Impact Of Foreign Direct Investment On The Effectiveness Of Economic Development

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Abstract:Foreign direct investment activities, which enter into a country must bring various impacts and benefits. In order to find out the impact and level of benefits brought by investors, it is necessary to control a capital investment activity. This form of control is stated in principles and in the form of policy. The impact of investment activities mandated in the Law of the Republic of Indonesia No. 25 of 2007 concerning investment is actually reflected in the Basic Investment Policy, which states that (i) provides equal treatment for domestic investors and foreign investors while taking into account national interests; (ii) guarantee legal certainty, business certainty, and business security for investors from the process of obtaining licenses to the expiration of investment activities in accordance with the provisions of the legislation; and (ii) opening opportunities for development and providing protection to "micro, small, medium and cooperative businesses" (MSMEs) as people's economic businesses. Therefore, the Indonesian Government needs to encourage FDI activities to realize the structure of a people's economy by involving MSMEs which in turn can create a just and prosperous society. Thus, to ensure the mandate of Law No. 25 of 2007 in the framework of populist economic empowerment, it is necessary to establish an institution that provides recommendations on every application for foreign investment that can involve the role and community participation of MSME-scale national actors.

Index Terms:Direct Foreign Investment, MSMEs, Democratic Economy.

1 INTRODUCTION

FOREIGN investment activities in a country are transfers of tangible and intangible assets from one country to another with the aim of being used in a country in order to improve welfare under the control of both the whole and part of the asset owner. There can be no doubt that the transfer of physical property as equipment, or physical assets that are bought or built such as plantations or production plants is direct foreign investment (Sornarajah, 2010). Physical control can be interpreted as having full control over business activities carried out by capital owners. Judging from the broad sense of foreign investment, investment is basically divided into two forms, namely indirect investment (or referred to as foreign portfolio investment or foreign portfolio investment) (Weigel, 1997) and direct investment (Foreign Direct Investment or FDI). The thing that needs to be added is that both forms of investment are forms of foreign investment (foreign investment) (Weigel, 1997) However, the IMF defines foreign investment as a direct investment (Weigel, 1997) when an investor has 10 (ten) percent or more ownership of a company (Patterson, et al., 2004) So that it can be concluded, that often when discussing foreign investment then the referred or referred to is direct investment, not indirect investment. The definition of direct foreign investment or Foreign Direct Investment (FDI) involves the transfer of tangible and intangible assets from one country to another with the aim of being used in the destination country to generate profits based on overall or partially asset ownership control (Sornarajah, 2010).

