



# Investment protection and the investment court system in the EU–Indonesia comprehensive economic partnership

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**Abstract:** The reform of international investment governance has increasingly emphasized the need to balance investor protection with the regulatory sovereignty of host states. Within this context, the introduction of the Investment Court System (ICS) under the EU–Indonesia Comprehensive Economic Partnership Agreement (IEU–CEPA) represents a significant institutional shift in investment dispute settlement. However, existing studies have largely examined the ICS from a general or comparative perspective, with limited attention to its specific implications for Indonesia’s post-BIT investment policy. This study provides a contextualized legal analysis of the investment protection framework and the proposed implementation of the ICS within the IEU–CEPA. It applies a normative legal research approach based on the analysis of international agreements, legal documents, academic literature, and policy reports. The study focuses on examining the institutional design of the ICS in comparison with the traditional Investor–State Dispute Settlement (ISDS) mechanism and evaluates its potential implications for Indonesia. The findings indicate that the ICS introduces institutional improvements through the establishment of a permanent tribunal, the incorporation of an appellate mechanism, and enhanced procedural transparency, which collectively strengthen legal certainty and predictability in investment dispute settlement. However, these same features may also constrain the regulatory flexibility of the state by promoting more consistent and binding legal interpretations. As a result, the ICS does not eliminate the tension between investor protection and state sovereignty, but rather restructures it into a more institutionalized and predictable form. The study concludes that the effectiveness of the ICS framework will depend on Indonesia’s ability to manage this trade-off by strengthening institutional capacity and safeguarding national policy space. This research contributes to the discourse on international investment law reform by highlighting how institutional innovations in dispute settlement mechanisms may simultaneously enhance legal certainty while redefining the scope of state regulatory autonomy.

**Keywords:** investment court system; IEU–CEPA; investment protection; regulatory sovereignty; legal certainty; international investment law

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## 1. Introduction

In recent decades, the global investment regime has undergone significant transformation as states increasingly reconsider the balance between investment protection and regulatory sovereignty. Traditional bilateral investment treaties (BITs) have long provided extensive protections for foreign investors, including access to international arbitration mechanisms through the Investor–State Dispute Settlement (ISDS) system. While such mechanisms were originally designed to protect investors from arbitrary state actions, they have also generated substantial controversy due to concerns regarding transparency, consistency of decisions, and the potential limitation of states’ regulatory autonomy in pursuing public policy objectives (UNCTAD, 2023).

Indonesia has been actively involved in this broader reform movement within international investment law. Beginning in 2014, the Indonesian government initiated a large-scale termination of bilateral investment treaties, including the termination of the Indonesia–Netherlands BIT in 2015. This policy shift reflected growing concerns that existing investment agreements exposed the country to excessive legal risks and poten-

tial claims from foreign investors. Several high-profile investment disputes involving natural resource policies highlighted the vulnerability of developing countries when facing international arbitration claims with potentially significant financial consequences (Clarissa Nadya Arina, 2022; Wiko & Kinanti, 2025).

The termination of these treaties created an urgent need for a new legal framework capable of balancing investor protection with the state's right to regulate. In this context, the negotiation of the Indonesia–European Union Comprehensive Economic Partnership Agreement (IEU–CEPA) represents a major development in Indonesia's international economic policy. The agreement aims not only to strengthen trade and investment relations between Indonesia and the European Union but also to introduce a modern investment protection framework that incorporates lessons learned from earlier investment treaty experiences (Juned & Pribadi Sutiono, 2024; Kettunen & Ayu Pratiwi, 2025).

One of the most notable features of the IEU–CEPA is the introduction of the Investment Court System (ICS) as the primary mechanism for resolving investment disputes between foreign investors and host states. The ICS represents an institutional reform proposed by the European Union to address structural weaknesses associated with the traditional ISDS mechanism. Unlike ad hoc arbitration systems, the ICS introduces a permanent tribunal structure, enhanced transparency procedures, and a two-tier adjudication system that includes an appellate mechanism. These institutional features are designed to improve the legitimacy, consistency, and predictability of international investment dispute settlement (Atanda-Lawal, 2025; Bungenberg & Reinisch, 2020).

