

Harmonization of Investment Regulations: Aligning Central and Local Rules to Support Fair and Equitable Business Facilitation

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Abstract. *Indonesia's investment governance operates within a multilevel legal architecture in which central statutes and regional regulations frequently diverge, generating uncertainty for domestic and foreign investors alike. Since the enactment of Law Number 11 of 2020 on Job Creation and its implementing regulations, the central government has pursued a risk-based, single-submission licensing model intended to simplify business entry, yet numerous provincial and district regulations continue to impose requirements inconsistent with national standards. This article examines the extent to which harmonization mechanisms between central and local investment regulations support fair and equitable business facilitation in Indonesia. Employing a normative juridical method with statutory, conceptual, and comparative approaches, the study analyzes primary legal materials together with secondary literature drawn from recent Indonesian and international scholarship. The findings indicate that overlapping authority, weak regulatory review mechanisms, and inconsistent local incentive schemes remain principal obstacles to a coherent national investment climate. The article's novelty lies in proposing an integrated harmonization framework that combines ex-ante regulatory screening, digital synchronization through the Online Single Submission system, and a proportional fairness principle balancing local fiscal autonomy with national investment objectives. The study concludes that sustainable business facilitation requires not merely deregulation but institutionalized vertical coordination that protects both investor certainty and regional developmental interests, thereby reconciling the competing logics of centralization and regional autonomy within a single, coherent legal order.*

Keywords: investment regulation; harmonization; central and local government; business facilitation; legal certainty

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1. Introduction

Investment has long been regarded as one of the principal engines of national economic development, and Indonesia, as an archipelagic state with more than five hundred autonomous regions, faces a distinctive structural challenge in translating national investment policy into consistent practice at the subnational level. Since the introduction of regional autonomy through Law Number 22 of 1999, later replaced by Law Number 23 of 2014 on Regional Government, provinces, regencies, and cities have been granted broad authority to issue local regulations (*peraturan daerah*) governing licensing, taxation, and business facilitation within their jurisdictions.¹ This devolution was intended to bring governance closer to the people and

¹Watoni Noerdin, "Relationship for The Establishment of Local Regulations in the Job Creation Law," *Administrative and Environmental Law Review* 3, no. 2 (2022).

to allow regions to tailor investment incentives to local conditions. In practice, however, the exercise of this authority has frequently produced regulatory outcomes that diverge from, and at times directly contradict, national investment policy, creating what several scholars describe as a "regulatory patchwork" that undermines the predictability investors require.²

The most significant recent attempt to resolve this tension is Law Number 11 of 2020 on Job Creation, an omnibus law that amended more than seventy sectoral statutes with the explicit aim of simplifying business licensing and improving Indonesia's ease-of-doing-business ranking.³ The omnibus approach was operationalized through Government Regulation Number 5 of 2021 on Risk-Based Business Licensing, which established the Online Single Submission Risk-Based Approach (OSS-RBA) as a unified digital gateway intended to replace fragmented sectoral and regional licensing procedures.⁴ This framework was further strengthened through Government Regulation Number 28 of 2025, which consolidated basic licensing requirements into a single, binding reference that regional governments are formally prohibited from supplementing with additional, unharmonized requirements. A related liberalization instrument, the Positive Investment List introduced through Presidential Regulation Number 10 of 2021 as amended by Presidential Regulation Number 49 of 2021, sought to harmonize sector-specific investment restrictions with the omnibus law's licensing simplification agenda, though Seff's analysis shows that harmonizing the substantive scope of sectoral openness with the procedural licensing reform proved considerably more complex in implementation than the legislative drafting had anticipated.⁵ These reforms reflect a clear policy preference for centralization of licensing standards as the primary instrument for achieving legal certainty and administrative efficiency.

Notwithstanding these reforms, empirical studies continue to document persistent friction between central licensing standards and local regulatory practice. Research on Bandung City's Regional Regulation Number 4 of 2022 shows that while the regulation succeeded in strengthening legal certainty for local investors, its incentive structure did not always align with national fiscal and licensing parameters, producing implementation ambiguity for cross-jurisdictional investors.⁶ Similar tensions have been identified in

²María Jesús Fernández, A. Blanco, and Yago Aranda Larrey, "National-Subnational Coordination for Investment Attraction" (World Bank Group, 2021).

³Rahmat Saputra and Rama Dhianty, "Investment License and Environmental Sustainability In Perspective of Law Number 11 the Year 2020 Concerning Job Creation," *Administrative and Environmental Law Review* 3, no. 1 (2022).

