INTERNATIONAL JOURNAL OF ECONOMICS, BUSINESS AND ENTREPRENEURSHIP

Vol. 7, No. 1, 2024

FOREIGN DIRECT INVESTMENT ANALYSIS OF INDONESIA 1992 – 2022

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ABSTRACT

Foreign direct investment (FDI) plays an important role in the economic development of a country, including Indonesia. This research uses descriptive qualitative and quantitative methods with secondary data in the form of open data from the World Bank and the Central Statistics Agency to analyze the development of FDI in Indonesia from 1992 to 2022. Foreign investment fluctuates, influenced by economic and political crises, changes in infrastructure, and challenges. Although Indonesia has successfully recovered from the economic crisis of the late 1990s, the COVID-19 pandemic had a significant impact in 2020. The government's response and stimulus measures have helped maintain economic recovery. The synergy between the Indonesian government and foreign investors can boost national economic growth. This study provides an in-depth understanding of the dynamics of FDI in Indonesia and provides a basis for improving policies and strategic direction for sustainable economic development. Despite existing challenges, Indonesia continues to attract investor interest from various countries and sectors, with the potential to increase equitable investment allocation in the region.

Keywords: Foreign Investment, Foreign Direct Investment

INTRODUCTION

According to Sukananda & Mudiparwanto (2020), Foreign investment is a strategic source of foreign financing to support a country's development, especially in relation to the development of the real sector, which is expected to have an impact on overall job creation. Based on Law no. 25 of 2007 concerning Investment in Article 1 Paragraph 8, Foreign Investment is an investment made by foreign investors to carry out business in the territory of the Unitary State of the Republic of Indonesia, without regard to whether the foreign capital is wholly or partly owned by domestic investors.

Investment can advance the economic life of a country because capital formation can increase productive capacity, increase national income, create new jobs and expand employment opportunities (Kurniawan, 2016). Therefore, capital investment, especially investors, is important for developing various economic sectors(Aprilia & Marpaung, 2022). Foreign investment in Indonesia can take the form of portfolio investment and direct investment, foreign direct investment (FDI), or foreign direct investment (PMA)(Chandrasekhar & Ikhsanto, 2020).

In the 1990s, foreign investment in Indonesia reached its peak. At that time, Indonesia was one of the top countries attracting foreign investment in Southeast Asia(Nusantara, 2013). However, at the end of the 1990s, an economic crisis caused foreign investment in Indonesia to decline drastically(Astusi, 2022). In the 2000s, foreign investment in Indonesia began to increase again. This happened because the Indonesian government again provided several incentives and conveniences for foreign investors who wanted to invest in Indonesia. Apart from that, Indonesia's high and stable economic growth rate also attracts foreign investors to invest in Indonesia(Rahmawati & Makaliwe, 2021).

Based on data from the World Bank (2023), FDI in Indonesia in 1992 amounted to 1.78 billion USD. In the following years, it continued to increase until in 1996, it reached 6.19 billion USD. After 1996, FDI in Indonesia experienced a downward trend, which was caused by the Asian financial crisis, until it reached its peak decline in 2000, namely – 4.55 billion USD. So, Indonesian FDI in 2000 became the lowest point (all-time low) for FDI in Indonesia. After 2000, FDI in Indonesia continued to increase until it reached its peak in 2014, namely 25.12 billion USD, which made it the highest point (all-time high) for FDI in Indonesia.

Data from Central Bureau of Statistics (2022) highlighting the inequality in investment distribution across Indonesia. Investment tends to be concentrated on the main islands, leaving behind remote and marginalized areas. Infrastructure challenges, as reflected in data from the World Bank, are also an obstacle, limiting the country's ability to optimize economic growth potential. Quoted from BPS (Central Statistics Agency), foreign investment in Indonesia is concentrated on the island of Java. 5 provinces out of 6 provinces on the island of Java occupy the top 10 provinces that are destinations for foreign investment (Fadli et al., 2021).

