INVESTMENT OPPORTUNITIES IN INDONESIA

Wahyunita Susilowati, Gunadarma University (Jakarta), Indonesia

ABSTRACT
An alternative investment allocation of funds made today in the hope of a profit in the future. Investment can be done in various sector. Can be either private companies or public companies, banks and financial institutions, and so on. Any investment that we do have to maintain an investment climate that is happening in our country will appoint a place of our allocation. A good investment climate is to provide opportunities and incentives to businesses to make productive investments, create jobs and expand business activities. In order for the investment climate in a country can be efficient, it would require support from the government. Support may be the deregulation measures that aim to create a climate more conducive that in an effort to attract more investors in our country. A stable political climate is necessary in order to create legal certain implementation and business security in Indonesia (up to the outside world now is still not safe to assume in Indonesia (high risk country). Indonesia until now faced with severe challenges, both from domestic sources and from abroad as well, so from that Indonesia should be able to create a stable political climate.

KEYWORDS
Investment, investment climate, investment regulation.

1. INTRODUCTION
Investment is a commitment of a number of funds or other resources committed at this time, with the aim of earning a profit in the future. Investment required in time and predictive (condition) is better to avoid mistakes in decision making.

A good investment climate is to provide opportunities and incentives to businesses to make productive investments, create jobs and expand business activities. Investment plays an important role in increasing economic growth and reduce poverty. Fix a critical problem faced by governments in developing countries. Provide important employment to create balance and peace.

In this investment required intervention from the government to invest in these activities efficiently. This is necessary to overcome the failure. The Government set up the business and transactions to minimize. Asymmetry of information and prevent monopolies. But in reality the government is still often a failure in dealing with investment issues.

In creating a good investment climate, need support from various sectors, namely financial markets, when functioning well, connecting the business with a lender and increased investor interest to finance the business and share the risk. Good infrastructure connects businesses with customers and suppliers and help them take advantage of modern production technologies. Instead financial markets and weak infrastructure that creates barriers to business opportunities and increase costs for both small companies and multinational companies. Barriers to entry into the market caused the company reduced competition for the more incentive there is to reduce the emergence of innovation and productivity will increase.

In financial markets the problem lies in the asymmetry of information. While the problem lies in the infrastructure market power associated with economies of scale. Financial markets are well developed to provide payment system services, mobilize savings and allocate funding to companies who want and deserve to invest. If financial markets work well is the source of funds to conduct investments available for all forms of business. Healthy financial markets also impose discipline for the business world in order to improve performance, encourage efficiency, both directly and through the provision of facilities for the entry of new players into the market.

But if the government ownership can also be triggered from the weak investment climate, namely:
- if the state-owned company responsible for the required inputs business (such as electricity, telecommunications or finance), then the weakness of the government-owned companies in production led to high costs on businesses that depend on these input
- trigger the government ownership of corruption because administrators usually have a low incentive to reduce bribery.
• if the state-owned companies have a monopoly then the opportunities for private companies will be lost. The problem becomes more difficult when the State-owned enterprises is also given the authority as a regulator.

Overcoming market failure government intervention in the financial industry in the form of loans to certain groups of command, providing a guarantee of private loans and provide a source of financing through banks and finance companies owned by the government. To protect the government's domestic banking industry to limit competition with foreign banks and other financial institutions.

In developing countries the performance of state-owned banks are generally bad. Given the share of state-owned banks are large in the banking industry led to the overall performance of the banking sector to be bad too. These conditions reduce access to financing, reduce competition, make credit allocation and enhance the possibility of financial crisis. To improve the performance of the financial industry and studying past experience there are five approaches that can be done as follows:

1. ensuring macroeconomic stability,
2. increasing competition,
3. ensure the rights of debtors, creditors and shareholders,
4. facilitate the flow of information and
5. make sure banks do not take excessive risks.

Government can reduce the problems faced by banks as creditors and shareholders of the bank which increases their desire to distribute credit. The credit is a strategic function of the bank owned and it also functions which are often the cause of collapse of a bank. Banks must be able to analyze and predict a credit application in order to minimize the risks inherent in the credit distribution. Information about prospective customers debtor is a crucial factor in determining the level of risk would be faced by the bank.

Application of prudential regulations (prudential regulation) may reduce the risk of bankruptcy of the bank and simultaneously reduce the likelihood that the government was forced to bailout. Prudential regulation is a suitable legal framework for financial operations is a significant contributor to prevent or reduce the problem of the financial sector. Evidence indicates that the absence of prudential regulations in some key areas can lead to bank failures and systemic instability.

