

**IMPLICATION OF INVESTMENT LEGAL POLITICAL DYNAMICS ON
THE INVESTMENT CLIMATE IN INDONESIA**

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Abstract

This article is to analyze and examine the dynamics of investment law politics that can provide legal certainty for investors, both domestic and foreign investors. Legal politics is an integral part in making a statutory regulation. The existence of such legal politics will bring the substance of a regulation into the initial purpose and spirit of the formation of legislation. This research was conducted normatively using secondary data. Secondary data used in the form of primary legal materials and secondary legal materials. After the data was obtained in the literature, the data were then analyzed descriptively qualitatively to produce conclusions in this study. The conclusion in this study is that the investment law politics in each era of the old order, new order era, and reform era has its own characteristics according to the developments and demands of the times. In the old order era, the focus was more on finding capital for development and national interests, while in the reform era investment became an additional element in national development. The Job Creation Act brings the spirit of ease in investing.

Keywords: Legal Politics; Investment; Investment Climate

A. Introduction

Indonesia is a country that has tremendous potential that can be used as an investment destination. Indonesia's potential as an investment destination can be seen from the important aspects that support investment and the attractiveness of Indonesia for foreign investors to invest their capital. The attraction itself is seen from various aspects, including a healthy economy, a stable political situation, a good investment climate, abundant natural resources, a favorable demographic situation, a growing domestic market, and having a global role among countries.¹

¹ Hafid Zakariya et al., "Pengaruh Hukum Dan Politik Terhadap Perkembangan Investasi Asing Di Indonesia," *Jurnal Serambi Hukum*, no. 2 (2017): 76.

Investment has a significant impact on people's well-being and provides several rewards. As a result, in order to improve welfare, Indonesia requires long-term income growth, which is primarily derived from increasing labor, capital, and productivity gains in the economy.² The most important source of revenue growth is investment. As a result, investment must be considered as part of the national economy's implementation, with the goal of boosting national economic growth, creating jobs, and promoting long-term economic development, as well as increasing national technological capacity and capability, encouraging people's economic development, and realizing community welfare. competitive. Investment, or capital investment, is a critical pillar in the economic growth of a country that wants to expand sustainably. As a result, it is critical to maintain a favorable investment climate in Indonesia in order to attract foreign investors.³ Only by overcoming the supportive elements that obstruct the investment climate can the goal of implementing investment be realized.

The government has created a legislative framework for investment laws, including Law Number 1 Year 1967 *jo.* Law Number 11 Year 1970 concerning Foreign Investment, and Law Number 6 Year 1968, *jo.* Law Number 12 Year 1970 concerning Domestic Investment⁴, Law Number 25 Year 2007, which was later updated by Law Number 11 Year 2020. Each era of government has its own policies in regulating investment. In every policy there is a political law that influences the formation of the regulation. Legal politics is an important element in creating policies in a country.⁵ The purpose of legal politics is to create a legal system that is desired by the government and society at large.

² Suradiyanto Suradiyanto and Made Warka, "Pembangunan Hukum Investasi Dalam Peningkatan Penanaman Modal Di Indonesia," *DiH: Jurnal Ilmu Hukum*, no. 21 (2015): 28, <http://dx.doi.org/10.30996/dih.v11i21.444>.

³ Sayidin Abdullah, "Politik Hukum Penanaman Modal Asing Setelah Berlakunya Undang-Undang Penanaman Modal 2007 dan Implikasinya Terhadap Pengusaha Kecil," *Fiat Justisia Jurnal Ilmu Hukum*, no. 4 (2014): 561, <https://doi.org/10.25041/fiatjustisia.v8no4.320>.

⁴ These laws had been revoked by the new law.

⁵ Mia Kusuma Fitriana, "Peranan Politik Hukum Dalam Pembentukan Peraturan Perundang-Undangan di Indonesia Sebagai Sarana Mewujudkan Tujuan Negara," *Jurnal Legislasi Indonesia*, no. 2 (2015): 15., <https://doi.org/10.54629/jli.v12i2.403>.