⁴J. Suroso, Dani Durahman, and I. Budi, "The Simplification of Licensing Procedure in Job Creation Law: The Effectiveness to Attract Foreign Investor," *Cogent Social Sciences* 10 (2024).

⁵Alfarisi Hamdani Saleh Seff, "Harmonization of Investment Business Sector Regulations (Law No. 11 of 2020 and Presidential Regulation No. 49 of 2021)," *DE'RECHTSSTAAT* 10, no. 2 (2024).

⁶Heigel Parodi Ritonga, Putra Dirgantara, and Rifaldo Aditya, "Strengthening the Regional Investment Climate Through Bandung City Regional Regulation Number 4 of 2022," *JIHAD: Jurnal Ilmu Hukum dan Administrasi* 8, no. 2 (2026).

Semarang, where a local investment regulation predating the omnibus reform continues to generate interpretive uncertainty regarding which licensing pathway—local or OSS-based—governs particular categories of business activity.⁷ In the mining sector, risk-based licensing has been shown to interact awkwardly with regional spatial and environmental permitting regimes, producing overlapping approval requirements that slow rather than accelerate investment realization.⁸ At an earlier stage, Permatasari had already identified the urgency of harmonizing contradictory regional regulations as a precondition for investor confidence, a concern that later case studies confirm has not been fully resolved even after the omnibus reform.⁹ The Batang Integrated Industrial Area case further illustrates that even flagship national investment projects require ad hoc, project-specific coordination mechanisms between central and local authorities, suggesting that systemic harmonization instruments remain insufficiently institutionalized.¹⁰

The persistence of these frictions cannot be explained solely as a transitional problem of legal drafting; it reflects a deeper conceptual tension between two constitutionally protected values—national economic unity and regional autonomy—that Indonesian investment law has not yet reconciled through a coherent normative framework. Prasetyo, Irianto, and Mulyani argue that evaluating Indonesia's ease-of-investment reforms solely through efficiency metrics is insufficient, and propose reading these reforms through Amartya Sen's capability-oriented theory of justice, which asks whether regulatory simplification genuinely expands substantive opportunity for a broad range of economic actors, including regional and small-scale investors, rather than merely reducing procedural steps for large or foreign capital.¹¹ This fairness-oriented lens is consistent with findings from Sukamto, Panjaitan, and Saragi, who distinguish between normative legal protection for investors and its practical implementation, showing that a gap between the two levels systematically disadvantages investors operating outside major urban centers.¹² Hutabarat and Markoni likewise observe that the legal protection extended to

⁷Agus Saiful Abib, Dhian Indah Astanti, and Wafda Vivid Izziyana, "Semarang City Development After Local Regulation No. 9 of 2014 on Investment," *AL-MANHAJ: Jurnal Hukum dan Pranata Sosial Islam* 7, no. 1 (2025).

⁸Lalu Wira et al., "Risk-Based Mining Investment in the Framework of Fair Legal Certainty," *Volksgeist: Jurnal Ilmu Hukum dan Konstitusi* 8, no. 1 (2025).

⁹Adinda Destaloka Putri Permatasari, "The Urgency of Harmonizing Contradictory Regional Regulations that Hinders the Investor Interest on Investment," *UNTAG Law Review* 5, no. 1 (2021): 65–73.

¹⁰Keisha Nadine Sastraatmaja et al., "Transformasi Tata Kelola Investasi Daerah: Studi Kasus Perizinan Berbasis Risiko dan Percepatan Kawasan Industri Terpadu Batang (KITB) di Jawa Tengah," *As-Syar'i: Jurnal Bimbingan & Konseling Keluarga* 8, no. 2 (2026).

¹¹Riris Prasetyo, Sigit Irianto, and Sri Mulyani, "Changes in Ease of Investment in Indonesia Based on Amartya Sen's Theory of Justice," *Journal of Posthumanism* 5, no. 6 (2025).

¹²Hasim Sukamto, Hulman Panjaitan, and Paltiada Saragi, "Legal Protection for Foreign Investors at Normative and Implementation Levels in Indonesia," *International Journal of Law, Crime and Justice* 2, no. 2 (2025).

foreign investment after the Job Creation Law remains contingent on the consistency of implementing regulations at every level of government, a consistency that cannot be assumed.¹³

