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FOREIGN INVESTMENT IN THE PERSPECTIVE OF ISLAMIC ECONOMICS: A COMPARATIVE LITERACY STUDY ON THE IMPACT OF FOREIGN INVESTMENT IN INDONESIA

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ABSTRACT

This study aims to evaluate the impact of foreign *direct investment* (FDI) in Indonesia through a comparative analysis between conventional economic perspectives and Islamic economic principles. The phenomenon studied is the *trade-off* between progressive macroeconomic growth and distribution inequality and potential environmental damage in the field. The research method used is qualitative descriptive with a library *research approach*. Secondary data is sourced from official reports of BPS Indonesia and the Ministry of Investment/BKPM, while normative qualitative data is collected from scientific literature and theological texts related to the concepts *of falah*, *shirkah*, distributive justice, and *sharia maqashid*. Data analysis is carried out interactively through reduction, data presentation, and conclusion drawing using content and comparative analysis techniques. Key findings show that conventionally, FDI functions as an *engine of growth* that increases GDP, absorbs labor (*multiplier effect*), and triggers technology transfer. However, from the perspective of Islamic economics, a duality is found: on the one hand, PMA provides benefits in asset protection (*hifdz al-mal*) and partnerships (*shirkah*) with MSMEs, but on the other hand, the concentration of investment that accumulates on the island of Java is contrary to the spirit of distributive justice (QS. Al-Hasyr: 7). In addition, the achievement of *falah* is threatened if the operation of the extractive sector triggers environmental damage (*darar*) and neglects the protection of life (*hifdz an-nafs*). The implications of this study emphasize the need for investment regulatory policy reform that not only pursues capital growth, but also integrates fair sharia parameters. The suggestion for

further research is to conduct a direct empirical study on areas affected by the exploitation of the extractive sector.

INTRODUCTION

Economic globalization has brought significant changes to the pattern of international capital flows. One of the manifestations is the *increase in Foreign Direct Investment* (FDI) or foreign direct investment flowing from developed countries to developing countries, including Indonesia. FDI is now one of the key instruments in accelerating economic development due to its ability to provide additional capital, create jobs, and facilitate technology transfer directly to recipient countries. Based on the *United Nations Conference on Trade and Development* (UNCTAD) report in the *World Investment Report* 2024, global FDI flows will reach more than USD 1.3 trillion in 2023 even though the world is facing geopolitical instability and a global economic slowdown. For Indonesia, which is one of the most popular Muslim countries in the world as well as a developing country with great potential, investment from abroad is a very important element in increasing national economic growth (*World Investment Report Investment Facilitation*, 2024).

In many cases, excessive dependence on foreign investors can lead to external economic dominance, income distribution inequality, exploitation of natural resources, and domestic economic instability (unairnews, 2022). This phenomenon can be seen in several developing countries, including Indonesia, which still face challenges in managing foreign investment optimally. According to the World Bank report in 2024, most developing countries experience inequality in investment benefits due to low quality of human resources, weak regulation, and high dependence on the extractive sector. Many multinational companies are more dominant in profiting than local communities, so the economic benefits are not evenly distributed.(*World Investment Report Investment Facilitation*, 2024).

Thus, the presence of foreign investment does not always bring equal benefits. Various studies show that the impact of FDI is greatly influenced by the institutional capacity of the recipient country, the quality of regulations, and the policy strategies implemented. In many cases, the dominance of multinational corporations can actually weaken local industries, widen economic disparities, and trigger unsustainable exploitation of natural resources (Fauzan & Rahman, 2025).

In the context of Islamic economics, foreign investment needs to be viewed not only from the perspective of economic growth, but also from the dimensions of justice, sustainability, and the benefit of the people. Islamic economic principles such as the prohibition of usury, distribution justice, and orientation to *falah* (salvation of the world and the hereafter) provide different normative frameworks in evaluating the impact of foreign investment. The Qur'an clearly states in Surah Al-Baqarah verse 275 that Allah permits trade and prohibits usury, which is the main foundation in building a just investment system. In this study, it is important to explore the challenges faced by the Islamic economic system in Indonesia, including low financial literacy and public perception of usury (Anwar, 2025).

