

## Labor productivity and foreign direct investment in the Indonesian manufacturing sector

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### Abstrak

#### <b>ABSTRAK</b><br>

This paper investigates the determinants of foreign direct investment (FDI) inflow, focusing on the effect of labor productivity in the Indonesian manufacturing sector. Indonesia has the advantage of abundant labor supply in attracting FDI to bring positive externalities to its economy. Based on this background, this paper is aimed to study and to improve FDI inflow through a random effect analysis of 19 manufacturing industries from 2001 to 2014. The empirical result shows that labor productivity, wages, and export have become significant factors that attract FDI. FDI inflow in this sector tends to target non-labor industries. For the labor-intensive industries, the primary strategy is to increase labor quality through improvement in education, training, internship program, and worker certification. Improving research and development climate, and maintaining the quality of labor through health and social protection regulation can attain improvement in non-labor intensive industries.