

PROTECTING LOCAL STARTUPS: REFORMULATING FOREIGN INVESTMENT POLICIES FOR INDONESIA'S SUSTAINABLE ECONOMY

Satrio Ageng Rihardi

Department of Law, Faculty of Social and Political Sciences, Universitas Tidar,
Jalan Kapten Suparman No. 39 Potrobangsari, Magelang City, Central Java 56116,
Indonesia

Email: satrioagengrihardi@untidar.ac.id

Abstract

Economic growth in a country is largely influenced by investment levels, both from domestic and foreign sources. In Indonesia, foreign investment plays a crucial role in driving business expansion. However, it often overlooks the interests of local businesses, especially startups. This study aims to analyze the need for reformulating legal policies regarding foreign investment to protect local startups in Indonesia. By adopting a doctrinal legal research approach, this study investigates existing laws and regulations, identifying legal challenges arising from the influx of foreign investors into the startup sector. The findings of the study highlight that while foreign investment significantly contributes to the country's economic development, its presence without adequate regulation can negatively affect local startups. Many local companies struggle to compete with foreign entities, which may have more financial resources and market power. Therefore, it is essential for the government to strengthen policies regarding foreign ownership in local startups and offer legal protections for domestic businesses. Restrictions on foreign investment in this sector are necessary to prevent foreign domination that could harm local enterprises and ensure a healthy, competitive market environment. Reformulating foreign investment policies is also vital to foster the growth of domestic industries, create job opportunities, and reduce dependency on imported products. These changes would not only benefit local startups but also promote a more sustainable and balanced economic growth for Indonesia. In conclusion, clearer and more decisive legal frameworks surrounding foreign investment are crucial to safeguard the interests of local companies, ensuring that Indonesia's economy remains competitive and continues to grow in the long term.

Keywords: *Foreign Investment; Local Startups; Economic Growth; Legal Reform; Investment Policies.*

A. Introduction

The current rapid rise of globalization and developments in the digital world, particularly in the field of the internet, have brought about many changes to the way of life of the Indonesian people.¹ These changes are evident in various fields, namely social, cultural, political, and

¹ Subekti Priyadharma, *Internet and Social Change in Rural Indonesia: From Development Communication to Communication Development in Decentralized Indonesia* (Springer, 2021); Edwin Jurriëns and Ross Tapsell, 'Challenges and Opportunities of the Digital 'Revolution' in Indonesia', in *Digital Indonesia: Connectivity and Divergence*, vol. 2020 (ISEAS Publishing Singapore, 2017).

economic.² Particularly in the economic field, this is clearly seen in the widespread use of the internet for commercial activities, known as electronic commerce (e-commerce). E-commerce is generally divided into two types: business-to-business e-commerce (trade between businesses) and business-to-consumer e-commerce (trade between businesses and consumers).³

The advent of e-commerce has reformed conventional trade.⁴ It will clearly provide benefits and income to the entire community, especially to business actors who truly utilize the internet to establish their businesses. On the other hand, for consumers, it is certainly one of the most popular alternatives for online shopping without visiting shopping outlets directly.⁵ This is evident in the essence of e-commerce: the ability to buy and sell without being hindered by distance or time. The e-commerce trading system is designed for electronic signing, from purchase and inspection through delivery.⁶ Moreover, in the e-commerce business, accurate information about consumers and companies is an absolute requirement.⁷

² Elya Kurniawati et al., 'Change or Destroy: The Digital Transformation of Indonesian Msmes to Achieve Sustainable Economy', *Polish Journal of Management Studies* 26, no. 2 (2022): 248–64, <https://doi.org/10.17512/pjms.2022.26.2.15>; Nur Sahid et al., 'The Impact of Digital Technology on Various Traditional Theaters: An Examination of the Sociology of Arts', *Harmonia: Journal of Arts Research and Education* 25, no. 2 (2025): 448–63, <https://doi.org/10.15294/harmonia.v25i2.24730>.

³ Hanif Widyanto and Jony Haryanto, 'Mapping the E-Business Ecosystem in Indonesia: A Comprehensive Analysis', in *Handbook of Research on Innovation and Development of E-Commerce and E-Business in ASEAN* (2021), <https://doi.org/10.4018/978-1-7998-4984-1.ch009>; Rahmat Nurcahyo and Prawira A. Putra, 'Critical Factors in Indonesia's E-Commerce Collaboration', *Journal of Theoretical and Applied Electronic Commerce Research* 16, no. 6 (2021): 2458–69, <https://doi.org/10.3390/jtaer16060135>.

⁴ Ritendra Goel, *E-Commerce* (New Age International, 2007); Meng Bao et al., 'Overcoming E-Commerce Barriers in Developing Markets: A Review of Data-Driven Strategies for Sustainable Growth', *Sustainable Futures* 10 (December 2025): 101408, <https://doi.org/10.1016/j.sftr.2025.101408>; Mesut Savrul and Cüneyt Kılıç, 'E-Commerce As An Alternative Strategy In Recovery From The Recession', *The Proceedings of 7th International Strategic Management Conference* 24 (January 2011): 247–59, <https://doi.org/10.1016/j.sbspro.2011.09.055>.

⁵ Lianna Wijaya et al., 'E-Commerce Uncovered Exploring Key Drivers of Consumer Impulse Buying Behavior', *2025 11th International Conference on Web Research (ICWR)*, 2025, 294–98, <https://doi.org/10.1109/ICWR65219.2025.11006215>; Hassan Al Wahshat et al., 'Current Problems and Proposed Solutions for the Electronic Commerce Sector', *2023 International Conference on Computer Science and Emerging Technologies (CSET)*, 2023, 1–6, <https://doi.org/10.1109/CSET58993.2023.10346777>.

⁶ Qin Zheng et al., 'E-Commerce and the Law', in *Introduction to E-Commerce*, ed. Qin Zheng (Springer Berlin Heidelberg, 2009), https://doi.org/10.1007/978-3-540-49645-8_5; Qin Zheng et al., 'Fundamentals of E-Commerce', in *Introduction to E-Commerce*, ed. Qin Zheng (Springer Berlin Heidelberg, 2009), https://doi.org/10.1007/978-3-540-49645-8_1; D. Daniel, 'Basic Operating Principles of an E-Commerce System', in *E-Commerce: Concepts, Principles, and Application*, ed. Zheng Qin et al. (Springer Nature Singapore, 2022), https://doi.org/10.1007/978-981-19-6438-1_5.

⁷ Muhammad Umair Wattoo et al., 'Shaping E-Commerce Experiences: Unraveling the Impact of Service Quality on Youth Customer Behavior in a Developing Nation', *Sage Open* 15, no. 1 (2025): 21582440241311786, <https://doi.org/10.1177/21582440241311786>; Muhammad Bilal Gulfray et al., 'Understanding the Impact of Online Customers' Shopping Experience on Online Impulsive Buying: A Study on Two Leading E-Commerce Platforms', *Journal of Retailing and Consumer Services* 68 (September 2022): 103000, <https://doi.org/10.1016/j.jretconser.2022.103000>.

