



Why Law Enforcement Matters for Indonesia's Economic Stability

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By Ahmad Syaifullah

SYNOPSIS

Legal uncertainty, structural corruption, illegal economic activities, and weak institutional oversight have become serious threats to Indonesia's economic stability. Fiscal and monetary instruments alone are insufficient to safeguard national economic resilience when law enforcement remains weak and inconsistent. The state must position the rule of law as the primary foundation for maintaining market stability, investor confidence, and sustainable economic development.

COMMENTARY

Amid global economic slowdown, geopolitical fragmentation, and increasing pressure on international trade and investment, economic stability has become a strategic issue for developing countries, including Indonesia. Discussions regarding economic stability have largely focused on inflation control, investment growth, exchange rate stabilisation, and the expansion of domestic consumption. However, one structural factor frequently overlooked in national economic discourse is law enforcement.

Economic stability and growth are closely associated with the state's capacity to establish legal certainty, supervise the distribution of resources, and curb illegal economic practices that distort market mechanisms. Law functions as an institutional instrument that determines public trust, governmental credibility, and business certainty. Countries with weak legal institutions tend to experience high transaction costs, low investment productivity, and the expansion of rent-seeking practices.

Indonesia is currently facing increasingly complex challenges. Bureaucratic corruption, commodity smuggling, illegal mining, money laundering, trade

manipulation, and import mafia practices demonstrate that the country's economic problems are strongly connected to weak law enforcement.

According to [Transparency International](#), Indonesia's Corruption Perceptions Index (CPI) score in 2025 stood at 34 out of 100, placing it 109th globally. This figure reflects a decline from previous years, indicating that perceptions of public sector corruption in Indonesia continue to worsen.

This decline has been attributed to [weakened institutional oversight](#) and growing concerns about policy transparency, both of which have increased uncertainty for investors and businesses. This condition indicates that the weakening of oversight institutions can increase business uncertainty and reduce the country's economic credibility in the eyes of global investors.

In addition to corruption, various forms of illegal economic activities have generated substantial state losses. The [tin commodity corruption](#) case, uncovered in 2025, was estimated to have caused state losses of approximately IDR 300 trillion (USD 18.09 billion) and environmental damage. As part of a nationwide enforcement operation, the Indonesian government shut down approximately 1,000 illegal tin mines.

This phenomenon demonstrates that weak supervision and ineffective law enforcement have created significant opportunities for illegal economic activities to expand. In the long run, such conditions reduce market efficiency, undermine the competitiveness of legitimate businesses, and increase investment uncertainty.

Law Enforcement and Economic Certainty

Government economic policies, such as industrial down streaming, tax reforms, strengthening strategic investment, and digital economic transformation, have been designed to bolster national growth and stability. These require a consistent legal system to ensure effective policy implementation.

Indonesia's primary challenge does not lie in a lack of regulations, but in weak law enforcement. In many cases, legal processes tend to be selective and susceptible to capture by particular groups to further their political and economic interests. This situation creates a fragile business environment and increases the overall economic costs at the national level.

Global investors regard legal certainty as a crucial indicator in [investment decision-making](#). They consider bureaucratic effectiveness, judicial independence, protection of property rights, and the state's ability to control corruption before committing long-term investments.

At present, sectors such as [mining](#), digital trade, natural resource governance, and infrastructure investment are experiencing uncertainty. Regulatory conflicts and weak oversight do more than create administrative friction: they signal to investors that the state cannot be relied upon to enforce its own rules.

When laws are not enforced consistently, markets lose certainty. Conversely, when the state can enforce laws fairly and transparently, public and investor confidence tends to improve.

Future Challenges and Possible Policy Responses

Economic stability in Indonesia can no longer be assessed solely through conventional macroeconomic indicators such as Gross Domestic Product (GDP) growth, inflation control, or trade performance. Contemporary economic resilience is increasingly associated with the quality of governance, institutional credibility, and the state's capacity to enforce regulations consistently across strategic sectors. As economic activities become more integrated into global financial systems and digital platforms, legal and institutional effectiveness has emerged as a critical determinant of long-term economic sustainability.

