The Risk Influence on Foreign Direct Investment and Mining Company Stock Exchange in Indonesia

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***Abstract*—This study aims is to determine the effects of financial risk and political risk on foreign direct investment and the value of mining companies stock exchanged. This research used a quantitative approach through a process of analysis using software applications, namely SPSS. This research is basic on foreign direct investment data of mining companies in Indonesia and it used data from Bank of Indonesia. The historical data is taken from 2000 to 2020 which consist of financial risk and political risk, foreign direct investment and mining stock exchange.This study found that political risk has significant effect on foreign direct investment and mining stock exchange. In contrary, financial risk has no significant effect on foreign direct investment and mining stock exchange in Indonesia.**

Keywords—financial risk, political risk, foreign direct investment, the value of shares of mining company

I. INTRODUCTION

Foreign direct investment is a long-term participation by a country in another country. Usually involves participation in management, joint ventures, technology transfer, and expert consulting. In Indonesia itself. Long-term participation because there are several steps need to be done before investing in certainty country. It is also depend on the level risk of the country. Since risk country is low, so the rate of investment is higher.

Foreign investment is one of the important things to improve for the development of the Indonesia economic growth. There is strength relationship between foreign direct investment and economic growth. On one hand, foreign direct investment needs appropriate infrastructure, high quality of resources (human, capital and technology). On the other hand, foreign direct investment could open job opportunities, to increase people income especially local people, and to improve the labor productivity. It is found that the time since entry of foreign firms, the presence of a local partner in the ownership structure and a finalmarket orientation are associated with higher local linkages. (Amendolagine, Boly et al. 2013)

In general, foreign investment in Indonesia is divided into several sectors. In general, foreign investment in Indonesia focuses on the development, tourism, mining, transportation, and product sectors. Mining sector is one of the most dominant sector, because this sector is already supported by the amount of mining deposit, human resources, and machine technology. Moreover, Indonesian government provided some tax incentive for any investors including foreign investors. There are huge of benefit of tax or fiscal intensive such as argued by Saidu who already found from the analysis of the various tax incentives available to foreign investors and their effect on the level of investment in these countries (Saidu 2007)

The sector is determined depend on to the potential of all zones in Indonesia. Several islands such as Bali and Lombok can attract foreign investors in the tourism sector because their infrastructure is quite adequate. All investors including foreign investors could invest by building hotels and tourist destination and attraction in Bali. findings show that inclusive institutions play a pivotal role in Foreign Direct Investment contributing to inclusive growth. (Kusumawati, Herman et al. 2021)

There is also investment in the sector of processed palm oil products. On islands such as Sumatra and Kalimantan, oil palm can thrive. Foreign investors can build palm oil processing factories to promote the local economy. In addition, areas that have been in the spotlight by foreign investors are mining and natural resources such as minerals, liquefied natural gas, coal, and petroleum. (bplawyers.co.id, 2017)

There are various things that can be considered by investors in investing in a country. Not only about the natural conditions, but the risk will also be considered by investors in investing their capital. For example, such as financial risk consisting of interest rate risk, exchange rate risk, and liquidity risk. Investors will see how the financial condition of the country that is the destination for investing is. Will it bring profit or can it even bring loss.

Another factor that can be considered for foreign investors is political risk or what can also be called country risk. This is based on the political conditions of a country. And this risk is also still correlated with changes in statutory provisions that make income decline. Therefore, foreign investors must look at the political conditions of one country, otherwise it will not bring profits to investors. Tallman (1988) concludes that the influence of economic and political conditions of the home country on foreign direct investment (FDI shows that the political and economic conditions of the home country important for the investment decision-making process.

To stimulate national economic growth, the government is aggressively increasing investment. In 2018, investment realization was dominated by foreign investment (PMA) by 56 percent, and 46 percent by domestic investment (PMDN). According to data from the Investment Coordinating Board (BKPM), FDI into Indonesia has increased in the last five years. As of December 2018, the total PMA reached IDR 392.7 trillion, an increase of about 28 percent compared to 2014 which was IDR 307 trillion (katadata.co.id, 2019).

