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Strengthening public governance and macroeconomic stability as determinants of the sustainability of Indonesia's national business climate for the 2025–2026 period

Abstract

The sustainability of the national business climate is not solely influenced by the achievement of macroeconomic indicators, but is also determined by the quality of public governance, the effectiveness of fiscal policy, and institutional legitimacy. This study aims to analyze the interrelationship between anti-corruption policy reforms, regional fiscal dynamics, protection of informal labor, and financial system stability in sustaining national business activities during the 2025–2026 period. The research employs a qualitative institutional policy analysis combined with qualitative content analysis based on secondary data obtained from Statistics Indonesia, Bank Indonesia, the Financial Services Authority, the Audit Board of Indonesia, and official government publications. The findings indicate that although national macroeconomic performance remains relatively stable, characterized by economic growth exceeding 5 percent and controlled inflation, structural challenges persist, including regional fiscal disparities, heightened private sector prudence, and the need to strengthen the legitimacy of public policies. This study emphasizes that the sustainability of national economic growth requires the integration of legal reforms, the strengthening of public institutions, and policy orientations that prioritize social productivity.

Keywords: Public governance, macroeconomic stability, business climate.

Abstrak

Keberlanjutan iklim bisnis nasional tidak hanya dipengaruhi oleh capaian indikator makroekonomi, tetapi juga ditentukan oleh kualitas tata kelola publik, efektivitas kebijakan fiskal, serta legitimasi institusional. Penelitian ini bertujuan menganalisis keterkaitan antara reformasi kebijakan antikorupsi, dinamika fiskal daerah, perlindungan tenaga kerja informal, serta stabilitas sistem keuangan terhadap keberlanjutan aktivitas bisnis nasional periode 2025–2026. Metode penelitian menggunakan pendekatan kualitatif normatif dengan analisis kebijakan berbasis data sekunder dari Badan Pusat Statistik (BPS), Bank Indonesia, Otoritas Jasa Keuangan (OJK), Badan Pemeriksa Keuangan (BPK), dan publikasi pemerintah. Hasil kajian menunjukkan bahwa meskipun kinerja makroekonomi nasional relatif stabil dengan pertumbuhan ekonomi di atas 5% dan inflasi terkendali, masih terdapat tantangan struktural berupa ketimpangan fiskal daerah, kontraksi kehati-hatian sektor swasta, serta kebutuhan penguatan legitimasi kebijakan publik. Penelitian ini menegaskan bahwa keberlanjutan pertumbuhan ekonomi nasional mensyaratkan integrasi reformasi hukum, penguatan institusi publik, serta orientasi kebijakan pada produktivitas sosial.

Kata Kunci: Tata Kelola Publik, Stabilitas Makroekonomi, Iklim Bisnis.

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1. Introduction

National economic stability constitutes a fundamental prerequisite for the creation of a sustainable business climate (Arefieva, Piletska, Khaustova, Poberezhna, & Zyz, 2021). However, development paradigms that place excessive emphasis on aggregate growth indicators often overlook institutional dimensions, the quality of public governance, and policy legitimacy as the foundations of market confidence and investment sustainability (Roysul & Muninghar, 2021).

Within a global context characterized by a worldwide economic slowdown, geopolitical conflicts, fragmentation of global supply chains, and monetary tightening in advanced economies, national economic resilience can no longer be measured solely by Gross Domestic Product growth. Instead, it must be assessed through the state's institutional capacity to maintain macroeconomic stability and ensure business certainty (Yaqin, 2025).

Empirically, Indonesia demonstrates relatively stable macroeconomic performance. Statistics Indonesia recorded national economic growth of 5.04 percent (year-on-year) in the third quarter of 2025 (Pangestu & Armstrong, 2025), with year-end inflation at 2.92 percent (B.-S. Indonesia, 2025). The national trade balance also registered a surplus for more than 60 consecutive months, with a cumulative value exceeding USD 35 billion throughout 2025 (Martumpal, 2025). Nevertheless, this macroeconomic stability has not been fully reflected in the quality of the business climate at the micro and regional levels.

