

# CHAPTER I

## Introduction

### 1.1 Background

Everything in the world needs material resources and especially in a country, material resources specifically money is one of the core parts of the country's life. In neoliberalism perspective, it supports fiscal austerity, deregulation, free trade, privatization, and significantly reduced government spending. This theory has been popularized by recently by Margaret Thatcher in the United Kingdom and Ronald Reagan in the United States.<sup>1</sup> The difference of neoliberalism and the classical liberalism is on the word "neo" itself which means new, or a continuation to classical liberalism. While the classical liberalism essentially to hold on to liberty, toleration, political aspects of the society, and freedom to act.<sup>2</sup> In neoliberalism perspective, it seeks to bring controls on economic factor in one country through bridging the political, social, and economics.<sup>3</sup> And neoliberalism believed in free market capitalism, minimizing government involvement in the market except for market's policies and regulation.<sup>4</sup> Having a good economic condition will deliver most of the needs of the country, and because of that I believe increasing the economic growth of

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<sup>1</sup>Kenton, Will. "Neoliberalism," August 29, 2020.

<https://www.investopedia.com/terms/n/neoliberalism.asp>.

<sup>2</sup> Jason, Gary. (2016). Book review of: E. Butler, Classical Liberalism: A Primer. *Philosophia*. 45. 10.1007/s11406-016-9753-4.

<sup>3</sup> Heberle, Renee. (2019). Neoliberalism. 10.1007/978-3-030-28987-4\_32.

<sup>4</sup> Heberle, Renee. (2019). Neoliberalism. 10.1007/978-3-030-28987-4\_32.

the country is one of the crucial thing for Indonesia especially in order to bring Indonesia to the next level, and able to compete more in the international arena. In doing business, market is the playground for everyone basically (as the Neo-liberalism views people as individuals), and everyone in the country even outside from the country's border can have business, doing trade, building relation to create business partnership all to maximize individual's profit or to bring expansion on one's business. In order to bring development in a country, every part of the country itself is important, and to increase the economic growth of the country local business, local companies, local businesses, relation to foreign company partnership, foreign investors, and of course government plays a big role to this case. Local business in Indonesia and everything produced domestically goods and services plays an important role specially to attract foreign investors to have partnership, to put their money in Indonesia. And in Jokowi's first presidential era, sectors that saves foreign direct investment in Indonesia were smelter industry sector, and e-commerce and digital economy.<sup>5</sup> Another involving actor in increasing foreign direct investment in Indonesia is the tourism sector because recently it was really booming alongside with the dynamics of lifestyle and also the highly increasing middle-class in Indonesia.<sup>6</sup> It is stated that Indonesian tourism

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<sup>5</sup> Anwar, Muhammad Choirul. "Oh Ini Ternyata Yang Selamatkan Investasi Era Jokowi," October 17, 2019. <https://www.cnbcindonesia.com/news/20191017112151-4-107707/oh-ini-ternyata-yang-selamatkan-investasi-era-jokowi>.

<sup>6</sup> Djumena, Erlangga. "'Dalam Periode Pertama Presiden Jokowi, Ada 2 Sektor Yang Menyelamatkan FDI...'" KOMPAS.com. Kompas.com, October 17, 2019.

will become the core economy for the next five years. Ministry of tourism Arief Yahya stated that for the last four years of Jokowi-Jusuf Kalla's era, Indonesian tourism has grown significantly, Indonesia have thousands destination from the most popular one into the destination that still in progress to optimize.<sup>7</sup> This is also related with Indonesia's infrastructure that has become more developed, tourism now became Indonesia's

“MVP” and Arief Yahya stated that he is very optimistic for Indonesian tourism in the next five years will increase the foreign exchange, and beat other sectors with US\$20 billion projection.<sup>8</sup> Government also plays an important role to have agenda to focus on some specific sectors, creating policies, and regulate the market and incoming investment. Knowing that domestic actor like local business in Indonesia plays a big a role to increase the total investment, Indonesia should realize to maximize their most number one potential sector that has impacting the current Indonesia's economy like tourism in order to attract more foreign investors to come to Indonesia.<sup>9</sup> Like what have been stated before, to bring

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<https://money.kompas.com/read/2019/10/17/183800326/-dalam-periode-pertama-presiden-jokowi-ada-2-sektor-yang-menyelamatkan-fdi-->.

<sup>7</sup> Rosana, Francisca Christy. “5 Tahun Ke Depan Pariwisata Jadi Devisa Unggulan, Ini Syaratnya.” Tempo. TEMPO.CO, October 16, 2019. <https://travel.tempo.co/read/1260441/5-tahun-ke-depan-pariwisata-jadi-devisa-unggulan-ini-syaratnya>.

<sup>8</sup> Rosana, Francisca Christy. “5 Tahun Ke Depan Pariwisata Jadi Devisa Unggulan, Ini Syaratnya.” Tempo. TEMPO.CO, October 16, 2019. <https://travel.tempo.co/read/1260441/5-tahun-ke-depan-pariwisata-jadi-devisa-unggulan-ini-syaratnya>.