This phenomenon encourages the need for an in-depth study of how foreign investment operates in Indonesia and the extent to which it is in accordance with Islamic economic values. This research is relevant considering that Indonesia has a dual economic system that allows the running of the conventional economy and the Islamic economy side by side, so a comparative analysis between the two is urgently needed to formulate a fair and sustainable investment policy (Hasan, R., Yusuf, M., & Ahmad, 2023).

METHODS

The method used in this study is qualitative descriptive with a library *research approach*. This approach was deliberately chosen to explore, evaluate, and compare the impact of foreign investment in Indonesia through the lens of conventional economics and Islamic economic principles in depth. According to Sugiyono (2019), literature research focuses on collecting, reviewing, and interpreting literature or secondary data sourced from official reports of the Indonesian Central Statistics Agency (BPS) and the Ministry of Investment/Investment Coordinating Board (BKPM). Meanwhile, normative qualitative data were collected from scientific literature, accredited journal articles, textbooks, and conceptual-theological texts related to Islamic economic principles, such as the concepts *of falah*, *shirkah*, distributive justice, and *sharia maqashid* (Sugiyono, 2019).

After all the literature data is documented, the data analysis is carried out using content *analysis* and *comparative analysis* methods through three interconnected stages, namely data reduction, data presentation, and conclusion or verification. In the final stage, the researcher assesses the macroeconomic impact conventionally, such as *multiplier effect* analysis and technology transfer, and then compares critically with sharia parameters based on the value of the Qur'an Surah Al-Hasyr verse 7 as well as the pillars of property protection (*hifdz al-mal*) and life protection (*hifdz an-nafs*). This integrative approach ensures that the resulting conclusions remain objective, comprehensive, and uphold the values of academic integrity (Miles, M. B., Huberman, A. M., & Saldaña, 2014).

RESULT AND ANALYSIS

Research Results

Table 1
Foreign Investment Data in Indonesia

Province	Realization of Foreign Investment by Province (US$ Million)					
	Projects			Investment		
	2021	2022	2023	2021	2022	2023
ACEH	89	89	210	203.3	127.6	248.6
SUMATERA UTARA	690	765	1253	580.4	1316.1	1181.3
SUMATERA BARAT	174	197	308	66.9	95.6	120.7
RIAU	331	318	600	1921.4	2748.7	2042.3
JAMBI	131	159	251	50.9	39.2	45.1
SUMATERA SELATAN	312	288	456	1259.7	1226.3	1478.6
BENGKULU	121	57	101	23.7	52.2	76.1
LAMPUNG	154	215	372	173.8	247.8	220.6
KEP. BANGKA BELITUNG	144	125	207	44.7	129.7	72.5
KEP. RIAU	992	1042	1753	1043.7	934	764.1
DKI JAKARTA	7620	8942	20028	3330.6	3744.1	4830
JAWA BARAT	5244	6208	10512	5217.7	6534.5	8283.7
JAWA TENGAH	1293	1451	3021	1465.9	2362	1563.7
DI YOGYAKARTA	249	289	531	21.8	113.9	46
JAWA TIMUR	1815	2105	3913	1849.2	3134	4741
BANTEN	1939	2240	4775	2190	3410.7	4451.6
BALI	2798	4696	16282	452	449.5	808.5
NUSA TENGGARA BARAT	824	808	1571	244.2	704.6	468.4
NUSA TENGGARA TIMUR	262	281	466	79	73.3	124.3
KALIMANTAN BARAT	337	340	498	463.4	745.5	490.5
KALIMANTAN TENGAH	199	238	403	162.5	548.3	697.6
KALIMANTAN SELATAN	147	174	357	117.2	208.1	327.9
KALIMANTAN TIMUR	428	486	822	745.2	1266.2	1332.7
KALIMANTAN UTARA	54	68	135	133.5	430.5	1272.1
SULAWESI UTARA	118	151	277	169.1	105.1	203.7
SULAWESI TENGAH	169	216	397	2718.1	7486	7244.1
SULAWESI SELATAN	247	275	515	310	469	336.7
SULAWESI TENGGARA	75	102	207	1616.5	877.9	448.3
GORONTALO	33	30	57	78	102.9	33.8