Several public policy dynamics in Indonesia illustrate the complexity of the relationship between governance, fiscal policy, and cross-regional business stability.

First, with regard to governance and anti-corruption efforts, a number of major cases occurring in Java, particularly those related to regional government procurement and strategic infrastructure projects indicate that corruption risk remains a structural challenge in public expenditure management (Kurrohman & Oktaviani, 2025).

Cases involving the misuse of regional development budgets in West Java and East Java, for instance, have directly resulted in infrastructure project delays and weakened the confidence of local business actors (Transparency International Indonesia, 2023). From an institutional economics perspective, corrupt practices increase transaction costs, undermine legal certainty, and create market distortions that are detrimental to the long-term investment climate (Turay, Maksum, & Kuyateh, 2025).

Second, in the dimension of fiscal policy and decentralization, disparities in fiscal capacity across regions remain evident, particularly in Sumatra and Sulawesi (Akita, Riadi, & Rizal, 2021). Several resource-rich regional governments in Sumatra experience revenue volatility due to fluctuations in plantation commodity and energy prices, while non-resource-producing regions face fiscal constraints in financing basic infrastructure (Chandrarin, Sohag, Cahyaningsih, Yuniawan, & Herdhayinta, 2022).

In Sulawesi, limited regional fiscal capacity has contributed to delays in the development of industrial zones and logistics ports that are essential for supporting investment (Amin, Mulyati, Anggraini, & Kusumastanto, 2021). According to Oates' fiscal decentralization theory, the effectiveness of regional economic development is strongly influenced by the balance between fiscal authority and institutional capacity. Persistent fiscal disparities risk widening interregional differences in business climate quality (Digdowiseiso, 2022).

Third, in terms of investment and structural transformation, the development of downstream-based industrial estates in Kalimantan and Sulawesi represents a concrete

example of national policy intervention (Warburton, 2024). The expansion of nickel-based industrial zones in Southeast and Central Sulawesi, as well as energy- and food-based industrial areas in East Kalimantan in line with the development of the new national capital, has contributed to increased national investment realization.

However, these developments are also accompanied by challenges related to land conflicts, local workforce readiness, and environmental pressures, all of which require more adaptive policy governance (Bakker, 2023). Within the World Bank Investment Climate Framework, investment sustainability is determined not only by ease of licensing, but also by regulatory stability, the quality of local institutions, and legal protection for communities and business actors (Saurav & Viney, 2021).

Fourth, in the labor dimension, labor market dynamics in Java as the center of national manufacturing industries indicate structural pressures resulting from industrial automation and the relocation of labor-intensive factories. In several industrial areas in Central Java and Banten, employment patterns have shifted toward short-term contracts and outsourcing arrangements, generating income uncertainty for workers (Bazin, Bhukuth, Khribich, & Wulandari, 2023).

Meanwhile, in Sumatra and Kalimantan, plantation and mining sectors remain dominated by informal labor with limited social protection (Triyono, Pradipta, Barid, Kurniawan, & Muslim, 2026). These conditions demonstrate that the sustainability of the business climate is also strongly influenced by the stability of industrial relations and the quality of labor protection policies (Kurniati & Abdillah, 2025).

Normatively, the national legal framework provides a foundation for strengthening governance and economic stability. Law Number 17 of 2003 on State Finance emphasizes the principles of transparency and accountability in fiscal management. Law Number 23 of 2014 on Regional Government regulates fiscal decentralization and regional economic authority. Law Number 11 of 2020 on Job Creation, along with its implementing regulations, serves as a structural reform instrument aimed at enhancing national investment competitiveness. Meanwhile, Law Number 7 of 2011 on Currency and Law Number 21 of 2011 on the Financial Services Authority provide the legal basis for monetary and financial system stability.

