

CHAPTER IV

ANALYSIS

This research will start by providing the foundation answer to the research questions which are how foreign direct investment affect Indonesia's economic growth during Jokowi's first presidential era does, second is how does Jokowi's policy regarding FDI can attract more foreign investor to Indonesia, and is there any significant different in Indonesia's productivity caused by foreign direct investment? Data gathered are the analysis by interviewing and government's data collection. This research is mainly focus on the effect of FDI in Indonesia's economic growth and how it can maximize the productivity of Indonesia as a developing country. This research will also briefly mention about FDI's effect on other developing country including early time Indonesia opens border for foreign investor, how the concept of entrepreneur and innovation alongside with the host country's policy can attract more foreign investor to the host country as a reference and supporting analysis.

4.1. Early Foreign Direct Investment in Indonesia

Foreign investment activity has already been occurred in Indonesia since colonial era with the Agrarian act 1870 at that time, foreign investment made its way. Early foreign investment activities started with the European businessmen came to Indonesia. Through Suez Canal in 1869 that shortened time to travel from Dutch making more investors came to Indonesia. When demand of rubber

increase, sector of foreign investment activities expanding and went to mining and banks. Investment value in the Dutch in 1930 up to 4 billion gulden.⁸³ Foreign investment was built in the post-independence time. The activities were temporary stop because of Japanese citizenship in Indonesia. After the Independence Day, Indonesia government started to reimagine the economic structure of Indonesia after Japan's invasion, and the spirit of independence to build a good economic development became the trigger to get foreign investment. Trade minister and 1951 industry, Soemitro Djojohadikusumo planned out the economy urgency of Indonesia which a plan to push industries in Indonesia back then as the engine Indonesia's economy which was also called as Urgency Industry Plan or *Rencana Urgensi Industri*.⁸⁴ Even though Natsir Cabinet did not last long, *Rencana Urgensi Industri* itself used by the next three cabinets. Wilopo cabinet creates a more detailed plan. It has the objective to establish a good economic structure and will not become a dependent structure to other country. Foreign investor and MNCs can invest in the country with a policy to cooperate with national private company in Indonesia.⁸⁵ There was rejection towards foreign investment activities. The Economy urgency plan was removed in 1956 and replaced by the Five-Year Development Plan or *Rencana Pembangunan Lima Tahun*. The new plan accepted

⁸³ Malia, Indiana. "Sejarah Masuknya Modal Asing Dan Perjalanannya Di Indonesia." IDN Times. IDN Times, December 1, 2020.

<https://www.idntimes.com/business/economy/indianamalia/sejarah-perjalanan-investasi-asing-di-indonesia/1>.

⁸⁴ Malia, Indiana. "Sejarah Masuknya Modal Asing Dan Perjalanannya Di Indonesia." IDN Times. IDN Times, December 1, 2020.

<https://www.idntimes.com/business/economy/indianamalia/sejarah-perjalanan-investasi-asing-di-indonesia/1>.

⁸⁵ Malia, Indiana. "Sejarah Masuknya Modal Asing Dan Perjalanannya Di Indonesia." IDN Times. IDN Times, December 1, 2020.

<https://www.idntimes.com/business/economy/indianamalia/sejarah-perjalanan-investasi-asing-di-indonesia/1>.

by the parliament two years after and did not relevant anymore after that. In the same year, *Kabinet Karya* under Minister Djuanda stated Act No. 78/1958 about foreign investment.⁸⁶ This Act was revised several times and as time goes, it started to attract more and more foreign investor. National policies for Dutch companies made the Act did not effective back then, political, and social stability did not ensure the safety of foreign investor to securely invest and even have doubt to enter Indonesia. The new regulation to replace law no. 15/1960 that replaced Act No. 78/1958 has no effect especially with nationalization of fund from Malaysia and England from Indonesia's government creates confrontation with Malaysia.⁸⁷ In 1965, it also happened to companies from United States. Obstacles also came from many critics from Indonesia Communist Party regarding government's decision to pull as many foreign investors to Indonesia as a manifestation of Neo-Colonialism Imperialism. In Mei 26 1963 for example, as a part of development program called Economic Declaration, government announced the economic stabilization program to improve efficiency and receive more foreign funds. After that there were some regulations made up and called as regulations May 26th.⁸⁸ The Communist party rejects these regulations and called the decision of the government as a capitalization of foreign companies in

⁸⁶ Malia, Indiana. "Sejarah Masuknya Modal Asing Dan Perjalanannya Di Indonesia." IDN Times. IDN Times, December 1, 2020.

<https://www.idntimes.com/business/economy/indianamalia/sejarah-perjalanan-investasi-asing-di-indonesia/1>.

⁸⁷ Malia, Indiana. "Sejarah Masuknya Modal Asing Dan Perjalanannya Di Indonesia." IDN Times. IDN Times, December 1, 2020.

<https://www.idntimes.com/business/economy/indianamalia/sejarah-perjalanan-investasi-asing-di-indonesia/1>.

⁸⁸ Malia, Indiana. "Sejarah Masuknya Modal Asing Dan Perjalanannya Di Indonesia." IDN Times. IDN Times, December 1, 2020.

<https://www.idntimes.com/business/economy/indianamalia/sejarah-perjalanan-investasi-asing-di-indonesia/1>.

Indonesia, and because of the situation getting out of hand, the political and social stability was unstable, therefore those regulations were erased on April 1964.

President economist designing the new policies of New Order economy. Political change post-incident “G30S” or known as the tragedy of Communist movement September 30th changed Indonesia’s economic way. Soeharto turn back to a group of young economists from University of Indonesia (UI) faculty of economy. They were Widjojo Nitisastro, Ali Wardhana, Mohammad Sadli, Subroto, and Emil Salim. Soeharto knew them since all of them went to the same School of Staff and Commando Infantry in Bandung, where these economists were teaching. In January 1966, some economists started to discuss about the economic and financial issue on University of Indonesia, and so it continues to May. Finally, all discussion concluded into policies Dwikora Cabinet that later finalized and affecting “Tap MPRS” 1966 as a stake for the New Order era. The New Order commitment to solve economic issue strengthened when infantry division held a seminar in Bandung on August 25th, 1966 that mainly to make strategy for economic rehabilitation and stabilization.⁸⁹ Act No. 1/1967 pulling foreign investors to increase fund in Indonesia. New Order made the new Act to provide more fund to Indonesia’s development by pulling more foreign investors to invest in Indonesia and promised a security for their investment. After several debates in the parliament, government then made a Technical Team for Foreign

⁸⁹ Malia, Indiana. “Sejarah Masuknya Modal Asing Dan Perjalanannya Di Indonesia.” IDN Times. IDN Times, December 1, 2020. <https://www.idntimes.com/business/economy/indianamalia/sejarah-perjalanan-investasi-asing-di-indonesia/1>.

Investment led by Mohammad Sadli. The objective of this new team was to gather information regarding the foreign investor's potential and their investment plan in Indonesia.⁹⁰ Then they report to the cabinet and the cabinet decide whether to accept the investment plan or not. Act No. 1/1967 contains incentives and reassurance to the foreign investors including free tax charge for a certain extent and assurance if there is no nationalization, except if needed for national interest and with full compensation as written in the agreement and international law. This new policy that opens the opportunity for attracting more foreign investor and newer investor coming to Indonesia especially in mining and manufacturing sector including Freeport as one of the first investment that joined in Indonesia. Then followed by mining company and wood company from several country. The richness of natural resources and cheap labor became the main attraction for foreign investor to invest in Indonesia.⁹¹

4.2. The Role of Entrepreneurship and Innovation in The Host Country to Attract More Foreign Investors

Economic development potential in the host country become one of the main attractions for foreign investors to consider for investment and the projects on the host country. The economic development potential

⁹⁰ Malia, Indiana. "Sejarah Masuknya Modal Asing Dan Perjalanannya Di Indonesia." IDN Times. IDN Times, December 1, 2020. <https://www.idntimes.com/business/economy/indianamalia/sejarah-perjalanan-investasi-asing-di-indonesia/1>.

⁹¹ Malia, Indiana. "Sejarah Masuknya Modal Asing Dan Perjalanannya Di Indonesia." IDN Times. IDN Times, December 1, 2020. <https://www.idntimes.com/business/economy/indianamalia/sejarah-perjalanan-investasi-asing-di-indonesia/1>.

shown by how much the host country itself can innovate and measured by the overall resources and other aspects such as academic as the sign of potential growth of the host country. Entrepreneur itself is needed as chapter two has already explained, to bring the innovation which means not only an idea but a realization and a plan for making breakthrough from previous version, the role of entrepreneur has a big impact in playing this role to carry out the plan and to expand the development in the country.⁹²

Most of the innovation comes from technological advancement in the country and re-imagining the evolution of technological advancement mostly came up from a big trigger in the world basically then spread out thoroughly to all countries in the world. Examples of a technological advancement is war.⁹³ War triggers advancement for technology in the country, and possibly war always leads to revamping the political system inside the country. Aside from the effect of war, developing countries are shown to be lack of knowledge or academic and practical skills that creates ineffective working pattern and job fields.⁹⁴ Purposely, entrepreneur is design to answer the social issue that is happening in the

⁹² Ayres, Robert U., and Benjamin Warr. *The Economic Growth Engine: How Energy and Work Drive Material Prosperity*. Cheltenham: Edward Elgar, 2010.

