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The Rule of Law as the Foundation for Economic, Social, and Sustainable Development in Indonesia

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Abstract

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The rule of law is the fundamental foundation for fair, transparent, and sustainable national development. In the context of the rule of law, every policy and action, whether by the government or the citizen, must be subject to applicable law. This article examines the strategic role of law in economic, social, and environmental development in Indonesia, using a normative-empirical legal approach. This method combines normative studies of laws and regulations with empirical analysis of the implementation of laws in the field. The results of the study show that the law plays a role in creating business certainty, protecting property rights, regulating competition, and encouraging investment. In the social field, law is an instrument for equitable distribution of development results, protection of human rights, and environmental conservation. However, the challenges faced include weak law enforcement, overlapping regulations, and socio-economic disparities. This article emphasizes the urgency of regulatory reform, strengthening supervision, and increasing public legal awareness to realize stability and sustainable growth.

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1. Introduction

The rule of law, with the principle of the rule of law as its foundation, is a fundamental pillar in Indonesia's development process. The rule of law affirms that all actions and policies, whether by governments and citizens, must be subject to the law, without exception. No party, including the rulers, is above the law. In this framework, the law functions as a director, guide, as well as a controller of the direction of development, ensuring that every policy runs in accordance with the principles of justice, order, and legal certainty.

In economic development, the law plays a role in creating a framework that provides business certainty, protects property rights, regulates healthy business competition, and encourages investment. This role is vital, especially in developing countries such as Indonesia, which still face various structural challenges. Legal stability is the main capital in attracting long-term investment, avoiding unhealthy business practices, and strengthening national competitiveness.

However, the reality of development shows that there are a number of major challenges that hinder the realization of these goals. Economic inequality, social inequality, monopoly practices, and human rights violations are often interconnected and worsen the socio-economic conditions of society. Income and wealth gaps, for example, can fuel social tensions, limit people's access to resources and opportunities, and open up space for monopolistic practices that harm the public. Furthermore, this inequality is often an entry point for human rights violations, including discrimination, exploitation, and violence.

In this context, the existence of effective regulation and strict supervision becomes very urgent. Regulation is needed to create economic and social stability, while ensuring that the public interest remains protected from practices that undermine the market order and social life. Consistent supervision is able to close loopholes in violations of the law and encourage the creation of a healthy, transparent, and accountable business climate.

Roscoe Pound's thinking about law as a tool of social engineering is relevant to answer this challenge. Pound views law not just as a set of rules that govern behavior, but as an instrument that can be used to direct social change in a planned manner.[1] Through law, the government can design policies that balance various interests, direct people's behavior, and create social harmony.[2] Thus, the law must be adaptive to the development of society and function as a motor of change towards better conditions.

In addition to economic development, law also plays a central role in social development. The law guarantees protection of basic rights of the community, including the right to education, health, a decent environment, and social security. Good development not only pursues economic growth, but also ensures equitable distribution of development results so that all citizens feel the benefits. In this case, the law is a mechanism to ensure that economic growth does not sacrifice social justice or environmental sustainability. The rule of law is also an important foundation for sustainable development. The law provides a framework to ensure

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1 Roscoe Pound and Marshall L. DeRosa. "*An introduction to the philosophy of law*." Routledge, (2017): 15-100.

2 Steven Vago and Steven E. Barkan. "*Law and society*." Routledge, (2021): 3-29.

development runs fairly, transparently, and responsibly for the environment and future generations.[3] Sustainability-oriented regulations can regulate the wise management of natural resources, protect ecosystems, and encourage public awareness of the importance of preserving the environment.

However, there are several main challenges in the implementation of the law to support sustainable development. First, there are still monopolistic practices and regulatory uncertainty that hinder the creation of a competitive business climate. Second, the gap between economic growth and social equality that triggers instability. Third, obstacles in the protection of basic rights of the community, including access to education, health, and a decent environment. Therefore, the discussion in this article will analyze in depth the role of law in economic and social development in Indonesia, identify challenges in its implementation, and formulate strategies that can strengthen the rule of law as a driving force for inclusive and sustainable development.

