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Changes in Ease of Investment in Indonesia Based on Amartya Sen's Theory of Justice

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Abstract

Indonesia has undertaken significant regulatory reforms to enhance the ease of doing business, marked by the enactment of the Job Creation Law and Presidential Regulation No. 10 of 2021 concerning Investment Business Fields, aiming to attract investment and spur economic growth. This study examines the impact of these reforms on the capabilities and freedoms of various stakeholders, including investors, Micro, Small, and Medium Enterprises (MSMEs), and local communities, through the capabilities approach of Amartya Sen's Theory of Justice. By analyzing the interplay between investment facilitation policies, stakeholder participation, and access to resources and economic opportunities, this research assesses the extent to which these reforms have fostered a fair and inclusive investment environment. The study employs a normative-empirical approach, integrating conceptual analysis with empirical data on investment trends, ease of doing business indicators, and social welfare indicators. Findings indicate that while the reforms have improved the overall investment climate, challenges persist in ensuring the equitable distribution of benefits and opportunities, particularly for vulnerable groups such as MSMEs and local communities. This underscores the need for policies that not only promote investment but also empower all stakeholders to participate in and benefit from economic development.

Keywords: Investment Facilitation, Capabilities Approach, Amartya Sen, Economic Freedom, Stakeholder Engagement, Indonesia.

Introduction

Background

In Indonesia, the investment climate is highly dynamic, particularly concerning regulations and policies affecting the ease of investment. Indonesia has strived to enhance its investment attractiveness in recent years by undertaking policy reforms aimed at reducing bureaucracy and increasing transparency. For instance, small and medium-sized enterprises (SMEs) in Indonesia have found new avenues to access capital, thanks to the emergence of Equity Crowdfunding. Furthermore, economic partnership agreements, such as the IK-CEPA with South Korea, have also contributed to the increase in foreign investment, which is expected to strengthen Indonesia's position on the global investment map.

Despite progress in the ease of investment, significant issues persist regarding disparities and inequalities in access to investment and the benefits thereof. Local communities and Micro, Small, and Medium Enterprises (MSMEs) often do not equally benefit from incoming investments. This inequality in access to resources and investment opportunities can exacerbate the socio-economic conditions of these vulnerable groups. Therefore, it is crucial to conduct a

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study on the ways in which investment policies can become more inclusive and deliver more equitable benefits across all segments of society.

Foreign and domestic investment can indeed spur economic growth; however, the benefits are often unevenly distributed, and vulnerable groups are frequently marginalized. Micro, Small, and Medium Enterprises (MSMEs) are a pillar of the Indonesian economy but face numerous challenges in accessing the necessary resources and investment opportunities for growth.

One of the primary challenges faced by MSME actors is the lack of financial literacy. A study indicates that many MSME actors have limited knowledge regarding investment and financial management, which implies their lower engagement in capital markets and restricted access to better financing. This situation is exacerbated by investment policies that often disproportionately favor large corporations, while MSMEs and local communities do not receive adequate attention from the government and other stakeholders.

While foreign investment can bring economic benefits, it can also challenge local businesses in terms of innovation and competitiveness. Conversely, the presence of foreign companies in a region may lead to an uneven playing field, hindering local businesses from effectively competing. Therefore, it is essential to formulate more inclusive and equitable policies that will foster economic growth and ensure that everyone, particularly vulnerable populations, can enjoy the benefits of existing investments.

A justice approach that emphasizes enhancing the capabilities of individuals and groups to participate in development processes is highly relevant. It is expected that disparities in access to and benefits from investment will be reduced by improving financial literacy and providing necessary support to MSMEs and local communities. This will not only strengthen the economic standing of vulnerable groups but also contribute to more sustainable and inclusive economic development in Indonesia.

Amartya Sen's justice approach may offer a valuable perspective as it emphasizes the importance of individuals possessing "capabilities," or the ability to achieve life goals they deem important. This method not only highlights economic improvement but also the enhancement of individual freedoms and their capacity to participate in the development process. Therefore, the analysis of changes in the ease of investment must consider its effects on the capabilities of the people, particularly vulnerable groups, to participate in the economy and benefit from existing investments.

Research Question

- How do changes in the ease of investment in Indonesia, viewed through Amartya Sen's theory of justice, affect the enhancement of capabilities and freedoms for all stakeholders, including vulnerable groups?