Indonesia has become one of the countries with the highest e-commerce growth in the world, as evidenced by the increasing number of businesses digitizing their operations, driven by rising internet use.⁸ This can be seen in Indonesia, where internet use continues to grow each year, even as of January 2024. This is evidenced by data from We Are Social.⁹

The total population of Indonesia is 276.4 million, while the number of connected mobile devices is 353.8 million, which means that approximately 128% of the total population is connected. Meanwhile, there are 212.9 million internet users, or 77% of Indonesia's total population, of whom 167 million are very active on social media. This proves that nowadays, people can no longer be separated from social media and the internet. With the growth of internet users, the number of e-commerce businesses has also increased. According to IlmuOne Data, the 10 best e-commerce businesses in Indonesia are compiled from comScore data covering around 67 million digital population, namely Lazada Indonesia, Matahari Mall, Blibli, Zalora Indonesia, JD Indonesia, Tokopedia, Elevenia, Shopee, Bukalapak, Qoo10, and so on.¹⁰

According to data from the Central Statistics Agency, 34.10% of businesses were engaged in e-commerce activities as of September 15, 2022. This percentage has increased from 32.23% on December 31, 2021. The Central Statistics Agency also noted that 2.87 million online businesses are spread across all provinces, with 1.5 million, or 52.22%, located on the island of Java.¹¹ This is because Java has a large market share supported by adequate infrastructure, and it is also the largest production center. E-commerce marketing for small- and medium-sized businesses benefits consumers by reducing distribution costs, which affects price value.¹²

Indonesia presents a strategic opportunity with significant potential for foreign investors. From January to December 2025, the investment sector successfully absorbed 2.71 million

⁸ Lidya Anggraeni et al., 'Unlocking Inclusive Growth: The Mediating Role of E-Commerce in MSME Digitalization for Economic Development and SDGs' Achievement in Jambi Province, Indonesia', *Economies* 14, no. 2 (2026): 44, <https://doi.org/10.3390/economies14020044>; Kasmad Ariansyah et al., 'Drivers of and Barriers to E-Commerce Adoption in Indonesia: Individuals' Perspectives and the Implications', *Telecommunications Policy* 45, no. 8 (2021): 102219, <https://doi.org/10.1016/j.telpol.2021.102219>.

⁹ Simon Kemp, *Digital 2024 October Global Statshot Report*, 23 October 2024, <https://wearesocial.com/id/blog/2024/10/digital-2024-october-global-statshot-report/>.

¹⁰ Andi Dwi Riyanto, *Hootsuite (We Are Social): Data Digital Indonesia 2024*, 21 February 2024, <https://andi.link/hootsuite-we-are-social-data-digital-indonesia-2024/>.

¹¹ Cindy Mutia Annur, *Survei BPS: Pelaku Usaha RI Yang Berdagang Di E-Commerce Masih Minim*, 19 December 2022, <https://databoks.katadata.co.id/datapublish/2022/12/19/survei-bps-pelaku-usaha-ri-yang-berdagang-di-e-commerce-masih-minim>.

¹² Rais Agil Bahtiar, 'Potensi, Peran Pemerintah, Dan Tantangan Dalam Pengembangan E-Commerce Di Indonesia', *Jurnal Ekonomi Dan Kebijakan Publik* 11, no. 1 (2020): 13–25, <https://doi.org/10.22212/jekp.v11i1.1485>.

workers, making a notable contribution to the national economy. Foreign Direct Investment amounted to IDR 900.9 trillion (46.6%), while Domestic Investment reached IDR 1,030.3 trillion (53.4%). Geographically, investments were more concentrated outside Java Island, totaling IDR 991.2 trillion (51.3%), while Java Island contributed IDR 940 trillion (48.7%). Among the provinces with the highest contributions, West Java led with an investment value of IDR 296.8 trillion, or 15.4%. It was followed by Jakarta, East Java, Banten, and Central Sulawesi. The government continues to focus on promoting more equitable investment distribution, as reflected in the consistent investment across key sectors. The basic metal industry, metal goods, and their derivatives accounted for the largest share, with a realization of IDR 262 trillion (13.6%), followed by the transportation, warehousing, and telecommunications sector with IDR 211 trillion (10.9%). In terms of foreign investment, Singapore remains in the lead with a contribution of USD 17.4 billion (30.9%), followed by Hong Kong, the People's Republic of China, Malaysia, and Japan. In the fourth quarter of 2025, investment realization grew by 9.7% year-on-year, reaching IDR 496.9 trillion, with Foreign Direct Investment making up IDR 256.3 trillion. Downstream industries also experienced significant growth, registering a 43.3% year-on-year increase with a total investment of IDR 584.1 trillion. The largest contribution came from the mineral sector, amounting to IDR 373.1 trillion, followed by plantation, forestry, and the fisheries and marine sectors. Central Sulawesi emerged as the province with the highest contribution to downstream industries, followed by North Maluku, West Java, Banten, and East Java.¹³

The success in boosting investment cannot be denied, as foreign direct investment continues to play a crucial role in Indonesia's economic growth. To ensure the continuity of national development, efforts are also being made to raise capital for financing. This is reflected in Article 33 of the 1945 Constitution, which provides opportunities for both domestic and foreign investors to invest their capital, supporting sustainable development in Indonesia.¹⁴

¹³ Badan Koordinasi Penanaman Modal, 'Realisasi Investasi 2025 Lampau Target, Hilirisasi Melompat 43,3 Persen', *BKPM Press Release*, 15 January 2026, <https://www.bkpm.go.id/id/info/siaran-pers/realisasi-investasi-2025-lampau-target-hilirisasi-melompat-43-3-persen>.

¹⁴ Triyana Yohanes et al., 'The WTO Non-Discrimination Principle and Its Impact on Developing Indonesia's Investment', *Legality: Jurnal Ilmiah Hukum* 33, no. 2 (2025): 513–34, <https://doi.org/10.22219/ljih.v33i2.41046>; Sri Wartini, 'The Impacts of Foreign Direct Investment to the Environment in Developing Countries: Indonesian Perspective', *Indonesian Journal of International Law* 13, no. 2 (2016): 296–324, <https://doi.org/10.17304/ijil.vol13.2.650>; M. Y. Aiyub Kadir and Alexander Murray, 'Resource Nationalism in the Law and Policies of Indonesia: A Contest of State, Foreign Investors, and Indigenous Peoples', *Asian Journal of International Law* 9, no. 2 (2019): 298–333, <https://doi.org/10.1017/S204425131900002X>; Fifi Junita, 'The Foreign Mining Investment Regime in Indonesia: Regulatory Risk Under Resource Nationalism Policy and How

The success of national development cannot be separated from foreign investment as a supporting factor in determining the level of success in economic development.¹⁵ Foreign investment also encourages business expansion among entrepreneurs in Indonesia, leading them to use investment companies to grow their businesses inevitably.¹⁶ The businesses in question are startups of various types that offer potential for profit for Indonesian business actors. The reality is that many digital startup owners, of various types, demonstrate innovation but lack access to funding, so the government must encourage involvement in mentoring, data centers, and even funding.¹⁷

Foreign investment in Indonesia is regulated by Law No. 25 of 2007 concerning Investment. Article 5 paragraph (2) of Law No. 25 of 2007 concerning Investment states that foreign investment in Indonesia must be in the form of a Limited Liability Company¹⁸, thereby referred to as a Foreign Investment Limited Liability Company as amended by Article 25 paragraph (3) of Law No. 11 of 2020 concerning Job Creation which has been amended by Article 25 paragraph (3) of Government Regulation instead of Law No. 2 of 2022 concerning Job Creation, which has been stipulated by Law No. 6 of 2023 concerning Job Creation, which reads: The ratification of the establishment of a Foreign Investment business entity in the form of a Limited Liability Company shall be carried out in accordance with the provisions of laws and regulations.¹⁹ Technically, the establishment of a Foreign Investment Limited Liability Company must comply with Regulation of the Head of the Investment Coordinating Board No. 4 of 2021 concerning Guidelines and Procedures for Risk-Based Business Licensing Services and Investment Facilities,

International Investment Treaties Provide Protection', *Journal of Energy & Natural Resources Law* 33, no. 3 (2015): 241–65, <https://doi.org/10.1080/02646811.2015.1057028>.