⁹³ Ayres, Robert U., and Benjamin Warr. *The Economic Growth Engine: How Energy and Work Drive Material Prosperity*. Cheltenham: Edward Elgar, 2010

⁹⁴ Ayres, Robert U., and Benjamin Warr. *The Economic Growth Engine: How Energy and Work Drive Material Prosperity*. Cheltenham: Edward Elgar, 2010

current time with innovation or people probably notice as an upgrade/update of lifestyle.⁹⁵

Entrepreneurs does not necessarily come from business school, accountant or stuffs that only related with economy, but many comes from their own road making their way to produce something beneficial and helping the society for a better life for example many entrepreneurs sells healthy product to accommodate a healthy life. Research and development as an investment creates new jobs specifically innovation created from science-industry interaction packed by entrepreneur to spread through the country.⁹⁶ Science systems has influenced the innovation on a direct way and creates a more prominent opportunity when science and business combined. It creates more intensive technology and makes many functional and effective facilities to help many sectors in the country for example like in the area of pharmacy/hospital making pharmaceuticals, organic and food chemistry, biotechnology and semiconductor (OECD, 1999b).⁹⁷

Besides the innovation itself, government policies regarding entrepreneurship and inventions are very important to support the development of many innovations. For example, in the United States,

⁹⁵ Ayres, Robert U., and Benjamin Warr. *The Economic Growth Engine: How Energy and Work Drive Material Prosperity*. Cheltenham: Edward Elgar, 2010

⁹⁶ Arner, Douglas W. *Financial Stability, Economic Growth, and the Role of Law*. Cambridge: Cambridge University Press, 2007.

⁹⁷ Arner, Douglas W. *Financial Stability, Economic Growth, and the Role of Law*. Cambridge: Cambridge University Press, 2007.

government policies are very significant towards science and industry that affect the extension of patent that publicly funded as a research that helped to strengthen the role of science in the innovation. Other examples are from country Germany, Japan and South Korea has been geared with excellent engineering with quality and rapid adaptation of technological innovation. As many inventions created by innovations from various combination, culture involves way deeper than people realize. Culture created by the society itself, and entrepreneur must blend in with the culture before it can implement the innovation in the region or area of market. As it also explained in the concepts of economic growth in Chapter II, culture itself can be classified into three class which are national culture, corporate culture, and professional culture. Entrepreneur plus innovation plays a big role to bring attraction to the foreign investor. In other word, most of the foreign investor will prefer more on the host country with a big potential economy, and not only that, labor cost also becomes preferential for foreign investor. Besides labor, research and development also have a big role in investment preferential and strategy with the needs to boost industry productivity.

For example, crude palm oil from Indonesia. Crude Palm Oil (CPO) is one of the most consumed and produced in the world and it has various usage for food, cosmetics, cleaning product, also for biofuel or biodiesel. Most of CPO produced in Asia, Africa and South America because of palm tree needs a warm temperature, heat from sun, and high

intensity of rain to maximize the production. 85-90% from total production of CPO in the world is dominated by Indonesia and Malaysia and Indonesia is the biggest producer and exporter of CPO in the world.⁹⁸ Demand for CPO increasing each year with the increase of total population in the world means total consumption will also increase, then it needed to produce more food, cosmetic, and other daily consumption product. Some industries in Indonesia shows a great potential and growth in producing CPO in the last 20 years and the growth showed by the increase of exporting activities in Indonesia with also expansion of palm tree field. Because of high demand from global market, it creates more profit and it makes the cultivation more significant even from small farmer or even big business in Indonesia with some negative consequences to the environment and other farm produce decreasing because the focus is shifted towards palm oil production.⁹⁹ Most imports are from country like China, India, Pakistan, Malaysia, and Dutch. The number is not significant, but Indonesia also importing CPO from other country, especially India. Commodity era around year of 2000 was a blessing for Indonesia because of abundant natural resources and CPO's price skyrocket after 2005 but then hit back by crisis in 2008. Then in 2011

⁹⁸ Investments, Indonesia. "Minyak Kelapa Sawit." Minyak Kelapa Sawit Indonesia - Produksi & Ekspor CPO | Indonesia Investments. Accessed November 26, 2020. <https://www.indonesia-investments.com/id/bisnis/komoditas/minyak-sawit/item166>.

⁹⁹ Investments, Indonesia. "Minyak Kelapa Sawit." Minyak Kelapa Sawit Indonesia - Produksi & Ekspor CPO | Indonesia Investments. Accessed November 26, 2020. <https://www.indonesia-investments.com/id/bisnis/komoditas/minyak-sawit/item166>.

there was a rebound in CPO's price, and it was getting weaker especially because of China's demand decreased, while low prices of raw oil in the middle of 2014 decreasing the demand of biofuel with CPO. Because of that, the demand for CPO is depleted in short term time especially because Indonesia is still too dependent in CPO compares to other palm oil products.¹⁰⁰

But if there is a big demand from global market, palm oil business in Indonesia can be profitable because of high margin profit with small commodity of production, high international demand can cause an increase because there is an increasing of total population in the world, therefore it also increase the consumption rate.¹⁰¹ From 2008-2016, CPO production increased each year; 19.2 million ton (2008), 19.4 million ton (2009), 21.8 million ton (2010), 23.5 million ton (2011), 26.5 million ton (2012), 30.0 million ton (2013), 31.5 million ton (2014), 32.5 million ton (2015) and it has slightly decreased in 2016 became 32.0 million ton. This data shows Indonesia's big production and one of the potentials to attract more foreign investors with natural resources and government need to pay more

¹⁰⁰ Investments, Indonesia. "Minyak Kelapa Sawit." Minyak Kelapa Sawit Indonesia - Produksi & Ekspor CPO | Indonesia Investments. Accessed November 26, 2020. <https://www.indonesia-investments.com/id/bisnis/komoditas/minyak-sawit/item166>.

¹⁰¹ Investments, Indonesia. "Minyak Kelapa Sawit." Minyak Kelapa Sawit Indonesia - Produksi & Ekspor CPO | Indonesia Investments. Accessed November 26, 2020. <https://www.indonesia-investments.com/id/bisnis/komoditas/minyak-sawit/item166>.

attention to these kinds of sector and boosting up the productivity to increase more exports.¹⁰²

4.3. Indonesia's Bureaucracy on Foreign investment

Policies in the host country is the number one issue for foreign investor to consider before investing. Bureaucracy in the host country includes indicators to fulfill for foreign investor to invest needs to be clear and have a 'smooth' chain of command flow from government to each sector to avoid any miscommunication, and other errors or difficulties in requesting the project. In Indonesia we have *Badan Koordinasi Penanaman Modal* or shortly BKPM as the pole of bureaucracy for foreign investor to cooperate for requesting investment on which sector, what kinds of projects, and how it cooperate through the whole activities in the project. BKPM is a non-ministry institution that focused and has a job to do the cooperation of policies and services in investment based on legal law that already been set which is *Undang-undang No.25 Tahun 2007 Tentang penanaman modal* or Act 2007 No.25 about investment.¹⁰³

Functioning as a door to connect business and government, BKPM is ordered to encourage direct investment whether it is foreign or national investment, with a proper environment in the country. Later then in 2009, BKPM has its status back as the same level institution with government

¹⁰² Investments, Indonesia. "Minyak Kelapa Sawit." Minyak Kelapa Sawit Indonesia - Produksi & Ekspor CPO | Indonesia Investments. Accessed November 26, 2020. <https://www.indonesia-investments.com/id/bisnis/komoditas/minyak-sawit/item166>.

¹⁰³ BKPM, BKPM. "Profil Badan Koordinasi Penanaman Modal Asing." Profil. Accessed 2020. <https://www.bkpm.go.id/id/tentang-bkpm/profil-lembaga>.

and initiated directly to Indonesia's president, therefore BKPM goals and target is not only to increase more investment foreign or national, but also to get a good quality investment that can bring growth for Indonesia's government and getting more labor force. Founded in 1973, BKPM has an objective to change the previous direct investment institution in Indonesia that was run by *Panitia teknis Penanaman Modal* that founded in 1968.¹⁰⁴ Structure of BKPM shows that it led by a Head according to *Peraturan Kepala BKPM No.90 tahun 2007*. Since October 2019, BKPM is led by Bahlil Lahadalia. BKPM has six key performance indicators to increase investment, they are; realization of big investment execution, fixing the ease of doing business, pushing the big investment to join venture with national business especially UMKM in the project area, spread of a good quality investment, promoting investment focused by sector and country, pushing the increase of inward investment especially UMKM.¹⁰⁵

BKPM main task is to coordinate the policies and services in investment sector based on the Act for investment in Indonesia. BKPM is functioning to do the assessment and suggesting the next plan for future direct investment, to coordinate the national policies in investment sector, doing the assessment and suggesting the policies for investment, implementing norm, standard, and procedure for direct investment activities, become a platform for potential development of direct

¹⁰⁴ BKPM, BKPM. "Profil Badan Koordinasi Penanaman Modal Asing." Profil. Accessed 2020. <https://www.bkpm.go.id/id/tentang-bkpm/profil-lembaga>.

¹⁰⁵ BKPM, BKPM. "Profil Badan Koordinasi Penanaman Modal Asing." Profil. Accessed 2020. <https://www.bkpm.go.id/id/tentang-bkpm/profil-lembaga>.

investment in regional sector with improving the business side, making a roadmap for direct investment in Indonesia, to coordinate the promotion and foreign investment activities between investors and hosting country, to develop direct investment sector through direct investment coaching like increasing more partners, increasing competitiveness, creating a healthy business competition, and to spread information as wide as possible in the direct investment playground, giving guidance to do direct investment, and giving help to solve any kinds of hindrance or issues that slowing down the activities by giving consultation for the issues that happened in the direct investment activities, coordination and all activities are integrated with 'one door' system, coordination of inward direct investment that doing their activities outside Indonesia, services for licensing and facilitating foreign investment activist, giving a guidance and services of public administration in the general planning, administration, organization or governance, employment, education and training, finance, law, human resources, files, data and information, logistics and doing the other function on direct investment as stated by the law of direct investment.¹⁰⁶

Still related to BKPM function that stated to promote and encourage more on direct investment activities, BKPM has an official delegation in other countries to promote Indonesia's investment to many potential investors called Indonesia Investment Promotion Center or IIPC for short. IIPC has two jobs which are to increase foreign investment from

¹⁰⁶ BKPM, BKPM. "Profil Badan Koordinasi Penanaman Modal Asing." Profil. Accessed 2020. <https://www.bkpm.go.id/id/tentang-bkpm/profil-lembaga>.

the other country where the delegates are, second is to facilitate direct investment from Indonesia to the country that interact with Indonesia's investment.¹⁰⁷ It also has its own function which to do marketing and giving information regarding direct investment actively and focused, coordinating and synchronizing marketing activities of direct investment with Indonesia delegation and accepting direct investment mission from Indonesia to the delegation place on other country, facilitating direct investment from delegation country to Indonesia and from Indonesia to delegation country, facilitating problem solving/issues of direct investment for new or current investors and pushing to make realization of foreign investment from delegation country that has acquired license to do direct investment activities from BKPM, monitoring the interest and policies of direct investment in delegation country, facilitating Indonesia's direct investment that also do direct investment activity in delegation country, suggesting the working program and monitoring the needs for monthly cashflow in regards to do direct investment activities and achieving the goals that has been set up as stated by the Head of BKPM, doing other task that given by the Head of BKPM and Indonesia's delegate in the delegation country.¹⁰⁸

Direct investment process needs a promotion in order to make growth and bring gains for hosting country. Therefore, BKPM creates a

¹⁰⁷ BKPM, BKPM. "Badan Koordinasi Penanaman Modal Asing," November 2020. <https://www.bkpm.go.id/en/siaran-pers/readmore>.

