

THE EFFECT OF FOREIGN AND DOMESTIC INVESTMENTS ON THE EMPLOYMENT AVAILABILITY IN INDONESIA

Steven¹,

¹*Faculty of Law, University Negeri Semarang, Indonesia, e-mail: stevenchen@students.unnes.ac.id*

Abstract : Investment in developed countries is one of the things that is taken into account for the economic development of the country. Therefore, the state/government has a reason to regulate the dynamics of investment. The presence of investors in Indonesia is one of the important factors in the development of the national economy, it has been proven that many industries and companies have used this institution as a medium to absorb investment and the media to strengthen their financial position. Investment itself is all forms of investment activities, both by domestic investors and foreign investors or better known as PMA. The activity itself uses funds originating from these investors into economic activities. In Law Number 25 of 2007 concerning Investments The existence of investors in Indonesia is one of the important factors in the development of the national economy, it has been proven that many industries and companies have used this institution as a medium to absorb investment and the media to strengthen their financial position. If these companies can expand, the availability of job opportunities will be even wider. Given, these companies will certainly get enough capital to buy supporting production activities. Not only that, these companies will certainly need workers because the scale of production activities is getting bigger. Therefore, this paper intends to identify the effect of the capital market on job availability in Indonesia.

Keywords: foreign, domestic, investment, employment

1. Introduction

Investment and wage rates have a role in creating job opportunities. An increase in wages will affect the expansion of job opportunities in an area. Likewise, an increase in domestic and foreign investment plays a role in influencing job opportunities in a region. In an effort to create a more prosperous society, it is necessary to have a balanced number of job opportunities with the existing workforce. The problem of job opportunities is not only about the availability of employment opportunities for the workforce, but also whether the existing job opportunities are sufficient to provide sufficient returns for workers. The availability of job opportunities is inseparable from development which can be seen from investment activities, both from domestic and foreign investment, which are increasing from year to year.

Direct investment factors can increase production capacity (such as capital equipment) which will increase the demand for labor production factors. With the increase in capital goods due to investment activities, it will encourage the expansion of employment opportunities. The wage rate factor can affect the demand for labor. Wage improvements are very important to support

development. With the improvement in wages, there will be an increase in workers' income and people's purchasing power. With an increase in people's income, the demand for goods and services will increase which will make developments in existing companies. Wage improvements can encourage new job creation and increased productivity.¹

By increasing the amount of investment in an economy, it is hoped that it will open up many new job opportunities for the community. However, investment is influenced by bank interest rates. To encourage investment, low interest rates are needed so that entrepreneurs invest their capital in the economic sector. With the investment made by the private sector, both from abroad and domestically, it is hoped that it can spur the economy and create a multiplier effect, where these activities will stimulate other economic activities and in the end will expand job opportunities and relieve the community.²

With regard to foreign investment, the existence of investment in this case foreign investment is able to create job opportunities, with the increasing amount of foreign capital used in the production process, then economic actors in this case foreign capital users will be used to increase production capacity, one of which is labor with the goal of producing more output. In addition, domestic investment also plays an important role in encouraging job opportunities. Based on Law no. 25 of 2007 Article 1 related to Investment, explains that Domestic Investment is an investment activity with the aim of carrying out business in the territory of the Republic of Indonesia carried out by domestic investors using domestic capital. Domestic capital can be owned on behalf of the Republic of Indonesia, individuals, and business entities that are legal entities and not legal entities. Domestic investment is one of the factors in income creation and is able to expand job opportunities.

Domestic investment will increase domestic economic activities in various business fields, in addition to the impact given by increasing economic activity, one of which will create jobs. Based on the background as described previously, this paper intends to analyze the effect of investment on job availability in Indonesia. Domestic investment is one of the factors in income creation and is able to expand job opportunities. Domestic investment will increase domestic economic activities in various business fields, in addition to the impact given by increasing economic activity, one of which will create jobs. Based on the background as described previously, this paper intends to analyze the effect of investment on job availability in Indonesia. Domestic investment is one of the factors in income creation and is able to expand job opportunities. Domestic investment will increase domestic economic activities in various business fields, in addition to the impact given by increasing economic activity, one of which

¹ Dewi, Rahmawati Ikka. (2013). Pengaruh Investasi dan Tingkat Upah Terhadap Kesempatan Kerja di Jawa Timur. *Jurnal Pendidikan Ekonomi (JUPE)*, 1(3), p. 2.

