Analysis Of Supporting Factors On Foreign Direct Investment And Its Impact Toward Indonesian Employment And Export Performance Period: 2005-2015

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Abstract: This research analyzes effects of foreign direct investment and Its Impact toward employment and export performance in Indonesia 2005-2015. This research with secondary data focuses on the Supporting factors in which attract foreign direct investment into Indonesia. This research focused on the problem; *First*; the impact of labor, export results, economic growth rate, exchange rate, inflation rate, interest rate, and tax toward foreign direct investment, *second*; the impact of foreign direct investment on the expansion of employment and export performance in Indonesia during the period 2005-2015. The result of this research explains that variables of human resources(labor) and export performance give positive effect as significantly to attracting foreign direct investment in Indonesia. While foreign direct investment in Indonesia gives positive effect to employment creation and to export performance.

Index Terms: Investment, FDI, Employment, Export performance, Human Resources, Indonesia.

1 INTRODUCTION

Based on economics literature, Foreign investment generally divided into two categories, namely; Foreign Direct Investment (FDI) and Portfolio Investment (PI). Concerning the writing of the results of this study focusing on foreign direct investment then for the next will be used the term FDI. As matter of fact, Since 1970 – up to currently, FDI is one of the important capital sources for Indonesia's economic growth. It can be known over the government regulation such; the law issued by New Order government on Foreign Investment Act in 1967 which in essence the government encourages the entry of FDI into Indonesia. Then followed by Government Regulation No. PP/20/1994 stating FDI is allowed for all business field types. This government regulation also permits foreign investors to own the companies they founded in Indonesia. In addition, foreign investors are allowed to invest up to 95 percent of their capital to a company already established in Indonesia. Over time after the crisis era of 1998, the government in the reform era has found it difficult to keep move in the real sector, although in the financial sector or macro economic sector seems to be successful. This is characterized by increased economic growth, stable exchange rate, controlled inflation rate, large relative stocks, upbeat JCI (Jakarta Composite Index), and so on. considering that the government's finances are still in difficulty reflected by the deficit in the state budget. of course, the government needs more capital source of to boost the real sector. dealing with this, the capital source to move the real sector (encouraging investment or production) is largely expected to come either from private national investment or private foreign investment.

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Realizing the plan, the government will give a certain priority to foreign investors to invest their capital in the industries that can boost economic growth, boost exports, expand employment, introduce new technologies, increase labor productivity, and boost innovations. Furthermore, the government would provide tax incentives to foreign investors, especially those who invest their capital in Eastern Indonesia. as stated In some economics literature on FDI, besides tax incentives several other factors can support the entry of FDI into a country. These factors are grouped into noneconomic factors and economic factors. Non-economic factors include politics, security, and legal certainty. Economic factors include national income factor, international trade balance, inflation rate, interest rate, exchange rate, total banking credit, infrastructure condition, and country risk.