Therefore, in this study, we will examine how financial and political risks affect the amount of foreign direct investment in Indonesia and their effect on the value of mining companies' shares on the BEI. And how much influence does foreign direct investment have on the shares of mining companies in Indonesia?

II. LITERATURE REVIEW

There are several relevant theories that can be used to analyze this research, such as financial risk, namely exchange rate risk, interest rate risk, and liquidity risk, political risk, foreign direct investment theory, and stock value.

2.1 Theory of Risk

Understanding risk according to Arthur Williams and Richard, MH is a variation of the results that can occur during a certain period. Meanwhile, according to Hanafi (2006) risk is the magnitude of the deviation between the expected return (ER) and the actual rate of return (actual). returns).

Financial risk is the risk that arises due to the uncertainty of the financial targets of a business or the financial size of the business. The business finance target is the target amount set by the entrepreneur within a certain period of time. While the business finance measure is the financial condition of the business which can be in the form of cash flow, operating profit, and growth explanation (Bramantyo Djohamputera). Broadly speaking, financial risk includes the possibility of insolvency and also variations earnings available to common stockholders. If the company increases the proportion of debt, lease financing, and preferred stock in its capital structure, the fixed expenses will increase. As a result, the probability of the occurrence of cash insolvency is getting bigger (Van Horne and Wachowicz Jr 2000)

2.2 Theory of Investment

Investment is investing for one or more assets owned and usually for a long period of time in the hope of getting profits in the future. (Sunariyah and Si 2004). According to (Samuelson 2004), investment includes increasing the stock of capital or goods in a country, such as building production equipment, and inventory items within one year. Investment is a step to sacrifice consumption in the future.

Salvatore explains that FDI (foreign investment) consists of: Portfolio investment, namely investments that involve only financial assets, such as bonds and stocks, which are denominated or valued in the national currency (Salvatore 1991). The second is Foreign Direct Investment, which is PMA which includes investment into real assets in the form of factory construction, procurement of various kinds of capital goods, purchase of land for production purposes, and so on.

Wiranata argued that foreign direct investment can be considered as an important source of capital for economic development. (WIRANATA 2004). All countries that adopt an open economic system generally require foreign investment, especially companies that produce goods and services for export purposes. In developed countries Like America, foreign capital (especially from Japan and Western Europe) is still needed to spur domestic economic growth, avoid market sluggishness and create job opportunities. For this reason, various policies in the field of investment need to be created in an effort to attract foreign parties to invest in Indonesia.

2.3 Stock Theory

Stock is a form of securities traded in the capital market. Shares are securities as a sign of ownership of the issuing company. Shares also mean as a sign of participation or ownership of a person or entity in a public company (Sunariyah and Si 2004).. According to Suad Husnan and (Suad and Pudjiastuti 2004) a stock or security is a piece of paper that shows the right of the owner of the paper to obtain a share of the prospect or wealth of the company. the issuer of the security and the conditions for exercising that right. In the capital market, there are two types of shares that are most commonly known by the public, namely common stock and preferred stock.

Where these two types of shares have their respective meanings and rules. Common stock is securities sold by a company that explains the nominal value (rupiah, dollar, yen, etc.) where the holder is given the right to attend the General Meeting of Shareholders (GMS) and Extraordinary General Meeting of Shareholders (EGMS). . Meanwhile, preferred stock is securities sold by a company that explains the nominal value (rupiah, dollar, yen, etc.) where the holder will receive fixed income in the form of dividends that will be received every quarter.(Fahmi and Cremaschi 2012)

2.4 Hipotesis

Based on the relationship between the variables above, the following hypothesis can be drawn:

1. It is suspected that Financial Risk and Political Risk have a significant effect on Foreign Direct Investment
2. It is suspected that financial risk and political risk have a significant effect on the value of mining companies' shares on the BEI
3. It is suspected that financial risk, political risk and foreign direct investment have a significant effect on the value of mining companies' shares on the BEI

III. RESEARCH METHODS

The purpose of this study was to analyze the influence between the independent variable and the dependent variable using a statistical application called SPSS. In this study, we used the classical assumption test, namely the multicollinearity test, normality test, and heteroscedasticity test.

