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ESG REGULATION AND FOREIGN INVESTMENT ATTRACTIVENESS IN INDONESIA: A COMPARATIVE LEGAL ANALYSIS WITH JAPAN

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ABSTRACT

This study examines the impact of Environmental, Social, and Governance (ESG) policies on foreign investors' decisions to invest in Indonesia, while also comparing the situation with ESG policies in Japan. ESG serves as a framework for measuring the extent to which a company's business operations align with sustainability principles. A country's ESG policies can influence foreign investor interest, as they often act as key indicators of profitability and corporate governance. This research employs a normative-juridical method, utilizing both statutory and comparative approaches. To date, ESG policies in Indonesia remain fragmented, limited to only a few industrial sectors. In contrast, Japan strongly supports the implementation of ESG principles within its investment and financial policies through key strategic directives on sustainable finance. Japan's ESG policies actively engage companies and relevant stakeholders in efforts to enhance the country's appeal to foreign investors. The study offers a novel contribution by proposing an ESG regulatory framework designed to strengthen regulatory certainty and boost foreign investment attractiveness in Indonesia.

Keywords: ESG Policy, Foreign Investment, Corporate Governance.

ABSTRAK

Penelitian ini membahas mengenai dampak kebijakan Environmental, Social, and Governance (ESG) terhadap keputusan investor asing untuk berinvestasi di Indonesia serta perbandingannya dengan kebijakan ESG di Jepang. ESG merupakan kerangka yang diterapkan kepada perusahaan untuk mengukur sejauh mana operasional bisnis perusahaan tersebut mendukung prinsip berkelanjutan. Kebijakan ESG suatu negara dapat memiliki pengaruh terhadap minat investor asing untuk berinvestasi sebab hal tersebut dapat menjadi indikator utama dalam menentukan profitabilitas serta tata kelola perusahaan. Penelitian ini merupakan penelitian yuridis normatif dengan pendekatan perundang-undangan dan studi komparasi. Kebijakan ESG di Indonesia sejauh ini masih tersegmentasi hanya di beberapa sektor industri saja. Jika dikomparasikan, Jepang sangat mendukung penerapan prinsip ESG dalam kebijakan investasi dan keuangan mereka melalui arahan strategis utama mengenai keuangan berkelanjutan. Kebijakan ESG Jepang pun berupaya untuk melibatkan perusahaan serta pemangku kepentingan terkait untuk melakukan beberapa upaya demi memiliki daya tarik terhadap investor asing. Penelitian ini menjabarkan kebaruan berupa pengusulan kerangka kerja regulasi ESG yang dapat memperkuat kepastian regulasi dan daya tarik investasi asing di Indonesia.

Kata Kunci: Kebijakan ESG, Investasi Asing, Tata Kelola Perusahaan.

A. INTRODUCTION

Investment is an important factor that drives economic growth and the development of various industries. In 2025, there was an increase in economic growth, namely to 5.11%, from the previous 5.03% in 2024 and around 5% in 2023.[1] This increment was influenced by various factors, one of which is investment. Investment has a significant impact on economic growth because it encourages capital accumulation and the expansion of business activities. Based on Law No. 25 of 2007 concerning investment as amended by Law No. 6 of 2023 concerning the Stipulation of Government Regulation in Lieu of Law No. 2 of 2022 concerning The Omnibus Law on Job Creation to become Law (**UU PM or Investment Law**), investment is divided into two types, namely domestic investment (*Penanaman Modal Dalam Negeri* or PMDN) and foreign investment (*Penanaman Modal Asing* or PMA). The Investment Law defines domestic investment as an investment activity to conduct business activities in Indonesia using domestic capital,[2] and foreign investment as an investment activity to carry out business activities in Indonesia using foreign capital entirely or in conjunction with domestic investment.[3] Direct investment is an investment made for long-term capital investment accompanied by ownership and control at the company.[4] While indirect investment is a form of investment that is short-term and only to collect profits, so that there is a separation between ownership and *controlling*.[5] Based on this, direct investment is a form of investment that is the basis for calculating a country's investment level in economic growth.

[1] Indonesian Chamber of Commerce and Industry. (n.d.). *Indonesia's economic profile*, available at https://kadin.id/data-dan-statistik/profil-ekonomi-indonesia/, accessed on May 20, 2026.

