

STRUCTURE REFORM AND REGULATORY SIMPLIFICATION: STRATEGIES TO ENHANCE NATIONAL ECONOMIC COMPETITIVENESS THROUGH LITERATURE REVIEW

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Abstract

This study aims to analyse the strategy of structural reform and regulatory simplification as an effort to improve national economic competitiveness through a literature review. Regulatory reform and institutional restructuring are important agendas in creating a conducive business climate, overcoming overlapping regulations, and accelerating licensing and investment processes. This study uses a descriptive qualitative approach by reviewing various secondary sources, such as scientific journals, policy documents, and related research reports. The results show that regulatory simplification, digitalisation of public services, and policy harmonisation between the central and regional governments can improve the ease of doing business, attract investment, and encourage inclusive economic growth. However, challenges such as bureaucratic resistance, unsynchronised regulations, and limited institutional capacity still need to be overcome through strong political commitment, stakeholder participation, and regular regulatory evaluation to remain relevant to national and global economic dynamics.

Keywords: structural reform, regulatory simplification, economic competitiveness, investment, public policy

Introduction

Reformasi in Indonesia is an important milestone in the nation's journey, especially after the multidimensional crisis that hit in the late 1990s. The economic, political, legal and social crises peaked in 1998, which eventually led to the birth of the reform era and marked the end of the New Order regime (Djankov et al., 2006). The birth of the reform era in Indonesia was marked by the resignation of President Soeharto on 21 May 1998 after 32 years of leadership under the New Order regime. This event was the culmination of an accumulation of economic, political, and social crises that hit Indonesia, including the monetary crisis, rampant corruption, collusion, and nepotism (KKN), and a wave of massive demonstrations spearheaded by students and the public. Soeharto's resignation paved the way for the transition of power to President BJ Habibie and marked the end of the New Order and the beginning of the reform era that brought significant changes in the system of governance, democratisation, and the restructuring of political, economic, and legal structures in Indonesia (Otero-Iglesias et al., 2024).

The economic crisis that occurred in 1997-1998 was the main trigger for this major change. The rupiah exchange rate plummeted, state and private debt ballooned, and the economic system dominated by monopolistic and oligopolistic practices worsened the nation's condition. This situation caused public trust in the government to decline. The political crisis also accelerated the reform process. The practices of nepotism, collusion and corruption were rampant, while democracy did not work properly (Sautet, 2005). The centralised and authoritarian political system closed the space for people's participation in state decision-making. Public distrust of the government, DPR, and MPR is increasing due to practices of injustice and political engineering. The people demand reform of the political and legal system, including revision of laws that are considered to be the source of injustice (Djankov et al., 2006).

The birth of reformasi brought fundamental changes to the Indonesian system of government. One of the main changes was the limitation of the presidential term, the implementation of more democratic elections, and the decentralisation of power through regional autonomy. Decentralisation and regional autonomy have become important strategies in improving the efficiency and effectiveness of governance. The delegation of authority and funds from the centre to the regions is expected to improve economic performance and public services at the local level (Gonenc et al., 2000).

Bureaucratic reform is the main demand from the public to create a clean, transparent and accountable government system. The government has made various improvements, including institutional arrangements, improving the quality of the apparatus, and digitising public services.

Regulatory issues in Indonesia have become a serious concern in the reform era. The large number of overlapping, out-of-sync, and hyper-regulation regulations are major obstacles in creating a conducive business climate and improving national competitiveness. Regulatory simplification is one of the government's priority agendas. Through regulatory structuring, institutional improvement, and legal culture development, the government seeks to revoke irrelevant regulations and strengthen regulations that support economic development (Haidar, 2012).

The integration of regulatory reform into national development planning documents, such as the RPJMN, is a strategic step to ensure synergy between regulatory policy and economic development. An evidence-based policy approach is increasingly emphasised in the process of drafting regulations (Klapper & Love, 2011).

The competitiveness of the national economy is strongly influenced by the quality of regulation and the institutional structure of the country. Simple, clear, and consistent regulations will increase the ease of doing business, attract investment, and encourage inclusive economic growth.

This study aims to analyse the strategy of structural reform and regulatory simplification as an effort to improve the competitiveness of the national economy through a literature review. By understanding the dynamics and challenges of

regulatory reform, it is expected that relevant policy recommendations can be formulated to strengthen Indonesia's economic foundation in the future.