Despite these reforms, the ICS continues to generate debate among scholars and policymakers. Some analysts argue that the system represents a meaningful step toward improving accountability and transparency in international investment arbitration. Others remain skeptical, suggesting that the ICS may still preserve structural advantages for foreign investors by allowing them privileged access to international dispute settlement mechanisms that are not equally accessible to other stakeholders. These debates highlight the complexity of balancing investment protection with the regulatory autonomy of states, particularly for developing countries that rely on foreign investment to support economic growth (Akinkugbe & Majekolagbe, 2023; IISD, 2026; Thomas Jaeger, 2024).

In the case of Indonesia, the adoption of the ICS framework raises important legal and policy questions. On one hand, the IEU–CEPA may provide greater legal certainty and enhance investor confidence, thereby encouraging increased foreign investment in strategic sectors such as manufacturing, renewable energy, and electric vehicle supply chains. On the other hand, the introduction of an international dispute settlement mechanism may expose the country to new legal challenges related to domestic regulatory measures, particularly in areas such as environmental protection, natural resource governance, and industrial policy (Juned & Pribadi Sutiono, 2024; UNCTAD, 2023).

Existing academic literature has examined various aspects of investment treaty reform and dispute settlement mechanisms. Studies by Reinisch (2020) and Brauch (2021) analyze the institutional design of the Investment Court System and its potential implications for international investment governance. Meanwhile, research focusing on Indonesia's investment treaty policy highlights the country's efforts to redefine its investment protection framework following the termination of numerous bilateral investment treaties (Clarissa Nadya Arina, 2022; Wiko & Kinanti, 2025). However, relatively limited research has specifically examined the potential implications of the ICS mechanism within the context of the IEU–CEPA and its impact on Indonesia's strategic economic interests.

Existing academic literature has examined various aspects of investment treaty reform and dispute settlement mechanisms. Studies by Reinisch (2020) and Brauch (2021) primarily focus on the institutional design and theoretical justification of the Investment Court System (ICS) within the broader reform of international investment law. Meanwhile, research on Indonesia's investment treaty policy has largely concentrated on the implications of bilateral investment treaty (BIT) termination and the evolution of national investment frameworks (Clarissa Nadya Arina, 2022; Wiko & Kinanti, 2025).

However, existing studies tend to analyze the ICS either from a general global perspective or within the context of other agreements such as CETA and EU–Vietnam FTA, without sufficiently examining its interaction with Indonesia’s post-BIT investment policy and strategic economic interests under the IEU–CEPA framework. In particular, there remains limited analysis that integrates the legal structure of the ICS with its potential policy implications for Indonesia’s regulatory sovereignty in sectors such as natural resource governance, environmental protection, and industrial development.

This study addresses this gap by providing a contextualized legal analysis of the ICS mechanism within the IEU–CEPA, specifically focusing on its implications for Indonesia as a developing country undergoing investment treaty reform. Unlike previous studies that emphasize institutional design in abstract terms, this research combines doctrinal legal analysis with a policy-oriented assessment to evaluate how the ICS may reshape the balance between investor protection and the state’s right to regulate in Indonesia’s evolving investment regime.

At the same time, it is important to acknowledge the limitations of the doctrinal legal approach employed in this study. While normative analysis is effective in examining treaty provisions, legal principles, and institutional design, it does not fully capture the practical dynamics of investment dispute settlement, including litigation strategies, political considerations, and the behavior of arbitral or judicial bodies in actual cases. Consequently, the findings of this study should be understood as a legal and policy-based assessment rather than an empirical evaluation of the real-world operation of the ICS mechanism.