[2] Law Number 25 of 2007 concerning Investment (State Gazette of the Republic of Indonesia of 2007 Number 67, Supplement to the State Gazette of the Republic of Indonesia Number 4724), as amended by Law Number 6 of 2023 concerning the Stipulation of Government Regulation in Lieu of Law Number 2 of 2022 concerning Job Creation to Become Law (State Gazette of the Republic of Indonesia of 2023 Number 41, Supplement to the State Gazette of the Republic of Indonesia Number 6856), hereinafter referred to as the Investment Law (UU PM), Article 1 number 2.

[3] Investment Law (UU PM), Article 1 number 3.

[4] Ulya Yasmine Prisandani & Felix Pratama Tjipto, "Revisting the Need to Regulate Foreign Portfolio Investor in the Indonesian Stock Market," *Legality: Jurnal Ilmiah Hukum*, Vol 29, No. 2 (2021), page. 185-186.

[5] *Ibid*.

Currently, Indonesia is trying to increase foreign direct investment (FDI) to accelerate national industrial development. However, Indonesia is still seen as less attractive as an investment destination compared to neighboring countries such as Vietnam, Singapore, and Malaysia.[6] The government has indeed changed the foreign investment climate in Indonesia, one of its efforts being the change from the Negative Investment List to the Positive Investment List. However, this effort has not significantly influenced foreign investors' assessment of Indonesia. Most investors still lack the vision of sustainable policies that can mitigate business risks. Several developed countries, such as Japan, the United States, Germany, and Singapore, have implemented the concept of *Environmental, Social, and Governance* (ESG) to their investment policies.[7] Findings from previous research indicate that incorporating ESG principles into policies enhance a country's appeal to foreign investors.[8] As ESG evolves, it's no longer considered a fleeting phenomenon but has become key to long-term corporate growth. Empirical research indicates that companies with superior ESG performance exhibit higher investment sensitivity to growth opportunities, suggesting that ESG can support a company's ability to respond to and realize investment opportunities more effectively.[9]

The implementation of ESG concepts has become attractive to investors, demonstrating a long-term commitment to risk management and enhancing corporate resilience. The most common motives for investors to pay attention to a company's ESG implementation are reputation protection, moral or legal considerations, and the belief that climate risk is linked to portfolio returns.[10] In return, the growing proportion of

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[6]CNBC Indonesia, "Investasi RI Disalip Malaysia & Vietnam, Ekonom Senior Ungkap Sebabnya," May 19 2026, available at https://www.cnbcindonesia.com/news/20260518111626-4-735507/investasi-ri-disalip-malaysia-vietnam-ekonom-senior-ungkap-sebabnya, accessed on May 19 2026.

[7]Dave Goodsell, "2021 ESG Investor Insight Report," *Investment Managers,* April 21 2021, available at https://www.im.natixis.com/en-gb/insights/investor-sentiment/2021/esg-investing-survey-insight-report?utm_source=chatgpt.com, accessed August 11 2026.

[8]Wardi, Abdelouaret El, et. al., "Do ESG Risks Constitute a Financial Deterrent to Investment Attractiveness? An Empirical Multi-Country Analysis," *Risks 2026*, Vol 14, No. 5 (2026), page. 20.

[9]Nazir, Yusra, Xiaojing Cai, and Tatsumasa Tennojiya, "Does ESG performance enhance investment efficiency and firm performance? Evidence from Japan," *Research in International Business and Finance*, Vol 91, (2026), page. 19.

[10]Krueger, Philipp, et.al., "The Effects of Mandatory ESG Disclosure Around the World," *Journal of Accounting Research*, Vol 62, No. 5 (2024), page. 1838.

investors considering ESG factors enable companies with superior ESG performance to secure a lower cost of capital and achieve higher valuations, while simultaneously incentivizing companies with weaker ESG performance to improve their sustainability practices.[11] Through ESG implementation, many countries have successfully increased foreign investment, as ESG is seen as providing assurance of business sustainability. This is because ESG factors have the potential to help attract FDI inflows and foster a country's progress, as well as boost its economic growth.[12]

In short, the application of ESG in the business world has several functions. First, ESG serves as a benchmark used in investment analysis.[13] For example, assessing a company's economic sustainability can be seen from its long-term position, reputation, stability, and efficiency in dealing with certain situations such as labor conflicts, political risks, legal risks, and so on. Second, ESG can function as part of a risk management mechanism in calculating investment returns. There is a correlation between a company's financial performance and its ESG implementation performance because ESG factors have financial materiality. Therefore, integrating ESG into risk management allows companies to anticipate potential losses and maintain the sustainability of business activities. Third, ESG is a form of corporate responsibility. Many believe that ESG aligns company goals with broader social benefits, not based solely on profit but rather on a company's approach to the interests of all stakeholders, including workers, consumers, communities, and the environment. The ESG concept plays a significant role in placing social and environmental factors as part of strategic considerations for a company's long-term value.

