

## **ABSTRACT**

This study analyzes empirically the effect of the real effective exchange rate on the balance of trade of agricultural and manufacturing commodities Indonesia with five major trading partners, namely: Japan, China, United State, Singapore, and South Korea through the approach of J-curve phenomenon . This research was analyzed in the short-run and long-run. This study uses data from 2003 to 2013. The method used is the Arellano and Bond Generalized Method of Moments (AB-GMM). Dynamic relationship in this study is characterized by the presence of lag trade balance of agricultural and manufacturing commodities, namely the balance of trade of agricultural and manufacturing commodities the previous year as an independent variable, and the lag of the independent variables, namely gross domestic product Indonesia the previous year, gross domestic product major trading partners previous year, and the real effective exchange rate of the previous year.

The results showed that in the short-run and long-run J-curve phenomenon does not occur in the balance of trade of agricultural and manufacturing commodities because the exchange rate of Indonesia is unstable that depreciation does not correct the balance of trade of agricultural and manufacturing commodities.

**Keywords:** real effective exchange rate, balance of trade of agricultural and manufacturing commodities, J-curve phenomenon.