² Desideria, D., Prihanto, P. H., & Hardiani, H. (2019). Analisis pengaruh pertumbuhan ekonomi, investasi, belanja daerah, inflasi dan upah terhadap kesempatan kerja di Provinsi Jambi. *e-Jurnal Ekonomi Sumberdaya dan Lingkungan*, 8(2), 121-135, p. 123.

will create jobs. Based on the background as described previously, this paper intends to analyze the effect of investment on job availability in Indonesia.

2. RESEARCH METHODS

The normative juridical approach is the method chosen in this paper. The normative juridical approach is intended to identify and examine positive law in accordance with the issues raised in this paper.³Therefore, in this paper, the legislation is important to serve as a reference. Legislation is made so that the community becomes orderly in the administration of a country.⁴In relation to investment, the laws related to investment are important. Thus, the law that will be used as the main reference in this paper is the investment law. The data used in this paper is secondary data collected from various books, scientific articles, and the results of written research conducted by various parties. Thus, this paper is expected to provide a normative picture to the reader regarding the effect of investment on the availability of employment opportunities in Indonesia.

3. Results And Discussion

a. Investment through Foreign Investment and Domestic Investment

Foreign investment plays an important role in the development of both developed and developing countries, as well as in Indonesia in particular. Indonesia is a developing country in various aspects of development. The aim and direction of national development is to try to create a just and prosperous society, in which a just and prosperous society will be realized through development in various fields, including the economic sector. The current development goals and directions are more concentrated on the economic aspect. In economic development itself, it requires investors who want to invest to support the increase in the country's foreign exchange. The investors can come from within or outside the country, the important thing is that foreign investment (PMA) does not give rise to coal debt.

Investment itself is all forms of investment activities, both by domestic investors and foreign investors or better known as PMA. The activity itself uses funds originating from these investors into economic activities. In Law Number 25 of 2007 concerning Investment (UUPM) it is stated that: "The purpose of investment must be part of the implementation of the national economy and be placed as an effort to increase national economic growth, create job opportunities, increase sustainable economic development, increase capacity and capability. national technology, encouraging the people's economy, processing potential economic potential into a

³ Ibrahim, J. (2006). *Teori dan Metodologi Penelitian Hukum Normatif*. Malang: Bayumedia Publishing, 57, p. 295.

⁴ Febriansyah, F. I. (2016). Konsep Pembentukan Peraturan Perundang-Undangan di Indonesia. *Perspektif*, 21(3), 220-229, p. 220.

real economy by using funds originating from both domestic and foreign sources, and improve the welfare of the community". To attract these investors, various efforts have been made by the government. Currently, each region is given the right of autonomy to manage its own household but is still under the control of the central government. In this regard, in Article 1 paragraph (11) of the Capital Market Law, it is stated that: "Regional autonomy is the right, authority, and obligation of an autonomous region to regulate and deplete government affairs and the interests of the local community in accordance with the provisions of the legislation".⁵

Investment is the first step for development. Investment originating from within the country is called Domestic Investment (PMDN) and investment originating from abroad is called Foreign Investment (PMA). Both are equally important and influence the economic growth of a country Dumairy (1996: 130). Not only the private sector is trying to make investment but the government also plays a role. For example, the government makes infrastructure improvements and adds assets. Regional development financing for this infrastructure is usually referred to as capital expenditure. Capital expenditures are expenditures related to investment activities carried out by the government to achieve development targets.

In Law no. 6 of 1968 and Law No. 12 of 1970 concerning Domestic Investment (PMDN), the definition of domestic capital is mentioned in article 1, which is as follows:

- a. This law with "domestic capital" is: part of the wealth of the Indonesian people including rights and objects, both owned by the State and foreign private companies domiciled in Indonesia that are set aside or provided for running a business as long as the capital is not regulated by the provisions of Article 2 of Law no. 12 of 1970 concerning foreign investment.
- b. Private parties that have domestic capital as referred to in paragraph 1 of this article may consist of individuals and/or legal entities established under the laws in force in Indonesia. Then in Article 2 it is stated that, What is meant by this Law by "Domestic Investment" is the use of wealth as referred to in Article 1, either directly or indirectly to run a business according to or based on the provisions of this Law.

