

Implications of the Omnibus Law on Employment and Socio-Economic Structures

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Abstract

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Regulatory reform through Law No. 6 of 2023 on Job Creation introduces substantial changes to Indonesia's business environment and labor governance. This study employs a normative juridical approach to examine the effectiveness of key provisions within the omnibus law and the main challenges that arise in its implementation, particularly regarding socio-economic structures. The findings indicate that although the law enhances licensing efficiency and labor-market flexibility, its effectiveness is constrained by uneven institutional capacity and inconsistent implementation across regions. Two major challenges identified over the last five years are the growing uncertainty in employment relations and the weak enforcement of labor regulations. While flexibility is intended to strengthen competitiveness, it simultaneously increases worker vulnerability, especially in labor-intensive industries. Furthermore, limited supervisory capacity and misalignment between national and local policies produce inconsistent protection standards. This study concludes that achieving a balance between economic flexibility and worker protection is essential for ensuring that the omnibus law contributes to inclusive and sustainable development.

1. Introduction

The Omnibus Law, which was embodied in Law Number 6 of 2023 concerning the Stipulation of Perppu No. 2/2022 (hereinafter referred to as the Job Creation Law), became a turning point for regulatory policies in Indonesia that aimed to simplify regulations and accelerate investment through normative harmonization in many economic sectors.¹ In academic and public discourse, the Act has been praised for offering ease of doing business through a risk-based licensing mechanism and the OSS-RBA system, which is designed to cut administrative barriers and improve national competitiveness.² However, the wide-ranging reforms also raise serious concerns about its implications for labor protection and the balance of socio-economic structures, especially since a number of old labor provisions, including the norms regulated in Law No. 13 of 2003, have undergone substantive changes.³

The dynamics of these regulatory changes need to be analyzed not only from the perspective of economic efficiency, but also from the perspective of the effectiveness of implementation and the medium- to long-term socio-economic impact. Several preliminary empirical studies show that the adoption of OSS-RBA does accelerate the licensing process at the central level, but the implementation capacity at the regional level and the daily access of micro, small, and medium

¹ Saru Arifin. "Illiberal tendencies in Indonesian legislation: the case of the omnibus law on job creation." *The Theory and Practice of Legislation* 9, no. 3 (2021): 388

² Hillary Abigail Praise, Adrian E. Rompis, and R. Adi Nurzaman. "Risk-based licensing as licensing reform in indonesia based on government regulation number 5 the year 2021." *Jurnal Poros Hukum Padjadjaran* 3, no. 2 (2022): 219

³ M. Bagus Basofi, and Irma Fatmawati. "Perlindungan Hukum Terhadap Pekerja Di Indonesia Berdasarkan Undang-Undang Cipta Kerja." *Profesional: Jurnal Komunikasi dan Administrasi Publik* 10, no. 1 (2023): 79

enterprises (MSMEs) still face significant technical and bureaucratic obstacles.⁴ This indicates that the success of central government policy reform is highly dependent on the readiness of regional apparatus and the quality of administrative governance in the field.⁵

On the employment side, changes to provisions on Fixed-Time Work Agreements (PKWT), outsourcing, and wage mechanisms have raised debates about the balance between labor market flexibility and worker protection. Some consider that greater flexibility can encourage job creation and investment; however, observations and case studies in labor-intensive sectors such as garments show an increase in the practice of repetitive short-term contracts and a potential decrease in job certainty for workers.⁶ This condition has implications for the stability of household income and domestic consumption capacity, which in turn affects aggregate demand as well as socio-economic balance.

Furthermore, the urgency of monitoring the implementation of the Job Creation Law is also strengthened by the legal dimension and public legitimacy. During the 2021–2023 period, a number of judicial reviews and public protests highlighted the issue of transparency in policymaking as well as the need for strong oversight mechanisms to ensure compliance on the ground.⁷ Legal uncertainty and

⁴ Paramita Prananingtyas. "Analysis Of Business Legal Aspects In The Risk-Based Business Licensing Process." *Russian Law Journal* 11, no. 3 (2023): 1988

⁵ Maria M Lino, and Jeni J. Therik. "Desentralisasi dan Pelayanan Publik di Indonesia." *Jurnal Administrasi Publik* 16, no. 1 (2019): 62