The purpose of using the multicollinearity test in this study is to test whether the regression model found a correlation (strong relationship) between independent variables or independent variables. A good model should not have a correlation between independent variables or there should be no symptoms of multicollinearity. (Raharjo, 2019)

So the formula to be developed is as follows:

$Y1 = \alpha X1 + \alpha X2 + e1$

$Y2 = \beta X1 + \beta X2 + \beta Y1 + e2$

To get homogeneous data, the formulation can be modified to:

X1 = Financial Risk

X2 = Political Risk

Y1 = Foreign Direct Investment

Y2 = Value of Mining Company Shares on BEI

The formulation above can be solved by analyzing using the classical assumption test, namely the multicollinearity test, normality test, and heteroscedasticity test. This analysis was carried out because: wanting to know whether there was an influence between the dependent variable and the independent variable, the data analyzed were heterogeneous data or data that were not the same, and there was a part of the intervention variable from the research model.

Based on all the research variables built, the description of the research model can be described as follows:

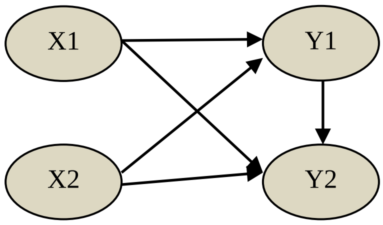

Figure 1: research model

IV. Results And Discussion

Based on statistical analysis, the results of the data description are: (1)

1. Heteroscedasticity

The test results of the heteroscedasticity test in this study, namely the Financial Risk (X1) and Political Risk (X2) on Foreign Direct Investment (Y2) are presented in the form of a point distribution or scatterplot on the xy curve. The test results on the SPSS Statistic 26 program show the distribution of data or points -irregular points on the positive and negative axes, spread above and below the number 0, meaning that there is no heteroscedasticity problem. So the data analyzed is normal.

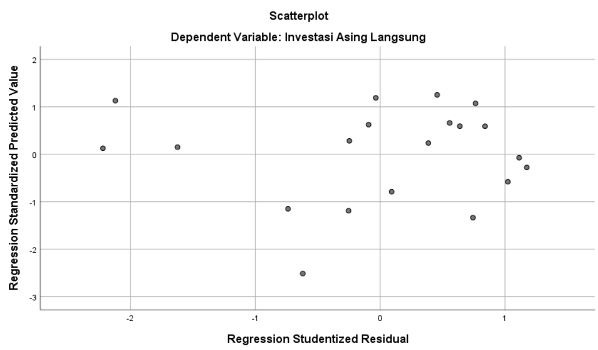

Figure 2. Heteroscedasticity Test Results

While the results of the heteroscedasticity test on Financial Risk (X1) and Political Risk (X2) on the Value of Mining Company Shares on the BEI (Y2), the results of the analysis show that there is no heteroscedasticity problem, because the dots or scatterplot are spread above and below the number 0. . Figure 2. Heteroscedasticity Test Results While the results of the heteroscedasticity test on Financial Risk (X1) and Political Risk (X2) on the Value of Mining Company Shares on the BEI (Y2), the results of the analysis show that there is no heteroscedasticity problem, because the dots or scatterplot are spread above and below the number 0. .

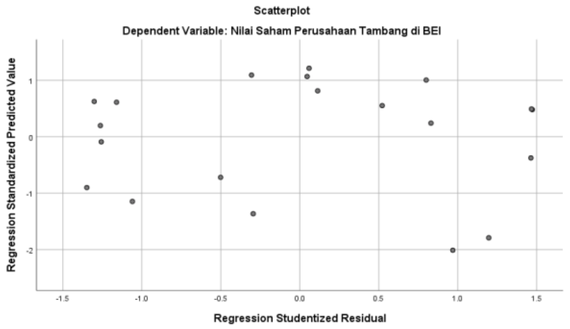

Figure 3. Heteroscedasticity Test Results

The results of the heteroscedasticity test on Financial Risk (X1), Political Risk (X2) and Foreign Direct Investment (Y1) on the value of mining company shares on the BEI (Y2) are presented in the form of a point distribution or scatterplot on the x-y curve and there is no heteroscedasticity problem.