¹⁵ Sanjaya Lall and Rajneesh Narula, 'Foreign Direct Investment and Its Role in Economic Development: Do We Need a New Agenda?', *The European Journal of Development Research* 16, no. 3 (2004): 447–64, <https://doi.org/10.1080/0957881042000266589>; Stephen Kosack and Jennifer Tobin, 'Funding Self-Sustaining Development: The Role of Aid, FDI and Government in Economic Success', *International Organization* 60, no. 1 (2006): 205–43, Cambridge Core, <https://doi.org/10.1017/S0020818306060097>.

¹⁶ Aurora Jillena Meliala et al., 'Narrating The Effective Law for Foreign Direct Investment', *Indonesian Journal of International Law* 21, no. 5 (2024): 1–34, <https://doi.org/10.17304/ijil.vol21.5.1876>.

¹⁷ Diana Zuhroh et al., 'The Impact of Sharing Economy Platforms, Management Accounting Systems, and Demographic Factors on Financial Performance: Exploring the Role of Formal and Informal Education in MSMEs', *Journal of Open Innovation: Technology, Market, and Complexity* 11, no. 1 (2025): 100447, <https://doi.org/10.1016/j.joitmc.2024.100447>.

¹⁸ Simon Butt, 'Foreign Investment in Indonesia: The Problem of Legal Uncertainty', in *Foreign Investment and Dispute Resolution Law and Practice in Asia* (Routledge, 2012).

¹⁹ Joko T. Suroso et al., 'The Simplification of Licensing Procedure in Job Creation Law: The Effectiveness to Attract Foreign Investor', *Cogent Social Sciences* 10, no. 1 (2024): 2414509, <https://doi.org/10.1080/23311886.2024.2414509>.

which governs the Establishment of a Foreign Investment Limited Liability Company. Foreign investors must comply with the provisions and requirements regarding investment value and capital to obtain a Principal License.

In establishing a Foreign Investment Limited Liability Company, especially those engaged in online trading or e-commerce, the government consistently seeks to regulate it from a legal perspective by creating clear rules to govern online businesses, including those already global in scale. The government, through Government Regulation No 80 of 2019 concerning Electronic System Trading, regulates a series of transactions using electronic devices and procedures that must be complied with by both domestic and foreign business actors. This is, of course, a form of administrative compliance to support government programs, such as prioritizing the trade of domestic goods and/or services, enhancing competitiveness, and providing promotional space for domestically produced goods and/or services. Additionally, electronic commerce inevitably involves applying online trade taxes, which are necessary to generate potential foreign-exchange revenue for the state.

The rules regarding e-commerce taxation are regulated in Law No. 7 of 2014 concerning Trade, which has been amended in the fifth section on Integrated Management of Micro and Small Businesses in Article 89 paragraph (3) by Government Regulation instead of Law No. 2 of 2022 concerning Job Creation, which has been stipulated by Law No. 6 of 2023 concerning Job Creation, which mentions electronic commerce and is technically regulated in the Circular Letter of the Director General of Taxes SE-62/PJ/2013 concerning the confirmation of taxation of e-commerce transactions. The circular letter regulates the e-commerce business process model for implementing e-commerce transactions, including taxation aspects such as tax objects and subjects, tax rates, and tax deductions. Of course, both domestic and foreign companies are required to comply with this circular letter, so the government, through the Ministry of Finance of the Republic of Indonesia, Directorate General of Taxes, needs to optimize the implementation of e-commerce transactions. In the first semester of 2022, e-commerce tax payments increased by 3x compared to the same period in 2021.²⁰ Based on this data, implementing the tax payment system will improve public compliance and boost state revenue to support national economic recovery.

²⁰ JNEWS Online, 'Ini 3 Layanan Bayar Pajak Lewat E-Commerce', *JNEWS Online Article*, 19 January 2023, <https://jnewsonline.com/bikin-gampang-ini-3-layanan-bayar-pajak-lewat-e-commerce/>.

The need for foreign investment is to support the Indonesian economy and reduce Indonesia's reliance on foreign debt, especially given its current losses from suboptimal tax collection from online businesses. This is evidenced by information from the Investment Coordinating Board, which has opened opportunities for foreign investors to acquire 100% (one hundred percent) of the shares in e-commerce companies in the electronic commerce (E-Commerce) sector. Furthermore, this opening of opportunities for foreign investors should not apply to startup companies or small and medium-sized enterprises, as stipulated in Article 6 of Law No. 20 of 2008 concerning Micro, Small, and Medium Enterprises. Therefore, for businesses with assets below IDR 50,000,000 (Fifty Million Rupiah) for small businesses and below IDR 500,000,000 (Five Hundred Million Rupiah), this regulation does not apply to startup companies.²¹

In reality, opportunities for foreign capital owners to invest in startup companies still exist. This can be seen from the presence of foreign investors who have stated that they will invest foreign capital in startup companies and SMEs, as also stated by the Minister of Trade, who said that “this is happening because there are foreign e-commerce companies that sell imported products in an unhealthy manner and undermine local MSMEs.” This is evidenced by an article from the World Economic Forum (WEF), which cites the example of a locally made hijab product that was eventually adopted by a foreign online trading platform. Foreign powers can use predatory pricing by setting very low prices on products, thereby creating barriers to competitors.

In addition, the government currently lacks a valid database on the number, types, and durations of electronic commerce businesses that use online media. Without a valid database, there are concerns that the financial management system will not be clearly documented and that online taxation will not be implemented appropriately. Given the large number of e-commerce startups operating in Indonesia, the government needs to conduct strict, appropriate oversight of the financial system, including implementing a tax collection model. In every investment activity, there is always the possibility of risks that can result in a reduction or even loss of capital value, so it is hoped that this can generate optimal profits while also minimizing losses.

One notable example of rapid development can be seen in the fashion industry, a broad term that encompasses various popular styles among the general public. Fashion includes a wide range

²¹ Intan Rakhmayanti Dewi, ‘Terkuak! Ini Dia E-Commerce Asing Yang Dibenci Jokowi’, *CNBC Indonesia Technology News*, 30 August 2022, <https://www.cnbcindonesia.com/tech/20220830063003-37-367594/terkuak-ini-dia-e-commerce-asing-yang-dibenci-jokowi>.

of products such as shoes, clothing, accessories, and more. Clothing, for instance, is an essential need for most people, whether it is high-quality or ordinary. Many individuals choose to buy or wear high-quality, branded clothing. This rapid evolution in the fashion industry demands that businesses stay competitive with products from foreign companies. It is no surprise that business owners, particularly startups, seek foreign investors to invest in their companies.

A survey conducted by Jakpat²², involving 1,521 respondents, revealed that 59.6% of Indonesians follow the development of local brands in the fashion industry. This survey challenges the assumption that people in developing countries, like Indonesia, are more inclined to use well-known international fashion brands. In fact, 88.8% of respondents stated that they take more pride in wearing local fashion brands and products rather than international ones. Many local businesses have attracted offers from foreign investors, helping to increase fashion production in Indonesia.

Creating a favorable legal environment for investment is crucial to support the growth of businesses in Indonesia.²³ Foreign investment is an essential aspect of a country's political and economic development in this era of globalization.²⁴ It is seen as an effective solution to challenges faced by a country's economic growth. Foreign investment plays a significant role in development, not only for developing countries but also for emerging startups.²⁵

A notable example of a rapidly growing startup in the Special Region of Yogyakarta is Sale Stock Indonesia, a mobile commerce startup founded in 2014 by Lingga Madu and Ariza Novianti. This company sells affordable, high-quality women's clothing and offers a technology-based platform with pay-on-delivery services across Indonesia, along with a 30-day return policy and

²² Jakpat, *Indonesia Local Fashion Brands Survey Report* (insight.jakpat.net, 2015), <https://insight.jakpat.net/indonesia-local-fashion-brands-survey/>.