Comparative and international scholarship situates the Indonesian experience within a broader regional pattern. Sudiyana and Zahir's comparison of Indonesian and Malaysian investment law following omnibus-style legislative reform finds that Malaysia's more centralized federal licensing structure produces fewer central-local conflicts, but at the cost of reduced local fiscal flexibility, illustrating a genuine trade-off rather than a straightforward preference for centralization.¹⁴ Hsieh's analysis of new investment rulemaking across Asia similarly shows that the region is experimenting with varying degrees of domestication versus regional harmonization, with Indonesia positioned toward the domestication end of the spectrum.¹⁵ Chaisse's theory of procedural treaty design further suggests that investment facilitation is increasingly understood internationally not as substantive deregulation but as the design of predictable, well-sequenced procedural rules, a framing directly relevant to the central-local coordination problem this article addresses.¹⁶ Meanwhile, Indonesian doctrinal literature on the transplantation and harmonization of omnibus law techniques warns that legal transplantation without adaptation to Indonesia's decentralized structure risks producing rules that are formally uniform but practically unenforceable at the regional level.¹⁷ Alfiqui, Rathana, Jusuf, and Ruslina similarly identify regulatory harmonization as the key to legal stability for investment and economic development following the Job Creation Law, but stop short of specifying the institutional mechanism through which such harmonization should be operationalized and monitored over time.¹⁸

The fiscal dimension of this tension deserves particular attention, since business facilitation cannot be separated from the intergovernmental financial relations that shape local governments' incentives to cooperate with national licensing standards. Lewis's critical assessment of Indonesia's new fiscal decentralization law, Law Number 1 of 2022, observes that the law's tighter earmarking of transfers and performance incentives is designed partly to induce regional compliance with national policy priorities, including investment facilitation,

¹³Porman Hutabarat and Markoni, "Analisis Yuridis terhadap Perlindungan Hukum Investasi Asing di Indonesia setelah Lahirnya Undang-Undang Nomor 11 Tahun 2020 tentang Cipta Kerja," *Jurnal Syntax Admiration* 3, no. 12 (2022).

¹⁴Sudiyana and Mohd Zamre Mohd Zahir, "Comparison of Indonesian and Malaysian Investment Laws Following Omnibus Legislation," *Yustisia Jurnal Hukum* 14, no. 1 (2025).

¹⁵Pasha Hsieh, "New Investment Rulemaking in Asia: Between Regionalism and Domestication," *World Trade Review* 22 (2023): 173–192.

¹⁶Julien Chaisse, "Investment Facilitation Agreements and Treaty Function Reordered: A Theory of Procedural Treaty Design," *International and Comparative Law Quarterly* 74 (2025): 841–874.

¹⁷Syprianus Aristeus, "Transplantation, Legal Adoption, Harmonization of Omnibus Law and Investment Law," *Jurnal Penelitian Hukum De Jure* 21, no. 4 (2021): 507–516.

¹⁸Khadafi Alfiqui et al., "Harmonisasi Regulasi: Kunci Stabilitas Hukum Dalam Investasi dan Pembangunan Ekonomi Pasca Pemberlakuan UU Cipta Kerja," *Siyasah* (2025).

yet warns that such fiscal instruments cannot by themselves resolve underlying accountability weaknesses at the local level.¹⁹ Using a difference-in-difference design, Yuwono, Wiryawan, and Yuzuru find that provinces with a higher proportion of legally problematic local regulations experienced measurably slower long-term foreign investment growth after Indonesia's decentralization reforms, providing empirical confirmation that regulatory quality at the subnational level has real economic consequences rather than being a merely doctrinal concern.²⁰ Nalle situates this pattern within a broader legal-economic critique of Indonesian developmentalism, arguing that recentralizing licensing authority without simultaneously reforming the incentive structures that drive local rule-making risks reproducing the same coordination failures in a different institutional form.²¹ These fiscal and empirical findings reinforce the doctrinal literature reviewed above and indicate that any harmonization framework confined to licensing procedure alone, without addressing the fiscal and political incentives underlying regional regulatory behavior, is unlikely to achieve durable results.

Existing literature, therefore, converges on the diagnosis that central-local regulatory misalignment is a persistent obstacle to Indonesia's investment climate, but diverges sharply on prescription: some studies emphasize further centralization through digital licensing platforms, others emphasize preserving regional fiscal autonomy, and still others emphasize fairness and justice considerations that neither pure centralization nor pure deregulation adequately addresses. Few studies integrate these three dimensions—legal certainty, regional autonomy, and substantive fairness—into a single analytical framework, and fewer still examine how Indonesia's newest licensing consolidation, Government Regulation Number 28 of 2025, interacts with subnational regulatory authority in practice. This article's novelty lies precisely in this integration. Rather than treating harmonization as a purely technical exercise in eliminating regulatory conflict, this study conceptualizes harmonization as a normative task requiring the calibration of three variables simultaneously: procedural uniformity sufficient to guarantee investor certainty, sufficient local discretion to preserve meaningful regional autonomy, and a proportionality principle ensuring that neither central nor local interests are sacrificed disproportionately to the other. Building on this integrated framework, the article further proposes that digital synchronization of licensing data through the OSS system be treated not merely as an administrative convenience but as a substantive harmonization instrument capable of making central-local regulatory conflicts visible and correctable in near real time, an approach that has not been systematically explored in the reviewed literature.

