

Indonesia Tourism In Attracting Foreign Investors: The Role Of FDI

Nur Latifa Isnaini Putri, Sudaryanto

Abstract: Foreign direct investment (FDI) is widening its wings in developing countries, one of which is Indonesia. Developing countries are considered as areas that still need a lot of polish to be used as investment fields, so this phenomenon is considered as a golden opportunity for investors. In addition, Indonesia as the rich country in natural resources can easily knock the hearts of investors to invest in the country. This article aims to analyze the role of FDI in various sectors of Indonesia, using literature studies. The results show that FDI is able to improve the tourism sector in Indonesia, spurring Indonesia to create differentiation that has an appeal especially in the field of tourism, FDI able to improve local products and can reduce unemployment.

Index Terms: Competitiveness, Country, FDI, Global Marketing, Job Creation, MSMEs, Tourism

1 INTRODUCTION

Capital owners around the world continues to look at Indonesia as one of the potential countries for investment. Lin (2004) stated that the continuous flow of technology and industry innovation are the keys to the sustainability of a country's economic growth. Lin (2004) also asserted that developing countries have the advantage of backwardness when they borrow technology from developed countries. Indonesia's potential that is now become a trend worldwide is the tourism sector. Indonesia is increasingly showing its valor in this sector. Many of Indonesia's recent awards come from tourism sector. However, any country that develops the tourism sector can not be separated from other countries or the international world so it requires an organization that can serve as cooperation, dissemination of information about the existing tourism in the country. By cooperation between countries on a bilateral or multilateral basis, it can increase the number of tourist visits and facilitate the flow of tourists. Each country is obliged to fix infrastructure facilities and human resources to develop tourism promotion sector. Every year, Indonesia's tourism performance is rising as Every year, Indonesia's tourism performance is rising as some other commodities, such as oil, gas, coal, and palm oil continue to decline. The most immediate impact in the major tourism sector is with the increasing number of lodging, restaurants, transportation, entertainment, and retail trade. The tourism industry is a collection of tourism businesses which are inter-related in order to produce goods and / services for the needs of tourists in the implementation of tourism (Tourism Act No. 10 of 2009). In 2019, the Government targets Indonesia's tourism to be the best destination in the region and able to surpass ASEAN.

Khumaedy (2017) stated that the steps to become a world-class tourism destination have been conducted, among others, through country branding "Wonderful Indonesia" which sped over 100th rank to 47th rank over country branding "Truly Asia Malaysia" (96th rank) and country branding "Amazing Thailand" (83rd rank). This shows that Indonesia has the potential to be developed into world-class tourist destination. Below is the statistical data showing an increasing trend of foreign tourists of Indonesia from the period 2016-2017:

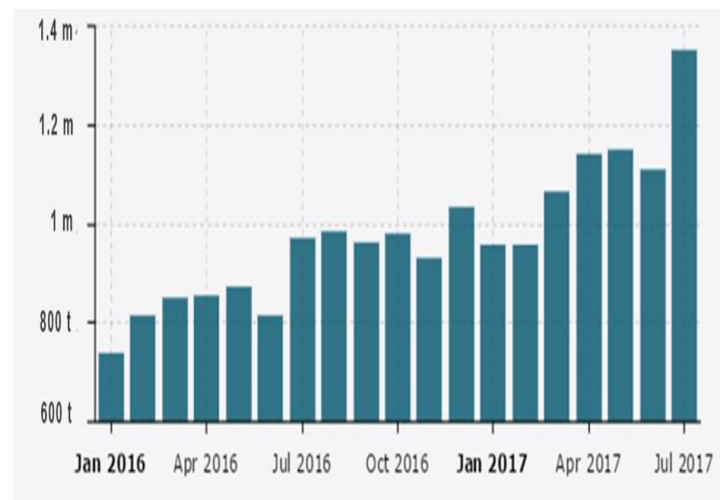


Figure 1. Number of foreign tourist visits to Indonesia (Jan 2016-Juli 2017)

Source: databoks.katadata.co.id

The Increasing number of foreign tourists in Indonesia is certainly closely related to the cooperation that has been done by Indonesia with several other countries in the improvement of the tourism sector. So in this literature study, the authors will discuss the forms of Indonesia's cooperation with several countries in improving the tourism sector, as well as what things should be considered in international cooperation for each country.