2. Literature Review

The concept of the state of law in development in Indonesia is rooted in the principle of the rule of law, which emphasizes that law is the highest foundation in regulating all aspects of the life of the nation and state. The rule of law ensures that no party is above the law, including the government, thereby creating a fair, orderly, and certain framework for the implementation of development. Theoretically, the

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3 Yann Zhang. "Measuring progress toward sustainable development goals through legal integration and policy guidance." *Journal of Energy and Environmental Policy Options* 4, no. 1 (2021): 1-8.

role of law in development has been widely discussed in the legal and development literature. Roscoe Pound's thinking about law as a tool of social engineering places law as an active instrument in directing social change. Pound states that "law is a tool of social engineering, used to balance competing interests and promote societal harmony".[4] According to him, the law not only strengthens existing patterns of habits, but also designs and directs people's behavior towards the desired goals in a planned manner.

This theory is relevant in the context of economic and social development in Indonesia, where law is expected to be a driver of change towards justice, equity, and sustainability. Mochtar Kusumaatmadja reinforces this view by stating that "law is essentially conservative, preserving and maintaining what has been achieved, but can also serve as a means of renewal".[5] In economic development, the law is tasked with creating business certainty, protecting property rights, regulating healthy competition, and providing a foundation for investment. This is in line with the findings of Assyifa et al.[6] who affirmed that "clear and integrated regulations will encourage business actors to feel safe and protected, thereby increasing long-term investment interest."

On the other hand, social development requires the law as a protector of the basic rights of citizens, including the right to education, health, a decent

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4 Roscoe Pound and Marshall L. DeRosa. "*An introduction to the philosophy of law*." Routledge, (2017): 15-100.

5 Nor Fadillah. "Tinjauan Teori Hukum Pembangunan Mochtar Kusumaatmadja dalam Undang-Undang Ibu Kota Negara (IKN)." *Supremasi Hukum: Jurnal Kajian Ilmu Hukum* 11, no. 1 (2022): 45-65.

6 Aisyah Assyifa, Siti Ismaya, and Zahra Isfahani Izdihar. "Urgensi regulasi khusus tentang perusahaan rintisan (startup) dalam rangka pengembangan ekosistem perusahaan rintisan di Indonesia." *Jentera: Jurnal Hukum* 4, no. 1 (2021): 458-478.

environment, and social security. Regulations such as Law No. 40 of 2004 concerning the National Social Security System and Law No. 13 of 2003 concerning Manpower show the role of law in ensuring social protection and workers' welfare. The literature also emphasizes that good development must be inclusive, where economic growth goes hand in hand with the equitable distribution of development results.

Challenges in the implementation of the law in the economic and social sectors are still significant. Furqon and Effendi[7] noted that although Law No. 5 of 1999 has provided a basis for the supervision of business competition by ICC, monopoly practices and unfair competition still occur. In addition, regulatory uncertainty can hinder long-term investment, while socio-economic disparities trigger instability that has the potential to disrupt sustainable development. The literature also emphasizes the importance of integrating sustainability principles in development law. This includes regulating the use of natural resources, environmental protection, and community participation in the decision-making process. Thus, the existing literature shows that the rule of law implemented consistently is an absolute prerequisite for achieving just, inclusive, and sustainable development in Indonesia.

7 Eki Furqon and Helvan Subia Effendi. "Kedudukan Komisi Pengawas Persaingan Usaha Dalam Memutus Pelanggaran Persaingan Usaha Menurut Undang-Undang Nomor 5 Tahun 1999 Tentang Larangan Praktek Monopoli Dan Persaingan Usaha Tidak Sehat." (2020): 323-335.

3. Method

This research uses a normative-empirical legal research approach, which is a method that combines the study of written legal norms with the reality of its application in the field. This approach is relevant for analyzing the role of law in economic and social development because it allows researchers to examine both regulatory and implementation aspects. The normative approach focuses on the study of laws and regulations, legal doctrines, and applicable legal principles. This study includes an analysis of Law No. 5 of 1999 concerning the Prohibition of Monopolistic Practices and Unfair Business Competition, Law No. 40 of 2004 concerning the National Social Security System, and Law No. 13 of 2003 concerning Manpower. This normative analysis aims to understand in depth the legal foundations that govern economic stability, protection of basic rights, and social development.

