

Analysis of Government Policy as One of the Factors Influenced Foreign Direct Investment in Indonesia and Its Influence on Foreign Workers in Indonesia (Study of Indonesian Government Policy During the Covid-19 Pandemic)

Ervandy Rangganata

Paramadina Graduate School of Diplomacy

E-mail: ervandy_rangganata@gmail.com

ABSTRACT

This research aims to analyze government policy as one of the factors influencing Foreign Direct Investment (FDI) in Indonesia and its impact on foreign workers during the COVID-19 pandemic. Since the start of the pandemic, the Indonesian government has implemented various economic and investment policies to maintain stability and attract foreign investment. These policies include fiscal incentives, regulatory relaxation, and support for strategic sectors. This research uses a qualitative method with a case study approach, where data is collected through in-depth interviews, document analysis and participant observation. The research results show that government policies have succeeded in attracting FDI despite uncertain global economic conditions. However, this increase in FDI also has an impact on changes in the pattern and number of foreign workers in Indonesia. The conclusions of this research emphasize the importance of policy formulation that is adaptive and responsive to the global situation to maximize the benefits of FDI and manage its impact on foreign workers effectively.

Keywords: Government Policy, Foreign Direct Investment, Foreign Workers

INTRODUCTION

Since the emergence of the policy of allowing foreign capital to invest in Indonesia, which is a mandate from MPRS Decree No. XXIII/MPRS/1966 concerning Policy Reform on the Economic Basis of Finance and Development and Law no. 1 of 1967 concerning Foreign Investment (PMA), Foreign Direct Investment or Foreign Investment in

Indonesia continues to increase every year. The increase was seen quite rapidly in 2020, where in quarter 1 (January-March) total investment was recorded at 6,803 million US\$ from 11,623 projects and even in a pandemic situation, it was still able to increase in quarter 3 (July-September) with total investment reaching 7,370 million US\$ from 16,270 projects (source: www.bkpm.go.id).

As a form of long-term capital flow that is not greatly affected by Indonesia's unstable economic conditions, of course FDI is highly expected in Indonesia. With the presence of FDI, apart from helping economic growth through business taxes, it also helps with the Foreign Worker Tax, and also helps absorb labor in Indonesia. One of the determining factors in a country's attractiveness to become an investment destination for a capital-donor country is its government policy, especially regarding the economic sector, because foreign investors certainly really consider efficiency when they want to invest capital or expand into a country.

In 2014, FDI in Indonesia was higher compared to other ASEAN countries, except Singapore. In fact, Indonesia is among the top 20 recipients of FDI in recent years (UNCTAD, 2013). In fact, according to the World Competitiveness Report released by the WEF in 2018, it takes up to 25 days to process permits with 11 procedures to go through. This number is higher than the average for other Southeast Asian countries, which averages only 8.6 procedures. In terms of the number of procedures that must be passed to set up a business, Indonesia is still behind Brunei, Laos, Malaysia, Singapore, Thailand and Vietnam. Meanwhile, if we look at the time needed to process permits, Indonesia is behind Brunei, Malaysia, Singapore and Vietnam.

However, since the COVID-19 pandemic occurred throughout the world, it has had a major influence on the world economy, especially developing countries whose economic growth is highly influenced by foreign investment. Regulatory updates throughout 2020, starting from the first case of COVID-19 in Indonesia, until the end of 2020 which regulate the movement of foreigners (including foreign workers in Indonesia and those who will enter Indonesia) have had a big influence on the development of FDI, so it also has an impact on Indonesia's economic growth is partly due to the foreign worker tax. Even though FDI is one of

the investment sectors that can improve the Indonesian economy, it can also backfire on Indonesia if the government is wrong in making policies. The entry of FDI into Indonesia not only has implications in the economic sector, but also has an impact on the laws that regulate foreign investment activities. With the background presented, researchers will conduct research using descriptive qualitative analysis methods with the title **Analysis of Government Policy as One of the Factors Influenced Foreign Direct Investment in Indonesia and Its Influence on Foreign Workers in Indonesia (Study of Indonesian Government Policy During the COVID-19 Pandemic)**.

