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The Impact of Foreign Investment on the Indonesian Economy

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Abstract

Law No. 25 of 2007 concerning Foreign Investment was created to have several objectives, in which these objectives function to advance the economy in this country of Indonesia. Basically, Foreign Investment is a form or concrete step which in practice provides many benefits to the Indonesian economy but also does not provide a small amount of loss in the economic sector and in other sectors. The purpose of writing this article is to examine more deeply from a legal perspective regarding the impacts of foreign investment on Indonesia's economic development.

Keywords: *Foreign Investment; Capital; Economy; Indonesia*

Introduction

Foreign investment is an investment activity to conduct business in the territory of the Republic of Indonesia carried out by foreign investors, both those who use foreign capital wholly or in joint ventures with domestic investors. However, over time, the impacts of these foreign investment activities were both positive and negative. Basically foreign investment has existed since the colonial era but of course nowadays there are many changes related to foreign investment and added by binding regulations such as Law No. 25 of 2007. In the early days of the new order government, Indonesia at that time had a fairly large debt to the Netherlands of 600 million guilders as compensation for the nationalization program of Dutch companies at that time. Indonesia is also required to pay its debt to the UK for the Indonesia-Malaysia confrontation which resulted in damage to the British Embassy in Indonesia.

In its historical timeline, when the Foreign Investment Law was enacted in 1967, it was made with the aim of providing opportunities for foreign investors to invest in Indonesia, with the aim of advancing companies and the Indonesian economy. The existence of the Law on Foreign Investment during the New Order era with the mission to initiate close relations with developed countries through the economic sector indicates that the era of liberalization and capitalization of Indonesia during the New Order era has begun. Then in 1967, Indonesia's non-communist international creditors agreed to formed the Inter Governmental Group on Indonesia (IGGI), which was originally formed based on the idea that was sparked at a meeting between the Indonesian delegation and other international aid agencies in Amsterdam, the Netherlands. This organization is also a co-financing of economic liberalization projects in Indonesia carried out by foreign financial institutions.

Foreign Investment has several benefits that can be provided, one of which is creating jobs, processing technology experts and useful skills, and can also be a source of foreign exchange income for the country. So foreign investment can create jobs and reduce unemployment, besides that with foreign investment it will produce various new skills and expertise for developing countries. Foreign investment is one source of income for the country because with the presence of foreign investors who are willing to invest, economic growth will increase.

The benefits of foreign investment that have been mentioned above are continuous with the purpose of organizing investments as stated in Law no. 27 of 2007 concerning Foreign Investment, among others: increasing national economic growth, creating jobs, increasing sustainable economic development, increasing the competitiveness of the national business world, increasing national technological capacity and capability, encouraging the development of the people's economy, processing potential economies into economic strengths. by using funds originating, both from within the country and from abroad, and increasing the welfare of the community. The minister, governor, or regent/mayor in accordance with their respective authorities must reject the application for an environmental permit if the permit application is not accompanied by an amdal for UKL-UPL. Article 36 paragraph (1) of the environmental permit is a requirement to obtain a business and/or activity permit. (2) The environmental permit as referred to in paragraph (1) is issued based on a decision on environmental feasibility as referred to in Article 31 or a UKL-UPL recommendation. (3) The environmental permit as referred to in paragraph (1) must include the requirements contained in the environmental feasibility decision or UKL-UPL recommendation. (4) Environmental permits are issued by the Minister, governors, or regents/mayors in accordance with their respective authorities. (3) The environmental permit as referred to in paragraph (1) must include the requirements contained in the environmental feasibility decision or UKL-UPL recommendation. (4) Environmental permits are issued by the Minister, governors, or regents/mayors in accordance with their respective authorities. (3) The environmental permit as referred to in paragraph (1) must include the requirements contained in the environmental feasibility decision or UKL-UPL recommendation. (4) Environmental permits are issued by the Minister, governors, or regents/mayors in accordance with their respective authorities.