The normative approach is legal research that places law as a norm or rule that applies in society. Meanwhile, an empirical approach is used to identify and evaluate how the law is implemented in practice. This aspect includes observation of the effectiveness of supervision by the Business Competition Supervisory Commission (ICC), the implementation of *Badan Penyelenggara Jaminan Sosial* (BPJS), and the compliance of the business world with labor regulations. This approach utilizes secondary data such as annual reports of state institutions, results of previous research, and official publications. According to Nurhayati et al.,[8] "the empirical

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8 Yati Nurhayati, Ifrani Ifrani, and M. Yasir Said. "Metodologi normatif dan empiris dalam perspektif ilmu hukum." *Jurnal Penegakan Hukum Indonesia* 2, no. 1 (2021): 1-20.

approach examines law as community behavior, both the behavior of citizens and law enforcement officials."

Data collection is carried out through library research, which includes books, scientific journals, laws and regulations, and relevant judicial decisions. Data is analyzed using a qualitative analysis method, where information obtained from normative sources is compared and associated with empirical findings. This comparison aims to identify the gap between law in books and law in action, as well as formulate recommendations for improvement. With a normative-empirical combination, this study not only outlines how laws should work, but also reveals the extent to which they are effective in achieving development goals. The results are expected to provide a comprehensive picture of the role of law in creating economic stability, social equity, and sustainable development in Indonesia.

4. Results

4.1. The Role of Law in Creating Economic Stability and Business Supervision

Law has a strategic role in creating economic stability through the establishment of regulations that ensure legal certainty, justice, and order in the business sector. Economic stability is a key factor that determines the success of national development, as it affects investment interests, industrial growth, and overall community welfare.[9] In this context, market regulation, banking systems, and corporate governance are important elements regulated by law. One of the main instruments used to maintain healthy business competition in Indonesia is Law No. 5 of 1999 concerning the Prohibition of Monopoly Practices and Unfair Business Competition. This law stipulates a prohibition against the practice of monopolies, cartels, and forms of business competition that are detrimental to the public.

Based on Article 1 number 18, the Business Competition Supervisory Commission (ICC) was established as an independent institution tasked with supervising business activities in accordance with the principles of healthy competition. The implementation of this law shows that the law can serve as a tool of social engineering, as Roscoe Pound expressed, to direct the behavior of business actors to comply with the rules and avoid practices that are detrimental to the market.[10] For example, ICC actively cracks down on companies that are proven to have conspired in tenders or set prices unfairly. This kind of law enforcement creates a fairer and more transparent business climate, so investors feel safe to invest in the long term.

However, challenges remain. Some business actors are trying to find legal loopholes or take advantage of weak supervision in certain sectors. Regulatory uncertainty, convoluted bureaucracy, and inconsistent law enforcement are often

9 Kizito Uyi Ehigiamusoe and Mohamad Shaharudin Samsurijan. "What matters for finance-growth nexus? A critical survey of macroeconomic stability, institutions, financial and economic development." *International Journal of Finance & Economics* 26, no. 4 (2021): 5302-5320.

10 Roscoe Pound and Marshall L. DeRosa. "*An introduction to the philosophy of law*." Routledge, (2017): 15-100.

obstacles to economic growth. Assyifa et al.[11] emphasized that regulations that are too complex can increase company operational costs, hinder innovation, and reduce competitiveness. Therefore, clear, simple, and integrated regulations are needed, accompanied by strict but proportionate supervision.

Supervision by ICC also plays a role in maintaining a competitive business climate. ICC's annual report shows that legal interventions have been successful in preventing consumer losses and reducing the potential for abuse of dominant positions in the market. Thus, the role of law in the economic sector is not only preventive but also repressive preventing violations while also sanctioning violators. In the future, the role of law in creating economic stability needs to be strengthened through regulatory modernization, the use of digital technology for market surveillance, and increasing the capacity of law enforcement officials in the economic sector. These measures will ensure that the law remains an effective instrument in supporting sustainable, equitable, and inclusive economic development in Indonesia.

