*International Journal of Law, Justice & Statutory Affairs*
**Volume 2, Issue 3, 2026**

# A foreign investment limited liability corporation is abandoned by foreign nationals: Indonesian legal regulations

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**Research Article**

**Date of Submission: 13-07-2026** **Date of Acceptance:22-08-2026** **Date of Publication: 04-09-2026**

**Abstract**
The purpose of this article is to examine and identify the information available regarding the formation of a foreign investment limited liability company in Indonesia and to disseminate information regarding the regulation of sanctions for foreign nationals who abandon their foreign investment limited liability company. The article on Sanctions for Abandonment of Foreign Investment Limited Liability Company by Foreign Citizens in Indonesia employs a juridical-normative research methodology, using a statutory approach to examine the issue of norm vacuum. The study's discussion reveals that, in particular, "Law Number 25 of 2007 concerning Investment" governs foreign investors' obligation to form a Limited Liability Company for Foreign Investment in Indonesia. This law clearly states whether or not foreign investment must take the form of a Limited Liability Company. Additionally, there is still no legal clarity on the penalties imposed under the Investment Law for foreign nationals who quit their Foreign Investment Limited Liability Company, which leaves a gap in its regulation. As a result, specific regulations pertaining to sanctions are required for foreign nationals who only use the creation of a Foreign Investment Limited Liability Company to facilitate the filing of a Limited Stay Permit Card. This leads to an increase in the number of registered but inactive Foreign Investment Limited Liability Companies, which will undoubtedly correlate with the public perception of investment, particularly among foreign investors, and the formation of the Foreign Investment Limited Liability Company itself in Indonesia.

**Keywords:** Foreign investment, sanctions, and foreign nationals

## Introduction

Due to its abundance of natural resources, which are undoubtedly expensive, Indonesia has a lot of opportunity for investment. Unfortunately, this cannot be achieved just via local financing and technology. Since most of Indonesia's many contemporary manufacturing and industrial businesses have commercial relationships with foreign capital, foreign investment is necessary to support the country's ability to meet its demands (Mukianto, 2019) [7].

Indonesia established Law No. 25/2007 on Investment in 2007 to provide a legal foundation and assurance for investment. Essentially, the regulation includes all that is urgent and relates to basic investment laws and regulations, naturally in Indonesia. Unless the law specifies otherwise, foreign investment in Indonesia is required to establish a Limited Liability Company, according to Article 5(2) of the Investment Law. In addition to being a part of a nation that is currently undergoing development, Indonesia has strategic advantages when it comes to conducting international relations. These advantages can be seen in the country's geographic location or in the opportunities provided by its natural and human resources, which increase the number of people entering and leaving Indonesian territory. People are entering and leaving countries more often as a consequence of globalization. The ease with which national boundaries may be crossed draws the interest of nations. Every nation must have

sovereignty over its laws governing the entry and exit of its citizens. Every nation has laws and regulations governing these matters, which are referred to as immigration policies (Monoarfa, 2021) [6]. The policy encompasses everything linked to just arriving or remaining temporarily. Immigration is the process of monitoring foreign nationals who are in Indonesia, as well as the provision of services and the enforcement and security of all foreigners entering and leaving the country (Monoarfa, 2021) [6].

Immigration is undoubtedly connected to the creation of a Foreign Investment Limited Liability Company. A corporation must have the structure of a Foreign Investment Limited Liability corporation regardless of the amount of capital that comes from foreign people. Long-term advantages of foreign investment include the transfer of technology and managerial skills, as well as the possibility of job prospects (Sari, 2020) [8]. A nation classified as a "developing country" must prioritize employment. This is due to the government's restricted capacity to create employment. Indonesia, known as the "investors' paradise," is a very promising market for limited liability companies. In actuality, foreign capital investment also promotes Indonesian companies' growth. Establishing this Limited Company of Foreign Capital Investment is one of the legal ways to draw in foreign investors, as entrepreneurs utilize it as a container to accommodate international investors in order to grow their businesses (Sari, 2020) [8].