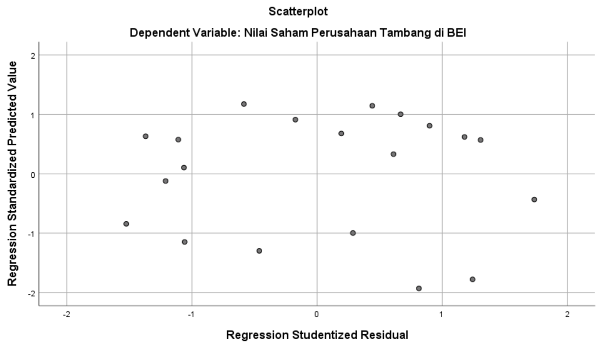

Figure 4. Heteroscedasticity Test Results

2. Residual Normality Test

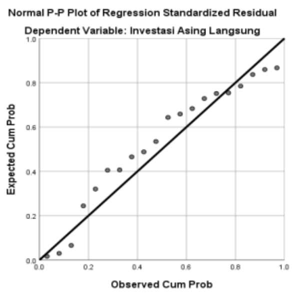

Figure 5. Normality Test Results

Based on the graphic image, it can be seen that the results of the normality test on Financial Risk (X1) and Political Risk (X2) on Foreign Direct Investment (Y2) are normal. Because the points spread around the diagonal line so that the data can be said to be normally distributed . The normality test can also be tested using the Kolmogorov-Smirnov test.

Table 1. Kolmogorov-Smirnov . results

N		20
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	.31546677
Most Extreme Differences	Absolute	.151
	Positive	.120
	Negative	-.151
Test Statistic		.151
Asymp. Sig. (2-tailed)		.200[c,d]

Based on the table above, the results are normal because the results of Asymp. Sig. (2-tailed) more than 0.05 i.e. 200c,d

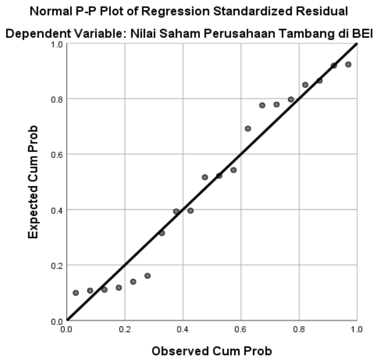

Figure 6. Normality Test Results

Meanwhile, the graphic above, namely Financial Risk (X1) and Political Risk (X2) on the Value of Mining Company Shares on the BEI (Y2), is also normally distributed because the points follow a diagonal line.

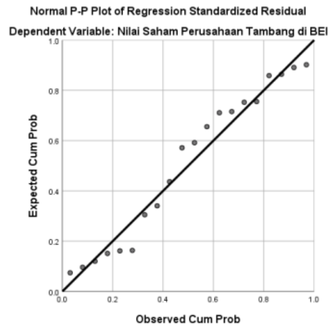

Figure 7. Normality Test Results

The normality test results for Financial Risk (X1), Political Risk (X2) and Foreign Direct Investment (Y1) on the value of mining company shares on the BEI (Y2) are also normally distributed.

3. Multicollinearity Test

Table 2. Multicollinearity Test

	unstandardized coefficients		Collinearity Statistics	
	B	Std. error	Tollerance	VIF
Financial Risk --> Foreign Investment	0,024	0,05	0,225	4,453
Political Risk --> Foreign Investment	-0,19	0,28	0,225	4,453
Financial Risk --> The Value of Mining Company in BEI	0,147	0,24	0,225	4,453
Political Risk --> The Value of Mining Company in BEI	-0,15	0,13	0,225	4,453
Direct Foreign Investment --> The Value of Mining Company in BEI	0,159	0,113	0,97	1,031

Based on the table, it can be seen that the relationship between the dependent variable and the independent variable does not experience multicollinearity problems. Because all the Tollerance numbers > 0.005, and the numbers on the VIF values are all < 10.00.