From the perspective of macroeconomic stability theory, sustainable economic growth requires a balance between credible fiscal policy, financial system stability, and coordinated monetary policy (Davoodi, 2021). Without strong public governance, macroeconomic policies risk losing social legitimacy and implementation effectiveness.

Based on cross-regional empirical conditions, national policy dynamics, and the aforementioned theoretical and normative frameworks, this study focuses on examining the relationship between strengthening public governance, macroeconomic stability, and the sustainability of Indonesia's national business climate during the 2025–2026 period. This research is expected to contribute academically by enriching institutional economics and public policy approaches, while also serving as a reference for the formulation of national economic policies oriented toward long-term sustainability, fiscal equity, and social productivity.

2. Literature review

2.1 Public governance and institutional quality

Public governance refers to the framework through which state authority is exercised in the management of public resources, policy formulation, and the provision of services to citizens and economic actors (Mollah, 2023). It encompasses fundamental principles such as transparency, accountability, the rule of law, bureaucratic effectiveness, and public participation. Within the field of institutional economics, the quality of public governance is widely recognized as a critical determinant of legal certainty and policy stability, both of which significantly influence investment decisions and business activities (Saman, Blongkod, & Husain, 2017).

Institutional theory posits that strong and credible institutions function to reduce transaction costs and economic uncertainty (Uddin et al., 2023). Institutions, Institutional Change and Economic Performance argues that effective legal and political institutions are essential for the development of efficient and sustainable markets. Consequently, reforms in public governance, particularly those related to anti-corruption policies and the strengthening of oversight institutions, play a vital role in sustaining a favorable national business climate (Nur, Mutiarin, Jovita, Palomares, & Isolana, 2025).

2.2 Macroeconomic stability and the sustainability of the business climate

Macroeconomic stability refers to an economic condition characterized by controlled inflation, sustainable economic growth, fiscal balance, and a resilient financial system (Raczkowski & Shachmurove, 2024a). In macroeconomic theory, such stability serves as an anchor for expectations, enabling business actors to undertake medium and long term investment decisions with greater confidence (Mazzocchi & Tamborini, 2025).

Modern Keynesian and endogenous growth perspectives emphasize that macroeconomic stability not only helps prevent economic crises but also creates policy space for productive government intervention (Raczkowski & Shachmurove, 2024b). However, stability that is not accompanied by sound governance and policy legitimacy may result in growth that is vulnerable and uneven. Therefore, macroeconomic stability must be supported by credible institutions and consistent policy frameworks to ensure the long-term sustainability of the business environment.

2.3 Fiscal decentralization and regional economic productivity

Fiscal decentralization is commonly viewed as a mechanism for improving allocative efficiency and enhancing the responsiveness of public policies to local needs (Garrouste & Perdrix, 2022). The theory of fiscal federalism suggests that subnational governments possess superior information regarding local preferences, enabling them to provide public goods more effectively (Liu, Wu, Huang, & Li, 2025).

Nevertheless, disparities in fiscal capacity among regions can generate developmental imbalances and undermine regional economic productivity, particularly in urban areas (Roy, Wijaya, Darma, & A, 2022). Reductions in public spending on essential infrastructure, such as mass transportation systems, may impose significant indirect economic costs by decreasing labor mobility and production efficiency (Hörcher &

Tirachini, 2021). Accordingly, the sustainability of the national business climate requires regional fiscal policies that are adaptive, balanced, and oriented toward long-term economic productivity.

2.4 Protection of informal labor and social productivity

In many developing economies, the informal sector plays a crucial role in employment absorption and social stability. Dual labor market theory explains that inadequate protection for informal workers increases household economic vulnerability and weakens human capital development (Rion, 2022).

Social protection mechanisms for informal workers, including those operating within the digital economy, should therefore be understood not merely as social welfare instruments, but also as tools for economic stabilization (Lowe, Rigolini, Solbes Castro, & Bastagli, 2023).

From the perspective of human capital theory, access to social security enhances labor productivity by improving income security and reducing economic uncertainty, thereby supporting sustainable domestic demand.