The benefits of Domestic Investment are as follows: able to save foreign exchange; reduce dependence on foreign products; encourage the advancement of domestic industry through forward linkages and backward linkages; contribute to the absorption of labor. Meanwhile, Law no. 25 of 2007 concerning Investment, states that: Foreign Investment is an investment activity to conduct business in the territory of the Republic of Indonesia which is carried out by foreign investors, both those who use foreign capital wholly or in joint ventures with domestic investors. Or Foreign Investment (PMA) is an individual foreign citizen, and/or foreign government that

⁵ Arliman, L. (2018). Penanaman Modal Asing Di Sumatera Barat Berdasarkan Undang-Undang Nomor 25 Tahun 2007 Tentang Penanaman Modal. *SUPREMASI: Jurnal Hukum*, 1(1), 8-23, p. 9.

makes investment in the territory of the Republic of Indonesia.⁶ Meanwhile, what is meant by foreign capital are: a) Foreign payment instruments that are not part of Indonesia's foreign exchange assets, which with the approval of the government are used to finance companies in Indonesia; b) Tools for companies, including new inventions belonging to foreigners and materials imported from abroad into the territory of Indonesia as long as these tools are not financed from Indonesian assets; c) Part of the company's proceeds based on this law is permitted to be transferred, but it is used to finance companies in Indonesia.

Then, there are several forms of investment, including:⁷

- a. Joint Venture is a collaboration carried out by foreign investors with domestic investors based solely on contractual agreements.
- b. Joint Enterprise is a collaboration between Indonesian investors and foreign investors by forming a new company or legal entity in accordance with Indonesian law.
- c. Contract of Work is a collaboration between Indonesian investors and foreign investors by forming an Indonesian legal entity, and this legal entity enters into a cooperation agreement with other legal entities that use national capital. (example: between PT. Pertamina and Caltex, Exxon Mobil, Chevron etc.)
- d. Production Sharing is a form of cooperation between foreign investors providing credit to national investors, and the loan principal and interest are returned in the form of production results from the credit recipient company and requires national companies to export the results to the creditor country.
- e. Portfolio Investment is a form of investment made through the purchase of shares, either through the capital market or through the placement of third party capital in the company. This form of cooperation in practice has long been and is commonly done by investors of Chinese descent.

Partially, investment (PMDN) has a significant effect on economic growth in Indonesia. This condition can be seen from the investment probability value which is smaller than 0.05. The significant effect of investment on economic growth indicates that the ups and downs of economic growth are determined by investment. The higher the investment, the higher the economic growth, due to the large amount of capital formation, as well as the small allocation of government spending for consumption compared to capital formation so that the role of domestic investment in economic growth increases.⁸ Investment often leads to changes in the overall

⁶ Mar'afiah, A. (2019). Pengaruh Investasi Penanaman Modal Asing dan Penanaman Modal Dalam Negeri Terhadap Pertumbuhan Ekonomi di Kota Makassar. *Economix*, 4(1), p. 91.

⁷ Hursepuny, J. (2019). Penanaman Modal dan Permasalahannya di Indonesia. *Journal of Information System, Applied, Management, Accounting and Research*, 3(2), 72-78, p. 75.

⁸ Yunita, M., & Sentosa, S. U. (2019). Pengaruh Pajak, Penanaman Modal Dalam Negeri (PMDN) dan Tenaga Kerja terhadap Pertumbuhan Ekonomi di Indonesia. *Jurnal Kajian Ekonomi dan Pembangunan*, 1(2), 533-540, p. 539.

demand and affects the business cycle, while investment leads to the accumulation of capital which can increase the potential output of the country and develop long-term economic growth. When the expenditure to purchase capital goods and production equipment is expected to bring in profits in the form of sales results that are greater than the expenditure for investment, investors will decide to invest or invest.

b. The Effect of Investment on the Availability of Jobs in Indonesia

The problem of employment is undeniably one of the main problems faced in development. This job field serves as a vehicle to place humans in a central position in development. Employment is a source of income for the working workforce. The amount of income earned from employment determines the prosperity of a family. In addition, employment is also a vehicle for human resources to express themselves as tool-makers. Work is an activity to express creativity and human ability and is one of the means of service for the human resources concerned. On the other hand, if there is unemployment in a society, this means less efficient use of one of the authorized capital and limited options available. Even if unemployment has reached a high enough level, it can disrupt the economic stability of the community concerned.