Agreed with the General Agreement on Tariffs and Trade (GATT) Uruguay around the year in 1994, and later became Word Trade Organization (WTO) can be said is the origin of the current initial investment will be large scale inter-state period during the coming year, particularly from developed countries to developing countries and the era known as globalization. In TRIMS (Trade Investment Measure) determined that any TRIMS agreement signatory countries should not distinguish between domestic capital and foreign capital. This means that the investment laws of each participating country could no longer distinguish between the existence of foreign capital and domestic capital. Indonesia related to membership in the WTO, given the commitment of multilateral liberalization commitments legally binding. Therefore, in the compilation of this commitment is lower when compared with the current provisions. For foreign ownership through the stock exchange for example commitment given up to 49% while the banking sector such as foreign banks are allowed to have shares of 99% maximum. This national provisions referred to unilateral liberalization or collectively, the autonomous liberalization. In this commitment also stated that foreign experts could bring energy to work in the company of Indonesia. Meanwhile, in order to obtain fresh funds, the government continuously divested shares he owned in the national banking system. From the results of research Edward K.Y. Chen (Chen, 1981: 20-23) have presented 17 investment motivation advanced countries or the beneficiary developing countries. namely:

1. Lower cost and rent
2. Lower labor cost
3. Diversification of risk
4. To make fuller use of the technical and production know-how developed or adapted by investee:
   1. To avoid or reduce the pressure of competition from other corporation in investee countries.
   2. To make use outdated machinery used in the investee corporation
   3. Higher rates of profits
   4. Availability of higher levels of technology
   5. Lower capability
   6. Defending the existing market by investing directly there.
   7. To build up a vertically integrated structure.
   8. To circumvent tariff and quotas imposed by develop countries.
   9. Establishing a subsidiary overseas is similar to investing in overseas financial market.
   10. Availability of technical and skilled labor force.
   11. Availability of management manpower.
   12. To open up new markets by investing directly there.
   13. Availability of raw materials and or intermediate products.
2. DISCUSSION

Factors that influence the flow of capital, skills and technology. In general, the main factors causing the flow of capital, skills and technology from developed countries, basically influenced by the 5 main factors. The factors in question, which include:

- **Investment climate**
  1. Availability country recipient own country's own capital to support business security (country risk), which is shown by the political stability and economic development level of beneficiary countries business development
  2. The prospect of beneficiary countries
  3. Availability infrastructure and facilities needed
  4. Availability raw materials, labor and relatively cheap in the market potential beneficiary countries
  5. The flow of capital generally tends to flow to countries whose per capita national income is relatively high. The relationship between developed countries (as the bearer of capital) in developing countries as recipients of foreign capital. Generally speaking, there is imbalance in the relationship between the developed world as the bearer of capital by developing countries as recipients of capital.

Unbalanced relationship is caused by a few main points (Streeten, 1980: 251), namely:

- **Foreign investors** always looking for profit (profit oriented), while the beneficiary countries to expect that foreign capital can help national economic development goals or to complement the development fund foreign
- investors have a stronger position, so they have the ability and the ability to negotiate a better Foreign
- investors usually have a strong business network and wide, namely in the form of Multinational Corporation.

This company basically serves the interests of preference shareholders state and country of origin rather than the interests of beneficiary countries. Of course, the imbalance is a challenge for recipient countries of foreign capital, including Indonesia, namely how to overcome the imbalance in question in order to attract foreign businesses.

- **What should be done by the Government of Indonesia in order to attract foreign capital business?**
  In connection with the government efforts to attract foreign capital into Indonesia, especially in regard to any regulations related to FDI, in essence should be oriented on the basic things that are desired by all the owners of foreign capital, namely:
  1. The regulatory policy regarding foreign investment are not consistent and too fast changing and can ensure legal certainty. Legal uncertainty and rapid change will be complicate their business planning in the long term licensing.
  2. Procedure clear and straightforward which can cause high cost economy (can not produce economic efficiency).
  3. Guarantee on their investments and the legal protection of property rights of investors. Besides the above, other factors must be considered and / or prepared by the government, namely the availability of facilities and infrastructure that can support the implementation of their investment well (communication, transportation, banking and insurance).

