Indonesia as Legal Welfare State: The Policy of Indonesian National Economic Law

Rian Saputra* Silaas Oghenemaro Emovwodo

*Faculty of Law, Universitas Sebelas Maret, Surakarta, Indonesia
bFaculty of Art and Social Science, Universiti Brunei Darussalam

*Corresponding author: rian7010@gmail.com

1. Introduction

International law is frequently controlled by the interests of industrialized countries in the context of economic regulation. International financial accords incorporate a greater number of the norms accepted by industrialized countries. Even developed-country corporate actors benefit significantly from international accords negotiated between developed- and developing-country governments. Developing countries frequently contend that international law is a creation of developed countries in the West. This argument is predicated on the fact that...
international law was historically the law that applied between European countries.\(^2\)

As a result, it’s unsurprising that international law is so preoccupied with what’s happening in Europe (Euro-centric). They are the ones who define the structure and operation of international law. Antonio Cassese, an international law scholar, states in his book ‘International Law in a Divided World’ that Western countries view international law differently from developing countries.\(^3\) Western countries, as a result of their legal traditions, have a high regard for international law and treat it as a rule to be followed in international dealings. Taking this view as a starting point, the conclusion is that it is natural for them (rich countries) to disclose conformity with the law and to comply with legal requirements that have been crafted effectively to reflect and safeguard their interests.\(^4\)

International law applies in instances of economic conflict between developing and developed countries. To safeguard their financial interests, industrialized countries desire that international law remain unaltered. They frequently uphold what is already established in international law (status quo). While developing countries are reformists, they desire significant reforms to international law in order for it to really reflect the values shared by the bulk of the world’s population.\(^5\) On the basis of the foregoing, it is plausible to conclude that it is a political instrument used by wealthy countries to influence underdeveloped countries under international law. International treaties are drafted in such a way that they imply a duty on the part of participating countries to incorporate their terms into domestic law. Thus, the federal legislation of the land must reflect, not contradict, existing international agreements.\(^6\)

For example, developed countries utilize international law to discriminate against developing countries for two reasons. The first is to become involved in

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developing countries domestic policies. Second of all, to compel developing countries to adopt policies consistent with those of affluent countries. Developed countries frequently use international agreements to intervene in underdeveloped countries' internal affairs. The intervention cannot be divorced from the country’s national interest. The majority of industrialized countries, particularly Western nations, enshrine their interests in international law.

Developed countries intervene in developing countries in the ways outlined above and cannot be deemed a breach of international law. This is because a government’s participation in an international agreement implies that the country has purposefully burdened itself with the need to comply with the international agreement’s provisions. One of the obligations is to transpose international law provisions into national law. As a result, rich countries have the authority to compel developing countries to adopt policies, rules, and regulations that benefit them, particularly where there is an element of dependency. Even if compliance with the demands is motivated by impotence, this cannot be regarded a breach of international law.

For example, when the International Monetary Fund (IMF) required Indonesia to reform its Bankruptcy Law and enact an Anti-Monopoly Law, Indonesia made little progress. Similarly, the Asian Development Bank (ADB) is prepared to make grants to Indonesia if the Anti-Money Laundering Law is adopted. It cannot be denied that "the issue of neoliberalism entered Indonesia along with the question of globalization. Following the collapse of the New Order, the problem of neoliberalism began to flow more freely in tandem with the arrival of foreign financial institutions such as the IMF and the World Bank into Indonesia. This is consistent with Lampros Vassiliou’s statement. Vassiliou stated that when the IMF agreed to support Indonesia following the 1997 Asian financial crisis, the deal included a requirement for Indonesia to modify the law."

The IMF’s participation in revising bankruptcy legislation has not been without controversy. However, organisations such as the IMF have recognized their

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considerable influence in swaying public opinion and behavior in their desired direction. According to Kukuh Fadli Prasetyo, the issue of neoliberalism and globalization in the national economy may be seen in numerous indicators, including deregulation and market rules, privatization, and elimination of the concept of public goods and decreased public spending. The deregulation and market rules, it refers to the situation in which Indonesia remained mostly immobile when the International Monetary Fund (IMF) required Indonesia to change the Bankruptcy Law and develop an Anti-Monopoly Law.\(^\text{12}\)

Similarly, the Asian Development Bank (ADB) is prepared to make grants to Indonesia if the Anti-Money Laundering Law is adopted". When seen through the lens of the "Investment and Investment" sector, for example, Law Number 25 of 2007 on Investment (hence referred to as the Investment Law) incorporates the principle of non-discrimination in the Indonesian Investment and Investment Law’s products. The ongoing discussion in Indonesia over the significance of tougher investment management regulation dates back 40 years (1967-2007). However, there are still disagreements over the renewal of the investment law, as the reform is perceived to be strangling the nation’s economy through control and extraction of natural resources.\(^\text{13}\)