Therefore, this study aims to analyze the investment protection framework and the implementation of the Investment Court System within the IEU–CEPA agreement. The research seeks to examine the key characteristics of the investment protection provisions contained in the agreement, to analyze the institutional principles of the ICS mechanism in comparison with traditional ISDS systems, and to evaluate the potential opportunities and risks that the new framework may present for Indonesia’s economic governance and regulatory sovereignty. (Yehezkiel & Soemartono, 2025).

## 2. Materials and Methods

This research applies a normative legal research approach that focuses on the analysis of legal norms governing international investment protection within the framework of the Indonesia–European Union Comprehensive Economic Partnership Agreement (IEU–CEPA) and the EU–Indonesia Investment Protection Agreement. Normative legal research examines legal principles, doctrines, and regulatory frameworks in order to understand how legal rules operate and how they shape institutional arrangements in international economic relations. This approach is widely used in legal scholarship to analyze treaty provisions, institutional mechanisms, and the interpretation of international investment law (Marzuki, 2021; Sefriani, 2022). It is particularly relevant for examining the institutional transformation of investment dispute settlement mechanisms, including the emergence of the Investment Court System (ICS) as a response to the criticism directed at the traditional Investor–State Dispute Settlement (ISDS) mechanism (Henckels, 2023; William Hamilton Byrne, 2024).

The study relies primarily on secondary data derived from legal documents, academic literature, and policy reports. The primary legal materials consist of official texts and policy documents related to the IEU–CEPA negotiations, the EU–Indonesia Investment Protection Agreement, and other international investment agreements that regulate dispute settlement mechanisms. Secondary materials include scholarly journal articles, books, and discussion papers that examine the evolution of international investment protection regimes and the reform of investment dispute settlement systems in recent years (Fyock, 2025; Henckels, 2023). Additional information is also obtained from reputable institutional publications and official government reports that provide insights into the negotiation process and policy implications of the IEU–CEPA agreement (Anderson dkk., 2025; Juned & Priyadi Sutiono, 2024).

The analytical method used in this study is qualitative legal analysis supported by doctrinal and policy-oriented examination. The research begins with a systematic review of the legal framework governing investment protection within the IEU–CEPA and the EU–Indonesia Investment Protection Agreement. Subsequently, the study analyzes the institutional design and procedural characteristics of the Investment Court System, particularly in comparison with the conventional Investor–State Dispute Settlement mechanism previously applied in bilateral investment treaties involving Indonesia. Comparative legal analysis is employed to identify the main differences in institutional structure, transparency, adjudication procedures, and appeal mechanisms between the two systems (Fyock, 2025; Garimella & Soumya Rajsingh, 2024; Henckels, 2023).

Furthermore, the study evaluates the potential implications of the ICS mechanism for Indonesia by examining both the strategic opportunities and the potential risks associated with its implementation. The analysis considers the relationship between investment protection standards and the state’s regulatory authority, particularly in areas related to natural resource governance, environmental protection, and national development policies. By integrating doctrinal legal analysis with policy evaluation, this research aims to provide a comprehensive understanding of how the ICS framework may influence Indonesia’s investment governance and its position within the evolving global investment regime (UNCTAD, 2023; Zu & Ying Bi, 2025).

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However, it is important to acknowledge the limitations of the doctrinal legal approach employed in this study. While normative analysis is effective in examining treaty provisions, legal principles, and institutional design, it does not fully capture the practical operation of the ICS mechanism in real dispute settings. In particular, this approach cannot account for factors such as litigation strategies of investors and states, the role of legal representation, political considerations in dispute management, and the interpretative behavior of adjudicators in concrete cases. As a result, the findings of this study are limited to a legal and policy-based assessment and do not constitute an empirical evaluation of how the ICS system will function in practice. Future research incorporating empirical case studies or comparative dispute analysis would be necessary to further assess the real-world implications of the ICS framework for Indonesia.