Political conflicts that occur in the country will worsen the investment climate in Indonesia.⁶ This is in line with the requirements for the entry of investors, namely the existence of stability that ensures legal certainty in investing. Political instability will eventually lead to legal uncertainty.⁷ This means that as long as the legal certainty factor is ignored, the level of reluctance to invest will be high. The law should be the basis for the operation of politics, departing from the principles of justice and the welfare of the people. According to Reilly and Brown, investment is a commitment to tie up current assets for the future in order to get income that can be compensated. Therefore, the role of investment is very important in a country.⁸

Efforts to strengthen legal development in the investment sector are part of a national legal program, because law in the investment sector is not just the duty of the government; all governments, both central and regional, must work together to build a legal and healthy economic culture. The investment climate must ensure not just profits for businesses and the long-term prosperity of the country, but also that investment has an economic, social, and cultural influence on the community. In the investment sector, the old laws and regulations are deemed no longer in accordance with the demands of the times, therefore it is necessary to reform laws that are more just and visionary. Changes made to the investment legal climate were carried out in 2020 with the renewal of legislation using the omnibus law method. This update is claimed to provide convenience in investing with various cuts to the existing administrative system. Thus, the problem discussed in this article is about the investment regulations in Indonesia in each era and the implications of investment law's politics on the investment climate in Indonesia.

This article is a type of normative legal research. Normative legal research is defined as a study that focuses on a rule of law or regulation and then compares it with the reality on

⁶ Danggur Konradus, "Politik Hukum Berdasarkan Konstitusi," *Jurnal Masalah-Masalah Hukum*, no. 45 (2016): 200, <http://dx.doi.org/10.14710/mmh.45.3.2016.198-206>.

⁷ Agung Sudjati Winata, "Perlindungan Investor Asing Dalam Kegiatan Penanaman Modal Asing Dan Implikasinya Terhadap Negara," *AJUDIKASI: Jurnal Ilmu Hukum*, no. 2 (2018): 132, <https://doi.org/10.30656/ajudikasi.v2i2.902>.

⁸ Sri Wartini, "The Impacts of Foreign Direct Investment to the Environment in Developing Countries: Indonesian Perspective," *International Journal of Law*, no. 2 (2016): 310, <https://doi.org/10.17304/ijil.vol13.2.650>.

the ground.⁹ Secondary data is used in this study. The legal approach is carried out by examining laws and regulations related to investment law politics, such as Law Number 25 Year 2007 concerning Investment, Law Number 11 Year 2020 concerning Job Creation and secondary legal materials are documents that provide information or discussion about the content of primary sources and how they are implemented. Secondary legal materials used include books, theses, and articles from both print and electronic media that are used to support the author's analysis.¹⁰ After data processing is complete, qualitative data analysis is carried out, meaning the research results. This is described in the form of explanations and descriptions of sentences that are easy to read and understand to be interpreted and summarized in general based on facts that are specific to the subject under study.¹¹

B. Discussion

B.1. Investment law politics in the old order era

Indonesia has endeavored to give welfare to its people since becoming an independent and sovereign country. In 1952-1953, the Ali Sastroamdjoko Cabinet initiated the growth of investment or investment in Indonesia. The draft rules that had been created during this government term had not yet been submitted to parliament owing to the cabinet's demise. However, in 1953, the Cabinet introduced a Foreign Investment Bill in the second volume of Ali Sastroamdjoko's Cabinet. However, the submission of the Draft Law was hampered by the fact that it did not receive parliament's approval.

On the proposal of the second Draft Law which was put forward by the Ali Sastroamjojo Cabinet, in 1958, Law Number 78 Year 1958 concerning Foreign Investment was issued. Foreign Investment Draft, in accordance with the government's statement on April 9, 1956 to the House of Representatives, taking into account the results of the National Development

⁹ Yudiono, *Metode Penelitian* (Semarang: Unila Press, 2021), 56.

¹⁰ Kornelius Benuf, and Muhamad Azhar. "Metodologi Penelitian Hukum Sebagai Instrumen Mengurai Permasalahan Hukum Kontemporer." *Gema Keadilan*, no.1 (2020): 26. <https://doi.org/10.14710/gk.7.1.20-33>.

¹¹ Djunaidi Ghony, *Metode Penelitian Kualitatif* (Yogyakarta: Ar Ruzz Media, 2014), 45.

