ANALYSIS OF DIRECT FOREIGN INVESTMENT ON INDONESIA’S EXPORT AND ECONOMIC GROWTH

DIDI TARMIDI
Departement of Business and Management
Widyatama University
Bandung, Indonesia
didi.tarmidi@widyatama.ac.id

ERISTY MINDA UTAMI
Departement of Business and Management
Widyatama University
Bandung, Indonesia
eristyminda增長utami@yahoo.com

SALAHUDIN
Departement of Business and Management
Widyatama University
Bandung, Indonesia
salahudin.fs@gmail.com

Abstract: This research is focused on direct foreign investment in Indonesia and to analyze its influence to the export and economic growth. The analysis on this research is based on time series data and is processed by utilizing the simultaneous equation model. The result of the analysis indicates that market size variable and variation in the exchange rate yields in a positive FDI flow. Bigger GDP shows a large market size, the condition which reduces market offer value and lowers cost per output unit. Fluctuating exchange rate shows uncertain business prospect. Other variables such as real exchange rate, budget deficit ratio on GDP and interest rate yields a negative influence on FDI. Foreign Direct Investment (FDI) provides positive influence on the economic growth rate. The investment fills the resource gap between the target investment rate and the actual domestic savings. Besides that, the foreign investment encourages economic growth through transfer of technology. Direct Foreign Investment provides a positive effect on export performance. It means that Indonesia's FDI is a pro-trade FDI. Hence, it increases trade and exchange balance. Pro-trade FDI means investment in industries where the country lacks of comparative strengths.

Keywords: Direct Foreign Investment, Economic Growth and Export

1. INTRODUCTION

New order of government makes effort to attract foreign investment to make changes - fundamental change in the foreign investment policy. These conditions are applied because discriminatory policies against foreign investment occurred during the old order, particularly from western countries. Investment improvement was began with the enactment of Law No. 1 of 1967 on Foreign Direct Investment (FDI).
Development of foreign direct investment in Indonesia at the beginning of 1981 to 1996 showed an increasing trend from U.S. $ 133 million to 6194 million U.S. $. Decline of foreign investment value began to happen until 2001 and showed improvement in 2004 and 2005. When we review the ratio of foreign direct investment (FDI) to GDP in general, it can be seen that the value is still very low even it can’t reach 0.05.

The low ratio of foreign direct investment (FDI) to PDB gives a low impact on economic growth. Several empirical studies find that there is a positive correlation between foreign investment and economic growth. Empirical research results show that foreign direct investment promotes economic growth through increased productivity factor (Fry, 1996). Other similar studies also show that foreign investment has a positive effect on economic growth and domestic savings in developing countries in Central Asia (Rana and Dowling, 1988). Other studies done by Borensztein et al (1995), Rilam (1997), De Mello, Jr. (1999), Flexner (2000), and Bailliu (2000) show similar results. From the results of the empirical research, it can be concluded that the low value of foreign direct investment will have an impact on the low economic growth.

Meanwhile, since the collapse of world oil prices at around the 1980's led to the financing of the budget deficit in the development of Indonesia. Significant events that have an impact on the declining ability of the state to support a strategy based on import substitution industries. Therefore, the government tried to implement an export-oriented trade strategy, in order to replace the country's foreign exchange earnings from oil revenues lost (Robinson, 1998). Export is one of the development strategies that can be implemented to overcome the scarcity of resources in addition to capital investment (to attract capital from international markets). The economic crisis on Indonesia's export growth fell by 8.6% in 1998. Indonesia's exports gradually experiencing significant growth from year 2002 - 2005, which in 2002 grew by 1.49% and increased to 19.52% in 2005. The figure is the highest since 1990.

Is the increase of Indonesia’s exports since 2002 to 2005 related to the presence of foreign direct investment? Because if we associate with the presence of export growth of foreign direct investment empirically known (Kojima, 1973): that foreign direct investment has two different effects on the macro economy; the first effect is called the impact of trade and the effects and the second one is the effect on anti-trafficking. If foreign direct investment has the effect of trade, foreign direct investment is expected to affect the increase in the trade balance. If foreign direct investment is as anti-trafficking, trade balance is expected to decrease.

