Journal of Law and Legal Reform
Vol. 7 Issue 3 (2026) 1727–1784
DOI: https://doi.org/10.15294/jllr.v7i3.59347
Online since: July 13, 2026

Journal of Law & Legal Reform
https://journal.unnes.ac.id/journals/jllr

The Urgency of Registering Land Lease Agreements for Foreign Nationals

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Abstract

The increasing use of long-term land lease agreements by foreign nationals in Indonesia has raised significant legal concerns regarding the effectiveness of the nationality principle under the Basic Agrarian Law. Although lease agreements constitute valid contractual relationships under the Indonesian Civil Code, the interaction between private law, agrarian law, investment law, and land administration regulations has created legal gaps and regulatory disharmony that enable foreign nationals to obtain *de facto* long-term control over land without formally acquiring ownership rights. This study aims to analyse these normative inconsistencies, examine how lease agreements may function as instruments of legal smuggling (*fraus legis*), and formulate an appropriate regulatory reform model. Employing a normative juridical method based on statutory, conceptual, comparative, and case approaches, this study analyses Indonesian legislation, compares regulatory frameworks in Singapore, Malaysia, and Thailand, and examines the PARQ Ubud case as evidence of the practical consequences of regulatory fragmentation. The findings demonstrate that the principal weakness of the current legal framework lies not in the legality of lease agreements themselves, but in the absence of mandatory registration, limitations on lease duration, and effective administrative supervision. This study contributes to Indonesian agrarian law by reconceptualising legal smuggling beyond traditional nominee arrangements, identifying legal gaps and regulatory disharmony across multiple legal instruments, and proposing a regulatory reform roadmap centred on the mandatory registration of land lease agreements involving foreign nationals to strengthen legal certainty, administrative oversight, and sustainable land governance.

Keywords

Lease Rights, Legal Certainty, Legal Smuggling, Land Registration, Foreign Nationals.

HOW TO CITE:

Chicago Manual of Style Footnote:

[1] Michelle Tiffani Dea Nugroho, Mochamad Rizqi Zia Ul'haq, Dewi Sulistianingsih, and Pujiono Pujiono, "The Urgency of Registering Land Lease Agreements for Foreign Nationals," *Journal of Law and Legal Reform* 7, no 3 (2026): 1727–1784, https://doi.org/10.15294/jllr.v7i3.59347.

Chicago Manual of Style for Reference:

Nugroho, Michelle Tiffani Dea, Mochamad Rizqi Zia Ul'haq, Dewi Sulistianingsih, and Pujiono Pujiono. "The Urgency of Registering Land Lease Agreements for Foreign Nationals." *Journal of Law and Legal Reform* 7, no 3 (2026): 1727–1784. https://doi.org/10.15294/jllr.v7i3.59347.

Introduction

Indonesia has emerged as one of Southeast Asia's most attractive investment destinations due to its large domestic market, abundant natural resources, strategic geographical location, and relatively stable economic growth. Supported by various regulatory reforms, including the simplification of investment licensing procedures and the expansion of priority investment sectors, Indonesia has successfully attracted substantial foreign direct investment (FDI) across tourism, manufacturing, real estate, trade, and service industries. These developments have positioned Indonesia as a regional economic hub while simultaneously increasing the demand for land as an essential production factor for both domestic and foreign investors.[1]

Despite its openness to foreign investment, Indonesia maintains a distinctive agrarian legal regime that places strict limitations on land ownership by foreign nationals Article 21 Paragraph (1) of the Basic Agrarian Law (Law Number 5 of 1960 concerning Basic Agrarian Principles) expressly provides that only Indonesian citizens may hold *Hak Milik* (freehold ownership rights). Consequently, foreign investors cannot directly acquire ownership rights over land, regardless of the scale or economic value of their investments. Instead, Indonesian law provides alternative legal mechanisms, particularly *Hak Pakai (*Right of Use) and *Hak Sewa* (Lease Rights), enabling foreign nationals to legally utilize land for residential or commercial purposes while preserving the constitutional principle that land ownership remains under national control.[2]

The increasing reliance on lease rights has become particularly significant within Indonesia's investment climate because lease agreements offer contractual flexibility, relatively low transaction costs, and long-term economic security for foreign investors. Through lease arrangements, foreign nationals are able to establish hotels, villas,

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[1] United Nations Conference on Trade and Development (UNCTAD), "World Investment Report 2024: Investment Facilitation and Digital Government," 2024, https://doi.org/10.18356/9789213589639.