2.5 Policy legitimacy and institutional trust

Policy legitimacy refers to the degree to which public policies are accepted and supported by society (Kiwi, Khanagha, & Alexiou, 2025). Contemporary governance theory emphasizes that legitimacy is derived not only from formal legal authority, but also from transparent, participatory, and evidence-based policy processes (Nurman, Zainal, & Ardianyah, 2024).

Public trust in state institutions constitutes a form of social capital that is essential for maintaining financial system stability and investment confidence (Prasetya, 2023). When policy legitimacy is weakened, private sector actors tend to adopt more cautious behavior, which may manifest in reduced investment activity and slower business expansion.

2.6 Consumer protection as an institutional foundation of the business climate

Consumer protection represents a fundamental component of fair and well-functioning markets (Ermini, Ramanata Disurya, Sardana, Husnulwati, & Suryati, 2026). From an institutional market perspective, consumer protection regulations serve to reduce information asymmetry and prevent market failures (Rohmah & Karim, 2025). Organisation for Economic Co-operation and Development (OECD) emphasizes that effective consumer protection is an integral element of good governance that supports inclusive economic growth (Bank, 2022).

In the context of the digital economy, consumer protection has become increasingly important due to emerging risks such as data misuse, non-transparent business practices, and unequal bargaining power between consumers and firms (Wulandari, Arif Awaludin, & Indriasari, 2025). Strengthening consumer protection frameworks therefore contributes not only to social justice, but also to the stability of aggregate demand and the long-term sustainability of the national business climate (Adiatma & Harinda, 2025).

2.7 Integrated theoretical framework

To address the fragmented treatment of theoretical perspectives, this study develops an integrated analytical framework that explains how public governance, macroeconomic stability, and social protection interact in shaping the sustainability of the national business climate.

From an institutional economics perspective, the quality of public governance particularly in terms of transparency, accountability, and anti-corruption reduces transaction costs and enhances legal certainty, thereby improving the efficiency of market mechanisms. At the same time, macroeconomic stability functions as an expectation anchor for economic actors by ensuring predictable inflation, sustainable fiscal conditions, and financial system resilience.

However, the sustainability of the business climate cannot be fully understood without considering the role of social productivity, which is shaped by labor protection and consumer protection policies. These elements contribute to maintaining domestic demand, enhancing workforce stability, and strengthening long-term economic resilience.

Importantly, this study introduces policy legitimacy as a mediating variable that connects institutional structures with economic outcomes. Policy legitimacy reflects the degree of public trust and acceptance toward government actions, which directly influences business confidence and investment behavior.

Thus, the sustainability of the business climate is conceptualized as the outcome of dynamic interactions among three core pillars: (1) institutional quality (public governance), (2) macroeconomic stability, and (3) social productivity, with policy legitimacy acting as a transmission mechanism that determines the effectiveness of policy implementation and market response.

3. Method

3.1 Types and sources of data

This study employs a qualitative institutional policy analysis combined with qualitative content analysis to examine the interaction between governance quality, macroeconomic stability, and business climate sustainability in Indonesia during the 2025–2026 period. The data used in this study consist of secondary policy documents and official reports obtained from key national institutions, including Statistics Indonesia (BPS), Bank Indonesia (BI), the Financial Services Authority (OJK), the Supreme Audit Agency (BPK), as well as relevant laws, regulations, and government policy publications. The data selection process is based on three criteria: (1) relevance to governance, macroeconomic policy, and business climate issues; (2) credibility and institutional authority of the source; and (3) temporal relevance to the 2025–2026 period.

3.2 Data analysis method

The analytical procedure involves three main stages: Document selection and classification, Thematic coding of governance, macroeconomic, and social policy variables, Interpretative analysis to identify causal linkages between institutional dynamics and business climate outcomes. This approach allows the study to

systematically capture policy interactions and institutional mechanisms shaping Indonesia's business climate sustainability.

