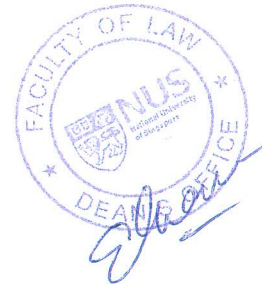


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# Law: An Asian Identity?

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### **Liberalization Of Investment And Multinational Corporation In Indonesia**

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# LIBERALIZATION OF INVESTMENT AND MULTINATIONAL CORPORATION IN INDONESIA

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## A. INTRODUCTION

Foreign investment is a major sector of a State to develop the state economy. In that, foreign investment can play a role in economic development, increase production, provide employment opportunities, and cultivate potential sources in the domestic economy. Foreign investment is expected to also play a role in improving living standards and economic development in general. Foreign investment is also seen as a very lucrative field for the host state, due to the presence of foreign investment.<sup>1</sup>

Foreign investment into developing countries principally concerned with three main issues, namely: economic, political and legal issues. Three factors have a major influence on the influx of foreign capital into a country. In the practice of foreign investment into a country with economic calculations alone sometimes can be easily done, but the actual political and legal aspects that play an important role in the effectiveness of the operation of foreign capital is hard to measure. This is because the effort of developing countries to attract foreign capital into the country has become the country's economic development plan.<sup>2</sup>

Activities of foreign investment from developed to developing countries are mostly conducted by multinational companies (MNCs). In conducting its activities, MNCs invest their investment through the establishment of branch companies, subsidiaries, joint ventures, and affiliates in various countries.<sup>3</sup>

Foreign direct investment from MNC is considered as the most appropriate strategy to enhance economic development rather than foreign borrowing or purchasing a license, contract management and so on.<sup>4</sup>

It is also interesting to note that MNCs are the main driving force or trigger behind globalization. Through the activities of production, trade and investment, MNCs has actually created a global marketplace. MNCs however, dominate, control and supervise the materials, market access and development of new technologies. In addition, MNCs have also the ability to generate huge profits for the reduction of poverty in the world.<sup>5</sup>

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<sup>1</sup> M. Sornarajah, *The International Law on Foreign Investment*, Cambridge:Cambridge U.P, 1994 hlm 5.

<sup>2</sup> Sumantoro, *Bunga Rampai Permasalahan Penanaman Modal dan Pasar Modal (translation: Problems in Investment and Capital Market)*, Binacipta, Bandung, 1984, hlm. 29.

<sup>3</sup> Yusuf Panglaykim, *Multinational Corporation Dan Segi Tiga/Segi lima Kekuatan, Beberapa Catatan*, (translation: MNC and The Triangle of the Power: Notes), Simposium Aspek-Aspek Hukum Perusahaan Multinasional (translation: Simposium on Legal Aspects of MNCs), BPHN, Binacipta, Bandung, 1982, hlm 7.

<sup>4</sup> Albert Widjaya, *Impak Kegiatan Perusahaan Multinasional Terhadap Keadaan Sosial dan Politik di Indonesia*, (Translation: Impacts of the MNCs upon the Social and Politics in Indonesia), Simposium Apek-aspek Hukum Perusahaan Multinasional, BPHN, Binacipta, Bandung, 1982, hlm 221.

<sup>5</sup> Oxfam, *Make Trade Fair, Rigged Rules and Double Standards*, Novib Oxfam Netherlands, Den Haag, 2002, hlm 175.