ABSTRACT

The impact of foreign direct investment (FDI) on economy is a complex matters. One of the phenomenon which important to analyzed is the impact of FDI to domestic direct investment (DDI). The two impact of FDI to DDI is crowding-in (CI), and crowding out (CO).

The aim of this research is to analyze the impact of FDI to DDI in Indonesian economy at agregate and sectoral level. We employed the investment model developed by Agosin and Machado (2005) *from investment accelerator model. The model assumed that FDI is exogenous variable. Ordinary least square (OLS) method is employed to estimate the parameter of the model.*

The DDI and FDI data is obtained from Capital Investment Coordinating Board of Indonesia (BKPM) and GDP data from Statistics Indonesia (BPS). The series is at quarterly level covering the periode of 2001-2014.We found that at the agregate level, FDI does crowd-in DDI in Indonesia. At the sectoral level, crowding-in effect is detected on agriculture sector, mining sector, manufacture sector, electricity, gas and water supply sector, real estate sector, and private service sector. The crowding-out effect is detected on construction sector, trade, hotel and restaurant sector, and transport and communication sector. The exogeneity test for FDI showed that past economic growth do not explain FDI, hence the exogeneity assumption of FDI variable is filled.

Keyword : foreign direct investment, domestic direct investment, crowding-in, crowding-out, investment accelerator model.