### 3. Results and Discussion

#### 3.1 *Investment Protection Framework in the EU–Indonesia CEPA*

The EU–Indonesia Comprehensive Economic Partnership Agreement (IEU–CEPA) introduces a modern investment protection framework intended to balance investor protection with the regulatory sovereignty of the host state. The Investment Protection Agreement between Indonesia and the European Union establishes legal standards aimed at protecting investors from discriminatory treatment, uncompensated expropriation, and denial of justice within domestic legal systems. At the same time, the agreement explicitly recognizes the principle of the state's right to regulate in order to pursue legitimate public policy objectives such as environmental protection, public health, and sustainable development (European Commission, 2022).

This framework reflects the broader transformation of international investment law that seeks to address criticisms of earlier bilateral investment treaties. Traditional investment agreements often prioritized investor protection without providing sufficient safeguards for domestic regulatory authority. As a result, many developing countries, including Indonesia, reassessed their participation in bilateral investment treaties and began exploring new models of investment governance that emphasize regulatory balance and sustainable development considerations (UNCTAD, 2023).

The IEU–CEPA also aims to fill the legal vacuum created after Indonesia terminated a significant number of bilateral investment treaties beginning in 2014. The termination policy was driven by concerns regarding excessive exposure to international arbitration claims brought by foreign investors against domestic policy measures. By introducing a new regional framework for investment protection, the IEU–CEPA is expected to provide greater legal certainty while ensuring that investment regulation remains aligned with national development priorities (Juned & Pribadi Sutiono, 2024).

Furthermore, the agreement restricts the scope of investment protection to investments that comply with domestic legal requirements. This provision strengthens the obligation of investors to adhere to national regulations related to labor standards, environmental protection, and human rights. Such provisions reflect the growing global trend toward responsible investment governance and the integration of sustainability principles within international economic agreements (UNCTAD, 2023).

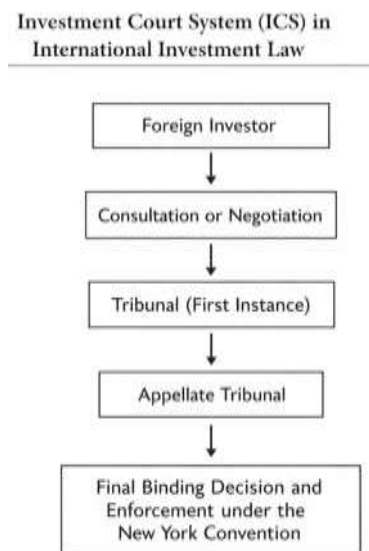
#### 3.2 *The Institutional Design of the Investment Court System*

One of the most significant institutional innovations introduced in the IEU–CEPA framework is the adoption of the Investment Court System (ICS) as the mechanism for

resolving disputes between foreign investors and host states. The ICS represents a structural reform of the traditional Investor–State Dispute Settlement (ISDS) system, which has been widely criticized for lacking transparency, consistency, and judicial independence. In response to these concerns, the European Union has promoted the ICS model as an alternative mechanism designed to enhance legitimacy and procedural fairness in international investment adjudication (N. Jansen Calamita, 2024; Ortino, 2024)(Fyock, 2025; Henckels, 2023).

Unlike conventional arbitration mechanisms, the ICS is designed as a permanent institutional structure composed of a standing tribunal and an appellate tribunal. Members of the tribunal are appointed jointly by the contracting parties rather than being selected individually by disputing parties. This institutional arrangement seeks to prevent conflicts of interest and reduce the perception that arbitrators may have incentives to favor investors or states depending on their professional affiliations (N. Jansen Calamita, 2024; Ortino, 2024).

The institutional structure of the Investment Court System can be illustrated as shown in Figure 1.



**Figure 1.** Institutional structure of the Investment Court System

The inclusion of an appellate mechanism represents another significant departure from traditional ISDS procedures. Under conventional arbitration systems, decisions are generally final and may only be challenged through limited annulment procedures. By contrast, the ICS allows parties to appeal decisions based on errors of law or manifest errors of fact. This two-tier system is intended to promote greater consistency in legal interpretation and enhance the predictability of investment dispute outcomes (Garcia & Guven, 2023; Giannakopoulos, 2025).

