



## The Urgency of Arbitration in Resolving Investment Disputes in Indonesia

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### Abstrak

Investment plays a strategic role in driving economic growth but is prone to disputes arising from contractual differences, breaches, or regulatory shifts. In Indonesia, conventional court litigation often proves lengthy, costly, and lacks confidentiality, prompting the need for effective alternative dispute resolution. This paper employs a normative legal research method, analyzing primary sources such as Law Number 30 of 1999 on Arbitration and Alternative Dispute Resolution, Law Number 25 of 2007 on Investment, and the 1958 New York Convention, alongside secondary literature. The study examines the position, urgency, legal framework, and enforcement of arbitration in investment disputes. Findings indicate that arbitration provides a legally recognized, final, and binding mechanism that ensures efficiency, neutrality, and confidentiality, thereby fostering investor confidence. Despite certain procedural and practical challenges, the integration of arbitration with judicial oversight maintains its effectiveness. The paper concludes that strengthening Indonesia's arbitration system and harmonizing it with international norms is vital for promoting a stable and competitive investment climate.

## I. INTRODUCTION

Investment flows, whether originating from domestic or foreign sources, play a strategic role in driving national economic growth and development. Investment not only serves as a means of job creation and expansion of productive capacity but also functions as a crucial instrument for technology transfer and the enhancement of a country's competitiveness at the global level. Nevertheless, investment activities are not immune to the potential emergence of conflicts of interest, either between investors and their business partners or between investors and the government as the regulatory authority. Investment disputes may arise from various factors, including differing interpretations of contractual provisions, breaches of contract, shifts in public policy, or ambiguities in the implementation of legal norms in practice (Kinanti et al., n.d.).

In practice, the resolution of investment disputes through conventional court litigation often encounters substantial obstacles, such as lengthy adjudication processes, high financial costs borne by the parties, and limited guarantees of confidentiality. Such conditions may generate legal uncertainty, which in turn adversely affects

investor confidence in the stability and attractiveness of the national investment climate. Accordingly, alternative dispute resolution mechanisms are required to ensure legal certainty, procedural efficiency, and balanced protection of the interests of all parties involved (Rafika, 2022).

Arbitration constitutes one form of alternative dispute resolution that is widely regarded as more flexible and effective than judicial litigation. Through arbitration proceedings, the disputing parties are granted autonomy to appoint arbitrators with specific expertise relevant to the nature of the dispute, to determine the applicable law, and to select the seat of arbitration. Moreover, arbitral awards are final and binding, thereby eliminating the possibility of prolonged legal remedies that could otherwise delay dispute resolution. In the context of investment disputes, these characteristics are particularly significant, as investors generally seek dispute resolution mechanisms that are expeditious, professionally administered, and capable of safeguarding the confidentiality of their business relationships and interests (Rohaini et al., 2024).

The regulatory framework governing arbitration in Indonesia is embodied in Law

Number 30 of 1999 on Arbitration and Alternative Dispute Resolution. This statute provides a solid legal foundation for the application of arbitration in resolving various commercial disputes, including those arising from investment activities. Furthermore, Indonesia has ratified the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards, thereby strengthening the position of arbitration in the settlement of cross-border investment disputes (Riza & Abduh, 2019). Nevertheless, at the level of implementation, several significant challenges persist, particularly with regard to the enforcement and execution of arbitral awards, especially when such awards intersect with strategic state interests and judicial authority.

Based on the foregoing discussion, arbitration occupies a vital and strategic position within the system of investment dispute resolution in Indonesia. Its role extends beyond serving merely as an alternative mechanism for resolving conflicts; it also functions as an instrument for fostering a conducive investment environment, ensuring legal certainty and predictability, and enhancing investor confidence. Consequently, an in-depth examination of the urgency and significance of arbitration in the resolution of investment disputes in Indonesia is both relevant and essential to be analyzed comprehensively from a legal perspective.

## **II. RESEARCH METHODS**

This research adopts a normative legal research method (doctrinal research), which focuses on the analysis of positive legal norms governing the conduct of arbitration and the resolution of investment disputes in Indonesia (Sonata, 2014). The approaches employed in this study include the statutory approach and the conceptual approach. The legal materials examined consist of primary legal sources, namely Law Number 30 of 1999 on Arbitration and Alternative Dispute Resolution, the Investment Law, as well as other relevant statutory regulations. In addition, this research utilizes secondary legal materials in the form of legal textbooks, scholarly journal articles, and expert opinions related to arbitration and investment.