[2] John F McCarthy, "Land, Law and Development in Indonesia," *Journal of Contemporary Asia* 132 (2022): 92–102, https://doi.org/10.1016/j.geoforum.2022.04.008.

restaurants, offices, warehouses, and various tourism-related businesses without formally acquiring ownership of the underlying land. Consequently, lease rights have gradually evolved from merely constituting private contractual arrangements into one of the principal legal instruments facilitating foreign investment within Indonesia's rapidly expanding property sector.[3]

Among Indonesia's regions, Bali has become the primary destination for foreign nationals seeking residential, commercial, and tourism-related investments. Its internationally recognized tourism industry, supported by continuous infrastructure development and strong global demand, has significantly increased the need for land for hotels, villas, restaurants, commercial premises, and tourism facilities. Consequently, Bali has experienced a rapid transformation of land use, accompanied by a substantial increase in land values and property transactions involving foreign investors.[4]

The rapid expansion of foreign investment has generated considerable economic benefits, including employment opportunities, tourism development, and increased regional revenue. Nevertheless, it has simultaneously produced complex agrarian challenges. Escalating land prices have reduced housing affordability for local communities, accelerated land conversion, and intensified competition over land resources.[5] More importantly, the growing participation of foreign nationals in Bali's property market has exposed significant weaknesses in Indonesia's land administration and regulatory framework, particularly regarding the legal mechanisms through which foreign investors obtain

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[3] I Nyoman Putu Budhiarta Simon Nahak, "Legal Protection of Land Tenure by Foreign Investors through Nominee Agreement in Bali, Indonesia," *International Journal of Criminology and Sociology* 10 (2021): 589–94, https://doi.org/10.6000/1929-4409.2021.10.68.

[4] Organisation for Economic Co-operation and Development (OECD), "OECD Investment Policy Reviews: Indonesia," 2020, https://doi.org/10.1787/b56512da-en.

[5] Indah Sri Utari et al., "Legal Protection for Children as Victims of Economic Exploitation: Problems and Challenges in Three Major ASEAN Countries (Indonesia, Vietnam and Philippines)," *Lex Scientia Law Review* 7, no. 2 (2023), https://doi.org/10.15294/lesrev.v7i2.68301.

long-term control over land without formally acquiring ownership rights.[6]

Although Indonesian agrarian law prohibits foreign nationals from holding *Hak Milik*, practical business needs have encouraged the widespread use of long-term lease agreements as an alternative legal instrument. In many instances, lease agreements are concluded for exceptionally long periods commonly ranging from 30 to 99 years, and are supplemented by renewal clauses, priority rights, powers of attorney, or other contractual arrangements that effectively provide foreign investors with continuous economic control over land.[7] While these contractual structures may formally comply with private law, they increasingly blur the distinction between temporary use rights and *de facto* ownership, thereby raising important questions regarding legal certainty, regulatory coherence, and the fundamental objectives of Indonesia's agrarian system.[8]

This phenomenon illustrates that the principal legal issue is no longer whether foreign nationals may use land in Indonesia an issue already accommodated through *Hak Pakai* and *Hak Sewa* but rather whether the current regulatory framework adequately prevents lease agreements from being transformed into mechanisms that circumvent statutory restrictions on foreign land ownership. Consequently, the increasing use of long-term lease arrangements has become one of the most pressing legal issues in contemporary Indonesian agrarian law, particularly in Bali, where the interaction between global investment and local land governance is most evident.[9]

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[6] United Nations Human Settlements Programme (UN-Habitat), "World Cities Report 2022: Envisaging the Future of Cities" (Nairobi, 2022), https://doi.org/10.18356/9789210010471.

[7] Ali Masyhar et al., "Legal Challenges of Combating International Cyberterrorism: The NCB Interpol Indonesia and Global Cooperation," *Legality: Jurnal Ilmiah Hukum* 31, no. 2 (2023), https://doi.org/10.22219/ljih.v31i2.29668.

[8] I. Gusti Ayu Ketut Rachmi Handayani, "Politics Settlement of Land Tenure Conflicts in Forest Areas Indonesia in the Era of President Joko Widodo," *Journal of Indonesian Legal Studies (JILS)* 7, no. 2 (2022): 487–524, https://doi.org/10.15294/jils.v7i2.57539.

[9] Nia Sulistiyani, "'Prohibition of Ownership of Foreign Citizens'' Land Through a Nominee Agreement Based on the Principle of Legal Certainty,'" *International Journal of Latin Notary* 31–34 (2024), https://doi.org/10.61968/journal.v4i2.70.