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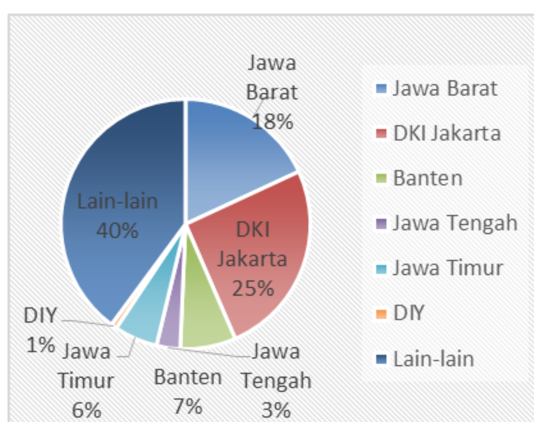
In a study made by Maitena Duce and Banco de Espana, it was mentioned the definition of direct foreign investment, which is an investment category that crosses a country's borders carried out by residents in a country (referred to as direct investors), with the aim of to create a lasting interest in the population in the company invested (Duce & Espana, 2003) This understanding is also in line with the definition set forth in the OECD Benchmark in 2007, (OECD Benchmark Definition of Foreign Investment (Draft) 4th Edition, DAF/INV/STAT (2006)2/REV. 3, 2007.) and the definition set forth in the 2007 World Investment Report (World Investment Report 2007: Transnational Corporations, Extractive Industries and Development, 2007, p. 245.) The definition of FDI can be found in the laws and regulations in Indonesia, namely in the Law of the Republic of Indonesia No. 25 of 2007 concerning Investment ("Law No. 25 of 2007"), Article 1 number 3 states that foreign investment is an activity of investing to do business in the territory of the Republic of Indonesia carried out by foreign investors, both those using foreign capital fully or in combination with domestic investors. "Article 2 and the explanation of the investment law describe direct investment terms, namely investment activities in all sectors in the territory of the Republic of Indonesia, and do not include direct investment or portfolio. The legal system in all countries, both implicitly and explicitly, faces 2 (two) basic problems related to international investment. Jeswald W. Salacuse (2013, p 3) States that “All national legal systems implicitly or explicitly address two fundamental issues with respect to international investment: (i) the extent to which foreign capital in its various forms is permitted to enter and exit national territory, and (ii) the treatment to be given to foreign capital once it enters national territory. The content of national laws and regulations on these two issuesis shaped by the interests, attitude, and ideologies of countries’ governing authorities. At any particular time, governmental positions on questions relating to the entry, exit, and treatment of international investment are in turn influenced by domestic interest groups, such as labour unions and business association, as well as by external forces such as diplomatic pressure from allies and from international institutions like the International Monetary Fund and the World Bank.” Based on the description above, the establishment of provisions or regulations on investment law in the national law of each country is of course based on the interests, behavior and ideology of the country concerned. In this regard, the legislation in the field of investment in force in Indonesia is based on the mandate of the constitution outlined in Article 33 of the 1945 Constitution of the Republic of Indonesia ("1945 Constitution of the Republic of Indonesia"), which underlies the formation of all laws and regulations in the field of managing the national economy. In connection with national economic development, TAP MPR No. XVI/MPR/1998 concerning Economic Politics in the Context of Economic Democracy requires the existence of a link between economic development and populist economic actors. The involvement of economic development with populist economic actors in Law No. 25 of 2007 is part of the fulfillment of the principle of togetherness, namely the principle that encourages the role of all investors together in their business activities to realize people's welfare and "sustainable principles", namely principles that planned to pursue the development process through investment to guarantee welfare and progress in all aspects of life, both today and in the future. The two principles used in investment activities are in principle in line with the principles of sustainable development objectives as stipulated in Presidential Regulation No. 59 of 2017 on July 4, 2017 ("Perpres No. 59 of 2017"), as the participation of the Indonesian State in achieving sustainable development goals as stated in the document Transforming Our World: The 2030 Agenda for Sustainable Development. However, the regulation of investment policy cannot be separated from the relationship with the global economy and Indonesia's participation in various international collaborations to create a conducive investment climate. Therefore, in foreign investment activities, at least it involves 2 (two) parties, namely Investors and Capital Recipient Countries. In the opinion of Tullio Treves, the recipient country is concerned that investors, because of their power to bring capital and know-how, impose a condition that is economically unfair and endanger the freedom to pursue economic, profit, social or environmental policies. Meanwhile, investors are concerned that the recipient of capital will take advantage of the power as a sovereign country where the investment is made to nationalize or take over investment activities carried out by investors in the recipient country or limit any profits derived from these investment activities . These concerns can influence the policies that will be taken by the recipient country in regulating the investment law that will be applied to investors, and of course it will also have an impact on the investor's decision to carry out investment activities in the country (Treves et al., 2014) As an effort to accelerate national development and realize Indonesia's political and economic sovereignty, the Government then enacted Law No. 25 of 2007. This law revokes the Law of the Republic of Indonesia No. 1 of 1967 and Law of the Republic of Indonesia No. 6 of 1968. Thus the investment policy and implementation regulations further refer to the basic principles and policies as stipulated in Law No. 25 of 2007. The purpose of investment activities is based on Law No. 25 of 2007, among others, is to increase national economic growth, improve sustainable economic development, process potential economies into the strength of the real economy by using funds originating from both domestic and foreign. The Government's efforts to protect national interests in direct foreign investment activities were carried out by issuing a Presidential Regulation of the Republic of Indonesia No. 76 of 2007 concerning Criteria and Requirements for Preparation of Closed Business Fields and Business Fields Open with Requirements in the Field of Investment ("Perpres No. 76 of 2007"). Presidential Regulation No. 76 of 2007 became the basis for the preparation of certain criteria in terms of investment requirements that are open to investment, namely: Protection and development of Micro, Small, Medium Enterprises and Cooperatives (MSMEs);Partnership requirements; Requirements for capital ownership; Specific location requirements; and Special licensing requirements. As a follow-up to regulating foreign capital, the Government then issues a list of closed business fields and open business fields with requirements in the field of investment ("Negative Investment List" or "DNI"), which currently applies to Presidential Regulation No. 44 of 2016 concerning List of Closed Business Fields and Business Fields Open with Requirements in the Investment Sector, dated 12 May 2016 ("Perpres No. 44 of 2016"). Presidential Regulation No. 44 of 2016 is then being evaluated and changes will be made by the Government of Indonesia by opening several requirements for foreign capital activities as announced through the XVI Economic Policy Package on 16 November 2018. The list of closed business fields and business fields that are open to the requirements are indeed regularly evaluated and refined according to economic development and national interests based on studies, findings and investment proposals. The DNI policy carried out by the government is basically to attract foreign capital to invest in Indonesia and encourage the participation of all investors together in their business activities to realize people's welfare and prioritize the potential of the nation and state by not closing themselves to the entry of foreign capital for the realization economic growth. Both of these, in accordance with the "principle of togetherness" and "principle of independence" adopted in the investment law. Therefore in the implementation of these two principles, the implementation of FDI should be used to encourage the development of populist economy and the development of regional potential. However, the realization of FDI was the most on the island of Java which consisted of 13,544 projects or reached 71.32%. The rest is outside Java, which only reached 5,446 projects or 28.68%. Whereas the projects located on the island of Java have the largest spread in (i) DKI Jakarta amounting to 42.20% or 5,716 projects; (ii) West Java at 30.09% or 4,076 projects; and (iii) Banten in the amount of 11.99% or 1,624 projects.

TABLE 1 *LOCATION-BASED FDI (JANUARY - SEPTEMBER 2018)*



Source: BKPM dataThe above proves that the growth of FDI in the above period is not spread evenly. One of the objectives of Law No. 25 of 2007 is investment activities must prioritize equitable efficiency in an effort to realize a fair, conducive and competitive business climate. The implementation of investment activities which are only concentrated on the island of Java, does not reflect the principle of justice, because there is no equal distribution of development activities that are expected to have an economic impact on the community where foreign investment activities are carried out. In addition, referring to data on the development of FDI realization based on the Investment Activity Report (LKPM), showing FDI projects realized in the period 2015 to 2017, more entering the tertiary sector (57%), compared to the Secondary sector (36%) and Primary sector (7%), according to the data as follows:

TABLE 2 *PMA REALIZATION REPORT BY SECTOR*

Sector	2015		2016		2017		2018	
	P	%	P	%	P	%	P	%
Primary	1.934	11	2.313	9	1.698	6	1.283	7
Secondary	7.184	41	9.564	38	9.059	35	6.812	36
Tertiary	8.620	49	13.451	53	15.500	59	10.895	57
Total	17.738	100	25.328	100,0	26.257	100	18.990	100