The reason for repealing Law No. 1 of 1967 on Foreign Investment (UUPMA) and Law No. 5 of 1968 on Domestic Investment (UUPMDN) in favor of the Capital Market Law, which is related with Indonesia as a WTO member, is that domestic capital is no longer discriminated against. With foreign currency since the WTO Agreement was ratified by Law No. 7 of 1994 on WTO Ratification. However, it cannot be denied that economic development requires legal infrastructure and institutions to ensure that national economic progress occurs as planned. At the moment, rice has been transformed into porridge, and Indonesia’s Investment Law has been revised to reflect the country’s ratification of the WTO Agreement.\(^\text{14}\)

The influence which is extremely substantial is the rule regulating foreign investment in the banking sector, which is permitted, for example, in the Indonesian banking business, where foreigners can acquire up to 99 percent of commercial banks. The financial sector’s restrictions have been tightened to the level of a law, notably Law No. 7/1992 on Banking. The Government Regulation No. 29/1999 on the Purchase of Commercial Bank Shares, which is a derivative of

\(^{12}\)Devi Triasari, ‘Right to Sanitation: Case Study of Indonesia’, *Journal of Human Rights, Culture and Legal System*, 1.3 (2021), 147–63 https://doi.org/10.53955/jhcls.v1i3.20


the Banking Law No. 7/1992, provides that foreign companies may own up to 99 percent of commercial banks’ shares.\textsuperscript{15}

The Investment Law, which contains forty articles, does not regulate the limits of foreign investment in Indonesian economic law, as demonstrated by the Gojek Company, which is registered under the name PT. The Karya Anak Bangsa, Tbk application is the pride of the nation’s children, whose development is known to be driven by Nadiem Makarim. Outside investors possess a majority of the corporation. Nadiem personally owns 4.81 percent of the company. With reference to the author’s views and arguments, this paper will discuss the relationship between investment law and Indonesia’s sovereignty as a country, as well as how the politics of national investment law will evolve in the future in order to develop economics while preserving the Indonesian state’s sovereignty.

2. Research Method

This research is normative legal research. This research uses legal research approaches, the statute approach, the case approach, and the conceptual approach. The data collection technique used in this study was a document study.\textsuperscript{16} This study uses the method of analyzing legal materials with deductive logic. According to Peter Mahmud Marzuki, who quoted Philipus M. Hadjon’s opinion explaining the deduction method as the syllogism taught by Aristotle, the use of the deduction method stems from the submission of the central premise (general statement) then putting forward the premise minor (unique nature) of the two premises and then draw a conclusion or conclusion.\textsuperscript{17}

3. Results and Discussion

3.1. Economic Law & State Sovereignty Relations

Applying GATT/WTO principles in a country as a result of economic globalization is not a neutral process. Not only does globalization eliminate national borders as a result of advancements in communication and information technology, but it also promotes the ideas and principles of capitalism and free markets throughout the world. Globalization is a continuation of colonialism and developmentalism—the movement of European countries several centuries ago to the region of Asian-African countries. The distinction is that colonization uses


\textsuperscript{17}Utkarsh K Mishra and Abhishek Negi, ‘Should Trade Remedies Be Eliminated from WTO: A Response to Tania Voon’, Journal of Human Rights, Culture and Legal System, 1.3 (2021), 194–200. https://doi.org/10.53955/jhcls.v1i3.17
armed might to occupy a country’s land (military). Globalization is the invasion of a country’s territory by foreign goods/services or labor products.\textsuperscript{18}

The existence of "two opposing opinions from these economists on the existence of Foreign Direct Investment (FDI) in a country was taken into account by Indonesian state officials when they enacted the country’s first foreign investment law in 1967 during the country’s economic development. At the time, the cornerstone for Indonesia’s economic development was laid forth in Article 10 of MPRS Decree XXIII/MPRS/1966 on the Renewal of Economic Finance and Development Policy (TAP MPRS 1966).\textsuperscript{19}

