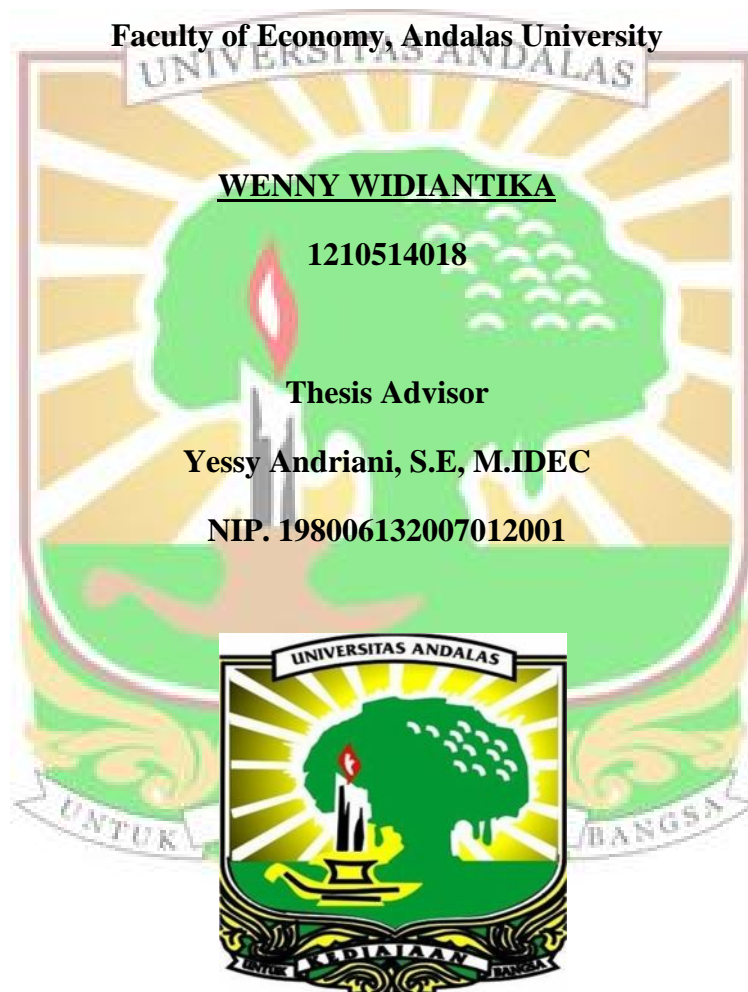


**THE LINKAGE BETWEEN TRADE OPENNESS, CAPITAL FORMATION, AND
FOREIGN DIRECT INVESTMENT ON INDONESIAN ECONOMIC GROWTH
USING VECTOR ERROR CORRECTION MODEL**

THESIS

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THE LINKAGE BETWEEN TRADE OPENNESS, CAPITAL FORMATION, AND FOREIGN DIRECT INVESTMENT ON INDONESIAN ECONOMIC GROWTH USING VECTOR ERROR CORRECTION MODEL

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ABSTRACT

International trade is considered as an engine to stimulate the economic growth. 1970s was the time when Indonesia became more open to international trade. This research uses Vector Error Correction Model (VECM) as methodology research by focusing on the linkage between trade openness, capital formation, and FDI on Indonesian economic growth. Using quarterly data from 1993Q1 to 2014Q4. Johansen co-integration test indicates significant long run relationship between variables. VECM stability and classical assumption prove that VECM is the proper model to be employed. Long run VECM shows that FDI has strong positive relationship with GDP, meanwhile short run VECM shows all variables have strong and positive relationship with Indonesian GDP.

Keywords: *Trade openness, capital formation, FDI, economic growth, VECM.*