RESEARCH METHOD

This research uses the library study method, this was done because literature sources were obtained from journals, research reports, information from print media, online and other sources (Marzuki, 2010). The approach in this research uses descriptive qualitative. In this research, the researcher attempts to provide Analysis of Government Policy as One of the Factors Influenced Foreign Direct Investment in Indonesia and Its Influence on Foreign Workers in Indonesia (Study of Indonesian Government Policy During the COVID-19 Pandemic).

RESULTS AND DISCUSSION

1. Foreign Direct Investment in Indonesia

Foreign Direct Investment (FDI) is believed to be an important source of financing for a country, especially developing countries. World FDI flows have increased since the 1990s with a peak occurring in 2000, this was mainly driven by FDI flows to developing countries carried out by donor countries such as the United States and several European countries such as the UK, Germany, Spain, the Netherlands and France. World FDI flows tend to get bigger, reaching an average of US\$ 567,761 million/year, or an average increase of 13.64%/year from 1990-2005. In 2005 the increase occurred by 29%, namely to \$916 billion from the previous year, including an increase in investment in mergers and acquisitions between countries both in terms of nominal amounts and in terms of the number of new agreements formed (Kurniati, Prasmuko, Yanfitri, 2007). Increasing trade

between two or more countries will encourage investors to start opening production facilities in countries where exports to that country are high, namely in the form of foreign direct investment.

Conceptually, the choice of foreign investors to invest in the form of FDI, compared to other forms of capital in a country, is influenced by the conditions of the country receiving the FDI (pull factors) as well as the conditions and strategies of foreign investors (push factors). Pull factors from FDI inflow include market conditions, opportunities to carry out export and import activities, resource availability, competitiveness, and the country's government policies related to trade. Meanwhile, pull factors include investment strategies and production strategies of investors.

Large territories and large populations encourage FDI inflows into a country. This is like what happened in the Asian region. Because with demographic conditions like this, investors can look for wider market potential. For multinational companies, FDI provides an opportunity to reduce production costs while increasing market share. On the other hand, FDI is believed to provide benefits to recipient countries, including economic growth, infusion of capital and new technology, as well as increased employment (Soekro, Widodo, 2015).

Among other ASEAN countries, Indonesia is one of the popular destination countries for foreign investors. Although the World Competitiveness Report released by the WEF in 2018 stated that in Indonesia it takes up to 25 days to process permits with a total of 11 procedures that must be passed, and this number is more than the average for other Southeast Asian countries, which on average an average of only 8.6 procedures. In terms of the number of procedures that must be passed to set up a business, Indonesia is still behind Brunei, Laos, Malaysia, Singapore, Thailand and Vietnam. There is still a lot of foreign investment in Indonesia. One of them is because even though the procedures are complicated, the regulations governing FDI in Indonesia are quite loose. One of the examples of this is demonstrated by the phenomenon of mining exploration in Indonesia. Apart from that, investment in the manufacturing sector has also increased, especially in the automotive, electronics, steel and chemical sub-sectors. Countries in Southeast Asia have low production costs, which makes foreign investors interested in investing their capital.

Apart from production costs, work wages in Indonesia are also relatively low. This is also Indonesia's attraction for foreign investors.

Based on data from BKPM released in April 2020, it was stated that FDI in Indonesia reached 11,623 projects with a total investment of 6,803.6 million USD. The business sector contributing the largest investment is the Basic Metal Industry, Metal Goods, Non-Machinery and Equipment with a total investment of 1,523.8 Million USD.

