CHAPTER I

INTRODUCTION

A. Background

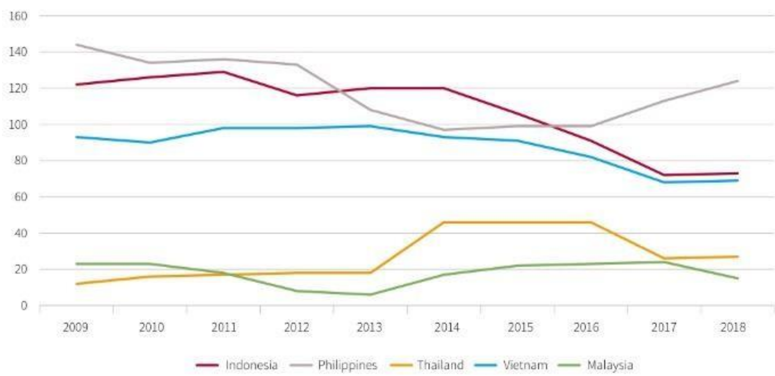
Foreign Direct Investment is one of the best potential foreign financing that can be done by developing countries. Foreign Direct Investment can improve the economic with less risk than other foreign financing such as credit and portfolio. Foreign Direct Investment has been flowing into developing countries since 1990 with a presentation rate of 75%, lower than 5% of private capital which at that time the figure reached 80% (Panayotou, 1998). To get foreign investment, a country must have certain standards to meet investor expectations. The state must also have a competent strategy to achieve its goals. In general, investors can be divided into two, namely individual or retail investors and institutional investors. Individual investors are individuals who carry out investment activities while institutional investors are companies that provide investment services such as insurance companies, savings and loan institutions, banks and investment companies (Tandelilin, 2010).

The basic understanding of investment and its strength in becoming the wheel of the economy is very important. According to Henry Simamora "Investment is an asset that is used by a company to add or grow its wealth through the distribution of investment returns (eg income, royalties, dividends, rental income, etc.), to appreciate the value of an investment, or also for other benefits for an investment company, which is like the benefits gained through trade relations." The meaning of investment according to Deliarnov (1995) is "the total expenditure which includes expenses to purchase raw materials or materials, machinery and factory equipment and all other capital needed in the production process, expenses for office building opportunities, employee residential buildings and construction buildings others, also changes in the value of stocks or reserves as a result of changes in quantities and prices".

To get foreign investment, a country must have certain standards to meet investor expectations. The state must also have a competent strategy to achieve its goals. Each country has its respective strategies in attracting foreign investors based on its ability include in the field of infrastructure, human resources, natural resources and technology. Based on article written by Michael E. Porter, Strategy is the creation of a unique and valuable position that involves a different set of activities, strategy requires you to compete in making trade-offs to choose what not. (Porter, 1996). The success of a strategy can be determined by its uniqueness and effectiveness, determining a strategy is quite complicated. Strategy must adjust the capabilities of the existing opportunities. In the business world, strategies include weapons to compete with opponents, in the context of foreign investment this opponent is another country. In fact, there are many ways to attract foreign investors such as increasing development in infrastructure (ports, airports), increasing factory production equipment, economic and political stability, and offering the potential and resources of a country. (Tjandraningsih, 2019)

According to World Bank's on DoingBusiness data (World Bank, 2020) Indonesia's economic rating increased from 2009 to 2018. A significant increase occurred in 2012-2018, in 2014 Indonesia ranked 120th and in 2018 Indonesia managed to rank 73rd (figure 1). in bps quarterly report, foreign investment in Indonesia also increased from 2014-2017, the average investment in 2014 was about 270400 billion Rupiah, in 2015 reached 307000 billion Rupiah, in 2016 reached 366000 billion Rupiah and in 2017 reached 396500 billion Rupiah. Despite the year-on-year increase, the number of increases is considered less significant compared to the infrastructure build, natural resources explored and human resources used, supported by the statement of the Head of the Investment Coordinating Board, Thomas Lembong that the impact on investment has not been too great, the realization of existing investment is not as big as the target stipulated (Sukmana, 2019).

World Bank’s on Doing Business Index



Ranking

Source: World Bank

Figure 1: World Bank’s on Doing Business Index Ranking

During Joko Widodo's era Indonesia focused more on improving the ability to attract foreign investors, the policy of President Joko Widodo was based on awareness of the importance of improving the country's economy. President Joko Widodo, who was also a businessman, also had little influence on his policies in strengthening the country's economic sector.

Choosing foreign investment is a good and profitable strategy to achieve that goal compared to credit loans that will continue to increase the country's debt burden. In addition, the influx of foreign investment into Indonesia can also help lower the unemployment rate, one of the most important factors of economic growth in Indonesia is the large number of unemployment. Indonesia's vast sovereign territory but inadequate technology equalization makes the Indonesian government feel the need for foreign assistance and cooperation in technology transfer.

