

Analysis of Effect Domestic Investment (DI) and Foreign Investment (FI) to Employment Opportunities in Indonesia

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Abstract:

Increase activity of economy in all of kinds sector would give effect direct or indirect to create work opportunity. Essentially part of invest very important to support development of region. Invest was factor to formation and create income of region and have part that very important of region economy. Invest could expansion work opportunity. Result of research shows Domestic Investment and Foreign Investment do test partially and simultaneously have good effect and significant to work opportunity in Indonesia. Its mean increase to work opportunity have relation to invest as indicator of development. This case connected to income and work opportunity and development would way goodly.

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Key words: Domestic Investment, Foreign Investment, Employment, Harrod Domard

Increased economic activity in various sectors will have an impact, either directly or indirectly to job creation, and this is the responsibility of looking for businesses to be able to absorb the additional labor force in large numbers that occur each year with the stage of considering the increase in worker productivity as a whole, because productivity increases expected wages will also increase workers' welfare can be improved at the same time. Employment-oriented development on the creation and expansion of productive employment opportunities can be implemented steadily strived to achieve economic growth. The growth of human resources, especially the highly qualified workforce is expected to produce workers who are professional, productive, independent, high work-oriented and entrepreneurial to be able to fill, creating and expanding employment and business opportunities, both domestically and abroad.

(Chen & Ku, 2004) studying about the effects of FI on domestic employment by examining the data of Taiwan's manufacturing industry. Treating domestic production and overseas production as two distinctive outputs from a joint production function, they may estimate the effect of overseas production on the demand for domestic labor. They found that overseas production generally reduces the demand for domestic labor as overseas products serve as a substitute for primary inputs in domestic production (substitution effect) but overseas production also allows the investor to expand its domestic output through enhanced competitiveness. The expanded domestic output leads to more employment at home (output effect).

The net effect of FI on domestic employment is a combination of substitution and output effects. For Taiwan, the net effect is positive in most cases but it differs across the labor group. Technical workers tend to benefit most from FI, followed by managerial workers, and blue-collar workers benefit the least; indeed they may even be adversely

affected. This suggests that after FI, a reconfiguration of division of labor within a firm tends to shift the domestic production toward technology and management intensive operations. Sha and Tao(2007) found that FI and employment have a long-term equilibrium relationship, with every 1% increase of FI leading to 0.13% increase in employment.

(Fu and Balasubramanyam, 2005) analyzed the relationship between the growth of exports and employment in China. They concluded that, assisted by FI and township and village enterprises, exports successfully have provided an effective vent for surplus productive capacity and surplus labor supply. (Nunnenkamp, et, all 2010) analyzed the relationship between FI and employment data covering almost 200 manufacturing firms in Mexico. They showed that FI had a significantly positive, although quantitatively modest, impact on manufacturing employment. (Mpanju, 2012) used the ordinary least squares (OLS) method of statistical model building and analysis to investigate the relationship between employment as the dependent variable and FI as the independent variable in Tanzania. His results showed that there is a strong positive relationship between the two variables; that is, increased FI inflows were associated with increased employment. (Nunnenkamp, et, all 2010 ; Wei, 2013) done analyzed from two dimensions: (1) the relationship between FI and total employment for the entire Chinese national economy, and (2) the relationship between FI and employment for each of the three sectors of the economy (primary, secondary, and tertiary). This analysis was conducted using time series regression models estimated for annual data between 1985 and 2011. The outcome shows that there is no significant positive relationship between FI and employment overall for the entire Chinese national economy, and that the relationship between FI and employment differs by sector. There is a significant positive relationship between FI and employment for the primary

sector. For the secondary sector, there is no significant relationship between FI and employment, although gross domestic product (GDP) has a significant positive effect on employment. For the tertiary sector, FI has a significant negative relationship with employment, and GDP has a nearly significant positive effect on employment. In Indonesia the investment also has a very important role in supporting development. Investment is a factor of the formation or creation of income and also expand employment opportunities. This investment can be sourced from domestic investment and foreign investment. Research on domestic and foreign investment has been done oleh some researchers. (Rustiono, 2008; Prasetyo 2009 & Wihda, 2013) shows that domestic investment is positive and not significant effect. (Rustianto & Istikomah, 1990; Prasetyo, 2009) show that foreign direct investment is negative and significant effect in Yogyakarta. But (Sitanggang, 2001; Mardiana, 2005; Rustiana, 2008) show that foreign direct investment is positive and significant. (Lestari, 2005; Gunawan, 2006 ; Dsadnyana 2008) shows that investment was Significantly affecting variable on job opportunities but Rahmawati shows that investment was not significantly affecting variable on job opportunities.