Recent studies have considerably advanced the discussion on the legal status of land tenure for foreign nationals in Indonesia. Dewi and Budiana examined the regulation of lease periods for foreign nationals and identified a normative gap arising from the absence of statutory provisions governing the maximum duration of lease rights. Their study argued that the lack of temporal[10] limitations potentially enables lease agreements to function as instruments that circumvent the nationality principle embedded in the Basic Agrarian Law. Nevertheless, their study primarily focused on the normative interpretation of statutory provisions and did not examine the broader implications of long-term lease arrangements for land governance, spatial planning, or investment regulation in practice.[11]

Subsequent research by Iswara, Widhiyanti, and Novitasari further developed the discussion by analysing the legal certainty of lease rights for foreign nationals. Their study concluded that the absence of explicit legal regulation regarding lease duration has generated uncertainty in contractual practice, particularly where lease agreements extend for exceptionally long periods and resemble permanent control over land. Although the authors identified the possibility of legal smuggling through excessively long lease arrangements, their analysis remained confined to doctrinal legal interpretation without evaluating the effectiveness of Indonesia's regulatory framework in preventing the misuse of lease rights as substitutes for prohibited ownership rights.[12]

Other legal studies have predominantly concentrated on nominee arrangements as unlawful mechanisms through which foreign nationals indirectly acquire control over land in Indonesia. While these studies consistently conclude that nominee agreements constitute a form of legal

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[10] Indra Ardiansyah et al., "Taking Restitution Seriously?: Victim-Oriented Gaps in the Criminal Justice System," *IJCLS (Indonesian Journal of Criminal Law Studies)* 10, no. 1 (2025), https://doi.org/10.15294/ijcls.v10i1.19636.

[11] Putu Rosa Paramitha Dewi and I Nyoman Budiana, "'Regulation of Land Lease Rights Period for Foreign Citizens in Indonesia,'" *Jurnal Hukum Prasada* 8, no. 1 (2021): 44–55, https://doi.org/10.22225/jhp.8.1.2514.44-55.

[12] Hanif Nur Widhiyanti and Novitasari Dian P Yudha Tri Dharma Iswara, "'Legal Certainty of Lease Rights for Foreign Citizens of Ownership Land in Indonesia,'" *Batulis Civil Law Review* 5, no. 1 (2024): 1–7, https://doi.org/10.47268/ballrev.v5i1.1715.

circumvention because they violate the nationality principle established under the Basic Agrarian Law, relatively little scholarly attention has been devoted to long-term lease agreements despite their increasing use as a legally permissible alternative capable of producing substantially similar economic consequences.[13] Consequently, the existing literature has not comprehensively examined whether long-term lease rights may themselves evolve into instruments of *fraus legis* when structured to transfer continuous economic control over land without transferring formal ownership.

This study seeks to address these shortcomings by shifting the analytical focus from the formal validity of lease agreements to the adequacy of Indonesia's regulatory framework in preventing lease rights from functioning as mechanisms of legal circumvention. Unlike previous studies, this research combines statutory analysis, case analysis, and comparative legal perspectives to evaluate the relationship between long-term lease arrangements, legal certainty, and land governance. The analysis is further contextualised through the PARQ Ubud case, which demonstrates how private contractual arrangements concerning lease rights may produce broader consequences for spatial planning, administrative enforcement, and sustainable land management in Bali. Accordingly, this study contributes a more comprehensive legal framework for reforming the regulation of lease rights for foreign nationals while maintaining an appropriate balance between investment facilitation and the nationality principle underlying Indonesian agrarian law.

Unlike previous studies, which primarily focus on the legality of nominee arrangements or the formal validity of lease rights, this study argues that the principal legal issue lies in the absence of clear legal parameters for distinguishing legitimate lease agreements from lease arrangements that function as disguised ownership mechanisms for foreign nationals. The problem is therefore not the existence of lease

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13 Diandra Preludio Ramada and Indah Sri Utari, "Unveiling the Surge in Corruption: A Menacing Threat to Indonesia's Stability in Anti-Corruption Law Reform," *Journal of Law and Legal Reform* 5, no. 1 (2024), https://doi.org/10.15294/jllr.vol5i1.2092.

rights themselves[14], which are expressly recognized under Indonesian agrarian law, but the transformation of those rights into contractual structures that effectively transfer long-term economic control over land while formally avoiding the statutory prohibition on foreign ownership.[15]

Building upon the doctrine of *fraus legis* (legal smuggling), this study reconceptualizes long-term lease agreements as potential instruments of legal circumvention when they are designed to achieve legal consequences that are substantively inconsistent with the nationality principle embodied in the Basic Agrarian Law. In this respect, the analysis moves beyond the conventional examination of contractual validity and instead evaluates whether the current regulatory framework is capable of preventing the misuse of legally permissible lease arrangements to accomplish objectives prohibited by mandatory agrarian norms.[16]

The novelty of this research therefore lies in the development of a normative analytical framework for identifying abusive lease structures based not merely on the duration of the lease[17], but on the cumulative legal effects created by contractual clauses such as automatic renewal provisions, exclusive control, transfer restrictions, purchase options, irrevocable powers of attorney, and other arrangements that collectively approximate ownership. By introducing these normative indicators, this study offers a more objective legal basis for distinguishing legitimate land utilization from contractual mechanisms that constitute *fraus legis*.[18] Accordingly, this study shifts the analytical focus from the legality of

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[14] Indah Sri Utari et al., "Legal Protection for Child Sexual Violence Victims: Victimology Perspectives, Challenges, and Policy Solutions in Asia," *Jurnal Suara Hukum* 8, no. 1 (2026), https://doi.org/10.26740/jsh.v8n1.p40-77.