²³ Benny Hutahayan et al., 'Investment Decision, Legal Certainty and Its Determinant Factors: Evidence from the Indonesia Stock Exchange', *Cogent Business & Management* 11, no. 1 (2024): 2332950, <https://doi.org/10.1080/23311975.2024.2332950>; Manuel Fernandez et al., 'Foreign Direct Investment in Indonesia: An Analysis from Investors Perspective', *International Journal of Economics and Financial Issues* 10, no. 5 (2020): 102–12, <https://doi.org/10.32479/ijefi.10330>.

²⁴ Jan Knoerich and Daniel Benson, 'Home-Country Effects of Outward Foreign Direct Investment: A Systematic Review of Empirical and Policy Evidence', *International Business Review* 35, no. 1 (2026): 102529, <https://doi.org/10.1016/j.ibusrev.2025.102529>; Ngoc Toan Bui and Thu-Trang Thi Doan, 'Foreign Direct Investment and Green GDP: The Thresholds of Financial Development for Economic Policies', *Cogent Economics & Finance* 12, no. 1 (2024): 2437011, <https://doi.org/10.1080/23322039.2024.2437011>.

²⁵ Runyu Yang et al., 'Assessing the Foreign Direct Investment Performance of Middle-Income Countries Using Data Envelopment Analysis with Translation Invariance', *Economies* 12, no. 11 (2024): 314, <https://doi.org/10.3390/economies12110314>; Ezo Emako et al., 'The Effect of Foreign Direct Investment on Economic Growth in Developing Countries', *Special Issue on TNCs, Geopolitical Risks, and Russia-Ukraine Crisis; Guest Editors: Xiaotong Zhang & Erick Duchesne* 14, no. 4 (2022): 382–401, <https://doi.org/10.1080/19186444.2022.2146967>.

free shipping. In a 2018 iPrice survey, Sale Stock ranked seventh among the most visited e-commerce sites in Indonesia, with 4.3 million monthly visitors in the third quarter of 2018. However, in 2020, the company was liquidated due to the COVID-19 pandemic.²⁶

Another prominent Indonesian fashion startup, Claude, uses a direct-to-consumer model and has experienced rapid growth, expanding into international markets such as Southeast Asia, Europe, and the United States, offering elevated fashion looks.²⁷

In the current era of globalization, local governments in Indonesia have established international economic cooperation in foreign investment.²⁸ Local governments have the obligation to develop their regions to improve the welfare of people in the areas where these companies operate.²⁹ Changes are needed in the legal system to create predictability, fairness, and efficiency, thereby enabling the development of market mechanisms in the era of economic globalisation. It is necessary to establish a tax system aligned with the criteria for business actors, especially for the establishment of Foreign Investment Limited Liability Companies engaged in the online business sector. Without changes in the form of specific regulations regarding the supervision of foreign investors engaged in online trading, it will certainly be difficult for the government to collect taxes and manage the financial management system. Tax payments made by startup companies as a form of legal responsibility will assist the Indonesian government in economic development and community welfare. The Indonesian government needs an optimal monitoring system to achieve its foreign-exchange revenue target, and must make regulatory changes aligned with the needs of relevant stakeholders.

²⁶ Tasya Paramitha, 'Startup Pakaian Berbasis Indonesia Ini Sukses Mencuri Hati Pasar Global', *VIVA Lifestyle/Tech News*, 2023, <https://www.viva.co.id/gaya-hidup/gaya/1611123-startup-pakaian-berbasis-indonesia-ini-sukses-mencuri-hati-pasar-global>.

²⁷ Ibid.

²⁸ K. Kuswanto et al., 'Decentralization, Foreign Direct Investment and Development in Indonesia', in *Decentralization and Governance in Indonesia*, ed. Ronald L. Holzhaecker et al. (Springer International Publishing, 2016), https://doi.org/10.1007/978-3-319-22434-3_5; K. Kuswanto et al., 'Bargaining Between Local Governments and Multinational Corporations in a Decentralised System of Governance: The Cases of Ogan Komering Ilir and Banyuwangi Districts in Indonesia', *Asia Pacific Journal of Public Administration* 39, no. 3 (2017): 189–201, <https://doi.org/10.1080/23276665.2017.1368246>.

²⁹ Batara Surya et al., 'Economic Growth, Increasing Productivity of SMEs, and Open Innovation', *Journal of Open Innovation: Technology, Market, and Complexity* 7, no. 1 (2021): 20, <https://doi.org/10.3390/joitmc7010020>.

B. Research Method

A paradigm, as defined by George Ritzer³⁰, refers to a set of beliefs and values that form a worldview. According to Guba and Lincoln³¹, a paradigm is a basic system of fundamental beliefs or views about the world of the object being studied, serving as a philosophical framework that guides researchers in their scientific pursuits to uncover the truth in a particular discipline, such as law. Essentially, the paradigm provides the foundation for a researcher's thinking, directing their focus toward the object being studied.

In research, paradigms have evolved over time, starting with positivism, post-positivism, critical theory, and constructivism. This research adopts the constructivist paradigm, which views social science as a systematic analysis of socially meaningful actions through the observation and objectivity of social actors who create and maintain their social world. Constructivism assumes that knowledge consists of constructions, with a relative consensus or movement toward consensus, and it is subject to continuous revision. In this paradigm, epistemology is transactional and subjective, necessitating the use of hermeneutic and dialectical methods. This study, therefore, employs the constructivist paradigm to explore the appropriate legal protection for local startup companies with foreign investors in Indonesia.

This research employs doctrinal legal research, using a literature review as secondary data and conceptualizing legislation as a set of rules or norms that govern human behavior. The analysis is qualitative and interactive, carried out in a cyclical manner involving data collection, presentation, verification, and conclusion drawing. This process includes data condensation, data display, and conclusion verification, ensuring that the findings are both representative and relevant to the issues under examination.

C. Optimizing Legal Protection for Local Startups Facing Foreign Investment in Indonesia's E-Commerce Market

The e-commerce market in Indonesia has experienced rapid growth in recent years and has become one of the main contributors to economic growth in the Asia Pacific region. This significant increase is evident in RedSeer's projections, which estimate that the online commerce

³⁰ George Ritzer, *Sociological Theory* (McGraw-Hill Higher Education, 2007).

³¹ Egon G. Guba and Yvonna S. Lincoln, 'Competing Paradigms in Qualitative Research', in *Handbook of Qualitative Research*, vol. 2 (Sage, 1994).

market in Indonesia will reach US\$ 137.5 billion by 2025. This represents a huge leap from the transaction value in 2020, which was recorded at US\$ 44.6 billion, with a fairly high annual growth rate of 25.3%. This increase certainly has a very positive impact on Indonesia's digital economy and opens up greater opportunities for the development of the online commerce sector. In fact, in 2022, electronic commerce transactions in Indonesia totaled US\$ 86 billion, and in 2023, this value increased to US\$ 104 billion, with predictions that in 2024 it will reach US\$ 121 billion.³²

This growth in electronic commerce is not only due to technological advances but also to major changes in Indonesians' consumption patterns, as they increasingly shift to digital platforms. Indonesia's economy, which is increasingly consumption-based and driven by a large population and rapid adoption of digital technology, has created an ecosystem that supports the growth of the e-commerce sector. With more than 212 million active internet users and an increasing number of consumers choosing to shop online, the Indonesian e-commerce market has become highly attractive to both domestic and international businesses.³³

However, amid the rapid development of this electronic commerce market, the Indonesian startup sector also faces major challenges. One of the main challenges is related to capital. Startups in Indonesia often face obstacles in obtaining sufficient funding to develop their businesses. Therefore, one way to obtain the necessary funding is to establish partnerships with domestic and foreign investors. Foreign investors are often interested in companies with strong growth potential, including Indonesian e-commerce startups.