The TAP MPRS 1966 demonstrates to Indonesian state policymakers that foreign investment or foreign aid cannot be denied their role in reviving the country’s deteriorating economy, but must first rely on the desk's potential capacity as a source of development funds. Foreign funding does not imply reliance on foreign parties. These foreign sources of funding must be exploited to advance the people’s economic interests. The spirit of the TAP MPRS 1966 appears to imply the Indonesian people’s independence to pursue economic growth and the Indonesian state’s sovereignty as a country, which must be maintained in terms of the flow of cash from abroad to the Indonesian state. Additionally, it "does not necessitate the renunciation of state sovereignty in the name of economic development or the economic interests of the populace in growing the country through economic development. As Sunarya Hartono remarked, the 1966 TAP MPRS should serve as a reference point for the government at the time in determining its economic policies, particularly in the area of foreign investment. TAP MPRS 1966 "lays the legal groundwork for the establishment of investment restrictions in Indonesia, specifically the Foreign Investment Law" (in the future referred to as UU PMA).\textsuperscript{20}

The Domestic Investment Law (hence referred to as the Domestic Investment Law) was promulgated, regulating investment in Indonesia’s economic development that is funded by domestic capital. The presence of the UU PMA and UU PMDN are the New Order’s economic policies aimed at reviving the Indonesian economy, which had deteriorated during the Old Order’s transition to the New Order. One of the impediments to long-term economic development is a lack of investment. The UU PMA and UU PMDN and their amendments were repealed because they were ‘deemed’ unsuitable for advancing economic


\textsuperscript{19}Suchat Tungjitnob, Kitchabut Pasupa, and Boontawee Suntisrivaraporn, ‘Identifying SME Customers from Click Feedback on Mobile Banking Apps: Supervised and Semi-Supervised Approaches’, \textit{Heliyon}, 7.8 (2021), e07761 \url{https://doi.org/10.1016/j.heliyon.2021.e07761}

development and building national laws, particularly in the investment sector. Capital is no longer differentiated between foreign and domestic capital under the Investment Law change. This has ramifications for the treatment of foreign and domestic investors equally. Economic actors in Indonesia include BUMN/BUMD, the private sector, and cooperatives as domestic investors. Private business groups might include large, medium, small, and micro-businesses.21

The investment liberalization protects fully international investors or multinational corporations and limits the host country government’s ability to manage the flow of foreign capital to a minimum. On the one hand, liberalization or globalization of international commerce and foreign investment can help Indonesian products gain access to the global market if more components of products with multinational company-owned patents can be manufactured in Indonesia. On the other hand, the question emerges as to whether Indonesia can function as an actor in a global economy dominated by multinational corporations.” This will create a slew of complications due to the conflicting interests of global corporations investing in Indonesia and the development of the Indonesian national economy.22

The Multinational Corporations (in the future referred to as MNCs), we are referring to businesses that operate on a global scale. MNCs are not a new phenomenon. MNCs operated in emerging countries while they were still colonies. One of the issues that arises as a result of the existence of MNCs is developing countries’ anxiety about the dominant power of MNCs, which can jeopardize their sovereignty and existence. For instance, MNCs frequently ‘compel’ developing countries to enact laws and regulations that benefit them. To accomplish this purpose, MNCs are not afraid to threaten to relocate their operations. Even multinational corporations can sway their home governments, as well as international agencies, to take action against developing country governments that are unfavorable to them.23

Additionally, MNCs can petition their government to advocate on their behalf in international venues. Among them is the negotiation of international treaties. At least three types of international agreements exist to safeguard the interests of MNCs. The first international accords seek to safeguard multinational corporations against unilateral acts by local governments. On the other side, Indonesia must enact legislation or provisions that facilitate international

corporations' investment in the country. On the other hand, the regulations must not contradict Article 33 of the 1945 Constitution or Pancasila, which establishes Indonesia's economic basis. Implementing the WTO Agreement's liberalization principles in Indonesia's rules and regulations governing economic development, as outlined in the Investment Law, is inconsistent with the spirit of Pancasila and the 1945 Constitution.24

On the one hand, "Indonesia’s economic development is directed at achieving social justice for all Indonesians as a means of implementing Pancasila's tenets and the 1945 Constitution." On the other side, Syamsul Hadi believes that the Investment Law has various provisions that trump the interests of the Indonesian people, such as foreigners' rights to long-term land ownership and assurances of the freedom to transfer assets to desired parties. Syamsul Hadi's opinion of the Investment Law's clauses is "contrary to Pancasila's and the 1945 Constitution's objectives of achieving social justice for all Indonesians. Apart from economic and legal interests, which are also contradictory, two additional interests exist, the interests of multinational corporations that invest and the interests of the Indonesian state that is responsible for economic development.25

Foreign investment in developing countries has a number of benefits (benefits) and drawbacks (negative impact). Foreign investment supports developing countries by bridging the "savings-investment divide and bringing in extra resources such as technology, management expertise, and access to export goods markets. On the other hand, foreign investment has a detrimental effect on political, cultural, and economic fields, including interference in domestic affairs, cultural change, technological dependence, marginalized domestic capital, marginalized domination in industry and local products, tax relief, environmental protection, and stability.

