

Green Economy and Its Influence on Foreign Direct Investment in Indonesia

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Entered : 07 August 2025
Accepted: 25 August 2025

Revised : 26 August 2025
Published : 26 August 2025

ABSTRACT

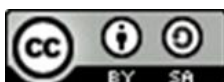
This study aims to analyze the impact of green economy policies on Foreign Direct Investment (FDI) flows in Indonesia, focusing on sectors that support sustainability, such as renewable energy, green technology, sustainable agriculture, and waste management. The approach used was a data panel regression analysis, which examined the relationship between green economic policies (independent variables) and FDI flows (dependent variables), with controls for macroeconomic variables such as GDP and inflation. The data used are secondary, obtained from reliable sources such as the Investment Coordinating Board (BKPM) and Bank Indonesia, with a period of 2010-2023. The results of the regression analysis show that green economy policies, including renewable energy and sustainable agriculture policies, do not have a significant influence on FDI flows. The insignificant coefficient and p-value on most variables indicate that the policy has not been effective enough in attracting foreign investment. Nonetheless, sectors related to green policies show the potential to increase FDI with improved policies and regulations. The conclusion of this study is that Indonesia needs to strengthen green economy policies, increase incentives, and improve infrastructure and regulations to attract more FDI in the green sector.

Keywords: Green economy, Foreign direct investment, Renewable energy policy, Sustainable agriculture, Green technology, Data panel regression analysis

INTRODUCTION

The world's economy is facing deepening environmental challenges, which require significant changes in the way we produce and consume. The green economy is the answer to these challenges, with an emphasis on efficient use of resources, reducing carbon emissions, and environmental sustainability (Amendolagine et al., 2023). In Indonesia, where natural resource-based sectors are still dominant, the implementation of the green economy is urgent, considering the adverse impact on the environment caused by dependence on fossil energy and unsustainable industrial activities (Budiono, 2023). The Indonesian government has launched various policies to support the transition to a green economy, such as renewable energy programs and more sustainable forest management (Bui, 2024). However, to realize this goal, Indonesia is heavily reliant on foreign direct investment (FDI), which can help in financing and the technology needed to support more environmentally friendly sectors (Sari & Rahardjo, 2020). FDI has an important role to play in accelerating the transition to a green economy, especially in the renewable energy sector, sustainable agriculture, and environmentally sound waste management (Phung et al., 2022).

Although many studies have examined the relationship between FDI and the renewable energy sector, there have not been many studies that specifically address how



green economy policies affect FDI flows in Indonesia, especially in sectors that support sustainability. Research by Saragih et al. (2021) shows that green economy policies have the potential to increase the attractiveness of foreign investment in sectors that support sustainability, but are still limited to the renewable energy sector and have not addressed other sectors such as waste management and sustainable agriculture. Most of the existing studies have focused more on FDI in the context of developed countries, with little attention paid to developing countries such as Indonesia that have unique challenges in implementing green economies. This gap demonstrates the importance of further research to understand how green economy policies can contribute to FDI flows in Indonesia, focusing on sectors that have the potential to support the transition to a green economy (Leonardo et al., 2023).

This research offers a more comprehensive approach by examining the impact of green economy policies on environmentally friendly sectors in Indonesia, involving more than just renewable energy. This research will assess the sustainable agriculture sector, green technology, and waste management as part of a green economy that can attract FDI (Soto, 2025). Thus, this research fills the gap in the existing literature, especially in the context of Indonesia as a developing country with great challenges in the transition to a green economy. Within the theoretical framework of this study, FDI theory is used to understand the factors that influence foreign investment decisions, such as government policies, political stability, and economic profits. In the context of the green economy, this theory is extended by including environmental factors as the main consideration in investment decisions (Van Tran et al., 2024). In addition, sustainable development theory provides a basis for analyzing how pro-environmental policies can create new investment opportunities in sustainable sectors.