Research Objective

- To analyze the impact of changes in the ease of investment in Indonesia on the enhancement of capabilities and freedoms for all stakeholders, based on Amartya Sen's theory of justice.

Research Method

- A normative-empirical approach combining conceptual analysis.
- A literature review of relevant laws and regulations, policy documents, and academic

- Secondary data analysis related to investment trends, ease of doing business indicators, and social welfare indicators, particularly those relevant to capabilities.

Theoretical Framework

Amartya Sen's Theory of Justice

Amartya Sen's theory of justice, known as the capabilities approach, offers a profound perspective on social and economic justice. This concept focuses on individuals' capabilities to achieve life goals they value, rather than solely on the distribution of resources or economic outcomes. In the context of investment, this approach is highly relevant as it can be used to analyze how investment policies affect the capabilities of the people, particularly vulnerable groups such as Micro, Small, and Medium Enterprises (MSMEs) and local communities, to participate in the development process and benefit from the investment.

Sen identifies five types of freedoms that are foundational to the capabilities approach: political freedoms, economic facilities, social opportunities, transparency guarantees, and protective security. Political freedoms encompass the right to participate in decision-making processes that affect individuals' lives. This implies that communities should have a voice in the investment policies implemented in their regions, enabling them to ensure that such investments yield fair and equitable benefits.

Economic facilities relate to the ability of individuals to access resources and economic opportunities. In this regard, investment policies should be designed to support better access for MSMEs and local communities to capital and markets, enabling them to contribute to economic growth. Social opportunities encompass access to education and healthcare, which are crucial for enhancing individuals' capabilities to participate in the economy. Sound investment policies should consider their impact on the development of society's social capacities.

Transparency is a freedom that enables individuals to obtain the information necessary to make informed decisions. In the context of investment, transparency in the decision-making processes and the implementation of investment projects is crucial to ensure that the public can monitor and assess the impact of these investments. Finally, protective security encompasses the protection of individuals from risks and uncertainties, implying that communities should be safeguarded from potential negative impacts of investment projects, such as displacement or environmental damage.

The application of the capabilities approach in analyzing issues of justice and welfare in investment can be seen through various examples. For instance, in infrastructure development projects, an analysis can be conducted to assess how the project affects the capabilities of local communities to access basic services such as education and healthcare. If the project primarily benefits large investors without providing significant advantages to the local population, it indicates an injustice in the distribution of investment benefits.

Furthermore, this approach can also be used to evaluate investment policies designed to support MSMEs. By analyzing how these policies enhance the capabilities of MSMEs to participate in the market and access capital, we can assess the extent to which these policies succeed in fostering justice and welfare for vulnerable groups. In this regard, the capabilities approach provides a comprehensive framework for evaluating the impact of investment policies on the overall well-being of society.

Ease of Investment

The ease of investment is a crucial factor in attracting investors, both domestic and foreign, to invest in a country. The definition of ease of investment can be viewed through various indicators, one of which is the Ease of Doing Business Index (EoDB) published by the World Bank. This index measures how easy it is to conduct business in a country based on various aspects, such as the ease of starting a business, getting credit, registering property, paying taxes, and enforcing contracts. The connection between the EoDB and Amartya Sen's theory of justice lies in how the ease of investment can enhance the capabilities of individuals and groups to participate in the economy. With simpler and more transparent regulations, individuals and MSMEs can more easily access the resources needed to invest and develop their businesses, thereby increasing overall well-being.

Factors influencing the ease of investment include regulation, bureaucracy, infrastructure, and the overall business environment. Complex regulations and cumbersome bureaucracy often serve as barriers for investors entering the market. Countries with simpler regulations and efficient bureaucracy tend to attract more foreign direct investment (FDI). Furthermore, adequate infrastructure also plays a vital role in creating ease of investment. Good infrastructure, such as transportation and communication networks, can reduce operational costs and enhance business efficiency, which in turn can strengthen the capabilities of MSMEs and local communities to participate in the economy.

The implications of the ease of investment for the capabilities and freedoms of stakeholders are significant. When investments can be made more readily, individuals and groups have greater opportunities to develop their businesses, create jobs, and increase income. This aligns with the capabilities approach, which emphasizes the importance of individual freedoms to choose and achieve their life goals. Thus, the ease of investment not only contributes to economic growth but also to the enhancement of overall societal well-being.

