

THE DETERMINANTS OF JAPANESE FOREIGN DIRECT INVESTMENT IN INDONESIA

Abstract

Japan is the second-largest contributor to foreign direct investment (FDI) in Indonesia from 1990 to the present. Understanding patterns of change and determinant Japanese FDI is an important topic to be discussed so that later it can effectively increase the flow of Japanese FDI to Indonesia. This study examines the determinants that affect the Japanese FDI inflow in Indonesia using Autoregressive Distributed Lag (ARDL) estimation to investigate the short-run and long-run elasticities on quarterly data. The ARDL estimate results indicate that the main determinants of Japanese FDI inflow in Indonesia are economic growth, inflation rate, exchange rate, and labor cost gap. Furthermore, the long-run estimation results show that the rate of economic growth, inflation rate, and exchange rate affect Japanese FDI inflow in Indonesia. Economic growth and inflation have a positive effect on Japanese FDI inflow in the long run. On the other hand, appreciation of Yen and Rupiah has a negative relationship toward Japanese FDI inflow.

Keywords: determinants, FDI, Japan.