Tabel 1. Foreign Direct Investment in Business Sector

NO	BIDANG USAHA	INVESTASI (US\$ Juta)	PROYEK
1	Industri Logam Dasar, Barang Logam, Bukan Mesin dan Peralatannya	1.523,8	323
2	Listrik, Gas dan Air	868,6	220
3	Transportasi, Gudang dan Telekomunikasi	806,9	346
4	Perumahan, Kawasan Industri dan Perkantoran	602,9	490
5	Industri Kimia Dan Farmasi	569,4	508
6	Pertambangan	482,7	310
7	Tanaman Pangan, Perkebunan, dan Peternakan	478,8	351
8	Industri Makanan	298,4	743
9	Hotel dan Restoran	220,3	1.363
10	Industri Mesin, Elektronik, Instrumen Kedokteran, Peralatan Listrik, Presisi, Optik dan Jam	127,1	391
11	Industri Kertas dan Percetakan	125,8	167
12	Jasa Lainnya	121,9	2.165
13	Industri Mineral Non Logam	118,6	109
14	Industri Karet dan Plastik	87,6	305
15	Industri Kendaraan Bermotor dan Alat Transportasi Lain	74,9	305
16	Industri Tekstil	64,9	313
17	Perdagangan dan Reparasi	59,7	2.443
18	Industri Barang dari Kulit dan Alas Kaki	52,0	126
19	Konstruksi	41,0	199
20	Perikanan	34,7	79
21	Kehutanan	16,2	38
22	Industri Kayu	14,0	115
23	Industri Lainnya	13,4	214
TOTAL		6.803,6	11.623

(source: www.bkpm.go.id)

Indonesia has made various policy efforts to stimulate economic growth, especially through improving the investment climate. The policies adopted include several policy packages: (i) investment climate improvement policy package, (ii) infrastructure development program

package, and (iii) financial sector package (Kurniati, Prasmuko, Yanfitri, 2007). In the process of improving efforts, the implementation of this policy package has produced several advances. This is reflected in the World Bank and LPEM UI surveys which show an improvement in the work efficiency of the Regional Government bureaucracy, in terms of reduced processing time and unofficial fees. However, compared to neighboring countries, the improvements achieved are still not optimal or are still lagging behind, both in carrying out business activities and in their competitiveness.

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2. Factors Affecting Foreign Direct Investment in Indonesia

Apart from the economic climate, for Foreign Direct Investment companies, political stability is also important to pay attention to. This concerns the laws and regulations that regulate foreign investment activities. FDI companies will of course pay close attention to the laws and regulations and applicable FDI provisions whether they can provide good prospects for investment or not.

Kotzian (2013:15) states that economic growth in a country is influenced by political and cultural channels. Where the political path in question is how the government elected by the people through elections makes policies and regulations which will later be obeyed by economic actors, while the cultural path is a direct influence on economic growth through business or entrepreneurial activities.

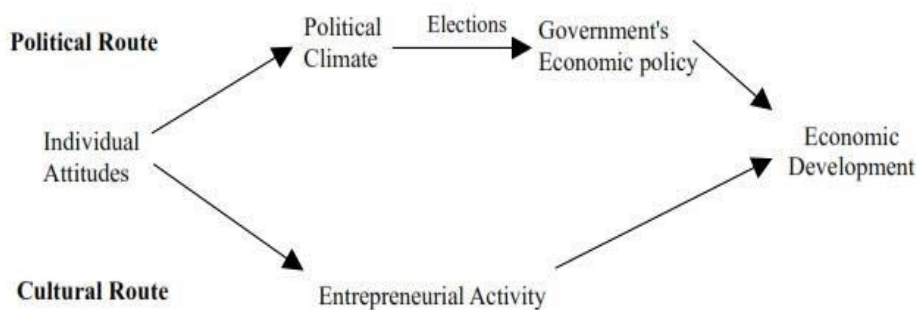


Figure 1. Political Route and Culture Route of Foreign Direct Investment in Indonesia

Because FDI is one of the main contributors to advancing the economy of a country, especially developing countries, this is influenced by several factors, namely through the political climate in the form of government policy and other factors outside government policy.

a. Policies in the Field of Foreign Investment

Formally, investment in new capital has had a legal basis since the issuance of Law Number 1 of 1967 concerning Foreign Investment (UUPMA). There are several sectors that are directly related to UUPMA and PMA, including:

1) Foreign Capital

In principle, the role of foreign capital in Indonesia is not only through FDI, because based on Article 23 of the UUPMA it can also occur through joint ventures, namely partly foreign capital and partly national capital (Simatupang, 2010: 4). The attraction that can be put forward is precisely the setting. Regarding transfer rights as specified in Articles 19-20 UUPMA. This is because almost all foreign investors expect to be given permission to transfer their business profits in the form of real currency (Kartasapoetra, 1985).