FDI activities based on the above locations are expected to be able to absorb labor in business activities that are opened for foreign investment. Based on data from the International Labor Organization (ILO), the majority of Indonesia's workforce of 32.9% is in the agriculture, plantation and fisheries sectors which are the primary sectors. Therefore, FDI activities should be directed so as to encourage the industrial sector in the utilization of products in the primary sector so that it can convert basic materials (raw materials) into finished/semi-finished goods and/or goods with less value to higher value goods. The ineffectiveness of the influence of FDI activities with the primary sector, which is dominated by populist economic actors, also influences the development of industrial sectors that process products produced from the primary sector, such as plantations, agriculture and/or fisheries. In some cases there was a shortage of raw material supplies from these sectors. This occurs in the Dry Rubber Processing Industry (Crumb Rubber) where many Crumb Rubber Industries will go bankrupt due to the crisis of rubber raw materials. The same goes for the fish processing industry, where there is a shortage of fish supply and food and beverage industries that lack supply of raw materials, such as processed coffee, tea and cocoa products with major destination countries such as the United States, Japan, and Middle Eastern countries, so can hamper the competitiveness of the food industry. Even though the supply of raw materials for the industry can be fulfilled if there is certainty about the implementation of partnership agreements with domestic or local entrepreneurs. National development activities must reflect social justice for the people of Indonesia. The form of implementing social justice is to realize equitable and socially just progress. Investment law, which is part of national economic development, aims to realize sustainable national economic development based on economic democracy to achieve the goals of the state. Furthermore, the basis for consideration of the investment law is to carry out the mandate stated in the Decree of the People's Consultative Assembly of the Republic of Indonesia No. XVI/MPR/1998 concerning the Politics of Economy in the Context of Economic Democracy ("MPR Decree No. XVI/MPR/1998"), namely creating a national economic structure so that medium and strong entrepreneurs are large and large, and the formation of linkages and mutually beneficial partnerships between economic actors which include small, medium enterprises and cooperatives, large private businesses, and mutually reinforcing State-Owned Enterprises to realize high competitive and competitive Economic Democracy and national. Based on the above, the author conducted a study on the effect of FDI activities in encouraging the formation of a strong national economic structure so as to create a strong and large number of medium entrepreneurs, as well as the establishment of mutually beneficial relationships and partnerships between economic actors and the existence of sustainability in national development as mandated in the basic investment policy based on Law No. 25 of 2007.

2 DISCUSSION AND ANALYSIS

Investment, especially foreign investment, which enters into a country brings various impacts and benefits. In order to know the impact and level of benefits brought by investors, it is necessary to do a control of investment activities. This form of control is stated in principles and in the form of policy. The impact of investment activities mandated in Law No. 25 of 2007 is actually reflected in the Basic Investment Policy (Article 4 of the Republic of Indonesia Law No. 25 of 2007), which states that: Provide equal treatment for domestic investors and foreign investors while taking into account national interests; Guarantee legal certainty, business certainty, and business security for investors from the process of managing permits to the expiration of investment activities in accordance with the provisions of legislation; and Open opportunities for development and provide protection to "micro, small, medium and cooperative businesses". To ensure investment policies in accordance with the direction and objectives of the Government of Indonesia, the Government of Indonesia then stipulates the General Investment Plan in the Regulation of the President of the Republic of Indonesia No. 16 of 2012 concerning the General Investment Plan ("Perpres No. 16 of 2012"). The General Investment Plan (RUPM) is a long-term investment planning document up to 2025. Thus, this RUPM must also be in line with the direction and vision of economic development as stipulated in the RPJP Year 2005 - 2025. Government efforts in improving the Investment Climate have been carried out with various kinds of regulations to accelerate the business licensing process by issuing Presidential Regulation No. 91 of 2017. Furthermore, at the level of implementation, the Government issued Regulation No. 24 of 2018 concerning Integrated Electronic Business Licensing Services called OSS. With the OSS system business registration has become easier, cutting off many democratic paths and long and time-consuming procedures because all registrations are done through an integrated online system. Each business actor will obtain a Business Registration Number (NIB), where the NIB will function as well as: Company Registration Certificate (TDP) as referred to in legislation in the field of company register; mporter Identification Number (API) as referred to in laws and regulations in the field of trade; and Customs access rights as referred to in legislation in the customs sector. The ease of obtaining a business permit was then followed up with an implementing regulation issued by BKPM regarding Licensing Guidelines and Procedures and Investment Facilities based on BKPM Regulation No. 6 of 2018, wherein the provision of business licenses is issued no later than 3 (three) days from receipt of complete and correct applications. In addition to licensing reforms, to attract foreign investors, various investment facilities are also given incentives, which can be in the form of: "Fiscal Facilities", such as (i) reduction in income tax; and (ii) exemption or relief of import duty on the import of capital goods, machinery, or equipment for production purposes that cannot yet be produced domestically; Giving "Ease" of investment can be in the form of (i) various facilities for licensing; (ii) provision of facilities and infrastructure and land and location; and Giving "incentives" can be in the form of: (a) regional tax deductions, waivers or exemptions; and (b) reduction, relief, or exemption from regional levies. Reforming the licensing system and providing facilities as an effort to provide convenience to foreign investors and provide legal certainty and business security. This effort was quite successful, resulting in a change in the ranking of ease trying to be ranked 72nd out of 190 countries by the World Bank in the Doing Business 2018 report, from previously ranked 114 out of 189 countries in 2015 (World Bank, 2015) After various efforts issued by the Government to support the growth of FDI by providing assurance and ease of business for foreign investors, then what about efforts to provide protection to populist economic entrepreneurs dominated by companies with the scale of Micro, Small and Medium Enterprises and Cooperatives ("MSMEs") so that the growth of FDI can also be felt or beneficial for the Indonesian people in general, especially considering that the workforce absorbed in MSMEs almost reaches more than 132.3 million people. Actually to guarantee the involvement of populist economic actors carried out by MSMEs, the Government through Presidential Regulation No. 16 of 2012, applying 2 (two) strategiesThe strategy of going up the class, which is a strategy to encourage businesses that are on a certain scale to become larger-scale businesses, micro-businesses developing into small businesses, then becoming medium-sized businesses, and eventually becoming large-scale businesses. Strategic strategic alliances, namely partnership strategies in the form of relationships (cooperation) between two parties or more business actors, based on equality, openness and mutual benefit (providing benefits) so as to strengthen the linkages between business actors in various business scales. The alliance is built so that entrepreneurs who have a smaller business scale are able to penetrate markets and produce cooperative networks on a larger scale. The alliance was built based on business considerations and mutually beneficial cooperation. This pattern of alliances will create linkage between micro, small, medium enterprises, cooperatives and large businesses. In addition, BKPM through the BKPM Strategic Plan for 2015 - 2019, by referring to the spirit of mutual cooperation, which is one of the values in social justice in the Charter, states that economic activities can be realized in the form of cooperation between two parties or more business actors based on equality, openness and mutual benefit so that it can strengthen the engagement between various scales of business actors (eg Micro, Small, Medium Enterprises and Cooperatives/MSMEs with large businesses, both PMA and PMDN). Investment activities in several fields of business have been required to partner with MSMEs in accordance with Presidential Regulation No. 44 of 2016. To encourage the implementation of these provisions more effectively, BKPM will be more intensive in inventorying potential MSMEs, facilitating promotions and meeting potential Big Business partners. In the "BKPM Year 2015-2019 Strategic Plan" several activities are described in the BKPM matrix program/activities and funding as follows: Implementation of a national business empowerment communication forum; Matchmaking at home and abroad; Implementation of MSME entrepreneurship skills improvement training; Implementation of the Study of increasing UMKM participation; Study KBLI which is required to partner and form partnerships; Data collection of SMEs that have the potential to partner and PMA/PMDN companies that are required to partner; Implementation of SME matchmaking with large companies that are required to partner; Implementation of monitoring of the implementation of partnerships required by DNI From the matrix program/activity mentioned above, for activities letters a through d, which are used as output indicators are the number of forums, matchmaking, training and studies conducted by MSMEs, so that the assessment of success is quantitative, not qualitative, as described below:

TABLE 3 *BKPM OUTPUT INDICATOR - EMPOWERMENT OF MSMEs (1)*

No.	Activities	Total
1.	Number of implementation of national business empowerment communication forums	carried out in 6 regions
2.	Amount of matchmaking at home and abroad	conducted in 12 regions (6 regions/6 overseas)
3.	The number of implementation of MSME entrepreneurship skills improvement training	carried out 6 regions
4.	The number of potential SMEs and PMA/PMDN that carry out business partnerships	2 studies were conducted.

Therefore, by carrying out a quantitative approach, it certainly cannot describe the success of partnership programs with MSMEs. Even the four activities were not carried out in the following period since 2016. Whereas for programs/activities letter e up to h, are new activities, namely as follows:

TABLE 4 *BKPM OUTPUT INDICATOR - EMPOWERMENT OF MSMEs (2)*

No.	Activities	Total
5.	Availability of studies of required business partners	2 studies were conducted in 2016 and 2018.
6.	Availability of data on SMEs that have the potential to partner and data on PMA/PMDN companies that are required to partner	5 directory books are created every year from 2015 - 2019.
7.	The number of UKM partnerships with PMA/PMDN companies	there are 20 partnerships every year 5 years from 2015 - 2019
8.	The number of companies monitored for the obligation to partner in accordance with the DNI	monitoring the number of 200 companies each year from 2016 - 2019.

Based on the data above, the activities for items 5 and 6 are also quantitative, so that they do not indicate the success of the partnership program. Meanwhile, the output indicator used for the activities in point 7 states that there are 20 partnership targets with MSMEs for 5 years or a total of 100 MSMEs will be involved in investment activities with PMA/PMDN. The output target is still too small considering the information from the Ministry of Cooperatives and SMEs, the number of MSMEs is 58.9 million. In other words, only 0.00002% or less than 1% of the total number of MSMEs, even though based on the DNI policy described in Table 19 there are 50 business fields that are required for partnership, and there are 350 business fields that are open to the requirements there must be joint ventures with national entrepreneurs in the form of joint ventures. The definition of national entrepreneurs is not explained in Presidential Regulation No. 44 of 2016 concerning the level of business scale, so that it should also be interpreted by the national entrepreneurs referred to both large scale and MSME scale. Compared to realization of FDI in 2018 (as outlined in Table 6) it reached 18,990 projects (consisting of 1,283 Primary sectors, 6,812 Secondary sectors and 10,895 Tertiary sectors) with an investment value of 8,355 billion US Dollars or equivalent to Rp. 111,9 Trillion. Therefore, with the amount of foreign capital investment entering Indonesia, the Government's target is still very small. A policy determined by a country must pay attention to the conditions or investment environment of the country, one of which can be influenced by the investor concerned. The existence of this policy will reinforce the government's efforts to regulate and direct investment in a country, so that it can provide optimal contributions to economic development in the country (Ilmar, 2006) Therefore, it is possible for policy differences to occur between one country and another. Below there are comparative examples in several countries that make a policy that has an indirect impact on FDI activities, as happened as follows:

