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Deep dive into the foreign direct investment dynamics of RCEP member countries in Indonesia

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ABSTRACT

This study focuses on the complex dynamics of foreign direct investment (FDI) in the Regional Comprehensive Economic Partnership (RCEP) and its relationship with Indonesia. Looking back over 30 years reveals the dual role of RCEP member countries as FDI sources and beneficiaries. The study identifies various factors that compel RCEP countries to invest abroad, including profitability institutional and strategic incentives. This study examines Indonesia's attractiveness as a foreign direct investment destination, considering the country's significant needs, natural resources, strategic location, and improved ease of doing business and analyzing the transformative impact of the RCEP agreement's implementation on reducing trade barriers. The study foresees positive trends in FDI dynamics in Indonesia, which it attributes to the continued profitable growth and indigenous integration of RCEP countries. The focus is on the policy framework within the RCEP and the critical role of bilateral agreements, highlighting the importance of structural development in Indonesia. Challenges remain, especially in remote areas, and bureaucracy and policy capacity improvements are needed. This study provides comprehensive insights into the interconnected dynamics of foreign direct investment between RCEP member countries and Indonesia. This highlights the need to improve the investment environment, develop infrastructure and ensure policy coherence for Indonesia to realize its full potential for foreign direct investment under RCEP. These results have important implications for science, policymakers, and international economic actors.

Keywords:

FDI
Indonesia
RCEP
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INTRODUCTION

The country is a developing nation in an era of globalization and openness, and implementation of development requires a significant amount of money. There is a great need for money to advance actual power in regions and regions, and Indonesia needs to provide more funding for development (Talitha et al., 2020; Temenggung et al., 2020). The government calls foreign investment or direct foreign investment as one of the primary sources of foreign capital, which can provide the most money out of it and other sources of capital (Babic et al., 2020; Magdalena & Suhatman, 2020). However, there is still a great need for money to advance actual power in regions and regions.

Indonesia's R&D sector has some way to go to gain global significance, and the low level of state R&D spending is spread across a range of organizations (Afriana & Khoirunurrofik, 2023; Indrawati & Kuncoro, 2021). The government of Indonesia has several funding schemes for research and development (R&D) and innovation, but more work remains to be done to ensure strong and productive human capital development (Mahardhani, 2023; Moeliodihardjo et al., 2012). The country faces a substantial financing gap for its decarbonization agenda, and it needs to tap into international sources of funds, including multilateral institutions, philanthropy, and the private sector (Dhakal & Shrestha, 2021). The R&D funding system in Indonesia has been characterized as ineffective, with slow disbursement, cumbersome administrative procedures, and single-year funding. An attempt to create competitive, autonomous, and efficient R&D funding under the Indonesian Science Fund was largely unsuccessful (Dobrzanski & Bobowski, 2020; Sigurdson & Palonka, 2004).

Indonesia needs more funding to advance actual power in regions and regions, and to provide more funding for development (Jarvis, 2012; Permatasari et al., 2021). While the government calls foreign

investment or direct foreign investment as one of the primary sources of foreign capital, there is still a great need for money to advance actual power in regions and regions (Fernandez et al., 2020; Gallagher et al., 2021). Sarwedi (2002) predicted that foreign direct investment in low-income countries, often called developing countries, will increase by 7-10% annually until the end of ten years. This is actually due to the influence of trade liberalization, privatization, technological intervention, reduction of travel costs, communication, capital mobility, and increase in investment. Also, in the annual report presented by the UNCTAD (2021), it was said that the growth of foreign investment in the world increased significantly between 1990 and 2000, namely 209 million dollars, 437 million dollars, and 1 $118 million. This data shows that the financial crisis that has hit developing countries has not stopped capital from growing. The UNCTAD (2021) report shows that direct foreign investment from the United States invests the most in developing countries, followed by Japan, China, Hong Kong, and the Netherlands.

This study is unique because it focuses on analyzing the nuances of FDI dynamics within the framework of RCEP, especially those emerging in Indonesia. This study aims to go beyond superficial observations and delve into the complexities that constitute successful foreign investment. This study aims to provide valuable insights beyond conventional wisdom by unravelling the complexities associated with investment flows.