Foreign Investment is part of the scope of Investment Law in which the Investment Law regulates legal norms regarding the possibilities for investment, investment requirements, protection and most importantly directs investment to create prosperity for the people. Investment law is also constructed as a legal norm which in this case examines the possibility of investing in investment conditions, investment protection must be directed to the welfare of the community. Investors can improve the quality of Indonesian society by investing. Investment is an activity in which one of the parties puts capital in the form of money or other valuable assets into an object, institution, or parties with the hope that investors or investors will benefit after a certain period of time. Because there is a vision of this profit income, investment is also known as investment. The definition of capital itself is regulated in Article 1 paragraph (7) of Law no. 25 of 2007 concerning Investment which explains that Capital is an asset in the form of money or other forms that are not money owned by investors that have economic value and Article 1 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 whose capital is partly or wholly owned by a foreign party and lastly in Article 1 paragraph (9) Domestic capital is capital owned by the

Republic of Indonesia, individual Indonesian citizens, or business entities in the form of legal entities or not legal entities.

This article will examine in depth the Law no. 25 of 2007 concerning Investment and reviewing the Investment Law and explaining what impacts have occurred to the Indonesian economy so far with the enactment of policies and regulations related to this investment, especially foreign investment.

Research Methods

In writing this article, the author realizes that there are several elements in the research method that are considered important enough to determine the flow of this article. Without the method in research, the author will not get the results of the desired writing. Based on this, the approach that the author uses is normative juridical where this legal research examines the law in the literature which is carried out by researching and reviewing library materials or mere secondary data using deductive thinking methods, namely ways of thinking in drawing conclusions from something that It is general in nature and has been proven to be true.

Discussion Result

Foreign Investment According to Law No. 1 of 1967 Article 2 explains that the meaning of foreign investment is: a. Foreign payment instruments that are not part of Indonesia's foreign exchange assets, which with the approval of the Government are used to finance companies in Indonesia; b. tools for companies, including new inventions belonging to foreigners and materials, which are imported from outside into the territory of Indonesia, as long as these tools are not financed from Indonesia's foreign exchange wealth; c. part of the company's proceeds based on this law is permitted to be transferred, but it is used to finance companies in Indonesia.

With the presence of foreign investors, another impact given to the Indonesian economy is the existence of legal products that were born to regulate foreign investment and investment in Indonesia, where these legal products are binding and aim to advance the Indonesian economy. Article 15 letter B of the Investment Law which states that "every investor is obliged to carry out corporate social responsibility", in article 17 it is stated "investors who seek non-renewable natural resources are obliged to allocate funds in stages for the restoration of locations that meet environmental wealth standards, the implementation of which is regulated in accordance with the provisions of laws and regulations", Article 74 paragraph (1) of the Law of the Republic of Indonesia Number 40 of 2007 concerning Limited Liability Companies states "Companies that carry out their business activities in the field and/or related to natural resources natural resources are obliged to carry out social and environmental responsibilities.", Article 6 of the Decree of the Minister of Energy and Mineral Resources Number 1453/29/MEM/2000 concerning Technical Guidelines for the Implementation of Government Duties in the General Mining Sector (hereinafter referred to as the Minister of Energy and Mineral Resources Decree) states "Regional Governments in accordance with the scope of authority of each assigns KP holders,KK and PKP2B in accordance with the stages and scale of their business to assist community development programs and regional development in the local community which includes human resource development, health, and economic growth.

These provisions will clarify the legal obligations that must be fulfilled for foreign companies investing in Indonesia, especially if these foreign companies carry out development of the community residing in the investment area invested by investors so that they can catch up with various backwardness in various aspects. such as in the field of education, health, agriculture, social and cultural fields, and the field of MSMEs.

During 1966 the production level was lower than in 1938. Sector the industrial sector which is predicted to spur economic growth has decreased and even stagnated. This causes the state budget deficit to reach 50% of the total state expenditure and causes export revenues to decline greatly. causing inflation and ultimately paralyzing the national economy. Muhammad Sadli said the economic policy adopted by the New Order government at that time was to rebuild the economy on the principles of a market economy, an open economy, a stable monetary climate and limiting interference in economic activities, changing an allocative and distributive economic system into a distributive system. incentive economy, invites entrepreneurs to invest, innovate and produce through price mechanisms, tax and tariff policies, precredit and budgetary and monetary policies, attracting foreign investment and aid. On the last point, it can be concluded that the role played by foreign capital and foreign aid is a determining factor in the rate of national economic growth.

The impact of this can be indicated by the number of industries that were born as a result of foreign investment and the improvement of facilities and infrastructure using foreign aid is an undeniable bond that the role played by foreign investment and foreign aid is with the pace of the economy. This resulted in the creation of facilities and infrastructure that support the life of the Indonesian people. With this, we can theoretically state that the existence of foreign investors who invest in Indonesia has wide benefits and can take advantage of labor in the recipient country of capital, and create domestic products as basic materials. can increase the country's foreign exchange, especially if foreign investors who will carry out export business will increase state income from the tax sector, technology transfer and knowledge transfer. So seen from this point of view, it can be seen that the presence of investors plays a significant role in the economic development of a country especially economic development in areas where investors carry out their duties as FDI (Foreign Direct Investment).