4. Results and Discussion

In this study, business climate sustainability is reflected in observable indicators such as investment realization, credit expansion, firm-level confidence, and regional competitiveness. These indicators are used to assess how institutional and macroeconomic conditions translate into actual business behavior.

4.1 Legal reform as an instrument for strengthening the investment climate

The deliberation of the Asset Confiscation Bill represents a strategic effort to strengthen institutional quality through enhanced legal enforcement. From an institutional economics perspective, stronger legal frameworks reduce transaction costs, improve regulatory predictability, and minimize governance-related risks faced by business actors. (Sulastri, Efendi, & Gumilar, 2023).

Empirical findings from the Audit Board of Indonesia during the 2024–2025 period indicate persistent weaknesses in internal control systems and regulatory compliance. These deficiencies increase uncertainty in public financial management and elevate the perceived risk of doing business, particularly for long-term investment (B. of the R. of Indonesia, 2024).

This condition has direct implications for business climate outcomes. Higher governance risk discourages investment realization, delays project execution, and reduces firm-level confidence. Conversely, improvements in legal enforcement enhance investor trust, which is reflected in stronger investment commitments and business expansion (Suhendarto & Handoyo, 2025).

Importantly, the effectiveness of legal reform is mediated by policy legitimacy. Transparent and participatory legislative processes strengthen institutional trust, which directly influences business confidence and investment behavior. This demonstrates that legal reform contributes to business climate sustainability through both regulatory enforcement and trust-based economic mechanisms.

4.2 Macroeconomic stability and business sector responses

Indonesia's macroeconomic stability in the 2025 period demonstrates relatively solid performance. Bank Indonesia reports that foreign exchange reserves remained at levels exceeding USD 150 billion, while the ratio of external debt to Gross Domestic Product stood below 30 percent (Bank Indonesia, 2025b). These indicators reflect the resilience of the national economic fundamentals.

Indonesia's macroeconomic stability reflected in controlled inflation, strong foreign exchange reserves, and manageable external debt provides a favorable foundation for economic activity. In theory, such stability should stimulate investment growth and business expansion.

This finding demonstrates that macroeconomic stability does not automatically translate into improved business climate outcomes. While stable inflation reduces cost

uncertainty and strong reserves enhance exchange rate confidence, these factors must be complemented by regulatory certainty and institutional trust to effectively stimulate investment. (Bank Indonesia, 2025a).

From a strategic management perspective, such prudence may lead to a deceleration in production capacity expansion if it is not offset by regulatory certainty, policy stability, and greater ease of doing business.

Thus, macroeconomic stability influences the business climate through its impact on business confidence and financing decisions. Without strong governance support, its transmission to real economic activity such as firm expansion and entrepreneurial growth remains limited.

These dynamics are reflected in business indicators such as investment credit trends, firm expansion decisions, and the cautious behavior of private sector actors.

4.3 Regional fiscal policy and urban economic productivity

Regional fiscal disparities play a crucial role in shaping variations in business climate quality across regions. Fiscal constraints, particularly those arising from limited revenue-sharing funds, reduce regional capacity to finance infrastructure development (Guzman & Hessel, 2022). Infrastructure serves as a key determinant of economic productivity. Reduced investment in transportation and logistics infrastructure increases operational costs, limits labor mobility, and weakens supply chain efficiency. These conditions directly affect firm performance and reduce regional investment attractiveness. (Morgan, Syropoulos, & Yotov, 2023).

Empirically, regions with stronger fiscal capacity tend to exhibit higher levels of infrastructure development and investment realization, while fiscally constrained regions experience slower business growth and reduced private sector activity.

This relationship indicates that fiscal disparities translate into measurable differences in regional business outcomes, including investment performance, firm expansion, and competitiveness. Therefore, fiscal decentralization influences business climate sustainability through its impact on regional productivity and investment dynamics.

4.4 Protection of informal workers within the digital economic ecosystem

Statistics Indonesia recorded the open unemployment rate in August 2025 at approximately 4.8 percent, with an estimated 7.4 million unemployed individuals (Badan Pusat Statistik, 2025). This condition indicates that the labor market continues to face structural challenges, particularly in terms of absorption within the formal sector.