However, Indonesia does not currently possess regulations specifically governing the application of ESG concepts as a basis for company assessments. The lack of guidelines for implementing ESG concepts in companies has resulted in a lack of standards to serve as a reference for their implementation. ESG regulations are

[11] Kraussl, Roman, Tobi Oladiran, and Denitsa Stefanova, "A Review on ESG Investing: Investors' Expectations, Beliefs, and Perceptions," *Journal of Economic Surveys*, Vol 38, (2024), page. 492.

[12] Chipalkatti, Niranjan, Quan Vu Le, and Meenakshi Rishi, "Sustainability and Society: Do Environmental, Social, and Governance Factors Matter for Foreign Direct Investment," *Energies 2021*, Vol 14 (2021), page. 15.

[13] Elizabeth Pollman, *The Making and Meaning of ESG*, (Pennsylvania: University of Pennsylvania and ECGI, 2022), page. 29.

included in several sectoral regulations with varying scopes and implementation standards. This situation creates gaps in ESG implementation across business sectors and creates uncertainty for companies. Investors also experience difficulties in comparing ESG performance between companies and reduce the consistency of information used in investment decision-making. In other words, this problem is not solely about the lack of regulations regarding ESG implementation, but rather the lack of a framework for ESG implementation based on a single, clear implementation and assessment standard.

Therefore, this study conducts a comparative study with Japan as a country that has implemented the ESG concept in corporate management through the Principles for Financial Action for the 21st Century, formulated in 2011. These guidelines are intended to serve as a reference for realizing a sustainable society, although currently still focused on financial institutions. Furthermore, Japan was used as a comparative reference in this study because it falls into the classification of "countries with rapidly improving ESG structures" with an ESG score in the range of 24–27.[14] Japan's policies demonstrate that the existence of ESG guidelines contributes to the development of Japanese companies and the creation of a sustainable business ecosystem that attracts a wide range of investors. Based on this, this paper will analyze how ESG principles can be formulated to support the enhancement of foreign investment in Indonesia. Furthermore, this research explores how the regulation that implements ESG principles in Japan will be able to serve as a reference for the development of an ESG regulatory framework in Indonesia. It is hoped that this paper will contribute to providing a comprehensive perspective on the importance of ESG regulations in creating certainty within the Indonesian business ecosystem for investors.

B. RESEARCH METHODS

The research method used in this paper is normative juridical or doctrinal legal research because the issues raised in this study relate to legal policies and regulations.

[14]Singhania, Monica, dan Neha Saini, "Quantification of ESG Regulations: A Cross-Country Benchmarking Analysis," *Journal SAGE*, Vol. 26, No. 2 (2022), page. 166.

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Doctrinal research methods focus researchers on doctrines derived from a synthesis of rules, principles, norms, interpretive guidelines, and values.[15] The approach used in this research is the legislative approach (*statute approach*) and a comparative approach based on laws and regulations that are available in Indonesia and Japan. This study uses secondary data consisting of primary legal materials and secondary legal materials. The primary legal materials used in this study are related laws and regulations, while the secondary legal materials are journals or scientific articles and literature.

C. RESEARCH ANALYSIS

1. The Development of Foreign Investment in Indonesia

Regulations related to foreign investment have undergone several significant changes. One such change is the enactment of Presidential Regulation No. 49 of 2021 concerning Amendments to Presidential Regulation No. 10 of 2021 concerning Investment Business Sectors. Through this regulation, Indonesia has implemented a Positive Investment List, which stipulates that all business sectors are open to investment, except those specified otherwise. This differs from the previous regulation, which implemented a Negative Investment List, which regulated business sectors restricted and prohibited from access by foreign investors. This change has significantly benefited foreign investors by broadening the choice of investment sectors. Furthermore, the enactment of Indonesia's Omnibus Law, namely Government Regulation No. 28 of 2025 concerning the Implementation of Risk-Based Business Licensing, has simplified the licensing process for business activities through Online Single Submission Risk-Based Approach (OSS-RBA), including licensing of business activities related to investment.

