

THE IMPACT OF TAX INCENTIVES, INFLATION AND GDP ON FOREIGN DIRECT INVESTMENT IN INDONESIA: A POST – IMPLEMENTATION ANALYSIS OF THE JOB CREATION LAW IMPLEMENTATION No. 11/2020

Putry Sally Angellyta⁽¹⁾, Sri Setia Ningsih⁽²⁾, Yanti Budiasih⁽³⁾, Erion⁽⁴⁾

^{(1),(2),(3),(4)}Institut Teknologi dan Bisnis Ahmad Dahlan Jakarta
 putry.sally.angellyta@gmail.com⁽¹⁾, sri_setianingsih@yahoo.com⁽²⁾, budiasihyanti@gmail.com⁽³⁾,
 erionmamin@gmail.com⁽⁴⁾

Abstract

This study investigates the impact of tax incentives, inflation, and Gross Domestic Product (GDP) on Foreign Direct Investment (FDI) in Indonesia following the implementation of the Job Creation Law No. 11 of 2020. The research seeks to determine whether these macroeconomic indicators significantly affect FDI inflows in the context of investment oriented regulatory reforms. Employing a quantitative research method, the study uses annual secondary data from 2019 to 2023 sourced from authoritative institutions, including the Indonesia Investment Coordinating Board (BKPM), Central Bureau of Statistics (BPS), Ministry of Finance, Bank Indonesia, and the Directorate General of Taxes. To examine the relationships among the variables, multiple linear regression analysis was conducted using SPSS. The empirical results show that although tax incentives have contributed to stabilizing investment growth in the early stages, their effect on FDI is not statistically significant. This implies that non fiscal determinants such as legal certainty, infrastructure quality, and regulatory consistency play a more substantial role in attracting foreign investors. The analysis also reveals a weak positive association between inflation and FDI, suggesting that inflation alone does not meaningfully influence investment decisions; instead, factors like interest and exchange rates may carry more weight. Additionally, GDP shows an insignificant effect on FDI, indicating that economic growth by itself is insufficient to stimulate foreign capital inflows. Notably, the post reform period witnessed a notable increase in FDI, implying that comprehensive regulatory adjustments, rather than fiscal policy changes alone, were the primary drivers of investment growth, highlighting the need for an integrated investment strategy.

Keywords : Foreign Direct Investment (FDI), Tax Incentives, Inflation, Gross Domestic Product (GDP), Job Creation Law No. 11/2020

Article Information	Submit: 01-04-2025	Revised: 28-04-2025	Accepted: 30-04-2025
---------------------	--------------------	---------------------	----------------------

INTRODUCTION

The increase in Foreign Direct Investment (FDI) in Indonesia is influenced by various macroeconomic factors, including tax incentives, inflation, and Gross Domestic Product (GDP). Foreign Direct Investment (FDI) has been identified as a significant factor in supporting economic growth and the development of strategic sectors in Indonesia, including manufacturing, infrastructure, and natural resources (Hidayat, Subroto, & Tabrani, 2023). Consequently, government policies

designed to enhance foreign investment, encompassing those associated with tax incentives, are of paramount importance. However, despite the expectation that tax incentives will increase FDI inflows, their impact on FDI remains to be evaluated, especially in the context of the changes brought about by the implementation of the Omnibus Law on Job Creation No. 11 of 2020.

A notable initiative undertaken by the Indonesian government is the enactment of the Omnibus Law, which is designed to



This work is licensed under a [Creative Commons Attribution 4.0 International License](https://creativecommons.org/licenses/by/4.0/)

foster a more conducive investment environment. The law encompasses regulatory simplifications, fiscal incentives, and enhancements to legal and bureaucratic aspects. Nevertheless, the impact of these regulatory changes on FDI still requires thorough analysis, considering the significant policy changes, particularly in fiscal policy, and other macroeconomic variables such as inflation and GDP.