The relationship between the ease of investment and economic growth, development, and the improvement of public welfare can be viewed within the framework of the capabilities approach. When investors feel more comfortable investing in a country due to ease in regulations and bureaucracy, it leads to an increased flow of investment that can drive economic growth. Sustainable economic growth will create more job opportunities and increase public income, which in turn will strengthen individuals' capabilities to achieve their life goals. The ease of investment can be seen as a primary driver in creating an environment that supports inclusive and sustainable development.

For example, countries that have successfully improved their EoDB, such as Vietnam and Malaysia, have demonstrated significant economic growth and enhanced public welfare. This indicates that by creating a better investment environment, a country can attract more investors, which in turn will generate employment and improve the quality of life for its people. Therefore, it is crucial for the government to continuously undertake reforms in investment regulations and policies to create a better ease of investment and support the achievement of justice and welfare for all segments of society.

Overall, the ease of investment is a crucial element in creating an environment that supports economic growth and the improvement of public welfare. By understanding the interconnectedness between the ease of investment, capabilities, and justice, we can formulate more inclusive and sustainable policies that not only drive economic growth but also ensure that

the benefits of investment can be felt by all parties, especially vulnerable groups such as MSMEs and local communities.

Analysis of the Impact of Changes in the Ease of Investment

Overview of Changes in the Ease of Investment in Indonesia

The overview of changes in the ease of investment in Indonesia reflects a complex dynamic in the evolution of investment regulations and policies implemented by the government. Over the past few years, Indonesia has undertaken various reforms to enhance the ease of doing business, which is reflected in the improvement of its Ease of Doing Business (EoDB) ranking issued by the World Bank. These changes include the simplification of licensing processes, the reduction of bureaucracy, and increased transparency in investment policies. The impact of these regulatory changes is felt by various stakeholder groups, including investors, Micro, Small, and Medium Enterprises (MSMEs), and local communities. Foreign investors tend to be more inclined to invest in countries with simpler and more transparent regulations, while MSMEs can gain better access to capital and markets.

The evaluation of the government's efforts to enhance the ease of investment indicates that despite progress, there are still challenges to be addressed. The government has launched various policies, such as the Online Single Submission (OSS), which aims to simplify the licensing process for businesses. However, the implementation of these policies is often hampered by a lack of understanding and support from various parties, including government officials and the business actors themselves. The implications of these efforts for justice and welfare are significant. When MSMEs and local communities can better access investment opportunities, they have the chance to improve their well-being and reduce economic disparities.

The identification of significant changes in ease of doing business indicators, such as the EoDB ranking, shows that Indonesia has successfully improved its position in recent years. For example, in 2020, Indonesia ranked 73rd, up from 91st in 2019. This improvement is relevant to the capabilities approach, where the ease of investment can enhance the abilities of individuals and groups to participate in the economy. When investment regulations are easier to understand and access, individuals and MSMEs can be more active in developing their businesses, creating jobs, and contributing to economic growth.

Presidential Regulation No. 44 of 2016 concerning the Negative Investment List and Business Fields Open with Conditions in the Field of Capital Investment, and Presidential Regulation No. 76 of 2007 concerning the Criteria and Requirements for the Compilation of Closed Business Fields and Business Fields Open with Conditions in the Field of Capital Investment, were derivative regulations of Law No. 25 of 2007 concerning Capital Investment.

Subsequently, Presidential Regulation No. 10 of 2021 concerning Investment Business Fields explicitly states that it was formed to implement the provisions of Article 77 and Article 185 letter b of the Job Creation Law. This Presidential Regulation revokes and replaces Presidential Regulation No. 44 of 2016 and Presidential Regulation No. 76 of 2007, thus becoming the primary reference for capital investment after the Job Creation Law. The Job Creation Law is an omnibus law aimed at simplifying regulations and improving the investment climate in Indonesia. One of the focuses of the Job Creation Law is the simplification of rules related to capital investment.

The Job Creation Law brought several significant changes to the capital investment regime in

Indonesia, as reflected in Presidential Regulation No. 10 of 2021. Some of these changes include:

- a. **Simplification of Classification:** The Negative Investment List (DNI), previously divided into 3 categories, is now simplified into only 2 categories.
- b. **Priority Business Sectors:** The Job Creation Law and Presidential Regulation No. 10 of 2021 introduce the concept of priority business sectors that are given special incentives to attract investment.
- c. **Partnership with MSMEs:** Presidential Regulation No. 10 of 2021 encourages foreign capital investment to partner with MSMEs to enhance their capacity and competitiveness.