Beyond its procedural function, the existence of an appellate mechanism has significant implications for legal certainty in international investment law. By allowing the correction of errors of law and manifest errors of fact, the appellate body reduces the risk of inconsistent or contradictory interpretations that have frequently emerged under the traditional ISDS system. This contributes to the gradual development of a more coherent body of investment jurisprudence, which in turn enhances predictability for both investors and host states.

For Indonesia, this increased legal certainty may provide a more stable framework for anticipating potential legal challenges to regulatory measures. However, it may also limit interpretative flexibility, as consistent jurisprudence could constrain the state's ability to rely on divergent tribunal interpretations to defend policy measures in future disputes.

Transparency is also an essential component of the ICS framework. Proceedings are generally open to the public, and non-disputing stakeholders may submit *amicus curiae*

briefs in cases that involve broader public interest considerations. These procedural innovations are designed to address longstanding concerns regarding the secrecy of investment arbitration proceedings and to strengthen public confidence in the dispute settlement system (Riaz, 2026; Wong & Yackee, 2025).

Despite these institutional improvements, the ICS continues to face criticism from scholars and civil society organizations. Critics argue that the system still grants foreign investors privileged access to international adjudication mechanisms that are not available to other stakeholders, including local communities and workers affected by investment activities. Consequently, debates continue regarding whether the ICS represents a substantive transformation of the investment regime or merely a procedural reform of the existing system (Ama, 2025; Xhaferri & Robles, 2025)

### 3.3 Differences Between ICS and Traditional ISDS Mechanisms

The transition from the traditional ISDS mechanism to the ICS model represents a fundamental institutional shift in the governance of international investment disputes. Under conventional bilateral investment treaties, dispute settlement procedures typically relied on ad hoc arbitration tribunals formed specifically for individual disputes. Arbitrators were selected by the disputing parties, which often led to concerns regarding impartiality and potential conflicts of interest (Jillani dkk., 2025; Silva, 2025).

The key institutional differences between the traditional ISDS mechanism and the Investment Court System are summarized in Table 1.

**Table 1.** Institutional comparison between ISDS and ICS dispute settlement mechanisms.

Aspect	Investor-State Dispute Settlement (ISDS)	Investment Court System (ICS)
Institutional Structure	Ad hoc arbitration tribunal formed for each dispute	Permanent tribunal established by treaty
Appointment of Adjudicators	Arbitrators selected by disputing parties	Judges appointed jointly by treaty parties
Appeal Mechanism	Limited annulment procedure	Two-tier system with appellate tribunal
Transparency	Often confidential proceedings	Hearings and documents generally public
Ethical Rules	Depends on arbitration rules	Strict ethical standards and conflict-of-interest rules

Source: Adapted from European Commission (2022), Reinisch (2020), and Brauch (2021).

As shown in Table 1, the ICS introduces a more institutionalized and transparent dispute settlement framework compared to the traditional ISDS model.

In contrast, the ICS framework establishes a permanent tribunal composed of judges appointed for fixed terms by the contracting states. This design aims to enhance judicial independence and promote consistency in decision-making. The introduction of a permanent appellate tribunal further distinguishes the ICS system from traditional arbitration models by enabling the review of first-instance decisions. This appellate mechanism strengthens the legal coherence of investment jurisprudence and reduces the likelihood of contradictory interpretations across different cases (Sándor, 2022; Silva, 2025).

Another important difference relates to procedural transparency. Traditional ISDS proceedings are often conducted confidentially, limiting public access to information about the dispute and the reasoning behind arbitration awards. The ICS system introduces greater transparency by allowing public access to hearings and by publishing key procedural documents. These transparency measures are intended to improve the legitimacy of the dispute settlement system and to address public criticism regarding the lack of accountability in international investment arbitration (Dirani & Hassoun, 2024).

The enhancement of procedural transparency is closely linked to the strengthening of accountability within the dispute settlement system. Greater public access to hearings, documents, and submissions enables external scrutiny by civil society, academics, and

affected stakeholders, thereby reducing the opacity that has historically characterized investment arbitration.