Conference from November 5 to December 4, 1957. Considerations for the issuance of Law Number 78 of 1958 concerning Foreign Investment in at that time was as follows:¹²

- a. That capital is desperately needed to accelerate Indonesia's economic development and increase national production in order to improve people's livelihoods;
- b. That the capital obtained in Indonesia at this time is insufficient to be considered useful in attracting foreign capital to invest in Indonesia;
- c. That clear provisions are needed to meet the need for capital for national development, in addition to avoiding doubtful.

In Law Number 78 Year 1958 concerning Foreign Investment, there are restrictions as contained in Article 3, where foreign investment is aimed at companies which are usually carried out by Indonesian citizens covered by foreign capital and foreign capital is allowed to work in the production field and the type of company is determined. in the *a quo* Act. The existence of these restrictions shows that there are government efforts to protect the economic interests of the people and protect strategic sectors from foreign interference.¹³

For example, in Article 3, it is stated that it is possible for foreign investment to establish companies engaged in domestic railways, telecommunications, shipping and aviation, power plants, irrigation and drinking water, munitions and weapons factories and atomic power plants. In addition, it was also emphasized that the mining sector for vital materials is closed to foreign investors. Meanwhile, Article 4 affirms the prohibition for foreign investors to add to the business that has been commonly carried out by Indonesian citizens and contains an explanation that the type of business that is prohibited from entering by foreign investors will be determined by a Council. In addition, the Council also has the authority to determine the territory or work area for foreign investors, to regulate the cooperation scheme of foreign investors by prioritizing cooperation with domestic investors.¹⁴

¹² *Law Number 78 Year 1958 concerning Foreign Investment.*

¹³ Rihantoro Bayu Aji, "Eksistensi Penanaman Investasi Asing Di Indonesia Dan Hak Menguasai Negara Berdasarkan Pasal 33 UUD NRI Tahun 1945," *Jurnal Hukum*, no. 2 (2015): 1845, <http://dx.doi.org/10.26532/jh.v3i2.663>.

¹⁴ Khotimatun Nafisah, "Analisis Hukum Tentang Kepemilikan Saham Asing Dalam Dalam Perusahaan Penanaman Modal Asing Di Indonesia," *Jurnal IUS*, no. 25 (2016): 115, <http://dx.doi.org/10.12345/ius.v4i2.337>.

B.2. Investment law politics in the new order era

There have been substantial changes in the new order period in terms of investment policies that were implemented in the old order era. Law Number 16 Year 1965 about Revocation of Law Number 78 Year 1958 concerning Foreign Investment, which was revised and supplemented by Law Number 15 Prp Year 1960, canceled Law Number 78 Year 1958 concerning Foreign Investment.¹⁵

The rationale for considering the enactment of Law Number 16 Year 1965 is that foreign investment in Indonesia continues to suck up Indonesia's riches and obstructs the Indonesian Revolution's completion of the democratic national stage in order to establish Indonesian Socialism based on Pancasila. and to put the notion of standing on one's own two feet into practice in the economic realm.¹⁶ As a result, foreign investment in Indonesia must be phased out in order to boost native output and hence the Indonesian people's standard of living.

The execution of Article 10 of TAP MPRS No. VI/MPRS/1965 and economic cooperation with other nations, without foreign investment in Indonesia, would be governed by legislation, according to Article 2 of Law Number 16 Year 1965. However, since that the Law has been repealed, there is no law that restricts foreign investment. The execution of economic policy in Indonesia is based on MPRS Decree No. XXIII/MPRS/1966 concerning Renewal of the Policy on the Economic Foundation of Finance and Development, as there is no legislation that directly governs investment. The MPRS stipulation is utilized by the government to decide economic policies, particularly in the area of foreign investment, and it is the foundation for Law Number 1 Year 1967 on Foreign Investment.

The reason for the enactment of Law Number 1 Year 1967 on Foreign Investment is that the country's potential economic power has not been converted into a genuine economic strength, which is due, among other things, to a lack of money, expertise, and technology. As a result, this Law argues that foreign money should be used to its full potential in order to

¹⁵ *Law No. 16 Year 1965 concerning Revocation of Law No. 78 Year 1958 concerning Foreign Investment* which has been amended and supplemented by Law No. 15 PRP 1960.