¹⁰⁸ BKPM, BKPM. "Badan Koordinasi Penanaman Modal Asing," November 2020. <https://www.bkpm.go.id/en/siaran-pers/readmore..>

roadmap strategy that has goals to fulfill the agenda of direct investment and making the process more efficient. The Roadmap is provided to maximize the strategy of direct investment and it has four steps as stated; focus on short term means to increase efficiency of investment in Indonesia. This includes optimization of natural resources as catalysator that able to create momentum to making all programs going to reach bigger goals in economic sector. Distributing investment to many infrastructures for hard or soft needs of development. Hard infrastructure includes making road, airport, port, and power generator capacity, while soft infrastructure includes services in health and education.¹⁰⁹ Next is to build industrialization base that demand investment in the education sector rapidly to creates educated and skilled worker. Next demand is to erase uncertainty in policies, including the initiative of *Pelayanan Terpadu Satu Pintu* or shortly PTSP and SPIPISE or NSWI (National Single Window for Investment) that planned to solve the problem of employees.¹¹⁰ Law clausal for fiscal incentives and non-fiscal is also needed to pay attention to provide a bigger scale in industrialization. Lastly to support economic development base with knowledge and to create more job fields with educated and skilled employee/worker that able to compete in a global scale. In this process, BKPM pushed more on the investment policies as an

¹⁰⁹ BKPM, BKPM. “Badan Koordinasi Penanaman Modal Asing,” November 2020. <https://www.bkpm.go.id/en/siaran-pers/readmore>.

¹¹⁰ BKPM, BKPM. “Badan Koordinasi Penanaman Modal Asing,” November 2020. <https://www.bkpm.go.id/en/siaran-pers/readmore>.

advocate that connects investors and government, whether for foreign funding or even domestic fund.¹¹¹

This is the core policies and basically regulations also services that provided by BKPM as one integrated governmental institution for any kinds of direct investment activities (including foreign investment) to cooperate and do the project in Indonesia that Chapter II explained in the concept of FDI as it is a very crucial issue because it is the gate for foreign investor to enter the host country, and if the gate itself cannot open well for investors in the first place then it will hinder all the potential and chances for Indonesia to get more foreign investor. Other factor is human resources development in Indonesia that needs to improve more on education and professional skills. As stated by the head of BKPM No: 90/SK/2007 Regarding Organization and BKPM Structure that has been revised few times, it is stated that BKPM has a task to coordinate policies and services in direct investment sector.¹¹² To support the objective, BKPM has done of its function which providing guidance and services in education and training sector. Regarding this, *Pusat Pelatihan dan Pelatihan (pusdiklat)* from BKPM do an educational and structural training, functional and technical for government in direct investment also assessment on the needs, making programs and improving education and training curriculum, doing evaluation on education and training and

¹¹¹ BKPM, BKPM. “Badan Koordinasi Penanaman Modal Asing,” November 2020. <https://www.bkpm.go.id/en/siaran-pers/readmore>.

¹¹² BKPM, BKPM. “Badan Koordinasi Penanaman Modal Asing,” November 2020. <https://www.bkpm.go.id/en/siaran-pers/readmore>.

administration for education and training. The aim of BKPM *Pusdiklat* program is for human resources on direct investment sector.¹¹³

4.3.1. The Interaction between Foreign Investor and Indonesia as the Hosting Country Regarding the Foreign Investment Policies

Head of BKPM in the last period, Thomas Lembong stated some issues that has been a problem of investment' growth. He said, the fundamental factor that block the investment which is the bureaucracy of the government itself. Indonesia's bureaucracy is left behind because of vast global development with technological advancement while government in Indonesia still run with conventional communication.¹¹⁴

And to handle the ineffective chain of command, BKPM initiated a communication platform named *Koordinasi Pengawasan Investasi* or Guide Coordination for Investment using "Kopi Mantap" App as a platform for institute to monitor the commitment and licensing of the investors. "Kopi Mantap" connects 560 regional government, 34 ministries, and more than 30 non-governmental institutions in an online app. Singaporean government has ever used this before since 2017 as an online collaboration with 140,000 government workers. Again, this is an example that shows we lose to our neighboring country simply by the usage of technology and creating more effective work. Other issues come from dominant company like *Badan Usaha Milik Negara* or shortly

¹¹³ BKPM, BKPM. "Badan Koordinasi Penanaman Modal Asing," November 2020. <https://www.bkpm.go.id/en/siaran-pers/readmore>.

¹¹⁴ Perindustrian, Kementerian. "Kemenperin: Kebijakan Investasi Harus Tepat." Kementerian Perindustrian. Accessed November 26, 2020. <https://kemenperin.go.id/artikel/21789/Kebijakan-Investasi-Harus-Tepat>.

BUMN that over dominated the investment weather. This issue is not only happening in Indonesia, other country like China also have similar issues of government institution that over dominating the business in the country that distract the dynamics of private sector.¹¹⁵ Then later it became worst and Indonesia started to get complained by the investor because they feel the private sector and BUMN relationship is very bad and it creates unfair decision for business. Besides the bad relationship, there is also an overlap regulation that block the investment flow therefore, Indonesia's main issue mainly comes from its overcomplicated regulation that makes Indonesia less attractive to the foreign investor. Other than regulation, the investors are also complaining on difficulties in paying taxes, and even the factor of paying taxes in Indonesia is not good in Ease of Doing Business (EoDB).¹¹⁶

Still related to getting license in Indonesia, investors are also complaining regarding difficulties on getting permission on field, land and property. And finally, Indonesia's labor didn't have a good education that became special consideration for foreign investor before investing in Indonesia. Jokowi is focusing on the reformation of investment ecosystem to make things easier for foreign direct investment in Indonesia. He even planned two times a day to have a meeting with special agenda for foreign

¹¹⁵ Perindustrian, Kementerian. "Kemenperin: Kebijakan Investasi Harus Tepat." Kementerian Perindustrian. Accessed November 26, 2020.

<https://kemenperin.go.id/artikel/21789/Kebijakan-Investasi-Harus-Tepat>.

¹¹⁶ Perindustrian, Kementerian. "Kemenperin: Kebijakan Investasi Harus Tepat." Kementerian Perindustrian. Accessed November 26, 2020.

<https://kemenperin.go.id/artikel/21789/Kebijakan-Investasi-Harus-Tepat>.

investment.¹¹⁷ Marine coordinator ministry, Luhut Binsar Panjaitan said, president's serious intention in investment bureaucracy to give licensing is a serious matter. He thinks that to cut all over-complicated bureaucracy needs a progressive discussion.¹¹⁸ So, the mindset of cutting all bureaucracy is not necessary anymore because comparing with other ASEAN countries, our bureaucracy is very complicated while the other neighboring countries made a simple policies for investment, then what Indonesia needs is to make it more efficient and simpler than before for foreign investors.¹¹⁹ Luhut stressing on the licensing policies that still has an issue especially in every governmental institution is only making things difficult to have licensing. In one of the meeting for direct investment, Jokowi said he often got complained by investors because of regulation issues or even licensing for investment is very complicated in the procedure method.¹²⁰

The government has anticipated that there will be a recession for a year ahead in 2020 and as for this issue, foreign investment and inward investment in country is needed to be push. Economic coordinator ministry, Darmin Nasution explained to attract and having more foreign

¹¹⁷ Indonesia, CNN. "BKPM Tunjuk Birokrasi Pemerintah Hambat Investasi Bertumbuh," March 14, 2019. <https://www.cnnindonesia.com/ekonomi/20190313205621-92-377035/bkpm-tunjuk-birokrasi-pemerintah-hambat-investasi-bertumbuh>.

¹¹⁸ Indonesia, CNN. "BKPM Tunjuk Birokrasi Pemerintah Hambat Investasi Bertumbuh," March 14, 2019. <https://www.cnnindonesia.com/ekonomi/20190313205621-92-377035/bkpm-tunjuk-birokrasi-pemerintah-hambat-investasi-bertumbuh>.

¹¹⁹ Indonesia, CNN. "BKPM Tunjuk Birokrasi Pemerintah Hambat Investasi Bertumbuh," March 14, 2019. <https://www.cnnindonesia.com/ekonomi/20190313205621-92-377035/bkpm-tunjuk-birokrasi-pemerintah-hambat-investasi-bertumbuh>.