TABLE 5 *COMPARISON OF FDI POLICIES*

No.	Country	Information
1.	Singapore	Open systems for investment, do not distinguish between Foreign and Local, unless there are only a limited number of fields, namely (i) telecommunications; (ii) broadcasting; (iii) domestic news media; (iv) financial services; (v) legal field or other professional services; and (vi) property ownership; Liberalization of the service sector by facilitating foreign ownership in the main service industries. For example, for financial services, the limitation of 40% of foreign capital ownership in local banks was removed in 1999. The 70% limit on foreign ownership has also been removed from the Stock Exchange of Singapore and the restrictions on foreign capital ownership have been completely removed in telecommunications services in 2002. The Singapore Government encourages foreign investment activities, especially towards investments involving high technology and export orientation.
2.	Thailand	An open system for investment, except for (three) business categories which are limited to foreigners, namely (i) Activities that are prohibited for Non-Thai citizens; (ii) Activities related to safety, national security, or matters that affect art and culture, traditions, folk crafts, or natural and environmental resources; and (iii) Activities that have economic protection for Thai citizens. The development of the automotive industry is one of the fastest growing sectors in Thailand. Thailand has become home to 15 assemblers, and there are 2,000 automotive parts companies currently located in Thailand, including 400 first-tier component manufacturers; The development of diversified products. Agriculture (agriculture): industrial plants such as corn, cassava, tapioca, sugar and others, have developed significantly. Agriculture has become an industry, with rapid agribusiness development. Canned seafood and canned pineapple food have become the main producers of exports. Manufacturing has also been diversified.
3.	Vietnamese	Vietnam allows foreign investors to obtain full ownership of local companies, unless stated otherwise in international and bilateral commitments, including equity restrictions, mandatory domestic joint venture partners and investment restrictions. The indirect impact of FDI in Vietnam is, in the agricultural sector: increasing the supply of tropical agricultural products for food processing companies related to FDI (rice, coffee, tea, sugar, wood and seafood), there are 167 agricultural processing projects intended for export with a total capitalization of investments of USD 1.93 billion. The development of PMA companies has required a stable and safe supply of agricultural materials and therefore encourages agricultural production. in the manufacturing sector: development of supporting industries to meet the demand for materials and spare parts by PMA companies. The indirect impact of FDI flows in the manufacturing sector in Vietnam is highly dependent on government policies on local content requirements

Based on the above, the applied FDI policy will certainly depend on national interests and the objectives of the Government in carrying out investment, which has actually been reflected in the values of Pancasila, namely social justice and people's prosperity. Moreover Article 33 of the 1945 Constitution of the Republic of Indonesia clearly states that the economy is structured as a joint effort based on the principle of family. The atmosphere of kinship and mutual cooperation is part of the fifth point of the Pancasila, which is then adopted in the FDI policy stipulated in Law No. 25 of 2007 concerning the Basic Investment Policy, which must involve micro, small and medium enterprises or in other words the empowerment of people's economy becomes an important part of investment activities. In its implementation, if we pay attention to the number of business sectors allocated to the Partnership with MSMEs, it is still very small at 3% of the total business fields based on KBLI (1,647 business fields). Likewise, the number of mandatory participation of national entrepreneurs on business fields that are open to capital restriction requirements is only 21.3% of the total business sector based on KBLI. In Perpress No. 44 of 2016 which stipulates that the obligation of a partnership between PMA companies and MSMEs to 50 business fields only covers the following fields:

TABLE 6 *BUSINESS SECTOR GROUP WITH PARTNERSHIP REQUIREMENTS* BETWEEN PMA AND UMKM

No.	Sector	Business fields
1.	Forestry	7
2.	Marine and Fisheries	11
3.	Industry	31
4.	Trading	1
	Total	50