- **Condition of the current development of investment in Indonesia.** The development of the realization of investment in Indonesia since the emergence of a political crisis in mid 1997 and later became economic crisis so far, as well as other factors such problems the terrorist problem, bureaucracy governance, corruption and others that do not impact on encouraging economic growth and investment in Indonesia. Indicators due to this we can see from the comparison between the investment plan has been approved since 1997 with the realization from year to year until October 2007. Based on data issued by BKPM, the development of foreign investment flows can be seen in Table as follows.

From the data table below, we can see in the year 1997, the realization of PMA only 13% of the commitments that have been approved and then rising to 76% in 1999. Then began the year 2000 to year 2007 is the realization that under the year 1999. In 2000 only 62%, and then in 2001 s / d in 2004 down very dramatically viewed from each year of investment commitments that have been agreed, which ranges from 21% to 45%. In 2005 the realization of FDI increased to 66% of the commitments that have been approved, and in 2006 and 2007 the realization of the visits of Foreign Direct Investment FDI commitments agreed upon experiencing a significant decline, which is only 38% and 27% of total commitment of PMA. Can be concluded that the low realization PMA is compared with foreign capital investment commitments that have been agreed upon, caused mainly by safety factors to which a visit can not be guaranteed by the Government (country risk is high enough).
<table>
<thead>
<tr>
<th>Year</th>
<th>Direct Planning Project Value (US$ Million)</th>
<th>Direct Approvals Project Value (US$ Million)</th>
<th>Direct Realization Project Value (US$ Million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>778</td>
<td>33,665.7</td>
<td>331</td>
</tr>
<tr>
<td>1998</td>
<td>958</td>
<td>13,635.0</td>
<td>412</td>
</tr>
<tr>
<td>1999</td>
<td>1,179</td>
<td>10,894.3</td>
<td>504</td>
</tr>
<tr>
<td>2000</td>
<td>1,613</td>
<td>16,038.6</td>
<td>638</td>
</tr>
<tr>
<td>2001</td>
<td>1,390</td>
<td>16,375.4</td>
<td>454</td>
</tr>
<tr>
<td>2002</td>
<td>1,254</td>
<td>10,020.1</td>
<td>444</td>
</tr>
<tr>
<td>2003</td>
<td>1,247</td>
<td>14,364.1</td>
<td>571</td>
</tr>
<tr>
<td>2004</td>
<td>1,248</td>
<td>10,469.7</td>
<td>546</td>
</tr>
<tr>
<td>2005</td>
<td>1,649</td>
<td>13,635.6</td>
<td>909</td>
</tr>
<tr>
<td>2006</td>
<td>1,718</td>
<td>15,659.1</td>
<td>867</td>
</tr>
<tr>
<td>2007*</td>
<td>1,608</td>
<td>36,751.0</td>
<td>842</td>
</tr>
</tbody>
</table>


Challenges faced by Indonesia

Indonesia faces significant challenges affect foreign investment flows into Indonesia.

1. The challenge of domestic

   First, the existence of various constraints, including capital, human resources and technology, other conditions of Indonesia must be able meet its target goals of economic development and economic growth and equitable society income, unemployment levels decrease, increasing the number of exports, the decline in population is under the line poverty and more. Second, creating a business climate in the country, which includes regulation or policy development policy that supports the creation of an attractive climate for foreign capital (foreign investors) is accompanied by security guarantees tried in Indonesia by the Government. The question is whether development policy regulations or existing policies in accordance with the wishes of investors noted previously, has been able to provide facilities for the convenience to foreign capital owners.

2. Overseas

   First, in this 21st century, the world economy increasingly global nature of the filling world market share in hypercompetitive condition, and free capital flows in any country. On the other hand there "Technical gap" between developed countries with developing countries including in Indonesia. This would further widen if the state of Indonesia was not immediately prepared quickly by accelerating the development of human resources and science and technology.