¹²⁰ Indonesia, CNN. "BKPM Tunjuk Birokrasi Pemerintah Hambat Investasi Bertumbuh," March 14, 2019. <https://www.cnnindonesia.com/ekonomi/20190313205621-92-377035/bkpm-tunjuk-birokrasi-pemerintah-hambat-investasi-bertumbuh>.

investment is very important for Indonesia because of the trade balance sheet and transaction is negative. Besides there will an increasing production in country, Darmin stated that foreign currency will also enter Indonesia that will affect the negative balance sheet transaction to balance in again.¹²¹ Not only dependent on short-term fund but more towards to a stable foreign direct investment. The other issues are how to make this investment is not only foreign or just inward investment in the country, but how to make the investment activities itself grow faster from what Indonesia have right now. Darmin said, government will be focusing on cutting the complicated process for licensing process. for foreign investor who wants to invest in Indonesia they must establish a company that has its business registered in *Klasifikasi Baku Lapangan Usaha Indonesia* or KLBI for short which is Classification for Indonesia's Business Field. Foreign company supposed to have two owners or at least two investors whether it is per person or company.¹²²

Next is, as mentioned above, investors must pay attention on open and close business with requirement for foreign stated on presidential regulation 2016 No. 44 (*Perpres No. 44 Tahun 2016*). If the targeted business or sector is not listed in the presidential regulation, it means investors can enjoy ownership up to 100%. Next thing for foreign

¹²¹ Indonesia, CNN. "BKPM Tunjuk Birokrasi Pemerintah Hambat Investasi Bertumbuh," March 14, 2019. <https://www.cnnindonesia.com/ekonomi/20190313205621-92-377035/bkpm-tunjuk-birokrasi-pemerintah-hambat-investasi-bertumbuh>.

¹²² Perindustrian, Kementerian. "Kemenperin: Kebijakan Investasi Harus Tepat." Kementerian Perindustrian. Accessed November 26, 2020. <https://kemenperin.go.id/artikel/21789/Kebijakan-Investasi-Harus-Tepat>.

investors to know is the minimum foreign investment in Indonesia which is Rp.10 billion (exclude land and property cost) with minimum transfer Rp.2.5 billion to Indonesian bank, this is the requirement for doing foreign investment in Indonesia.¹²³ Then next is how to establish a company for foreign investor in Indonesia. As it stated before, in the requirement for doing direct investment, the company from foreign investor needs at least two owner or investors of the company. The company itself or “PT” stands for *Perseroan Terbatas* can be established through a merger. Merger is a combination between one with the other companies that become a new company while acquisition is a takeover of company (one company is bought by the other company). Foreign investor can establish their company anywhere around Indonesia territory. However, Indonesia’s government has stated that all industrial business will establish in the industrial area as it is set by the government.¹²⁴

After the establishment of foreign company in Indonesia, it must register through OSS (Online Single Submission) to get *Nomor Induk Berusaha* (NIB) and Operational license or Commercial license. If the company did not get the NIB and Operational License/Commercial license, the company cannot run the business in Indonesia. This registration can be done by online by accessing www.oss.go.id. All kinds

¹²³ Perindustrian, Kementerian. “Kemenperin: Kebijakan Investasi Harus Tepat.” Kementerian Perindustrian. Accessed November 26, 2020. <https://kemenperin.go.id/artikel/21789/Kebijakan-Investasi-Harus-Tepat>.

¹²⁴ BKPM, BKPM. “Penanaman Modal Asing Di Indonesia,” 2020. <https://www.investindonesia.go.id/id/artikel-investasi/detail/penanaman-modal-asing-di-indonesia>.

of business can register through the website except for financial sector and ESDM.¹²⁵ As from the foreign investor, they are not only considering the issues for investing in Indonesia, but there is also several good news for foreign investor, and they sought an opportunity in Indonesia as their hosting country. The strong point from investor's perspective on investing in Indonesia are; large population of nearly 270 million inhabitants which also means it has a huge internal market for any company to establish and running their business in Indonesia, then there is abundant amount of natural resources like timber, marine resources, oil, natural gas, metals, spices, crops, etc.¹²⁶ Next is there is a high biodiversity in Indonesia, growing domestic demand as the middle-class population in Indonesia is also growing and banking and financial sectors creates a good environment for a sustainable growth. On the other hand, to conclude the disadvantages from foreign investor's perspective by investing in Indonesia are; high cost of illegal removals up to 60%, a study showed by World Bank shows that the legal and economic framework is less effective in Indonesia than other countries, Justice and tax and customs administrations are most likely full of corruption and arbitrary, limited infrastructure to access other island of the archipelago is still difficult which also creates inequalities in economy, too many cultures that can possibly create more problem because of

¹²⁵ BKPM, BKPM. "Penanaman Modal Asing Di Indonesia," 2020.
<https://www.investindonesia.go.id/id/artikel-investasi/detail/penanaman-modal-asing-di-indonesia>.

¹²⁶ BKPM, BKPM. "Penanaman Modal Asing Di Indonesia," 2020.
<https://www.investindonesia.go.id/id/artikel-investasi/detail/penanaman-modal-asing-di-indonesia>.

customs and different beliefs, high unemployment rate, extreme poverty in some regions that can weaken the stability of the country itself, then the country is spread into 6000 inhabited islands creating a problem for logistics since transportation and infrastructure is not yet advance in Indonesia and it will be difficult to have an expansion to other island since it is still inhabited and there is a high dependence on commodity exports from China that increasing the risk of the economic slowing down in the host country.

From Indonesia's government perspective and measures to motivate foreign investor are by giving incentives that is accessible for all investors, national and foreign. Specifically, these incentives are a reduction of duties on imports and equipment goods with the other additional incentives for export and investments made in a certain region by foreign investors. Then there is a reduction for income tax in the tax holiday for corporate that is available to the pioneer of industries with capital more than Rp.100 billion, and companies without tax holiday titled should claim tax allowance to reduce tax. From Indonesia, foreign investment is restricted into a certain extent on a certain sector through Negative Investment List. The Negative List in 2016 allow bigger foreign investment into a certain sector including e-commerce, film production, tourism and logistics. The 2016 Negative List loosen the restriction regarding health care and categories such as hospital management services and manufacturing of raw materials for medicines. June 2019, Indonesian

government issued GR 45/2019 that sets out a series of tax incentives for businesses that invest in labor intensive industries, training program, also in research and development (R&D). A reduction benefit in net income of 60% can be enjoyed by the taxpayers investing or expanding in labor-intensive or pioneer industries. Indonesia has signed bilateral agreements for the protection of investments with a total 72 countries in the bilateral investment conventions.

4.4 FDI Realization and Indonesia's Economic Growth Caused by FDI In Jokowi's First Administration (2015-2019)

Attracting and getting more foreign investment has become a long-term target for Indonesia to lift the economy of the country. But, the realization itself is not as easy or smooth as it planned for foreign direct investment and in 2015-2019 Jokowi's first administration, FDI in Indonesia was fluctuating and in 2018 there was even a contraction. The realization of FDI in Indonesia is bring real growth in Indonesia's economic development. Relatively good news for Indonesia's economic development came from the realization of total investment in Indonesia.

To attract more investor to come to Indonesia, the government release the *16 Paket Kebijakan Ekonomi* or the 16 packages of economic policies which contains policies to fix and develop the economy in the country.¹²⁷ The goal is to shift Indonesia's economic structure from

¹²⁷ Antara. (2018, October 27). Pengamat Ingatkan Realisasi 16 Paket KEBIJAKAN Ekonomi Ke Jokowi. Retrieved February 09, 2021, from <https://bisnis.tempo.co/read/1140432/pengamat-ingatkan-realisisasi-16-paket-kebijakan-ekonomi-ke-jokowi/full&view=ok>

consumption based to investment based. The other important thing to be paid attention is the exporting activities needed to improve and shift from commodity based to manufactured products. These are the 16 packages of economic policies that released in the first administration of Jokowi and Jusuf Kalla since 2015.¹²⁸ First package is about increasing the competitiveness of national industry, second package is to ease the licensing and simplification of export procedure, third is about financial services, funding the export and eliminating obstacles that hinder businesses, fourth package is to give social assurance and fixing the welfare of society, and the fifth package is to increase the focus on national industry and investment from tax incentive and deregulation of shariah banking.¹²⁹

The sixth package is to stimulate the economic activities on the far region and availability of facilities of strategic commodities, the seventh package is to stimulate business activities for labor intensity industry with a national scale through incentive in a certification process for individual. The eight package is to clear the conflict of land acquisition, intensifying local oil production, and stimulating domestic airplane industry.¹³⁰

¹²⁸ Antara. (2018, October 27). Pengamat Ingatkan Realisasi 16 Paket KEBIJAKAN Ekonomi Ke Jokowi. Retrieved February 09, 2021, from <https://bisnis.tempo.co/read/1140432/pengamat-ingatkan-realisasi-16-paket-kebijakan-ekonomi-ke-jokowi/full&view=ok>

¹²⁹ Antara. (2018, October 27). Pengamat Ingatkan Realisasi 16 Paket KEBIJAKAN Ekonomi Ke Jokowi. Retrieved February 09, 2021, from <https://bisnis.tempo.co/read/1140432/pengamat-ingatkan-realisasi-16-paket-kebijakan-ekonomi-ke-jokowi/full&view=ok>

¹³⁰ Antara. (2018, October 27). Pengamat Ingatkan Realisasi 16 Paket KEBIJAKAN Ekonomi Ke Jokowi. Retrieved February 09, 2021, from

The ninth package is related to electricity acceleration, stabilization for meat price and an increase in the logistic sector for village to city.