This results in the provision of benefits and incentives to foreign nationals who form a Limited Liability Company in Indonesia. The convenience of acquiring a Limited Stay Permit Card (Temporary Residence Card) is one of the benefits or incentives offered to foreign people who form a Limited Liability Company in Indonesia. However, the Investment Law only governs the incentives offered to foreign nationals; as of right now, there is no rule pertaining to punishments from foreign nationals who give up their Limited Company of Foreign Capital Investment in order to facilitate the acquisition of a Limited Stay Permission Card. Because the US resident who owns the Investment Law has gotten the necessary Limited Staying Permission Card, there is still a norm vacuum in this scenario, which results in several Limited Companies of Foreign Capital Investment that are not actively running. This action will have an influence on society and the public's perception of the goals and intents of the process of forming a Limited Foreign Capital Investment Company, particularly for other foreign nationals who want to do so in Indonesia. The Indonesian investment process will undoubtedly be hampered by this. Sanctions pertaining to foreign persons' abandoning of the Limited Company of Foreign Capital Investment must thus be regulated.

Because of this, this research will address the following issues: first, how is Indonesia's regulation of the creation of a Limited Perseroan Limited Foreign Capital Investment? Second, what penalties apply to foreign nationals who give up on their Limited Perseroan Limited Foreign Capital Investment? The purpose of this research is to learn more about the creation of limited liability companies in Indonesia as well as the sanctions that apply to foreign people who leave their limited liability companies.

## Research Methods

The research methodology used in this work is normative juridical research, which focuses mostly on secondary sources (Ibrahim, 2006) [2]. This study is a normative legal investigation about the approval of a foreign national owner's abandoning of a Limited Company of Foreign Capital Investment. According to Ibrahim (2006) [2], a study of the normative juridical type is also known as a research procedure that applies the logic of legal science from the normative side in order to find a truth that can then explain the regulation of sanctions for the abandonment of a Limited Company of Foreign Capital Investment by its owner who is a foreign citizen. In order to investigate the issue at hand, this research uses a statute technique, also known as a statutory approach. Primary, secondary, and tertiary legal resources are the sources of the legal materials analyzed in this study. The essence of this research is limited liability company analysis, which entails describing limited liability companies in relation to the difficulties mentioned in this study and examining relevant legal regulations in order to find answers.

## Results and Discussion

**Arrangement for the Establishment of a Limited Company of Foreign Capital Investment in Indonesia** When foreign nationals invest in Indonesia, they must create a Limited Liability Company, which is a legal entity governed by

Indonesian law. According to Law No. 40/2007 governing Limited Liability Companies (Cahaya et al., 2021) [1], this already has an internal policy. The Limited Liability Company was formerly included in the Commercial Code until the circumstances of the development of economic growth were adjusted in conjunction with later changes (Cahaya et al., 2021) [1]. This is the reason why, as one of the developing nations, Indonesia needs foreign investment or foreign direct investment in order to expedite the process of structuring the economy. The industrialization of capital development, the creation of jobs and technical skills, and the usage of new resources have all been facilitated by foreign investment. Additionally, it has to do with the first stage's covering of risks and losses, and the investment will subsequently inspire local businesses to work together. Additionally, this foreign capital will help lower inflation and balance of payments issues, strengthening the host nation—also known as the "host country" (Yuda et al., 2021) [12].

The following are some of the legal underpinnings of foreign direct investment in Indonesia:

1. Capital Investment Law No. 25 of 2007
2. Limited Liability Company Law No. 40 of 2007
3. Presidential Regulation Number 44 of 2016 Regarding the List of Closed and Open Business Fields with Investment-Related Requirements (Negative Investment List/DNI)
4. Investment Principle Permit (IP) Guidelines and Procedures Regulation Number 14 of 2015 of the Head of the Investment Coordinating Board of the Republic of Indonesia.
5. Head of the Investment Coordinating Board Regulation Number 6 of 2018 about Investment Facilities and Licensing Guidelines and Procedures.
6. The Republic of Indonesia (Perpres) Number 20 of 2018 Presidential Regulation on the Use of Foreign Workers in Indonesia.

