

## TABLE OF CONTENTS

|  |      |
|--|------|
| TITLE PAGE .....   | i    |
| UNDERGRADUATE THESIS APPROVAL .....                                  | ii   |
| PASSED APPROVAL ON THESIS EXAMINATION .....                          | iii  |
| STATEMENT OF THESIS ORIGINALITY .....                                | iv   |
| ABSTRACT .....   | v    |
| ABSTRAK .....  | vi   |
| PREFACE .....  | vii  |
| TABLE OF CONTENTS .....  | ix   |
| LIST OF TABLES .....   | xii  |
| LIST OF FIGURES .....  | xiii |
| CHAPTER I INTRODUCTION .....   | 1    |
| 1.1    Background .....  | 1    |
| 1.2    Problem Statement .....                                       | 9    |
| 1.3    Research Purposes and Advantages .....                        | 10   |
| 1.3.1    Research Purposes .....                                     | 10   |
| 1.3.2    Advantages of the Research .....                            | 11   |
| 1.4    Systematics of the Writing .....                              | 11   |
| CHAPTER II LITERATURE REVIEW .....                                   | 13   |
| 2.1    Theoretical Basis .....                                       | 13   |
| 2.1.1    Investment .....  | 13   |
| 2.1.1.1    Foreign Direct Investment .....                           | 15   |
| 2.1.1.1.1    Advantages of Foreign Direct Investment .....           | 16   |
| 2.1.2    Market Size .....   | 17   |
| 2.1.2.1    The relationship between market size and FDI .....        | 18   |
| 2.1.3    Exchange Rate .....   | 19   |
| 2.1.3.1    The relationship between exchange rate and FDI .....      | 22   |
| 2.1.4    Inflation Rate .....  | 23   |
| 2.1.4.1    The relationship between the inflation rate and FDI ..... | 24   |
| 2.1.5    Productivity .....  | 24   |
| 2.1.5.1    The relationship between productivity and FDI .....       | 26   |
| 2.1.6    Technology .....  | 26   |
| 2.1.6.1    The relationship between technology and FDI .....         | 28   |
| 2.1.7    Trade .....   | 28   |
| 2.1.7.1    The relationship between trade and FDI .....              | 29   |
| 2.1.8    Education .....   | 29   |
| 2.1.8.1    The relationship between education and FDI .....          | 31   |

|         |  |    |
|---------|--|----|
| 2.2     | Previous Research .....  | 31 |
| 2.3     | Research Framework.....  | 40 |
| 2.4     | Research Hypothesis .....                                      | 41 |
|         | CHAPTER III RESEARCH METHODOLOGY .....                         | 42 |
| 3.1     | Research Variable and Definition of Operational Variable ..... | 42 |
| 3.1.1   | Research Variable .....  | 42 |
| 3.1.2   | Definition of Operational Variable .....                       | 42 |
| 3.1.2.1 | Dependent Variable.....  | 42 |
| 3.1.2.2 | Independent Variable .....                                     | 43 |
| 3.2     | Type and Sources of the Data .....                             | 45 |
| 3.2.1   | Data Type .....  | 45 |
| 3.2.2   | Data Sources .....   | 45 |
| 3.3     | Data Collecting Method .....                                   | 46 |
| 3.4     | Data Analyzing Method .....                                    | 46 |
| 3.4.1   | Panel Data Analysis .....                                      | 47 |
| 3.4.2   | Classical Assumption Test .....                                | 49 |
| 3.4.2.1 | Normality Test .....   | 49 |
| 3.4.2.2 | Multicollinearity Test.....                                    | 50 |
| 3.4.2.3 | Heteroscedasticity Test .....                                  | 50 |
| 3.4.2.4 | Autocorrelation Test .....                                     | 51 |
| 3.4.3   | Hypothesis Testing.....  | 52 |
| 3.4.3.1 | Simultaneous Significance Test .....                           | 52 |
| 3.4.3.2 | Partial Significance Test .....                                | 52 |
| 3.4.3.3 | Coefficient Determinants ( $R^2$ ).....                        | 52 |
| 3.4.4   | Research Model.....  | 53 |
|         | CHAPTER IV RESULT AND DISCUSSION.....                          | 55 |
| 4.1     | General Description .....                                      | 55 |
| 4.1.1   | Foreign Direct Investment .....                                | 55 |
| 4.1.2   | Market Size .....  | 57 |
| 4.1.3   | Exchange Rate.....   | 59 |
| 4.1.4   | Inflation Rate.....  | 61 |
| 4.1.5   | Productivity .....   | 63 |
| 4.1.6   | Technology.....  | 65 |
| 4.1.7   | Trade .....  | 67 |
| 4.1.8   | Education .....  | 69 |
| 4.2     | Data Analysis .....  | 71 |
| 4.2.1   | Panel Data Analysis Regression Result .....                    | 71 |
| 4.2.2   | Determination of Panel Data Model .....                        | 72 |
| 4.2.3   | Classical Assumption Test .....                                | 73 |
| 4.2.3.1 | Normality Test .....   | 73 |
| 4.2.3.2 | Multicollinearity Test.....                                    | 75 |
| 4.2.3.3 | Autocorrelation Test .....                                     | 76 |

|  |   |     |
|--|---|-----|
| 4.2.3.4                                | Heteroscedasticity Test .....             | 77  |
| 4.2.3.5                                | Regression Analysis Result with EGLS..... | 77  |
| 4.2.3.6                                | Significance Test.....                    | 78  |
| 4.2.3.6.1                              | Simultaneous Significance Test .....      | 78  |
| 4.2.3.6.2                              | Partial Significance Test .....           | 79  |
| 4.2.3.7                                | Coefficient Determinant Test.....         | 81  |
| 4.3                                    | Discussion .....                          | 82  |
| 4.3.1                                  | Market Size .....                         | 82  |
| 4.3.2                                  | Exchange Rate.....                        | 83  |
| 4.3.3                                  | Inflation Rate.....                       | 84  |
| 4.3.4                                  | Productivity .....                        | 85  |
| 4.3.5                                  | Technology.....                           | 86  |
| 4.3.6                                  | Trade .....                               | 87  |
| 4.3.7                                  | Education .....                           | 88  |
| CHAPTER V SUMMARY AND SUGGESTION ..... |   | 90  |
| 5.1                                    | Summary .....                             | 90  |
| 5.2                                    | Limitations .....                         | 92  |
| 5.3                                    | Suggestion.....                           | 93  |
| REFERENCES.....                        |   | 96  |
| ATTACHMENTS.....                       |   | 100 |