⁶ Muhammad Rizky Ramadhan, Muhammad Kamal, and Mochammad Andry Wardhana Wikra Mamonto. "Omnibus Law in Indonesia: Legal Protection of Workers in Employment Contracts." *Golden Ratio of Law and Social Policy Review* 1, no. 1 (2021): 14

⁷ Saru Arifin. "Illiberal tendencies in Indonesian legislation: the case of the omnibus law on job creation." *The Theory and Practice of Legislation* 9, no. 3 (2021): 389

the perception of interpretive inconsistency in employment articles can reduce the predictability of the business climate and weaken the confidence of economic actors, both investors and workers, which is an important prerequisite for inclusive economic development.⁸

Based on the combination of empirical findings and juridical studies, this study focuses on two main analytical dimensions: the effectiveness of the implementation of the Job Creation Law in the context of ease of doing business and labor flexibility; as well as the most urgent and specific challenges in implementing employment provisions in the last five years. This approach is needed to capture the dynamics of multi-sectoral policies while assessing the consequences at the micro scale (on workers and MSMEs) and macro (on socio-economic structures).

Thus, this study is directed to answer the following two research questions: (1) How effective is the implementation of Law No. 6 of 2023 concerning Job Creation in increasing the ease of doing business and flexibility of employment compared to the basic framework regulated in Law No. 13 of 2003 concerning Manpower?; and (2) What are the main challenges that arise in the implementation of labor provisions in Law No. 6 of 2023, and why are these challenges the most urgent issue for the sustainability of socio-economic structure and labor protection?

⁸ Luthvi Febryka Nola. "Penerapan Omnibus Law Dalam Hukum Ketenagakerjaan Di Indonesia." *Kajian* 25, no. 3 (2020): 220

2. Methods

The research method used in this study is the normative juridical method, which is a legal research approach that relies on the search, study, and analysis of applicable written legal norms and doctrines that develop in legal science. Normative juridical research focuses on secondary data processing, so the analysis process is carried out through the identification of laws and regulations, scientific literature, and relevant court decisions. In the context of this study, the method is used to examine the consistency, effectiveness, and normative implications of the provisions in Law No. 6 of 2023 concerning Job Creation and Law No. 13 of 2003 concerning Manpower and its implementing regulations. This approach allows researchers to systematically examine the regulatory structure while understanding the hierarchical relationship between parent norms and derivative norms, so that it can be determined to what extent legal harmonization is achieved, whether there is overlapping norms, and how legal changes have consequences for labor protection and business practices.

The analysis process in the normative juridical method is carried out through several stages. First, an inventory of primary legal materials, namely laws and implementing regulations related to employment, business licensing, and investment policies. Second, the collection of secondary legal materials, in the form of books, journal articles, research results, and the opinions of legal experts that provide theoretical and interpretive context to normative provisions. Third, the classification of legal materials to ensure the regularity of the analysis flow, especially in distinguishing norms that regulate, rule, and provide exceptions. Fourth, legal

interpretation to understand the meaning of articles and the intention of lawmakers, using grammatical, systematic, historical, and teleological interpretation techniques. Fifth, legal arguments to draw conclusions about the effectiveness, challenges, and relevance of norms in answering the issue of ease of doing business and employment protection.

The normative juridical method provides a strong analytical basis for assessing the quality of regulations and their consistency with the principles of legal certainty, usefulness, and justice. Through this approach, research can reveal the extent to which the applicable norms have been able to answer the needs of the business world while providing adequate protection for workers in the context of Indonesia's ever-evolving socio-economic structure.

3. Results and Discussion

3.1. The Effectiveness of the Implementation of the Job Creation Law on the Business and Employment World

An analysis of the effectiveness of the implementation of Law No. 6 of 2023 concerning Job Creation shows that this legal reform has brought a number of advances in the aspect of ease of doing business, but the results are not uniform in all regions and have not fully met the purpose of its formation. The risk-based licensing system is considered to be able to simplify administrative procedures and speed up the licensing process at the central level, in line with the direction of

government policies to create business certainty and attract new investment.⁹ However, findings on the ground show that the implementation of the OSS-RBA system still faces technical obstacles, especially in areas with limited technological capacity and human resources. This condition indicates that the effectiveness of regulations is not only determined by the quality of norms, but also by the readiness of the administrative infrastructure that supports them.¹⁰