These regulatory changes have had a positive impact on foreign investment interest in Indonesia. According to a press release from the Indonesia's Investment Coordinating Board (BKPM), total investment realization in 2025 exceeded the target, growing by 12.7% year-on-year (YoY). Specifically, in the fourth quarter of 2025,

[15] Bhat, P. Ishwara, *Idea and Methods of Legal Research*, (Oxford: Oxford University Press, 2019), page. 28.

investment realization grew by 9.7%, with foreign direct investment dominating this figure, contributing 51.6% of the total investment, or IDR 256.3 trillion.[16] When viewed by industry type, downstream sectors such as the metal and mining industries play a significant role in contributing to total investment realization in 2025. This fact is also supported by data published by the Indonesia's Central Statistics Agency (*Badan Pusat Statistik* or BPS) regarding quarterly foreign investment realization by the economic sector. The basic metals, metal goods, non-machinery, and equipment industry contributed a total annual investment realization of US$14,650 million, making it the industry with the largest total annual realization. Second place is taken by the mining industry with a total annual realization of US$4,743 million.[17]

Regulations regarding ESG is a crucial aspect in maintaining foreign direct investment attractiveness in Indonesia. Major sectors such as mining and the metal industry are closely linked to environmental risks and transparent governance. This makes sustainability regulations a concern for foreign investors. Moreover, given the high environmental sensitivity of mining activities, there is an expectation that companies will proactively manage ESG risks by implementing robust environmental and social policies, ensuring transparency in governance, and prioritizing worker welfare. Consequently, sustainability regulations. particularly within these industries. have become a focal point for foreign investors.[18] The high level of foreign investment interest in downstream sectors, as noted in the data above, makes ESG policies in Indonesia crucial. While changes in legal regulations have had a positive impact on foreign investor interest, such as streamlining business permits and opening up positive investment opportunities, their effectiveness remains limited. Therefore, to maintain Indonesia's investment ecosystem, the government must also pay attention to how ESG

[16]Biro Protokol dan Hubungan Masyarakat, "Realisasi Investasi 2025 Lampaui Target, Hilirisasi Melompat 43,3 Persen," *Kementerian Investasi dan Hilirisasi/BKPM*, January 15 2026, available at https://www.bkpm.go.id/id/info/siaran-pers/realisasi-investasi-2025-lampaui-target-hilirisasi-mejang-43-3-persen, accessed on August 10, 2026.

[17]Badan Pusat Statistik, "Realisasi Investasi Penanaman Modal Luar Negeri Triwulanan Menurut Sektor Ekonomi - Jumlah Investasi (Juta US$), 2026," *Badan Pusat Statistik Indonesia*, May 29 2026, available at https://www.bps.go.id/id/statistics-table/2/MjM3OCMy/realisasi-investasi-penanaman-modal-luar-negeri-triwulanan-menurut-sektor-ekonomi-jumlah-investasi.html, accessed on August 10 2026.

[18]Fikru, Mahelet G., et. al, "Evaluating ESG Risk Ratings of Mining Companies: What Are Lessons for Ecuador's Developing Mining Sector?" *Resources Policy,* Vol 91 (2024), page. 10.

regulations are implemented. Previous research suggests that developing nations should not worry about a decline in foreign investment inflows when implementing stringent environmental regulations.[19]

2. **The Urgency of ESG Regulation in Indonesia**

In the era of transformation towards a green economy, sustainability issues are increasingly integrated into companies' business and investment policies, one emerging framework in this context is the ESG principles. ESG essentially serves as a guide for companies seeking long-term investments that consider environmental, social, and governance aspects.[20] The ESG concept is used to evaluate long-term business operations, including identifying risks and opportunities that can impact a company's long-term performance and value. The literature shows that a company's ESG characteristics are related to risk, performance, and value, although this relationship is not always consistent across companies and market conditions.[21]

These developments have also led to ESG becoming a key consideration in investment decision-making. Investors no longer solely consider financial indicators when evaluating a company, but also consider the company's strategy and ability to manage environmental, social, and governance risks that could potentially pose economic risks. Empirical findings from previous studies also reveal that ESG indicators effectively facilitate better investment returns for investors, as superior corporate strategies lead to higher investment returns.[22] Initially, ESG was merely a trend in voluntarily determining business direction. However, as the concept of sustainability has evolved, ESG has become a standard adopted by many countries. A study by Friede, Busch, and Bassen found that the correlation between ESG and a company's financial performance is not contradictory but often parallels the creation of

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[19]Kim, Yeseul, Dong-Eun Rhee, "Do Stringent Environmental Regulations Attract Foreign Direct Investment in Developing Countries? Evidence on the "Race to the Top" from Cross-Country Panel Data," *Emerging Markets Finance and Trade*, Vol 55, No. 12 (2019), page. 2807.