¹⁹Blane D. Lewis, "Indonesia's New Fiscal Decentralisation Law: A Critical Assessment," *Bulletin of Indonesian Economic Studies* 59, no. 1 (2023): 1–28.

²⁰Teguh Yuwono, Bangkit A. Wiryawan, and Shimada Yuzuru, "The Effect of Regulatory Governance System on Investment Growth in Decentralized Indonesia," *Frontiers in Political Science* 7 (2025): 1630368.

²¹Victor Imanuel W. Nalle, "Deciphering Developmentalism: A Legal-Economic Examination of Indonesia's Administration," *Law and Development Review* 19, no. 1 (2026): 181–218.

Based on this background, the central problem examined in this article is twofold: first, how central and local investment regulations in Indonesia currently interact, and where the principal sources of normative conflict lie; and second, what harmonization mechanisms are capable of aligning central and local rules in a manner that supports fair and equitable business facilitation without eroding either national economic coherence or legitimate regional autonomy.

2. Research Methods

This article employs a normative juridical (*yuridis normatif*) research method, in which law is examined as a coherent system of norms rather than as a social fact to be measured empirically. Three complementary approaches are applied. First, a statutory approach (statute approach) is used to examine the vertical relationship between primary legislation—principally Law Number 25 of 2007 on Investment, Law Number 23 of 2014 on Regional Government, and Law Number 11 of 2020 on Job Creation—and their implementing regulations, including Government Regulation Number 5 of 2021 and Government Regulation Number 28 of 2025 on Risk-Based Business Licensing, together with selected regional regulations identified in the reviewed case literature. Second, a conceptual approach (conceptual approach) is used to analyze the doctrinal concepts of legal certainty, regional autonomy, and substantive fairness as they inform the harmonization of central and local investment law. Third, a comparative approach (comparative approach) situates Indonesia's harmonization experience alongside selected foreign and international frameworks, including Malaysia's investment licensing regime and international instruments on investment facilitation, to identify transferable normative lessons.

The primary legal materials analyzed consist of national statutes, government regulations, and selected regional regulations referenced within the secondary literature. Secondary legal materials consist of twenty-five scholarly sources: twenty peer-reviewed journal articles and conference proceedings identified through the researcher's reference library, supplemented by five additional peer-reviewed sources published within the last five years and verified to carry an active, resolvable digital object identifier accessible through Google Scholar. Tertiary materials, including legal dictionaries and official government publications, are used where necessary to clarify technical terminology. Data collection was conducted through library-based documentary study, and the collected materials were analyzed qualitatively using legal interpretation techniques—grammatical, systematic, and teleological interpretation—to identify patterns of normative conflict between central and local investment regulation and to construct the integrated harmonization framework proposed in this article. Given the normative character of the method, no primary field data, interviews, or statistical sampling were employed; the analytical unit is the legal norm itself, examined in light of its systemic coherence and its practical implications as documented in the reviewed empirical and doctrinal literature.

3. Result and Discussion

The Legal Architecture of Central-Local Investment Authority

Indonesia's investment regulatory architecture is formally hierarchical but functionally polycentric. Article 33 of the 1945 Constitution and Law Number 25 of 2007 on Investment vest the central government with authority over national investment policy, while Law Number 23 of 2014 on Regional Government simultaneously grants provinces, regencies, and cities concurrent authority over licensing and local taxation within sectors devolved to them.²² This dual vestment of authority was not, in itself, defective; concurrent authority is common in decentralized states and can, in principle, allow regions to compete for investment through locally tailored incentives.²³ The difficulty arises because Indonesian law has never fully specified a binding hierarchy-of-norms mechanism capable of automatically invalidating a regional regulation that conflicts with national investment policy; instead, resolution typically depends on ex-post executive review or judicial review before the Supreme Court, both of which are reactive rather than preventive.²⁴ Noerdin's analysis of the relationship between the Job Creation Law and local rule-making confirms that the omnibus law reasserted central supremacy in specific licensing domains, but left the broader architecture of concurrent authority, and the absence of an ex-ante conflict-prevention mechanism, essentially unchanged.²⁵