If you look at the unstandardized coefficients in column B, there are positive (+) and negative (-) numbers. A positive coefficient means that there is a positive relationship between financial risk and foreign investment, as well as between financial risk and foreign direct investment on the value of mining company shares on the BEI. . That means if the independent variable (free) increases, the dependent variable (bound) also increases. Meanwhile, a negative number (-) means that there is a negative relationship between political risk on foreign direct investment eand the value of mining companies on the BEI.

By using SPSS 25 Version regression analysis can be explored as follows:

Table 3 Dependent Variable: Foreign Direct Investment

Model		Unstandardized Coefficients	
		B	Std. Error
1	(Constant)	4.096	.917
	Financial risk	.024	.050
	Political risk	-.019	.028

From Table 1, it can be converted as :

Y1 = 4.096 + 0.24X1 -0.019X2

Financial risk has positive effect on foreign direct investment, because since the risk of finance higher, it means our fund in Indonesia is not safe, but it is usualy high risk will give high returns. It leads investors eager to avoid to invest their fund in Indonesia. Political risk has negative effect on foreign direct investment, because in the country which has unstable political condition will reduce the people income. Reducing people income more because of negative effect of unstable political condition such as high level of criminal, lack of job opportunities etc.

Table 4 Dependent Variable: Mining Company Share Value on BEI

Model		Unstandardized Coefficients	
		B	Std. Error
1	(Constant)	-1.443	.441
	Financial risk	.147	.024
	Political risk	-.015	.013

From Table 2, it can be converted as :
Y2 = -1.443 + 0.147X1 -0.015X2

Financial risk has positive effect on mining company share value, because since the risk of finance higher, it means our

fund in Indonesia is not safe, but it is usualy high risk will give high returns. It leads investors eager to invest their fund in Indonesia and because of foreign direct invesment increase could lead mining company share value increase as well. Political risk has negative effect on mining company share value, because in the country which has unstable political condition will reduce the people income. Reducing people income more because of negative effect of unstable political condition such as high level of criminal, lack of job opportunities etc and than the company will decrease its invesment and omzet.

Table 5 Dependent Variable: Mining Company Share Value on BEI

Model		Unstandardized Coefficients	
		B	Std. Error
1	(Constant)	-2.095	.632
	Financial risk	.143	.024
	Political risk	-.012	.013
	Foreign Direct Investment	.159	.113

From Table 3, it can be converted as :
Y2 = -2.095 + 0.143X1 -0.012X2+0.159Y1
inancial risk has positive effect on mining company share value, because since the risk of finance higher, it means our

fund in Indonesia is not safe, but it is usualy high risk will give high returns. It leads investors eager to invest their fund in Indonesia and because of foreign direct invesment increase could lead mining company share value increase as well. Political risk has negative effect on mining company share value, because in the country which has unstable political condition will reduce the people income. Reducing people income more because of negative effect of unstable political condition such as high level of criminal, lack of job opportunities etc and than the company will decrease its invesment and omzet.

Foreign direct investment has positive effect on mining company share value because since foreign direct investment higher, job opportunities will increase and companies' earning will higher, so mining company share value increase.

V. CONCLUSIONS & SUGGESTIONS

Based on the results and discussions, it can be concluded that financial risk has positive effect on foreign direct investment, while political risk has negative effect on foreign direct investment. It is expected that the government could launch the some foreign direct investment especially financial policies which could to push the FDI growth in mining fields. It is also expected that government should concern regards to the political condition for pulling the investors.

Financial risk has positive effect on mining company share value, while political risk has negative effect on mining company share value. It is expected government concern to all this condition, not only financial risk but also political risk.

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