2 LITERATURE REVIEW

The Concept of Foreign Direct Investment

Foreign Direct Investment (FDI) is the ownership and control

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of assets, some of which are the reasons why a country should make foreign direct investment is the desire to grow, derivative demand, government incentives, competitive advantage, risk reduction, economies of scale, market exploitation and exchange rate fluctuations currency (Simamora, 2000: 422). Narula and Dunning (2000) mentioned four motives for foreign investment: searching for natural resources, seeking new markets, restructuring existing foreign production, and seeking new strategic assets. The purpose of each FDI is not the same, the investor company is moved by the variety of reasons to invest overseas. They have different decision-making processes and priorities when choosing an investment location. Reilly (2003:5) stated that investment is a one-dollar commitment in a given period, which will be able to meet future investor needs by: (1) the time the funds will be used, (2) the inflation rate, (3)) the uncertainty of future economic conditions. In short, FDI has a positive impact on economic growth. Tomohara (2017) found that FDI will increase in line with the increasing number of incoming foreign tourists. Therefore, a country must be able to manage its spatial appeal. Economic development is expected if tourism actively promotes FDI to the tourism industry (Tang et al., 2007; Katmanduoglu, 2011; Selvanathan et al., 2012; Samimi et al., 2013) and creates employment through the expansion of tourism infrastructure, such as accommodation, restaurants , and the transportation sector. Wang and Kafouros (2009) argue that the positive impact of FDI depends on the level of technological progress, economic stability, public funding, degree of openness and quantity of human resources. Tuan, Ng, & Zhao (2009) in his research on China's economic growth stated that: "FDI not only serves as a capital injection to the domestic market but also plays a central role for technological spillover and advancement of managerial skills. FDI is believed to be embedded with new technologies and know-how not available in the host countries and could also accelerate the speed of the adoption of technology as well as improve production efficiency in the host countries." The description explains that the role of FDI to host country is not only fund injection case, but also advance the managerial skills of a country, exchange information and knowledge, and accelerate the development of technology-based productivity. Foreign direct investment is the leading growth force for every developing country (Tuluca & Dogan, 2014). Oura, Zilber, & Lopes (2015) in his research view FDI as an opportunity to innovate and FDI promotion is expected to function as a vehicle for sustainable development (Tomohara, 2017).

Tourism Sector of Indonesia

The tourism industry is a collection of tourism businesses which are inter-related in order to produce goods and services for the needs of tourists in the implementation of tourism (Tourism Act No. 10 of 2009). The development of this tourism sector has the full support of the government because it is considered as a strategic sector and a medium of integration of programs and activities between sectors of development, so that tourism is very reasonable if it is established to be a development leader. One of the Secretary of the Cabinet of the Republic of Indonesia (in setkab.go.id) stated that the steps to become a world-class tourism destination has been implemented, among others through country branding "Wonderful Indonesia" which shot over 100th rank to 47th rank over country branding "Truly Asia Malaysia" (96th rank) and country branding "Amazing Thailand" (83rd rank). This

shows that Indonesia has the potential to be developed into world-class tourist destination. Rai Utama (2017: 23) refers to the opinion of Middleton who argued that there are five elements that must be involved together in tourism marketing, among others: the elements of market demand, travel organizer elements, destination organizers, product supply, and physical elements of accessibility. These five elements are often referred to as integrated tourism destinations products. Rai Utama (2017: 2) also stated that tourism is an activity that aims to organize tourism services, providing or cultivating objects and tourist attraction, business tourism facilities and other related businesses in the field. Tourism is an activity, service, and product of tourism industry that can create travel experience for tourists (Argiarini, 2017: 5). Tourism is one of the 5 (five) priority sectors of 2017 development, namely food, energy, maritime, tourism, industrial area and Special Economic Zone (SEZ), as stated in RKP 2017.

3 RESEARCH METHOD

This study used descriptive qualitative analysis design with literature study method. The literature study was written by looking for reference theory which is relevant to the case under study. This study was written based on conducted previous studies sourced from relevant research journals and supporting textbooks. This study used secondary data sourced from books, internet, and previous research reports. Below is a conceptual framework of flow of thought in writing this study:

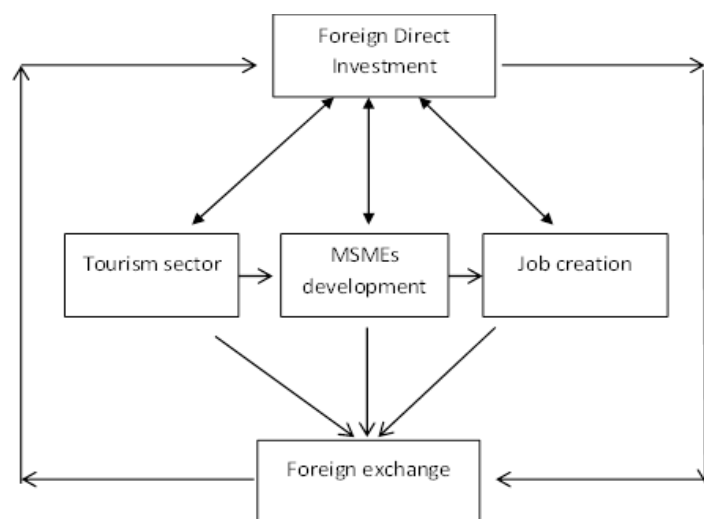


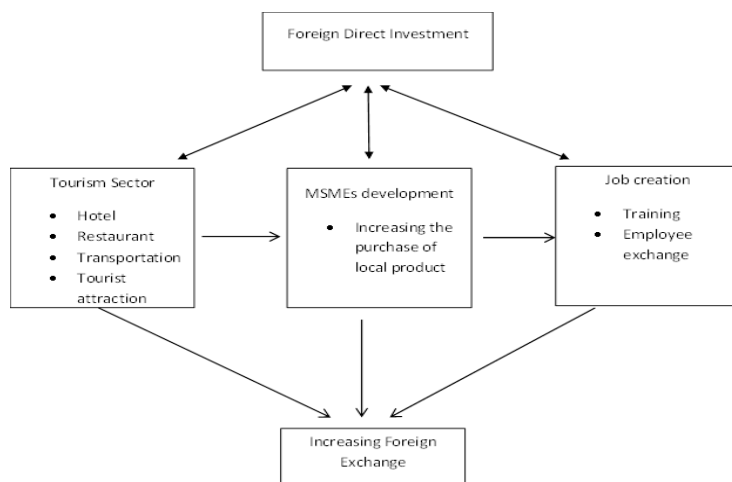
Figure 2. Conceptual Framework

The picture above explains that FDI contributes in various sectors, one of them is tourism sector. Tomohara (2017) stated that the tourism sector is able to increase trade and investment. The number of investors, especially foreign investors who glance at the tourism sector in Indonesia to give encouragement to the government to further improve the sector to be better, one of them is by doing nation branding. The existence of a unique attraction is expected to attract millions of foreign tourists coming to Indonesia so that local products can be improved. Tuluca and Dogan (2014) stated that an increase in FDI can generate positive spillovers for domestic firms in host countries. This spillover effect develops through the creation of relationships with foreign and domestic companies that become suppliers or customers, or through the movement of experienced workers from foreign companies to

local companies (Tuluca and Dogan, 2014). According to Javorcik (2004), spillovers from FDI occur when the presence of multinational companies increases the productivity of domestic firms in host countries and multinational companies do not fully internalize the value of these gains. The increase of local products is expected to reduce unemployment in Indonesia. This may occur through the movement of workers when employees of trained foreign companies create their own companies or absorb employment in domestic companies (Fosfuri, Motta and Ronde 2001; Glass and Saggi 2002; Görgand Strobl, 2005).

4 RESULT AND DISCUSSION

Global tourism is a sector that is immune to the financial crisis (Santos, Brochado, and Esperanca: 2016). A country should be able to package its tourism sector well to invite tourists. In addition, promotion and investment must work effectively in order for tourism to be comprehensively evaluated (Tomohara, 2017). The tourism industry provides an opportunity for the home country to widely enrich its local products (Tuluca and Dogan 2014; Lavado, Herranz, Gonzalez 2017). Local products through small and medium enterprises are the backbone of the country. Micro, small, and medium enterprises (MSMEs) play an important role in economic and social development in emerging markets and their role needs to be further strengthened due to their contribution to equity growth and job creation (Anand, 2015).



5. CONCLUSION

This literature study discussed that FDI as one of the keys to the progress of a country. FDI provides wider opportunities in expanding market share (Noorbakhsh & Paloni 2001; Lavado, herranz, and Gonzalez 2017). These opportunities include the advancement of science and technology such as foreign scholarships, student exchange, information technology exchange, research contributions, worker contributions, and others. FDI also leads to technological improvements and income generation that can affect sustainability issues through increased capital and human resource competition, by stimulating innovation in the same sector companies (Lemoine and Kesenci, 2004; Vahter, 2010; Kneller and Pisu, 2007). The development of science and technology and the help of foreign workers should be able to improve the capability of a company, both goods and services. Santos, Brochado, & Esperanca (2016) asserted the need to exploit the competitive

advantage possessed by a company, so that the competitiveness will be more honed. The state must be able to open itself wide to foreign investors, but also must remain firm and careful in determining the policy. The progress of the tourism sector in Indonesia is predicted to further make foreign investors interested. This is in line with government plans to make the tourism sector as the leading of Indonesia's development. As a recommendation, the authors hope that although Indonesia is progressing in various sectors, Indonesia should keep opening the door wide for anyone who will be an investor, whether local or foreign investor. Indonesia with all natural resources is predicted to continue to increase in various sectors, especially the tourism sector which recently the government has agreed to make it as the leading development. Human resources owned by Indonesia must be improved in order to upgrade competitiveness with foreign workers entering Indonesia.

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