¹⁶ Aladin Sirait, "Peranan Politik Hukum Investasi Dalam Pembangunan Ekonomi Indonesia," *POLITEA: Jurnal Kajian Politik Islam*, no. 1 (2019): 66, <https://doi.org/10.20414/politea.v2i1.1341>.

expedite economic growth.¹⁷ The *a quo* Law was enacted to offer legal clarity in the investment business and to avoid investors from becoming suspicious.

The business areas formerly governed by Law Number 78 Year 1958 were closed to foreign investment in full control with the enactment of Law Number 1 Year 1967. This is because it is a critical state industry that affects many people's livelihoods. The Law Number 1 Year 1967 establishes a distinction between foreign and domestic investment policies. The expansion of the international trade system has resulted in a separation of investment arrangements.

In 1986 the government made fundamental changes to Law Number 1 Year 1967 concerning the extension of the company's license for 30 years and the abolition of the minimum investment value which was originally set at 1 million US dollars. In addition, in this order, the government issued a policy that foreign investors may own 95% of the shares, this is as regulated in Government Regulation Number 20 Year 1994. It can be said that in the new order era the government took sides with foreign interests with the liberalization of investment, including sectors that concern the lives of many people.

B.3. Investment law politics in the reformation era

The rules that were established and issued in the sphere of investment during the reform era were Law Number 25 Year 2007 Concerning Investment. In contrast to the former norm, which separated domestic and foreign investment policies in Law Number 1 Year 1967, the government now adopts investment laws that do not distinguish domestic and international investment in Law Number 25 Year 2007 capital from outside the country.

Investment plans should always underpin the people's economy, according to the mandate contained in the Decree of the MPR RI No. XVI/MPR/1998 concerning Economic Politics in the Context of Economic Democracy.¹⁸ Furthermore, in order to accelerate national

¹⁷ Suradiyanto, "The Investment Law Development to Increase Investment in Indonesia," *International Journal of Law and Management*, no. 1 (2019): 20, <https://doi.org/10.1108/IJLMA-11-2017-0270>.

¹⁸ Saut P Panjaitan, "Politik Pembangunan Hukum Di Bidang Investasi Suatu Keniscayaan Konstitusi Ekonomi," *Jurnal Konstitusi*, no. 2 (2010): 29, <https://doi.org/10.31078/jk%25x>.

economic growth and materialize Indonesian politics and economy, it is vital to expand investment in order to convert economic potential into real power employing both domestic and foreign capital.¹⁹

The policy in Law Number 25 Year 2007 that does not differentiate between domestic and foreign investment is a result of Indonesia's participation in various international cooperation that require the creation of a conducive, pro-investment climate, as well as legal certainty, justice, and efficiency while considering the national economy's interests.²⁰ The Law Number 25 Year 2007 does not allow foreign investment in all business categories.²¹ Furthermore, the government aims to ensure job possibilities as a result of investment, as stated in Article 10 of Law Number 25 Year 2007, which compels investment businesses to meet labor commitments by favoring Indonesian residents.²²

Law Number 11 Year 2020 concerning Job Creation was passed in 2020, including the orientation of new investment policies. The main objectives of the Job Creation Law are to attract investment, accelerate economic transformation, unify central-regional policies, make doing business easier, resolve overlapping regulatory issues, and eliminate sectoral egos.²³ The ratification of Law Number 11 Year 2020 concerning Job Creation encourages investment through a straightforward licensing structure. The procedure for obtaining a commercial activity permit has been changed from permit-based to risk-based. Risk-Based Licensing is a system that can be obtained online using the Online Single Submission Risk Based Approach (OSS-RBA). Risk-based licensing is a licensing system based on the amount of risk associated with commercial activities. There are four levels of risk: low, medium low, medium high, and

¹⁹ Lorenzo Cotula, "Democracy and International Investment Law," *Leiden Journal of International Law*, no. 2 (2017): 371, <https://doi.org/10.1017/S0922156517000152>.

²⁰ Marcel Seran and Anna Maria WS, "Legal Protection for Foreign Investors Investing Activities as Security in Indonesia in the Era of Regional Autonomy," *International Journal of Business, Economics, and Law*, no. 4 (2016): 105.

²¹ *Law Number 25 Year 2007 concerning Investment*.