This increased visibility creates indirect accountability mechanisms, as adjudicators and disputing parties are more likely to justify their arguments and decisions in a manner that can withstand public and institutional evaluation. In the context of Indonesia, such transparency may contribute to greater domestic oversight of investment disputes, particularly in cases involving sensitive policy areas such as environmental regulation and natural resource governance. At the same time, increased transparency may also expose the government to greater public pressure, potentially influencing how disputes are managed and resolved.

However, despite these procedural innovations, some scholars argue that the ICS framework may still reproduce structural asymmetries between investors and host states. In particular, concerns have been raised regarding the potential financial burden imposed on developing countries when defending claims in international adjudication processes. These concerns highlight the need for states such as Indonesia to strengthen their institutional capacity in managing investment disputes under the new system (Silva, 2025; UNCTAD, 2023).

### 3.4 Strategic Opportunities for Indonesia

The implementation of the IEU–CEPA agreement has the potential to generate significant economic opportunities for Indonesia, particularly in terms of attracting foreign direct investment and strengthening the country’s position within global value chains. The European Union represents one of Indonesia’s largest trading partners, and the agreement is expected to expand bilateral trade by reducing tariff barriers and facilitating investment flows across strategic sectors (Commission, 2026; Grimm dkk., 2022; UNCTAD, 2023).

One of the main economic incentives of the agreement is the gradual elimination of tariffs across most traded goods, as illustrated in Table 2.

**Table 2.** Tariff liberalization scheme under the IEU–CEPA agreement

Implementation Phase	Tariff Coverage	Main Beneficiary Sectors
Entry into Force	data	data
Five-Year Phase	96%–98.5% tariff elimination	Automotive, machinery, electronics, EV components
Long-Term Trade Value	Nearly 100% coverage	Strategic export commodities

Source: Compiled from European Commission (2022) and Kementerian Koordinator Bidang Perekonomian (2025).

As shown in Table 2, the progressive tariff liberalization scheme under the IEU–CEPA is expected to expand Indonesia’s export competitiveness across both primary commodities and value-added manufacturing sectors. In addition to trade liberalization, the IEU–CEPA framework is expected to encourage investment in high-value manufacturing industries and emerging sectors such as renewable energy and electric vehicle production. Indonesia’s abundant reserves of critical minerals, including nickel and cobalt, have attracted significant interest from European companies seeking to secure supply chains for battery production and sustainable mobility technologies (UNCTAD, 2023).

The agreement also provides opportunities for strengthening Indonesia’s institutional capacity in managing international investment governance. Participation in the ICS system may contribute to the development of legal expertise within government institutions responsible for investment dispute management. Over time, this institutional learning process may improve coordination among ministries and strengthen the role of state legal advisors in defending national interests in international adjudication proceedings (Silva, 2025; UNCTAD, 2023).

Moreover, the establishment of a structured and transparent dispute settlement system may enhance investor confidence by reducing uncertainties associated with regulatory changes. Legal predictability is often considered a key factor influencing foreign

investment decisions. By providing a stable legal environment, the IEU–CEPA agreement may contribute to increasing long-term investment flows into Indonesia’s manufacturing, infrastructure, and renewable energy sectors (Commission, 2026; Dirani & Hassoun, 2024; Grimm dkk., 2022).

### 3.5 Potential Risks for Indonesia

Despite the potential benefits, the adoption of the ICS mechanism also presents several risks for Indonesia, particularly in relation to regulatory sovereignty and public policy autonomy. One of the primary concerns is the possibility that foreign investors may challenge domestic policies affecting strategic sectors such as natural resource management, environmental regulation, and industrial policy. This situation could lead to the phenomenon known as regulatory chill, where governments hesitate to adopt certain policy measures due to the fear of costly investment arbitration claims (Horn, 2025; UNCTAD, 2023).