Empirical research shows that foreign direct investment has a positive effect on exports or the trade balance of a country (Soliman, 2003). Other studies (Suryawati, 2000) show: that foreign direct investment has a positive impact on exports in the country - the East Asian countries. Foreign direct investment is able to enhance the exports of countries - countries of East Asia. This is because of the presence of business relations between multinational companies in countries of origin and destination of foreign direct investment.

Based on the above theories, the writer is interested in studying about “Factors Affecting Foreign Direct Investment Flows and Analyze the Effects of Foreign Direct Investment on Indonesia’s Export and Economic Growth”.

3. METHODOLOGY

3.1. Object

In more details, the objects of the study are Foreign Direct Investment, Real Gross Domestic Product, Interest Rates, Nominal Exchange Rates, Deficit, Economic Growth, Government Spending, Foreign Loans, Population Growth, Exports, Real Exchange Rates and Inflation
3.2 Method Of Analysis

The method of analysis used in this study is a quantitative analysis method. This method exposes all data and information related to estimation of processed objects through statistically-econometric research.

3.3 Operationalization of Variables

To give a clear explanation of the variables to be analyzed, it is necessary to emphasize the limits of operationalization of variables to avoid mistakes in the understanding of the variables used. For more detail explanation, see table 1.

<table>
<thead>
<tr>
<th>No</th>
<th>Variable</th>
<th>Concept Of Variable</th>
<th>Proxy</th>
<th>Dimension</th>
<th>Scale</th>
<th>Label In The Model</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Foreign Direct Investment</td>
<td>Investors’ Investment In A Country Done By Foreign Private Company</td>
<td>Million Us$ Ratio</td>
<td>PER</td>
<td>FDI/GDP</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Market Size</td>
<td>Potential Markets In A Region</td>
<td>Real PDB People Ratio</td>
<td>RER</td>
<td>GDP</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>LIBOR</td>
<td>The Interest Rate Set By Bank Of London</td>
<td>% Ratio</td>
<td>LIBOR</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Changes In Nominal Exchange Rates</td>
<td>Changes In Nominal Exchange Rates. The Value Is Obtained By Reducing The Nominal Exchange Rate In The Period – N To The Nominal Exchange In The Period N-1</td>
<td>Point Ratio</td>
<td>PER</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Real Exchange Rates</td>
<td>Relative Price Of Goods In A Country</td>
<td>Unit Ratio</td>
<td>RER</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Budget Deficit</td>
<td>The Difference Between Government Revenues And Expenditure</td>
<td>Billion Rp Ratio</td>
<td>DA</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Economic Growth</td>
<td>The Growth Of Value Of Real Gross Domestic Product</td>
<td>% Ratio</td>
<td>LPE</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Government Spending</td>
<td>Government Spending In A Particular Year On Budget List</td>
<td>Billion Rp Ratio</td>
<td>BP</td>
<td></td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Foreign Loans</td>
<td>A Loan Made By A Country To Another Country Or International Financial Organizations</td>
<td>Million Us$ Ratio</td>
<td>PLN</td>
<td></td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>Population Growth</td>
<td>Population Growth In A Particular Year</td>
<td>% Ratio</td>
<td>GWPOP</td>
<td></td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>Export</td>
<td>Total Export Revenues Earned In A Particular Year</td>
<td>Million US$ Ratio</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>Inflation</td>
<td>Inflation Is The Rate Of Change Of Consumer Price Index</td>
<td>% Ratio</td>
<td>INF</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
3.4 Operationalization of Variables

In this study, the data will be analyzed using regression models simultaneously (simultaneous equation model). The variables in the model were developed based on literature review and empirical study. For more details, see table 2.

$$\frac{\text{FDI}}{\text{PDB}} = \zeta_0 + \zeta_1 \text{(PDB)} + \zeta_2 \text{(LIBOR)} + \zeta_3 \text{(PER)} + \zeta_4 \text{(RER)} + \zeta_5 \text{(DA/PDB)} + \varepsilon$$  \hspace{1cm} (1)

$$\text{LPE} = \nu_0 + \nu_1 \text{(FDI/PDB)} + \nu_2 \text{(BP)} + \nu_3 \text{(PLN)} + \nu_4 \text{(GWPOP)} + \tau$$ \hspace{1cm} (2)

$$X = \kappa_0 + \kappa_1 \text{(FDI/PDB)} + \kappa_2 \text{(RER)} + \kappa_3 \text{(INF)} + \phi$$ \hspace{1cm} (3)

