

# The Role of Investment Law in Indonesia's Economic Recovery Efforts

Richart Sahatatus<sup>1</sup>, Tri Setiady<sup>2</sup>, I Ketut Astawa<sup>3</sup>, Teuku Syahrul Ansari<sup>4</sup>

Universitas Singaper Bangsa Karawang, Indonesia

[manurungrichart@gmail.com](mailto:manurungrichart@gmail.com)<sup>1</sup>, [tri.setiady@fh.unsika.ac.id](mailto:tri.setiady@fh.unsika.ac.id)<sup>2</sup>, [ketut.astawa@fh.unsika.ac.id](mailto:ketut.astawa@fh.unsika.ac.id)<sup>3</sup>,

[Teuku.syahrul@fh.unsika.ac.id](mailto:Teuku.syahrul@fh.unsika.ac.id)<sup>4</sup>



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## Abstract:

**Purpose:** This study examines the role of investment law in Indonesia's economic recovery efforts, particularly under Law No. 25 of 2007. Indonesia, as a developing country, emphasizes high economic growth as a measure of success in enhancing societal welfare. Investment, through capital investment, is crucial for increasing capital stock, production capacity, and economic growth, thereby creating jobs.

**Methodology:** The study uses a normative legal research method with an analytical descriptive approach, analyzing regulations related to Law No. 25/2007, relevant literature, and data from the internet.

**Results:** The findings indicate that legal certainty significantly influences investment decisions. A country with clear, fair, and well-enforced laws attracts more investors, which is essential for sustainable economic growth. Recent studies highlight the benefits and challenges of foreign direct investment (FDI) in Indonesia.

**Contribution:** The government's efforts to improve the investment climate include revising regulations, enhancing legal enforcement, and developing infrastructure. These measures aim to provide a conducive environment for both domestic and foreign investors. However, continuous legal reforms are necessary to address implementation challenges and ensure that investment laws remain relevant and effective. The study concludes that investment is vital for Indonesia's economic advancement and underscores the need for ongoing improvements in legal and regulatory frameworks to maintain investor confidence and drive economic development.

**Keywords:** *Economic Recovery, Indonesia's economic, Investment Law, Legal Certainty, Foreign Direct Investment (FDI)*

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## 1. Introduction

legal certainty. A country with good, fair, and clear laws will attract more investors. Conversely, Indonesia is one of the developing countries that is focusing on economic development and growth. High economic growth is a measure of the country's success in improving people's welfare. Economic development requires investment, which is one of the main factors of economic growth. Investment, through capital investment, continues to increase the capital stock, increase production capacity and quality, and encourage economic growth and job creation (Nofrianto & Basri, 2024). Investment is the commitment of some funds or other resources with the aim of obtaining future profits (Afriyani, Indrayani, Indrawan, Wibisono, & Ngalian, 2023). Investment is needed to fulfil the needs and desires of society, both individually, in groups, and in countries (Quah, 2023).

When the government, entrepreneurs, or individuals invest, a certain amount of capital is invested or spent on production so as to produce goods and services in the future, which can create new jobs and

improve people's welfare. Investment also requires countries with bad and unclear laws will make investors hesitate to invest (Suherman, 2005).

## **2. Literature Review**

### ***2.1 Definition and Types of Investment***

Investment is the commitment of funds or other resources to obtain future profits. Investment can be in the form of financial assets such as deposits, stocks, or bonds, as well as real assets such as land, gold, or buildings (Afriyani et al., 2023). Sustainable investment increases economic activity, employment opportunities, national income, and the prosperity of society. According to Harrod-Domar, investment is essential to grow the economy because it increases the capital stock required for the production of goods and services (Todaro, 2009). Investment can be divided into short, medium, and long-term investment, as well as investment in financial and real assets (Suherman, 2005).

### ***2.2 Legal Certainty and Investment***

Legal certainty is the principle that puts the law as the commander and the provisions of laws and regulations as the basis in every policy and action in the field of investment (Ilmar, 2014). Legal certainty affects investors to invest in a country. Indonesia, through Law No. 25 Year 2007, emphasises the importance of legal certainty in investment activities to support national economic growth. Good law enforcement is also an important factor in attracting investors. An efficient and effective judicial system, as well as increased accountability of judges and simplification of judicial procedures, are key to successful law enforcement that can stimulate investment (Suherman, 2005).

### ***2.3 Recent Studies on Investment Law in Indonesia***

A study shows that investment laws in Indonesia, particularly Law No. 25/2007, provide various facilities to attract foreign investment, such as land rights and protection against non-commercial risks (Kurniawan, Kalo, Ginting, & Siregar, 2022; Pijoh & Melo, 2020). In addition, a study on the impact of foreign investment on the Indonesian economy shows that while it brings benefits, it also brings some disadvantages in other sectors of the economy (Yuspin & Muhammad, 2022).

Changes in investment regulations, such as those stipulated in the Job Creation Law, also aim to improve the investment ecosystem in Indonesia by facilitating and accelerating national strategic projects that are oriented towards the national interest (Pardede, 2023). On the other hand, research also reveals that there are challenges in the implementation of investment regulations, including legal conflicts and the need for continuous legal reform (Nurmal, 2023).

## **3. Research Methodology**

This research uses a normative legal research method with an analytical descriptive approach. This research examines regulations related to Law No. 25/2007 on Investment, literature related to the role of investment in economic development, and relevant data from the internet. To answer the research objectives Why is investment important for Indonesia? What has been done by the Government in legal efforts to increase investment, especially those related to laws and regulations that support investment?

## **4. Results and Discussion**

### ***4.1 The Importance of Investment for Indonesia***

Investment spurs economic growth and has a positive relationship with Gross Domestic Product (GDP). Good investment can increase capital stock, production capacity, and national income. According to the Harrod-Domar theory, investment is spending that increases the ability of the economy to produce goods and increases the effective demand of society (Todaro, 2009). Recent studies show that foreign direct investment (FDI) also contributes significantly to Indonesia's economic growth, despite some challenges in its implementation (Yuspin & Muhammad, 2022).

#### **4.2 Government Efforts to Increase Investment**

The Indonesian government has made various efforts to increase investment, mainly through updating laws and regulations. Law No. 25/2007 on Investment is one of the efforts to provide legal certainty to investors. In addition, the government also issued Presidential Regulations No. 76 and No. 77 of 2007 on the List of Business Fields that are Open and Closed with Requirements in the Investment Sector.

Good law enforcement is also an important factor in attracting investors. An efficient and effective judicial system, as well as increased accountability of judges and simplification of judicial procedures, are key to successful law enforcement that can stimulate investment.

#### **4.3 Case Studies and Investment Realisation**

Indonesia has seen a significant increase in investment realisation. According to the World Investment Report 2018, foreign direct investment (FDI) into Indonesia showed significant growth. In the first quarter of 2019, investment realisation recorded an increase of 53% compared to the first quarter of 2018 (Report, 2018).

#### **4.4 Infrastructure and Investment Policy**

Infrastructure development is the main focus of the government to improve the investment climate. Good infrastructure reflects economic efficiency and attracts investors. The Indonesian government also encourages investment in labour-intensive real sectors, such as the food and beverage industry, to increase labour absorption and economic added value.

### **5. Conclusion**

Investment is crucial for Indonesia in boosting the economy, increasing income, creating new job opportunities, and becoming an indicator of a developed country. The Indonesian government needs to continue improving policies and regulations to provide legal certainty and attract more investment.

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