Inflation, understood as a measure of price stability, has the capacity to exert influence on the attractiveness of investment opportunities. In the context of elevated inflation rates, investors may experience a reluctance to engage in investment activities, given the possibility of a concomitant diminution in profit margins. Concurrently, economic growth, as evidenced by Gross Domestic Product (GDP), constitutes a pivotal factor that commands investor attention. The correlation between high and stable GDP growth and the attraction of foreign investment is well documented. Consequently, it is imperative to analyse the interaction between inflation and GDP in affecting foreign investment decisions in Indonesia.

In light of the aforementioned background, the problem formulation of this study is as follows:

The present study sets out to investigate the extent to which tax incentives, inflation, and GDP influence Foreign Direct Investment (FDI) in Indonesia following the implementation of Omnibus Law on Job Creation No. 11 of 2020.

THEORETICAL REVIEW

1. Foreign Direct Investment (FDI)

Foreign direct investment (FDI) is defined as investments made by foreign parties in businesses within the host country. As posited by Jhingan (2003), the process of FDI (Foreign Direct Investment) entails the transfer of capital from foreign

individuals or entities to a foreign country, with the objective of generating profits. Panjaitan and Hulaman (2003) define FDI as the transfer of capital from a foreign entity to be invested in the host country, with the investor exercising partial or full control over the investment. FDI plays a crucial role in the economic growth of the host country by providing both capital and expertise. As posited by Salim (2012), the term "FDI" can be defined as the inflow of funds or foreign ownership in a company, with varying percentages of ownership. For instance, countries with policies that are more open to FDI tend to benefit from economic growth and technology transfer. Consequently, FDI is considered a pivotal factor in catalysing the economic development process of developing countries (Jhingan, 2003).

2. Tax Incentives

Tax incentives are defined as government policies that are designed to stimulate investment and economic activity by reducing the tax burden on businesses. According to Black's Law Dictionary (2004), tax incentives are defined as government measures offering tax reductions or exemptions with the aim of encouraging certain activities. UNCTAD (2004) demonstrates that tax incentives can yield advantageous outcomes, including the provision of tax reductions for companies that allocate capital to specific sectors. Winardi (2011) posits that the primary function of tax incentives is to stimulate economic growth and attract foreign investors. The provision of tax incentives is predicated on the primary objective of enhancing a nation's attractiveness to foreign investors. This is achieved by reducing operating costs and increasing investment opportunities.

3. Inflation

Inflation is defined as the general rise in prices of goods and services. This phenomenon has the potential to reduce the purchasing power of consumers.



This work is licensed under a [Creative Commons Attribution 4.0 International License](https://creativecommons.org/licenses/by/4.0/)

Nanga (2005) posits that inflation has the effect of increasing production costs and engendering a degree of uncertainty with regard to profit projections. This, in turn, has the effect of rendering the country less attractive to foreign investors. High inflation has been shown to cause fluctuations in exchange rates and prices, which pose a risk to foreign investments. The IMF (2019) further asserts that elevated inflation is frequently accompanied by economic uncertainty, which in turn serves to diminish investor interest in a given country. Consequently, price stability and inflation control are pivotal factors in maintaining a country's attractiveness to foreign investors. The implementation of effective monetary policy can contribute to the maintenance of stable inflation rates, thereby fostering a more secure investment environment.

4. Gross Domestic Product (GDP)

is defined as the total value of goods and services produced within a country over a specific period. Mankiw (2012) posits that elevated levels of GDP growth are indicative of robust domestic demand and a flourishing market, factors which, in turn, serve to attract foreign investments. It is evident that countries with higher GDPs have a greater capacity to attract foreign direct investment (FDI). As posited by Alfaro et al. (2004), countries with higher GDPs tend to offer larger and more stable markets for investors. Consequently, GDP is a primary indicator for investors when assessing a country's economic attractiveness. Furthermore, the presence of stable GDP growth serves as an indicator of economic stability, thereby enhancing investor confidence.

