch to Indonesian products due to more economical prices. This may lead to increased export demand and strengthen Indonesia's position in the global market.

In addition, commodity-based sectors such as palm oil, rubber, and coffee also benefit from the weakening rupiah. These products are traded in US dollars, so exporters earn more when converted to rupiah. With improved price competitiveness, Indonesian companies have the opportunity to expand their export markets, reach more consumers, and increase sales volumes. However, for these benefits to be sustainable, the government and businesses need to ensure that increased exports depend not only on lower prices, but also on product quality and innovation to remain competitive in the long run.

3.1.2.2. Encouragement for Local Products to Substitute Imports:

The weakening rupiah causes the cost of imported raw materials, components, and finished goods to become more expensive, thus encouraging domestic industries to look for local resource alternatives. As import prices increase, manufacturers will consider using more domestic raw materials to reduce dependence on foreign markets. This can increase demand for domestic products, strengthen upstream industries, and boost the growth of the manufacturing and agribusiness sectors. In addition, with increased demand for local raw materials, domestic businesses have the opportunity to expand production capacity and improve quality to compete with imported products.

In the long run, this import substitution can strengthen the national supply chain and reduce the trade deficit. If domestic industries succeed in improving efficiency and innovation in production, Indonesia will not only reduce dependence on imported goods but also have the potential to become an exporter to other countries. The government can support this effort by providing incentives for local producers, improving infrastructure quality, and encouraging research and technology development to make domestic products more competitive. Thus, the weakening of the rupiah can be a momentum for the national industry to grow more independent and highly competitive in the global market.

3.1.2.3. Commodity-Based Sectors Benefit:

The weakening rupiah benefits the commodity-based sector because most of Indonesia's export commodities, such as palm oil, coal, and rubber, are traded in US dollars. When the rupiah weakens, export revenues received in dollars will be worth more when converted to rupiah. This increases profits for exporters and encourages growth in commodity-dependent sectors. With better price competitiveness, global demand for Indonesian products can increase, especially from countries that need raw materials for their manufacturing and energy industries.

In addition, increased revenues from commodity exports can make a positive contribution to the national economy, including increasing foreign exchange earnings. A strong commodity sector can also create a chain effect, such as increased investment in the mining, plantation, and export-supporting infrastructure sectors. However, for these benefits to be sustainable, it is important for Indonesia to not only rely on raw material exports, but also increase added value by developing downstream industries. In this way, Indonesia not only benefits from the weakening rupiah but also builds a more stable and highly competitive commodity sector in the global market.

3.1.2.4. Increased Investment in the Export Sector

The weakening of the rupiah can attract foreign investors to invest in Indonesia's export sector because production costs become cheaper in foreign currencies. With a lower exchange rate, the cost of labor, local raw materials, and business operations become more competitive compared to other countries. This provides an incentive for foreign investors to set up factories, expand production lines, or partner with local companies in the manufacturing and agribusiness sectors. Sectors such as textiles, furniture, processed foods, and plantations can benefit from the influx of new investment, which ultimately drives economic growth and creates jobs.

In addition, increased investment in the export sector can help Indonesia accelerate industrialization and increase global competitiveness. With the influx of foreign capital, more modern technology and production management can also be introduced, increasing the efficiency and quality of Indonesia's export products. The government can support this trend by providing investment incentives, improving regulations, and building better infrastructure to support the export sector. If managed well, this increase in investment will not only strengthen short-term exports but also make Indonesia a more attractive production center for the global market.

3.1.2.5. Export Market Diversification:

The weakening of the rupiah can be a momentum for Indonesia to diversify its export market to developing countries with high demand, such as Africa and the Middle East. With more competitive prices for Indonesian products, exporters can reach new markets that were previously less noticed. Countries in Africa, for example, have rapid economic growth and require various manufactured products, textiles, and foodstuffs. Likewise, the Middle East has high demand for agribusiness products, halal food, and building materials. By expanding the reach of exports, Indonesia can reduce its dependence on traditional markets such as the US and China, which often experience fluctuations in demand due to global economic uncertainty.

In addition to increasing export volume, market diversification also helps reduce economic risks arising from changes in trade policies of major countries. If one market experiences a slowdown, exporters still have opportunities in other regions where demand remains stable. To support this strategy, the government and business actors need to strengthen economic diplomacy, increase trade cooperation, and adjust product standards to regulations in the destination country. With the right steps, Indonesia can take advantage of export expansion opportunities and build broader and more sustainable trade relations in various regions of the world.

3.2. Discussion

The weakening of the rupiah has complex impacts on Indonesia's export sector, presenting both challenges and opportunities for the national economy. On the challenge side, rising import costs for raw materials and technology put pressure on the manufacturing industry, increasing production costs and potentially reducing competitiveness in the global market. Additionally, the depreciation of the rupiah may drive domestic inflation, raising energy and raw material prices while decreasing consumers' purchasing power. Global economic uncertainty and exchange rate fluctuations further complicate the situation, as they can hinder export industry expansion and pose financial risks for exporters reliant on currency stability.

However, amid these challenges, the weakening rupiah also creates various opportunities for Indonesia's export sector. The competitiveness of export product prices improves, making Indonesian products more attractive in international markets. This can boost demand for manufactured goods, agribusiness products, and commodities such as palm oil and coal, which are traded in US dollars. Additionally, higher import costs can encourage domestic industries to shift toward local raw materials, strengthening national supply chains and reducing dependence on imports. Increased investment in the export sector is also a major opportunity, as lower production costs can attract foreign investors to invest in Indonesia.

To fully capitalize on these opportunities, an integrated strategy is needed from both the government and industry players. Diversifying export markets to developing countries such as Africa and the Middle East can reduce reliance on traditional markets like the US and China, making Indonesia's exports more stable. Furthermore, strengthening domestic industries, improving production efficiency, and advancing technology and innovation must be continuously encouraged to maintain long-term competitiveness. With the right policies, the weakening rupiah can be transformed into momentum for strengthening the national economy and enhancing Indonesia's global competitiveness.

4. Conclusion

The weakening rupiah has had a mixed impact on Indonesia's export sector. Natural resource-based sectors tend to benefit, while manufacturing industries that depend on imported raw materials face challenges. Exporters need to implement adaptive strategies, such as improving production efficiency, using hedging instruments, and diversifying markets to remain competitive. The government also plays an important role in maintaining exchange rate stability and providing appropriate policy support for the export sector.

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