Recurring Patterns of Central-Local Regulatory Conflict

Synthesizing the case-based literature reviewed in this study reveals that central-local investment regulatory conflict in Indonesia does not occur randomly but clusters into identifiable patterns, summarized in Table 1. The first pattern involves licensing-sequence conflicts, in which a regional regulation requires a local approval step prior to, or independent of, a business's OSS-based national license, as documented in Semarang.²⁶ The second pattern involves incentive-scope conflicts, in which local tax and retribution incentives designed to attract investment are not recognized or are inconsistently applied by national fiscal authorities,

²²Watoni Noerdin, "Relationship for The Establishment of Local Regulations in the Job Creation Law," *Administrative and Environmental Law Review* 3, no. 2 (2022).

²³María Jesús Fernández, A. Blanco, and Yago Aranda Larrey, "National-Subnational Coordination for Investment Attraction" (World Bank Group, 2021).

²⁴Herry Polontoh, "Omnibus Law Policy in Encouraging Investment: Between Deregulation and Potential Legal Loopholes," *Ipso Jure* (2025).

²⁵Watoni Noerdin, "Relationship for The Establishment of Local Regulations in the Job Creation Law," *Administrative and Environmental Law Review* 3, no. 2 (2022).

²⁶Agus Saiful Abib, Dhian Indah Astanti, and Wafda Vivid Izziyana, "Semarang City Development After Local Regulation No. 9 of 2014 on Investment," *AL-MANHAJ: Jurnal Hukum dan Pranata Sosial Islam* 7, no. 1 (2025).

as observed in Bandung.²⁷ The third pattern involves sectoral-overlap conflicts, particularly acute in extractive and spatially sensitive sectors such as mining, where risk-based national licensing intersects with regional spatial and environmental permitting regimes that were not designed with the OSS framework in mind.²⁸ The fourth pattern involves project-specific coordination gaps, illustrated by the Batang Integrated Industrial Area, where the absence of a standing harmonization mechanism required the central government to negotiate bespoke, project-level arrangements with local authorities rather than relying on a generalizable legal procedure.²⁹ The fifth pattern, environmental-licensing conflicts, arises where investment licenses are issued without adequate integration of environmental sustainability obligations reallocated between central and local environmental authorities under the Job Creation Law.³⁰

Table 1. Patterns of Central-Local Regulatory Conflict in Indonesian Investment Governance

No.	Type of Conflict	Illustrative Case	Governing Legal Basis	Proposed Harmonization Mechanism
1	Licensing-sequence conflict	Semarang (Local Regulation No. 9 of 2014 vs. OSS-RBA)	Law 11/2020; GR 5/2021; GR 28/2025	Mandatory licensing-pathway cross-check in OSS before any local permit is issued
2	Incentive-scope conflict	Bandung City Regional Regulation No. 4 of 2022	Law 23/2014; Law 11/2020	National registry of local fiscal incentives cross-verified against central fiscal rules
3	Sectoral-overlap conflict	Risk-based mining licensing	GR 28/2025; regional spatial and environmental permits	Integrated risk-based screening combining licensing with

²⁷Heigel Parodi Ritonga, Putra Dirgantara, and Rifaldo Aditya, "Strengthening the Regional Investment Climate Through Bandung City Regional Regulation Number 4 of 2022," *JIHAD: Jurnal Ilmu Hukum dan Administrasi* 8, no. 2 (2026).

²⁸Lalu Wira et al., "Risk-Based Mining Investment in the Framework of Fair Legal Certainty," *Volksgeist: Jurnal Ilmu Hukum dan Konstitusi* 8, no. 1 (2025).

²⁹Keisha Nadine Sastraatmaja et al., "Transformasi Tata Kelola Investasi Daerah: Studi Kasus Perizinan Berbasis Risiko dan Percepatan Kawasan Industri Terpadu Batang (KITB) di Jawa Tengah," *As-Syar'i: Jurnal Bimbingan & Konseling Keluarga* 8, no. 2 (2026).

³⁰Rahmat Saputra and Rama Dhianty, "Investment License and Environmental Sustainability In Perspective of Law Number 11 the Year 2020 Concerning Job Creation," *Administrative and Environmental Law Review* 3, no. 1 (2022).