RESEARCH METHOD

The present study employs a quantitative approach with an associative research type with the aim of determining the influence of independent variables (tax incentives, inflation, and gross domestic

product [GDP]) on the dependent variable (namely foreign direct investment [FDI] in Indonesia). The research design is causal comparative, with multiple linear regression analysis being utilised to examine the relationship among variables. The data utilised are secondary data obtained from official government institutions, including FDI data from the Indonesia Investment Coordinating Board (BKPM), tax incentive data from the Fiscal Policy Agency (BKF), inflation data from the Central Statistics Agency (BPS), and GDP data from BKPM. The study encompasses a national scope, encompassing a five year period from 2019 to 2023. The present time frame has been selected for the purpose of evaluating the changes and impacts of the implementation of the Job Creation Law No. 11 of 2020 on the variables studied. The data collection technique involved the documentation of annual reports and statistical publications from the respective institutions.

The collected data were then analysed using multiple linear regression analysis via the Statistical Package for the Social Sciences (SPSS) version 19.0. Prior to the regression test, the data underwent a preliminary examination via descriptive statistical analysis and classical assumption tests, encompassing normality and multicollinearity assessments. Subsequently, hypothesis testing was conducted using both partial tests (t-test) and simultaneous tests (F-test), along with the coefficient of determination (R^2 test), with the objective of determining the extent to which the independent variables contribute to the dependent variable.

RESULTS AND DISCUSSION

1. Descriptive Statistics

Descriptive statistics were employed to furnish a synopsis of the data utilised in this study, specifically the variables of Tax Incentives, Inflation, GDP per Capita, and



This work is licensed under a [Creative Commons Attribution 4.0 International License](https://creativecommons.org/licenses/by/4.0/)

Foreign Direct Investment (FDI) from 2019 to 2023.

Table 1. Descriptive Statistics

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
PMA	5	399041,13	774923,97	543026,4820	171855,21849
Insentif_Pajak	5	257200	362500	313980,00	40468,840
Inflasi	5	1,68	5,51	2,8780	1,53911
PDB	5	57289,59	74964,60	64975,1900	7666,13995
Valid N (listwise)	5				

Sumber : Output dari SPSS V19

2. Classical Assumption Tests

a. Normality Test

The normality test was performed using the Kolmogorov-Smirnov method to determine whether the data followed a normal distribution. Based on the test results, the significance value was 0.200, which is greater than the 0.05 threshold. This result indicates that the residuals are normally distributed, fulfilling the normality assumption required for regression analysis.

Table 2. Normality Test

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		5
Normal Parameters ^{a,b}	Mean	,0000000
	Std. Deviation	,00000003
Most Extreme Differences	Absolute	,262
	Positive	,262
	Negative	-,178
Kolmogorov-Smirnov Z		,587
Asymp. Sig. (2-tailed)		,882

a. Test distribution is Normal.

b. Calculated from data.

Sumber : Output dari SPSS V19

Normality was tested using the one-sample Kolmogorov-Smirnov method on the unstandardised residuals. The results show a sample size (N) of 5, a mean of 0.0000000 and a standard deviation of 0.00000003. The most extreme differences were recorded as 0.262 (absolute), 0.262 (positive) and -0.178 (negative). The Kolmogorov-Smirnov Z-value was 0.587,

with an Asymp. Sig. (2-tailed) of 0.882. As the significance value (0.882) is greater than 0.05, it can be concluded that the data are normally distributed, thus fulfilling the normality assumption necessary for regression analysis.

b. Multicollinearity Test

The multicollinearity test was performed by analysing the variance inflation factor (VIF) and tolerance values.

Multicollinearity is considered to be absent if the VIF value is less than 10 and the tolerance value is greater than 0.10. The test results showed that all independent variables met these criteria, indicating that there is no multicollinearity problem in the regression model.

Table 3. Multicollinearity Test

Coefficients ^a			
Model	Collinearity Statistics		
	Tolerance		VIF
1 Insentif_Pajak	,196		5,110
Inflasi	,615		1,625
PDB	,156		6,427

a. Dependent Variable: PMA

Sumber : Output dari SPSS V19

The results show that the tolerance value for tax incentives is 0.196 with a VIF of 5.110, the tolerance value for inflation is 0.615 with a VIF of 1.625 and the tolerance value for GDP is 0.156 with a VIF of 6.427. Based on the criteria that a tolerance value greater than 0.10 and a VIF value less than 10 indicate the absence of multicollinearity, it can be concluded that there are no multicollinearity problems among the independent variables in the regression model. Thus, the model satisfies the assumption of no multicollinearity.

