

Indonesia's Attractiveness As An Investment Destination

Direct Overseas: Case Study

Ikn Development

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Abstract: The construction of Indonesia's new capital city (IKN) is a strategic initiative to increase the country's attractiveness for foreign investment (FDI) as well as create a new economic growth center. This article discusses the driving factors, challenges, and strategies to support FDI in the development of IKN. With its strategic location and significant domestic market potential, supported by government regulations such as the Job Creation Law, Indonesia offers promising opportunities for foreign investors in priority sectors, including infrastructure and renewable energy. However, the project faces various challenges, including inadequate supporting infrastructure in East Kalimantan, bureaucratic complexity, and global economic uncertainty.

Keywords: IKN; Investment; Development

1. Introduction

Indonesia has long been known as one of the significant destinations for foreign *direct investment* (FDI) in Southeast Asia. Geographical advantages, large population, and wealth of natural resources make Indonesia one of the most potential markets in the region [1]. FDI flows play a key role in Indonesia's economic development, contributing to increased employment, technology transfer, and infrastructure development. However, to continue to compete in a dynamic global market, Indonesia must actively increase its attractiveness to foreign investors.

One of the major initiatives that is being pursued by the Indonesian government is the development of the National Capital City (IKN) of the archipelago in East Kalimantan. IKN Nusantara is projected as a new government center that will not only encourage administrative decentralization, but is also expected to become a center of innovation and investment. This project includes the development of smart cities[2] and modern infrastructure that are integrated with the concept of sustainability, which has the potential to attract foreign investors in various sectors such as property, renewable energy, technology, and transportation.

According to a report from the Ministry of Investment, the infrastructure and technology sectors are the two sectors that are most in demand by foreign investors in Indonesia. The planned development of the IKN as a model of the future city based on technology and environmental sustainability opens up great opportunities for multinational companies to participate in its development. In addition, the government has also prepared various incentives and policies that support foreign investment, such as tax incentives, simplified licensing, and increased legal guarantees for investors.[3]

Studies on FDI show that one of the main factors that attract foreign investors is political stability and pro-investment policies [4]. With the development of the Nusantara IKN, Indonesia has the opportunity to demonstrate its commitment to policy reform and sustainable infrastructure improvement. Nevertheless, challenges such as legal uncertainty, complicated bureaucracy, and potential environmental risks associated with relocating the capital require serious attention. This is important so that incoming

investment is not only profitable in the short term, but also contributes to long-term economic development.

The development of the IKN is also expected to be a successful example for other countries that are considering the development of new cities. Previous studies have shown that the relocation of the capital can have a positive impact on economic development, as seen in the cases of Brasilia in Brazil and Astana in Kazakhstan [5]. Both cities managed to attract FDI in the infrastructure and property sectors after the relocation of the capital, despite facing initial challenges in attracting investor interest.

Overall, this article will explore Indonesia's potential as an FDI destination with a focus on the development of IKN Nusantara as the main case study. This analysis will include an overview of the factors that influence foreign investors' decisions, such as government regulation, political stability, and infrastructure readiness. In addition, this article will also discuss how the IKN project can serve as a major attraction for foreign investors and how Indonesia can compete with other countries in the region in terms of attracting FDI.

2. Literature Review

a. Theory of Foreign Direct Investment (FDI)

Foreign Direct Investment (FDI) is an important component in a country's economic development, especially in developing countries such as Indonesia. According to Dunning's theory in the OLI (*Ownership, Location, Internalization*) paradigm, the decision of multinational companies to conduct FDI is influenced by three main factors: unique asset ownership (*Ownership*), location attractiveness (*Location*), and operational control advantages (*Internalization*) [6]. In the Indonesian context, the location factor is very important, especially with the development of IKN which offers potential strategic locations for various industries, including the technology, property, and renewable energy sectors.