No.	Type of Conflict	Illustrative Case	Governing Legal Basis	Proposed Harmonization Mechanism
				spatial/environmental review
4	Project-specific coordination gap	Batang Integrated Industrial Area (KITB)	Ad hoc presidential-level coordination instruments	Standing central-local coordination protocol for national strategic projects
5	Environmental-licensing conflict	Reallocation of environmental licensing authority under the Job Creation Law	Law 11/2020; regional environmental regulations	Ex-ante screening of environmental licensing capacity parity across regions

Source: compiled by the author from the reviewed case-based literature (2021–2026).

These five patterns share a common structural cause: each arises at a jurisdictional seam where national uniformity and regional discretion meet without a clearly codified rule for resolving disagreement in advance. This finding corroborates, but also extends, Permatasari's earlier diagnosis that contradictory regional regulations discourage investment; the present analysis shows that even after the omnibus reform substantially reduced the volume of contradictory regulations, the seams themselves—the specific jurisdictional junctures identified above—remain structurally unresolved.³¹

Digital Synchronization through OSS-RBA as a Harmonization Instrument

Government Regulation Number 28 of 2025 represents the most ambitious attempt yet to harmonize central and local licensing practice by mandating that all business and building licenses be processed exclusively through the OSS system, explicitly prohibiting ministries, agencies, and regional governments from issuing licenses outside this platform. This measure directly targets the licensing-sequence and sectoral-overlap patterns identified above by removing the possibility of a parallel, non-integrated regional licensing track. However, the reviewed literature suggests that digital consolidation alone, while necessary, is not sufficient. Suroso, Durahman, and Budi find that the simplification of licensing procedure under the Job Creation Law improved investor-perceived efficiency, but that the effectiveness of this simplification in actually attracting foreign investment depended heavily on the administrative

³¹Adinda Destaloka Putri Permatasari, "The Urgency of Harmonizing Contradictory Regional Regulations that Hinders the Investor Interest on Investment," UNTAG Law Review 5, no. 1 (2021): 65–73.

capacity of the implementing agency, capacity that varies considerably across Indonesia's regions.³² This finding implies that OSS integration functions best as a transparency and coordination instrument—making regulatory conflicts visible in near real time—rather than as a substitute for substantive harmonization of the underlying legal norms that generate those conflicts in the first place.

Comparative Lessons and the Proportional Fairness Principle

Comparative evidence reinforces the case for a calibrated, rather than maximalist, approach to centralization. Sudiyana and Zahir show that Malaysia's more centralized federal licensing structure achieves lower central-local conflict at the cost of local fiscal flexibility, a trade-off Indonesia's decentralized constitutional structure is unlikely to tolerate given the political salience of regional autonomy.³³ Hsieh's regional survey similarly cautions against assuming that domestic harmonization must mirror regional or international harmonization models, since Asian states, including Indonesia, have generally favored domestication of investment rules over externally imposed regional uniformity.³⁴ At the international level, Chaisse's theory of procedural treaty design suggests that modern investment facilitation instruments increasingly succeed not by eliminating regulatory diversity but by disciplining the procedure through which diverse rules are applied—transparency, predictable timelines, and accessible dispute resolution—a lesson directly transferable to Indonesia's central-local context.³⁵ The fairness stakes of this procedural framing are especially visible in Indonesia's underdeveloped, frontier, and outermost (3T) regions, where Sutrisno, Zulfah, and Njatrijani show that sustainable investment regulation must combine national licensing simplification with region-specific incentive design; a uniform national procedure applied without regard to these regions' distinct infrastructural and ecological constraints risks reproducing the very inequity the fairness principle is meant to prevent.³⁶ These comparative findings support this article's proportional fairness principle: harmonization should discipline the procedure and timing of regulatory interaction between central and local authorities, rather than eliminating the substantive policy space that regional autonomy is constitutionally intended to preserve.

This procedural framing also responds to the justice-oriented critique raised by Prasetyo, Irianto, and Mulyani, who caution that ease-of-investment reforms measured only by

³²J. Suroso, Dani Durahman, and I. Budi, "The Simplification of Licensing Procedure in Job Creation Law: The Effectiveness to Attract Foreign Investor," *Cogent Social Sciences* 10 (2024).

³³Sudiyana and Mohd Zamre Mohd Zahir, "Comparison of Indonesian and Malaysian Investment Laws Following Omnibus Legislation," *Yustisia Jurnal Hukum* 14, no. 1 (2025).

³⁴Pasha Hsieh, "New Investment Rulemaking in Asia: Between Regionalism and Domestication," *World Trade Review* 22 (2023): 173–192.

³⁵Julien Chaisse, "Investment Facilitation Agreements and Treaty Function Reordered: A Theory of Procedural Treaty Design," *International and Comparative Law Quarterly* 74 (2025): 841–874.