Research Methods

The research method used in this research is a literature study with a descriptive qualitative approach, where data is collected from various secondary sources such as scientific journals, books, policy documents, and research reports relevant to structural reform, regulatory simplification, and economic competitiveness national (Elijah & Aslan, 2025). The content of the literature was analysed in depth to identify, compare and synthesise key findings related to reform strategies and their impact on improving economic competitiveness. This approach allows researchers to gain a comprehensive understanding of the dynamics, challenges, and policy recommendations based on the evidence in the literature (Torraco, 2020).

Results and Discussion

Mapping of Regulatory Issues and National Economic Structure

Regulatory issues and the national economic structure in Indonesia are complex and interrelated issues, affecting competitiveness and overall economic growth. One of the main problems is the number of overlapping and unsynchronised regulations between ministries and institutions. This condition creates legal uncertainty and hampers the smooth running of economic activities, especially in terms of investment and trade. The long licensing process and convoluted bureaucracy are significant obstacles for businesses, thus reducing investment interest in Indonesia (Borrell et al., 2022).

Complicated bureaucracy and slow administrative procedures are also a big challenge. The process of settling export-import matters in Indonesia, for example, takes longer than in neighbouring countries. This leads to higher logistics and operational costs, reducing the competitiveness of Indonesian products in the global market (Anisa, 2023). Policy ambiguity and inconsistency often occur due to sudden changes in regulations without adequate public consultation. This inconsistency makes it difficult for businesses to plan long-term business and reduces investor confidence in the business climate in Indonesia. Regulatory uncertainty also increases business risk and inhibits the growth of strategic sectors (Sadiawati., 2015)

High compliance burdens due to burdensome regulations, such as complex reporting requirements and excessive administrative obligations, increase companies' operational costs. This burden is particularly pronounced for MSMEs that have limited resources, reducing competitiveness and innovation in the sector. Lack of stakeholder involvement in the drafting of regulations is also a problem. The resulting rules often do not reflect field conditions and real needs, leading to resistance in implementation. The

minimal public consultation process increases the potential for ineffective and difficult to implement regulations (Crescioli, 2024).

The quality of institutions and inter-agency policy coordination in Indonesia is still low. This has led to policies being taken that are often not integrated and lead to inefficiencies in implementation in the field. Weak coordination also slows down the government's response to global and domestic economic dynamics. The national economic structure is still highly concentrated in Java, with GDP accounting for more than half of the national total. Inequality of development between regions causes sharp economic and social disparities, hindering equitable distribution of welfare and inclusive economic growth (Otero-Iglesias et al., 2024).

Indonesia is also experiencing premature deindustrialisation, where the contribution of the manufacturing sector to GDP is declining, while services and primary commodities are increasingly dominant. This makes the economy vulnerable to commodity price fluctuations and reduces national value added, as well as narrowing the base for economic growth (Varoudakis & Rossotto, 2004).

Labour productivity and technology adoption in Indonesia still lag behind neighbouring countries. The majority of export products are still based on low technology, resulting in sub-optimal added value. Low productivity also impacts the stagnation of national economic growth. The high dependence on imports of raw materials and capital goods indicates the weakness of the domestic industry. This worsens the trade balance deficit and makes the national economy vulnerable to external shocks, such as changes in global prices and international trade policies (Choi, 2021).

Low tax revenue is a challenge in itself. Indonesia's tax ratio has continued to decline in recent years, even becoming the lowest in the ASEAN region. This limits the government's fiscal space to finance development and improve economic infrastructure. The growing budget deficit and state debt are also structural problems. The main causes are corruption, wasteful spending, and untargeted subsidies, which reduce the effectiveness of public spending and increase the fiscal burden in the future. (Galli & Pelkmans, 2000a).

The inability to manage human resources is an obstacle in improving the productivity and competitiveness of the national economy. Despite having a large population, the quality of Indonesia's human resources is still low, especially in mastering technology and specialised skills needed by modern industries. Global uncertainty and external challenges, such as commodity price fluctuations, changes in international trade policies, and the impact of the pandemic, increasingly demand adaptive and responsive economic regulations and structures. The government needs to continue to reform so that the national economy is able to survive and grow amidst global dynamics (Galli & Pelkmans, 2000b).

The above problems indicate that regulatory reform and restructuring of the national economy is an urgent agenda to improve competitiveness and realise inclusive and sustainable economic growth. Improvement efforts must be carried out in a comprehensive manner, starting from structuring regulations, strengthening institutions, to improving the quality of human resources and equitable development between regions.