Partnerships with foreign investors have proven to provide significant funding for many large companies in Indonesia, including Gojek, Tokopedia, Grab, Traveloka, Lazada, and Shopee.³⁴ These companies have received substantial funding from foreign investors to support their business expansion and development. The success achieved by these large startup companies can certainly serve as an example and source of inspiration for other startups that are just getting started. Even though foreign investors provide large injections of capital, it is important to understand that they are not only interested in large companies but also see significant market potential in Indonesia, including in the local startup sector.

³² Ayu Komala Dewi and Yoyo Arifardhani, 'Analisis Regulasi Pada Pencatatan Dan Pergerakan Saham Perusahaan Rintisan (Startup) Di Pasar Modal (Studi Kasus: GoTo)', *Jurnal Hukum Kenotariatan Otentik's* 6, no. 1 (2024): 94–118, <https://journal.univpancasila.ac.id/index.php/otentik/article/view/6215/2795>.

³³ Dhiyaah Karina et al., 'Pengaruh Perusahaan Startup Terhadap Pertumbuhan Ekonomi Indonesia Selama Pandemi Covid-19', *Berajah Journal* 2, no. 1 (2022): 156–66, <https://doi.org/10.47353/bj.v2i1.69>.

³⁴ Widyanto and Haryanto, 'Mapping the E-Business Ecosystem in Indonesia: A Comprehensive Analysis'.

One reason foreign investors are interested in investing in local startups is to help them grow their businesses. Many local startups still desperately need funding to expand their market reach and increase their competitiveness. In this case, the presence of foreign investors makes it easier for local businesses to attract more consumers by offering better products and services. For example, companies such as Tokopedia and Bukalapak have successfully attracted foreign investors, which has ultimately helped them develop their services and expand their markets overseas.

Although the entry of foreign investors into the Indonesian startup market brings benefits, it also poses major challenges that need to be considered, particularly regarding legal implications and the impact on the Indonesian economy. One of the main challenges is the reliance on foreign investors to fund local startups. If too many startups depend on foreign investment, it could reduce Indonesia's economic independence. Excessive dependence on foreign investors could lead to inequality in the distribution of wealth and opportunities between local and foreign companies. Therefore, it is important to have policies that can limit the excessive influence of foreign investors in the startup sector.

In addressing these challenges, the Indonesian government plays a crucial role in regulating and supervising foreign investment in the startup sector.³⁵ One step the government needs to take is to create policies that ensure legal protection for local startup companies. One is to introduce restrictions on foreign capital ownership in local startups, so local companies still have room to grow and develop without depending on foreign investors.

In addition, the government needs to provide incentives that encourage local companies to seek funding from domestic sources, such as banks and non-bank financial institutions, as well as the capital market. Domestic funding will help startup companies remain independent and strengthen the domestic economy. The government also needs to provide facilities and policies that facilitate access to capital for local startup companies, such as introducing special financing programs for the startup sector and offering tax incentives for investors in local companies.³⁶

The presence of foreign capital in the Indonesian startup market certainly has a significant impact on the country's economic growth. However, this impact must be utilized wisely. The

³⁵ Acep Rohendi et al., 'Regulation for Startups in Indonesia: Problems and Recommendations', *Cogent Business & Management* 10, no. 3 (2023): 2276993, <https://doi.org/10.1080/23311975.2023.2276993>.

³⁶ Surya et al., 'Economic Growth, Increasing Productivity of SMEs, and Open Innovation'.

government must carefully regulate and supervise this sector to prevent local startup companies from being eroded by the dominance of foreign investors. If the right policies are implemented, the startup sector in Indonesia will continue to grow, create new jobs, and contribute to improving the national economy.³⁷ Therefore, the sustainability of the local startup sector's growth must be ensured with policies that balance support for foreign investors and protection for local companies.

D. Legal Protection and Reformulation of Foreign Investment Policies to Encourage the Growth of Local Startup Companies in Indonesia

Currently, the Indonesian government has a very important regulation for capital market regulation, namely Law No. 8 of 1995 concerning Capital Markets.³⁸ This law aims to serve as the primary source of financing for the business sector and as an investment vehicle, with a significant impact on the country's economy. In addition to this, the Law also serves to ensure legal certainty for all parties involved in capital activities, especially for investors, who market dynamics may harm. With this regulation, it is hoped that the Indonesian capital market system will become more transparent and provide greater security for all market participants, both domestic and foreign.

In addition to the Capital Market Law, there are technical regulations that provide more detailed provisions regarding foreign capital ownership in the Indonesian capital market. One such regulation is Government Regulation No. 31 of 2022, which addresses foreign capital ownership in securities companies. This regulation offers guidelines for foreign investment in the capital market, particularly with regard to foreign ownership in securities companies. Furthermore, Article 30, paragraph (4) of the Capital Market Law provides clear provisions on the rules governing foreign capital ownership in Indonesia, outlining the restrictions and requirements that foreign investors must comply with if they wish to invest in the Indonesian capital market.³⁹

The definition of foreign investors is also clearly set out in Article 1, paragraph (5), of the Government Regulation, which states that foreign investors may be foreign individuals or foreign

³⁷ M. Yazhar Rayhan Alfarrasy and Nur Hidayatul Fithri, 'Impact of Foreign Direct Investment Policy on the Economy in Indonesia', *Melayunesia Law* 8, no. 1 (2024): 89–108, <https://doi.org/10.30652/ml.v8i1.8029>.

³⁸ Merline Eva Lyanthi, 'Independensi Peran Jabatan Notaris Sebagai Profesi Penunjang Pasar Modal', *Jurnal Hukum Bisnis Bonum Commune* 3, no. 2 (2020): 457724, <https://doi.org/10.30996/jhbhc.v3i2.3627>; Anjali Katifa et al., 'Assessing Types of Capital Market in the Indonesian Legal System', *Anthology: Inside Intellectual Property Rights*, 2025, 92–114, <https://ojs.uph.edu/index.php/Anthology/article/view/10057>.

³⁹ Apri Sya'bani, 'Minority Shareholders' protection in the Indonesian Capital Market', *Indonesia Law Review* 4, no. 1 (n.d.): 114–42, <https://doi.org/10.15742/ilrev.v4n1.96>.

legal entities that invest their capital in other countries.⁴⁰ This provides a great opportunity for foreign investors to deploy capital in Indonesia, which is beneficial not only for the development of the capital market but also for other economic sectors, including the rapidly growing startup sector. Through this mechanism, foreign capital can help strengthen the Indonesian economy by increasing production capacity, creating jobs, and accelerating the development of the country's infrastructure.

One thing to note is how foreign investment is carried out through Foreign Investment Companies, which are regulated in Law No. 25 of 2007 concerning Investment. This provision states that Foreign Investment Companies can be established entirely by foreign investors or through cooperation with domestic investors. This provides a great opportunity for foreign investors to invest in Indonesia, which is not only beneficial for the development of the capital market but also for other economic sectors, including the rapidly growing startup sector. The existence of Foreign Investment Companies opens the door wide for the business sector in Indonesia to obtain the funds needed to expand their operations, including in rapidly growing sectors such as e-commerce, technology, and manufacturing.