²² Satria Sukananda and Wahyu Adi Mudiparwanto, "Analisis Pengaturan Penanaman Modal Asing Dalam Bentuk Perusahaan Joint Venture Di Indonesia," *Diversi Jurnal Hukum*, no. 2 (2019): 222, <https://doi.org/10.32503/diversi.v5i2.559>.

²³ *Law Number 11 Year 2020 concerning Job Creation*.

high. In addition, as stated in the attachment to the government regulation that regulates the application of Risk-Based Company Licensing, various additional variables are taken into account, such as the rating of business size and land area. An easier and faster licensing system will definitely help the country's economic growth. This is because a competent licensing system will attract potential investors to invest in Indonesia.

Furthermore, the Job Creation Law simplifies investment criteria. To get started, identify the investment business sector that is supported. High technology, big investments, digitally based and labor intensive are some of the questionable investment requirements. Second, they can cooperate with foreign funds for the activities of MSME companies. Third, the status of Foreign Investment (PMA) is only related to restrictions on foreign ownership. The fourth and final provision in the sector law, the investment requirements section, has been abolished because it will be regulated in the Presidential Regulation on Investment Business (BUPM).

B.4. Analysis of the political implications of investment law on the investment climate in Indonesia

The entry of foreign investors is closely related to political and legal ties. Politics is a more significant variable in this situation than law as the affected variable. The formulation of legislation products is the result of political forces that exert influence on the authority of certain state institutions through the political process. The politics of power is very strong in its interaction with the making of laws and policies related to foreign investment. This is because it is the politicians who sit in the seats of the legislative council who make laws and policies. We all know that this political power is nothing more than a pawn for the big money players, namely the businessmen. Of course, entrepreneurs will comply with legal policies on foreign investment that are profitable for them rather than for the benefit of the people through their political pawns.

This investment or investment goal can only be realized if supporting factors that impede the investment climate are addressed, such as:

- a. Improved coordination between central and regional government agencies;
- b. Creation of an efficient bureaucracy of legal certainty in the investment sector;
- c. Highly competitive economic costs; and
- d. A favorable business climate in terms of employment and business security.

It is undeniable that investment policy is strongly influenced by the ongoing government in each era. Political stability and legal certainty are important factors that every investor pays attention to in investing their capital. This is very influential in relation to policies that ensure foreign investors get legal protection in countries that receive capital.²⁴ Legal certainty is the existence of regulations from the investment recipient country that are applied to investors, which provide legal protection for invested capital, investors and investors' business activities. The form of legal certainty is a regulation from the central government that is generally accepted in the territory of Indonesia. In addition, local regulations can also be made by local authorities that only apply in their area.²⁵

Policy to provide an equal place and position between domestic investors and foreign investors, which in its implementation is not in accordance with the provisions. Especially with the facilities obtained by foreign investors such as tax exemptions or relief, capital repatriation, licensing facilitation, and submission of disputes to international arbitration bodies.²⁶ This indirectly implies that the government must prioritize the interests of the community or domestic entrepreneurs and the interests of national development.

It is necessary and useful to emphasize some of the fundamental developments that contribute to higher mobility to attract investment. Investment policies with strict restrictions, which are common in almost all developing countries, must be replaced with more open ones.

²⁴ Vincent Suriadinata, "Penyusunan Undang-Undang Di Bidang Investasi: Kajian Pembentukan Omnibus Law Di Indonesia," *Refleksi Hukum: Jurnal Ilmu Hukum*, no. 1 (2019): 126, <https://doi.org/10.24246/jrh.2019.v4.i1.p115-132>.

²⁵ Jaja Ahmad Jayus, "Konsep Sistem Hukum Investasi Dalam Menjamin Adanya Kepastian Hukum," *Jurnal Litigasi*, no. 2 (2016): 2917, <http://dx.doi.org/10.23969/litigasi.v16i2.38>.

²⁶ Nyoman Putu Budiarta, "Restriction and Incentives of Investment in Indonesia: Considering the Provisions of Basic Agrarian Law and Capital Market Law," *European Research Studies Journal*, no. 2 (2018): 184, <https://doi.org/10.35808/ersj/993>.