[15] Budiana, "'Regulation of Land Lease Rights Period for Foreign Citizens in Indonesia.'"

[16] Mathias Siems, *Comparative Law* (Cambridge University Press, 2022), https://doi.org/10.1017/9781108892766.

[17] Indah Sri Utari et al., "The Digital Sanctuary: Forging Legal And Ethical Frameworks For Interfaith Coexistence Online," *Contemporary Issues on Interfaith Law and Society* 4, no. 2 (2025), https://doi.org/10.15294/ciils.v4i2.35309.

[18] Rinaldi Ridhogusti and Grasia Kurniati, "Implications of Nominee Agreements in Land Ownership by Foreign Nationals in Bali," *Reformasi Hukum* 28 (2024): 153–67, https://doi.org/10.46257/jrh.v28i2.1024.

lease agreements themselves to the coherence of the regulatory system governing their implementation.

Furthermore, unlike previous studies that predominantly rely on doctrinal legal analysis, this research integrates statutory interpretation, comparative legal analysis, and the PARQ Ubud case to evaluate how regulatory weaknesses affect not only private contractual relations but also public interests, including land governance, spatial planning, legal certainty, and sustainable tourism development in Bali. Accordingly, this study contributes both theoretically and practically by proposing a regulatory framework capable of balancing investment facilitation with the constitutional objective of preserving national sovereignty over land resources[19]. This study aims to answer the following research questions: (1) To what extent do the existing Indonesian legal instruments governing land lease agreements create normative gaps that enable legal smuggling by foreign nationals? (2) How should Indonesia reform its regulatory framework to prevent the misuse of long-term land lease agreements while maintaining legal certainty for legitimate foreign investment? To answer these questions, this article proposes a regulatory reform roadmap centred on the mandatory registration of land lease agreements involving foreign nationals, supported by the harmonisation of agrarian law, contract law, investment law, and land registration law as an integrated legal framework for preventing legal smuggling while preserving legal certainty and the nationality principle in Indonesian land law.

This study employs doctrinal legal research using a normative juridical approach. This method is appropriate because the principal issue examined in this study concerns the adequacy of the existing legal framework governing land lease rights for foreign nationals and whether such regulations are capable of preventing long-term lease agreements from functioning as mechanisms to circumvent statutory restrictions on foreign land ownership. Accordingly, the research focuses on analysing legal norms, legal principles, and legal doctrines rather than measuring

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[19] Indah Sri Utari, Ridwan Arifin, and Ahmad Zaharuddin Sani Ahmad Sabri, "Why Did a Five-Year-Old Toddler Become a Victim of Murder? A Criminological and Legal Perspective," *Indonesian Journal of Criminal Law Studies* 8, no. 2 (2023), https://doi.org/10.15294/ijcls.v8i2.48591.

the prevalence of lease practices empirically. The objective is to evaluate the coherence, consistency, and effectiveness of Indonesian agrarian law in regulating lease rights while preserving the nationality principle established under the Basic Agrarian Law.[20]

To achieve these objectives, the research applies three complementary approaches; the statutory approach, case approach, and comparative approach.[21]

The statutory approach is employed to examine the hierarchy and coherence of legal norms governing land tenure by foreign nationals. The analysis primarily focuses on Law Number 5 of 1960 concerning Basic Agrarian Principles (Basic Agrarian Law), particularly Articles 9, 21, 26, 41, and 44, because these provisions regulate the nationality principle, restrictions on land ownership by foreign nationals, the transfer of land rights, and lease rights. The statutory analysis is further supported by Government Regulation Number 40 of 1996 concerning the Right to Cultivate, the Right to Build, and the Right to Use over Land, Government Regulation Number 18 of 2021 concerning Management Rights, Land Rights, Apartment Units, and Land Registration, and Law Number 25 of 2007 concerning Investment. These statutory instruments are examined to assess whether the current regulatory framework provides sufficient legal safeguards against the misuse of long-term lease arrangements while maintaining legal certainty for foreign investment.