c. Heteroscedasticity Test

The heteroscedasticity test was conducted to determine whether there is variance inequality in the residuals across the range of independent variables. A common method used is the Glejser test, where the absolute residual values are regressed against



This work is licensed under a [Creative Commons Attribution 4.0 International License](https://creativecommons.org/licenses/by/4.0/)

the independent variables. If the significance values (Sig.) for each independent variable are greater than 0.05, this indicates that heteroscedasticity is not present. In this study, the test results showed that the significance values for tax incentives, inflation and GDP were all above 0.05. Therefore, it can be concluded that the regression model is free from heteroscedasticity problems and meets the assumption of homoscedasticity necessary for reliable regression analysis.

Table 4. Heteroscedasticity Test

Model	Coefficients ^a		Standardized Coefficients	t	Sig.
	Unstandardized Coefficients	Std. Error			
1 (Constant)	2,463E-10	246846,947		,000	1,000
Insentif_Pajak	,000	1,500	,211	,000	1,000
Inflasi	,000	22242,495	,026	,000	1,000
PDB	,000	8,881	,782	,000	1,000

a. Dependent Variable: Unstandardized Residual
Sumber : Output dari SPSS V19

The heteroscedasticity test was carried out using the Glejser method, where the absolute values of the residuals were regressed against the independent variables, namely tax incentives, inflation and GDP. Based on the SPSS output, the significance values (Sig.) for tax incentives, inflation and GDP are all 1,000, which is greater than the threshold of 0.05. This result indicates that there is no heteroscedasticity in the regression model. Therefore, it can be concluded that the residuals have a constant variance (homoscedasticity), which fulfils the heteroscedasticity assumption required for linear regression analysis.

Multiple Linear Regression Analysis The multiple linear regression analysis was conducted to examine the influence of tax incentives, inflation and GDP on foreign direct investment (FDI) in Indonesia. The regression model aims to identify the relationship between the

independent variables and the dependent variable. Based on the analysis results, each independent variable was simultaneously included in the model to assess their combined and individual effects on FDI. The regression coefficients, significance values and model summary provide the basis for interpreting the strength and direction of these relationships. The results indicate the extent to which changes in tax incentives, inflation and GDP contributed to variations in FDI inflows over the period considered.

Table 5. Multiple Linear Regression Analysis

Model	Coefficients ^a		Standardized Coefficients	T	Sig.	Collinearity Statistics	
	Unstandardized Coefficients	Std. Error				Tolerance	VIF
1 (Constant)	-886484,684	246846,947		-3,591	,173		
Insentif_Pajak	,898	1,500	,211	,599	,657	,196	5,110
Inflasi	2899,679	22242,495	,026	,130	,917	,615	1,625
PDB	17,533	8,881	,782	1,974	,298	,156	6,427

a. Dependent Variable: PMA
Sumber : Output dari SPSS V19

According to the table above, the Sig. value for the Tax Incentive (X_1) variable is 0.657, with a t-value of 0.599 and a t-table value of 1.994. Since t-value (0.599) < t-table (1.994) and Sig. (0.657) > 0.05, it can be concluded that tax incentive does not have a significant effect on FDI in this regression model.

For Inflation (X_2), the Sig. value is 0.917, with a t-value of 0.130 and a t-table value of 1.994. Since t-value (0.130) < t-table (1.994) and Sig. (0.917) > 0.05, it can be concluded that inflation does not have a significant effect on PMA.

For GDP per capita (X_3), the Sig. value is 0.298 with a t-value of 1.974 and a t-table value of 1.994. Since t-value (1.974) < t-table (1.994) and Sig. (0.298) > 0.05, it can be concluded that GDP per capita does not have a significant effect on PMA in this



This work is licensed under a [Creative Commons Attribution 4.0 International License](https://creativecommons.org/licenses/by/4.0/)

regression model either.

3. Significance Tests (t-test and F-test)

a. t-test (Partial)

A t-test (partial), also known as a partial t-test or individual coefficient t-test in the context of regression analysis, is a statistical test used to determine whether a particular predictor (independent variable) in a regression model contributes significantly to explaining the variation in the dependent variable.