Indonesia’s past experience with international investment disputes illustrates the potential financial and political consequences of such litigation. Several arbitration cases involving natural resource regulation have demonstrated how investor claims can reach hundreds of millions of dollars, imposing significant fiscal risks on host states. These experiences have motivated Indonesia to reassess the balance between investor protection and domestic policy autonomy in its international investment agreements (Lan Huong, 2025).

Another potential risk relates to asymmetries in legal capacity between multinational investors and developing country governments. International investment litigation often involves complex legal procedures and requires highly specialized legal expertise. Without adequate institutional preparation, governments may face challenges in effectively defending their regulatory measures before international tribunals (Brauch, 2021).

Furthermore, certain regulatory initiatives within the European Union may indirectly affect Indonesia’s export sectors. For instance, environmental regulations such as the European Union Deforestation Regulation impose stringent traceability requirements on products entering the European market. Compliance with these regulations may increase administrative and financial burdens for Indonesian producers, particularly smallholder farmers who play a central role in the country’s agricultural export sectors (Choudhury, 2025; UNCTAD, 2023).

Therefore, while the ICS mechanism introduces several institutional improvements compared to traditional arbitration systems, its implementation must be carefully managed to ensure that investment protection does not undermine national development objectives. Strengthening domestic regulatory capacity and ensuring effective policy coordination will be essential for maximizing the benefits of the IEU–CEPA agreement while mitigating potential risks.

## 4. Conclusions

The analysis of the investment protection framework and the potential implementation of the Investment Court System within the EU–Indonesia Comprehensive Economic Partnership Agreement demonstrates that the agreement represents a significant shift in Indonesia’s investment governance. The introduction of a modern investment protection regime that incorporates the principle of the state’s right to regulate reflects broader global efforts to rebalance investor protection with public policy autonomy. Compared with the traditional Investor–State Dispute Settlement mechanism, the Investment Court System offers institutional improvements through the establishment of a permanent tribunal structure, the introduction of an appellate mechanism, and enhanced procedural transparency, which collectively aim to strengthen the legitimacy and predictability of international investment dispute settlement.

However, these institutional improvements also reshape the balance between legal certainty and state sovereignty. On the one hand, the presence of a permanent tribunal, consistent jurisprudence through an appellate mechanism, and increased transparency

contribute to greater legal certainty by enhancing predictability and coherence in dispute settlement outcomes. On the other hand, this increased predictability may constrain the regulatory flexibility of the state, as more consistent legal interpretations could limit the range of arguments available to justify domestic policy measures. In this sense, the ICS does not eliminate the tension between investor protection and regulatory autonomy, but rather restructures it into a more institutionalized and predictable form.

For Indonesia, the IEU–CEPA framework provides important strategic opportunities, particularly in terms of attracting high-quality foreign direct investment, strengthening integration within global value chains, and promoting investment in emerging sectors such as renewable energy and electric vehicle supply chains. However, the adoption of the Investment Court System also raises potential risks related to regulatory sovereignty, including the possibility that foreign investors may challenge domestic policies in areas such as natural resource governance, environmental protection, and industrial development strategies. These risks highlight the importance of strengthening institutional capacity, improving legal preparedness in investment dispute management, and ensuring effective policy coordination among government institutions.

This study contributes to the ongoing discourse on international investment law reform by providing a contextualized analysis of the ICS mechanism within the IEU–CEPA and its implications for Indonesia’s evolving investment treaty policy. Nevertheless, the research is limited to normative legal analysis based primarily on treaty texts and policy literature, and therefore does not fully capture the practical dynamics of investment disputes.

Future research should move beyond doctrinal analysis by incorporating empirical approaches to assess the actual operation of the ICS in practice. This may include the examination of case law emerging from ICS-based agreements, comparative analysis of dispute outcomes between ICS and traditional ISDS mechanisms, and qualitative studies on how states, including Indonesia, develop litigation strategies and manage investment disputes under the new system. Such empirical investigations would provide a more comprehensive understanding of whether the ICS effectively enhances legal certainty without disproportionately constraining state sovereignty in real-world dispute settlement contexts.

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