The case approach is conducted through an analysis of the PARQ Ubud case, which was selected using purposive sampling. This case represents one of the most significant recent examples involving foreign investment, long-term land lease practices, spatial planning violations, and administrative law enforcement in Bali. The case is considered representative because it illustrates how the implementation of lease rights may extend beyond private contractual relationships and produce broader legal consequences for land governance, zoning regulation, and public regulatory oversight. Accordingly, the PARQ Ubud case provides

[20] Johny Ibrahim, *Teori Dan Metodologi Penelitian Hukum Normatif* (Malang: Banyumedia, 2018).

[21] Peter Mahmud Marzuki, "Penelitian Hukum," *Jakarta: Kencana Prenada Media* 55 (2005).

an appropriate factual context for evaluating whether the existing legal framework adequately addresses potential legal circumvention through long-term lease arrangements.[22]

In addition, this study adopts a comparative approach by examining the legal regulation of foreign access to land in Singapore, Malaysia, and Thailand. These jurisdictions were selected because they represent neighbouring Southeast Asian countries that have comparable investment-oriented economies while adopting different legal policies concerning foreign land ownership and land use rights. The comparative analysis aims to identify regulatory models, legal safeguards, and policy approaches that may provide useful references for strengthening Indonesia's legal framework governing lease rights for foreign nationals.[23]

The legal materials used in this research consist of primary, secondary, and tertiary legal materials. Primary legal materials include the 1945 Constitution of the Republic of Indonesia, Law Number 5 of 1960 concerning Basic Agrarian Principles, Government Regulation Number 40 of 1996, Government Regulation Number 18 of 2021, Law Number 25 of 2007 concerning Investment, relevant ministerial regulations issued by the Ministry of Agrarian Affairs and Spatial Planning/National Land Agency (ATR/BPN), the Indonesian Civil Code, and judicial decisions relating to land lease disputes involving foreign nationals. Secondary legal materials consist of peer-reviewed journal articles, scholarly books, previous legal research, dissertations, government reports, and academic publications discussing agrarian law, lease rights, nominee arrangements, foreign investment, and legal certainty. Tertiary legal materials include legal dictionaries, encyclopaedias, and other reference materials used to clarify legal terminology and concepts.[24]

Data collection was carried out through library research by systematically reviewing the above legal materials. To reconstruct the factual chronology of the PARQ Ubud case, the analysis was supported by official government publications and credible media reports. These materials were used solely to provide factual context, whereas the legal

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22 John Gerring, *Case Study Research: Principles and Practices* (Cambridge: Cambridge University Press, 2017), https://doi.org/10.1017/9781316848593.

23 Siems, *Comparative Law*.

24 Mahmud Marzuki, "Penelitian Hukum."

analysis remained grounded in statutory provisions, judicial decisions, and authoritative legal scholarship.

The legal materials were analysed qualitatively using several complementary interpretative techniques. Statutory interpretation was employed to determine the meaning and scope of legislative provisions governing lease rights and restrictions on foreign land ownership. Systematic interpretation was used to examine the relationship between various statutory instruments within the Indonesian agrarian legal system in order to evaluate their consistency and identify normative gaps. A conceptual approach was applied to analyse the legal concepts of lease rights, legal certainty, the nationality principle, and *fraus legis* (legal smuggling) as the theoretical framework of the study. Finally, comparative legal analysis was undertaken to evaluate regulatory approaches adopted in Singapore, Malaysia, and Thailand and to identify legal mechanisms that may contribute to future reform of Indonesia's agrarian law.[25]

This study acknowledges several limitations. As a doctrinal legal study, it does not provide empirical data regarding the actual prevalence of long-term lease practices involving foreign nationals throughout Indonesia. Furthermore[26], the case analysis is limited to the PARQ Ubud case, which is used as a representative illustration of regulatory issues arising in Bali rather than as a basis for empirical generalisation. Consequently, the findings of this study should be understood as normative recommendations for legal reform, intended to strengthen legal certainty and improve the regulation of lease rights for foreign nationals within the Indonesian agrarian legal system.[27]

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[25] Johny Ibrahim, *Teori Dan Metodologi Penelitian Hukum Normatif*.

[26] Indah Sri Utari et al., "A Criminological Perspective on Corruption as a Catalyst of Economic Breakdown: Socio-Legal Challenges in Indonesian Environmental Governance," *Jambe Law Journal* 9, no. 1 (2026): 205–47, https://doi.org/10.22437/jmj4ac47.

[27] Gerring, *Case Study Research: Principles and Practices*.