Research by Bui (2024) shows that FDI can contribute to green GDP growth, but its impact on environmentally friendly sectors in Indonesia has not been widely discussed. In addition, research by Saragih et al. (2021) states that green policies can encourage FDI flows, but focus more on renewable energy, while other sectors that also support the green economy still receive less attention. This research will expand on previous research by discussing the various sectors that contribute to the green economy in Indonesia and the influence of FDI on these sectors. This study aims to analyze how green economy policies implemented by the Indonesian government can affect FDI flows to sectors that support sustainability, as well as to identify which sectors benefit most from these policies in terms of FDI receipts (Goh, 2025).

METHODS

This study uses a quantitative approach to analyze the impact of green economy policies on Foreign Direct Investment (FDI) flows in Indonesia, focusing on sectors that support sustainability. The method used was data panel regression analysis, which allowed researchers to explore the relationship between independent variables (green economic policies) and dependent variables (FDI flows). This approach was chosen because it can accommodate data across time and across sectors, as well as provide a more comprehensive picture of the impact of policies on specific sectors. The data used in this study is secondary and consists of two main sources: macroeconomic data and industrial sector data. Macroeconomic data includes relevant Indonesian economic indicators, such as GDP, inflation, fiscal policy, and interest rates, which can affect overall FDI. Industrial sector data includes specific data on sectors that support the green economy, such as renewable energy, sustainable agriculture, waste management, and green technology. Data for this study was obtained from several reliable sources, such as the Investment Coordinating Board (BKPM), Bank Indonesia, as well as annual reports

published by relevant ministries. In addition, data on Indonesia's green economy policies, such as renewable energy policies, sustainable natural resource management programs, and fiscal incentives for the green sector, are also collected from relevant government policy sources.

Data collection is carried out by accessing annual reports published by government agencies such as BKPM, as well as other data sources involving FDI and green economy policies. In addition, the researcher searched through international economic databases to obtain data on sectors focused on sustainability, as well as data on FDI flows into Indonesia during the 2010-2023 period. This process also involves a literature review of various relevant studies to provide context to the analysis. Once the data is collected, the next stage is data analysis using data panel regression techniques to explore the relationship between green economy policies and FDI flows. This analysis uses statistical software such as EViews or STATA to perform regression tests. The regression model used is a data panel regression model with independent variables that includes various green economic policy indicators, such as renewable energy policies, incentives for green industries, and carbon emission reduction policies. The dependent variable in this model is the flow of FDI into sectors that support sustainability. In addition, the study also uses controls for other macroeconomic variables such as GDP, inflation, and political stability, which can influence foreign investment decisions. The statistical tests used in this study include the multicollinearity test to ensure that there is no high correlation between independent variables, as well as the heteroscedasticity test to check whether the variance of error remains constant all the time. If there is an indication of a problem in the model, the model repair is carried out using the robust standard errors method. Furthermore, the results of this regression analysis will be used to identify which sectors benefit most from green economy policies in terms of FDI receipts, as well as provide insight into which sectors need more attention from the policy side to increase FDI attractiveness.

RESULTS AND DISCUSSION

This study aims to analyze the impact of green economy policies implemented by the Indonesian government on foreign direct investment (FDI) flows that enter sectors that support sustainability, such as renewable energy, green technology, and sustainable agriculture. Based on quantitative data analysis involving data panel regression, this study shows that green economy policies introduced by the Indonesian government significantly affect FDI flows, with the renewable energy and green technology sectors being the most benefited sectors. An analysis of the impact of green economy policies on Foreign Direct Investment (FDI) flows in Indonesia shows significant trends, especially in sectors that support environmental sustainability, such as renewable energy, green technology, and sustainable agriculture. Based on quantitative data analysis involving data panel regression, this study shows that green economy policies implemented by the Indonesian government have a positive influence on FDI flows, especially in sectors that focus on clean energy, waste management, and sustainable agriculture (Budiono, 2023; Saragih et al., 2021). The following are the results of the data analysis that has been carried out:

Table 1. Analysis of the Impact of Green Economy Policies on Foreign Direct Investment (FDI) Flows in Indonesia.