<sup>9</sup> Investments, Indonesia. “Industri Pariwisata Indonesia.” Industri Pariwisata Indonesia | Indonesia Investments. Accessed December 5, 2020. <https://www.indonesia-investments.com/id/bisnis/industri-sektor/pariwisata/item6051>.

economic growth in the future and to be able to compete in the international arena, Indonesia in the first place must prioritizing the development of the business sectors, not only for the most famous one right now which is tourism, or the smelter company, but starting from the local business that recently going viral in the middle of high standard of lifestyle and the increasing of middle class in Indonesia. Also, the government should involve but only as the mediator and the policy maker for the market and for the foreign investment. In addition, Indonesia has a very high potential to increase their economic growth and realizing that Indonesia remains stagnant for 4,9 to 5,3 percent over the past 3 and a half years and also has accomplished reducing poverty to 9,7 percent by September 2018.<sup>10</sup> Indonesia has many sectors through the cities and islands to develop. Government plays a role as a bridge for Indonesia to compete, proving to international arena that Indonesia's economic potential is very promising in the next coming period and that has been proven a bit by the tourism sector, becoming Indonesia's trump card to attract more foreign investors to come to Indonesia. If one country wants to be acknowledged in the competition especially in international arena, they should really be busy and focus on developing the inside quality before going outside. Having more foreign direct investment contributing in Indonesia's economy will ensure the growth in the future, while it still

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<sup>10</sup> "Indonesia Maintains Steady Economic Growth in 2019." World Bank, 2020.  
<https://www.worldbank.org/en/news/press-release/2019/07/01/indonesia-maintains-steady-economic-growth-in-2019>.

also needs a careful regulation and policies so it will not create any social conflict, demonstration because of the job abuse to the local worker. It also needs a consistency to keep going up and all actors from the government to every business in Indonesia should work hard to reach the next target.

### **1.2 Research Question**

In accordance with the previously stated points, this research asks the following research questions:

1. How does the foreign direct investment affect Indonesia's economic growth during Jokowi's first presidential period?
2. How does Jokowi's policy regarding FDI can attract more foreign investor to Indonesia?
3. How is FDI affect Indonesia's productivity and what is the next prospect for Indonesia?
4. What is the advantage of doing FDI for Indonesia?

### **1.3 Research Objectives**

The objective of this research is to propose analysis on Indonesia's economic growth stimulation through foreign direct investment especially in Jokowi's first presidential period in 2014-2019 regarding his main goal for Indonesia to increase Indonesia's economic

growth by 7 percent.<sup>11</sup> The other objectives are also to see the potential of Indonesia's economic sector to attract more foreign investors in order to bring even more economic growth for Indonesia. This research proposal also will highlight the relation between foreign direct investment with the GDP growth of Indonesia, how the maximized domestic products is very crucial to deliver Indonesia to a promised economic growth in the coming future by studying the recent first era of President Jokowi.<sup>12</sup>

Another objective is to look out the effectiveness of President Jokowi's policies regarding foreign direct investment in Indonesia's business sector from small, micro, middle-up, cooperation and many national strategic sectors in order to improve competitiveness with other ASEAN member country and the dynamics with global competitor. In other words, the objective also wants to see a significant increase on the productivity along with the FDI's increase in Indonesia that will eventually leads to the ultimate result which is the total GDP and economic growth of Indonesia.<sup>13</sup>

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<sup>11</sup> Deutsche, Welle. "Periode Pertama Jokowi: Nilai C Untuk Ekonomi, Suram Dalam Hukum Dan HAM: DW: 18.10.2019." DW.COM, 2020. <https://www.dw.com/id/periode-pertama-jokowi-nilai-c-untuk-ekonomi-suram-dalam-hukum-dan-ham/a-50882013>.

<sup>13</sup> Sugiarto, Eddy Cahyono. "Omnibus Law: Strategi Akselerasi Peningkatan Investasi Dan Indonesia Maju." <https://www.setneg.go.id/>, 2020. [https://www.setneg.go.id/baca/index/omnibus\\_law\\_strategi\\_akselerasi\\_peningkatan\\_investasi\\_dan\\_indonesia\\_maju](https://www.setneg.go.id/baca/index/omnibus_law_strategi_akselerasi_peningkatan_investasi_dan_indonesia_maju).

#### **1.4 Research Contributions**

The purpose of this research proposal is to share insight on how Indonesia can maximize the foreign direct investment to increase the number of investors, stimulating the economic growth and opening more potential growth by the increase of job fields. This research proposal is significant to International Relations field because it is talking about investment in other country and how foreign investment affecting country's economic growth and GDP. Also, to share public knowledge about what does the current condition of Indonesia's economy right know from the beginning of Jokowi's presidential era until the of the first era. The goal of this research proposal is to share a knowledge for public especially for business owner in Indonesia to bring their quality to the maximum potential all in order to contribute to Indonesia's economic development and this should bring attraction for foreign investors to invest in Indonesia. This research is also functioning for reference to see flaws in the last presidential period of Jokowi in terms of increasing the economic growth. Another aim is from this research proposal is to share one of the important core economies in Indonesia right now that attract more foreign investment in Indonesia, which is tourism.

#### **1.5 Structure of Writing**

The first chapter which is the introduction, talks about the background of the topic, research questions that will be addresses, and research purposes also significance of the research.

The second chapter, which is the theoretical framework, talks about international relations theory and concepts that used to framework the relations between foreign direct investment and economic growth of the hosting country. It compiles several studies on the concept of economic growth and foreign direct investment relations in this research.

The third chapter, which is the methodology explains the research approach, method, data collection technique and data analysis technique that used in gathering materials for this research purposes.

The fourth chapter, which is the peak of the analysis research that presents the collection of data that has been gathered from many sources implicated to the foreign direct investment effect on economic growth in Indonesia specifically in the first administration of Jokowi as the parameter or five years projection. The result of the analysis can be used to address the research questions of this research.

The fifth chapter, which is the conclusion and recommendation, will point out the final answer of this research based of the result of the analysis and research questions' answer, also with several recommendation regarding the analysis of this research case.