Supposedly, the partnership obligation is not only related to the 50 business sectors mentioned above, but also the partnership obligation applies to PMA companies with a "joint venture" scheme (due to requirements for restrictions on foreign capital ownership). For the partnership pattern that is used as an initial requirement in submitting a business permit application, the Government must be able to ensure that the partnership cooperation delivered in writing is indeed true and is not only a formality. Based on the results of the research, BKPM, especially with the OSS system, only formally checks the company documents submitted by foreign business actors, does not conduct substantial checks on MSMEs who are used as business partners of PMA Companies to check the truth (i) the existence of the existence and business entity of MSMEs; (ii) the aims and objectives of MSMEs; (iii) the validity of management; and (iv) legal domicile. The lack of substantial checking of the cooperation pattern of MSME Partnership has caused the Government to not be able to supervise the implementation of the partnership pattern with MSMEs, including the compatibility between the partnership pattern with the business permit granted by the government to the PMA Company. This was also confirmed by the Coordinating Minister for the Economy, Darmin Nasution, who stated that the UMKMK partnership pattern with PMA or PMDN was unclear in size, so that in the implementation of the partnership pattern there were PMA Companies that only provided cleaning service jobs to MSMEs. This practice often occurs when FDI companies provide jobs that have nothing to do with business activities or permits granted. In connection with the above, direct investment activities should be able to support economic growth and equitable development through the empowerment of MSMEs not only in the business fields required for partnerships, but also for PMA companies that have obtained business licenses based on joint venture agreements with national businessman. Therefore, in the DNI policy which will be set forth in legislation in the field of investment, it must give authority to BKPM or a task force or institution specifically set up to carry out supervision and at the same time law enforcement for the fulfillment of business activities based on permits or approvals granted for ensuring people's economic empowerment. According to Martin Molinuevo and Sebastian Saez a statutory regulation must be able to accommodate national development directions and objectives as well as in line with opinions, (Molinuevo & Saez, 2014) that is: Regulations must be fully beneficial to the community, not only for certain groups or sectors; Regulations must contain the minimum requirements needed to achieve goals and avoid restrictions that are too excessive. Regulations must be aimed at addressing existing problems. Regulations must be integrated and consistent with laws, agreements and other international obligations. Any restrictions on competition can be maintained, if providing benefits to the community and government goals cannot be achieved by other means. Regulations should not be too prescriptive or overly burdensome to society, but must be more specific to the output that is to be achieved. Regulations must be flexible which allows everyone to find the best way but does not violate these regulations and can anticipate any changes that might occur. Regulations must be easily accessible, transparent and accountable. The community must be able to easily find out what rules they must obey, be easily understood, fulfill a sense of justice and guarantee legal certainty. Regulations must be clear, concise, and effectively disseminated. Regulations must consider that the agreement on an obligation that must be fulfilled must be proportional to the problems that are regulated and are easy to implement or fulfill, but can still fulfill what is the goal to be achieved; Regulations must be enforced to all parties and provide minimal incentives to be complied with. Adequate resources must be provided to supervise and ensure that the regulations are implemented. The role of law as a process of legal renewal, in this case related to investment policies, is in line with what was aspired by Mochtar Kusumaatmadja, which states that the function of law in developing Indonesian society is not enough to guarantee certainty and order, but is expected to function more than that, namely as a "means of community renewal" ("law as a tool of social engineering"). Thus the investment regulation policy including its limitations must be able to cover what is the goal of the State of Indonesia, namely to realize the structure of a populist economy by involving MSMEs which in turn can create a just and prosperous society. Based on data on accumulated Share Value (FDI Stock) in 2017, the highest is Singapore (USD 1,284,929 million) and China (USD 1,490,933 million), this proves that the capital ownership of foreign investors in the form of shares includes retained earnings and the enterprise parent net receivables of affiliated companies in investment destination countries, yield greater profits than other foreign capital investments in other countries. Even though the amount of FDI and FDI in Indonesia is higher in 2017 compared to other ASEAN countries based on value in US dollars, the accumulation of Indonesian FDI (FDI Stock) shares for 2017 has a negative value compared to year 2016, while other countries experience a positive trend.This proves that PMA companies have already invested and obtained business licenses, but have not experienced positive growth in their business activities. The low factor in the accumulation of FDI (FDI Stock) stock value can be caused by the realization of the business activities of the PMA Company not running well. The above problem can occur if a foreign investor who has an interest in investing and has obtained an approval or business license from the Government, then does not make investment realization. In connection with the above, the Government has sanctioned the revocation of 6,531 foreign investment licenses that have expressed interest in investment from 2007 to 2012. Based on data from BKPM, the country with the highest number of cancellation licenses originated from South Korea, namely 621 principle permits , or 20% of the total principle licenses revoked. In addition to South Korea, China ranked second with a total of 344 principle licenses canceled. Most of the revoked principle licenses are planned investments in the trade sector with a value of 945 principle permits. In addition, the revocation of principle licenses in mining services is also large, with as many as principle permits being canceled by BKPM. If seen from the data of labor absorption occurring in Indonesia and neighboring countries, it can be seen in the table as follows:

TABLE 7 *LABOR ABSORPTION DATA BY SECTOR*

No.	Country	Number of Workers (2015) *	Labor Absorption (2015) **
1.	Indonesia	122.400.000	32.9% in Agriculture, Forestry and Fishing.
2.	Singapore	3.588.000	16.9% on Wholesale and Retail Trade: repair motor vehicles and motorcycles.
3.	Malaysia	14.300.000	16.8% on Wholesale and Retail Trade: repair motor vehicles and motorcycles.
4.	Thailand	39.120.000	35.2% in Agriculture, Forestry and Fishing.
5.	Vietnamese	54.930.000	40.87% on Agriculture. *)
6.	China	804.000.000	55% in Services and 27% in Industry.
7.	South Korea	26.890.000	17.3% on Manufacturing.

**) Vietnamese statistical data - Employed Person by Sector 2017. https://www.statista.com/statistics/454920/employment-by-economic-sector-in-vietnam/*
***) Chinese statistical data - Employed Persons by Sector 2016 http://datatopics.worldbank.org/jobs/country/china.*