The research is conducted in a systematic manner, beginning with the identification and formulation of legal issues concerning the urgency of arbitration in the settlement of investment disputes. This is followed by the collection of legal materials through library research. The collected

materials are then classified and qualitatively analyzed using legal interpretation methods, including grammatical and systematic interpretation, in order to obtain a comprehensive understanding. The results of the analysis are subsequently structured in a logical and argumentative manner to address the research questions and to formulate the conclusions. The research process may be illustrated as follows: identification of legal issues, collection of legal materials, legal analysis and interpretation, drawing of conclusions.

This normative legal research does not apply the concepts of population and sampling commonly used in empirical studies, as its object of analysis is focused on the substance and characteristics of legal materials. Accordingly, the research is not confined to a specific geographical location but is conducted through a literature-based study drawing upon statutory regulations, relevant arbitral awards, and related legal literature. From a methodological standpoint, the research setting may be categorized as document-based research, carried out through the examination of legal materials available in libraries and national legal databases.

## **III. RESULTS AND DISCUSSION**

### **A. The Position of Arbitration in Indonesia's Investment Dispute Resolution System**

Arbitration occupies a crucial and strategic role within the investment dispute resolution framework in Indonesia. Its significance extends beyond being merely an alternative to court litigation; it is also recognized as a legitimate dispute resolution institution whose validity is guaranteed under national law. In the context of investment activities, arbitration plays a vital role in addressing the needs of the parties particularly investors for legal certainty, time-efficient dispute resolution, and processes that are professional, independent, and oriented toward fairness (DEWI et al., 2021).

Normatively, the existence and position of arbitration in Indonesia are underpinned by strong legal foundations, primarily through Law Number 30 of 1999 concerning Arbitration and Alternative Dispute Resolution. This legislation affirms that arbitration constitutes a mechanism for resolving civil disputes outside the general court system, based on a written arbitration agreement mutually agreed upon by the

disputing parties (Memi, 2017). By including an arbitration clause in a contract, the parties voluntarily waive their right to access the state courts, positioning arbitration as an independent forum with an exclusive character within the legal dispute resolution system.

From a normative legal perspective, the legitimacy and position of arbitration in Indonesia are solidly established under Law Number 30 of 1999. The law confirms that arbitration serves as a civil dispute resolution mechanism outside the jurisdiction of general courts, grounded on a written arbitration agreement between the parties involved (Diansari, 2021). The inclusion of an arbitration clause reflects the parties' voluntary intent to forgo state court litigation, thereby establishing arbitration as an independent forum with exclusive authority within the legal dispute resolution architecture.

Furthermore, Law Number 25 of 2007 concerning Investment reinforces the role of arbitration as a key instrument for resolving investment-related disputes. Article 32 of this law stipulates that disputes between the government and investors may be resolved through international arbitration, provided that both parties agree. This provision demonstrates state recognition of arbitration and allows its utilization as a mechanism for resolving investment disputes, particularly in cases involving foreign investors (Sutrisno, 1994).

Within the national legal system, arbitration holds final and binding authority. Arbitration awards are generally not subject to appeal, cassation, or judicial review, except under specific circumstances explicitly outlined in the Arbitration Law (Fitryalita, 2019). This final and binding nature ensures a high degree of legal certainty for the parties, as disputes can be conclusively resolved without protracted proceedings. Such legal certainty is essential for maintaining the stability of the investment climate and enhancing investor confidence in the credibility of Indonesia's legal system.

Moreover, the position of arbitration in investment dispute resolution is closely tied to Indonesia's commitment to international legal norms. Indonesia ratified the 1958 New York Convention through Presidential Decree Number 34 of 1981, which obliges member states to recognize and enforce foreign

arbitration awards. This ratification reinforces the role of international arbitration as an integral component of Indonesia's investment dispute resolution system, particularly within the context of cross-border economic relations and cooperation.

Nevertheless, arbitration does not operate entirely independently of the courts. State courts retain certain limited powers, such as in the registration of arbitration agreements, the enforcement of arbitration awards, and the annulment of awards under specific conditions as stipulated by law. This relationship indicates that arbitration and the general courts are not mutually exclusive institutions, but rather complementary within an integrated dispute resolution framework (Astuti & Tarantang, 2018). However, the exercise of judicial authority must be constrained so as not to undermine the autonomy of arbitration or disregard the parties' agreed-upon arbitration terms.