The provision of social protection policies, such as subsidized contributions for informal workers, enhances income security and reduces economic vulnerability. From a macroeconomic perspective, this contributes to the stabilization of household consumption, which represents a major component of Indonesia's GDP (Nurhadi, 2023a). From a national human resource management perspective, the protection of informal workers contributes to the stability of domestic consumption, the mitigation of new poverty risks, and the sustainability of the digital economy.

Stable consumption levels support business revenues, particularly in sectors dependent on domestic markets, and reduce the risk of demand shocks. In addition,

improved labor protection enhances workforce productivity and reduces turnover, which positively affects firm performance.

Thus, informal labor protection contributes to business climate sustainability by strengthening consumption stability, supporting labor productivity, and reducing socio-economic risks that may disrupt business activity.

4.5 Policy legitimacy and the reputation of public institutions

Policy legitimacy functions as a key mediating variable that determines how governance and macroeconomic policies influence business outcomes. Public trust in government policies shapes expectations and investment behavior (Brychko, Bilan, Lyeonov, & Mentel, 2021).

When policies are perceived as transparent, consistent, and evidence-based, business actors are more likely to increase investment, expand operations, and engage in long-term planning. Conversely, weak policy legitimacy leads to uncertainty, resulting in delayed investment decisions, reduced financial exposure, and cautious business strategies.

This relationship demonstrates that policy legitimacy directly affects firm-level confidence and investment behavior. As such, policy legitimacy acts as a transmission mechanism that determines whether institutional reforms and macroeconomic stability effectively translate into improved business climate outcomes.

4.6 Consumer protection law as a pillar of the sustainability of the national business climate

The sustainability of the national business climate is not determined solely by investment certainty and macroeconomic stability, but also by the level of consumer protection as the final stakeholder in the economic value chain (Nurhadi, 2023b). Law Number 8 of 1999 on Consumer Protection positions consumers as legal subjects who are entitled to safety, comfort, accurate information, and fair treatment in economic transactions.

From an institutional economics perspective, consumer protection functions as a market correction instrument aimed at reducing information asymmetry, unfair competition practices, and the abuse of dominant market positions by business actors (Kunder, Ronald, & Rajesh, 2022). The effective legal institutions are capable of lowering transaction costs and enhancing market efficiency (Fadila & Pangestuti, 2025). Accordingly, the enforcement of consumer protection law directly contributes to strengthening market confidence and stabilizing domestic demand.

Data from the Ministry of Trade and the National Consumer Protection Agency indicate that consumer complaints remain predominantly concentrated in the financial services sector, electronic commerce, and digital-based public services (Wirawan et al., 2022). This condition reflects a regulatory gap between the rapid pace of digital economic transformation and the readiness of consumer protection frameworks. Within the context of the digital economy, consumers face emerging risks such as the misuse of personal data, unfair standard clauses, and non-transparent sales practices.

From a macroeconomic stability perspective, consumer protection carries strategic implications for household purchasing power and the sustainability of domestic consumption. Household consumption accounts for more than 50 percent of Indonesia's Gross Domestic Product (Sayekti & Sari, 2024). Therefore, a robust consumer protection

system functions not only as an instrument of social justice, but also as a foundation for aggregate demand stability.

Within the public governance framework, strengthening consumer protection requires inter-institutional synergy, including the enhancement of the role of Consumer Dispute Resolution Bodies, the integration of national digital complaint systems, and regulatory harmonization across the trade, financial services, and digital economy sectors. The OECD asserts that effective consumer protection constitutes an integral component of good governance oriented toward inclusive economic growth ([Organisation for Economic Co-operation and Development, 2025](#)).

Thus, consumer protection law should be positioned not as a barrier to business activity, but as an instrument for fostering a healthy, equitable, and sustainable market. A business climate grounded in business ethics and legal compliance will strengthen the reputation of national business actors while enhancing Indonesia's competitiveness in the global market.