In Indonesia, changes in policies and regulations often become obstacles for investors (Wildan et al., 2022). Long bureaucratic processes that are prone to corruption also complicate the investment process, creating obstacles to sustainable economic growth. Transparency, legal certainty and bureaucratic efficiency need to be improved so that foreign investment can have a more positive impact on national economic growth. And also, infrastructure in Indonesia is considered still inadequate. This makes it difficult for foreign investors to expand their businesses in Indonesia (Wijaya, 2020).

It is hoped that this research will provide a deeper understanding of the evolution of Foreign Direct Investment in Indonesia, provide a basis for policy improvements, and provide guidance for sustainable economic development strategies involving foreign investment. This research can also contribute to economic and policy literature related to foreign investment.

LITERATURE REVIEW

The theory of foreign investment has been explained in Law of the Republic of Indonesia no. 25 of 2007 concerning Capital Investment. This is explained in Paragraph 3 of Article 1 as follows: "Foreign investment is investment activities to carry out business activities in the territory of the Republic of Indonesia carried out by foreign investors, using all foreign capital or jointly with domestic investors. And also in the same article in paragraph 6, specifically "Foreign investors are individual foreign citizens, foreign business entities, and/or foreign governments who invest in the territory of the Unitary State of the Republic of Indonesia." And in paragraph 8, "Foreign capital is capital owned by a foreign country, individual foreign citizen, foreign business entity, foreign legal entity, and/or Indonesian legal entity, part or all of whose capital is owned by a foreign party.

METHODS

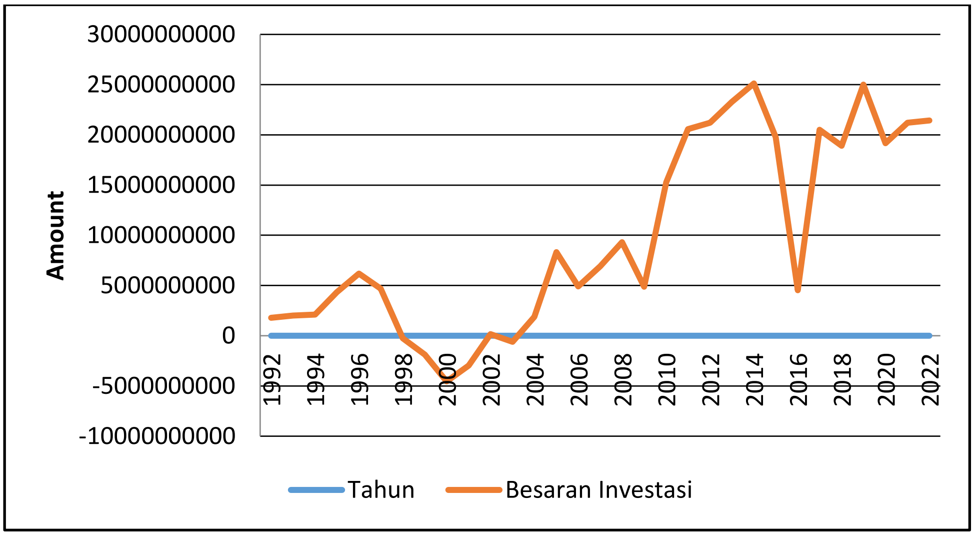
This research will use a qualitative descriptive approach to detail and document events surrounding PMA in Indonesia. This research uses quantitative methods with secondary data with data sources, in this case the World Bank Open Data and Central Statistics Agency data, which are the main data sources, and also several other sources. The data used is in the form of time series data from 1992 to 2022, namely: Data on the amount of foreign investment (FDI) in Indonesia, in US Dollar units. Data on Investment Realization of Foreign Investment by Economic Sector in US Dollar units. Investment Realization of Foreign Investment by Country in US Dollar units. Investment Realization of Foreign Investment by Province in US Dollar units.

This method allows researchers to understand the context, detail complex dynamics, and explore multiple perspectives related to foreign investment. Collect and analyze historical data, government policies regarding FDI, industry reports and relevant economic literature. Use thematic analysis to identify patterns, trends, and key issues emerging from qualitative data.