Regulatory Reform and Simplification Strategy

Indonesia's regulatory reform and simplification strategy is a fundamental step towards creating an economic ecosystem that is more competitive and adaptive to global dynamics. This effort is driven by the need to overcome overlapping regulations, complicated bureaucracy, and legal uncertainty that have been the main obstacles to investment and national economic growth (Gonenc et al., 2000). The first step taken by the government is to simplify regulations through trimming and harmonising various laws and regulations. This simplification not only targets regulations at the central level, but also at the regional level, with the aim of reducing administrative burdens and accelerating the business licensing process (Nicoletti & Scarpetta, 2003).

The implementation of the risk-based licensing concept is one of the main strategies in regulatory reform. With this approach, the licensing process is adjusted to the level of risk of business activities, so that businesses with low risk can obtain licences more quickly and easily. This is expected to improve the ease of doing business and attract more investment. Digitalisation of public services is also an important pillar in simplifying regulations. The implementation of online licensing systems, e-government, and other digital platforms accelerates administrative processes, increases transparency, and reduces the potential for corrupt practices and administrative errors (Alesina et al., 2005).

In addition, the government established a one-stop service system for all business licensing and administration processes. This system makes it easier for businesses to fulfil administrative obligations, reduces time and costs incurred, and creates legal certainty for investors. Standardisation of reporting procedures and formats was also carried out to reduce variations in implementation at the regional level. With clear and consistent standards, business actors can more easily understand and follow the applicable rules, thereby reducing the risk of violations and administrative sanctions (Djankov et al., 2006).

The regulatory reform strategy also emphasises the importance of active participation of all stakeholders in the policy formulation process. Through public consultation forums, multi-stakeholder dialogue, and publishing open policy drafts, the government seeks to ensure that the regulations produced truly reflect the real needs in the field (Hallward-Driemeier, 2007). Strengthening institutional capacity and human resources is an integral part of regulatory reform. The government improves the

competence of policy and regulatory drafting apparatus through continuous training, internal supervision, and decentralisation of decision-making to accelerate responses to economic change (Nicoletti & Scarpetta, 2003).

Deregulation and repeal of regulations that are irrelevant or hinder economic growth are also carried out systematically. Through strict filtering from the start, the number of regulations can be reduced, so that only regulations that are truly necessary and effective are retained. Providing incentives and facilities for businesses, especially MSMEs, is an additional strategy to encourage compliance with regulations without overburdening them. These incentives can be in the form of reduced administrative costs, assistance, and training on regulatory compliance (Dunn, 2003).

The integration of technologies such as big data and blockchain is being adopted to improve transparency, data accuracy, and speed in implementing regulations. This technology also helps the government monitor the implementation of regulations in real-time and make more informed decisions. Regular evaluation and updating of regulations is an important principle in the reform strategy. The government conducts regulatory reviews to ensure that existing rules remain relevant to technological developments, market needs, and global economic challenges (OECD, 2021).

The positive impact of the regulatory reform and simplification strategy has begun to show, including the improvement of Indonesia's Ease of Doing Business (EoDB) ranking, increased investment interest, and the growth of innovation in strategic sectors. More efficient and adaptive regulations also encourage the creation of new jobs and inclusive economic growth. However, challenges remain, such as the need for rapid adaptation to global changes, political and ideological constraints, and limited resources in technology and administration. Therefore, synergy between government, business, and society is needed to ensure the sustainability of regulatory reform (Bruhn, 2011).

Thus, the strategy for regulatory reform and simplification in Indonesia focuses on simplification, digitalisation, stakeholder participation, institutional strengthening, and the use of technology. With the commitment and collaboration of all parties, regulations can be an effective tool to improve national economic competitiveness, create a conducive business climate, and encourage sustainable economic growth.

Conclusion

Structural reform and regulatory simplification have proven to be key strategies in improving the competitiveness of the national economy. Through cutting overlapping regulations, digitising public services, and implementing a risk-based licensing system, the government has succeeded in creating a more conducive business climate and attracting investment, both domestic and foreign. This effort is also supported by policy harmonisation between the central and regional governments, as

well as strengthening institutional capacity to ensure effective and efficient implementation of regulations.

The positive impact of these reforms is reflected in Indonesia's improved Ease of Doing Business ranking, investment growth, as well as the creation of new jobs. Simpler and more transparent regulations not only speed up the licensing process, but also lower compliance costs and increase investor confidence. In addition, regulatory simplification encourages innovation, productivity, and economic efficiency, thereby strengthening national competitiveness in the global market.

However, challenges remain, such as resistance from interest groups, unsynchronised central and local regulations, and limited institutional capacity. Therefore, the success of structural and regulatory reforms requires strong political commitment, active participation of all stakeholders, and regular evaluation and updating of regulations to remain relevant to economic dynamics and community needs.

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