From the perspective of the business world, most business actors consider that the policy of simplifying licensing has made it easier to start a business and reduce bureaucratic burdens that have been considered to hamper economic dynamics.¹¹ However, this success is partial because the implementation at the regional level has not been able to keep up with rapid and intensive regulatory changes. This inconsistency causes the business world, especially MSMEs, to still experience service inconsistencies and dependence on different local interpretations. In the context of policy implementation theory, this condition reflects the gap between policies formulated at the central level and implementable capacity at the local bureaucratic level.¹²

⁹ Hillary Abigail Praise, Adrian E. Rompis, and R. Adi Nurzaman. "Risk-based licensing as licensing reform in indonesia based on government regulation number 5 the year 2021." *Jurnal Poros Hukum Padjadjaran* 3, no. 2 (2022): 217

¹⁰ Paramita Prananingtyas. "Analysis Of Business Legal Aspects In The Risk-Based Business Licensing Process." *Russian Law Journal* 11, no. 3 (2023): 1989

¹¹ Hillary Abigail Praise, Adrian E. Rompis, and R. Adi Nurzaman. "Risk-based licensing as licensing reform in indonesia based on government regulation number 5 the year 2021." *Jurnal Poros Hukum Padjadjaran* 3, no. 2 (2022): 218

¹² Maria M Lino, and Jeni J. Therik. "Desentralisasi dan Pelayanan Publik di Indonesia." *Jurnal Administrasi Publik* 16, no. 1 (2019): 67

In the employment aspect, the effectiveness of the Job Creation Law seems more complex. Compared to Law No. 13 of 2003, the labor reform in the Job Creation Law seeks to create labor market flexibility by expanding the provisions of PKWT, outsourcing, and adjusting wage formulas to national productivity indicators.¹³ Normatively, these changes are intended to increase the adaptability of the business world and create an employment system that is more responsive to industrial dynamics. However, a number of studies show that this flexibility has not been fully followed by workers as a real benefit in creating quality jobs and increasing their welfare guarantees.¹⁴

These findings are also strengthened by reports in labor-intensive sectors that show an increase in the use of recurring short-term contracts, the use of outsourcing on production lines that were previously not allowed, and the unclear position of workers in long-term employment relationships. This situation indicates that the effectiveness of regulations in providing legal certainty for workers has not been optimally achieved. On the other hand, some companies consider that more flexible provisions help them adapt to market fluctuations and global competition pressures, thus providing greater room for maneuver in workforce management.¹⁵

A comparison between the two labor laws reveals that the Job Creation Law is indeed more effective in creating operational efficiency for business actors, but it

¹³ Saru Arifin. "Illiberal tendencies in Indonesian legislation: the case of the omnibus law on job creation." *The Theory and Practice of Legislation* 9, no. 3 (2021): 389

¹⁴ M. Bagus Basofi, and Irma Fatmawati. "Perlindungan Hukum Terhadap Pekerja Di Indonesia Berdasarkan Undang-Undang Cipta Kerja." *Professional: Jurnal Komunikasi dan Administrasi Publik* 10, no. 1 (2023): 78

¹⁵ Muhammad Rizky Ramadhan, Muhammad Kamal, and Mochammad Andry Wardhana Wikra Mamonto. "Omnibus Law in Indonesia: Legal Protection of Workers in Employment Contracts." *Golden Ratio of Law and Social Policy Review* 1, no. 1 (2021): 13

is not entirely effective in ensuring labor protection. This can be seen from the ambiguity of the interpretation of several norms, such as the limitation of contract extensions, the use of outsourcing on certain functions, or the determination of severance formulas. This inconsistency can lead to legal uncertainty that impacts both parties: companies face the risk of industrial disputes, while workers face the uncertainty of employment status.¹⁶ On a broader scale, these dynamics have the potential to disrupt the stability of industrial relations and reduce the predictability of the business environment.

In addition, the effectiveness of the implementation of the Job Creation Law is also closely related to the quality of labor supervision. A literature review shows that the number and capacity of labor supervisors in Indonesia is still insufficient to handle the complexity of the new norms that emerge in the Job Creation Law.¹⁷ These limitations weaken the process of monitoring company compliance, so that a number of work flexibility policies run without adequate control mechanisms. This condition is one of the reasons why the effectiveness of the Job Creation Law is not achieved evenly.