Indonesia is one of the countries with the largest population in the world. So, it is not surprising that until now Indonesia is still faced with the problem of availability of employment opportunities. Manpower certainly has a close relationship with the development of a country. A qualified workforce will be able to accelerate a development process in a country, because with a quality workforce, a country will be able to compete with countries that are already more developed. Vice versa, the more advanced the development of a country, the wider the availability of job opportunities.⁹ Therefore, the issue of employment and development is something that cannot be separated.

Employment development has many dimensions and interrelationships. The linkage is not only with the interests of the workforce but also with the interests of entrepreneurs, government and society. For this reason, a comprehensive and comprehensive arrangement is needed, including, among other things, the service of manpower placement, expansion of job opportunities and industrial relations. Harrod-Domar in Arsyad developed Keynes' theory by giving investment a key role in the process of economic growth, especially regarding the dual nature of investment. First, investment creates income (which is the impact of investment demand), and secondly, investment increases the production capacity of the economy by increasing the capital stock (which is the impact of investment supply). Solow and Swan) then corrected Harrod-Domar's theory by showing that economic growth depends on the availability of production factors (population, labor, and capital accumulation) and the rate of technological progress. The

⁹ Indriani, Maulida. (2016). Peran Tenaga Kerja Indonesia Dalam Pembangunan Ekonomi Nasional. *Gema Keadilan*, 3(1), p. 69.

assumptions used are constant returns to scale, the substitution between capital (K) and labor (L) is perfect, and there is a diminishing marginal productivity of each input.¹⁰

One of the factors that play an important role in the absorption of labor is the value of investment. Which investment is certainly very closely related to the capital market. Investment can be interpreted as spending or spending on investments or companies to buy capital goods and production equipment to increase the ability to produce goods and services available in the economy. The value of this investment is determined on the basis of the value or price of the condition of the machinery and equipment at the time of purchase. This investment determines the business scale of an industry and will affect the ability of the business to use factors of production. In this case, it is related to the amount of company investment which ultimately determines the level of employment.

The role of investment made by the government as well as private investment is very important in economic development, because investment activities will not only increase aggregate demand but will also increase aggregate marketing through its effect on production capacity. With increasing production capacity. Productivity will also increase, so that in a longer time perspective, investment will increase capital stock, where each addition of stock capital will also increase the community's ability to produce output which in turn will increase Gross Regional Domestic Product (GRDP) and is also expected to increase employment opportunities. .

Investment is an injection of capital from investors in creating a regional development process. The greater the investment, it can be assumed that the development process in creating the economic cycle will also be high. This means that a fast and high economy means that there is an element of reduced unemployment, the number of jobs that can absorb the community. However, if the positive development of investment is not supported by natural resources that are not optimal, such as human resources who do not have good skills, damaged or perforated infrastructure, investors will think that they will increase production costs, of course, before investors invest. their investment in an area they already have their own calculations so that there will be a return on investment. High investment is also a field of money for managers. Such as illegal levies, in order to facilitate permits for investors to invest in the region. This of course will not create economic growth in the community.¹¹

In order for a company to have sufficient capital to purchase all production equipment, one of the alternatives for companies to seek additional capital is to open up opportunities for the public to invest in their own companies. The investment can be in the form of buying shares or bonds from a company. The more people who invest in the company, the more capital they have. This will certainly facilitate the company in production activities. Given, when the company already has

¹⁰ Sulistiawati, Rini. (2012). Pengaruh investasi terhadap pertumbuhan Ekonomi dan penyerapan tenaga kerja serta kesejahteraan masyarakat di Provinsi di Indonesia. *Jurnal ekonomi bisnis dan kewirausahaan*, 3(1), p. 36.

¹¹ Hellen, Sri Mintarti., & Fitriadi. (2018). Pengaruh Investasi dan Tenaga Kerja Serta Pengeluaran Pemerintah Terhadap Pertumbuhan Ekonomi Serta Kesempatan Kerja. *Inovasi*, 13(1), p. 33

sufficient capital, then the opportunity to buy equipment and production equipment is even greater. This includes increasing the number of human resources in the company. Due to the massive production activities, If GDP is getting higher, then investment will be high as well. And conversely the lower the value of GDP, the value of investment demand will be lower as well. This indicates that if the investment invested in Indonesia increases, it will also increase Indonesia's per capita income because with the increasing number of investments, it will increase the supply of jobs that will allow the occupation to get a job and earn an income. As stated by Keynes Theory, which can be seen in the formulation he developed on the investment accelerator model. It is explained that the rate of investment is proportional to the change in output in the economy. Investment activities enable a community to continuously increase economic activity and job opportunities,¹²