RESULTS

Foreign Direct Investment (FDI) is known during the observation period based on data obtained from World Bank Open Data. It is known that the amount of foreign direct investment in Indonesia also experiences fluctuations in investment value. Quoted from the official DPR RI website, there are five obstacles that investors often face when investing in Indonesia. These five obstacles are complicated regulations, difficulties in land acquisition, uneven public infrastructure, taxes and other non-financial incentives that do not encourage investment, and a lack of qualified labor.

Figure 1. Foreign Direct Investment of Indonesia 1992-2022



Source: Compiled from World Bank Open Data, Foreign direct investment, net inflows 1992 – 2022

In the analysis related to foreign direct investment (FDI) in Indonesia, there are several data that need to be considered, including the average value, minimum value and maximum value based on the data that has been obtained. In line with the Indonesian government's efforts to support foreign investment, the average value of capital investment over the last 30 years is USD 9.78 billion per year. Uniquely, in 2000 the value of foreign investment showed a negative figure, reaching -4.55 billion USD. On the other hand, Indonesia managed to reach the peak of foreign investment with a maximum value reaching 25.12 billion USD in 2014.

The presence of a negative minimum value creates an interesting dynamic in foreign investment trends in Indonesia. This may indicate the existence of certain years where significant external challenges had a negative impact on foreign capital inflows. Nevertheless, the relatively high average value and positive maximum value indicate that Indonesia remains an attractive investment destination, even through periods of fluctuation. Foreign investment in Indonesia experienced at least 4 significant declines, namely from 1998 to 2000, in 2009, in 2016, and most recently in 2020.

DISCUSSION

Based on data obtained and reports on economic crisis patterns Ministry of Finance (2012), it is known that in 1998 investment in Indonesia experienced a decline due to the impact of the monetary crisis in Asia in 1997. Based on data, foreign direct investment in Indonesia in 1998 decreased by around 105.1% to -240.8 million USD compared to 4.68 billion USD in the previous year. Namely, the crisis that started in Thailand then quickly spread to neighboring countries, including Indonesia. This crisis created social unrest, unemployment and a decline in the value of the rupiah. The recovery process requires time and deep economic reforms, having a long-term impact on the Indonesian economy.

In 2009, foreign investment in Indonesia recorded a significant decline as a direct result of the 2008 global economic crisis which previously rocked global capital markets. Although this phenomenon is understandable, the Indonesian economy during this period proved to be relatively resilient despite slowing economic growth (2009 Economic Report, Bank Indonesia). Based on data, foreign direct investment in Indonesia in 2009 decreased by around 47.6% to 4.88 billion USD compared to 9.32 billion USD in the previous year. Despite the recession, responsive government policies and strong economic fundamentals helped maintain stability and reduce its negative impacts. Despite global challenges, Indonesia continues to demonstrate strong economic resilience during this period.

In 2016, Indonesia again faced major challenges due to declining foreign investment. This decline is seen as a broader impact of the US Federal Reserve's interest rate adjustment policy (federal funds rate), the Brexit referendum which resulted in the UK leaving the European Union, and various other geopolitical uncertainties. Observations show that these various global factors combine to put pressure on the investment environment in Indonesia (2016 Economic Report, Bank Indonesia). Foreign direct investment into the country fell by around 77% in 2016, reaching 4.54 billion USD compared to 19.78 billion USD in the previous year. Nevertheless, the government's adaptation policies and a healthy economic framework continue to support the resilience of the Indonesian economy in facing global challenges.

In 2020, Indonesia was once again faced with serious challenges with a significant decline in the foreign investment sector. This is the result of the complexity of the global situation which includes the COVID-19 pandemic that has hit the world. The extraordinary economic impact of the pandemic, especially in terms of uncertainty and reduced global economic activity, has had a major impact on foreign investor confidence. Statistical data notes that foreign direct investment in Indonesia experienced a marked contraction in 2020. The amount of investment fell by around 23.2% compared to the previous year, decreasing from USD 24.99 billion to around USD 19.18 billion. This condition was triggered by a decline in global demand, supply chain disruptions and global economic uncertainty which resulted in investors reducing risk by holding their investments.