The main differences between Presidential Regulation No. 44 of 2016 and Presidential Regulation No. 76 of 2007 with Presidential Regulation No. 10 of 2021 are presented in the following table:

No	Presidential Regulation 44/2016 & 76/2007	Presidential Regulation 10/2021
1	The Negative Investment List (DNI) was divided into 3 business fields: business fields that are closed, business fields that are open with conditions, and business fields that are open.	The DNI is divided into 2 business fields: business fields that are closed and business fields that are open. Open business fields are further divided into 4 types.
2	There were no priority business sectors.	Priority business sectors are listed.
3	There were no investment value restrictions for large businesses.	Foreign investors can only conduct business activities in large-scale enterprises with an investment value of more than IDR 10,000,000,000.00, excluding the value of land and buildings.
4	There were no provisions regarding partnerships between large businesses and MSMEs.	Foreign investors are obligated to partner with MSMEs.
5	There were no provisions regarding fiscal and non-fiscal incentives.	Provides fiscal and non-fiscal incentives for investors conducting business activities in priority business sectors.
6	Requirements for foreign capital ownership are regulated in detail for each business sector.	Requirements for foreign capital ownership are regulated generally, with a maximum limit of 85% for most business sectors.

In this regard, it is important to consider how changes in the ease of investment can affect stakeholders' capabilities. With better regulations, individuals and groups have more opportunities to develop the skills and knowledge necessary to participate in the market. This aligns with Amartya Sen's theory of justice, which emphasizes the importance of individuals' capabilities to achieve life goals they deem important. Therefore, the government needs to continuously strive to simplify regulations and enhance transparency in investment policies to create a more inclusive and sustainable environment for all stakeholders.

Overall, the overview of changes in the ease of investment in Indonesia indicates significant progress, yet challenges remain. By continuously undertaking reforms in investment regulations

and policies, it is expected that Indonesia can create a better environment for both investors and the public, as well as enhance overall welfare. The capabilities approach can serve as a useful framework in analyzing the impact of investment policies on the justice and welfare of society, particularly for vulnerable groups such as MSMEs and local communities.

Analysis of the Impact on Capabilities and Freedoms

Changes in the ease of investment in Indonesia have a significant impact on the capabilities and freedoms of various stakeholders, including investors, Micro, Small, and Medium Enterprises (MSMEs), local communities, and the government. Increased ease of investment, through the simplification of regulations and the reduction of bureaucracy, provides better access to resources and opportunities for investors and business actors. For example, with policies such as the Online Single Submission (OSS), the licensing process becomes faster and more efficient, allowing investors to start businesses more easily. For MSMEs, this ease opens up opportunities to obtain capital and access markets that were previously difficult to reach, thereby enhancing their capabilities to participate in the economy.

However, despite the progress, the question that arises is whether these changes have created a fair and inclusive investment environment for all stakeholders, especially vulnerable groups. While better regulations can improve access for MSMEs, challenges remain in terms of policy implementation and understanding at the local level. Many MSME actors still lack sufficient education regarding investment procedures, which can hinder their participation. Furthermore, existing political uncertainty and bureaucracy can create inequalities in access to investment opportunities, where large investors may benefit more compared to small business actors.

Power imbalances and injustices can also arise from changes in the ease of investment. While investment policies aim to promote economic growth, they often disproportionately benefit large corporations and foreign investors, while MSMEs and local communities remain marginalized. This can affect the capabilities and freedoms of certain groups, where they do not have equal access to the resources and opportunities generated from investments. Power imbalances and injustices can also arise from changes in the ease of investment. While investment policies aim to promote economic growth, they often disproportionately benefit large corporations and foreign investors, while MSMEs and local communities remain marginalized. This can affect the capabilities and freedoms of certain groups, where they do not have equal access to the resources and opportunities generated from investments.

Therefore, it is important to implement the capabilities approach developed by Amartya Sen, which emphasizes enhancing the abilities of individuals and groups to participate in the development process. By ensuring that all stakeholders, especially vulnerable groups, have equal access to investment opportunities and the resulting benefits, we can create a more just and inclusive investment environment. Therefore, the government needs to continuously undertake reforms in investment regulations and policies, as well as enhance education and support for MSMEs and local communities so that they can actively participate in the economy.

Overall, changes in the ease of investment in Indonesia have the potential to enhance the capabilities and freedoms of various stakeholders; however, challenges remain in ensuring that the benefits of investment are felt equitably. By prioritizing the principles of justice and inclusiveness in investment policies, it is hoped that all segments of society, especially the vulnerable, can contribute to and benefit from the resulting economic growth.