Tenth package is to revise negative investment list and increase protection for UMKM (*Usaha Mikro Kecil Menengah*) or micro, small, to medium enterprise.¹³¹

The eleventh package is to stimulate national economy through facilitating UMKM and industry, then the twelve package is to increase Indonesia's ranking in terms of ease of doing business (EoDB).¹³²

The thirteenth package related to housing for poor class people, fourteenth package is about making a roadmap for electronic commerce (e-commerce), fifteenth package is about fixing logistics sector, and the sixteenth package is about releasing the licensing to do business from capital to regional level.¹³³

On November 2018, government add a new policy on *Paket Kebijakan Ekonomi XVI*. This economic policy has an objective to increase foreign capital and foreign investment to Indonesia by extending the tax holiday loosening negative investment list. Both parts were

<https://bisnis.tempo.co/read/1140432/pengamat-ingatkan-realisisasi-16-paket-kebijakan-ekonomi-ke-jokowi/full&view=ok>

¹³¹ Antara. (2018, October 27). Pengamat Ingatkan Realisasi 16 Paket KEBIJAKAN Ekonomi Ke Jokowi. Retrieved February 09, 2021, from <https://bisnis.tempo.co/read/1140432/pengamat-ingatkan-realisisasi-16-paket-kebijakan-ekonomi-ke-jokowi/full&view=ok>

¹³² Antara. (2018, October 27). Pengamat Ingatkan Realisasi 16 Paket KEBIJAKAN Ekonomi Ke Jokowi. Retrieved February 09, 2021, from <https://bisnis.tempo.co/read/1140432/pengamat-ingatkan-realisisasi-16-paket-kebijakan-ekonomi-ke-jokowi/full&view=ok>

¹³³ Antara. (2018, October 27). Pengamat Ingatkan Realisasi 16 Paket KEBIJAKAN Ekonomi Ke Jokowi. Retrieved February 09, 2021, from <https://bisnis.tempo.co/read/1140432/pengamat-ingatkan-realisisasi-16-paket-kebijakan-ekonomi-ke-jokowi/full&view=ok>

harmonized to support each other. Besides, government also re-evaluating the effectiveness of policy that loosening negative investment list in 2018. Lastly, government also setting up the foreign exchange of natural resources export's result.¹³⁴

Tax holiday has successfully attracted new investor to Indonesia. The new policies are expected to expand sector and Indonesia Standard Industrial Classification to increase the total investment in Indonesia. With the simplification of tax holiday process in Online Single Submission (OSS) form, Indonesia already got new investments with the total Rp.160 trillion in only six months.¹³⁵ With the addition policy in the new *Paket Kebijakan Ekonomi*, expansion of sector is expected to the increase. In comparison with the previous president Susilo Bambang Yudhoyono (SBY) era, he focused on simplifying and making the one door policies more effective. He did it by simplifying the licensing for doing investment. One of the examples was licensing for investing in oil and gas that previously needs 69 types of licenses to only need eight licenses.¹³⁶

¹³⁴ Antara. (2018, October 27). Pengamat Ingatkan Realisasi 16 Paket KEBIJAKAN Ekonomi Ke Jokowi. Retrieved February 09, 2021, from <https://bisnis.tempo.co/read/1140432/pengamat-ingatkan-realisasi-16-paket-kebijakan-ekonomi-ke-jokowi/full&view=ok>

¹³⁵ Pemerintah Umumkan Paket KEBIJAKAN Ekonomi ke-16. (2018, November 16). Retrieved February 03, 2021, from <https://setkab.go.id/pemerintah-umumkan-paket-kebijakan-ekonomi-ke-16/>

¹³⁶ Pemerintah Umumkan Paket KEBIJAKAN Ekonomi ke-16. (2018, November 16). Retrieved February 03, 2021, from <https://setkab.go.id/pemerintah-umumkan-paket-kebijakan-ekonomi-ke-16/>

Hence, in SBY's era, he focused on making the one door policy to be more effective for foreign investor to get licensed for their investment. While in Jokowi's era, specifically in the first administration, re-evaluating the effectiveness of the policies, expansion of sector and Indonesia Standard Industrial Classification, and loosen the Tax holiday were the main objectives of the investment policies.

These are the top five countries with big foreign direct investment in Indonesia:

1. Singapore, in the fourth quarter of 2019, Singapore became the number three of biggest investors in Indonesia with a total investment US\$1.1 billion in business ventures. But last year, in the first quarter of 2020, Singapore went US\$6.7 billion amounting to 40% of the total FDI realization in Indonesia. Singapore is highly optimistic about the business prospects in Indonesia.¹³⁷
2. China is one of the strong players in Indonesia's FDI. In 2019, surpassing Singapore, China's total investment was US\$1.4 billion during the fourth quarter of 2019. But in the first quarter of 2020, China ranked number two

¹³⁷ BKPM, B. (n.d.). Here are 5 Countries with Biggest Foreign Direct Investment in Indonesia. Retrieved February Thursday, 2021, from <https://www.investindonesia.go.id/en/article-investment/detail/here-are-5-countries-with-biggest-foreign-direct-investment-in-indonesia>

with the total investment of US\$1.3 billion of foreign investment. China's investment in Indonesia mostly on transportation, industry, and tourism.¹³⁸

3. Hong Kong placed a total investment of US\$1.1 billion. Hong Kong has invested US\$2.9 billion throughout 2019 and US\$0.6 billion throughout first quarter of 2020, amounting to 10.2% 9.3% from the total of FDI realization.¹³⁹
4. Japan has a strong tie with Indonesia resulting a consistent inflow of foreign investment to Indonesia and placed Japan in rank 5 top largest country to invest in Indonesia. In the first quarter of 2020, Japan has invested US\$0.6 billion on some sectors like electricity, real estate, gas, and industry.¹⁴⁰
5. Malaysia in the first quarter of 2020 has invested US\$0.5 billion, removing Netherlands from the list of the biggest foreign investors.¹⁴¹

Sectors with the largest investment:

Throughout the first quarter in 2020

¹³⁸ BKPM, B. (n.d.). Here are 5 Countries with Biggest Foreign Direct Investment in Indonesia. Retrieved February Thursday, 2021, from <https://www.investindonesia.go.id/en/article-investment/detail/here-are-5-countries-with-biggest-foreign-direct-investment-in-indonesia>

¹³⁹ BKPM, B. (n.d.). Here are 5 Countries with Biggest Foreign Direct Investment in Indonesia. Retrieved February Thursday, 2021, from <https://www.investindonesia.go.id/en/article-investment/detail/here-are-5-countries-with-biggest-foreign-direct-investment-in-indonesia>

¹⁴⁰ BKPM, B. (n.d.). Here are 5 Countries with Biggest Foreign Direct Investment in Indonesia. Retrieved February Thursday, 2021, from <https://www.investindonesia.go.id/en/article-investment/detail/here-are-5-countries-with-biggest-foreign-direct-investment-in-indonesia>

¹⁴¹ BKPM, B. (n.d.). Here are 5 Countries with Biggest Foreign Direct Investment in Indonesia. Retrieved February Thursday, 2021, from <https://www.investindonesia.go.id/en/article-investment/detail/here-are-5-countries-with-biggest-foreign-direct-investment-in-indonesia>

1. Transportation, warehouse, and telecommunication with a total investment of Rp49.3 trillion
2. Basic metal, metal-based goods, non-machinery, and equipment industry with a total investment of Rp.24.5 trillion
3. Electricity, gas, and water supply with a total investment Rp.18.0 trillion
4. Housing, industrial estate, and office building with a total investment Rp.17.8 trillion
5. Food crops, plantation, and livestock with a total investment Rp.17.2 trillion¹⁴²

The distribution of foreign investment especially to the areas outside Java are keep showing increasing trends. This includes Special Territory of Jakarta, West Java, North Maluku, Riau Islands, and South East Sulawesi. BKPM as government institution keep remains committed to oversee investment projects and spreading the distribution by creating a better economic environment for foreign investors.

The ‘real’ realization of foreign direct investment in Indonesia proved in a form of the establishment of industry or factories not in capital market. For Indonesia, FDI is more important than Domestic Direct Investment (DDI). The fact that 50% of Indonesia’s capital came from FDI, and because the total capital is bigger, of course the growth of FDI is

¹⁴² BKPM, B. (n.d.). Here are 5 Countries with Biggest Foreign Direct Investment in Indonesia. Retrieved February Thursday, 2021, from <https://www.investindonesia.go.id/en/article-investment/detail/here-are-5-countries-with-biggest-foreign-direct-investment-in-indonesia>

significant big for economic development than DDI. In 2014, FDI growth in the first year of Jokowi's administration, FDI quality was very disappointing with growth only 13.54% compare to realization in 2013.¹⁴³ But in 2015 FDI in Indonesia increase to 19.22%. In the next two years, FDI only increase around one digit. Then in the next year, fall into 8.8%. In the first quarter of 2019, FDI in Indonesia keeps fall and getting worse into 0.92% YoY, worse than in the first quarter of 2018 with growth up to 12.27%.¹⁴⁴ The next factor that needs to pay attention is Rupiah getting weakened and make FDI realization in Rupiah denomination can still grow but will have contraction with inn US dollar denomination. Rupiah in 2018 was Rp.13,950/US dollar and weakened into Rp.14,247/US dollar in 2019.¹⁴⁵ This needs to be paying attention because foreign investors have a demand will be decrease because of the weakening in currency in the hosting country because if Rupiah weakened, realization of FDI in US dollar will increase, and if Rupiah strengthened, FDI realization in Rupiah will increase and therefore, foreign investor will have more demand to invest in Indonesia. Hence, the good news is we can still appreciate some improvements and growth of FDI in the first administration, but at the

¹⁴³ Kevin, Anthony. "Realisasi Penanaman Modal Asing Yang Memang Tumbuh, Tapi....." news, July 30, 2019.

<https://www.cnbcindonesia.com/news/20190730193651-4-88702/realisasi-penanaman-modal-asing-yang-memang-tumbuh-tapi>.

¹⁴⁴ Kevin, Anthony. "Realisasi Penanaman Modal Asing Yang Memang Tumbuh, Tapi....." news, July 30, 2019.