The Investment Coordinating Board plays a very important role in regulating and supervising the foreign investment process in Indonesia. The Investment Coordinating Board is responsible for ensuring that foreign investment is carried out in accordance with applicable regulations and does not harm the national economy. One of the steps taken by the government through the Investment Coordinating Board is to filter foreign investment inflows, especially those related to strategic sectors or sectors that could impact the country's economic resilience. This is very important to ensure that companies in Indonesia, especially startups, get the maximum benefit from the presence of foreign investors without facing the threat of monopoly or market domination by foreign companies that could hinder healthy competition within the country.

Of course, the presence of foreign capital in Indonesia can have a positive impact on the country's economy. With the injection of foreign capital, it is hoped that production capacity will increase, business expansion will occur, and stock values will rise in the capital market. In addition, foreign investment can help increase Indonesia's Gross Domestic Product, a key indicator of the

⁴⁰ Adnan Hamid and Nina Silvana, 'The Impact of the Constitutional Court Decision Number 168/PUU-XXI/2023 Concerning Law Number 6 of 2023 on National Investment Growth in Indonesia', *International Journal of Business Ecosystem & Strategy* 7, no. 1 (2025): 204–21, <https://doi.org/10.36096/ijbes.v7i1.737>.

country's economic growth. With significant contributions from this sector, Indonesia's economy is expected to grow sustainably and reduce its dependence on foreign debt. The success of the capital market sector in attracting foreign investment also contributes to people's welfare, as it enables many infrastructure development projects, which in turn create new jobs.

However, it is important to note that the government must remain cautious in managing the inflow of foreign investment. While foreign investment has great potential to boost the country's economy, if not properly regulated, it can lead to inequality between local and foreign companies. If too many foreign companies dominate certain sectors, it can hinder the development of local companies, especially startups that are still growing. Therefore, the government needs to balance the interests of attracting foreign investment with protecting domestic companies, especially those that are newly developing and need support to compete in the global market.

Thus, government policies on foreign investment need to be continuously adjusted to support Indonesia's economic development and create a healthy, sustainable business climate. The government must also ensure that the existing legal system protects the rights of business actors, both foreign and domestic investors, so that they can operate under clear, fair, and legally certain terms. In this case, the Capital Market Law and other related regulations provide a strong legal basis for capital market regulation, while creating opportunities for sectors that need funding to develop.

The government also needs to continue educating the public and business actors about the importance of foreign investment in improving the country's economy. Through transparent, measurable policies and by considering national interests, it is hoped that Indonesia can remain a prime destination for foreign investors while ensuring that local companies, especially startups, continue to grow and innovate. Creating a balanced, profitable investment ecosystem for all parties will play a significant role in accelerating Indonesia's economic recovery and future growth.

In an effort to achieve a balance between foreign and domestic investment, the Indonesian government needs to consider the positive and negative impacts of foreign investors entering the country. The government must be able to regulate in a way that prevents any imbalance that could harm the domestic economy, especially local startup companies that are currently developing. The history of foreign investment in Indonesia shows a long journey of regulation that continues to be adjusted to the needs of the country's economic development.

In the past, Indonesia issued Law No. 78 of 1958 on Foreign Investment, which was later revoked and replaced by Law No. 16 of 1965. This law aimed to remove barriers to foreign investment that were considered detrimental to Indonesia. However, over time, the government began to realize the importance of domestic investment to strengthen the domestic economy and reduce its dependence on foreign investment. To that end, a more prudent investment policy was needed to create opportunities for domestic investment to grow.⁴¹

The revocation of Law No. 78 of 1958 temporarily reduced the flow of foreign capital, which ultimately led to economic imbalance at the end of the Old Order administration. During the New Order era, the government issued Law No. 1 of 1967 on Foreign Investment, which was later replaced by Law No. 25 of 2007 on Investment. This policy was intended to address the decline in foreign capital flows, provide incentives for foreign investors to invest in Indonesia, and impose clear restrictions. The main objective of this policy was to accelerate national economic development by encouraging foreign investment that would deliver tangible benefits to the country.⁴²

However, in this era of rapid development, where globalization and digital economic development are increasingly widespread, foreign investment in Indonesia needs to be carried out more carefully. The government must pay attention to sectors that still need protection to prevent foreign investors from completely controlling them. This is where the importance of policy changes that can strengthen strategic sectors in Indonesia, such as micro, small, and medium enterprises, which are the backbone of the country's economy, lies. In this case, government policy needs to emphasize the development of local businesses so that MSMEs can compete fairly with foreign companies.

As stated in Article 6 of Law No. 25 of 2007, the government is required to provide fair treatment to foreign and domestic investment. In this case, restrictions on certain sectors that foreign investors can dominate are an important step in maintaining Indonesia's economic sovereignty. Strategic sectors, including those related to MSMEs, should not be given too much room for foreign investors to dominate, especially if they control the market in an unhealthy

⁴¹ Robert N. Hornick and Mark A. Nelson, 'Foreign Investment in Indonesia', *Fordham International Law Journal* 11, no. 4 (1987): 724–76, <https://ir.lawnet.fordham.edu/ilj/vol11/iss4/2/>; Kadir and Murray, 'Resource Nationalism in the Law and Policies of Indonesia: A Contest of State, Foreign Investors, and Indigenous Peoples'.

⁴² Victor Imanuel W. Nalle, 'Deciphering Developmentalism: A Legal-Economic Examination of Indonesia's Administration', *Law and Development Review* 19, no. 1 (2026): 181–218, <https://doi.org/10.1515/ldr-2025-0010>.

manner. Therefore, there should be restrictions on foreign share ownership in local companies, especially in small- and medium-sized businesses, to prevent monopolies.

In implementing stricter regulations on foreign investment, the Indonesian government needs to prioritize sectors that require infrastructure funding or that are still underdeveloped. These regulations will help ensure that local companies, especially startups, can continue to grow and compete healthily without relying entirely on foreign investors. The government also needs to strengthen coordination between the central and regional governments to supervise and manage investments, ensuring that those entering the country deliver maximum benefits to the Indonesian economy.

To improve national economic competitiveness, one key is to enhance the quality of micro, small, and medium enterprises. MSMEs in Indonesia play a very strategic role in driving regional and national economic development. However, to strengthen the position of MSMEs, there needs to be close cooperation between small businesses and larger business partners, especially in funding and increasing production capacity. Partnership programs that can enhance competitiveness and innovation need to be encouraged by the government, whether through capital assistance, training, or support in marketing local products.

Law No. 20 of 2008 concerning Micro, Small, and Medium Enterprises and Government Regulation No. 7 of 2021 concerning Facilitation, Protection, and Empowerment of Cooperatives and Micro, Small, and Medium Enterprises have provided a legal basis for the development of MSMEs in Indonesia. However, to ensure the sustainability of small and medium enterprises, the government must provide more facilities that can facilitate MSME access to financing. This will greatly help them overcome the challenges they face, including limited capital, financial management, and competition from large companies.⁴³

Although foreign investment has a positive impact, such as creating jobs and improving infrastructure, the government needs to anticipate its negative effects, including unhealthy business practices. One example that needs to be highlighted is predatory pricing by foreign companies. Foreign companies often use this practice to lower product prices and dominate the market, while

⁴³ Siti Malikhatun Badriyah et al., 'Revamping Partnership Agreements to Empower Micro, Small, and Medium Enterprises in the Processed Marine Fish Food Industry', *Lentera Hukum* 12, no. 2 (2025), <https://doi.org/10.19184/ejllh.v12i2.48815>.

destroying local competitors. In this case, the government must enforce strict rules against these unhealthy practices and maintain market balance.