In addition, the lockdown measures and movement restrictions imposed to combat this pandemic have also had a major impact on certain sectors in Indonesia, such as tourism and manufacturing. The combination of global and domestic factors is putting extraordinary pressure on the Indonesian economy. However, the Indonesian government quickly responded to the situation and implemented various stimulus measures and structural reforms to revive the economy. These measures include fiscal support, tax incentives, and investment climate reform to restore foreign investor confidence. Despite the challenges of 2020, Indonesia continued to demonstrate economic resilience and sought to strengthen the foundation for future growth.

In the world of investment, Indonesia continues to be an attractive destination for foreign countries wishing to inject capital. Based on the latest data, the following three countries have become the largest spenders of funds investing in Indonesia. Singapore is in the top ranking as the country that spends the most money to invest in Indonesia. The sustainability of bilateral business relations between Indonesia and Singapore continues to support investment flows. Investment funds from this country are worth 21.24 billion USD. China is one of the main investors in Indonesia. Investment funds from this country are worth 10.34 billion USD. Japan remains a significant contributor to foreign investment in Indonesia. Economic cooperation between the two countries continues to develop. Investment funds from this country are worth 7.78 billion USD. The two most popular sectors for investment are the basic metal industry, metal goods, non-machinery and equipment, investment in this sector is worth 11.8 billion USD. Followed by the Trade and Repairs sector, investment in this sector is worth 9.2 billion USD. Based on research results Jufri et al. (2022)found that foreign investment in Indonesia observed over fifty years was a measure of market and trade openness.

Ten Most Attractive Provinces for Foreign Countries to Invest. West Java ranked first with total investment worth 12.74 billion USD. Then followed by DKI Jakarta as second place with total investment worth 12.68 billion USD. Next, Central Sulawesi is in third place with a total investment of 7.7 billion USD. After that, Banten ranked fourth with a total investment of 5.65 billion USD. Then, East Java ranked fifth with total investment worth 5.23 billion USD. After that, Bali was ranked sixth with a total investment of 5.14 billion USD. Furthermore, North Maluku is ranked seventh with a total investment of 4.6 billion USD. Then, Central Java ranked eighth with a total investment of 3.8 billion USD. After that, Riau was ranked ninth with a total investment of 3 billion USD. And North Sumatra is ranked tenth with a total investment of 2 billion USD.

This data provides a picture of how Indonesia continues to attract investment interest from various countries, sectors and regions across the country. The synergy between the Indonesian government and foreign investors can continue to strengthen economic growth and sustainable development. And also, foreign investment in Indonesia is still not evenly distributed. From the data presented above, 5 of the 6 provinces on the island of Java, namely: West Java, DKI Jakarta, Banten, East Java and Central Java occupy the top 10 in foreign investment destinations, only the Special Region of Yogyakarta is not included in the top 10 destination for foreign investment in Indonesia, DIY is ranked twenty-second in terms of investment realization in Indonesia.

CONCLUSION

Conclusions from the analysis of Foreign Direct Investment (PMA) in Indonesia show significant dynamics over the last few decades. Data obtained from World Bank Open Data illustrates fluctuations in the value of foreign investment, with the average value over the last 30 years reaching 9.78 billion USD per year. This average reflects the stability and attractiveness of Indonesia as an international investment destination. Despite experiencing significant declines in certain years, such as in 2000, 2009, 2016 and 2020, Indonesia continues to be an attractive investment destination. The presence of a negative minimum value creates an interesting dynamic in foreign investment trends in Indonesia. This may indicate the existence of certain years where significant external challenges had a negative impact on foreign capital inflows. Nevertheless, the relatively high average value and positive maximum value indicate that Indonesia remains an attractive investment destination, even through periods of fluctuation.

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