In conclusion, arbitration's position within Indonesia's investment dispute resolution system can be understood as a mechanism with strong legal legitimacy, independent authority, and recognition under both national and international law. Arbitration serves as the primary means for resolving investment disputes efficiently and fairly, while also providing legal certainty and promoting a conducive investment climate. Therefore, strengthening the role of arbitration is an essential component of legal reform efforts and strategies to enhance Indonesia's competitiveness in attracting global investment.

## **B. The Urgency of Arbitration in Investment Dispute Resolution in Indonesia**

Arbitration has increasingly assumed a significant role in the resolution of investment disputes in Indonesia, particularly as the legal relationships underlying investment activities have grown more complex. Investments, especially those involving substantial economic value and long-term commitments, are highly susceptible to disputes arising from divergent interpretations of contractual provisions, breaches of agreement, or shifts in government policies. Under such circumstances, investors require a dispute resolution mechanism that provides rapid and effective legal certainty something that is often

difficult to achieve optimally through conventional court litigation (Fitryalita, 2019).

A primary factor contributing to the high significance of arbitration lies in its relatively swift and efficient process. Unlike formal court procedures, arbitration is not constrained by rigid procedural rules, allowing disputes to be resolved within a shorter timeframe. Moreover, arbitration awards are final and binding, thereby precluding the possibility of protracted multi-level appeals such as appellate or cassation proceedings, which often generate legal uncertainty. For investors, certainty in dispute resolution is a fundamental element in maintaining business stability and sustaining investment activities (Hamka, 2014).

The importance of arbitration is also closely linked to the need for a neutral and professionally managed dispute resolution forum. In investment disputes, particularly those involving foreign investors and the host state, concerns often arise regarding the independence and impartiality of national courts. Arbitration provides the parties with the flexibility to appoint arbitrators with specific expertise in investment and international trade, ensuring that the resulting decisions are more impartial and possess high legal quality (Handoko et al., 2023). This characteristic makes arbitration a forum that is generally more acceptable to all parties involved in investment-related disputes.

Additionally, confidentiality is a critical aspect that underscores the relevance of arbitration. Investment disputes often involve strategic information, trade secrets, and corporate reputations. Open court litigation carries the risk of adverse exposure for the parties, particularly investors. In contrast, arbitration allows disputes to be resolved privately, thereby protecting commercial interests and preserving harmonious relationships between the parties. This advantage further solidifies arbitration's position as an essential mechanism for resolving investment disputes (Isnaini, 2020).

From a national legal perspective, the relevance of arbitration is reinforced by Indonesia's legal policies, which actively recognize and encourage its use in investment dispute resolution. Law Number 30 of 1999 provides a clear legal foundation for conducting arbitration, while Law Number 25

of 2007 on Investment allows for the utilization of arbitration, including international arbitration, to resolve disputes between the government and investors (Sumaya, 2013). These legal provisions reflect the state's commitment to fostering a conducive and attractive investment climate.

Moreover, the relevance of arbitration is closely associated with economic globalization and Indonesia's adherence to international legal norms. Through the ratification of the 1958 New York Convention, Indonesia is obliged to recognize and enforce foreign arbitration awards. This ratification provides international investors with assurance that arbitration awards can be effectively executed in Indonesia, thereby strengthening their confidence in the national legal system (Harahap, 2016). Within the context of global competition to attract investment, the availability of an efficient arbitration mechanism serves as a key indicator of legal certainty in a given country.

### **C. Legal Regulation of Arbitration in Investment Dispute Resolution in Indonesia**

Arbitration in Indonesia is explicitly governed by Law Number 30 of 1999 concerning Arbitration and Alternative Dispute Resolution. This legislation provides a legal foundation for parties to resolve disputes independently through arbitration, whether in the commercial or investment sectors. Article 1(1) of the Arbitration Law defines arbitration as a dispute resolution mechanism outside the court system, based on a written arbitration agreement. This provision underscores that arbitration can only be conducted with the consent of the parties, thus establishing a legitimate legal basis for resolving investment disputes (Indonesia, Law Number 30 of 1999 on Arbitration and Alternative Dispute Resolution, Article 1(1), 1999).

In addition to the Arbitration Law, Law Number 25 of 2007 on Investment also regulates procedures for resolving disputes between investors and the government. Article 32 of this law provides that disputes may be settled through international arbitration, provided that there is an agreement between the parties. This regulation offers legal certainty for foreign investors who may have concerns regarding potential partiality in national court proceedings, while affirming the

legitimacy and recognition of arbitration as a valid mechanism in the context of cross-border investment.