4.2. Law and Social Development

Social development in Indonesia aims to improve the quality of life of the community through equal access to education, health, social security, and a decent environment. In this context, the law has a dual function: first, as a protector of the basic rights of citizens; Second, as an instrument to ensure equitable distribution of development benefits. This principle is in line with the mandate of the constitution,

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[11] Aisyah Assyifa, Siti Ismaya, and Zahra Isfahani Izdihar. "Urgensi regulasi khusus tentang perusahaan rintisan (startup) dalam rangka pengembangan ekosistem perusahaan rintisan di Indonesia." *Jentera: Jurnal Hukum* 4, no. 1 (2021): 458-478.

especially in the fourth paragraph of the Preamble to the 1945 Constitution of the Republic of Indonesia, which affirms the state's goal to protect the entire nation, promote public welfare, educate the nation's life, and implement world order based on social justice. One of the concrete forms of the role of law in social development is the existence of Law No. 40 of 2004 concerning the National Social Security System. This regulation establishes a comprehensive social security system, covering health insurance, work accidents, old age, and retirement. Through SJSN, the state guarantees social protection for all people, especially vulnerable groups. Its implementation is carried out by the Social Security Administration Agency (*Badan Penyelenggara Jaminan Sosia*/BPJS), which plays a role as the manager of social security funds nationally.

In addition, Law No. 13 of 2003 on Manpower (which has been partially updated through the Job Creation Law) provides a legal basis for labor protection, including the regulation of minimum wages, working hours, leave rights, and work safety.[12] This regulation ensures that economic progress does not sacrifice workers' rights. In the context of social engineering, law in the employment sector is directed to create a balance between company productivity and worker welfare. However, the challenges faced are still huge. Socio-economic disparities continue to occur due to the unequal distribution of development results. Some people still have difficulty accessing quality health services and education. Another obstacle is weak law enforcement, especially related to workers' rights in the informal sector and

[12] Nur Putri Hidayah, Quincy R. Cloet, and David Pradhan. "The Implementation of Labor Development Principles According to Job Creation Law as a Reason to Protect Wages Rights." *Bestuur* 9, no. 1 (2021): 68-76.

environmental protection. Many informal workers are not protected by social security and are vulnerable to exploitation.

The law also plays an important role in protecting people's rights to a healthy environment. Regulations such as Law No. 32 of 2009 concerning Environmental Protection and Management affirm the obligation of the government and business actors to preserve the environment. Unfortunately, environmental law enforcement is often hampered by conflicts of interest, weak oversight, and a lack of community participation. Therefore, strengthening the role of law in social development requires a holistic strategy that includes regulatory reform, capacity building of law enforcement officials, and active involvement of civil society. With this approach, the law can be an effective instrument to realize social justice and improve the quality of life of the community in a sustainable manner.

4.3. Rule of Law and Sustainable Development

Sustainable development requires a balance between economic growth, social equity, and environmental protection. The rule of law is the key so that these three pillars can run in harmony and strengthen each other. Within this framework, the law serves to ensure that development is carried out in a fair, transparent, and responsible manner, both to current and future generations. The role of law in sustainable development is realized through the establishment of regulations that regulate natural resource management, environmental protection, and development governance. For example, Law No. 32 of 2009 regulates the obligation of environmental impact analysis (EIA) for large projects.[13] This regulation aims to prevent environmental damage that can interfere with the sustainability of development.

In addition, policies in the renewable energy sector and waste management are also regulated through various government regulations. The law here serves as a control so that economic activities do not damage the environment. The concept of polluter pays principle is one of the legal instruments to ensure that business actors are responsible for the environmental damage they cause. From the social side, the rule of law ensures that the development process involves community participation. The principle of public participation regulated in environmental and spatial planning law allows the public to provide input before a project is implemented. This not only increases the legitimacy of the policy, but also minimizes the potential for social conflict.

However, major challenges still hinder the application of the rule of law in sustainable development. Weak enforcement of environmental laws, overlapping regulations, and corrupt practices in the natural resources sector are serious obstacles. On the other hand, public legal awareness regarding sustainability still needs to be increased so that they can also supervise and maintain the quality of the environment. To overcome these challenges, it is necessary to modernize regulations, integrate policies across sectors, and strengthen supervisory institutions.