From a comparative perspective, several emerging economies in Southeast Asia, such as Vietnam and Malaysia, have demonstrated that improvements in governance quality and regulatory consistency significantly enhance investment climate resilience. These experiences indicate that macroeconomic stability alone is insufficient without strong institutional support. This comparison reinforces the importance of integrating governance reform and macroeconomic policy in the Indonesian context.

5. Conclusion

This study demonstrates that macroeconomic stability alone is insufficient to ensure the sustainability of Indonesia's national business climate. While stable inflation, strong external reserves, and fiscal resilience provide a favorable economic foundation, their impact on business outcomes depends critically on governance quality and policy legitimacy.

The findings show that institutional weaknesses, fiscal disparities, and labor market challenges constrain the translation of macroeconomic stability into tangible outcomes such as investment growth, firm expansion, and business confidence. This study confirms that business climate sustainability is shaped by the interaction of three core pillars: governance quality, macroeconomic stability, and social productivity, with policy legitimacy acting as a key mediating variable. Thus, sustainable business conditions require alignment between institutional quality, macroeconomic policy, and social protection systems. Without such alignment, economic stability may result in cautious business behavior rather than expansion.

6. Theoretical and practical implication

From a theoretical perspective, this study reinforces the institutional economics argument that the sustainability of the business climate is inseparable from the quality of public institutions and the legitimacy of economic policies. The interaction between legal reform, adaptive fiscal policy, financial system stability, and labor protection should be understood not merely as a set of technocratic instruments, but as an integrated governance framework that builds public trust and strengthens long-term national competitiveness.

Practically, the findings carry several important policy implications for both central and regional governments. First, strengthening public governance should focus on

consolidating anti-corruption reforms and enhancing budget transparency through the digitalization of procurement systems, the integration of national and regional fiscal databases, and the reinforcement of internal and external oversight mechanisms. These measures are essential to reducing high economic costs that continue to burden business actors, particularly in industrial centers and regions with substantial public expenditure.

Second, national fiscal policy should be reoriented toward strengthening regional fiscal capacity in a more equitable manner. Performance-based revenue-sharing and intergovernmental transfer schemes that incorporate governance quality, economic development outcomes, and public service performance are necessary to reduce interregional disparities, enhance competitiveness in Sumatra and Sulawesi, and promote a more balanced investment climate.

Third, investment and structural transformation policies, particularly in Kalimantan, Sulawesi, and Eastern Indonesia, should integrate industrial estate development with local human resource development, the strengthening of micro, small, and medium enterprises within industrial supply chains, and the enforcement of environmental sustainability standards. This integrated approach is crucial to ensuring that investment generates not only short-term growth, but also domestic value added and regional economic resilience.

Fourth, labor policies need to be reinforced through workforce upskilling and reskilling programs, expanded social security protection for informal workers, and strengthened social dialogue among government, business, and labor representatives. These measures are especially critical in Java Island, where industrial automation and structural shifts in the labor market pose increasing challenges.

Finally, macroeconomic policy coordination among the government, Bank Indonesia, and the Financial Services Authority must be continuously strengthened to safeguard financial system stability. Synergy among fiscal, monetary, and financial sector policies should be directed toward creating a financing environment that supports productive sectors, micro, small, and medium enterprises, and strategic national industries.

7. Limitations and suggestions for further research

This study has several limitations. First, the analysis relies predominantly on secondary data and policy documents, which may limit the ability to capture firm-level behavior, household responses, and informal institutional dynamics in greater depth. Second, the regional analysis remains largely comparative and descriptive, without employing micro-level empirical measurements or econometric estimation to quantify causal relationships.

Future research is therefore encouraged to incorporate mixed-method approaches, including firm-level surveys, in-depth regional case studies, and longitudinal data analysis, to better assess the causal mechanisms linking governance quality, policy legitimacy, and investment behavior.

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