Case Study: Kendal Special Economic Zone (SEZ)

The analysis of the impact of changes in the ease of investment in the Kendal Special Economic Zone (SEZ), Central Java, can be conducted by considering various aspects involving stakeholders and the effects on their capabilities and freedoms. In this context, Amartya Sen's theory of justice provides a relevant framework for understanding how investment policies can influence the freedoms of individuals and groups within society. Sen argues that justice is not solely related to the distribution of resources but also to the ability of individuals to function and make decisions in their lives.

Firstly, changes in the ease of investment in the Kendal SEZ can be observed in terms of infrastructure and government support. Sound infrastructure is a key factor in attracting investment, and this has been evidenced in previous studies indicating that good infrastructure performance positively contributes to the management of special economic zones. With improved infrastructure, investors will be more inclined to invest, which in turn can increase employment and income for local communities. However, it should be noted that while good infrastructure can boost investment, its impact on the freedoms and capabilities of the community must be considered.

Secondly, in the context of the Kendal SEZ, changes in the ease of investment can also affect the freedom of expression and participation in decision-making. Freedom of expression is a fundamental human right and is important in a democratic system. In the context of SEZs, stakeholders, including local communities, should have the opportunity to voice their opinions regarding investment projects that will be implemented. If investment policies do not involve community participation, it can lead to dissatisfaction and social conflict, which can ultimately hinder economic growth.

Furthermore, the analysis based on Sen's theory of justice indicates that sound investment policies should consider the aspect of benefit distribution. Sen emphasizes the importance of providing equal opportunities for all individuals to participate in the development process. In the context of the Kendal SEZ, if investments only benefit a select few individuals or large corporations, it can create social and economic disparities. Therefore, it is crucial for the government to ensure that the benefits of investment can be felt by all segments of society, including disadvantaged groups.

From the perspective of economic freedom, changes in the ease of investment in the Kendal SEZ can also be seen as an effort to create a conducive environment for the development of the industrial sector. Economic freedom, which includes the right to invest and conduct business, is an important factor in driving economic growth. However, this freedom must be balanced with social responsibility, where investors must also consider the social and environmental impacts of their activities. In this regard, the government needs to regulate and supervise investments so that they do not harm local communities and the environment.

Furthermore, the impact of changes in the ease of investment on the capabilities of the community can be analyzed through access to education and training. Investments entering the Kendal SEZ should not only focus on financial gains but also on human resource development. By providing adequate access to education and training, the community can enhance their abilities to compete in the labor market. This aligns with Sen's view that the enhancement of individuals' capabilities is a key indicator of social justice.

Regarding the freedom of religion and belief, changes in the ease of investment can also

influence social dynamics within the community. Freedom of religion is a fundamental human right that must be respected in every public policy. If investments entering the Kendal SEZ do not consider the cultural and religious diversity of the community, it can lead to social tensions. Therefore, it is important for investors to understand the local social and cultural context before making investments.

Conclusion and Recommendations

Conclusion

This study examined the impact of Indonesia's investment facilitation reforms on stakeholders' capabilities and freedoms within the framework of Amartya Sen's capabilities approach. Findings indicate that while the reforms have led to improvements in the ease of doing business, challenges persist in ensuring equitable access to resources and opportunities for all stakeholders, particularly for MSMEs and local communities. This highlights the need for a more inclusive approach to investment facilitation that prioritizes not only economic growth but also the empowerment of all stakeholders, enabling them to actively participate in and benefit from economic development. Further research is needed to assess the long-term impacts of these reforms and to explore the effectiveness of specific policies in promoting a just and inclusive investment environment.

Recommendations

Based on the findings of this study, several recommendations are proposed:

1. **Comprehensive Policy Development:** The government needs to develop investment policies that not only focus on the ease of investment but also consider the aspects of justice and the capabilities of all stakeholders.
2. **Strengthening MSMEs and Local Communities:** Empowerment programs for MSMEs and local communities need to be enhanced to ensure they have equal capabilities and access in leveraging investment opportunities.
3. **Enhancing Transparency and Participation:** The decision-making processes and implementation of investment projects should be transparent and involve the active participation of all stakeholders, including local communities.
4. **Strict Law Enforcement and Oversight:** The government needs to strengthen law enforcement and oversight of the implementation of investment policies to prevent violations and injustices.

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