From the overall analysis, it can be concluded that the effectiveness of the implementation of the Job Creation Law is asymmetrical: effective in the aspects of procedural simplification and bureaucratic efficiency, but less effective in the aspects of labor protection and consistency of implementation. This partial effectiveness

¹⁶ Petra Mahy. "Indonesia's Omnibus Law on job creation: legal hierarchy and responses to judicial review in the labour cluster of amendments." *Asian Journal of Comparative Law* 17, no. 1 (2022): 56

¹⁷ Luthvi Febryka Nola. "Penerapan Omnibus Law Dalam Hukum Ketenagakerjaan Di Indonesia." *Kajian* 25, no. 3 (2020): 221

suggests that the renewal of norms without strengthening institutional capacity only results in administrative change, not substantive transformation. Thus, the results of this study provide an empirical basis to formulate an evaluation of the harmonization of norms, institutional design, and implementation mechanisms through two main research questions that have been formulated in this study.

3.2. Challenges in the Implementation of the Job Creation Law in the Employment Sector and Its Urgency

The findings of the study show that the implementation of Law No. 6 of 2023 on Job Creation has faced the two most significant main challenges over the past five years, namely increasing uncertainty in employment relations and weak consistency and capacity for employment supervision. These two challenges not only arise as a direct impact of the normative changes brought by the omnibus law, but are also influenced by the structural conditions of the Indonesian labor market which have long been characterized by segmentation, high informality, and inequality of bargaining power between workers and business actors.¹⁸ Reforms that are expected to be able to increase competitiveness actually produce new complexities, especially at the level of technical implementation and work protection structures.

The first challenge relates to the increasing uncertainty in employment relations, particularly due to the expansion of short-term contract schemes and new flexibilities in the mechanisms of recruitment, outsourcing, and termination of employment relationships. The regulation on Fixed-Time Work Agreements

¹⁸ Alvin Arifin, and Nadiyah Masithah Sani. "Analisis data jumlah pasar tenaga kerja di indonesia tahun 2015-2018." *Kinerja: Jurnal Ekonomi dan Manajemen* 16, no. 2 (2019): 110

(PKWT) that has become looser has led to a fundamental change in the traditional pattern of employment relations that previously prioritized job certainty and sustainability as designed in Law No. 13 of 2003.¹⁹ The flexibility introduced by the omnibus law is indeed designed to respond to global economic dynamics, but in practice it raises concerns about increasing workers' vulnerability to covert informal work practices, endless contract extensions, and potential exploitation in labor-intensive sectors.²⁰

The case that emerged in 2021–2023 in the textile and garment industry shows that the number of workers who experience sudden termination of employment after repeated contract periods is considered sufficient for seasonal production needs. Several media reports and policy research show that labor-intensive companies are taking advantage of the new provisions in the Job Creation Law to make adjustments to the workforce faster without having to bear high severance costs as the previous rules.²¹ Although these practices do not always contradict formal norms, their impact is strongly felt on the socio-economic stability of workers' households, especially in large industrial areas. These dynamics show that the increase in labor market flexibility has not been fully offset by adequate adaptive protection to maintain the sustainability of workers' income.²²

¹⁹ Adnan Hamid. "The application of the rights and obligations of workers during the Covid-19 outbreak in Indonesia: Labor Law Perspective." *International Journal of Business Ecosystem & Strategy* (2687-2293) 3, no. 3 (2021): 31

²⁰ M. Bagus Basofi, and Irma Fatmawati. "Perlindungan Hukum Terhadap Pekerja Di Indonesia Berdasarkan Undang-Undang Cipta Kerja." *Professional: Jurnal Komunikasi dan Administrasi Publik* 10, no. 1 (2023): 79

²¹ Titik Anas, Hal Hill, Dionisius Narjoko, and Chandra Tri Putra. "The Indonesian economy in turbulent times." *Bulletin of Indonesian Economic Studies* 58, no. 3 (2022): 244

²² Adnan Hamid. "The application of the rights and obligations of workers during the Covid-19 outbreak in Indonesia: Labor Law Perspective." *International Journal of Business Ecosystem & Strategy* (2687-2293) 3, no. 3 (2021): 29

The second challenge is related to the weak consistency of implementation and the limited capacity of labor supervision. Normative reforms in the Job Creation Law do not automatically improve the government's institutional ability to enforce the law in the employment sector.²³ Labor supervision in Indonesia still faces various obstacles, ranging from the number of supervisors that are not proportional to the number of companies, the configuration of central-regional authority that has changed after the omnibus law, to limited budgets and technological support.²⁴ The large burden on this supervisory structure causes the implementation of legal provisions to be often fragmentary and non-uniform in different regions.