3.2. The Policy of Indonesian National Economic Law Based on People's Welfare

Economic actors, individuals, and businesses engage in continual economic activity in order to benefit. The notion of Indonesian law in economic operations aims to build a just and prosperous society based on Pancasila, the Pancasila family economy, and the populist economy to protect the people's interests. As such, economic law must be revised in response to society's evolution. Reform of the legal system is described as the process of drafting legislation in response to societal changes. And this legal reform is accomplished by legal development, which encompasses the substantive, structural, and cultural aspects of the law.

24Dimyati and others.
Permitted development is based on legal politics with well-defined aims and goals.  

The welfare state" refers to an ideal model of development that emphasizes welfare enhancement through a stronger state role in delivering universal and comprehensive social services to its population. Additionally, the welfare state can be defined as "a state that ensures that all persons get an equitable distribution of the fundamental resources necessary to sustain a certain level of living. The Welfare State's primary objectives are as follows, controlling and utilizing socioeconomic resources for the public good, ensuring a just and equitable distribution of wealth, reducing poverty, providing social insurance (education and health) for the poor, subsidizing basic social services for disadvantaged people and providing social protection for all citizens.

In Indonesia, welfare refers to the notion of social welfare development, which is a series of planned and institutionalized activities aiming at raising the standard and quality of human existence. The term "welfare" in the context of national development refers to all policies and initiatives implemented by the government, business community, and civil society with the goal of resolving social problems and meeting human needs through economic growth. In this instance, "the Welfare State notion places a premium on social welfare and economic prosperity, which James Midgley refers to as anti-ethical states."

Economic development focuses on capital accumulation and profit growth, whereas social welfare focuses on compassion, social rights, and asset redistribution. Economic growth is accomplished through the accumulation of wealth and the enhancement of the quality and standard of living. To realize and improve welfare, acceleration, improvement, and economic growth must be carried out in accordance with the State constitution, which mandates that national economic development must be based on democratic principles capable of achieving Indonesian realization. Economic development based on democratic principles reflects the concept of a people's economy, as defined in Article 33 of the 1945 Constitution, which serves as the normative conceptual underpinning for a people's economic system.

Economic development is critical for human welfare. As a result, in order to improve welfare, Indonesia need sustained income growth, which may be achieved by increasing labor input, capital input, and economic productivity."


increasing share and extension of factor utilization, as well as productivity gains, occur within the business as a means of capital accumulation. Increases in capital stock, which are nothing more than investment, are a necessary component of income growth. The investment must be considered as part of the implementation of the national economy and made in an effort to boost national economic growth, create jobs, and promote sustainable economic development, as well as to boost national technological capacity and capability, encourage people’s economic development, and promote community welfare in an economy, competitive.30

Indeed, it cannot be argued that investment is critical for economic growth and job creation. Governments worldwide are currently engaged in a competitive effort to improve the business climate and so encourage investment. Whether we are aware of it or not, both foreign and local investment contribute to economic progress. However, in this section, the author will criticize the foreign investment section. The 1966 MPRS Decree, the author demonstrates to Indonesian state policymakers that while foreign investment or foreign aid cannot be denied, their contribution to developing Indonesia’s economy is declining. Nonetheless, it must first rely on domestic resources as a source of development financing.31

The limitations on foreign investment or investment in Indonesia, such as allowing foreign capital to own up to 99 percent of the national banking system; of course, this is extremely concerning because it creates opportunities for foreign capital dependence and can also erode the national economy. The gains will ultimately accrue to foreigners, rather than to the Indonesian people. Naturally, nationalism campaigners would interpret this as foreigners gaining control of the national financial system, especially considering that foreign-owned banks control almost 40% of national banking assets. It should be mentioned that banking institutions play a vital influence. Banking institutions account for more than 80% of the national financial system in Indonesia. Thus, the future Indonesian Investment Law Politics will be about prioritizing domestic investment, as specified in the TAP MPRS 1966, followed by the necessity of imposing restrictions on foreign money entering Indonesia.

4. Conclusion

Investment plays a critical role in stimulating the economy and job growth. Governments throughout the world are actively competing to improve the business climate to encourage investment, but this effort must be limited and prioritize domestic capital, as the 1966 MPRS Decree demonstrates to Indonesian state policymakers that while foreign investment or foreign aid will continue to

play a role in developing Indonesia's economy, it must first rely on the domes’ potential capacity as a source of development. Then, in this framework, restrictions on foreign investment or investment in Indonesia must also be imposed.

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