At the end of this decade, Indonesia experienced a lot of decline in foreign investors compared to Malaysia, Vietnam and Thailand. (Negara, 2019) This is because of a lot of infrastructure that is jammed, labor that does not have skills, rising labor wages, difficulty licensing from local government and lack of support tools running the industry. Jokowi's presidential in the second period is still the same as the previous campaign period, he offered Nawacita, (Nawa:Nine) (Cita:Goals). During the Nawacita campaign, President Jokowi aimed to continue the struggle of the first President of the Republic of Indonesia, Sukarno. Some of the points offered by President Jokowi in his campaign in the economic sphere are (1) Improving the quality of life of Indonesians, (2) Improving people's productivity and competitiveness in international markets so that Indonesians can progress and rise with other Asian nations, (3) Realizing economic independence by driving strategic sectors of the domestic economy. (ekon-Go, 2019)

Maintaining the wheels of the economy to keep moving forward is not easy. The importance of foreign investors for Indonesia requires the Indonesian government to make new policies related to strategies for how to get foreign investors interested in investing in Indonesia, in the world of Investment when we successfully attract one Investor and the reciprocal results obtained are very satisfactory then there will then come new investors who want to invest their capital. Good foreign investor policy will increase the country's economic level, infrastructure and technology equalization. Currently, Indonesia still needs great funding to continue and improve the wheels of the country's economy so that welfare is achieved for all Indonesians. (Ahmad Baidawi, 2019) Government policy in dealing with an issue greatly affects the economic factors of the country which include microeconomics and macroeconomics, good policies will improve the country's economy, and vice versa. (Sayuti, 2012)

B. Research Question

How is Indonesia’s policy as the strategy to attract foreign investment in Jokowi administration?

C. Theoretical Framework

Strategy becomes an important point in solving problems, effort without being balanced with a good strategy then the results will work slowly. The concept of strategy is one or more plans to achieve a specific desired goal effectively and efficiently. Quinn (1990) defines strategy as a form or plan that integrates key goals, policies and sets of actions within an organization into a unified union. A well formulated strategy will help the preparation and allocation of resources owned by the company into a unique and lasting form. A good strategy is structured based on the company's internal capabilities and weaknesses, anticipation of 11 changes in the environment, as well as the unity of movement carried out by enemy spies.

According to Todaro & Smith (2003), FDI is an investment made by foreign private parties, where investment funds are directly used to carry out business activities such as bringing in machinery and buying production raw materials. Foreign investment is one of the keys to drive the country's economy. Foreign Investment is one of the better strategies than foreign loans, to increase the country's economy. Foreign investment can also be a bridge to transfer technology, expertise and knowledge from developed countries to developing countries. The basic definition of foreign investment is investment that crosses national borders with the aim of benefiting both parties, especially in the economic such as productivity, income, decrease unemployment (Kiran, 2010).

According to Krugman Foreign Direct Investment is international capital flows where companies from one country establish or expand their companies in other countries. Therefore, not only the transfer of resources occurs, but also the enforcement of controls over companies abroad. This means that the capital owner must also control the way the company does not merely transfer natural resources from domestic ownership to foreign ownership (Krugman & obstfeld, 2003).

Moosa said that foreign direct investment is the process whereby residents of one country (the source country) acquire ownership of assets for the purpose of controlling the production, distribution other activities of a firm in another country (the host country) (Moosa, 2002). In his book, Moosa also wrote foreign direct investment according to the United Nations as ‘an investment involving a long-term relationship and reflecting a lasting interest and control of a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor (FDI enterprise, affiliate enterprise or foreign affiliate)' (Moosa, 2002).

According to Undang-Undang No. 25 of 2007 concerning investment, in Chapter 1 article 1, it is explained that Investment is any form of investment activity, both by domestic investors and foreign investors to do business in the territory of the Republic of Indonesia. Foreign investment is an investment activity to conduct business in the territory of the Republic of Indonesia which is carried out by foreign investors, both those who use foreign capital fully or who are partners with domestic investors. Capital is an asset in the form of money or other forms that are not money owned by investors who have economic value. Foreign capital is capital owned by a foreign country, a foreign national, a foreign business entity, a foreign legal entity, and / or an Indonesian legal entity that is partly or wholly owned by a foreign party (Undang-Undang Republik Indonesia, 2007).

Based on the description, it can be concluded that foreign direct investment is one of the ways to improve the economy of developing countries by receiving capital from foreign countries. This cooperation may use foreign capital fully or joint venture (partnership) with domestic investors and in carrying out this cooperation, the foreign investors must physically participate in regulating the company and take responsibility if there is a loss in cooperation. Investors must also comply with Indonesian Law that has been established.

Actually, there are two kinds of foreign investment: Foreign Direct Investment and Foreign Portfolio Investment.

a) Foreign Direct Investment, namely providing opportunities and responsibilities to foreign investors to be physically involved in running the company.