[20]Puti Angir & Weli, "The Influence of Environmental, Social, and Governance (ESG) Disclosure on Firm Value: An Asymmetric Information Perspective in Indonesian Listed Companies," *Binus Business Review*, Vol. 15, No. 1 (2024), page. 33-35.

[21]*Ibid*.

[22]Katsampoxakis, Ioannis, Anastasia Griva, and Stylianos Xanthopoulos, "ESG Investments: a Study of Their Role in Risk Management and Sustainable Economic Growth," *Journal of the Knowledge Economy,* Vol. 17, (2026), page. 9782.

long-term corporate value.[23] This demonstrates that ESG encompasses a broader scope than voluntary corporate social responsibility activities. The application of ESG also provides a more comprehensive perspective on corporate governance through the relationship between companies and shareholders, communities, the environment, and society.

Conceptually, there are three aspects that are the main foundation of an ESG strategy, namely environmental, social and corporate governance. These three aspects do not stand alone, but rather constitute an interrelated framework for assessing how a company manages the economic, environmental, and social impacts of its business activities.[24] Furthermore, these three aspects help ensure that management is carried out responsibly and sustainably. Therefore, ESG implementation is not solely concerned with achieving economic profits but also encompasses the company's mechanisms for identifying, managing, and disclosing various risks and non-financial impacts that could impact the company's long-term sustainability.[25]

The first aspect is corporate governance, namely a relationship between company management, the board of directors, shareholders, and other stakeholders in the company's decision-making and oversight processes. Within the ESG framework, corporate governance acts as a system that monitors company management through transparent, accountable and responsible mechanisms.[26] One of the main objectives of this mechanism is to reduce conflicts of interest between management and shareholders and ensure that management is not carried out based on the company's long-term interests.[27] The implementation of corporate governance can be reflected through internal monitoring mechanisms, policies, policies compliance, executive structure and

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[23]Gunnar Friede, Timo Busch & Alexander Bassen, "ESG and Financial Performance: Aggregated Evidence from more than 2000 Empirical Studies," *Journal of Sustainable Finance & Investment*Vol. 5, No. 4 (2025), page. 217-219.

[24]Enny Prayogo*et al.*., "Environmental, Social, and Governance (ESG) Disclosure and Firm Value in Indonesia: A Meta-Analysis," *International Journal of Business and Society*, Vol. 27, No. 1 (2026), page. 352-354.

[25]Berg, Kölbel & Rigobon (2022), "Aggregate Confusion: The Divergence of ESG Ratings," *Review of Finance*, (2022), page. 1316-1317.

[26]Dian Permata Sari*et al.*., "Corporate Governance, ESG Disclosure, and Firm Value: Evidence from Public Companies in Indonesia," *Journal of Economics and Management*, Vol. 3, No. 2 (2025), page. 51-53.

[27]*Ibid*.

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remuneration, information transparency, risk management, fulfillment of legal and tax obligations, and reporting mechanisms to shareholders and other stakeholders. Corporate governance not only serves as a supervisory instrument for company management, but also as a foundation in integrating environmental and social in business strategy.

The second aspect is environmental, namely a strategy related to the impact of a company's business activities on the environment and the company's ability to manage that impact sustainably. This aspect encompasses activities related to the use of natural resources, energy consumption, emissions, climate change, waste management, and the development of products and production processes that have a lower environmental impact. Therefore, the implementation of this aspect is not only assessed based on claims that the product is environmentally friendly or eco-friendly. The assessment takes into account the entire production process and life cycle products, including raw material sources, production processes, energy use, distribution, product use, and product management after use.[28] On the other hand, if the company's business line is not directly related to the eco-friendly product then the company's involvement in the environmental aspect will still be assessed based on the contribution of activities to the environment. This requires companies not only to produce products with lower impacts but also to integrate environmental sustainability principles into their business processes and supply chains.