2 LITERATURE REVIEW

Economists, especially those concerning on investment studies and international capital movements in their discussion distinguish the definition of foreign into two categories, namely; direct investment (FDI) and portfolio investment. Furthermore, according to Hymer (1976), the difference of FDI with portfolio investment just in terms of managerial control of a company. According to him, if investors directly control the management of a company the investment is called FDI. whereas, if the investors do not control the investment, then called portfolio investment. In addition, Ragazzi (1973) states that FDI is managed by a company that produces goods or services on an international scale. While portfolio investment is managed in general by individuals. In practice, these individuals invested in securities and bank deposits. Kobrin and Lessard (1990), states that FDI is an investment when the company is moved from one country (home country) to another country (host country) and its displacement is characterized by the transfer of management, technology and marketing expertise that is not available on the market in the Host country. As for portfolio investments, Kobrin and Lessard further stated that portfolio investment is the transfer of investment in which the money market destination in the host country, with the motivation to gain profit in the money market (return) and reduce the level of investment risk. Some FDI theories, like what; Jorgenson (1971) states that in general the basic theory used to analyze the supporting factors (determinants) of FDI is the theory of domestic investment, which is divided into several groups as follows, namely; Neo-classical theory for profit maximization model, theory for investment acceleration model, theory for liquidity model, and theory for growth maximization model. In addition, Jorgenson states that the supporting factors increased investment are the real output, internal funds, and funds from external companies. The neo-classical theory for the profit maximization model explains how the company (investor) maximizes the present value better than the expected income for the future. This model explains that there is an opportunity for investors to increase their capital during investment activities (Horst, T: 1972). In another word, The theory for the accelerated and flexible model of investment acceleration is put forward by Chenery and Koyck. According to Jorgenson (1971), this theory focuses on the discussion of the time structure of the investment process. Furthermore, it is explained that the output factor is the main supporting factor of the investment. This theory also explains that internal funds, as well as external funds, can be used as independent variables. Based on this theory, Bandera and White, Scaperlanda and Mauer, and Kolhagen apply this theory to FDI flows, which states that output reflects the size of a market variable of the host country. This variable can be used as a factor that supports the entry of FDI (Steven, 1974). The concept of market size is expressed as the economic capacity of a country, in this case, can be represented by the variable of gross domestic product (GDP). The theory relating to the liquidity model refers to a statement brought by Mogdiliani and Miller (1968), namely that the financing for the FDI model is independent of the financial structure of the company in the home country. In this case, the investor can utilize the available funding sources in the host country. The implication, the capital cost used in host country does not come from changes in the parent company's financial structure, but from changes in interest rates in both host country and internationally. The Theories that support the maximization growth model make it clear that investors see the economic performance indicators of a host country are motivating to increase their capital flows for maximum profit. Furthermore, with the addition of capital flow and maximum profit will encourage the growth of the company. This growth is in the field of production, employment, and product market share (Steven, 1972). Some of the previous research results, among others, research done are by Gaster (1992) which found the result if a country accepts FDI or as the host country for the FDI, then the country has a strategy that refers to at least two basic goals. These targets include how to attract FDI and how this incoming FDI maximises long-term benefits to host country economic development. In the first strategy, the focus of his research analysis on the factors that support (the variables that have a positive effect) on the entry of FDI to host country. Furthermore, in the second strategy the focus of his research analysis to the impact (influence) of FDI's existence on host country economic development. Discussing the supporting Factors of the FDI entry, based on the results of the empirical study on the entry of FDI into a country has been more concerned with the flexible accelerator of investment model. In principle, this model analyzes aggregate investments in a country in relation to the factors driving economic growth in the related country. A study by Scaperlanda and Mauer (1979), suggests three hypotheses for research on the entry of FDI from the United States into countries that are members of the European Economic Cooperation. The three hypotheses are: First; The size of market hypothesis which is measured by the size of the Gross National Product (GNP) in the host country. Second; Hypothesis of economic growth in the host country. Third; The cost of discrimination hypothesis. The results of Scaperlanda and Mauer study found that the first hypothesis was significant in increasing the inclusion of FDI from the United States (USA)to countries that joined the European Economic Cooperation. Whereas, for the second and third hypothesis the results show no significances. A study by Leftwich (1983) found the supporting results of research done by Scaperlanda and Mauer (1979), as noted earlier, namely, that the size of the market significantly supports the entry of FDI into a country. Further studies from Boatwright and Renton (1985), the results show that the exchange rate index significantly increases the inclusion of FDI from the USA to Canada. The study done by Fry (1998) shows that independent variables affecting FDI are GDP, GNI, domestic credit, real interest rate, the term of trade, total consumption, and exchange rate. this study used structural equations method, whereas, for Two Stage Least Square this study used estimation method. The results show that real GDP, real interest rates, and exchange rates are independent variables that statistically significantly increase the inclusion of FDI from the USA, Canada, and Western Europe to developing countries. According to Kotler and Kertajaya (2000) by studying the state of Singapore, states that the entry of FDI (MNC) to this country due to social and economic advantages owned by the country. Social benefits include strategic business locations, conducive country security, definite law enforcement, and a highly disciplined workforce. While, the economic excellence includes excellent infrastructure, excellent service sector development, and high per capita income. Tong (2002) argues that factors driving FDI inflows to Singapore are a factor of sustainable economic development and business development that have a high competitive advantage. Sustainable economic development is represented by the steady increase in per capita income of the population of Singapore, then high-quality human resources represent the development of businesses that have high competitive advantages, low wages or skilled or unskilled labor. Dunning (2004) argues that high-quality business infrastructure factors, as well as quality and efficient government service performance, are important factors in attracting FDI to a country. Why? Because both of these factors are identified as MNC satisfies in the concerned country. Based on the previous research statements above, A tentative conclusion on factors or variables that positively influence the entry of FDI into a country is a host country factor or variable such as; National income that can be represented (proxy) by total GNP. GDP as well as GDP growth, interest rate, exchange rate, infrastructure condition, and human resource capability. Empirical models to analyze the impact of FDI on host country economies, generally focus on the influence of FDI on economic growth, per capita GDP growth, employment expansion, and host country's export performance. Caves (1984) conducted a study on the influence of FDI's contribution to labor productivity in Canada. The results showed that the contribution of FDI gives a positive and significant effect on labor productivity. Meanwhile, Haddad and Harrison (1994) with Marrocco country case, the results of this research support the results of research conducted by Caves, namely FDI manufacturing sector in Marrocco encourage increased labor productivity. Furthermore, according to Jain (2001), since 1990 FDI is a provider of capital and at the same time contributing to host country in improving science, increasing technological capability, improving expertise, and creating a global business network. In addition, Jain states that the success of FDI in a country opens the opportunities for distributors and local companies in working together with MNC. That way, national income will increase as well as expand employment. A tentative conclusion from previous research on the analysis of the influence of FDI on a host country economy as described above shows that FDI positively affects national income (proxied by total GDP, GDP growth, and GDP per capita), then on expansion Work or growth in labor productivity, technological advances in host country industries, and export results in host country. Based on all the statement above, the writer line up the problem scope in this study, namely; First; The FDI to be analyzed is FDI in the manufacturing industry sector. As is known, in Indonesia FDI spreads to the many kinds of sectors, such as; processing industry, mining industry, and service industries. The form of business operations rather than FDI is Multinational Corporations (MNCs). In Indonesia, the form of FDI or MNCs activities is identified as Foreign Investment (PMA). Second; The problem to be analyzed is limited to the problem of factors that support or positively affect the entry of FDI into Indonesia during 2005-2015. In addition, it will also be discussed in this research the problem of impact (influence) of FDI on the expansion of employment and export results in Indonesia during the period 2005-2015. the problem Formulation in this study, that is; First; Do such factors; Labor (HR), export results, economic growth rate, exchange rate, inflation rate, interest rate, as well as tax revenue had positively affected the entry of FDI into Indonesia. Thus, these factors can be expressed as supporting factors the entry of FDI into Indonesia during the period 2005-2015. Second; How the impact or influence of FDI on the addition of employment and export performance in Indonesia during the period 2005-2015. This research proposed to analyze as well as to know the impact or the influence of factors that are considered to support the entry of FDI into Indonesia during the period 2005-2015, and the impact or influence of FDI on the national income, the addition of employment and the Indonesia export during the period of 2005-2015. The results of this study are expected to be useful as an input to the government in establishing foreign direct investment policy and can be used as a reference for further research in the field of foreign direct investment.