Based on the Indonesian workforce population, the business sector that absorbs the most labor is in the primary sector (Agriculture, Forestry and Fisheries), has a greater number of Workers than other ASEAN Countries (Malaysia, Thailand, Vietnam and South Korea). However, based on data on the development of PMA realization based on the Investment Activity Report (LKPM) as described in Table 2, it shows that FDI projects were realized in the period 2015 to 2018, more of which went into the tertiary sector. By synergizing between the primary sector and the secondary sector in FDI activities, it can position MSMEs with limited access to global markets and low capacity to increase added value through the Global Value Chain (GVC), so MSMEs can be involved in the production process as suppliers (supplier) of export-oriented PMA companies. MSME products can be used as intermediary inputs for FDI companies that have consumers in various countries. In 2018, the realization of FDI, based on the sector from January to September, the most in demand was the Housing, Industrial Estate and Office sectors (Tertiary Sector) totaling 859 projects worth USD 3,528.88 million or IDR 47.2 trillion. Other sectors that are also in demand are the electricity, gas and water sector which reached 464 projects worth USD 2,977.63 million or Rp 39.9 trillion and the Mining sector with 545 projects worth USD 2,231.01 million or Rp 29.8 Trillion. The total investment in January to September 2018 was 18,990 projects worth USD 21,921.17 million or Rp. 293.7 Trillion. In general, the development of FDI between January and September 2018 more projects for the Tertiary Sector with a total of 10,895 projects worth USD 10,354.90 or Rp 139.7 Trillion and the Secondary Sector reaching 6,812 projects worth USD 7,940.61 million or Rp 106.4 Trillion. While the Primary Sector only reached 1,283 projects worth USD 3,625.66 million or Rp. 48.5 Trillion. Based on these data, it can be seen that the Primary Sector and the Secondary Sector have not been used optimally to increase economic growth by processing products produced from the Primary Sector to be processed in the Secondary Sector (Industry). Distribution of locations that are still focused on the island of Java proves the distribution of investment has not been evenly distributed. There should be a correlation between the Primary Sector and the Secondary Sector (Processing Industry), how the results of natural resources originating from the Primary Sector are processed continuously so as to produce maximum benefits for the people of Indonesia. Agriculture and industry have traditionally been seen as two separate sectors both in terms of the characteristics and roles of the two sectors in economic growth. Agriculture has been regarded as a feature of the first phase of development, while the level of industrialization has been considered a relevant factor in the progress of a country along the path of development. This perspective seems no longer appropriate. On the one hand, the role of agriculture in the development process has been reviewed and reassessed from the point of view of its contribution to industrialization and its importance for harmonious development and political and economic stability. On the other hand, agriculture itself has become an industrial form, because technology, vertical integration, marketing and consumer preferences have evolved to approach the profile of the industrial sector (Food and Agriculture Organization, 2018) Agricultural products are formed by increasingly complex technology, and they combine the results of major research and development and increasingly sophisticated individual and collective preferences regarding nutrition, health and the environment. While one can still distinguish the raw material production phase from the processing and transformation phase, often this difference is obscured by technological complexity and the degree of vertical integration: agricultural industrialization and the development of agro-processing industries are joint processes that produce a completely new type of industrial sector (Food and Agriculture Organization, 2018) Thus, the Government in accordance with the mandate of the constitution must guarantee public welfare. The basic idea of Welfare as stated by Watts, Dalton, and Smith, has existed since the 18th century when Jeremy Bentham (1748-1832) explained the idea that the Government has the responsibility to guarantee the greatest happines (welfare) of the greatest number of them citizens (Bessant, 2006). The purpose of development is to create social welfare, and therefore in carrying out economic development, the Government must be able to encourage business sectors that can provide maximum benefit for the Indonesian people in general. Therefore, according to what is the direction and vision of development is how the Government can enlarge and strengthen its production base nationally. This interest occupies a strategic role because it relates to the lives and livelihoods of most Indonesian people. Based on the things described above, the authors conclude that: The government must restore the direction and purpose of investment activities by not only focusing on bureaucratic and licensing reform, although this can increase the ease of business rating of the World Bank, but also investment activities also carry out the task of strengthening the people's economy by involving the MSME sector as part of the production chain of a business activity of a PMA Company in accordance with the permit or approval given by the Government; The government must identify MSME business activities by accurately collecting (i) legal entities or business entities; (ii) the purpose and objectives of business activities; and (iii) legal domicile of the company on the scale of MSMEs. Currently the form of MSME business entities has various forms of business, which can be in the form of Firms, Commander Committees or Commanditaire Vennootschap (CV) based on KUHD, civil partnership based on Civil Code and Limited Company (PT) based on Law No. 40 of 2007 concerning Limited Liability Companies. The establishment of these business entities is recorded as non-PMDN companies and/or PMA, which do not have an obligation to report investment activities in the form of LKPM, making it difficult for the Government to record the exact number of MSMEs that are still active. Considering the continuity of the business of MSMEs depends on the aspects of funding and competitiveness. Therefore, it is necessary to create a mechanism for reporting business activities that is associated with the provision of business licenses for MSME businesses in an industrial cluster and positioning MSMEs as a Global Value Chain for PMA companies. That to ensure the implementation of investment activities, especially those related to FDI activities, there needs to be an institution that obtains the oversight function of investment activities carried out by PMA companies, while ensuring compliance of PMA Companies in an effort to involve MSMEs as a whole production chain of business activities carried out by PMA company according to the permit and approval given by the Government. The government must also encourage synergy between the Primary Sector and the Secondary Sector by utilizing the potential of the resources that provide the most benefits for the people of Indonesia. Based on the workforce data, the number of workforce is absorbed more in the Primary Sector, therefore the Government must prioritize the main sectors that have a direct impact on the lives of the Indonesian people in general. Learn from Thailand who can utilize the agricultural sector by encouraging foreign investment to enter into agro-processing. The government must also evaluate regional potential that can be developed in relation to the use of FDI. If referring to the map of the location of the distribution of FDI in January - September 2018, investment activities focus more on Java. In the DKI Jakarta area there are 5,716 projects with a total investment of USD 3,514.90 million or Rp 47 Trillion. While in West Java, there were 4,0764 projects worth USD 4,539.64 million or Rp 60.8 trillion. In principle, efforts to utilize and control the flow of foreign capital must be supported by a comprehensively regulated investment policy by utilizing the Primary Sector, Secondary Sector and Tertiary Sector to become a chain of investment activities. The government must encourage the three sectors to complement each other. For example, the trading business sector should not only rely on import activities which only benefit foreign suppliers, but not directly affect the Indonesian people in general. The trade sector must also be export oriented. Therefore, the government must map regulations on business sectors that have a strong carrying capacity for economic growth. Complete analysis of all sectors at all levels of regulation from the central and regional levels to regulate that the business sector that can have a broad positive impact on economic growth must be supported, Mapping must also identify the laws and regulations that should be in place to avoid any gaps in regulation. In many sectors, regulations are needed to prevent or correct market failures and create an efficient and conducive service market. Lack of regulation can result in anti-competitive behavior or be interpreted in de facto inefficient actions. Based on the things described above, in order to apply the principles that can be used to formulate investment policies and control the flow of foreign capital for the benefit of national development: The Indonesian government must be able to sort out the business sector that has the potential of a certain area in accordance with RUPM. This potential can be obtained when each Province/Region develops Regional RUPM by encouraging activities that are the mainstay or priority of their respective regions. If supervision of the implementation of the Regional RUPM goes well, it can be known with certainty the realization of the implementation of investment activities in each region; The government must have a concept to map the potential of the region and the identification of the Primary and Secondary Sectors has not been used optimally to increase economic growth. Distribution of locations that are still focused on the island of Java proves the distribution of investment has not been evenly distributed. There should be a correlation between the Primary Sector and the Industrial Sector, how the results of Natural Resources originating from the Primary Sector are processed continuously so as to produce maximum benefits for the people of Indonesia. The role of agriculture in the development process must be reviewed and reassessed from the point of view of its contribution to industrialization and its importance for harmonious development and political and economic stability. On the other hand, agriculture itself has become a form of industry, because technology, vertical integration, marketing and consumer preferences have evolved to approach the profile of the industrial sector; The Indonesian government needs to encourage Primary Sector policies, where Indonesia as an agricultural country has natural resources that are utilized for the sake of national development equality. Investment policies must be in line with the direction and policies that prioritize the main sectors that have a direct impact on the lives of the Indonesian people in general. Learn from Thailand who can utilize the agricultural sector by encouraging foreign investment to enter into agro-processing. Based on the things outlined above, when referring to Ricard A. Posner's opinion, the most emphasized social goals in the modern economy are not (only) happiness or utility, but efficient allocation of resources (Posner, 2014). In other words, the economic efficiency of Posner meant that every person in an investment transaction must be beneficial not only to investors or capital-giving countries but also to benefit the capital receiving countries, including the community where investment from investment activities is carried out.In a simpler efficiency theory, there is the concept of Kaldor-Hicks efficiency, or maximizing wealth. Posner analogizes in the Kaldor-Hicks efficiency concept that the benefits obtained by someone should be the party who experiences these benefits to compensate the party (who feels) to be harmed (Posner, 2014) Or in other words, those affected by the benefits obtained by the party making the transaction. Based on the things described above, to ensure the mandate of Law No. 25 of 2007 in the context of populist economic empowerment, it is necessary to establish an institution that provides recommendations on every application for foreign investment that can involve the role and community participation of MSME-scale national actors. In order for this institution to be effective, this institution must have representatives from: (i) the Central Government, which consists of ministries or agencies in charge of economic fields, such as trade, industry, investment and the MSME sector; (ii) Regional Governments to oversee centers of business activities which constitute economic potential in the region; (iii) MSME business actors. This institution evaluates every investment application and gives approval by giving recommendations to business actors with MSMEs who can be involved in these investment activities. So that with the concept of agreement involving this institution, foreign business actors do not need to be "confused" to seek business partners from national businesses that are MSME-scale. The form of this institution must be an institution formed by the President, considering that it involves a number of ministries or agencies in the economic field, it can be called UMKM centers or other names, insofar as to ensure the development and protection of MSME business actors as mandated by Law No. 25 of 207.