Note :
FDI : Foreign Direct Investment
GDP : Real Gross Domestic Product
LIBOR : LIBOR Interest Rate
PER : Changes in Nominal Exchange Rates
RER : Real Exchange Rates
DA : Budget Deficit
LPE : Economic Growth Rate
BP : Government Spending
PLN : Foreign Loans
X : Ekspor
INF : Inflation
$\varepsilon$, $\tau$, $\phi$ : Error Term

<table>
<thead>
<tr>
<th>No</th>
<th>Variable</th>
<th>Concept Of Variable</th>
<th>Proxy</th>
<th>Dimension</th>
<th>Scale</th>
<th>Label In The Model</th>
</tr>
</thead>
</table>

Table 2

<table>
<thead>
<tr>
<th>Determinant</th>
<th>Expected Sign</th>
<th>Theory and Empirical Review</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Market Size:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LIBOR</td>
<td>-</td>
<td>Dornbusch dan Fisher, 1997</td>
</tr>
<tr>
<td>PER</td>
<td>+</td>
<td>Banga, 2003</td>
</tr>
<tr>
<td>RER</td>
<td>-</td>
<td>Quere <em>et al</em>, 1999</td>
</tr>
<tr>
<td>DA/GDP</td>
<td>-</td>
<td>Banga, 2003 Marcerau, 2005</td>
</tr>
<tr>
<td>Determinant</td>
<td>Expected Sign</td>
<td>Theory and Empirical Review</td>
</tr>
<tr>
<td>-------------</td>
<td>---------------</td>
<td>-----------------------------</td>
</tr>
<tr>
<td>FDI/GDP</td>
<td>+</td>
<td>Tesis Rosenstein Rodan, 1995; Borensztein Et al., 1995; Rilam, 1997; De Mello, Jr 1999; Bailiu, 2000; Johnson, 2006</td>
</tr>
<tr>
<td>BP</td>
<td>+</td>
<td>Mankiw, 2003</td>
</tr>
<tr>
<td>PLN</td>
<td>+</td>
<td>Theory of Capital Accumulation, Model 2 Discrepancy</td>
</tr>
<tr>
<td>Gwpop</td>
<td>-</td>
<td>Mankiw, 2003</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Determinant</th>
<th>Expected Sign</th>
<th>Theory and Empirical Review</th>
</tr>
</thead>
<tbody>
<tr>
<td>RER</td>
<td>+</td>
<td>Dornbusch dan Fischer, 1997</td>
</tr>
<tr>
<td>INF</td>
<td>-</td>
<td>Samuelson dan Nordhaus, 1992, Sukirno, 2000</td>
</tr>
</tbody>
</table>

Simultaneous equation model used in this study is recursive. It means that an equation has influence on the system of simultaneous equations without any feedback from the system to the equation, the endogenous explanatory variables can be determined on a regular basis and the error of each equation does not depend on each other (Sarwoko, 2005:219).

The method used in this study to solve the simultaneous problem is OLS (Ordinary Least Square) and ILS (Indirect Least Square). To estimate the first equation we use OLS (Ordinary Least Square) while the second and third equations we use the ILS (Indirect Least Square). For more details, refer to the following models:

\[
\text{FDI/PDB} = \zeta_0 + \zeta_1(\text{PDB}) + \zeta_2(\text{LIBOR}) + \zeta_3(\text{PER}) + \zeta_4(\text{RER}) + \zeta_5(\text{DA/PDB}) + \epsilon \quad (4)
\]
\[
\text{LPE} = \nu_0 + \nu_1(\text{FDI/PDB}^*) + \nu_2(\text{BP}) + \nu_3(\text{PLN}) + \nu_4(\text{GWPOP}) + \tau \quad (5)
\]
\[
\text{X} = \kappa_0 + \kappa_1(\text{FDI/PDB}^*) + \kappa_2(\text{RER}) + \kappa_3(\text{INF}) + \varphi \quad (6)
\]