This Foreign Investment is expected and predicted to help the government in solving employment problems, the growth rate of the workforce each year has increased quite high. Foreign investors are also predicted to increase the country's foreign exchange by exporting its production abroad. In terms of benefits, it can be concluded that there are two main impacts of foreign investment in Indonesia, namely increased income as the Indonesian people are accommodated as workers, Second, there are indirect benefits that can be felt in the long term in the future such as new technology and knowledge.

However, the state should not be too complacent with all the benefits brought about by foreign investors because there are still some weaknesses that are technical in nature and operational, such as the weak supervision of the apparatus related to the excessive use of foreign workers in a foreign capital company and the products are not yet fully exported. This requires foreign companies to control and manage their companies in accordance with economic principles that do not harm the interests of the Indonesian state.

If we only examine foreign investment from the positive side and ignore some of the facts that have occurred in the field, it is considered a bit unfair and it is necessary to see that there are also negative impacts caused by foreign investment investing in Indonesia. One of the negative impacts felt by foreign investment in Indonesia is the abandonment of the agricultural sector, environmental damage, reduced productive land, excessive exploration of natural resources and the large number of business products that are sold back to Indonesian citizens at a much more expensive price and brought to their country of origin. The negative influence that can be seen from the non-industrial sector is related to the large number of foreign investments made in the industrial sector and absorbing too many human resources,

One aspect that is very worrying is the environmental damage that can certainly arise in industrial activities. This pollution can be in the form of waste or air pollution. It is likened to the more foreign companies in Indonesia, it can be predicted that there will also be more waste production. Waste that is not managed properly will damage the environment. For example, if there is air pollution, soil pollution, and river pollution. All kinds of pollution can interfere with human health, as well as animal and plant life. Therefore, it is necessary to enforce clear rules regarding industrial waste management.

Foreign competition from a country through international trade or capital flows is considered a trigger for competition. In the short term, foreign investment can improve the foreign exchange position of the receiving country, but in the long term it will have a negative impact that will reduce foreign exchange earnings, both in terms of the balance sheet.

Current account and capital account. The current account balance is likely to deteriorate over time due to large-scale imports of intermediate goods and capital goods by multinational companies, the capital account will also deteriorate due to remittances of profits, royalties, interest yields, management fees and funds – other funds to the country of origin. If the inflow of capital is uncontrolled and cannot be absorbed evenly by the economy as a whole, it will have an impact on weakening export competitiveness due to the trend towards exchange rate appreciation that exceeds fundamental conditions and is supported by positive interest rate differences. In certain cases, foreign investment can be referred to as a complement to domestic investment.

Another negative impact is the reduction of productive land. Areas or areas that should be used for agricultural land become depleted because too much is used to build factories. This is, of course, related to the reduced workforce in agriculture. The more labor that enters the industrial sector, the less agricultural workforce. If no one else works in the agricultural sector, the land owner will tend to allocate land for industrial purposes.

The existence of excessive natural resource exploration is another negative impact of foreign investment in Indonesia, this is because some foreign companies overuse natural resources. As a result, Indonesia's natural resources are depleted or damaged. The government is also considered to need to consider the profit and loss factors carefully because some foreign investors provide greater profits to investors with more business results brought to their country and selling Indonesian natural products more expensively to native Indonesians.

Closing

Conclusion

The conclusion that the author can convey here is that with the various kinds of foreign investment that have been running in Indonesia, the regulations described above are considered to be able to complement each other in carrying out their functions to participate in advancing the economy in Indonesia. Regardless of the pros and cons, foreign investment is really needed, especially in developing countries like Indonesia.

Suggestion

The government as the policy holder feels the need to reduce or at least offset the negative impacts caused by foreign investment in Indonesia by updating laws or making regulations that pay more attention to aspects aspects related to natural resources, the environment, human resources and the agricultural sector that are deemed necessary to advance simultaneously with the rapid development of foreign investment in Indonesia, because the Indonesian nation must retain its identity as a country cultured agrarian so that it is not completely controlled by investors and starts slowly to rise up and be more independent at least from an economic perspective

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