3 RESEARCH MODEL And DATA

This research was conducted in various institutions related to the availability of data in accordance with the limitation and scope. These institutions, such as Central Bureau of Statistics (BPS), Investment Coordinating Board (BKPM), Bank Indonesia (BI), International Monetary Fund Representative Office and World Bank in Jakarta, Directorate of Taxes Ministry of Finance, Ministry of Manpower, Trade-Industries Room of Indonesia (KADIN), and several other agencies. Thus, these institutions are secondary data sources used in this study. Models are usually manifested in terms of equations. The function of the model is to simplify the problem to be examined through the determination of dependent variable and independent variable. In addition, the model can be used as a tool to estimate the variables to be studied. To encourage the analysis and variables estimation in this research, a structural equation system was established. This equation, drawn up in its consideration refers to the formulation of problems, research objectives, theories and earlier studies relating to the research topic as described above. The equations for the research to be carried out are structured as follows:

Equations I : Analysis of factors supporting FDI into Indonesia In 2005-2015.
FDI = f(SDM, Xi, gPDB, rI, IHK, Exchrate)

Equations II : Analysis of the impact of FDI existence and other factors toward employment in Indonesia, Period 2005-2015.
SDM = f(FDI, , rI, IHK,)

Equations III : Analysis of the impact of FDI Existence and Other Factors toward export performance in Indonesia, period 2005-2015.
Xi = f(FDI, rI, Exch Rate)