2) Business fields

Determining the business fields that foreign investment can enter also often influences the realization of FDI in Indonesia. Article 6 of the UUPMA regulates business fields that cannot be entered into by foreign capital, including fields that are important for national defense and fields that concern the survival of many people which are important for the country. Apart from that, BKPM also makes a DPS or priority scale list which changes every year. The existence of these regulations can certainly

conducive market conditions in Indonesia, especially for PMDN, but in reality many state-owned companies require large capital and it is not enough to rely solely on national capital (Simatupang, 2010).

3) Labor

Article 9 of the UUPMA gives foreign investors the authority to determine company directors, but is still obliged to meet the requirements for the number of Indonesian workers, except for those that have not been filled or cannot be filled by Indonesian citizens, as regulated in Articles 10 and 11 of the UUPMA. This is a win-win solution for both parties - investors and the Indonesian state, because they are given the authority to appoint directors who are foreign workers from their country of origin but it also benefits Indonesia because of the obligation to absorb Indonesian workers, so this regulation helps efforts to minimize the level of unemployment in Indonesia.

4) Facilities for PMA

The government, through the UUPMA, provides incentives to foreign capital companies in the form of tax exemptions or reductions (tax holiday) by keeping in mind priorities regarding the field of business.

5) Obligations for Foreign Investment

The obligations imposed on foreign investors based on Article 27 of the UUPMA only provide an opportunity for effective participation of national capital after a certain period of time through the sale of shares.

b. Government policy

- 1) Regulation of the Minister of Law and Human Rights Number 11 of 2020 concerning Temporary Prohibition of Foreigners Entering the Territory of the Republic of Indonesia (Stipulated on 31 March 2020);
- 2) Circular Letter Number HK.02.01/MENKES/313/2020 concerning Health Protocols for Handling the Return of Indonesian Citizens and the Arrival of Foreign Citizens from Abroad at State Entrances and in Regions in Situations of Large-Scale Social Restrictions (PSBB) (Stipulated on 7 May 2020);
- 3) Letter from the Director General of Immigration Number IMI-GR. 01.01-4409 concerning Extension of the Obligation Deadline for Foreigners Holding ITKT to Obtain an Immigration Stay Permit

- (Stipulated on 18 August 2020);
- 4) Decree of the Head of the Investment Coordinating Board Number 185 of 2020 concerning Controlling the Spread of Covid-19 for Expert Foreign Workers (TKA) and Company Leaders in the Context of Capital Investment;
 - 5) Letter from the Director General of Immigration Number IMI-GR.01.01-4497 concerning the Time Limit for Foreigners Holding ITKT to Obtain an Immigration Stay Permit (Stipulated on 18 September 2020);
 - 6) Regulation of the Minister of Law and Human Rights Number 26 of 2020 concerning Visas and Stay Permits during the Adaptation Period to New Habits (Stipulated on 29 September 2020);
 - 7) Covid-19 Handling Task Force Circular Number 3 of 2020 concerning Health Protocols for Traveling People During the 2021 Christmas and New Year Holidays During the Covid-19 Pandemic (Stipulated on 19 December 2020);
 - 8) Addendum to Circular Letter of the Covid-19 Handling Task Force Number 3 (Enacted on 22 December 2020);
 - 9) Covid-19 Handling Task Force Circular Number 4 of 2020 concerning Protocols for Traveling People During the Covid-19 Pandemic (Stipulated on 28 December 2020);
 - 10) Circular Letter of the Ministry of Law and Human Rights Number IMI-2034.GR.01.01 of 2020 concerning Temporary Closure of the Entry of Foreigners into Indonesian Territory (Stipulated on 30 December 2020).

CONCLUSION

From the discussion that has been presented, it can be concluded that FDI is strongly influenced by political factors, namely government policy. By always evaluating these policies, and also balancing them so that a win-win solution is created for both parties, both capital donors and Indonesia, we will be able to increase the amount of FDI in Indonesia and of course this will influence economic growth through income from business taxes and energy. foreign employment, and labor absorption.

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