Foreign direct investment also includes long-term investment and investment in real assets (Real Assets) such as purchasing productive assets, building factories, opening mines / plantations, etc.

b) Foreign Portfolio Investment refers to short-term investments in financial instruments such as stocks and bonds in other countries. Unlike foreign direct investment, this investment does not give investors control and direct ownership of company assets, so investors are not directly involved physically in carrying out cooperation. In other words, foreign portfolio investment is financed by foreign countries but operated by domestic citizens. In the book *Foreign Direct Investment in Developing Countries,* the author argues that 'foreign portfolio investment refers to investors or investment companies that are not located within the territory of the country in which they are investing for the purpose of realizing a financial return. And which does not return in financial management, ownership or legal control'. (Sarbajit Chaudhuri, 2014)

To analyze the research-question, the writer uses concept of foreign investment index. ign investment index is factors that can influence the growth of foreign investment. The index includes matters that are directly or indirectly related in attracting investors as well as in the activity of the course of production. The good or bad foreign investment index can be measured by its success in attracting new foreign investors or from its success in retaining existing foreign investors.

Dunning's electrical theory (1993) states that the advantages that must be possessed by a country to attract foreign investment are:

a) Low production cost (including transportation)
b) Availability of a large market size

c) Abundant resources
d) Lack of trade barriers and level of economic openness.

In the book *Foreign Direct Investment* written by Annisa and Rahmat (Annisa Ilmi Faried, 2019) based on research results of the Regional Autonomy Implementation Monitoring Committee in 2003, foreign direct investment index was influenced by several non-economic factors:

a) political stability and security of a country
b) Institutional factors
c) Social politics, regional economy
d) Labor and productivity
e) Physical infrastructure

According to Siti Munawaroh and Sugiono (Siti Munawaroh, 2019) factors that affect investment include:

a) Political stability
b) Economic
c) Legal or Law
d) Facilities and infrastructure that can support the implementation of investments properly

From the description above, it can be concluded that the factors are considered for foreign investment to invest are:

1. Infrastructure, to reach to areas in Indonesia is necessary for adequate infrastructure such as the availability of roads, power plants, water, ports, airports.
2. Natural Resources, natural resources in Indonesia are very much covering mining materials, petroleum, forest products, and also plantation products.
3. Human Resources, which includes the ability and expertise of workers and also the salary level of workers.

4. Government policy factors, which include the ease for foreign investors to invest in Indonesia and also ease in licensing to provide tax deductions for investors in order to increase investment into Indonesia.

strategy becomes one of the important weapons to achieve the goal in the long run. In this context, the goal that the Indonesian government wants to achieve is Foreign Direct Investment to boost the domestic economy. Indonesia's diverse natural resources and abundant dams without sufficient processing costs and technology and experts cannot help the turnaround of the wheels of the country's economy, therefore Indonesia needs foreign investors to help finance the processing of natural resources as well as the transfer of technology and experts. The decline in the number of foreign investors at the end of this decade has led the government to create new policy strategies, including political stability, legal of law, labor and productivity, and physical infrastructure.

D. Hypothesis

Based on the background and theoretical framework, the author hypotheses on Indonesia’s policy as the strategy to attract foreign investment in Jokowi administration influence by:

1. Indonesia improve a lot of facilities such as natural resource, low wages labor, and especially infrastructure to facilitate the production process that can improving foreign investment.
2. The Government of Indonesia is changing its new policy strategy to attract foreign investors and achieve the target.

E. Research Methods

In writing, the author uses qualitative methods. According to Sugiyono 'a qualitative research method is a research method based on the philosophy of post positivism, used to examine the natural conditions of objects, (as opposed to experiments) where the researcher is as a key instrument, the sampling of data sources is done by purposive and snowball, collecting techniques with tri-angulation (combined), data analysis is inductive or qualitative, and qualitative research results emphasize meaning rather than generalization.

The author uses qualitative methods because this method is easier to analyze this case. The qualitative method is more closely related to daily activities so that it is more relevant to be used in this case. The author collected data from various sources that were available. According to Kriyantono, the purpose of qualitative research is 'to explain a phenomenon profusely by collecting data as deeply as possible, which shows the importance of the depth and detail of the data under study'. The sources of data in this paper is secondary. Secondary data is data that the author can get from journals, books, websites and other sources that are still related to the topic of the author's analysis.

F. Purpose of Research

The purpose of this research is to find out the impact of the Indonesia’s policy on attracting foreign investors and to find out whether this policy is effective in attracting foreign investors or not.

G. Systematic Writing

Chapter I of this thesis proposal includes a background which contains the reasons why the author took the case, research question that relevant to the background, theoretical framework that can help author to answer the research question, hypotheses contain the author's allegations about the Indonesian government's policies regarding low wages to workers. The research methodology contains the author's method of completing this analysis and the purpose of the research contains the reasons why the authors take this case and systematic writing.

Chapter II Explains about the condition of foreign investment in Indonesia before Jokowi's Administration and the condition of foreign investment in Indonesia on Jokowi's administration first period.

Chapter III explains about Indonesia's strategy to attack foreign investment during Jokowi's administration and its policies relating to the strategy in attracting foreign investors.

Chapter IV contains conclusion to close the whole thesis.