



## SUMMARY

RIZKY PRIMA LUBIS. Determinants Of Foreign Direct Investment in Indonesia Plantation Sector. Supervised by MUHAMMAD FIRDAUS and HENDRO SASONGKO

Realization of investment in Indonesia is dominated by foreign investor that focus on the mining sector which was a capital-intensive sector. Contribution of labor force absorbed on the mining sector was very low at 1.44 percent compared with the plantation sector which was 19.06 percent. Plantation sector has huge role in the labor absorption and positive trade balance. Therefore, the government should be directed to plantation sector.

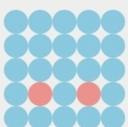
Indonesia was the largest exporter of palm oil, cocoa and rubber, with inputs factor such as land, skilled labor and available in sufficient quantities. The world demand for staple crop that varies as palm oil, rubber, and cocoa were very potential to be planted in Indonesia as the pull factor of foreign investment in Indonesia plantation sector. According to MP3EI, realization of investment in plantation sector has reached 2.29 percent in march 2013 which was still below of target.

This research aimed to analyze determinants of foreign direct investment conducted vector error correction model analysis and formulated strategies by using SWOT matrix to increase Indonesia plantation sector. Variables used in this model were foreign direct investment, exports value, exchange rates, domestic interest rates, interest rates in United State of America, consumer price index, gross domestic product and crisis as dummy variable. The strategy alternatives were formulated by SWOT model based on the questionnaires and respondents interview designed in analytical hierarchy process framework.

The result from model suggested that in the short term exchange rate, value of exports, United States interest rates, gross domestic product and consumer price index had positive impact to foreign direct investment. On the other side crisis had negative impact. Meanwhile in long term, domestic interest rates, gross domestic product and consumer price index had positive impact but crisis had negative contribution.

This study showed that shock of foreign investment in the plantation sector was affected by the shocks of foreign investment and exchange rates. The motivation of investors in the plantation sector was to export market where export sales mechanism based on the value of the dollar. The structure of production costs using local currency rupiah. If rupiah depreciated then the selling price would increase while production costs relatively fixed, so that investors will obtain profits. In the long term, exchange rate shocks will be responded negatively by foreign direct investment. Therefore, the monetary authority have to maintain the stability of exchange rates in Indonesia.

Based on interviews and questionnaires, alternative strategies were suggested to reformulation of the domestic and overseas markets, synchronization agribusiness plantation system, increased the promotion mix, optimized technological innovation, optimized the supporting factors, intensified the downstream programs, standardized and certified schemes, ruled of law, harmonized of regulations, acceleration extension of the concession process,



infrastructure improvements, created forum for more intensive cooperation, enforcement of offenders. The priority of strategies that intended to increase foreign direct investment in Indonesia plantation sector can be undertaken through harmonization between central and local governments regulations. Based on the result, There should be harmonization of regulation between Permentan 98/2013 of the plantation business license and the presidential Regulation No. 39/2014 about list of businesses which was contrast. Moreover in 2002-2009 there are 1 408 local government regulations associated with the plantation sector where 58 of them acted as contrary to central government.

Based on the results, there were an evaluations that can be done by the government to increased the foreign direct investment in Indonesia plantation sector i.e. 1) improve economic growth and stability of the economy; 2) consistent of regulation and supportive of the investment; 3) handling of the conflict. Meanwhile for investors there were also an evaluations that can be done, such as 1) assess Indonesian economy as host countries; 2) manages business based on best management practices; 3) reduction of the conflict; 4) legal certainty to support the investment climate.

Keywords : Foreign Direct Investment, Vector Error Correction Model, SWOT Matrix, AHP

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