In practice, the regulation of arbitration in Indonesia encompasses not only substantive aspects but also procedural dimensions and the enforcement of arbitration awards. The Arbitration Law grants specific roles to the courts, including registering arbitration agreements, appointing arbitrators when parties fail to reach an agreement, and enforcing arbitration awards if the losing party does not voluntarily comply. Furthermore, Indonesia has ratified the 1958 New York Convention, which governs the recognition and enforcement of foreign arbitration awards. This ratification allows for the execution of arbitration awards, including international awards, within Indonesian territory, thereby reinforcing arbitration as an effective dispute resolution mechanism recognized under both national and international legal frameworks (Ngantung, 2017).

Thus, the legal framework for arbitration in investment dispute resolution in Indonesia emphasizes the principles of party autonomy, the independence of the arbitration process, and its connection with the courts for supervision and enforcement purposes. This framework ensures legal certainty, safeguards the independence of the arbitration forum, and strengthens investor confidence in the available dispute resolution mechanisms in Indonesia.

#### **D. Obstacles and Effectiveness of Arbitration Award Enforcement in Investment Disputes in Indonesia**

The enforcement of arbitration awards in the context of investment disputes in Indonesia demonstrates a high level of effectiveness, although it still faces certain legal and practical challenges. In terms of effectiveness, arbitration awards are final and binding, providing legal certainty to the parties while minimizing the likelihood of subsequent disputes in court (Usman, 2012). Moreover, with Indonesia's ratification of the 1958 New York Convention, foreign arbitration awards can be recognized and enforced domestically, further strengthening the role of arbitration as a dispute resolution mechanism, particularly in the international context.

Nevertheless, the practical implementation of arbitration awards encounters several obstacles. Legal obstacles arise when the losing party attempts to annul the arbitration award in court on procedural grounds, such as allegations of misconduct in the appointment of arbitrators or when the award is deemed contrary to public policy. Practical challenges include limitations in competent human resources at the enforcement institutions or delays in administrative processes at district courts handling arbitration award execution (Masse & Rusli, 2017).

Besides these obstacles, the effectiveness of arbitration award enforcement also depends on the level of compliance by the parties. In practice, many parties voluntarily comply with arbitration awards due to their binding nature and mutual benefits, especially in investment disputes involving long-term relationships. The synergy between arbitration and the courts, where courts serve as supportive institutions for registration and enforcement, ensures that arbitration remains effective as a mechanism for resolving investment disputes. Consequently, despite legal and practical challenges, arbitration continues to serve as a reliable mechanism for ensuring legal certainty and protecting investors' rights in Indonesia (Sutrisno, 1994).

## **IV. CONCLUSION AND SUGGESTIONS**

### **A. Conclusion**

In conclusion, arbitration holds a pivotal and strategic position within Indonesia's investment dispute resolution system. It is not merely an alternative to conventional court litigation but a legally recognized and independent mechanism that provides parties particularly investors with legal certainty, efficiency, and professional dispute resolution processes. The framework established under Law Number 30 of 1999 and Law Number 25 of 2007 ensures that arbitration is conducted based on the voluntary agreement of the parties, upholding its autonomy and exclusivity while integrating the courts for supervision and enforcement. Furthermore, Indonesia's ratification of the 1958 New York Convention reinforces the role of international arbitration, providing additional assurance to foreign investors and strengthening confidence in the national legal system.

Despite facing certain legal and practical challenges, such as procedural annulment attempts or administrative delays, the enforcement of arbitration awards in Indonesia remains highly effective. The final and binding nature of arbitration awards, combined with voluntary compliance and the supportive role of courts, ensures that disputes are resolved conclusively and efficiently. Overall, arbitration serves as an essential mechanism for safeguarding investor rights, maintaining legal certainty, and promoting a conducive investment climate, highlighting its critical importance in both domestic and cross-border investment activities.

## B. Suggestions

First, the strengthening of Indonesia's arbitration system should be pursued continuously through the updating of regulatory frameworks, the development of arbitration institutions, and the enhancement of the professionalism and expertise of arbitrators. These efforts are essential to ensure that arbitration can function optimally as an effective mechanism for resolving investment disputes, guarantee legal certainty, and foster the confidence of both domestic and foreign investors.

Second, the government and relevant stakeholders are encouraged to promote harmonization between national and international arbitration, so that arbitration awards gain wider recognition and enforceability. Furthermore, advancing research on arbitration and investment disputes is expected to broaden the body of legal knowledge while providing practical contributions toward creating a stable, conducive, and competitive investment climate.

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