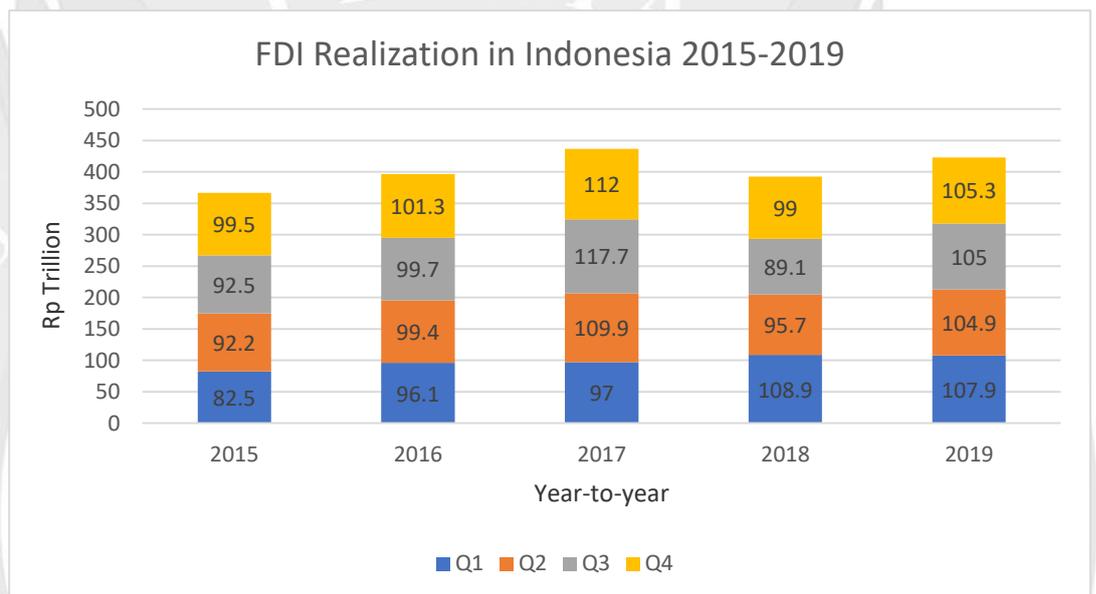
<https://www.cnbcindonesia.com/news/20190730193651-4-88702/realisasi-penanaman-modal-asing-yang-memang-tumbuh-tapi>.

¹⁴⁵ Kevin, Anthony. "Realisasi Penanaman Modal Asing Yang Memang Tumbuh, Tapi....." news, July 30, 2019.

<https://www.cnbcindonesia.com/news/20190730193651-4-88702/realisasi-penanaman-modal-asing-yang-memang-tumbuh-tapi>.

same time, government needs to put effort twice bigger to bring more growth for FDI Indonesia. There is a low-base effect in the process of FDI realization for the second three months or second quarter of 2019 as an example.

FDI realization keeps declining as we can see in the chart below.

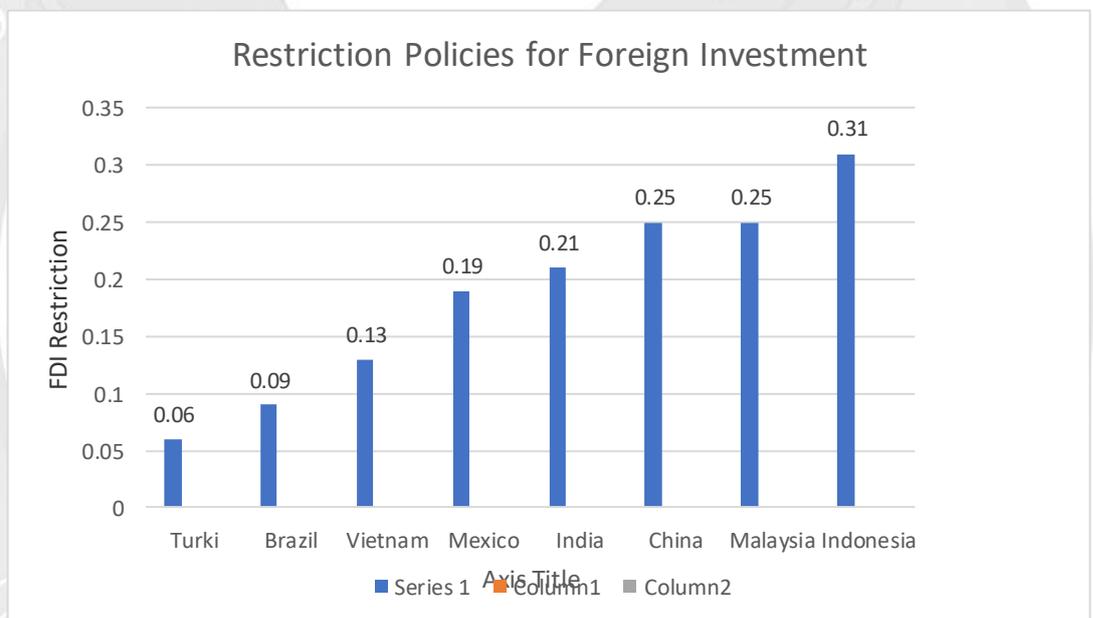


Source: Badan Koordinasi Penanaman Modal (BKPM)

Chart 4.4.1

BKPM record on FDI's realization this year (2020) in the second quarter reach Rp.97.6 trillion or declined 6.96%. The total realization of foreign investment in the first half of this year reach Rp.195.6 trillion or declined 8.1% from the last semester last year was Rp.212.8 trillion. In this period of Jokowi's administration and even since before, there was many consideration or factors that made foreign investors did not get attracted or interested to invest in Indonesia from the economic size,

macro stability, exchange value, labor and into regulations and policies like mentioned before in 4.3.1. Indonesia is known for its contradicting regulations and over-complicated bureaucracy. The ‘unfriendly’ investment weather in Indonesia makes them less competitive in attracting more foreign investors.¹⁴⁶ In the new survey from the World Bank specially to investigate the Global Investment Competitiveness (GIC) stated that Indonesia is one of the countries with high restriction policies and regulations for foreign investment. Can be seen in this chart below.



Source: World Bank

Chart 4.4.2

¹⁴⁶ Citradi, Tirta. “RI Masih Belum Ramah Investor Asing, Ini Buktinya.” news, September 4, 2020. <https://www.cnbcindonesia.com/news/20200904145710-4-184465/ri-masih-belum-ramah-investor-asing-ini-buktinya>.

Comparing with other countries, Indonesia got the highest score for having the highest restriction policies and regulations towards foreign investors, hence it shows how Indonesia still not ‘fully’ open in accepting foreign investors. FDI is indeed plays a big role for economic development in country and even Mr. President Jokowi himself has stated that he wants to build a better and more infrastructure and fixing the over-complicated policies that has been running for years since long ago.¹⁴⁷ With the coming of foreign investor to invest in Indonesia, it will create more job fields and there should be a transfer of technology and skills, therefore it can increase public’s income. With more FDI in the country, it will create a more competitive economic environment that able to compete with other countries, there will be innovation and goods and services. can be cheaper, increase the purchasing power and ultimately it will increase public’s spending that will increase the GDP of the country.¹⁴⁸ A survey from the World Bank shows that the most issue foreign investor are facing before investing in the hosting country is acquiring license to invest and establish in the host country. This issue is not mainly happening in Indonesia only, but some other country even from developed country like China also have issue with investment approvals in their country. As we can see below are some countries that also have several issues with FDI entering the

¹⁴⁷ Citradi, Tirta. “RI Masih Belum Ramah Investor Asing, Ini Buktinya.” news, September 4, 2020. <https://www.cnbcindonesia.com/news/20200904145710-4-184465/ri-masih-belum-ramah-investor-asing-ini-buktinya>.

¹⁴⁸ Citradi, Tirta. “RI Masih Belum Ramah Investor Asing, Ini Buktinya.” news, September 4, 2020. <https://www.cnbcindonesia.com/news/20200904145710-4-184465/ri-masih-belum-ramah-investor-asing-ini-buktinya>.

country.¹⁴⁹ The following tables will show the process of doing investment in some countries, most complained issue in doing investment in the hosting countries or the obstacles, with also price, technology, or product restrictions in the hosting countries.

Country	Most-cited obstacle	Second most-cited obstacle	Third most-cited obstacle
Brazil	Investment Approvals	Price, technology, or product restrictions	Joint Venture (JV) requirement
China	Investment Approvals	Price, technology, or product restrictions	Foreign investment limits
India	Investment Approvals	Foreign investment limits	Price, technology, or product restrictions
Indonesia	Investment Approvals	Price, technology, or product restrictions	Foreign investment limits
Malaysia	Expatriate restrictions	Investment Approvals	Price, technology, or product restrictions
Mexico	Investment Approvals	Price, technology, or product restrictions	JV requirement
Nigeria	Investment	Expatriate restrictions	Price, technology, or

¹⁴⁹ Citradi, Tirta. "RI Masih Belum Ramah Investor Asing, Ini Buktinya." news, September 4, 2020. <https://www.cnbcindonesia.com/news/20200904145710-4-184465/ri-masih-belum-ramah-investor-asing-ini-buktinya>.

	Approvals		product restrictions
Thailand	Investment Approvals	Price, technology, or product restrictions	Foreign investment limits
Turkey	Investment Approvals	Price, technology, or product restrictions	Foreign investment limits
Vietnam	Investment Approvals	Local sourcing requirements	Expatriate restrictions

Source: Citradi, Tirta. "RI Masih Belum Ramah Investor Asing, Ini Buktinya." news, September 4, 2020. <https://www.cnbcindonesia.com/news/20200904145710-4-184465/ri-masih-belum-ramah-investor-asing-ini-buktinya>.

Table 4.4.1

Other complaints from foreign investor when investing in Indonesia is the price of technology and product also flexibility of doing investment as mentioned before is very complicated to do many projects because of limitation and many restrictions in the country.