   Second, the change is so rapid changes occur in Asia and the Asia Pacific region as a result of the faster realization multilateral agreements deal a few countries, such as AFTA and APEC and investment sector. It seems that these opportunities will not be utilized Indonesia, if not sooner settled himself with this field things related to factors that can attract foreign capital to invest in Indonesia. Investment in the banking sector, saving or investment is the knowledge possessed by almost all people. Banking sector had become an idol and community options for saving money and investing for future goals. But once the crisis hit Indonesia, the banking sector is highly affected by chronic. During the crisis many banks are exposed to liquidation. Until now, this sector has not recovered as before. In the banking industry, foreign involvement can be seen in at least two periods before and after the 1997 crisis. Before the crisis, foreigners who want to conduct business activities in the banking sector can do this by opening branch offices, the establishment of banks by partnering with national banks and buy stocks through a stock exchange. The establishment of foreign bank branches, although the chances opened by the law, but in practice this is not possible because of provisions regarding the procedures for its establishment was never issued by the government. Establishment of banks can be done by a mixture of legal entities form the bank to work with banks that have been standing in Indonesia. Foreign parties can have a mixture of bank shares is a maximum 85%. Purchase of bank shares through the stock can be made by foreign parties for a maximum of 49% of the number of shares recorded in the stock. Provisions on foreign ownership was changed after the crisis. For the opening of branch offices required that foreign banks can open offices in Indonesia is the banks that have ratings and a good reputation. Total assets owned by foreign banks should be included in the two hundred of the world. Foreign banks will open a branch office shall attempt to place funds in rupiah currency or foreign currency at least Rp.3. This means that factually, foreigners are
prohibited to open bank branches in Indonesia. As for the establishment of new banks, introduced a lighter conditions, foreigners are no longer restricted to the bank and should be partnered with national banks. Individual and / or non-bank legal entities are allowed to establish a new bank or acquiring a national bank now stands. A maximum of shares owned by foreigners should be increased to 99%. Acquisition through exchanges can be made of 100% of the total shares listed on the stock. Whereas the maximum stake that can be listed on the stock is 99%. Changes of this provision is intended to overcome the scarcity of capital in the financial industry crisis. Meanwhile, in order to obtain fresh funds, the government continuously divested shares he owned in the national banking system. The government-owned shares started from the recapitalization program conducted in 1998 to overcome the destruction of the banking industry. The presence of foreign parties in the national economy has long been disagreement among the theorists and practitioners of economic development. In the banking sector, this disagreement occurs even cried. The presence of foreign parties in the national economy of a country, are theoretically intended to enhance the capacity of capital and encourages competition which in turn will create efficiency. Thus, the foreign presence also creates sentiments of nationalism.

3. CONCLUSIONS AND RECOMMENDATIONS

1. Investment climate in Indonesia until now still apprehensive, and yet are conducive. Interests of foreign capital is still not motivated to flow into Indonesia, compared with some other countries especially South East Asian countries. Investment realization of development 1997 to October 2007, which generally remained below 50% of total FDI deals that have been approved since the political crisis that followed the economic crisis, is a proof of this. For the umpteenth time, the investment climate in Indonesia is considered as one of the worst in the world. Also for the umpteenth time, the World Bank gave the same assessment. Indonesia is not the main objective of foreign investment. The investors who are familiar with Indonesia also trying to avoid the country.

2. Indonesia until now faced with severe challenges, both from domestic sources and as well as from abroad. Among the limitations of capital, skills and Knowledge, internal security problems that the outside world is still considered high risk (high risk country). Evidence of this is caused by events other than the Bali Bombing I and 2 in 2005, also from a business magazine survey of the world "Forbes" (Media Indonesia, June 2008) of the 120 countries of the world focused on the business climate assessment visits of how the protection of investors, handling of corruption, economic development policy support free trade, and inflationary pressure. Results released Forbes survey, the place Indonesia ranked 81 as a business destination.
   a) Perform various deregulation measures that aim to create a climate conducive to the growing efforts to attract more investors to implement investment in Indonesia.
   b) Indonesia should be able create a stable political climate, in order to be able implementation create legal certainty and implementation of business security in Indonesia (up to the outside world now is still not safe to assume in Indonesia (high risk country).
   c) With still accommodate profit oriented owners of foreign capital, foreign investment policy and capital and domestic capital should be directed to economic sectors that trigger other economic activities in particular sectors of the business sector can build the foundation of economic growth in Indonesia over the medium and long term.

REFERENCES

Chen, Edward, KY., Hong Kong Multinational in Asia: Trens, Patterns and Objectives, in Sumantoro, foreign Capital Company and Development in Indonesia, paper, FE-2 Surabaya, May 1981
Streeten, Paul, No Year: Cost and Benefits of MNE in Less Developed Countries, in Duming The Multinational Enterprise, George Allen and Union Ltd..
Daily Media Indonesia, June 17, 2008
Website BKPM; Http://www.bkpm.go.id, October 2007