In addition, there is a normative tension between the labor flexibility promised by the omnibus law and the socio-economic protection, which has historically been the focus of Indonesia's labor regulations.²⁵ This tension causes ambiguity for business actors in interpreting the limitations of the use of flexible contracts and for workers in assessing the legality of company practices. This regulatory uncertainty is further exacerbated by administrative changes that must be carried out by local governments, which based on several studies actually extend the implementation transition period.²⁶

The urgency of handling these two challenges is increasing when viewed from Indonesia's socio-economic trends over the past five years. Growth in the informal

²³ Rahmatsyah. *Hukum Ketenagakerjaan*. PT. Sonpedia Publishing Indonesia, 2023

²⁴ Rahmatsyah, *Hukum Ketenagakerjaan*. PT. Sonpedia Publishing Indonesia, 2023

²⁵ Wasseem Mina. "Do Labor Market Flexibility and Efficiency Increase Government Social Protection Expenditures?." *Applied Economics* 53, no. 33 (2021): 3879

²⁶ Alvin Arifin, and Nadiyah Masithah Sani. "Analisis data jumlah pasar tenaga kerja di indonesia tahun 2015-2018." *Kinerja: Jurnal Ekonomi dan Manajemen* 16, no. 2 (2019): 114

sector remains high, while the capacity of working households to survive income shocks is still low.²⁷ If the uncertainty of employment relations continues to be left without a strong protective apparatus, then the risk of new poverty and social instability may increase, especially in the poorly educated working group and female workers. At the same time, if the government does not strengthen the supervisory structure and clarify implementation standards, then the disparity in protection between regions will widen and reduce the legitimacy of national labor laws in the eyes of the public and business actors.

Thus, the results of the study show that the omnibus law does bring opportunities for efficiency and flexibility needed by the business world, but its effectiveness is highly dependent on the state's ability to overcome these two main challenges. Uncertainty in employment relations and weak supervision systems are not only technical issues, but are structural issues directly related to social justice, worker welfare, and the sustainability of Indonesia's economic growth. Without stronger regulatory and institutional interventions, the reform goals promoted by the Job Creation Law have the potential to not be achieved optimally, and can even increase inequality in the national socio-economic structure.

4. Conclusion

This research shows that reforms through Law No. 6 of 2023 concerning Job Creation have brought major changes to the configuration of Indonesia's business

²⁷ Titik Anas, Hal Hill, Dionisius Narjoko, and Chandra Tri Putra. "The Indonesian economy in turbulent times." *Bulletin of Indonesian Economic Studies* 58, no. 3 (2022): 245

world, employment, and socio-economic structure. Key findings show that the effectiveness of this law in improving ease of doing business, regulatory efficiency, and job market flexibility is greatly influenced by the quality of implementation in the field. Although the normative framework offers simplification of licensing and increased economic competitiveness, the results show that these benefits are not fully evenly distributed due to institutional capacity inequities and variations in understanding at the implementation level.

On the other hand, the two most significant challenges of the last five years are the increasing uncertainty of employment relations and the weak consistency of labor supervision. The flexibility of the labor market introduced by the omnibus law presents adaptation opportunities for the business world, but at the same time it also increases vulnerability for workers, especially those in labor-intensive and vulnerable sectors. Meanwhile, inadequate supervision capacity causes labor protection standards to run not uniformly between regions. Overall, the success of the omnibus law in achieving its reform goals is highly dependent on institutional strengthening, clarity of implementation standards, and integration between economic flexibility policies and social protection. Without consistent efforts to balance these two aspects, the implementation of the Job Creation Law risks producing limited benefits and widening socio-economic inequality.

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