Previous research by [7] shows that FDI has a positive effect on economic growth in developing countries, especially when accompanied by supportive government policies and strong political stability. The research is relevant to the Indonesian government's efforts to attract FDI through policy reforms such as the Job Creation Law, which aims to simplify licensing and improve legal guarantees for foreign investors [3].

b. Investment Attraction Factors

A country's attractiveness as an FDI destination is determined by a variety of factors, including macroeconomic conditions, political stability, infrastructure quality, and policy incentives. [4] in its survey of the Indonesian economy, it was stated that structural reforms and improving the business climate are the keys to increasing Indonesia's competitiveness as an investment destination. Adequate infrastructure and long-term policy stability are also key factors that foreign investors pay attention to. In the context of IKN development, the availability of modern and well-planned infrastructure, as well as fiscal incentives, are expected to be the main driving factors for FDI inflow.

According to him [8], political stability and legal certainty also play an important role in attracting FDI, especially in developing countries. This article highlights the importance of clear regulatory roles and legal certainty for foreign investors, which is one of the main challenges for the Indonesian government in developing large projects such as IKN.

c. Case Study of the Development of the New Capital City

Studies on the relocation of capital cities have been carried out in various countries, including Brazil and Kazakhstan, which can provide a perspective for the development of the archipelago's IKN [9]. In his research on the relocation of the capital Brasilia in Brazil and Astana in Kazakhstan stated that the construction of the new capital can create great investment opportunities, especially in the infrastructure and property sectors. However, the success of this kind of project depends heavily on careful planning, transparency in project management, and long-term economic attractiveness for investors.

In a more specific study, [10] it was observed that the relocation of the capital city could boost regional economic growth by creating new centers of economic activity. However, challenges such as large relocation costs and socio-economic impacts on local populations also need to be seriously considered. In this case, the development of the Nusantara IKN offers a great opportunity as well as a challenge for Indonesia, especially in terms of attracting foreign investors to participate in this development.

d. The Role of Government Policies in Increasing FDI

Government policies play an important role in determining the investment attractiveness of a country. [3] is one of the main policies aimed at increasing Indonesia's competitiveness in the eyes of foreign investors by simplifying business regulations and creating a more friendly investment climate. According to a report from [2], policy reforms like this are essential to attract FDI, especially in strategic sectors such as infrastructure and technology that are the focus of IKN development.

In addition, government policies in providing fiscal incentives, such as tax exemptions and ease of licensing, have also been shown to increase interest in foreign investors, especially in major infrastructure projects. Studies by [11] show that fiscal incentives play an important role in encouraging foreign investment, especially in developing countries that have large markets such as Indonesia.

3. Research Methods

a. Research Approach

This study uses a qualitative approach with a case study method to analyze Indonesia's potential as a foreign direct investment (FDI) destination with a focus on the development project of the National Capital City (IKN) of the archipelago. Case studies are a method often used in large infrastructure investment and development research, as they allow researchers to explore complex phenomena in real-world contexts [12]. The qualitative approach allows for an in-depth analysis of policies, challenges, and opportunities related to FDI in the context of national infrastructure development.

b. Data Source

This study uses one type of data source, namely secondary data. Secondary data is obtained from official government reports, such as reports from the Investment Coordinating Board (BKPM), the Ministry of Investment, as well as publications from international organizations such as the OECD, the World Bank, and scientific journals related to foreign investment and infrastructure development [2], [4]. In addition, the study also uses a variety of relevant academic literature, including previous case studies on the construction of new capital cities in other countries [9], [10].

c. Data Analysis Techniques

This article uses a qualitative data analysis method based on secondary data obtained from various reliable sources. Secondary data includes reports from international institutions such as [2], [4], and relevant scientific journals such as works [9] and [10]. In addition, data from government policy documents, such as the Job Creation Law (Law No. 11 of 2020), is also used to strengthen the analysis.