The legal structure of foreign investment corporations is outlined in full in Article 5(2) of the Investment Law. In this instance, Foreign Investment is required to establish a Limited Liability Company, specifically a Foreign Investment Limited Company. The Investment Law stipulates that "foreign investment must be in the form of a limited liability company based on Indonesian law and domiciled within the territory of the Republic of Indonesia, unless otherwise provided by law." This policy's components are as follows: the foreign investment company is a limited liability company with Indonesian law as its legal foundation; it is based in Indonesia; it conducts business using authorized capital that has been fully divided into shares; and it has fulfilled the requirements outlined in the Investment Law and its implementing regulations. Parties that invest both domestically and internationally and carry out the process of investing in the form of a Limited Liability Company do so by: acquiring shares at the time the Limited Liability Company is established; buying shares; and using other legally permissible methods.

Both foreign people and foreign legal organizations may form a Foreign Investment Limited Company in Indonesia. Nonetheless, a Foreign Investment Limited Company still needs Indonesian nationals or Indonesian legal entities to do business on a number of fronts. The Presidential Regulation No. 44/2016 on the List of Closed Business Fields and Open Business Fields, 2016, and the Presidential Regulation of the Republic of Indonesia Number 20 of 2018 on the Use of Foreign Workers, 2018 both prohibit foreign workers from holding the position of Personnel Director. The Principle Permit (IP) is necessary when starting a new company, establishing a firm as a domestic or foreign investment, or attempting to relocate an existing enterprise. The magnitude of the investment value determines this. The Integrated Licensing Agency in the district, city, or province, as well as the P1TSP or One-Stop Integrated Service for Investment, such as the BKPM (Investment Coordinating Board), are the places to apply for this principle license. The IP processing can only be done by BKPM if the company's shareholder is a foreign national with some Indonesian citizenship. The following information or files are necessary for IP management if the business has not yet been established:

1. All potential shareholders of the foreign investment business must fill out and sign the Principle License Form (IP).
2. Potential shareholder names.
3. A valid identity card, such as a passport, for foreign nationals or an identity card for Indonesian nationals.
4.NPWP (for citizens of Indonesia).
5. A production flow chart that provides a thorough explanation of the process from raw materials to the finished product (for industry) or

an explanation of the activities and service items produced (for the service sector).
6. If necessary, suggestions from relevant governmental organizations.
7. The name of the new business.
8. The company's intended line of business.
9. Location of the project (projection).
10. Estimated marketing and production information
11. Required land area
12. The quantity of workers
13. Investment strategy
14. Capitalization strategy
15. A letter confirming the accuracy of the information provided.

If the authorized entity has been established as a limited liability company, the following papers are necessary for processing intellectual property for the requesting party with the form of entity (Limited Liability Company):
1. All potential shareholders of the foreign investment business must fill out and sign the Principle License Form (IP).
2. The name of the company's top management
3. The company's name
4. A copy of the establishment deed
5. A copy of the certificate of business domicile
6. An NPWP copy
7. A copy of the Minister of Law and Human Rights' letter of authorization
8. A duplicate of SIUP
9. A copy of the company registration certificate, or TDP
10. The business sector
11. Location of the Project (Projection)
12. Estimated Production and Marketing Information
13. Land Area Needed
14. The quantity of workers
15. Value Plan for Investments
16. Capital Strategy
17. A letter confirming the accuracy of the information provided.