Note: * fitted

To avoid the estimation inconsistency, it is necessary to advance the tests. Testing is among others: (1) Data Stationarity Test is to determine whether the data time series balance or not (2) Cointegration Test and (3) Classic Assumption Test. They are multicollinearity, autocorrelation and heteroscedasticity tests

4. FINDINGS AND DISCUSSIONS

4.1. Statistical Result

The result of Data Stationary Test is as follows:
### Table 3
#### Stationarity Test (Unit Root Test)

<table>
<thead>
<tr>
<th>Variable</th>
<th>Level</th>
<th>First Difference</th>
<th>Second Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>FDI_PDB</td>
<td>-2.701890*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>PDB</td>
<td>-2.531045**</td>
<td></td>
<td></td>
</tr>
<tr>
<td>LIBOR</td>
<td>-2.743700*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>PER</td>
<td>-5.842132*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>RER</td>
<td>-6.589339*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>DA_PDB</td>
<td>-2.302196**</td>
<td></td>
<td></td>
</tr>
<tr>
<td>GWPOP</td>
<td>-2.039118**</td>
<td></td>
<td></td>
</tr>
<tr>
<td>BP</td>
<td>-6.619415*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>PLN</td>
<td>-4.149630*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ekspor</td>
<td>-2.545176**</td>
<td></td>
<td></td>
</tr>
<tr>
<td>INF</td>
<td>-3.346664*</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Automatic Based On SIC, Level of Significance: * 1%, ** 5%*

From the table above, it is known that the stationary variable at the data level are FDI_GDP rate, LIBOR, PER, Gwpop and INF; stationary variables at first difference is at the level of GDP, RER, DA_GDP, and PLN, while stationary variables at the second level are the BP difference and Export.

The result of Cointegration Test is as follows:

### Table 4
#### Cointegration Test

<table>
<thead>
<tr>
<th>Residual Equation (Model)</th>
<th>Data Processed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equation I</td>
<td>Stationary at degree 0 I(0)</td>
</tr>
<tr>
<td></td>
<td>-3.641599*</td>
</tr>
<tr>
<td>Equation II</td>
<td>Stationary at degree 0 I(0)</td>
</tr>
<tr>
<td></td>
<td>-5.231196*</td>
</tr>
<tr>
<td>Equation III</td>
<td>Stationary at degree 0 I(0)</td>
</tr>
<tr>
<td></td>
<td>-2.225749**</td>
</tr>
</tbody>
</table>

*Level of Significance:*

* 1%

** 5%
From the table above, it is known that residual regression equation is stationary at zero degrees I (0) or level, so it can be said that the existing regression equation in this study can be used for long-term estimation. Based on the estimation of the model described above, we obtain the following values:

**Equation I implies that**:

\[
\text{FDI}_{\text{PDB}} = 0.019112 + 1.61E-08 \text{PDB} - 0.000943 \text{LIBOR} + 3.51E-06 \text{PER} - 5.89E-06 \text{RER} \\
(0.010864) \quad (4.82E-09) \quad (0.000493) \quad (7.10E-07) \quad (1.47E-06) \\
(1.759309**) \quad (3.363140*) \quad (-1.911954**) \quad (4.939729*) \quad (-4.005694*) \\
- 0.064411 \text{DA}_{\text{PDB}} \\
(0.201858) \quad (-0.319093) \\
\]

* level of significance 1%
** level of significance 5%
R\(^2\) = 0.608865

**Equation II implies that**:

\[
\text{LPE} = 32.65976 + 98.56519 \text{FITTED} - 2.57E-05 \text{BP} - 0.001487^{*} \text{PLN} - 10.84612^{*} \text{GWPOP} \\
(7.408724) \quad (74.23714) \quad (7.39E-06) \quad (0.000449) \quad (2.884523) \\
(4.408285*) \quad (1.327707***) \quad (-3.483356*) \quad (-3.314597*) \quad (-3.760110*) \\
\]

* level of significance 1%
*** level of significance 10%
R\(^2\) = 0.691085

**Equation III implies that**:

\[
\text{X} = -12994.71 + 1651055 \text{FITTED} + 10.87650 \text{RER} - 644.9481 \text{INF} \\
(11070.98) \quad (484733.9) \quad (2.049224) \quad (148.0461) \\
(-1.173763) \quad (3.406106*) \quad (5.307621*) \quad (-4.356400*) \\
\]

* level of significance 1%
R\(^2\) = 0.761136

The Result Of Classic Assumption Test Is As Follows:

Based on the classic assumption test results, it shows that all the equations in this study is free from classical assumptions problems (multicollinearity, autocorrelation and heteroscedasticity).