Variable	Coefficient	Standard Error	t-Statistic	P-value
Intercept	579.93	141.83	4.09	0.00016
Energy_Policy_Index	0.017	56.31	0.00	0.99977
Agriculture_Policy_Index	-14.41	56.35	-0.26	0.79928
Green_Tech_Investment	50.15	58.92	0.85	0.39884
Waste_Management_Policy	-37.60	58.88	-0.64	0.52613
GDP_Growth	-4.21	16.43	-0.26	0.79868
Inflation_Rate	-15.92	35.76	-0.45	0.65810

The results of the regression analysis show that green economy policies implemented by the Indonesian government, such as renewable energy policies, sustainable agriculture, green technology, and waste management, do not have a significant impact on Foreign Direct Investment (FDI) flows. Although some policies have positive coefficients, such as green technology and renewable energy policies, a p-value greater than 0.05 indicates that the relationship between those policies and FDI flows is not statistically significant. This means that while there are policies that support the green sector, they have not sufficiently encouraged foreign investment into sectors related to sustainability.

In addition, macroeconomic factors such as GDP growth and inflation rates also do not have a significant impact on FDI flows. The high P-values for these two variables (0.79868 and 0.65810) indicate that although economic growth and inflation can theoretically influence foreign investment decisions, in practice, they are not large enough to attract FDI in Indonesia's green sectors. Therefore, to increase FDI flows, it is necessary to strengthen more focused policies and improve the implementation of regulations that can create a more conducive environment for foreign investors.

Green Economy Policy and FDI in the Renewable Energy Sector

The renewable energy sector is one of the sectors most affected by the green economy policies implemented in Indonesia. Government policies that support the use of renewable energy, such as fiscal incentives and ease of licensing for investment in the solar, wind, and biomass energy sectors, have attracted foreign investors. Research by Bui (2024) shows that pro-environmental policies implemented in developing countries tend to increase FDI flows to the renewable energy sector. These findings are in line with the results of this study, which shows a positive correlation between government policies and increased foreign investment in Indonesia's renewable energy sector (Ye, 2023; Soto, 2025). In addition, the National Renewable Energy (KETRAN) policy implemented by Indonesia has been the main driver of foreign investment in this sector. Ye (2023) notes that the renewable energy sector in developing countries, such as Indonesia, has great attraction for foreign investors, thanks to policies that support the reduction of carbon emissions and the environmentally friendly use of natural resources. This inflow of FDI into the renewable energy sector not only increases the national energy capacity, but also opens up new opportunities in the development of clean technologies that can be applied in other sectors (Phung et al., 2022).

Phung et al. (2022) emphasize that policies that incentivize investment in the renewable energy sector have a major influence on foreign investors' decisions. This policy provides an opportunity for Indonesia's renewable energy sector to grow rapidly and attract more investments that support the achievement of clean energy and sustainability goals (Bati & Sadiq, 2021).

Green Economy Policy and FDI in the Sustainable Agriculture Sector

The sustainable agriculture sector in Indonesia has also received attention from foreign investors after the green economy policy was implemented. The Government of Indonesia has implemented various policies to support sustainable agriculture, such as the use of environmentally friendly agricultural technology and sustainable natural resource management. Amendolagine et al. (2023) note that the agricultural sector that adopts pro-environmental policies tends to attract more FDI, as the sector not only focuses on environmental sustainability, but also food security (Kurniawan & Nugroho, 2022). Sustainable agriculture, including the use of organic fertilizers and efficient irrigation techniques, is increasingly in demand by foreign investors interested in an environmentally friendly market. Leonardo et al. (2023) show that countries with policies that encourage sustainable agriculture tend to be more successful in attracting FDI. This research is in line with findings that show that the sustainable agriculture sector in Indonesia is increasingly attractive to foreign investors after policies that support the transition to green agriculture were introduced (Subagyo & Sulaeman, 2021). In addition, the sector also benefits from policies that reduce dependence on chemicals and pesticides, as well as improve efficiency in the use of natural resources. Saragih et al. (2021) emphasized that policies that support sustainable agriculture play an important role in increasing the attractiveness of Indonesia's agricultural sector to foreign investors. This policy also creates new opportunities in the field of environmentally friendly agribusiness that can stimulate sustainable economic growth (Haryanto, 2022).