**Sanction Arrangements for Foreign Citizens Who Abandon Their Foreign Investment Limited Liability Company**

The Investment Law (Jamil & Hayati, 2020) [5] is one of the ways the Indonesian government is attempting to provide international investors security and predictability. These regulations include provisions pertaining to issues that safeguard foreign investors, such as Article 6's regulations on treating all investors equally, both domestic and foreign; Article 7's regulations on nationalization and compensation; and Articles 8 and 9's regulations on the transfer of assets and transfers as well as repatriation on foreign exchange. The application of various Investment Law regulations pertaining to safeguarding foreign investors from potential hazards while they are present, particularly non-commercial concerns, is being discussed. According to Article 4(2) letter an of the Investment Law, the government treats local and international investors equally when establishing the basic norms of investment. The government then promises investors legal certainty, business, and business security from the licensing procedure to the conclusion of investment operations, according to letter b.
In terms of equal treatment for all investors, the Investment legislation specifically specifies in article 6 that the government provides equal treatment to all foreign investors who conduct investment operations in Indonesia in compliance with Indonesian positive legislation. Investors from nations who have agreements with Indonesia that provide them special privileges are not subject to this equal treatment. The customs union, free trade area, common market, monetary union, similar institutions, and bilateral, regional, or multilateral agreements between the Indonesian government and foreign governments pertaining to specific investment-related privileges are all considered special rights.
Foreign investors are at least motivated to invest in Indonesia by the following criteria (Sari, 2020) [8]:
a) Labor: in this scenario, labor results are relatively inexpensive, which can naturally suppress funds for production, especially in developing countries where the labor force is relatively large; b) Adjacent to resources/raw materials: developed countries have very few raw resources, whereas developing countries have raw resources that have not been used to their full potential. Developed nations with enough cash move their businesses to developing nations; c) In search of new markets, international investors also try to reach local customers in emerging nations. Selling items together with spare parts is one way to do this for customers; d) Technology transfer and licensing: foreign investors often follow technological advancements and frequently use

licensing processes to carry out the technology transfer process by licensing intellectual property rights;
e) Facilities or incentives to entice foreign investors to put money into Indonesia.

In summary, a variety of factors might impact foreign investors' interest in making investments in a certain nation. The regulations for offering incentives in the tax sector, the presence of qualified infrastructure, the presence of a skilled and disciplined workforce, and things that are made easier, like managing a Limited Stay Permit Card, are some of the pull factors in the nation that receives capital (Wayan et al., 2022) [11]. There are no assurances of legal stability for investment operations to go along with efforts to boost investor interest in Indonesia. Making measures for punishments, for instance, in the event that foreign nationals fail to handle their Foreign Investment Limited Companies appropriately after getting assistance with the processing of Limited Stay Permit Cards (Siregar et al., 2023) [9]. As a result, there are now more Foreign Investment Limited Liability Companies registered but not actively operating. This will undoubtedly be correlated with the public's perception of investment, particularly among foreign investors, and the creation of Foreign Investment Limited Liability Companies in Indonesia. There are no standards in the regulation of the Investment Law since there is no legal clarity about the penalties imposed under it. As a result, specific regulations pertaining to sanctions are required for foreign nationals who only use the creation of a Foreign Investment Limited Liability Company to facilitate the filing of a Limited Stay Permit Card. in order to foster a feeling of accountability among foreign nationals and provide a guaranty of legal certainty for investment in Indonesia.
It is the responsibility of both national and local governments to provide investment activities assurance and security while doing business. Additionally, the ability of the province and regency/city governments to organize investment must be regulated in order to provide such guaranties (Tindangen, 2016) [10]. The absence of norms is one of the norm issues that still arise under this legal certainty rule. These issues are common to all emerging nations that receive foreign investment to help boost their economies. The problem of guaranties provided by the government of the nation that accepts cash to foreign investors so that investors have no qualms about investing is closely linked to legal certainty.

**Conclusions**

In particular, "Law Number 25 Year 2007 on Capital Investment" governs foreign investors' obligation to form a Limited Liability Company for foreign investment in Indonesia. This law makes it clear whether or not foreign investment must take the form of a Limited Liability Company. Additionally, there is currently no legal clarity on the punishments imposed under the Investment Law for foreign citizens who quit their Foreign Investment Limited Liability Company, which leaves a norm vacuum in its regulation. As a result, specific regulations pertaining to sanctions are required for foreign nationals who only use the creation of a Foreign Investment Limited Liability Company to facilitate the filing of a Limited Stay Permit Card. As a result, the number of Foreign Investment Limited Liability Companies that are registered but not actively operating rises. This will undoubtedly have an impact on the public perception, particularly with regard to foreign investors and the creation of the Foreign Investment Limited Liability Company in Indonesia.

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