SULAWESI BARAT	27	19	45	5.9	28.3	24.3
MALUKU	30	41	63	13.3	73.4	106.3
MALUKU UTARA	78	116	224	2819.9	4487.5	4998.2
PAPUA BARAT	52	64	47	32.5	71.8	121.7
PAPUA BARAT DAYA	-	-	65	-	-	-
PAPUA	95	86	73	1489.1	1260.5	1062.6
PAPUA SELATAN	-	-	66	-	-	-
PAPUA TENGAH	-	-	37	-	-	-
PAPUA PEGUNUNGAN	-	-	0	-	-	-
INDONESIA	27271	32681	70898	31093.1	45605	50267.5

Source: BPS Indonesia

Based on this information, it is known that the level of foreign investment in Indonesia is quite high. The majority of foreign capital flows are focused on the island of Java, which has been known as the center of national economic growth. High industrial activity, more adequate infrastructure, and large market potential make this area more attractive to investors than other regions. Data from the Investment Coordinating Board (BKPM) of the Republic of Indonesia indicates that the entry of foreign investment into Indonesia is spread across various fields, such as the basic metal industry and metal goods; transportation, warehousing, and telecommunications; mining sector; chemical and pharmaceutical industries; housing, industrial estate, and office sectors; and others (BKPM Indonesia, 2023).

Based on the publication of the 2023 Investment Realization Statistics, the realization of Foreign Investment (FDI) in 2022 experienced a growth of 46.67% compared to 2021. This increase is reflected in the value of investment which increased from US$31,093.1 million to US$45,605.0 million. When viewed based on business sectors, the five areas that received the highest FDI investment realization consisted of the basic metals industry, metal goods, and non-machinery and equipment (Rp200.3 trillion); transportation, warehousing, and telecommunications sectors (IDR 159.8 trillion); mining sector (Rp156.5 trillion); housing, industrial estate, and office sectors (IDR 115.2 trillion); and chemical and pharmaceutical industries (IDR 105.0 trillion). Overall, the contribution of FDI to the total realization of national investment in 2023 amounted to 52.4% of total investment which reached IDR 1,418.9 trillion, demonstrating the importance of the role of foreign investment in driving economic growth in Indonesia (Ministry of Investment/BKPM, 2023).

The achievement of FDI investment based on project locations (the five largest) consisted of West Java (IDR 210.6 trillion), DKI Jakarta (IDR 166.7 trillion), East Java (IDR 145.1 trillion), Central Sulawesi (IDR 112.0 trillion), and Banten (IDR 103.9 trillion). Meanwhile, the achievement of FDI by country of origin of investors (the five largest) in 2023 was dominated by Singapore with an investment index (227.3), followed by the R.R. of China (110.1), Hong Kong (96.3), Japan (68.7), and Malaysia (60.1).

Discussion

The Impact of Foreign Investment on the Indonesian Economy

The inflow of foreign capital into Indonesia throughout the period 2021 to 2023 has a significant macroeconomic impact. From a conventional economic perspective, foreign investment (FDI) functions as an engine *of growth* as well as a structural solution to the *savings-investment gap* often faced by developing countries, including Indonesia. Literature findings show that the positive impact of FDI on the national economy is manifested through three main pathways. First, there is an increase in production capacity and Gross Domestic Product (GDP). In accordance with the findings of Kurniawan et al., (2025); Silitonga et al., (2026), the inflow of foreign capital is able to significantly increase aggregate output and GDP in the long term through expansion into various productive sectors. Second, the influx of foreign investment creates *a strong multiplier effect* on labor absorption. The construction of various new production facilities by investors automatically opens up mass employment, which in turn is effective in increasing the per capita income and purchasing power of people's households. Third, foreign investment triggers the process of technology transfer and knowledge transfer. The presence of multinational companies generally brings innovation, more modern management systems, and high-tech efficiency that will gradually be absorbed by the local workforce, thereby increasing the competitiveness of the industrial sector in the global arena.

Although it makes a great contribution, the literature analysis also underlines the existence of structural challenges in the form *of trade-offs* that must be watched out for from this capital flow phenomenon. Too much dependence on external capital has the potential to trigger vulnerability in domestic economic structures to global economic shocks. In addition, the phenomenon of *profit repatriation* by foreign investors who are returned to their home countries is also at high risk of reducing the portion of economic added value that should settle and roll in the country. Therefore, the potential positive impact of foreign investment still requires strict regulations so that the economic benefits generated can be optimally enjoyed for national development.