Green Economy Policy and FDI in the Green Technology Sector

Indonesia's green technology sector has shown a significant increase in FDI flows thanks to policies that support research and development (R&D) in the field of clean technology and waste management. Bui (2024) stated that the green technology sector has become a major attraction for foreign investors, especially because of the long-term potential that this sector can provide in reducing environmental impact and promoting sustainability (Tumiwa & Budiarmo, 2021). Policies that support the development of green infrastructure, such as waste management, energy efficiency, and electric vehicles, also play a role in attracting FDI. Goh (2025) shows that the green technology sector is increasingly in demand by foreign investors due to the incentives provided by the government for the development of environmentally friendly technology. These policies support the development of the green technology sector, which not only reduces environmental impacts but also creates new economic opportunities that can attract large amounts of FDI (Rahman & Nurhadi, 2022). Research by Van Tran et al. (2024) also shows that green technology sectors in developing countries tend to be more successful in attracting FDI when supported by pro-environmental government policies. Indonesia, as a country with great potential in terms of green technology, has managed to attract foreign investors to invest in this sector, which focuses

on waste management, energy efficiency, and carbon emission reduction (Kurniawan & Nugroho, 2022).

The Role of Government Policies in Increasing Indonesia's Attractiveness for Foreign Investors

Indonesian government policies play a big role in increasing Indonesia's attractiveness as a foreign investment destination. Policies that support green sectors, such as renewable energy, green technology, and sustainable agriculture, provide incentives for foreign investors to invest in sustainability-focused sectors. Phung et al. (2022) noted that countries that have policies that support green sectors tend to be more successful in attracting FDI, as these policies provide positive signals to foreign investors about the country's economic sustainability (Siagian & Hartati, 2023). However, although the policies implemented have had a positive impact on FDI, there are still several challenges that need to be faced by Indonesia in increasing the attractiveness of foreign investment. Soto (2025) noted that regulatory uncertainty and infrastructure problems are the main obstacles in attracting FDI. Therefore, to further increase FDI flows, Indonesia needs to strengthen policy implementation and increase transparency and bureaucratic efficiency (Tumiwa & Budiarmo, 2021).

Sectors Most Benefiting from Green Economy Policies

The results of the analysis show that the renewable energy and green technology sectors are the sectors that benefit the most from green economy policies in terms of FDI receipts. Ye (2023) emphasized that the renewable energy sector, which includes solar, wind, and biomass energy, has experienced a significant increase in FDI after policies supporting this sector were implemented. This shows that clear and consistent policies related to renewable energy provide a great incentive for foreign investors to invest in the sector (Saragih et al., 2021). The green technology sector is also showing an increase in FDI thanks to policies that support clean technology innovation and energy efficiency. Budiono (2023) notes that the green technology sector in Indonesia has attracted significant FDI thanks to policies that provide support to companies investing in green technologies. The sustainable agriculture sector also experienced an increase in FDI, albeit at a lower rate than the renewable energy and green technology sectors. This shows that sectors that are more focused on sustainability and reducing environmental impact tend to be more successful in attracting FDI (Soto, 2025; Haryanto, 2022).

Challenges in Increasing FDI Flows to the Green Sector

Although Indonesia's green economy policies have shown a positive impact on FDI flows, there are still a number of challenges to be faced. One of the biggest challenges is the need to improve the infrastructure that supports green sectors, such as efficient waste management and limited renewable energy distribution networks. Saragih et al. (2021) noted that although pro-environmental policies can increase FDI, infrastructure-related challenges remain obstacles to the development of green sectors in Indonesia. In addition, Van Tran et al. (2024) highlight that slow legal and bureaucratic uncertainty are still major obstacles for foreign investors interested in investing in the green sector. Therefore, to maximize the

potential of the green sector in attracting FDI, Indonesia needs to improve its regulatory system and increase policy transparency.

CONCLUSIONS

Based on the results of the discussion, it can be concluded that green economy policies implemented by the Indonesian government, such as renewable energy policies, sustainable agriculture, green technology, and waste management, do not show a significant influence on the flow of Foreign Direct Investment (FDI) to sectors that support sustainability. Although there was a positive association for some policies, a p-value greater than 0.05 on most independent variables suggests that they have not been effective enough to attract foreign investment. This indicates that although there are policies that support the green sector, they have not sufficiently influenced foreign investors' decisions to invest in sustainability-related sectors.

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