METHODOLOGY AND PROCEDURE

This research used Secondary Data from the Central Statistics Agency of West Sumatra province. Necessary data in this study is the number of domestic investment and foreign investment as well as the number of the existing workforce.

Tools Used

In analyzing the effect of investment (domestic and foreign) on employment in Indonesia must consider the entire participation of the factors that influence the employment opportunities in Indonesia, either directly or indirectly. The

variables used are domestic investment (domestic) and foreign investment (FI) as the independent variable (free), while employment as the dependent variable (dependent), can be expressed as a function of the following, namely: (Supranto, 1995)

$$Y = f (X1, X2) \dots\dots\dots(1)$$

Based on the equation (1) above, may be established regression equation:

$$Y = a + b_1x_1 + b_2X_2 + u \dots\dots\dots(2)$$

Meanwhile, to measure the elasticity of each independent variable and the dependent variable, the equation (2) can be transformed into:

$$\text{Log } Y = a + b_1\text{Log}X_1 + b_2\text{Log}X_2 + u \dots\dots\dots(3)$$

Statistical Techniques Employed

To prove the hypothesis test is done with a test of determination (R^2), F test and t test.

Objectives of the Study

1. To examine how domestic investment influence on Employment Opportunities in Indonesia
2. To examine how the effect of Foreign Investment on Employment in Indonesia

Hypotheses of the Study

H1: Domestic Investment influence on Employment Opportunities in Indonesia

H2: Foreign Investment influence on Employment Opportunities in Indonesia

RESULTS

1. Estimation Results

The results of the data processing influences investment (domestic and foreign) as the independent variable on the

dependent variable Employment Opportunities in Indonesia, indicated by the following regression equation:

$$\text{Log } Y = 5.375 + 0.55 \log X_1 + 0.20 \log X_2$$

count (3.250) (3.090)

F-count = 13.791
R² = 0.68

The regression results indicate that obtained R² (coefficient of determination) of 0.68, this means that 68 percent of Employment Opportunities can be explained by domestic and foreign investments, while the remaining 32 percent influenced by other variables not included in the research model this. To assess whether the independent variables (domestic and foreign) is significant or not the Employment Opportunities together can be done by using F (F-count), that the F value is calculated sebesarnya 13.791 while the F-table 3.81 (F distribution table with a significance level of 5 per cent or 0.05). It explains F-count is greater than F-table, so that it can be seen the influence of domestic and foreign investments is very strong against the Employment Opportunities. Constant coefficient is equal to 5.375, it means that states that if it is assumed independent variables (domestic and foreign) is zero, then the number of Employment Opportunities in Indonesia amounted to 5.375.

Studies on the effect of each independent variable (domestic and foreign) to the dependent variable (Employment Opportunities), which for domestic investment values obtained t count equal to 3,250 and the value of t-table 2.160, ie, t-count is greater than t-table, Ho rejected and Ha accepted at the 95 percent confidence level and a margin of error of 5 percent, meaning between these variables significant influence. Meanwhile, the value of the regression coefficient obtained at .55 (inelastic), that any increase in the amount of investment in the country by 10 percent, the Employment Opportunities in Indonesia will

increase by 5.5 percent, assuming other variables held constant.

Furthermore, the results of tests performed for foreign direct investment (FI) to the Employment Opportunities, obtained by value t count equal to 3,090 and t table is 2.160, indicating t-count value is greater than t-table, where H_0 is rejected and H_a accepted level of confidence 95 per cent and 5 per cent error rate, which among these variables significant influence. Meanwhile, the value of the regression coefficient of 0.20, which means that any increase in the number of foreign investment by 10 percent, the employment opportunities in Indonesia will increase by 2.0 percent, assuming other variables held constant.

2. Policy Implications

Domestic investment (DI) provides a greater influence on the employment opportunities compared to foreign direct investment (FI). This is due to the number of projects invested by foreign investors is less than the number of projects invested by domestic investors, so that the number of workers absorbed into slightly. Therefore, the government is expected to cooperate with the relevant authorities in order to provide facilities or facilities to foreign investors to be more interested in investing fund on companies that exist in Indonesia. With the amount of capital invested in companies, it creates new projects that are able to absorb more labor. The increase in employment has a strong relationship with the investment in the country (domestic) and foreign investment (FI) to promote economic growth in Indonesia positively due to the increasing investment, it will result in employment opportunities and income country, so that development will go well.

DISCUSSION OF THE RESULTS

That the government provide an overview to domestic investors (domestic) and foreign direct investment (FI) on the calculation of return on capital that can be received in the future, so that more investors to invest in Indonesia;

1. That the government should pay more attention to making the wisdom of the Law on domestic and foreign investments to make it easier for investors to invest in Indonesia.
2. That the government should provide additional incentives (special stimulation) for foreign investors who are willing to invest in Indonesia.

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