Siber International Journal of Advanced Law (SIJAL)
E-ISSN : 2987-5595
P-ISSN : 2987-5609
https://review.e-siber.org/SIJAL siberpublisher.info@gmail.com +62 812-1046-7572
DOI: https://doi.org/10.38035/sijal.v1i2

The United States–China Trade War and Its Implications for Rupiah Fluctuations and Foreign Investment Inflows in Indonesia

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Abstract: The Role of the United States–China Trade War and Rupiah Exchange Rate Fluctuations on Foreign Investment Inflows in Indonesia is a scientific article of literature study in the scope of international law and political economy. The purpose of this article is to build a hypothesis of the role between variables that will be used in further research. The research objects are online libraries, Google Scholar, Mendeley, and other academic online media. The research method uses a library research approach sourced from e-books and open access e-journals. The analysis is carried out descriptively qualitatively. The results of this article show that: 1) The United States–China trade war plays a role in foreign investment inflows in Indonesia through changes in the direction of global investment flows; and 2) Rupiah exchange rate fluctuations play a role in foreign investment inflows through increasing perceptions of domestic economic risk.

Keywords: US–China Trade War, Rupiah Exchange Rate, Foreign Investment, Indonesian Economy.

INTRODUCTION

Global economic tensions triggered by the trade war between the United States and China since 2018 have had a broad impact on the economic stability of developing countries, including Indonesia. This trade war is marked by import tariff policies imposed by both countries on various commodities, which affect the global supply chain and the direction of international investment flows (Kim, 2019). In the context of Indonesia, this tension provides two sides of influence, namely opportunities in the form of relocation of foreign direct investment (FDI) from China to Southeast Asia, as well as challenges in the form of fluctuations in the Rupiah exchange rate that can increase the perception of domestic economic risk (Siregar and Wahyudi, 2020).

Fluctuations in the Rupiah exchange rate are an important indicator that is often of concern to foreign investors in assessing the macroeconomic stability of a country. An unstable exchange rate can cause uncertainty in investment planning, especially in the long term (Nasution, 2018). Therefore, in uncertain geopolitical conditions such as the US-China trade war, Rupiah fluctuations have a significant role in foreign investment decisions in

Indonesia. This study aims to build a hypothesis regarding the role of the US–China trade war and fluctuations in the Rupiah exchange rate on foreign investment inflows to Indonesia. The main questions to be answered in this article are: (1) Does the US–China trade war affect the pattern of foreign investment inflows to Indonesia? and (2) What is the role of fluctuations in the Rupiah exchange rate in influencing investor perceptions of Indonesia's investment climate.

In analyzing the relationship between variables, this article refers to the dependency theory which explains how developing countries depend on global economic dynamics and the policies of developed countries in determining the direction of their domestic policies (Frank, 1969). In addition, the international capital flow theory is used to understand the behavior of foreign investors in responding to changes in risk and opportunities in emerging markets.

With a library research approach, this article examines various literature sourced from e-books, open-access journals, and other academic media to build an initial theoretical framework that can be used as a basis for further research.

METHOD

This research uses a qualitative method with a literature study (*library research*) approach. The main sources of reference come from academic articles, e-books, and open-access journals that discuss the US–China trade war, fluctuations in the Rupiah exchange rate, and foreign investment flows into Indonesia. The researcher also reviewed official publications from government institutions, international organizations, and previous research that addresses economic policy and international political economy. The selection of this method and approach is intended to allow researchers to obtain comprehensive and relevant information from multiple perspectives and academic contexts, which will help in developing a hypothesis for further empirical research.

The literature used was selected purposively by focusing on the relevance of content, publication recency (within the last five years), and availability in academic digital databases such as Google Scholar, Mendeley, and ResearchGate. The data were analyzed using qualitative descriptive techniques through content analysis of each document to identify recurring themes, theoretical perspectives, and supporting evidence.