The World Bank mentioned that, the political and unexpected risk of regulations always become the major issue for foreign investor in investing in the host country. In the 2019 GIC survey, more than 90% of Indonesian respondent thinks that protection of political risk for investment is very important. As I already mention a few times too about Jokowi got complaint by foreign investors, Indonesia need to re-managing many things in the country starting from the bureaucracy until small and

minor things to attract more foreign investors to invest mainly to boost the domestic economy in Indonesia.¹⁵⁰ Formulating the regulations, the regulators must take a step carefully before making decision not to simply for foreign investor's satisfaction, but still prioritizing the national interests as number one agenda. Hence, the significant economic growth of Indonesia caused by FDI is still not realized with the current FDI policies and several issues that hinder the interests of foreign investors.¹⁵¹ And to conclude the answer of economic growth by FDI in Indonesia, it remains stagnant from the FDI perspective because of the realization has not yet been fulfilled. Judging from the FDI realization for the past five years of Jokowi's first administration in 2015-2019, there was no significant growth for FDI in Indonesia, and it has a little fluctuation between 2017-2019, and unprogressive growth of economy from FDI's perspective.¹⁵²

4.4.1 Indonesia's Productivity Level and The Next Prospect Plan for FDI Realization in Indonesia

Before we measure Indonesia's productivity, we should define the formula of productivity itself. Productivity is a combination of efficiency of total inputs such as employment and capital inflows that used in an economic activity to produce a given level of output. Productivity wise,

¹⁵⁰ Citradi, Tirta. "RI Masih Belum Ramah Investor Asing, Ini Buktinya." news, September 4, 2020. <https://www.cnbcindonesia.com/news/20200904145710-4-184465/ri-masih-belum-ramah-investor-asing-ini-buktinya>.

¹⁵¹ Citradi, Tirta. "RI Masih Belum Ramah Investor Asing, Ini Buktinya." news, September 4, 2020. <https://www.cnbcindonesia.com/news/20200904145710-4-184465/ri-masih-belum-ramah-investor-asing-ini-buktinya>.

¹⁵² Citradi, Tirta. "RI Masih Belum Ramah Investor Asing, Ini Buktinya." news, September 4, 2020. <https://www.cnbcindonesia.com/news/20200904145710-4-184465/ri-masih-belum-ramah-investor-asing-ini-buktinya>.

Indonesia is currently rank 4 in last year 2019 for ASEAN region, below Singapore, Malaysia, and Thailand. Research from Asian Productivity Organization shows that productivity increase per worker of Indonesia in 2016 was around 24,900 USD or around Rp.354 million with the currency value 1USD/Rp.14.200.¹⁵³ Thailand, Malaysia, and of course Singapore still thrones the highest productivity of employment since 1990s. In 2016, Singapore labor productivity was 131,900 USD, Malaysia in second place 56,400 USD and Thailand in third place 28,300 USD. Indonesia has an increase of productivity level in 2016 if compared with 2015, but Indonesia was still the second lowest rank in ASEAN based on APO data below.¹⁵⁴

Table 4.4.2

Country	2015	2016	Change (%)
Philippine	18.1	18.7	3.3
Indonesia	24.3	24.9	2.5
Cambodia	5.7	6.2	8.8
Laos	11.1	11.5	3.6
Malaysia	55.7	56.4	1.3
Myanmar	5.7	10.6	86.0
Singapore	127.8	131.9	3.2

¹⁵³ BKPM, BKPM. “Kejar Target Realisasi, BKPM Tarik Relokasi Investasi.” Accessed 2020. <https://www.bkpm.go.id/id/publikasi/detail/berita/kejar-target-realisasi-bkpm-tarik-relokasi-investasi>.

¹⁵⁴ BKPM, BKPM. “Kejar Target Realisasi, BKPM Tarik Relokasi Investasi.” Accessed 2020. <https://www.bkpm.go.id/id/publikasi/detail/berita/kejar-target-realisasi-bkpm-tarik-relokasi-investasi>.

Thailand	26.5	28.3	6.8
Vietnam	9.6	10.2	6.3

Source: Asian Productivity Organization

To judge from FDI perspective, we can see from two sides to measure the productivity: from the total open job fields and employment. Judging from employment in Indonesia, Head of BKPM Bahlil Lahadalia stated from the realization of last year's investment (2019), labor absorption reach 1.03 million workers. There is an increase from 960,052 workers in 2018. But the realization of employment in 2019 is decline comparing with the total realization in 2017 that was 1.17 million workers.¹⁵⁵ Bahlil stated that the technology advancement became one of the reasons why total employment in 2019 was declining, it is because most of the work is replaced by technology. Total investment of Rp.809.6 trillion was also only capable to absorb not more than 1 million workers. BKPM then currently coordinating with *Kementrian Koordinasi (Kemenko)* or Coordination Ministry in objective to increase more FDI and creates more job fields with more employment.¹⁵⁶

As the plan to also increase productivity level in Indonesia, BKPM re-locate investment 'playground' to achieve realization goals for future

¹⁵⁵ BKPM, BKPM. "Kejar Target Realisasi, BKPM Tarik Relokasi Investasi." Accessed 2020. <https://www.bkpm.go.id/id/publikasi/detail/berita/kejar-target-realisasi-bkpm-tarik-relokasi-investasi>.

¹⁵⁶ BKPM, BKPM. "Kejar Target Realisasi, BKPM Tarik Relokasi Investasi." Accessed 2020. <https://www.bkpm.go.id/id/publikasi/detail/berita/kejar-target-realisasi-bkpm-tarik-relokasi-investasi>.

FDI after 2020. Investment relocations bring fresh air for FDI and DDI. There are 143 foreign companies that potentially relocate their investment in Indonesia, and this re-location is hoped to push investment realization until the end of 2020 specially to recover national economy with government's National Economic Recovery program. In the end of October 2020, BKPM announce the realization of investment in the second quarter of 2020 has reach Rp.402.6 trillion or 49.3% from the target of this year Rp.817.2 trillion. BKPM striving to achieve the next target in the third quarter of 2020 to increase compare to the last quarter, but it was stuck because of the pandemic COVID-19 in this year (2020).¹⁵⁷ Still about re-locating investment, it has a big opportunity for Indonesia's economy to 'comeback' from the fallen of its economic, especially in this current pandemic situation. Because of COVID-19 pandemic, it is not only affected daily life, but also directly affecting the global supply chain. Because of that, China made a tight restriction to prevent the spreading of COVID-19 by doing lockdown.¹⁵⁸ Because of this lockdown, China's productivity is decreasing and not only that, but the economic condition is also knocked out. Significantly, it affects the global economic because China holds the role as the core of global supply chain. There is a need for diversification in the global supply chain for every country where it does

¹⁵⁷ BKPM, BKPM. "Kejar Target Realisasi, BKPM Tarik Relokasi Investasi." Accessed 2020. <https://www.bkpm.go.id/id/publikasi/detail/berita/kejar-target-realisasi-bkpm-tarik-relokasi-investasi>

¹⁵⁸ BKPM, BKPM. "Kejar Target Realisasi, BKPM Tarik Relokasi Investasi." Accessed 2020. <https://www.bkpm.go.id/id/publikasi/detail/berita/kejar-target-realisasi-bkpm-tarik-relokasi-investasi>

not depends on one county only which is China, because if the time comes for a stormy season, and it hit the main source, then it will cause the economic chaos globally.¹⁵⁹ Because of China's condition right now, many of MNCs re-locate their investment from China and South East Asia become the re-locate destination that attract the investor's interests, this include Indonesia. Because of Indonesia's strategic location and huge domestic market potential with also access to regional market and not to mention the abundant natural resources, Indonesia has successfully attracted foreign investors.¹⁶⁰ From 143 foreign companies who interested to re-locate to Indonesia, it is confirmed that 7 of foreign companies from Japan, South Korea, United States, and Taiwan will move their investment to Indonesia.¹⁶¹ The total investments of these 7 foreign companies reach 850 million USD that projects can absorb 30,000 employment. One of the foreign companies is PT Meiloon Technology Indonesia that has done groundbreaking in Subang, West Java on 21 July 2020. PT Meiloon Technology is an electronic product company comes from Taiwan who re-locate their factory from Suzhou, China.¹⁶² Besides of these 7 foreign companies, BKPM also recorded 17 foreign companies that potentially 70-

¹⁵⁹ BKPM, BKPM. "Kejar Target Realisasi, BKPM Tarik Relokasi Investasi." Accessed 2020. <https://www.bkpm.go.id/id/publikasi/detail/berita/kejar-target-realisasi-bkpm-tarik-relokasi-investasi>

¹⁶⁰ BKPM, BKPM. "Kejar Target Realisasi, BKPM Tarik Relokasi Investasi." Accessed 2020. <https://www.bkpm.go.id/id/publikasi/detail/berita/kejar-target-realisasi-bkpm-tarik-relokasi-investasi>

¹⁶¹ BKPM, BKPM. "Kejar Target Realisasi, BKPM Tarik Relokasi Investasi." Accessed 2020. <https://www.bkpm.go.id/id/publikasi/detail/berita/kejar-target-realisasi-bkpm-tarik-relokasi-investasi>

¹⁶² BKPM, BKPM. "Kejar Target Realisasi, BKPM Tarik Relokasi Investasi." Accessed 2020. <https://www.bkpm.go.id/id/publikasi/detail/berita/kejar-target-realisasi-bkpm-tarik-relokasi-investasi>

80% re-locate their investment to Indonesia. With a potential of 37 billion USD, the presence of these 17 investors is projects to be able to absorbs up to 112,000 employment. While the other 119 foreign investors have 41.39 billion USD investment potential that can absorb 162,000 employment.¹⁶³ To grab the re-locating investment chances, BKPM has prepared a strategic plan and one of it is by making *Satuan Tugas (Satgas)* that will do three main functions. First, to identify the potential of foreign investor that planned to re-locate their investment and doing a direct approach with them. Second, doing diplomacy and direct negotiation to bring more investors. Third, to facilitate investor's licensing from central level into regional level. Licensing is one of the 'end to end' services and convenience that provided by the government for foreign investors. Other services that provided by government like cheaper export price, and simplified investment regulation with some incentives.¹⁶⁴ There are also incentives given by the government like tax holiday, tax allowance, and free import tax capital. Infrastructure and land become the focus of government to develop.¹⁶⁵ Government then has prepared an economic area that will ease the re-locating investment from foreign investors. The economic area is *Kawasan Industri Terpadu (KIT) Batang, Centre Java,*

