

ABSTRACT

This research aimed to analyze causality effect between Foreign Direct Investment (FDI), export, and Gross Domestic Product (GDP). Using Indonesia as study object during 1970-2013 period, Granger causality test, Vector Autoregression analysis (VAR), and Impulse Response Function are employed. Impulse Response Function (IRF) demonstrated how one shock in one variable affect other variabel. The stationarity of the data series are examined using Augmented Dickey Fuller (ADF) test. This study takes major implication for economic development policy.

The result of Granger causality test found that both GDP with FDI, and FDI with export; has causality effect; whereas, GDP only has one-directional effect. Furthermore, IRF test confirmed that subtle shock in GDP may affect highly fluctuating response in FDI. Besides it needed a long time to get back to equilibrium point.

Keyword: GDP, FDI, export, Granger causality, VAR, IRF.