The analysis process is carried out through three stages:

1. Secondary Data Collection

Data is collected from relevant sources, including journal articles, reports of international institutions, as well as official government documents. The focus of data collection is directed at issues related to attractiveness, obstacles, and strategies in increasing foreign direct investment (FDI) for the development of IKN.

2. Data Categorization and Filtering

The data collected are classified into three main categories: attraction factors, barriers, and FDI increase strategies. Irrelevant or invalidated data is filtered to ensure the quality of the analysis.

3. Content Analytics

Content analysis techniques are used to dig into the deep meaning of the secondary data that has been collected. Each category was analyzed to identify patterns, relationships between variables, and reinforcements that are relevant to increasing FDI in IKN development. The results of the analysis are then compared with international case studies, such as Brasilia and Astana, to provide a broader perspective.

4. Analysis And Discussion

- a. Indonesia's Attractiveness as a FDI Destination

- i. Strategic Location and Potential Market

Indonesia has a strategic location located between two oceans and two continents, making it an important trade route in the Southeast Asian region. With a population of more than 270 million people, Indonesia offers a large domestic market, which is an attraction for foreign investors [2]. This market potential, coupled with its strategic location, gives Indonesia an edge in attracting FDI in sectors such as manufacturing, infrastructure, and services.

- ii. Infrastructure Development and Government Support

The IKN development project is one of the largest infrastructure projects fully supported by the Indonesian government. With the Job Creation Law, the government seeks to create a better investment climate through simplifying regulations, providing tax incentives, and protecting foreign investors (Government Indonesia, 2020). These measures show the government's commitment to attracting FDI, especially in supporting national infrastructure development.

- b. Case Study: Brasilia and Astana as Learning

Case studies of the construction of new capitals in Brasilia and Astana show that the relocation of the capital can have a significant impact on increased investment. In Brasilia, the construction of the new capital city has managed to attract investment in the construction and real estate sectors [9]. While in Astana, Kazakhstan, the relocation of the capital has managed to increase the country's

attractiveness in the infrastructure and financial services sectors [10]. The development of IKN in Indonesia is expected to follow this success by creating a new economic growth center that attracts FDI in similar sectors.

c. Obstacles in Attracting Investment for IKN

i. Limitations of Supporting Infrastructure

Although the development of the IKN is a major project, the limitations of supporting infrastructure in the East Kalimantan region, such as transportation and telecommunication networks, are still an obstacle for some foreign investors [4]. There needs to be an improvement in logistics and communication networks to ensure the smooth operation of foreign investment in the region.

ii. Regulatory and Bureaucratic Challenges

The complex bureaucratic process is still a challenge for some foreign investors in Indonesia, although the Job Creation Law aims to simplify regulations. Some studies show that foreign investors are still faced with complicated procedures, especially in licensing and compliance with local standards [8]. To attract more investment to the IKN, there needs to be a consistent effort from the government to simplify the bureaucracy and increase transparency.

iii. Global Economic Uncertainty

In recent years, global economic uncertainty caused by the COVID-19 pandemic and international trade tensions have affected the interest of foreign investors in general. This can have an impact on FDI in the IKN, as investors may tend to be cautious in investing in long-term infrastructure projects that have high risks [7].

d. Strategy to Increase Investment Attractiveness for IKN

To maximize the attractiveness of IKN investment, several strategic steps can be taken by the Indonesian government:

i. Provision of Special Incentives: The provision of special fiscal and non-fiscal incentives for foreign investors in the IKN, such as tax incentives, ease of licensing, and easier access to land for development.

