

ABSTRACT

This study is aimed to investigate and analyze determinant factors that influence Indonesian's economic growth particularly in 6 big islands using (i) modified Solow-Swan Model and Endogen Growth Model enlarging with educational factors (PDDK) and Potential Sector Advantages (PSP); (ii) other factors as Foreign Direct Investment (FDI), and Political and Security Stability (STAB).

Many previous research were administered using cross section and times series data that covered several countries including Indonesia; however, all data gathered in this study were provincial based data that aimed to measure its influences on the economic growth in every big island and the analyzes approach used is Regression Panel Data (GLS) during the period of 2002 – 2008.

Research findings showed that the variables of FDI, PSP, PDDK, and STAB are factors that influence the economic growth of Indonesia and the 6 big islands, although not all variables affect the 6 big islands because of their different characteristics. It can be concluded that Foreign Direct Investment is an important source to accelerate economic growth in Indonesia and the 6 big islands, which also strongly depended upon Potential Sector Advantages especially on natural resources. Meanwhile, the vulnerability of Indonesian and the 6 big islands drive Political and Security Stability (STAB) factors to be stronger to push economic growth and educational factors (PDDK) show its significance role in contributing the economic growth of Indonesia although to some islands, Bali and Timor, its function is not yet proven.

Key words: economic growth, FDI, education, PSP, Stability, Fixed Effect Model (FEM), General Least Square (GLS).