The third aspect is "social" which focuses on a company's contribution to employees, consumers, and the surrounding community. A company's sustainability value is reflected in how it benefits its social environment. This approach demonstrates that a company's sustainability is not solely determined by its ability to generate profits but also by maintaining responsible relationships with affected parties.[29] For example, a portion of a company's profits will be used to improve community resources. Some companies even provide educational scholarships and training to prepare new, qualified

[28]Jana Gerta Backes & Marzia Traverso, "Life Cycle Sustainability Assessment—A Survey Based Potential Future Development for Implementation and Interpretation," *Sustainability*, Vol. 13 No. 24 (2021), page. 3-5.

[29]R. Edward Freeman, Sergiy Dmytriyev & Robert A. Phillips, "Stakeholder Theory and the Resource-Based View of the Firm," *Journal of Management,* Vol. 47, No. 7 (2021), page. 1763-1766.

workers for the company. Another activity involves funding scientific research, the results of which can be used to help the community and improve the quality of its products. It's important to note that contributions to the social environment also maintain the company's sustainability.

This change in approach shows the difference between ESG and Corporate Social Responsibility principle (CSR). In fact, ESG has become a new concept that complements the concept of CSR. CSR is associated with a form of voluntary corporate responsibility towards society and the surrounding environment. In this regard, ESG has developed as a framework that integrates environmental, social, and governance aspects into more measurable business practices. Thus, ESG does not completely replace CSR, but rather makes it a responsibility that must be fulfilled.

Considering these various functions, many countries have implemented the ESG concept in formulating their economic development policies. Indonesia has also begun to commit to implementing the ESG concept in economic activities. One manifestation of this commitment is regulations regarding the accommodation of the ESG concept in several regulations, including Presidential Regulation No. 59 of 2017 concerning the Implementation of the Achievement of the Sustainable Development Goals, Presidential Regulation No. 111 of 2022 concerning the Implementation of the Achievement of the Sustainable Development Goals, and the Indonesian SDGs Roadmap Towards 2030. However, these regulations do not specifically establish minimum standards that can be applied by companies. The implementation of the ESG concept and implementation programs has not been carried out properly. This has resulted in ESG implementation in Indonesia being less than optimal.

In the context of business activities and the financial sector, the regulatory framework directly related to ESG is contained in Indonesia's Financial Services Authority Regulation No. 51/POJK. 51/2017 concerning the Implementation of Sustainable Finance for Issuer Financial Services Institutions and Public Companies ("**POJK 51/2017**"). This regulation requires the implementation of sustainable finance principles for Financial Services Institutions, Issuers, and Public Companies and regulates the preparation of Sustainable Finance Action Plans, submission of sustainability reports, implementation of social and environmental responsibilities, incentives, and sanctions.[30] It is clear that regulatory developments in Indonesia have begun to move toward ESG compliance obligations. However, these regulations are not yet sufficiently robust to guarantee ESG implementation across all business sectors. This situation indicates that ESG implementation remains sector-specific and cannot yet be used uniformly by all companies.

Furthermore, Indonesia faces other challenges related to the lack of measurable standards and parameters for assessing ESG implementation. The lack of measurable sustainability reporting in other business sectors influences investors' assessments of a company's value. Ineffective oversight and the implementation of sanctions and incentives also often pose a greenwashing risk that companies do solely to appear sustainable. However, day-to-day business practices are often different from the company's branding performance. While such greenwashing practices may temporarily improve market perception, they severely damage stakeholder trust if exposed, leading to increased legal risks as well as harm to the company's brand reputation and investor relations.[31] It can be argued that ESG implementation depends not only on the existence of regulations but also on oversight, measurable indicators, and the ability to effectively integrate sustainability. Furthermore, the government's role is needed in developing a series of regulatory instruments and implementing them as concrete standards for companies.

3. **Comparative Study with Japan**

Japan is one of the countries that consistently adopts and promotes sustainability policies. This is reflected in its annual publication containing strategic guidelines promoting sustainable finance, namely The JFSA Strategic Priorities in Promoting Sustainable Finance issued by the Financial Services Agency (FSA) of Japan. On the publication of The JFSA Strategic Priorities in Promoting Sustainable Finance Period June 2025–July 2026, the FSA plans to expand transition financing in Asia through the

[30]Financial Services Authority Regulation Number 51/POJK.03/2017 of 2017 concerning Good Corporate Governance for Guarantee Institutions (State Gazette of the Republic of Indonesia of 2017 Number 169), hereinafter referred to as POJK 51/2017, Article 4, Article 9, Articles 10-11, and Article 13.