The importance of this study is underlined by the transformative potential of foreign investment for the recipient country, in this case, Indonesia. A nuanced understanding of the nature, quality, and ease of foreign investment is critical to developing sound policies, promoting sustainable development, and strengthening Indonesia's position in the global economy. This study, therefore, serves as an essential step in unravelling the layers of FDI dynamics, providing practical insights for policymakers and contributing to the broader debate on international economic cooperation.

METHOD

This study is designed as a qualitative analysis, guided by the framework proposed by Miles and Huberman (2014). The research method involves data collection, reduction, presentation, and conclusion. Using a qualitative approach, the researcher aims to explore and explain the complex dynamics of foreign direct investment (FDI) from RCEP member countries in Indonesia.

The selected methodology includes a case study approach focusing on specific cases related to foreign direct investment flows from RCEP member countries to Indonesia. This case study design allows us to examine the unique dynamics characterizing foreign investment inflows to Indonesia under RCEP.

RESULTS AND DISCUSSION

The analysis of FDI dynamics within RCEP member nations over the past three decades reveals a complex landscape. These nations have played crucial roles as sources and recipients of FDI, showcasing the region's evolving economic prominence. The interplay of various factors has led to shifts in FDI patterns, emphasizing the importance of a deeper understanding.

The study underscores the multifaceted drivers compelling RCEP member nations to invest abroad. Beyond economic motivations, various institutional and strategic factors influence their outward FDI. The quality of governance, investment climate, and strategic considerations in the globalized business environment have emerged as pivotal determinants.

Research findings confirm Indonesia's position as a favored FDI destination. The nation's substantial domestic market, abundant natural resources, and strategic geographical location have made it an appealing host for foreign capital. Moreover, continuous improvement in the ease of business, regulatory reforms, and political stability has enhanced Indonesia's attractiveness to foreign investors.

The study delves into the motivations behind RCEP member countries' decision to direct their FDI towards Indonesia. The findings illuminate the role of Indonesia's active engagement in trade agreements, bilateral investment treaties, and fostering an investor-friendly climate. Investments are concentrated in sectors that align with the countries' strengths and Indonesia's development objectives.

The research underscores the significance of trade and investment-related policies and agreements within RCEP in shaping FDI dynamics. Bilateral and multilateral agreements are crucial in creating an environment of certainty and protection, reducing market access barriers, and streamlining trade processes. In evaluating Indonesia's infrastructure and logistics, the research highlights ongoing improvements and investments in transportation, energy, and telecommunications. Despite significant progress, challenges remain, particularly in remote areas. Enhanced infrastructure is crucial for further investments and increased FDI flows from RCEP members.

The findings reveal a positive trajectory in Indonesia's investment climate, driven by regulatory reforms, governance improvements, and transparency initiatives. However, there is room for further enhancement, particularly in streamlining bureaucracy and ensuring policy consistency. These aspects are pivotal for sustaining and attracting more FDI.

The research results carry crucial implications for policymakers and stakeholders. Indonesia's role as an FDI destination within RCEP is poised for continued growth. Sustained reform momentum, infrastructure development, and consistent regulatory frameworks are critical to ensure that the inflow of FDI aligns with national development objectives and drives economic growth.

CONCLUSION

The study on FDI dynamics within RCEP member countries and their investments in Indonesia reveals these flows' complex and interconnected nature. Leveraging its vast domestic market, rich natural resources, and strategic geographical location, Indonesia has emerged as a popular tourist destination. It is clear that the RCEP agreement positively impacts the dynamics of FDI, characterized by the reduction of trade barriers, which allows for an increase in exports.

Indonesia's FDI dynamics are poised for positivity, propelled by sustained economic growth and enhanced regional integration. However, the landscape has challenges. Issues such as a weak manufacturing base, the imperative need for quality improvement, high operational costs, and a shortage of skilled labour present hurdles that must be addressed for sustained and optimal FDI outcomes.

This study highlights the dynamics of FDI and the complexity of investments in the RCEP framework, in which Indonesia is a key player. The positive development of FDI dynamics will continue if the identified challenges are addressed and mitigated. These findings have important implications for policymakers, industry stakeholders, and those investing in regional economic prosperity.

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