From these three equations, they are endogenous variables, namely; FDI (Total Foreign Direct Investment), Human Resources (Number of D3-S1 Graduates), and Xi (Indonesian Export Results). Furthermore, as an exogenous variable, is gPDB (economic growth), rI (Investment Interest Rate), IHK (Consumer Price Index), and Exchrate (Rupiah Exchange Rate to US Dollar). The endogenous variable is the variable that is its size is determined by the variables in the system of equations. Meanwhile, the exogenous variable is a variable that its size is determined by variables outside the system of equations. The above structural equations will be estimated by the Two Stage Least Squares (TSLS) procedure. based on the variable instrument system as described by Intriligator (1978) and Kalejian (1981) which state that the use of TSLS procedure can be performed if each equation shows that the exogenous variable (K2) is equal to the endogenous variable (K1) or K2 is greater than K1. Thus, in equations, I, II, and III show that K2 is greater than K1. Therefore, the estimation to be carried out in this study qualifies using the TSLS procedure.

4 RESULT and DISCUSSION

The results based on estimation model and TSLS regression statistic as mentioned earlier are:

Equation I: FDI = 0.302 + 0.204 SDM + 0.720Xi + 2.430gPDB + 0.006 rI

(2.870)* (1.278) (3.648)* (0.890)
- 0.820 IHK + 0.640 Exchrate
(1.242) (1.926)

Equation II : SDM = 0.736 + 0.420 FDI – 0.272rI – 0.342 IHK
(2.890)* (1.420) (1.262)

Equation III : Xi = 0.928 + 0.562 FDI – 0.256 rI + 0.326 Exchrate
(3.820)* (1.272) (0.920)

The number in parentheses is the magnitude of t-count, whereas the sign * shows significant independent variables in influencing the dependent variable at 95% confidence level. The results in the equation I show that the labor variable (Human Resources), and economic growth (gPDB) significantly has positive influences to the FDI influx. The results of this study, the analysis shows that the increase in human resources in terms of quantity and quality will encourage the entry of FDI. This is in accordance with the theory put forward by Dunning (1973) and Tong (2002). That is, concerning the existence of locational advantage factor owned by a country (host country) related to the entry of FDI to a country. It can be said that foreign investors classified as part of FDI still consider relatively low wage rates and skilled labor in making their investment decision in the host country. Concerning The independent variable of economic growth (gPDB) positively influences the FDI influx into Indonesia is in accordance with the results of research proposed by Scaperlanda and Mauer (1979) which states that economic growth can be proxied as the market growth of a country. Thus, foreign investors implementing FDI consider this as a positive for their investment in the host country. In another side, In the result of equation II estimation, the discussion shows that the increasing flow of FDI to host country has a positive effect on the expansion of employment. These results support the results of research conducted by Caves (1984) and Haddad (1994). Thus, FDI operating in Indonesia has a labor intensive tendency. Therefore, the expansion of employment and the decreasing unemployment rate, for the currently, Indonesia still depending on the increase of FDI inflows. Furthermore, for the estimation of equation III, the increase of FDI inflows to Indonesia has a positive effect on export results. Thus, it can be stated that the presence of FDI in Indonesia has encouraged the increase of Indonesian exports during the period 2015-2015. Indirectly it can be stated, there is a tendency that FDI in Indonesia during the observation period focuses more on its products for export markets. In other words, FDI in Indonesia tends to apply export market orientation strategy. The results of statistical calculations based on the simultaneous equations give an indication that the variable of labor (HR) has a positive impact on the influx of FDI significantly. However, the export of Indonesia (Xi) did not have a positive impact on the significant influx of FDI to Indonesia. Meanwhile, from the analysis of the impact of FDI in Indonesia on labor and export results, explains that the presence of FDI in Indonesia has a positive effect on labor, as well as on export results.

5 CONCLUSION

Foreign Direct Investment (FDI) is one of the important sources of capital in driving the economic growth in Indonesia as well as in developing countries in general. theoretically, FDI is the transfer of capital from a country (home country) to other countries (host country) in the form of an industrial establishment or the opening of production activities. In this study used simultaneous equations with TSLS procedure. The results showed that the independent variable of labor (HR) in Indonesia has a positive and significant effect on the increase of FDI inflows to Indonesia. Likewise for the independent variables of economic growth, also have a positive and significant effect on the increased inflows of FDI into Indonesia. However, Indonesia's export results have no significant effect on the influx of FDI into Indonesia. The results of research related to the impact of FDI presence in Indonesia indicate that the increase of FDI in Indonesia gives a positive impact on the expansion of employment as well as on the export results of Indonesia.

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