³⁶Putri Ayu Sutrisno, Shofiy Zulfah, and Rinitami Njatrijani, "Analysis of Sustainable Investment Regulation For Indonesia's 3T Regions," *IOP Conference Series: Earth and Environmental Science* 1537 (2025).

procedural speed may fail to expand substantive opportunity for smaller or regionally based investors.³⁷ A proportional fairness principle addresses this concern by requiring that any central rule overriding local discretion be justified by a demonstrable, documented conflict with national investment policy, rather than by a blanket presumption of central supremacy; conversely, any local rule diverging from national standards must be published and cross-checked against the OSS database before entering into force, operationalizing Aristeus's warning that legal transplantation without structural adaptation produces rules that are uniform on paper but unenforceable in practice.³⁸

Institutional and Fiscal Preconditions for Harmonization

A harmonization framework confined to licensing procedure risks addressing symptoms while leaving their institutional causes untouched. Lewis's assessment of Law Number 1 of 2022 on Financial Relations between the Central and Regional Governments shows that the central government has already begun using fiscal instruments—earmarked transfers and performance-linked incentives—to induce regional compliance with national policy priorities, including investment facilitation, but warns that such instruments cannot substitute for genuine local accountability reform and may, if poorly calibrated, entrench dependency rather than cooperation.³⁹ This finding is significant for the framework proposed here because it implies that the proportional fairness principle cannot rely on fiscal coercion alone; regional governments must also perceive a genuine institutional stake in harmonized outcomes, for example through revenue-sharing arrangements tied to investment realized under harmonized licensing pathways, rather than experiencing harmonization purely as a loss of regulatory discretion.

Empirical confirmation of the economic stakes involved comes from Yuwono, Wiryawan, and Yuzuru's difference-in-difference analysis of provincial data between 2005 and 2017, which finds that provinces with a higher incidence of legally problematic local regulations experienced significantly slower long-term foreign investment growth than provinces with cleaner regulatory records.⁴⁰ This result lends empirical weight to the ex-ante screening tier of the proposed framework: because poor local regulatory quality has measurable economic costs, screening mechanisms capable of preventing problematic regulations from taking effect in the first place are likely to generate returns that exceed their administrative cost. Nalle's broader critique of Indonesian developmentalism adds a cautionary note, however,

³⁷Riris Prasetyo, Sigit Irianto, and Sri Mulyani, "Changes in Ease of Investment in Indonesia Based on Amartya Sen's Theory of Justice," *Journal of Posthumanism* 5, no. 6 (2025).

³⁸Syprianus Aristeus, "Transplantation, Legal Adoption, Harmonization of Omnibus Law and Investment Law," *Jurnal Penelitian Hukum De Jure* 21, no. 4 (2021): 507–516.

³⁹Blane D. Lewis, "Indonesia's New Fiscal Decentralisation Law: A Critical Assessment," *Bulletin of Indonesian Economic Studies* 59, no. 1 (2023): 1–28.

⁴⁰Teguh Yuwono, Bangkit A. Wiryawan, and Shimada Yuzuru, "The Effect of Regulatory Governance System on Investment Growth in Decentralized Indonesia," *Frontiers in Political Science* 7 (2025): 1630368.

arguing that recentralizing authority in response to such findings, without parallel reform of the incentive structures that originally produced poor-quality local regulation, risks merely relocating the coordination failure to a different institutional level rather than resolving it.⁴¹

The institutional dimension of harmonization extends beyond licensing procedure to encompass the corporate-law and sustainability obligations layered onto the investment framework by the Job Creation Law. Hawin, Butt, and Setianingrum's evaluation of Indonesia's local incorporation requirement for foreign investors demonstrates that even a facially uniform, centrally imposed corporate-form requirement can generate inconsistent outcomes depending on how regional notarial and business-registration practice interprets ancillary documentation requirements, illustrating that harmonization gaps can persist even within domains nominally governed by central law alone.⁴² Hadi, Hamdani, and Roziqin's sustainability review of the Job Creation Law raises a parallel concern at the environmental interface, finding that the law's reallocation of environmental licensing authority between central and regional governments has produced uneven enforcement capacity, with better-resourced regions able to maintain higher environmental compliance standards than fiscally constrained regions facing pressure to compete for investment.⁴³ Both findings reinforce the case for treating harmonization as a multidimensional institutional task—spanning licensing, corporate formation, and environmental governance simultaneously—rather than a narrowly procedural licensing reform, and they justify this framework's inclusion of environmental-licensing conflict as a distinct pattern in Table 1 rather than treating it as a subset of ordinary sectoral overlap.