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13 Kadek Cahya Susila Wibawa. "Mengembangkan partisipasi masyarakat dalam perlindungan dan pengelolaan lingkungan hidup untuk pembangunan berkelanjutan." *Administrative Law and Governance Journal* 2, no. 1 (2019): 79-92.

The use of technology such as e-monitoring can increase transparency and accountability. In addition, public education on the importance of sustainability will strengthen public support for the rule of law in this area. Thus, the rule of law is not just an abstract concept, but a real instrument to ensure that development runs according to the principles of sustainability, maintaining a balance between economic, social, and environmental interests for the welfare of current and future generations.

5. Discussion

The results of the discussion in the previous section show that law has a strategic position in supporting inclusive, just, and sustainable development. In sub-chapter 4.1, it has been explained that law plays a role in ensuring that the principles of Human Rights (*HAM*) are integrated into governance. This is in line with the view of the rule of law which places the law as the controller of power and the protector of citizens' rights. Without a firm legal mechanism, development policies have the potential to ignore human rights values, especially for vulnerable groups.[14]

In sub-chapter 4.2, the role of law in social development is evident through regulatory instruments that regulate social security, employment, and environmental protection. These regulations are basically quite comprehensive, but their implementation still faces challenges, including access inequality, weak supervision,

[14] Robert McCorquodale and Justine Nolan. "The effectiveness of human rights due diligence for preventing business human rights abuses." *Netherlands International Law Review* 68, no. 3 (2021): 455-478.

and low public legal awareness. Here, law functions not only as a law in books but also as a law in action that is truly felt by society.

Sub-chapter 4.3 affirms that the rule of law is the main foundation for sustainable development. This concept requires consistency in the application of the law regardless of the status or economic strength of the perpetrator. The rule of law is a guarantee that the exploitation of natural resources is not carried out haphazardly, but by paying attention to environmental sustainability and social welfare. However, the rule of law is often weakened in the face of short-term economic interests or corrupt practices that undermine the development order.

This discussion underlined that the integration of law, human rights, social development, and sustainability requires a cross-sectoral approach. The government cannot work alone; Collaboration with civil society, the private sector, academia, and international institutions is key to success.[15] For example, the application of the principle of public participation in spatial planning will not only increase the legitimacy of policies, but also provide space for the community to supervise the course of development. In addition, the digitization of the legal system and governance can be an important breakthrough. The use of technology such as e-court, e-monitoring, and open data can increase transparency, speed up administrative processes, and strengthen public supervision. That way, the law can function more effectively in supporting accountable development.

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15 Md Nurul Momen. "*Multi-stakeholder partnerships in public policy*." In Partnerships for the Goals, Springer, Cham, (2020): 1-9.

Remaining challenges include regulatory overlap, weak interagency coordination, and lack of human resource capacity in law enforcement. Evidence-based policy making reform and capacity building of law enforcement officials are a must. In addition, community legal education needs to be strengthened so that they understand their rights and obligations in the context of development. The success of the integration of law with the development agenda depends on the extent to which the state is able to make the law an adaptive, responsive, and beneficial instrument for the interests of the people. Consistent rule of law will create a stable, just, and sustainable development environment, so that the vision of national prosperity can be achieved not only for the present, but also for future generations.

6. Conclusion

Law, with the rule of law as its foundation, has a strategic role in directing Indonesia's national development towards welfare, justice, and sustainability. As a rule of law state, Indonesia needs a strong and consistent legal framework to ensure that development policies are implemented in a fair, transparent, and accountable manner, and do not neglect human rights values. In economic development, the law functions to create business certainty, protect property rights, regulate competition, and attract investment. Meanwhile, in social development, the law guarantees the equitable distribution of development results, the protection of vulnerable groups, and the preservation of the environment. The rule of law is an important instrument in preventing monopolistic practices, overcoming inequality, and upholding social justice.

The challenges faced include weak law enforcement, overlapping regulations, socio-economic inequality, and low public legal awareness. Therefore, evidence-based regulatory reform, capacity building of law enforcement officials, broad public participation, and the use of technology are needed to increase transparency and effectiveness of governance. By integrating the principles of the rule of law into economic, social, and environmental development policies, Indonesia can create stability that supports sustainable growth. This is an absolute requirement to realize development that not only benefits the current generation, but also ensures the sustainability of life for future generations.

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