To that end, the Indonesian government needs to update and tighten regulations on foreign investment, especially those governing sectors that are not yet fully integrated with the global economy. The government must also provide adequate protection for local companies and ensure that no party is harmed in the investment process. With the right policies and regulatory updates, Indonesia can achieve more equitable and sustainable development goals and foster a healthy business ecosystem.

The enactment of Law No. 6 of 2023, which stipulates that Government Regulation shall replace Law No. 2 of 2022 concerning Job Creation, provides a stronger basis for managing foreign investment in Indonesia. This policy aims to optimize the investment ecosystem and business activities by providing greater convenience in licensing and protection, and by empowering MSMEs. However, the government must ensure that this convenience is not abused by foreign investors who could harm strategic sectors of the Indonesian economy.

In its implementation, the government needs to ensure that every action or policy has a positive impact on the Indonesian economy as a whole and protects sectors with the potential to make significant contributions to national development. By involving all parties, including the government, entrepreneurs, and the general public, Indonesia can create an investment climate that is equitable, healthy, and beneficial to all parties. The government must have the courage to act decisively and ensure that the policies implemented do not focus solely on attracting foreign investors but also prioritize strengthening the domestic economy.

Creating a policy that balances foreign and domestic investment will have a major positive impact on Indonesia's economy in the future. With proper management, Indonesia can maintain its economic sovereignty and ensure that incoming investments truly benefit the country's economy. The government must continue to strive to optimize the role of the MSME sector and avoid excessive dependence on foreign investors, while ensuring that the policies implemented can support the achievement of equitable and sustainable development goals.

E. Restrictions on Foreign Investment to Protect Local Startups: Challenges and Policy Reformulation in Indonesia

The entry of foreign investors into the Indonesian market has a significant impact on the country's economy, especially for startup companies with local brands.⁴⁴ With foreign investment, these companies can experience significant business growth due to the injection of funds that support their expansion and development. Foreign investment not only provides access to necessary financial resources but can also increase production capacity, foster innovation, and expand markets, both domestically and internationally.⁴⁵ Therefore, foreign investment has proven to be a key driver of the Indonesian economy, especially in rapidly growing sectors such as technology and e-commerce.

Although foreign investment contributes greatly to the economy, the Indonesian government needs to be careful in managing the presence of these investors. Too much dependence on foreign capital can have negative effects, especially for local startups that do not yet have the same financial strength as foreign companies. One step is to limit foreign investment in certain sectors, especially those involving local startups. This restriction aims to protect local companies so that they can continue to compete healthily and not be completely dependent on foreign capital. The government must create regulations that ensure local companies still have room to grow without being dominated by foreign interests that could harm their sustainability.

The Indonesian government has an obligation to strike a balance between attracting foreign investors and encouraging domestic investment. Domestic investment must be optimized because it plays a strategic role in the country's economy. By strengthening domestic investment, Indonesia can better utilize its resource potential. In addition, domestic investment can help conserve the country's foreign exchange reserves, as it does not depend on capital flows that could leave the

⁴⁴ Wawan Dhewanto et al., 'The Entrance Mode for Small and Medium Enterprises in the Indonesian Fashion Industry to International Market', *International Journal of Business Innovation and Research* 16, no. 3 (2018): 267–84, <https://doi.org/10.1504/IJBIR.2018.092619>; Donny Susilo, 'Scalable Start-up Entrepreneurship and Local Economic Development in Emerging Economies', *Asian Journal of Applied Economics/Applied Economics Journal* 27, no. 2 (2020): 145–63, <https://so01.tci-thaijo.org/index.php/AEJ/article/view/241923>.

⁴⁵ Robert E. Lipsey and Fredrik Sjöholm, 'Foreign Direct Investment and Growth in East Asia: Lessons for Indonesia', *Bulletin of Indonesian Economic Studies* 47, no. 1 (2011): 35–63, <https://doi.org/10.1080/00074918.2011.556055>; Fredrik Sjöholm, 'Productivity Growth in Indonesia: The Role of Regional Characteristics and Direct Foreign Investment', *Economic Development and Cultural Change* 47, no. 3 (1999): 559–84, <https://doi.org/10.1086/452419>; Uwe Walz, 'Innovation, Foreign Direct Investment and Growth', *Economica* 64, no. 253 (1997): 63–79, <https://doi.org/10.1111/1468-0335.00064>.

country. Domestic investment will also accelerate the growth of domestic industries, create jobs, and reduce dependence on imported products.

By strengthening the domestic investment sector, Indonesia can create a more independent and sustainable economy. Not only that, but domestic investment will also improve wealth distribution, reduce dependence on foreign investment, and encourage equitable economic development throughout Indonesia.⁴⁶ Therefore, the government must facilitate domestic companies' easier access to funding. Programs that support financing for local startup companies must continue to be developed, such as providing tax incentives or simplifying business licensing. This will provide greater opportunities for local companies to grow and innovate.

The government also needs to establish policies that can reduce dependence on foreign investment in the startup sector. One policy that can be implemented is to introduce restrictions on foreign investor ownership of shares in local startup companies. These restrictions are important to prevent monopolies by foreign investors that can hamper the competitiveness of local companies. This can also prevent foreign companies from dominating the market, thereby harming the domestic economy. The government must be able to direct foreign investment to sectors that need infrastructure funding or to those not yet fully controlled by local companies.

Foreign investment cannot be completely avoided, as it has a positive impact on the country's economic growth, but it must be subject to clear limits and controls.⁴⁷ Foreign capital must be directed to support the development of domestic industries and to benefit the country without harming local companies. Uncontrolled foreign investment can create an imbalance between the domestic and foreign sectors, so the government must implement appropriate policies to prevent it. In this case, a prudent capital allocation policy will affect the pace of sustainable national economic growth.

The government must also strengthen the Investment Coordinating Board's oversight of foreign investment, including in the startup sector. The Investment Coordinating Board needs to be more proactive in monitoring the development of companies that receive foreign investment, ensuring that the capital that comes in truly provides maximum benefits for the Indonesian

⁴⁶ J. Thomas Lindblad, 'Foreign Direct Investment in Indonesia: Fifty Years of Discourse', *Bulletin of Indonesian Economic Studies* 51, no. 2 (2015): 217–37, <https://doi.org/10.1080/00074918.2015.1061913>.

⁴⁷ Dierk Herzer, 'How Does Foreign Direct Investment Really Affect Developing Countries' Growth?', *Review of International Economics* 20, no. 2 (2012): 396–414, <https://doi.org/10.1111/j.1467-9396.2012.01029.x>.

economy and does not harm local companies. Strict supervision of the allocation of foreign capital in strategic sectors will prevent abuse or negative impacts on the domestic economy.

In addition, the government must strengthen tax regulations for startup companies that receive funding from foreign investors. Transparent tax payments will ensure that companies operating in Indonesia contribute to state revenue, which, in turn, can be used to finance infrastructure development and other important sectors. The government must also ensure that the tax system does not burden local startup companies while remaining fair to all parties involved.

The importance of changes and reforms to Indonesia's national legal system, particularly in investment, has become increasingly clear as the digital economy and startup industry have grown. Law No. 8 of 1995 on Capital Markets has played an important role in regulating this sector, providing a strong legal basis for capital activities. This sector requires legal clarity to support business growth and provide certainty for investors, ensuring they are not disadvantaged in the investment process. In addition, the government needs to implement a system to achieve fairness, certainty, and efficiency in doing business. One important step is the strict regulation of investors, especially those investing in sectors specified in the Indonesian Negative Investment List.