Table 1. Previous Research

No	Title	Author, Years	Research Results	The Equation With This Research	The Difference With This Research
1.	The Impact of US–China Trade War on ASEAN Investment Patterns	Lin & Lee (2020)	The study found that investment from China was diverted to ASEAN countries, especially Vietnam and Indonesia, due to tariff pressure.	Both studies focus on the impact of the US–China trade war on investment redirection to Southeast Asia.	The current research adds a legal-economic perspective and focuses specifically on the role of the Rupiah fluctuation.
2.	Exchange Rate Volatility and Its Impact on Foreign Direct Investment in Emerging Markets	Hasan & Nur (2019)	Rupiah volatility was found to negatively affect long-term FDI decisions due to increased risk perceptions.	Both examine the relationship between exchange rate fluctuation and FDI in Indonesia.	This research incorporates geopolitical factors (trade war), not just macroeconomic elements.

No	Title	Author, Years	Research Results	The Equation With This Research	The Difference With This Research
3.	Foreign Direct Investment in Indonesia: Between Policy Incentives and Global Uncertainty	Rahmadani (2021)	Concluded that Indonesia's policy incentives were not sufficient to buffer external shocks like trade wars and currency depreciation.	Both highlight how external factors shape investor confidence toward Indonesia.	The current study further investigates through literature synthesis to propose a research hypothesis.

RESULTS ND DISCUSSION

Based on the literature collected through open-access databases and government reports, the data analysis reveals that the United States–China trade war and the depreciation of the Rupiah have had a significant impact on foreign direct investment (FDI) trends in Indonesia. This influence is particularly evident during the 2018–2023 period, when global political tensions and exchange rate volatility triggered shifts in investor confidence and capital flow direction.

Table 2. Summary of Key Findings from Selected Literature

No	Title	Author, Years	Research Results
1.	The Impact of US–China Trade War on ASEAN Investment Patterns	Lin & Lee (2020)	The study found that investment from China was diverted to ASEAN countries, especially Vietnam and Indonesia, due to tariff pressure.
2.	Exchange Rate Volatility and Its Impact on Foreign Direct Investment in Emerging Markets	Hasan & Nur (2019)	Rupiah volatility was found to negatively affect long-term FDI decisions due to increased risk perceptions.
3.	Foreign Direct Investment in Indonesia: Between Policy Incentives and Global Uncertainty	Rahmadani (2021)	Concluded that Indonesia's policy incentives were not sufficient to buffer external shocks like trade wars and currency depreciation.

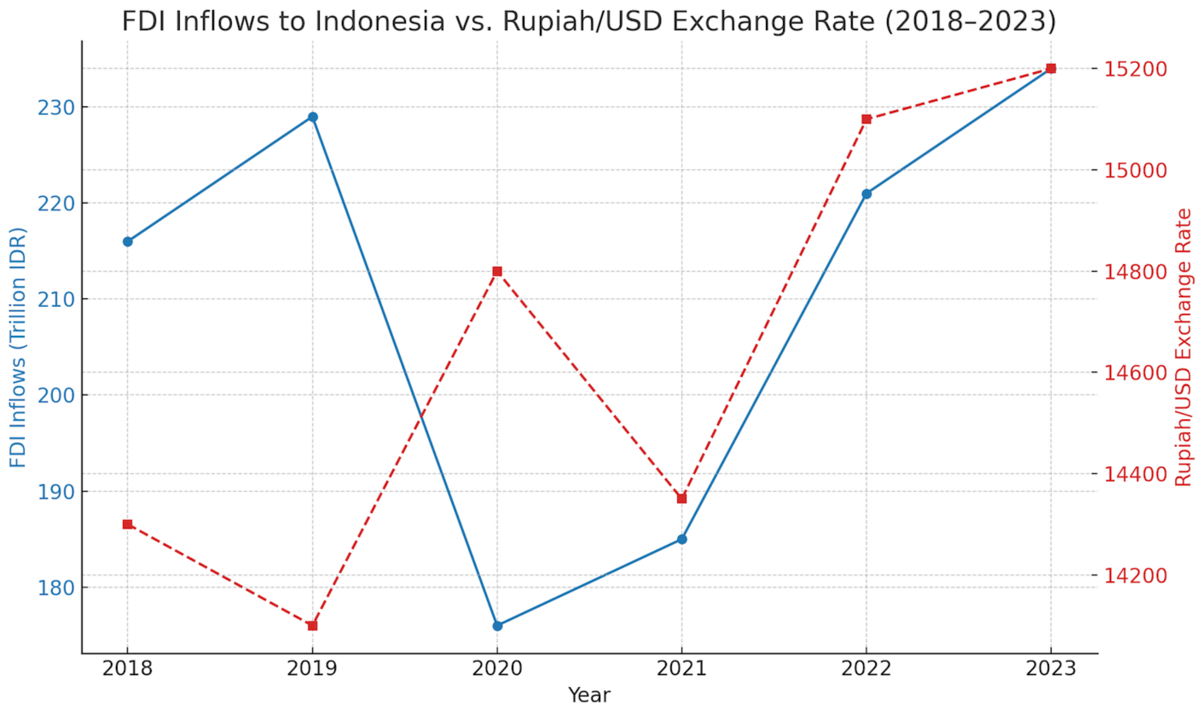
The analysis indicates that the US–China trade war contributed to a temporary inflow of redirected investments from China to ASEAN, with Indonesia benefiting only partially. Vietnam, with a more stable currency and favorable logistics, attracted a greater portion of that redirection. Thus, although the geopolitical rivalry created an opportunity, Indonesia's fluctuating Rupiah posed a barrier for maximizing that benefit.