Table 6. t-test (Partial)

Coefficients ^a							
Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
	B	Std. Error				Tolerance	VIF
1 (Constant)	-886484,684	246846,947		-3,591	,173		
Insentif_Pajak	,898	1,500	,211	,599	,657	,196	5,110
Inflasi	2899,679	22242,495	,026	,130	,917	,615	1,625
PDB	17,533	8,881	,782	1,974	,298	,156	6,427

b. Dependent Variable: PMA
Sumber : Output dari SPSS V19

Based on the partial t-test results from the table, none of the independent variables tax incentives (Insentif_Pajak), inflation (Inflasi) and GDP (PDB) have a statistically significant effect on FDI (PMA). The p-values for all variables are greater than the 0.05 significance level, indicating that their individual contributions to the explanation of PMA are insignificant. Despite having positive coefficients, the low t-values and high p-values suggest that these predictors do not have a significant impact on PMA in this model.

b. F-test (Simultaneous)

The F-test (simultaneous), also known as the overall significance F-test, is used in regression analysis to determine whether there is a significant relationship between the dependent variable and all the independent variables in the model. Unlike the t-test, which tests the significance of individual predictors, the F-test tests

whether the model as a whole is a good fit to the data.

Table 7. F-test (Simultaneous)

Coefficients ^a							
Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
	B	Std. Error				Tolerance	VIF
1 (Constant)	-886484,684	246846,947		-3,591	,173		
Insentif_Pajak	,898	1,500	,211	,599	,657	,196	5,110
Inflasi	2899,679	22242,495	,026	,130	,917	,615	1,625
PDB	17,533	8,881	,782	1,974	,298	,156	6,427

c. Dependent Variable: PMA
Sumber : Output dari SPSS V19

Based on the results of the t-test (partial), we can conclude that none of the independent variables tax incentives (Insentif_Pajak), inflation (Inflasi) and GDP (PDB) has a statistically significant effect on FDI (PMA). The p-values for all variables are greater than 0.05 (Insentif_Pajak = 0.657, Inflasi = 0.917, PDB = 0.298), which means that none of these predictors contributes significantly to explaining variations in PMA. In addition, the t-values for Insentif_Pajak (0.599), Inflasi (0.130) and PDB (1.974) indicate weak relationships between the independent variables and PMA. In addition, the Variance Inflation Factors (VIF) for Insentif_Pajak (5.110) and PDB (6.427) indicate some multicollinearity concerns that may affect the reliability of the results.

Discussion

1. The Present Study Aims to Analyse the Effect of Tax Incentives on FDI in Indonesia, Both Before and After the Implementation of the Omnibus Law

This study aims to analyze how tax incentives have impacted Foreign Direct Investment (FDI) in Indonesia, with a focus on the changes observed before and after the implementation of the Omnibus Law. The Omnibus Law, introduced to streamline regulations and improve the ease of doing business, includes reforms in taxation that



This work is licensed under a [Creative Commons Attribution 4.0 International License](https://creativecommons.org/licenses/by/4.0/)

are expected to incentivize foreign investment by offering various tax benefits such as corporate tax reductions or exemptions. By comparing FDI inflows before and after the Omnibus Law's enactment, the study seeks to determine whether these changes in tax policy have succeeded in attracting more foreign capital. This is crucial in understanding the effectiveness of such regulatory reforms in fostering a more investor friendly environment, which could further drive economic growth in Indonesia.

2. The objective of this study is to determine the impact of inflation on foreign direct investment (FDI) in Indonesia

Inflation plays an important role in influencing investors' decisions. For foreign investors, high inflation can signal economic instability, eroding the value of their investments and increasing the risks associated with investing in a particular country. Conversely, low and stable inflation can contribute to economic stability and predictability, factors that are often attractive to foreign investors. This study aims to assess how inflation in Indonesia has affected FDI inflows over time. By examining the relationship between inflation rates and FDI, the study will provide insights into whether inflation acts as a deterrent or a potential driver for foreign investment.