¹⁶³ BKPM, BKPM. "Kejar Target Realisasi, BKPM Tarik Relokasi Investasi." Accessed 2020. <https://www.bkpm.go.id/id/publikasi/detail/berita/kejar-target-realisasi-bkpm-tarik-relokasi-investasi>

¹⁶⁴ BKPM, BKPM. "Kejar Target Realisasi, BKPM Tarik Relokasi Investasi." Accessed 2020. <https://www.bkpm.go.id/id/publikasi/detail/berita/kejar-target-realisasi-bkpm-tarik-relokasi-investasi>

¹⁶⁵ BKPM, BKPM. "Kejar Target Realisasi, BKPM Tarik Relokasi Investasi." Accessed 2020. <https://www.bkpm.go.id/id/publikasi/detail/berita/kejar-target-realisasi-bkpm-tarik-relokasi-investasi>

15 Kawasan Ekonomi Khusus (KEK), 4 Free Trade Zone (FTZ), 10 kawasan Bali Baru, with also 118 Kawasan Industri Skala Besar.¹⁶⁶ With all the facilities and advantages that offered, Indonesia is expected to be the next re-location country for foreign investors especially in South East Asia area, and hopefully ultimately, become the country of global supply chain.¹⁶⁷ To conclude the reasons for foreign investor to invest in Indonesia, firstly of course the abundant natural resources that has been a ‘blessing’ for Indonesia since a long time ago that can be used as a main attraction and to bring expansion of Indonesia’s production and innovation with the combination of transfer of technology and abundant natural resources.¹⁶⁸ Next is the bonus demography that will be enjoyed by the foreign investors since Indonesia is on its way with process to build a better infrastructure, bringing a high quality employee with a good education system combined with large population that has a big potential for more good quality employment.¹⁶⁹

4.4.2 Value added in Indonesia’s growth by Foreign Direct Investment

¹⁶⁶ BKPM, BKPM. “Kejar Target Realisasi, BKPM Tarik Relokasi Investasi.” Accessed 2020. <https://www.bkpm.go.id/id/publikasi/detail/berita/kejar-target-realisasi-bkpm-tarik-relokasi-investasi>

¹⁶⁷ BKPM, BKPM. “Kejar Target Realisasi, BKPM Tarik Relokasi Investasi.” Accessed 2020. <https://www.bkpm.go.id/id/publikasi/detail/berita/kejar-target-realisasi-bkpm-tarik-relokasi-investasi>

¹⁶⁸ BP Lawyer, BP Lawyer. “Perkembangan Serta Manfaat Investasi Asing Di Indonesia,” December 4, 2020. <https://bplawyers.co.id/2017/09/08/perkembangan-manfaat-investasi-asing-di-indonesia/>.

¹⁶⁹ BP Lawyer, BP Lawyer. “Perkembangan Serta Manfaat Investasi Asing Di Indonesia,” December 4, 2020. <https://bplawyers.co.id/2017/09/08/perkembangan-manfaat-investasi-asing-di-indonesia/>.

Investment growth is believed taking part in country's economic development. In macroeconomic, investment taking role as one of the components of national income, or Gross Domestic Product (GDP). Investment has a positive connection with GDP, or simply, investment increase, then GDP will increase, and so the opposite if investment decrease, then GDP will also decrease. Harrod-Domar theory from Sir Henry Roy Forbes Harrod Evsey David Domar explained that to bring gains in economic, it needs more capital as a capital fund. The making of the capital viewed as a spending that will increase whether the purchasing power of country's economy, or even to produce more goods as a national spending that will increase aggregate demand.¹⁷⁰ The needs of investment are needed to increase the capabilities to produce goods and services in economy as an 'engine of growth'.¹⁷¹ As Chapter 4.4.1 elaborate, country with high investment rate is enjoying the boost of economic growth and development in their country, with support from the increase amount of export and investment.¹⁷²

Harrod-Domar theory stressing out the importance of each country in managing their economy is to save a certain proportion from national income to replace the spending for capital like infrastructure, building,

¹⁷⁰ SETNEG, SETNEG. "Investasi Dan Indonesia Maju." KEMENTERIAN SEKRETARIAT NEGARA REPUBLIK INDONESIA, August 2, 2019. https://setneg.go.id/baca/index/investasi_dan_indonesia_maju.

¹⁷¹ SETNEG, SETNEG. "Investasi Dan Indonesia Maju." KEMENTERIAN SEKRETARIAT NEGARA REPUBLIK INDONESIA, August 2, 2019. https://setneg.go.id/baca/index/investasi_dan_indonesia_maju.

¹⁷² SETNEG, SETNEG. "Investasi Dan Indonesia Maju." KEMENTERIAN SEKRETARIAT NEGARA REPUBLIK INDONESIA, August 2, 2019. https://setneg.go.id/baca/index/investasi_dan_indonesia_maju.

tools, or material that having trouble or broken to keep up with the flow of their economic development with already eliminating the obstacles that usually minor but has some impact to the flow, and of course there is also a needs for new investments for new stock capital.¹⁷³ The Harrod-Domer theory also clearly states that, investment has a high strategy in the country's economic development with a certain requirement that will create a 'steady state growth' and preventing a hold back for economic development.¹⁷⁴ In the case of developed country, Harrod-domar conclude that investment has a long-term multiplier effect. In one side, investment has an impact towards national production of a country because of capital fund for business growth in the country. On the other side, investment is also affecting the aggregate demand, and because of that, to achieve 'steady-state growth' the part of entrepreneur and business owner to have stability in their business. Value added by investment to the hosting country is also a facility and motivation in building economic development specially to maximize the effectiveness of employment to increase productivity.¹⁷⁵

Because of economic development, gains and national income will surely increase too. Therefore, because direct investment is a part of

¹⁷³ SETNEG, SETNEG. "Investasi Dan Indonesia Maju." KEMENTERIAN SEKRETARIAT NEGARA REPUBLIK INDONESIA, August 2, 2019. https://setneg.go.id/baca/index/investasi_dan_indonesia_maju.

¹⁷⁴ SETNEG, SETNEG. "Investasi Dan Indonesia Maju." KEMENTERIAN SEKRETARIAT NEGARA REPUBLIK INDONESIA, August 2, 2019. https://setneg.go.id/baca/index/investasi_dan_indonesia_maju.

¹⁷⁵ SETNEG, SETNEG. "Investasi Dan Indonesia Maju." KEMENTERIAN SEKRETARIAT NEGARA REPUBLIK INDONESIA, August 2, 2019. https://setneg.go.id/baca/index/investasi_dan_indonesia_maju.

economic development, we can safely say it has a good impact and should be fruitful for national's growth and development. Investment is very necessary for factor of production of goods and services as explained before, there is a need in capital fund for making production effective. Slow economic activity is very dangerous for development and obviously all the economist wants to prevent that from happening.¹⁷⁶ Economic policies then formulated to encourage to bring more investment to the country to solve stagnancy or economic slow-down and to push economic growth to get better. With the increase of investment, it can guarantee a continuity of economic development, absorbing employment and minimizing poverty that will ultimately bring welfare for the whole country equally in each region.¹⁷⁷

Foreign investment in Indonesia can increase labor intensity, natural resource processing industry with more employment to tackle the issue of employment absorption. Investment has a multiplier effect for employment absorption and to increase fisherman's profit that beneficial to increase more sea production that can be exported to lift the foreign exchange. Foreign investment in the food and beverages sector is also have a big impact towards GDP.¹⁷⁸ One of the examples is in January-June

¹⁷⁶ SETNEG, SETNEG. "Investasi Dan Indonesia Maju." KEMENTERIAN SEKRETARIAT NEGARA REPUBLIK INDONESIA, August 2, 2019. https://setneg.go.id/baca/index/investasi_dan_indonesia_maju.

¹⁷⁷ SETNEG, SETNEG. "Investasi Dan Indonesia Maju." KEMENTERIAN SEKRETARIAT NEGARA REPUBLIK INDONESIA, August 2, 2019. https://setneg.go.id/baca/index/investasi_dan_indonesia_maju.

¹⁷⁸ SETNEG, SETNEG. "Investasi Dan Indonesia Maju." KEMENTERIAN SEKRETARIAT NEGARA REPUBLIK INDONESIA, August 2, 2019. https://setneg.go.id/baca/index/investasi_dan_indonesia_maju.

2019, food and beverages industry has a contribution on gross domestic product that donated the export productivity and employment up to Rp.31.9 trillion. This number is contributed 8.1% from the total investment and it has a chain effect that affect high employment rate on food producing sector, agriculture, plantation also fishery.¹⁷⁹

To conclude the value that added and potential gains to Indonesia from FDI are; creating new job fields, supporting research on technology, expanding the market, increase export industries, market competitiveness, stimulating economic growth in finance and services sector, increase national income from foreign company's taxes, increase foreign exchange in Indonesia, potentially absorbing local raw material to be processed in country, increase economic level through the increase of employment, boosting the infrastructure development with the capital from foreign investors, increase Indonesia's role in the global economic market and transfer of technology to Indonesia with advanced technology from foreign companies.¹⁸⁰

¹⁷⁹ SETNEG, SETNEG. "Investasi Dan Indonesia Maju." KEMENTERIAN SEKRETARIAT NEGARA REPUBLIK INDONESIA, August 2, 2019. https://setneg.go.id/baca/index/investasi_dan_indonesia_maju.

¹⁸⁰ SETNEG, SETNEG. "Investasi Dan Indonesia Maju." KEMENTERIAN SEKRETARIAT NEGARA REPUBLIK INDONESIA, August 2, 2019. https://setneg.go.id/baca/index/investasi_dan_indonesia_maju.