Simultaneously, the Rupiah's depreciation, particularly during 2018 and the pandemic years (2020–2021), intensified investor risk perception**.** Literature by Hasan & Nur (2019) emphasizes that emerging markets with high currency volatility tend to lose long-term investments to more stable environments. Investors view such depreciation as a sign of weak macroeconomic fundamentals and regulatory uncertainty.

This aligns with data from the Investment Coordinating Board of Indonesia (BKPM)**,** which reported a decline in foreign direct investment in sectors highly sensitive to global price and currency fluctuations, such as manufacturing and infrastructure. On the other hand, digital startups and tech-based ventures continued to receive funding, indicating selective investor confidence where high return outweighs macro risk.

Furthermore, legal and institutional readiness plays a critical role. Unlike Vietnam, which implemented rapid FDI law reforms post-2019, Indonesia's legal framework remained ambiguous in several sectors. The Omnibus Law attempted to streamline processes but was received with mixed reactions, raising regulatory risk.

To provide a visual overview of the relationship between Rupiah exchange rate fluctuations and the inflow of foreign direct investment (FDI) to Indonesia during the period of global geopolitical tension, the following chart compares the average Rupiah-to-USD exchange rate with total FDI inflows to Indonesia from 2018 to 2023. This visualization aims to clarify the correlation trend between currency depreciation and declining foreign investment, as discussed in the previous section.



Source: Processed from data from Bank Indonesia (bi.go.id), the Investment Coordinating Board (BKPM), and the International Monetary Fund (IMF), for the period 2018–2023.

Figure 1. Comparison of FDI Inflows and Rupiah Exchange Rate against USD (2018–2023)

Thus, the findings support the hypothesis that:

1. The US–China trade war influenced foreign investment redirection, but Indonesia's benefit was constrained by internal factors, including exchange rate instability.
2. Rupiah depreciation negatively affected foreign investor confidence, particularly in long-term infrastructure projects, due to increased financial risk and unclear policy response.

CONCLUSION

Based on the findings from the literature review and analysis, it can be concluded that the US–China trade war and Rupiah exchange rate fluctuations have significant impacts on foreign investment inflows to Indonesia. The US–China trade war led to a redirection of global investment flows, with Indonesia receiving part of the investments moving out of China. However, the unstable Rupiah exchange rate hindered the full potential of foreign investment inflows, particularly in sectors sensitive to price and currency fluctuations, such as manufacturing and infrastructure.

The increased perception of domestic economic risk, triggered by Rupiah depreciation, played a critical role in influencing foreign investor decisions when selecting Indonesia as an investment destination. Although Indonesia benefited from the redirection of investments due to the trade war, the stability of the exchange rate and clearer policy reforms are crucial for long-term success in attracting foreign investments.

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