One of the most important concepts in investment policy is non-discrimination and fair treatment of domestic and international capital. Indonesia's investment policies must be aligned with substantial developments, which can be achieved through pragmatic deregulation. Therefore, the Investment Law must address important issues such as covering all direct investment activities in all sectors through basic investment policies, as well as the types of linkages between economic development and people's economic actors achieved through investment development arrangements.

Equal treatment must also be guaranteed under the Investment Law. The principle of regional autonomy must guide coordination between government agencies, as well as between the Central Government and Regional Governments. The Regional Government, in collaboration with the business sector and the community, must be re-empowered to create regional potential. Regional governments have the most flexibility in regulating and managing their own investment administration. As a result, competitive licenses and investment facilities must be used to gauge the pace with which coordination improves. Furthermore, investment facilities must be more favorable than those offered by other nations, taking into account the level of economic competitiveness and the state's financial situation. Because the necessity of investment assurance necessitates more extensive provisions in the form of fiscal, land rights, immigration, and import licensing facilities, more detailed arrangements are required. These amenities are at the very least an attempt to stimulate employment.

The legal politics surrounding a law change must be in synergy with the spirit of the law change in issue. As a result, the Investment Law, which has served as the legal foundation for investment activities in Indonesia, needs to be updated in order to meet the challenges of accelerating the development of the national economy through the development of a competitive national law in the field of investment that is in the national interest. The Investment Law has been amended to improve legal controls in the investment industry in order

to establish legal clarity. The Investment Law Number 25 Year 2007 provides investors with a variety of benefits, services, and guarantees.²⁷

The existence of Law Number 11 Year 2020 on Job Creation inspires the creation of investment legal instruments that might boost investment interest in Indonesia. This is due to the fact that the issues covered by investment law are quite complicated. Not only is there a problem with investors coming in and spending their money, but there are also issues with employment, infrastructure, fiscal and non-fiscal incentives, and so on. The previous Investment Law did not address the intricacy of this issue.

The author believes that a healthy and comfortable investment climate will of course provide opportunities and the desire of foreign investors to invest their capital. Domestic political stability and legal certainty are important considerations. Law Number 11 Year 2020 concerning Job Creation encourages the entry of quality investment so that it has an impact on employment and increasing economic growth in Indonesia. It should be noted that although foreign investors bring funds to Indonesia, it should be noted that the presence of foreign investors should not injure the principles of the people's economy and always side with the national interest. The Job Creation Law's renewal of investment rules can give legal clarity from a regulatory standpoint, but not necessarily from a law enforcement standpoint. Investment growth is influenced not only by the legal framework, but also by factors that stimulate investment, such as security, convenience of doing business, incentives, and the state of the economy. The Law Number 11 Year 2020 on Job Creation aims to address the main problem in investment licensing that many business actors complain about, usually referring to the export-import process of commodity goods, the process of managing business legality, which requires a large number of requirements and convoluted and bureaucratic procedures, making it time consuming. It takes a long time and costs a lot of money. It doesn't end there; due to the numerous overlapping rules between central agencies and Regional Government Work Units, the license issued is frequently inefficient and does not apply nationally.

²⁷ Siti Annisa dan Lucky Suryo Wicaksono, *Hukum Investasi*. (Yogyakarta: FH UII Press), 2017: 54.

C. Conclusion

The old order era placed foreign investment as a place to obtain additional funds for Indonesia in accelerating national development. This was realized by issuing Law Number 78 Year 1958 concerning Foreign Investment. Meanwhile, in the era of the New Order government, foreign investment was seen as a form of bringing back the invaders to Indonesia and would instead take the maximum benefit from Indonesia. Therefore, in this era, Law Number 78 Year 1958 was revoked with the issuance of Law Number 16 Year 1965. Meanwhile, the implementation of activities related to investment is carried out based on MPRS Decree No. XXIII/MPRS/1966 concerning Renewal of the Policy on the Economic Foundation of Finance and Development. In the reform era, foreign investment is another consideration in helping support national development. This is with the issuance of Law Number 25 Year 2007 concerning Investment. In this law, foreign investment has more privileges when compared to domestic investors, thus inviting pros and cons in its implementation. In addition, the Job Creation Act brings legal certainty in making investments easier. The existence of political stability, and the existence of legal certainty obtained by foreign investors, will create a healthy investment climate and invite investors.

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