<table>
<thead>
<tr>
<th>Table 5</th>
<th>Classic Assumption Test</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Equation</strong></td>
<td><strong>Multicollinear</strong>*</td>
</tr>
<tr>
<td>Equation I</td>
<td>The value of condition number k and condition index is below value of 100 – 1000 and 10 – 30 so it can be tolerated equals 54,17 and 7,36</td>
</tr>
</tbody>
</table>

* level of significance 1%
** level of significance 5%
*** level of significance 10%
4.2. Discussion

Equation I

Based on the results of data processing, it is known:

GDP is a proxy of market size that has a considerable influence on the presence of FDI in Indonesia. The result is consistent with the empirical research that has been done before and the concepts in the OLI paradigm. OLI paradigm says that the company is interested in specific characteristics in the overseas market or known as the specific location. These factors can be in the form of a large domestic market. The number of GDP associated with the size of the market. The greater the number, the greater the size of the GDP of the market. This condition reduces the cost of market offer because there is economies of scale and the cost of lower output per unit. This has caused foreign investors interested in investing in Indonesia.

LIBOR rate has a significant negative effect on FDI presence. That condition is consistent with the theory of investment and the interest rate. It is mentioned in the theory that the investment will decline if the level of interest increases and vice versa. Changes made to the interest rate monetary authority will affect the investment climate, especially FDI. The changes in exchange rates has a significant positive effect on FDI presence. This is consistent with the previously noted that the change in the exchange rate is not changeable that will make investors interested in investing in a country. In addition to the above exchange rate, volatility reflects the uncertain prospective business.

The real exchange rate (RER) has a significant negative impact on FDI presence. The increase in the real exchange rate will make FDI, which aims to re-export, incur losses. Because the increase in the real exchange rate will cause the price of foreign goods become
more expensive and consumers are happy to consume domestic goods as it is cheaper and has a higher competitiveness compared to imported goods. It affects not only on the balance of trade but also on the inferior corporate profits to cover the costs of investment and production.

The budget deficit is on macroeconomic variables. The stability of the macroeconomic conditions influences the presence of FDI in a country. Value of high budget deficits shows the unstable economic conditions. The instability has an impact on the presence of FDI. Because the budget deficit reflects the instability of macroeconomic instability and macroeconomic instability creates problems for multinational companies. The condition demands them not only to consider the investment risk but also to provide an opportunity to move their production facilities with low cost.

**Equation II**

Based on the results of data processing, it is known:

Changes of factors affecting FDI flow will impact on the ability of FDI in promoting economic growth. Because based on the results of data processing, it is known that FDI has a significant positive effect on the rate of economic growth. Foreign investments has positive impacts on the economy because of the presence of foreign investment to fill the void or gap between the level of resources targeted investments to the actual number of domestic savings. Besides that, foreign investment encourages economic growth through technology transfer. Positive externalities of the technology influence provides the best possibility on FDI to promote economic growth. The emergence of endogenous growth theory provides a framework to explain how positive externalities can encourage economic growth.

Other variable that affects economic growth is government spending. Based on the data processing, it is known that government spending has a significant negative effect on economic growth. This is contradictory with the theory noted earlier. Government spending could be inhibiting economic growth due to the increase in government spending boost levels of tax distortions and encourage the crowding out of private sector investment.

Foreign loans are other variables that affect economic growth. From the data processing, it is known that foreign loans provide a negative and significant effect of economic growth. Foreign loans has a negative impact on economic growth in relation to the substitution of the investment and domestic savings and the growing balance of payments deficit that everything is the result of the increased liability of the recipient countries to repay the debt and the loan for having received a donor country exports.