A. Regulations on Land Ownership by Foreign Nationals in Indonesia

Indonesia's land tenure system is fundamentally governed by the nationality principle (*asas nasionalitas*), which constitutes one of the fundamental principles of the Basic Agrarian Law (Law Number 5 of 1960 concerning Basic Agrarian Principles). Under this principle, full ownership rights (*Hak Milik*) are reserved exclusively for Indonesian citizens, reflecting the constitutional objective that land must remain under national control and primarily serve the welfare of the Indonesian people. Consequently, Article 21 Paragraph (1) of the Basic Agrarian Law expressly prohibits foreign nationals from holding ownership rights over land.

The Basic Agrarian Law nevertheless recognizes limited exceptions to this principle. Pursuant to Article 21 Paragraph (3), foreign nationals who acquire ownership rights through inheritance without a will or through the commingling of marital property are required to relinquish those rights within one year. Failure to do so results in the automatic extinguishment of the ownership right[28], whereby the land reverts to the State while preserving any lawful third-party interests attached to the property.[2] This provision demonstrates that Indonesian agrarian law consistently maintains the nationality principle by treating any ownership acquired by foreign nationals as merely temporary and exceptional rather than creating an independent legal entitlement.[29]

Although the nationality principle appears unequivocal, its implementation has become increasingly complex due to subsequent regulations designed to facilitate foreign investment. On the one hand, the Basic Agrarian Law restricts foreign ownership to preserve national sovereignty over land. On the other hand, Indonesia's investment policy

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28 Aldehita Purnasanti Maulida et al., "Navigating Indonesia's Economic Crossroads: The Future of State-Owned Enterprises in a Transforming National Economy," *Indonesian Journal of Advocacy and Legal Services* 8, no. 1 (2026): 415–52, https://doi.org/10.15294/ijals.v8i1.55219.

29 Indah Sri Utari et al., "Illegal Nickel Mining in Protected Forests: Challenges in Whistleblower and Justice Collaborator Protection in Indonesia," *Indonesian Journal of Environmental Law and Sustainable Development* 4, no. 2 (2025): 341–74, https://doi.org/10.15294/ijel.v4i2.38220.

actively encourages foreign capital through various legal instruments, including Law Number 25 of 2007 concerning Investment and Government Regulation Number 18 of 2021. This dual regulatory orientation creates an inherent normative tension between the protection of national land sovereignty and the government's objective of promoting foreign investment.[30]

Rather than granting ownership rights, Indonesian law provides foreign nationals with several limited rights over land, particularly the Right of Use (*Hak Pakai*). Article 41 of the Basic Agrarian Law defines the Right of Use as the right to use and/or collect benefits from land directly controlled by the State or owned by another person under conditions determined by statutory provisions or contractual agreement. Unlike ownership rights, the Right of Use does not confer permanent control over land but merely authorizes its utilisation for a specified purpose and period.[31]

Government Regulation Number 18 of 2021 further expands the legal framework governing the Right of Use by allowing foreign nationals who hold valid residence permits to acquire residential property under this land title. Article 49 expressly identifies foreign nationals as eligible holders of the Right of Use, while Articles 67 and 68 permit ownership of residential houses or apartment units built upon land under the Right of Use. Moreover, Article 52 grants a relatively long period of tenure consisting of an initial thirty-year term, extendable for twenty years and renewable for an additional thirty years. Consequently, foreign nationals may legally occupy residential property for up to eighty years under a single legal framework.

From the perspective of legal certainty, these provisions demonstrate the government's commitment to providing lawful access to land for foreign nationals without violating the nationality principle. Nevertheless, the practical implementation of the Right of Use reveals several regulatory limitations that reduce its attractiveness for foreign investors. First, eligibility is limited to foreign nationals holding valid

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[30] Maria S.W Sumardjono, *Tanah Dalam Perspektif Hak Ekonomi, Sosial, Dan Budaya* (Jakarta: Kompas, 2008).

[31] Boedi Harsono, *Hukum Agraria Indonesia: Sejarah Pembentukan Undang-Undang Pokok Agraria , Isi Dan Pelaksanaannya* (Jakarta: Djambatan, 1997).

residence permits, thereby excluding many investors whose primary objective is commercial investment rather than permanent residence. Secondly, the Right of Use primarily facilitates residential ownership and does not comprehensively regulate commercial land utilisation through flexible contractual arrangements. Thirdly, the administrative procedures governing registration, renewal, and compliance remain considerably more formal and restrictive than private lease agreements.[32]

These practical limitations explain why many foreign nationals prefer land lease agreements (*Hak Sewa*) rather than the Right of Use. Unlike the Right of Use, lease agreements are based primarily on contractual freedom under private law and generally involve fewer administrative requirements.[33] Long-term lease arrangements also provide greater flexibility for developing hotels, villas, restaurants, tourism facilities, and other commercial enterprises without requiring changes to the underlying land title. Consequently, lease agreements have gradually evolved from ordinary contractual instruments into mechanisms capable of granting foreign nationals' long-term economic control over land without formally transferring ownership.[34]