[31]Bao, Xiaomin, et. al., "The Impact of Environmental, Social, and Governance (ESG) Rating Disparities on Corporate Risk: The Mediating Role of Financing Constraints," *Journal of Environmental Management*, Vol. 371, (2024), page. 2.

GX Asia Consortium to achieve Green Transformation (GX) and create investment opportunities.[32] Transition financing is a financing method that aims to support companies that adopt sustainable greenhouse gas reduction initiatives to achieve a carbon-free society.[33] This is done as one of the FSA's efforts to increase the value and attractiveness of the company as an investment target for investors.

Furthermore, Japan also issued regulations that require companies to implement sustainability principles, one of which is an amendment to the Cabinet Office Order on Disclosure of Corporate Affairs (Ministry of Finance Order No. 5 of 1973). This amendment includes the addition of a new section, titled "Sustainability-Related Approach and Initiatives," to the business overview section of the annual securities report. As a result of this new section, companies are required to report on four areas: corporate governance, corporate strategy, risk management, and metrics and targets.[34] This regulation is in line with previous research facts which revealed that companies that implement ESG practices get a higher Return on Asset (RoA) and Return on Equity (RoE) due to operational efficiency and consumer trust factors.[35] Furthermore, other studies have also revealed that ESG scores maintain a positive relationship with ROE, although the relationship is not statistically significant.[36]

In addition to amendments to the Cabinet Office Order on Disclosure of Corporate Affairs, Japan also involves the role of investors in corporate governance reform, namely through the Stewardship Code. The Japanese Stewardship Code are guidelines or principles aimed at institutional investors, namely asset managers and investment fund owners, to support increasing medium to long-term investment returns

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[32]Japan Financial Services Agency, "July 2025–June 2026, FSA Strategic Priorities," (Tokyo: The Central Common Government Offices, 2021), page. 9.

[33]*Ibid*.

[34]International Comparative Legal Guides, "Japan - Environmental, Social, and Governance Law" *Global Legal Group*, January 6 2026, available at https://iclg.com/practice-areas/environmental-social-and-governance-law/japan/, accessed August 10 2026.

[35]Martin, Gracia Rubio, Francisco Jose Gonzales Sanchez, Raquel Perez Estebanez, "The Impact of ESG Practices on ROA, Financial Leverage, and ROE. A Comparative Analysis of the United States, the European Union, China, and Japan," *Management Letters Management Notebooks*, Vol. 26, No. 2 (2026), page. 81.

[36]Sitlani, Divye, "Impact of ESG Ratings on the Performance of S&P 100 Firms," *SSRN*, (2026), hlm. 8.

for their clients and beneficiaries.[37] In this case, investors are given the role to fulfill corporate governance responsibilities by monitoring the business conditions of the companies they invest in, conducting constructive dialogue with the companies to encourage improvements, and reporting to the beneficiaries on how their policies are implemented in accordance with the fulfillment of the Stewardship Code. Although the Stewardship Code is not mandatory, as of June 30 2026, 354 investors have signed the agreement, of which 295 investors have accepted the third revision of Japan's Stewardship Code.[38]

Along with the establishment of the Stewardship Code, Tokyo Stock Exchange also published the Corporate Governance Code which is a corporate governance provision that requires listed companies on the stock exchange to increase company value through collaboration with stakeholders in accordance with the characteristics and conditions of each company. The Corporate Governance Code originally compiled in 2015, revised in 2018, and effective as of June 11 2021. One of the results of the revision of Corporate Governance Code is the companies' obligations to adhere to sustainability and ESG principles. This obligation encourages companies to develop basic policies and disclose sustainability initiatives, as well as to improve the quality and quantity of climate-related disclosures based on the Task Force on Climate-related Financial Disclosures (TCFD) recommendations or equivalent international framework in companies listed in Japan's Prime Market.