Population growth is the last variable of the equation II that affects economic growth. Population growth has a negative and significant impact on economic growth. This is in line with the theory put forward by Solow which promotes that population growth hinders economic growth due to increase in population growth rate reduces the level of capital per worker in the steady state, because of the level of capital per worker is reduced, the rate of output per worker is also lower.

**Equation III**

Based on the results of data processing, it is known:

Changes of factors affecting FDI flow will further has impact on the ability of FDI in boosting the performance of the trade balance. According to Kojima hypothesis that the trade-oriented FDI will push the trade balance. Based on the results of data processing, it is known that FDI has a significant positive impact on the trade balance. This shows that FDI in Indonesia is
pro-trade FDI. FDI is expected to affect the increase in the trade balance as well as increase the country's foreign exchange reserves. As a result, there will be an increase in the national investment and it will be able to push economic growth higher.

Other variable that affects export performance is the real exchange rate variable. From the data processing, it is known that the real exchange rate has a significant positive impact on export performance. This means, an increase in the real exchange rate will make the price of domestic goods become cheaper and people in foreign countries will reduce imports. At the same time, many foreigners ask for domestic goods because it has a higher competitiveness. These conditions will encourage exports.

The last variable of the equation III which affects the performance of the export is inflation. From the data processing, it is known that the variable inflation has a significant negative impact on the export performance. As shown in the aggregate supply curve that has been mentioned before, both internal and external changes factors will affect the aggregate supply curve. Changes of these factors creates a movement on the aggregate supply curve which causes an increased price level (inflation). The rising price level reduces the produced output includes the output to be exported. The condition affects the performance of the trade balance.

4.3. Conclusion

Based on the formulation of the problem and research objectives in this thesis, the research results can be summarized as follows:

1. Market size variables and changes in exchange rates has a positive effect on FDI flows. The larger the GDP number, the larger the size of the market. This condition makes the cost of market supply and the cost per unit of output lower. Changes in unstable exchange rates shows uncertain business prospects. Other variables such as the real exchange rate, the budget deficit-to-GDP ratio and interest rates negatively influences the presence of FDI. The increase in the real exchange rate causes the price of foreign goods more expensive and consumers are happy to consume domestic goods. High budget deficit shows the macroeconomic instability. High interest rates make investors are reluctant to invest. Many diagnostic terms that affect the above conclusion during the period of study (1981-2005) are as follows:
   - That the value of Indonesia's GDP and the growth rate experienced an increasing trend despite the current economic crisis has decreased significantly.
   - Changes in the exchange rate is not stable against the U.S. Dollar. Substantial change occurred at the beginning of the economic crisis in which the Rupiah reached the lowest point of which is equal to 10,013 USD / U.S. $ or corrected to 7104.2 points, which is the biggest change since 1981.
   - international interest rate LIBOR increased during the period of 3 (three) years.
   - government budget is likely to have a deficit, just as many as eight (8) times the only government budget in surplus.
   - these things above give an impact on the desire of investors to invest in Indonesia.

2. Foreign direct investment has a positive influence on the development of economic growth. The presence of resource investment to fill the gap between the level of investment that is targeted to the actual number of domestic savings. Besides that, foreign investment encouraged economic growth through technology transfer. Positive externalities of the influence of the technology provides the best possibility on FDI to
promote economic growth. Several things that affect the above conclusion during the period of study (year 1981-2005) are known that the value of foreign investment and foreign investment to GDP ratio is low enough not even to 0.05. This condition means that foreign investment has not been able to optimally increase the economic growth.

3. Foreign direct investment has a positive impact on the export performance. It means that FDI in Indonesia is a pro-trade that will improve the trade balance and foreign exchange. Pro-trade FDI means investing in industries where the state does not have a source of comparative advantage so that the investment will accelerate the trade between the two countries and promote a favorable industrial restructuring of the two countries. Several things that affect the above conclusion during the period of study (1981-2005) are known that the value of foreign investment and foreign investment ratio are quite low. However, although the value of foreign investment is low but it will be able to encourage exports that ultimately generate foreign exchange.

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