Toward an Integrated Harmonization Framework

Drawing together the doctrinal, empirical, and comparative findings above, this article proposes a three-tiered harmonization framework. The first tier is ex-ante regulatory screening, in which draft regional regulations affecting investment licensing are automatically cross-referenced against the national OSS risk-based licensing database before enactment, allowing conflicts identified in Table 1 to be flagged and resolved before they generate implementation disputes. The second tier is real-time digital synchronization, extending Government Regulation Number 28 of 2025's single-gateway principle into a continuously updated compliance registry accessible to both central and regional licensing officers, addressing the administrative-capacity gap identified by Suroso, Durahman, and Budi.⁴⁴ The third tier is the proportional fairness principle described above, which supplies the normative standard against

⁴¹Victor Imanuel W. Nalle, "Deciphering Developmentalism: A Legal-Economic Examination of Indonesia's Administration," *Law and Development Review* 19, no. 1 (2026): 181–218.

⁴²M. Hawin, S. Butt, and R. B. Setianingrum, "Evaluating Whether Indonesia Should Maintain or Revise Its Local Incorporation Requirement for Foreign Investors," *Jurnal Media Hukum* 31, no. 2 (2024): 280–299.

⁴³Sudharto P. Hadi, Rizkiana S. Hamdani, and Ali Roziqin, "A Sustainability Review on the Indonesian Job Creation Law," *Heliyon* 9, no. 2 (2023): e13431.

⁴⁴J. Suroso, Dani Durahman, and I. Budi, "The Simplification of Licensing Procedure in Job Creation Law: The Effectiveness to Attract Foreign Investor," *Cogent Social Sciences* 10 (2024).

which both central override and local divergence are evaluated, ensuring that harmonization protects investor certainty—consistent with the normative-implementation gap identified by Sukamto, Panjaitan, and Saragi—without collapsing legitimate regional developmental discretion into uniform central control.⁴⁵ Sastraatmaja and colleagues' account of ad hoc coordination in the Batang industrial area suggests that, absent such a standing framework, even nationally prioritized projects will continue to rely on informal, resource-intensive negotiation rather than a replicable legal procedure, a risk this integrated framework is specifically designed to reduce.⁴⁶

4. Conclusion

This article has shown that Indonesia's central-local investment regulatory relationship, notwithstanding successive waves of omnibus and risk-based licensing reform, remains structured around unresolved jurisdictional seams rather than a fully harmonized legal order. Five recurring patterns of conflict—licensing-sequence, incentive-scope, sectoral-overlap, project-specific coordination gaps, and environmental-licensing conflicts—demonstrate that regulatory friction persists at predictable points where national uniformity and regional discretion intersect, even after the enactment of Law Number 11 of 2020 and Government Regulation Number 28 of 2025. Digital consolidation through the Online Single Submission system has reduced, but not eliminated, these frictions, because administrative capacity, fiscal incentives, and institutional accountability at the regional level continue to shape how centrally designed rules are actually implemented.

The integrated harmonization framework proposed in this article—combining ex-ante regulatory screening, real-time digital synchronization, and a proportional fairness principle—offers a normative and practical alternative to the binary choice between further centralization and unmanaged regional discretion. By requiring that central override of local rules be justified against a documented, OSS-verifiable conflict, and that local divergence be transparently registered before taking effect, this framework seeks to protect investor certainty without collapsing the substantive autonomy that regional governments are constitutionally entitled to exercise. Fiscal instruments alone cannot deliver this outcome; as the reviewed literature demonstrates, durable harmonization additionally requires genuine institutional stake-sharing between central and regional authorities, particularly in fiscally constrained and geographically peripheral regions.

Future research should empirically test the proposed framework's three tiers against post-2025 licensing data, and should examine whether region-specific harmonization instruments—rather than uniform national procedures—offer a more equitable path toward the

⁴⁵Hasim Sukamto, Hulman Panjaitan, and Paltiada Saragi, "Legal Protection for Foreign Investors at Normative and Implementation Levels in Indonesia," *International Journal of Law, Crime and Justice* 2, no. 2 (2025).

⁴⁶Keisha Nadine Sastraatmaja et al., "Transformasi Tata Kelola Investasi Daerah: Studi Kasus Perizinan Berbasis Risiko dan Percepatan Kawasan Industri Terpadu Batang (KITB) di Jawa Tengah," *As-Syar'i: Jurnal Bimbingan & Konseling Keluarga* 8, no. 2 (2026).

fair and equitable business facilitation this article has argued Indonesian investment law has not yet fully achieved

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