Foreign Investment in an Islamic Economic Perspective

In the view of Islamic economics, investment activities are not only focused on achieving maximum profits, but are also intended to create overall benefits and welfare (*falah*), both in physical and spiritual aspects. Islam states that wealth is a mandate from Allah

Swt. which needs to be managed in a productive way and applied in a halal business. Therefore, investment activities must be free from the elements of *riba*, *gharar*, and *maysir*, and be able to provide wide benefits to the community (Chapra et al., 2008).

If it is related to the reality of foreign investment in Indonesia, there are several aspects that need to be studied from the perspective of Islamic economics. First, it is related to the equitable distribution of investments. Although foreign investment is able to drive economic growth, the reality is that most of the investment is still concentrated in certain regions, especially on the island of Java such as West Java, DKI Jakarta, East Java, and Banten. This condition indicates that the economic benefits obtained have not been fully distributed fairly throughout the region. However, Islam strongly emphasizes the importance of the principle of justice in distribution, as explained in the Qur'an. Al-Hashr verse 7 which emphasizes that wealth should not only revolve among a few people. In addition, it is important to evaluate foreign investment from the perspective *of the sharia maqashid*, especially with regard to the protection of property (*hifdz al-mal*) and the protection of life (*hifdz an-nafs*). The existence of foreign investment in various important sectors, such as the processing, mining, and manufacturing industries, can have a positive effect in the form of job creation and increased people's income.

In this case, foreign investment plays a role in maintaining the economic sustainability of the community through the provision of appropriate jobs. However, these benefits must be accompanied by social responsibility and environmental protection. If investment activities cause environmental damage, excessive exploitation of natural resources, or neglect the rights of local communities, then the goal of benefit that is at the core of *maqashid sharia* has not been fully achieved. Third, Islamic economics also emphasizes the importance of fair partnerships between investors and local business actors. In this context, the involvement of Micro, Small, and Medium Enterprises (MSMEs) in foreign investment activities is a very important aspect. Cooperation between foreign companies and MSMEs can create mutually beneficial relationships through knowledge transfer, expanding market access, and strengthening local business capacity. This kind of partnership pattern is in line with the concept *of shirkah* in Islam which emphasizes the principles of cooperation, justice, and mutual strengthening between economic actors. Thus, foreign investment not only generates profits for investors, but also contributes to strengthening the community's economy and increasing national economic independence.

CONCLUSION

Based on the results of data analysis and discussions on the impact of foreign investment in the perspective of the Islamic economy in Indonesia, it can be concluded that the realization of Foreign Investment (FDI) in Indonesia in the period 2021 to 2023 shows very progressive macroeconomic growth. The sharp surge in the number of projects from 27,271 to 70,898 projects and the increase in investment value to reach US$50,267.5 million in 2023 proves that this external capital flow plays a crucial role with a contribution of 52.4% of total national investment. From a conventional economic point of view, the influx of *Foreign Direct Investment* (FDI) has effectively acted as an *engine of growth* that closes the *savings investment gap* through three main channels, namely increasing production capacity that boosts Gross Domestic Product (GDP), creating *a multiplier effect* on the absorption of labor, as well as the acceleration of technology transfer in order to boost the competitiveness of the national industry in the global arena. However, this phenomenon of capital flows also leaves structural challenges in the form of risk of vulnerability to global shocks and the depreciation of domestic value-added due to the practice of repatriating profits by foreign investors to their home countries.

Viewed from the perspective of Islamic economics, the implementation of foreign investment in Indonesia highlights the duality between potential benefits and structural inequality in the field. On the one hand, the entry of FDI in the manufacturing and processing industry sector has provided real benefits that are in line with the urgency of *Maqashid Syariah* in the pillar of property protection (*hifdz al-mal*) through the provision of jobs, as well as in line with the concept of equitable partnership (*shirkah*) through the integration of local MSMEs. However, on the other hand, the high concentration of investment locations that are still accumulating on the island of Java is fundamentally contrary to the spirit of distributive justice outlined in the Qur'an Surah Al-Hasyr verse 7, because it triggers economic inequality between regions. In addition, the goal of achieving the essential benefits (falah) is threatened with disadvantage if the operationalization of investment in the extractive sector ignores the aspect of environmental sustainability (*darar*) and ignores the right to life protection (*hifdz an-nafs*) of local communities due to excessive exploitation of natural resources.

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