The emergence of this practice illustrates a significant normative gap within Indonesian agrarian law. While the Basic Agrarian Law recognises lease rights under Article 44, it does not establish clear statutory limitations regarding the maximum duration of lease agreements, mandatory registration procedures, permissible commercial uses, or mechanisms for governmental supervision. As a result, parties remain free to negotiate lease periods extending thirty, fifty, or even ninety-nine years through private contractual arrangements. Although such agreements do not legally transfer ownership, they may produce

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32 Urip Santoso, *Hukum Agraria Kajian Komprehensif* (Jakarta: Kencana, 2012).

33 Indah Sri Utari et al., "Rethinking Filicide through Freudian Psychoanalysis: A Comparative Perspective on Indonesian and Spanish Criminal Cases," *Jurnal IUS Kajian Hukum Dan Keadilan* 14, no. 2 (2026): 587–620, https://doi.org/10.29303/ius.v14i2.1997.

34 and Abdul Kadir Jaelani I Gusti Ayu Ketut Rachmi Handayani, Lego Karjoko, "Legal Certainty of Land Rights for Foreign Investors in Indonesia," *International Journal of Innovation* 11, no. 10 (2020): 538–48.

economic effects substantially similar to ownership by granting exclusive possession and long-term control over strategically valuable land.[35]

This normative gap becomes even more problematic when viewed alongside Indonesia's investment policy. Government Regulation Number 18 of 2021 provides an extensive legal framework for the Right of Use, yet the absence of equivalent regulation governing lease rights encourages investors to bypass the public law regime in favour of privately negotiated lease agreements. Consequently, the coexistence of a highly regulated Right of Use and a minimally regulated lease regime create legal uncertainty and opens opportunities for legal smuggling (*fraus legis*). In practice, foreign nationals may obtain long-term economic control over land through lease contracts while formally complying with statutory restrictions on ownership. Such arrangements do not necessarily violate the literal wording of the law but substantially undermine the nationality principle that constitutes the philosophical foundation of Indonesian agrarian law.[36]

Accordingly, the principal legal issue is no longer whether Indonesian law permits foreign nationals to access land, because such access has already been accommodated through the Right of Use. Rather, the more fundamental question concerns whether the existing regulatory framework adequately prevents lease agreements from functioning as instruments to circumvent statutory restrictions on foreign land ownership. The absence of comprehensive regulation governing lease rights therefore represents one of the most significant weaknesses of contemporary Indonesian agrarian law and forms the central legal issue addressed in this study.

B. Comparative Regulation of Foreign Access to Land in Singapore, Malaysia, and Thailand

Singapore, Malaysia, and Thailand were selected because they represent neighbouring Southeast Asian jurisdictions that share comparable economic characteristics as investment destinations while

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[35] Yudha Tri Dharma Iswara, "'Legal Certainty of Lease Rights for Foreign Citizens of Ownership Land in Indonesia.'"

[36] Siems, *Comparative Law*.

adopting different legal approaches to regulating foreign access to land. Their legal systems therefore provide an appropriate comparative framework for identifying regulatory mechanisms that may inform future reform of Indonesian agrarian law.

1. Ownership of Land and Buildings by Foreign Nationals in Singapore

Singapore adopts one of the most restrictive land ownership regimes for foreign nationals in Southeast Asia. The legal framework is primarily governed by the Residential Property Act 1976, which is founded upon the principle that residential land constitutes a strategic national asset requiring strict governmental control. Consequently, foreign nationals are generally prohibited from acquiring landed residential property unless prior approval is obtained from the Minister for Law through the Controller of Residential Property.[37]

Unlike Indonesia, where the nationality principle primarily limits ownership rights while leaving considerable flexibility in contractual land use arrangements, Singapore combines ownership restrictions with rigorous administrative supervision. Foreign persons, including individuals, permanent residents, foreign corporations, and foreign-controlled associations, are prohibited from acquiring landed residential property unless they satisfy statutory requirements demonstrating that the proposed acquisition serves Singapore's national interest.[38] Applications are evaluated by the Residential Property Advisory Committee, which assesses factors such as the applicant's economic contribution, professional expertise, investment capacity, and expected benefit to Singapore's economy before making recommendations to the Minister.[3]

Singapore nevertheless permits foreign nationals to acquire certain categories of residential property without prior approval, particularly condominium units and apartments within buildings consisting of six or more storeys. However, this relaxation is carefully balanced by prohibiting foreign nationals from acquiring entire apartment buildings

[37] Republic of Singapore, "Residential Property Act" (1976).