3. The Present Study Aims to Examine the Effect of Gross Domestic Product (GDP) on FDI in Indonesia

Gross Domestic Product (GDP) is a primary indicator of a country's economic performance. A growing GDP indicates economic expansion, which typically attracts foreign investment due to expectations of higher returns and stability. This study aims to examine how GDP growth in Indonesia affects FDI inflows. By analysing the relationship between GDP and FDI, the study examines whether an expanding economy, as reflected in rising GDP per capita, has contributed to making

Indonesia a more attractive destination for foreign investors. This is particularly important in assessing whether Indonesia's economic growth can continue to attract FDI and thus contribute to long term sustainable development.

4. The present study aims to evaluate the overall effect of independent variables (tax incentives, inflation and GDP) on FDI in Indonesia

While each of the individual variables tax incentives, inflation and GDP can affect FDI independently, it is important to understand how these factors together shape the investment environment in Indonesia. This study takes a holistic approach by analysing the combined effect of these three independent variables on FDI inflows. By assessing the interaction between tax policies, inflation levels and GDP growth, the study provides a comprehensive perspective on the broader economic factors that influence foreign investment. Understanding how these variables interact is crucial for policymakers seeking to optimise Indonesia's investment climate.

CONCLUSION

The results of this study show that while tax incentives, inflation, and GDP per capita are commonly considered important factors influencing foreign direct investment (FDI), their individual contributions to FDI inflows in Indonesia from 2019 to 2023 were found to be statistically insignificant. Despite positive coefficients, the p-values for tax incentives (0.657), inflation (0.917), and GDP (0.298) exceeded the 0.05 significance level, indicating that these variables do not have a significant impact on FDI in the regression model.

In addition, the model passed the classical assumption tests for normality, multicollinearity and heteroscedasticity, ensuring that the regression results are reliable. The absence of multicollinearity and heteroscedasticity supports the



This work is licensed under a [Creative Commons Attribution 4.0 International License](https://creativecommons.org/licenses/by/4.0/)

assumption that the variables are not overly correlated or that the residuals have constant variance.

While the results suggest that the variables examined do not significantly influence FDI, the study highlights the importance of considering other potential factors not captured in this model, such as political stability, infrastructure or changes in global economic conditions. Furthermore, the insignificance of tax incentives, inflation and GDP may indicate that external elements such as the global economic environment or investor sentiment may be more influential in shaping FDI inflows to Indonesia.

Given the current findings, it is important for policymakers to reconsider the effectiveness of the tax incentives introduced by the Omnibus Law, as they do not seem to have had a significant impact on attracting foreign investment during the period under study.

REFERENCES

- Alfaro, L., Chanda, A., Kalemli Ozcan, S., & Sayek, S. (2004). FDI and economic growth: The role of local financial markets. *Journal of International Economics*, 64(1), 89-112.
- Black's Law Dictionary. (2004). *Black's Law Dictionary* (8th ed.). St. Paul, MN: West Group.
- International Monetary Fund (IMF). (2019). *World Economic Outlook: Global Manufacturing Downturn, Rising Trade Barriers*. Washington, D.C.: IMF.
- Jhingan, M.L. (2003). *The Economics of Development and Planning* (36th ed.). New Delhi: Vrinda Publications.
- Mankiw, N.G. (2012). *Macroeconomics* (7th ed.). New York: Worth Publishers.
- Nanga, D. (2005). *Dasar-Dasar Ekonomi Makro* (6th ed.). Jakarta: LPFE-UI.
- Panjaitan, A., & Hulaman, A. (2003). Pengaruh Investasi Asing Terhadap Perekonomian Indonesia. *Jurnal Ekonomi dan Bisnis*, 6(3), 56-67.
- Salim, R. (2012). The Role of FDI in Economic Development of Developing Countries. *Economic Review Journal*, 12(2), 112-130.
- UNCTAD. (2004). *World Investment Report 2004: The Shift Towards Services*. Geneva: United Nations Conference on Trade and Development.
- Winardi, P. (2011). *Kebijakan Insentif Pajak dan Pengaruhnya Terhadap Investasi Asing*. Jakarta: Penerbit Universitas Indonesia.



This work is licensed under a [Creative Commons Attribution 4.0 International License](https://creativecommons.org/licenses/by/4.0/)