In order for the companies and investors to be able to implement the policies regulated in the Stewardship Code and the Corporate Governance Code effectively, the Japanese Government issued the Guidelines for Investor and Company Engagement which applies the principle of “comply or explain”.[39] This principle is applied because of the provisions in the Stewardship Code and the Corporate Governance Code has no binding legal force and is not accompanied by punitive legal sanctions. Therefore,

[37]Japan Financial Services Agency, “Principles for Responsible Institutional Investors (Japan’s Stewardship Code),” (Tokyo: The Central Common Government Offices, 2025), page. 1.

[38]Financial Services Agency, “Stewardship Code: List of institutional investors who have accepted the Principles for Responsible Institutional Investors as of June 30, 2026” *Japan Financial Services Agency*, June 30 2026, available at https://www.fsa.go.jp/en/refer/councils/stewardship/20160315.html, accessed August 10 2026.

[39]Japan Financial Services Agency, “Appendix 2: Guidelines for Investor and Company Engagement,” (Tokyo: The Central Common Government Offices, 2021), page. 1.

companies and investors subject to these provisions must explain the reasons why they cannot comply with the required policy points.

Based on the above explanation of regulations, guidelines, and policies in Japan, it is clear that Japan is taking a visionary and dynamic approach to implementing ESG principles. Through strategic direction and collaboration between the government, companies, and institutional investors, Japan provides clear information on the importance of implementing ESG principles in supporting sustainable finance. This clear information can support foreign investors' decisions to invest in Japan.

4. Indonesia's ESG Regulation Ideal Scheme

Based on the comparative analysis of ESG implementation in Indonesia and Japan, several steps can be implemented by the Indonesian government to enhance Indonesia's investment attractiveness. First, a clearer and more focused regulatory framework serves as the primary legal umbrella. The ESG concept is not currently specifically explained with uniform standards in existing regulations. A single, focused standard for implementation and assessment is needed for companies implementing ESG. This is intended to establish uniform national ESG guidelines with validated assessments and benchmarks. Standardization of standards will make it easier for companies to implement ESG, which will impact their management practices.

Second, based on the Japanese model, a reporting mechanism with regular audits of the company is necessary. This can be strengthened through coordination with several government agencies, such as the Financial Services Authority (OJK). The government can establish Indonesia's Stewardship Code managed by the Financial Services Authority (OJK) and other associations, as implemented in Japan. This reporting format will be integrated with the capital market on the stock exchange to demonstrate information transparency. Furthermore, a national digital ESG registration mechanism integrated with the stock exchange is needed to establish credibility for the companies involved. This mechanism will facilitate investors' ability to provide their views and assessments of companies.

Third, providing incentives or specific facilities for companies that successfully implement ESG. In the initial stages of ESG implementation, the government can provide certain facilities or incentives, such as lower taxes for companies with the best

ESG assessments, priority access to financing, or specific subsidies tailored to the company's industry. This is intended to motivate Indonesian companies to implement ESG. The government also needs to impose sanctions if companies fail to implement ESG, including reporting or reporting as required. It is hoped that through these facilities, incentives, and sanctions, the transition to ESG implementation will be significant and more effective.

Through these steps, it is hoped that in the coming years, Indonesian companies will better understand the importance of implementing ESG concepts. Consistent implementation will increase a company's value in the eyes of investors. If investor confidence can be built through consistent risk minimization, foreign investment in Indonesia will increase significantly. This will impact the Indonesian economy and boost the progress of various industrial sectors.

D. CONCLUSION

Based on the discussion above, it can be concluded that ESG implementation is significant in supporting the creation of a sustainable business ecosystem and increasing the attractiveness of foreign investors to invest in companies in Indonesia. ESG not only serves as an instrument for assessing a company's responsibility towards the environment, society, and governance, but also plays a role in identifying and managing risks that could impact its sustainability. In the investment context, transparent and responsible ESG implementation can provide comprehensive information regarding a company's condition and risks. Currently, ESG regulations in Indonesia are stipulated in POJK 51/2017, which still focuses on the economic activity sector, particularly the financial sector. However, these other regulations cannot be said to be sufficient in establishing an integrated ESG framework that can be applied uniformly by companies. Furthermore, there are still issues with national ESG standards and parameters that create a gap between investor and company needs. Based on a comparative study with Japan, Indonesia can adapt the principles underlying ESG regulations in terms of establishing regulations, establishing national coordination, and providing incentives or sanctions. Thus, it is hoped that ESG regulations in Indonesia will be more structured, measurable, and credible, thereby strengthening the attractiveness of investment, especially for foreign investors, to Indonesia.

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