The Indonesian Negative Investment List restricts certain sectors from foreign investment. This aims to keep sensitive sectors, especially those related to national interests and the domestic economy, under state control. With this policy, the government can protect domestic investment, which plays a strategic role in boosting the Indonesian economy. Domestic Investment is very important because it can encourage the development of the domestic industrial sector, create jobs, and reduce dependence on foreign products.

Although foreign investment has a positive impact on the Indonesian economy, the government needs to restrict it. Foreign investment can lead to excessive dependence on foreign investors, resulting in foreign influence becoming dominant in the country's economy.⁴⁸ Therefore, there needs to be a more prudent policy in providing opportunities for foreign investors. The government must impose restrictions on sectors that should remain under domestic companies' control to prevent Indonesia's business ecosystem from being dominated by foreign interests. These restrictions aim to ensure that local companies, especially startups, can continue to compete healthily in the national market.

⁴⁸ Sasidaran Gopalan et al., 'Understanding Foreign Direct Investment in Indonesia', *Journal of International Trade Law and Policy* 15, no. 1 (2016): 28–50, <https://doi.org/10.1108/JITLP-01-2016-0003>.

Increasing domestic investment is key to creating a more independent and sustainable economy. Domestic investment not only reduces dependence on foreign capital but also offers other very important benefits, such as saving foreign exchange and boosting the competitiveness of domestic industries. Domestic investment also contributes to the development of local industries, whether through technological advances, employment, or increased productivity in existing sectors. This will push Indonesia towards economic independence and reduce its reliance on imported goods.⁴⁹

However, the government needs to ensure that domestic investors have easier access to financing and incentives that support the development of their businesses. Programs that support the financing of local companies, especially newly developing ones such as startups, need to be strengthened. The government can provide facilities, such as tax incentives or ease of licensing, to facilitate the development of domestic startups. This will encourage local companies to grow, increase innovation, and enhance their contribution to the Indonesian economy.

In addition, policies are needed to limit foreign investor ownership in local companies. These restrictions are very important to prevent foreign companies from forming monopolies, which can harm local companies and hinder healthy competition. With these restrictions in place, local startups can continue to grow and compete in a fairer market, without having to depend on foreign investment that could take over their entire business. This policy is important not only for local companies but also for the Indonesian economy as a whole, as it will create a healthier, more sustainable business climate.

The government must also strengthen its supervision of foreign investment through the Investment Coordinating Board. Strict supervision will ensure that foreign investment flows to sectors that truly need funding, such as infrastructure and underdeveloped industrial sectors. In addition, with proper oversight, the government can prevent misuse or misappropriation of foreign capital, which can harm local companies and the Indonesian economy as a whole.

To achieve this goal, an active role is required from all stakeholders, including the government, entrepreneurs, and the community. The government must work with entrepreneurs and business actors to create a healthy, equitable investment climate and encourage local

⁴⁹ Herman Soegoto et al., 'The Role of Domestic Investment, Foreign Investment and the Number of Micro Small and Medium-Sized Enterprises to Reduce Poverty in Indonesia', *Journal of Eastern European and Central Asian Research* 9, no. 5 (2022): 901–13, <https://doi.org/10.15549/jecar.v9i5.1072>.

companies to be more innovative and competitive. Community involvement is also important, as it can support local products and strengthen the market for domestic goods.

The government must also improve coordination between the central and regional governments, especially regarding investment regulation. The Investment Coordinating Board in each region needs to be strengthened to supervise all foreign investors entering local companies properly. With good coordination between the central and regional governments, the management of foreign investment can run more effectively and in accordance with national interests.

It is also important for the government to utilise foreign investment to fill gaps in the business and industrial sectors that domestic businesses cannot yet fill. In this case, foreign companies entering Indonesia must make a significant contribution to the country's economic development, rather than merely exploiting Indonesia's natural resources without providing clear benefits to the domestic economy. Therefore, more targeted and measurable policies must be implemented, ensuring that the purpose of foreign investment is to strengthen the Indonesian economy and support the development of sectors that require capital and technology.

The increasingly rapid global transformation has indeed had a major impact on the social order. Therefore, there needs to be clear restrictions on state sovereignty to anticipate the tide of globalization that could facilitate the unlimited entry of foreign capital owners. The government must be able to regulate economic sectors that are priorities for the country's economic progress, especially those related to national interests. To that end, the government must have the courage to strengthen the Domestic Investment sector, provide more space for local companies to grow, and prevent foreign domination that could harm the country's economy.

With proper management, it is hoped that foreign investment can have a significant positive impact on the Indonesian economy. However, it must be remembered that foreign investment must be carried out with clear, focused objectives and within a framework that supports the sustainable development of the Indonesian economy and benefits all parties. The government must be firm in implementing this policy to maintain a balance between national interests and the increasingly unstoppable tide of globalization.

F. Conclusion

A country's economic growth is highly dependent on investment levels, including in Indonesia. This investment not only improves people's welfare but also affects their standard of

living. Therefore, laws and regulations related to investment, both foreign and domestic, are very important to provide legal certainty and clarity regarding government policies. With these regulations, it is hoped they will encourage national economic growth, open up job opportunities, increase foreign-exchange earnings through taxes, and drive progress across various fields, including technology.

The Indonesian government has a responsibility to reformulate policies, especially those related to investment. These policies need to be adjusted to provide legal protection for all parties involved, including the government, business actors, and the community. One important step is to pay closer attention to Domestic Investment. Domestic Investment should have a larger percentage share than Foreign Investment. This is important, especially given the provisions allowing foreign capital to be owned by foreign countries, foreign individuals, foreign business entities, foreign legal entities, or Indonesian legal entities whose capital is partly or wholly owned by foreign parties.

Provisions such as these place a heavy burden on Domestic Investment, as they do not provide fair opportunities for them to compete with Foreign Investment. If Foreign Investment is given the freedom to control a company's entire capital, the position of Domestic Investment will be further weakened, preventing it from competing fairly. Therefore, there needs to be a more decisive policy on restrictions on foreign capital ownership to make domestic investment more competitive. Domestic investment not only benefits from abundant natural resources but also has the potential to save foreign exchange, advance domestic industry, and create jobs.

In addition, Domestic Investment is important for reducing dependence on foreign products. By strengthening the position of Domestic Investment, Indonesia can reduce imports of goods and services that are no longer needed, while spurring the growth of a more independent local industry. However, to achieve this goal, government intervention is needed to provide guarantees and legal protections for domestic investment so it can compete with foreign investment. The government must be firm in setting limits on foreign capital ownership, especially in sectors with significant potential for domestic economic development.

Furthermore, the government also needs to implement policies that can facilitate domestic industries in increasing their productivity. One of them is by facilitating productivity differences that can have a positive impact on the national economy. The right policies will affect the

efficiency and competitiveness of domestic industries, which, in turn, will support overall economic growth.

The government also needs to clarify regulations on foreign investment, especially for startups developing in Indonesia. Many startups are attracting the attention of foreign investors, who often exploit loopholes to gain control of the majority of a company's capital. This could harm domestic startups, which should be encouraged to grow independently and sustainably. Therefore, there needs to be proper planning and capital allocation so that the entry of foreign investors does not harm local companies.

Overall, to ensure Indonesia's sustainable economic growth, the government must balance the interests of domestic and foreign investors. The government must protect the interests of Domestic Investment through policies that support their competitiveness, reinforce restrictions on foreign capital ownership, and ensure that foreign investors do not harm local companies. With these measures, it is hoped that Indonesia's economy will grow more stably, create jobs, and reduce its dependence on imported goods. The success of reformulating investment policies will be a key factor in driving Indonesia's economic progress in the future.

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