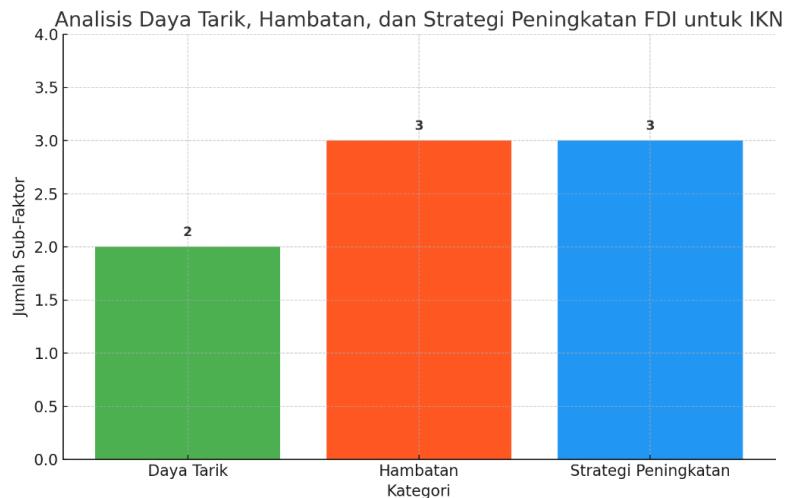
ii. Strengthening Cooperation with Partner Countries: The government can establish cooperation with strategic partner countries to attract FDI, especially from countries with high-tech capacity, such as Japan and South Korea, which can contribute to the development of infrastructure and technology services in the IKN.

iii. Transparency in Project Management: Ensuring that every stage of IKN development is carried out with full transparency, so that investors have confidence in the sustainability and credibility of the project.

e. Projected Impact of IKN Development on FDI and the Indonesian Economy

If the development of the IKN goes according to plan, it is estimated that this project can boost FDI in various sectors. Foreign investment in the IKN is expected to create new jobs, increase technology transfer, and encourage the development of related industries, such as construction and transportation. In addition, the success of this project has the potential to increase international perception of Indonesia's investment climate, making Indonesia one of the main FDI destinations in Southeast Asia.

The following is a chart of the percentage of Indonesia's attractiveness as a direct destination for foreign investment



5. Conclusions

The construction of a new National Capital City (IKN) in Indonesia is not just an administrative relocation project, but also a strategic step to change the national economic structure and increase Indonesia's competitiveness as a destination for foreign direct investment (FDI). With its strategic geographical location and strong government support, Indonesia offers great attraction for foreign investors. What's more, the high population size provides a wide potential domestic market, thereby increasing investment opportunities in various sectors such as manufacturing, infrastructure, and services.[2]

Government support through investment-friendly regulations, such as the Job Creation Law, affirms Indonesia's commitment to creating a more competitive and attractive investment climate. These regulations aim to simplify bureaucracy, provide fiscal incentives, and protect the interests of foreign investors. However, despite the positive intentions of these regulations, challenges remain, especially in terms of implementation on the ground and effectiveness in attracting FDI in a sustainable manner.[3]

The experience of countries such as Brazil and Kazakhstan shows that the relocation of the capital can encourage foreign investment by creating new centers of economic growth. In Brasilia, the relocation of the capital has managed to attract FDI mainly in the construction and property sectors, while in Astana, the relocation of the capital has managed to increase attractiveness in the infrastructure and financial sectors. Therefore, the development of the IKN has the opportunity to follow in the footsteps of this success by attracting FDI in strategic sectors.[9], [10]

However, there are several main obstacles that need to be considered in attracting FDI for IKN, including limited infrastructure in East Kalimantan, bureaucratic complexity, and global economic uncertainty. Basic infrastructure such as transportation, energy, and telecommunications in the IKN region is not fully ready to support large investment flows [4]. On the other hand, bureaucratic and convoluted regulatory constraints are still a complaint for investors, even though the government has made efforts to improve them. Global economic uncertainty, due to factors such as the COVID-19 pandemic and international trade tensions, has also impacted foreign investors' interest in investing in long-term projects involving high risk [7].

Overall, the success of IKN development as a FDI destination depends on the government's effectiveness in overcoming various obstacles and attracting foreign investors through a strategic approach. If these obstacles can be overcome, the IKN has great potential to become a new economic center capable of attracting FDI sustainably,

creating jobs, increasing technology transfer, and strengthening national economic growth

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