The government is targeting 10.7 million new jobs, as well as reducing the poverty rate to around 8-10% by the end of 2014. This target can be achieved as long as the economy increases by 30% each year, higher than the previous year. To encourage it, the government must focus on three things, namely exports, government and public investment, and consumption. In addition, the investment developed must also be more in favor of job creation. To encourage economic growth in 2011 of 6.3-6.4%, the government targets an investment growth rate of 10% in 2011. This figure is higher than the estimated realization in 2010 which was 8%. Improving global financial liquidity will further encourage capital inflows from abroad, thereby driving domestic investment performance and the competitiveness of the national economy. The nominal investment requirement in 2011 is estimated at Rp2,243.8 trillion. The investment needs will come from PMA and PMDN by 26.8%, banking credit 17.4%, capital market 16.7%, government capital expenditure 12.4%, and other investment sources.¹³

Investment is the first step in production activities. With such a position, investment is essentially the first step in economic development activities. The dynamics of investment affects the level of economic growth, which reflects the rampant sluggish development. In an effort to grow the economy, each region always tries to create a climate that can stimulate investment. The intended target is not only the public or the domestic private sector, but also foreign investors. The majority of investment by the private sector is embedded in the secondary sector or the manufacturing sector, both PMDN and PMA, both based on the number of projects and based on the value of the investment. In this case measured by the value of investment approval, the chemical industry subsector ranks at the top, for both domestic and foreign investment, the textile sub-sector is enjoyed by domestic investors. On the other hand, foreign investors are more interested in the hotel and restaurant sub-sector. The lowest order is occupied by the trade sector (PMDN) and the food crops sub-sector (PMA). The same sub-sector that is unattractive to

¹² Fauziana, Lutvi. (2014). Keterkaitan Investasi Modal Terhadap GDP Indonesia. *Economics Development Analysis Journal*, 3(2),p. 379.

¹³ Kurniawan, C. (2019). Pengaruh Investasi Terhadap Perekonomian indonesia. *Jurnal Media Wahana Ekonomika*, 12(4), p. 5.

domestic investors and foreign investors seems to be the pharmaceutical industry (Dumairy, 2006). With government investment and private investment, both PMA and PMDN will be able to create job opportunities for the community and can also increase income for the community. The same sub-sector that is unattractive to domestic investors and foreign investors seems to be the pharmaceutical industry (Dumairy, 2006). With government investment and private investment, both PMA and PMDN will be able to create job opportunities for the community and can also increase income for the community. The same sub-sector that is unattractive to domestic investors and foreign investors seems to be the pharmaceutical industry (Dumairy, 2006). With government investment and private investment, both PMA and PMDN will be able to create job opportunities for the community and can also increase income for the community.¹⁴

4. Conclusion

Investment is part of the implementation of the national economy and is placed as an effort to increase national economic growth, create jobs, increase sustainable economic development, increase national technological capacity and capability, encourage people's economy, process potential economic potential into a real economy by using funds that originating, both from within the country and from abroad, as well as improving the welfare of the community. Foreign investment in the region is one of the impacts of the enactment of Law Number 25 of 2007 concerning Investment.

Investment, whether made by the government or private investment is very important in economic development, because investment activities not only increase aggregate demand but also increase aggregate marketing through its effect on production capacity. With increasing production capacity. Productivity will also increase, so that in a longer time perspective, investment will increase capital stock, where each addition of stock capital will also increase the community's ability to produce output which in turn will increase Gross Regional Domestic Product (GRDP) and is also expected to increase employment opportunities. . In order for a company to have sufficient capital to purchase all production equipment, then one alternative for companies to seek additional capital is to open up opportunities for the public to invest in their own companies. The investment can be in the form of buying shares or bonds from a company. The more people who invest in the company, the more capital they have.

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¹⁴ Safina, L., & Rahayu, S. E. (2011). Analisis Pengaruh Investasi Pemerintah Dan Swasta Terhadap Penciptaan Kesempatan Kerja Di Sumatera Utara. *Jurnal Manajemen & Bisnis*, 11(1), 4-5, p. 6.

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