3 CONCLUSIONS AND RECOMMENDATIONS

Investment policies stipulated by the Government must pay attention to: (a) equal treatment for all investors and guarantees of legal certainty, business certainty, and business security for investors; and (b) opening opportunities for the development and protection of micro, small, medium and cooperative businesses. The Government's efforts related to "equal treatment" and "legal certainty and effort" have been successfully carried out by the Government by "bureaucratic and licensing reform", thus placing Indonesia ranked 72nd out of 190 countries by the World Bank in the Doing Business 2018 Report. In its implementation, the accumulation of FDI (FDI Stock) shares in Indonesia is still lower than the FDI Stock growth in other countries, this can be due to the realization of the investment of the PMA company that has been approved not in accordance with the investment plan at the time of initial approval or no good growth from business activities. Therefore, to create a conducive investment climate, the Government must (i) identify regional potentials and synergize between the primary sector, the secondary sector and the tertiary sector as a complementary production chain and prioritize the main sectors has a direct impact on the lives of Indonesian people in general; (ii) ensuring the implementation of investment activities, through the establishment of an institution that can carry out the oversight function of investment activities carried out by PMA companies to ensure the empowerment of MSMEs through the Global Value Chain (GVC), so that MSMEs can be involved in the production process as company suppliers Export-oriented FDI. MSME products can be used as intermediary inputs for FDI companies that have consumers in various countries. Therefore, to ensure the mandate of Law No. 25 of 2007 in the framework of populist economic empowerment, it is necessary to establish an institution that provides recommendations on every application for foreign investment which can involve the role and community participation of MSME-scale national actors. In order for this institution to be effective, this institution must have representatives from: (i) the Central Government, which consists of ministries or agencies in charge of economic fields, such as trade, industry, investment and the MSME sector; (ii) Regional Governments to oversee centers of business activities which constitute economic potential in the region; (iii) MSME business actors. This institution evaluates every investment application and gives approval by giving recommendations to business actors with MSMEs who can be involved in these investment activities.

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