

ABSTRACT

For a development country, economy growth is a major instrument to reach its national aim. There are some indicators use to measure for successful growth. Economical in development country often face its difficulty to growth because lack of fund for the growth process. Indonesia and Malaysia are include development countries, so the government in both countries are looking for the growth-finance source, from direct or foreign. Foreign investment is one of Indonesia and Malaysia government's target to stimulate growth process. FDI (foreign direct investment) is one of important foreign investment for development countries that gives quite big contribute for the growth through asset and management transfer, also technology transfer in order to stimulate economical in one country. However, the methodology used and result of some studies are variety.

The goal of this research is to analyze how and how deep is the influence of PDB factors, government expenditure, relative interest rate, relative inflation, and exchange rate on FDI in Indonesia and Malaysia. Instrument analysis use in this research is Engle-Granger Error Correction model (EG-ECM). An ECM able to analyze many variable in long-term economy phenomenon and examine the consistency of empiric model with economy theory.

The result of this research is in Indonesia show that PDB variable, government expenditure and relative inflation has a positive influence for FDI in short-term also long-term. Exchange rate Rp/USD has a negative influence for FDI in short-term also long-term. Relative interest rate variable is not significant to give the effect on FDI both in short-term and long-term. With in Malaysia, PDB has a positive influence in short-term also long term. Exchange rate and government expenditure variable in Malaysia has a negative influence for FDI in -term and long-term. Relative inflation in long term has a positive influence and a negative influence in a short term but it is not significant. Relative interest rate has a negative influence for FDI in Malaysia. By considering various economical factors, economy and non-economy, it must be admitted that the investment climate in Indonesia and Malaysia is very potential but also susceptible. Some supporting factors, such as, infrastructure supply through partnership private public model, finding out other sources of funding that loan, a consistent policy and reliable, both from society, local investors and foreign investors are very necessary.

Key words: FDI, PDB, government expenditure, relative interest rate, relative inflation, and exchange rate, Engle-Granger Error Correction model (EG-ECM)