Looking ahead, [Indonesia faces several emerging challenges](#) that may further complicate the relationship between law enforcement and economic stability. The rapid expansion of the digital economy has created new forms of financial crime, including cyber fraud, digital money laundering, cryptocurrency-related offences, and cross-border illicit financial flows that are often difficult to detect through conventional regulatory mechanisms.

In addition, increasing geopolitical uncertainty, global supply chain disruptions, and the growing sophistication of transnational criminal networks require stronger institutional adaptability and more integrated regulatory responses. Without adequate legal and technological preparedness, these developments may undermine market confidence, reduce fiscal effectiveness, and increase systemic economic risks.

From a political-economic perspective, weak law enforcement creates structural vulnerabilities that directly affect market confidence, investment certainty, and fiscal sustainability. Inconsistent regulatory enforcement can generate unequal business competition, encourage rent-seeking behaviour, facilitate regulatory capture, and weaken public trust in state institutions. Such conditions may discourage productive investment while creating opportunities for corruption and economic inefficiencies.

Strengthening institutional capacity therefore needs to become a central priority within Indonesia's economic governance framework to ensure that legal certainty and accountability support sustainable economic development.

To address these challenges, Indonesia requires stronger coordination among key institutions, including Bank Indonesia (BI), the Financial Services Authority (Otoritas Jasa Keuangan/OJK), the Indonesian Financial Transaction Reports and Analysis Center (PPATK), the Corruption Eradication Commission (KPK), the National Police (POLRI), the Attorney General's Office, and digital regulatory authorities such as the Ministry of Communication and Digital Affairs (Komdigi). Effective collaboration among these agencies is necessary to strengthen financial supervision, detect illicit financial activities, combat cyber-enabled economic crimes, and ensure regulatory consistency.

In the long term, strengthening digital monitoring systems, integrating financial intelligence platforms, and expanding inter-agency data-sharing mechanisms are critical steps to restore national economic credibility. Institutional reform should also prioritise transparency, bureaucratic accountability, and regulatory simplification to reduce transaction costs and gradually improve investor confidence.

The experiences of several countries demonstrate that strong economic stability is closely linked to the effectiveness of legal institutions. Singapore, for instance, has consistently maintained [low levels of corruption](#) due to rigorous law enforcement, an efficient bureaucracy, and strict institutional oversight. Similarly, New Zealand and Denmark have achieved high levels of [public trust and economic competitiveness](#) through transparent governance systems and strong accountability mechanisms. In East Asia, [South Korea's institutional reforms](#) following the 1997 Asian Financial Crisis significantly improved corporate governance and regulatory supervision, contributing to greater economic resilience and investor confidence.

Going forward, the Indonesian government should prioritise developing an integrated economic law-enforcement framework that combines real-time financial surveillance, digital forensic capabilities, and coordinated institutional action. Specific measures may include expanding the use of artificial intelligence for transaction monitoring, strengthening beneficial ownership transparency to prevent illicit financial flows, establishing a unified economic crime database accessible to relevant agencies, and enhancing specialised training for investigators and prosecutors in cyber-financial crimes. Furthermore, periodic evaluation of regulatory enforcement performance should be institutionalised to ensure consistency, improve public accountability, and strengthen the credibility of Indonesia's economic governance system in an increasingly complex global environment.

Conclusion

Indonesia's economic stability requires a strong institutional foundation built upon consistent, transparent, and independent law enforcement. Fiscal and monetary policies cannot operate optimally if corruption, illicit economic activities, regulatory inconsistencies, and legal uncertainty continue to undermine the effectiveness of governance. Therefore, law enforcement must be positioned as a central instrument in maintaining national economic stability. Effective law enforcement is closely associated with public trust, market efficiency, investment competitiveness, and the sustainability of economic development.

Looking ahead, the increasing complexity of the digital economy, cross-border financial transactions, cyber-enabled economic crimes, and global economic uncertainties will place greater demands on the capacity of legal and regulatory institutions. Therefore, strengthening oversight mechanisms to improve the integrity of law enforcement institutions, enhancing inter-institutional coordination, and integrating technology into law enforcement systems are critical prerequisites for reinforcing national economic resilience. Indonesia's capacity to develop a credible legal framework and an effective economic governance system will be a fundamental

indicator of the sustainability of economic growth, national competitiveness, and the achievement of inclusive and sustainable development.

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