[38] and Kelvin F. K. Low Tan Sook Yee, Tang Hang Wu, *Tan Sook Yee's Principles of Singapore Land Law* (Singapore: Lexis Nexis, 2019).

or all condominium units unless expressly authorised by the Minister.[39] This regulatory model demonstrates that Singapore does not merely restrict foreign ownership but differentiates between property types according to their potential impact on national land availability.

Another distinctive feature of Singapore's legal framework is its integration of ownership restrictions with administrative enforcement mechanisms. Unauthorized acquisitions constitute statutory offences punishable by financial penalties, while any approved residential property subsequently used for commercial purposes may result in criminal sanctions, including fines and imprisonment.[40] Consequently, the legal regime regulates not only who may acquire land but also how the property may subsequently be used.

From a comparative perspective, Singapore's regulatory framework offers several important lessons for Indonesia. First, restrictions on foreign access to land are accompanied by a transparent licensing mechanism rather than relying solely on substantive prohibitions. Secondly, the government exercises continuous supervision over both ownership and the subsequent use of property through administrative approval and enforcement procedures. Thirdly, the distinction between residential and commercial property reduces opportunities for regulatory circumvention because each category is governed by clearly defined legal requirements.[41]

These characteristics contrast significantly with Indonesia's regulation of land lease agreements. Although Indonesian law strictly prohibits foreign ownership of land through the nationality principle, it provides only limited regulation regarding long-term lease arrangements, particularly concerning lease duration, mandatory registration, and government supervision. As a result, while Singapore controls foreign access through an integrated regulatory framework combining ownership restrictions, licensing, and monitoring, Indonesia largely relies on private contractual autonomy after the lease agreement has been concluded. This regulatory disparity explains why long-term lease

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[39] Singapore, Residential Property Act.

[40] Singapore.

[41] Siems, *Comparative Law*.

agreements have become an attractive mechanism for foreign nationals seeking effective control over land in Indonesia.[42]

Accordingly, the principal lesson that may be drawn from Singapore is not that Indonesia should replicate Singapore's restrictive ownership policy. Rather, Indonesia may adopt Singapore's integrated regulatory approach by introducing clearer statutory limits on lease duration, strengthening registration requirements, and establishing administrative supervision over long-term lease agreements involving foreign nationals. Such measures would substantially reduce opportunities for *fraus legis* while maintaining legal certainty for foreign investment.

2. Ownership of Land and Buildings by Foreign Nationals in Malaysia

Malaysia adopts a more liberal regulatory approach towards foreign ownership of land and property than Singapore, while nevertheless maintaining significant governmental control to safeguard domestic land interests. Rather than imposing a general prohibition, Malaysia permits foreign nationals to acquire certain categories of property subject to statutory restrictions relating to property type, minimum purchase value, and governmental approval. The regulatory framework is principally governed by the National Land Code 1965, together with policies issued by the Economic Planning Unit (EPU) concerning the acquisition of property by foreign interests.

Unlike Singapore, which generally prohibits foreign ownership unless approval is granted, Malaysia allows foreign nationals to acquire residential and commercial property provided that statutory thresholds are satisfied. Foreign purchasers are generally required to obtain prior approval from the relevant State Authority, while acquisitions must comply with minimum purchase price requirements determined by each state government. In addition, restrictions remain applicable to strategically important categories of land, including low-cost housing, Bumiputera reserved land, and certain agricultural properties.[43]

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42 and M. Luturmas Iswara, R., M. Salampessy, "Legal Certainty of Lease Rights for Foreign Citizens of Ownership Land in Indonesia," *Urnal Hukum Dan Hak Asasi Manusia* 30 (2024): 22–34.

43 Malaysia, "National Land Code," Pub. L. No. 828 (1965).

Malaysia also adopts regulatory mechanisms designed to ensure that foreign investment contributes to domestic economic development rather than merely facilitating speculative acquisition of land. For example, property development projects involving foreign participation commonly require incorporation through locally registered companies and compliance with equity participation policies intended to protect Bumiputera interests. Furthermore, the disposal of property within a specified period is subject to the Real Property Gains Tax, thereby discouraging short-term speculative transactions by foreign investors.[44]

From a comparative perspective, Malaysia demonstrates a regulatory model that balances investment promotion with governmental supervision. Rather than relying solely upon ownership restrictions, Malaysian law combines administrative approval, minimum investment thresholds, fiscal disincentives, and sector-specific limitations to regulate foreign access to land. Consequently, foreign participation in the property market remains permissible while preserving national control over strategically important land resources.[45]

Compared with Indonesia, the Malaysian regulatory framework provides clearer statutory safeguards governing foreign participation in land transactions. Indonesian agrarian law similarly recognises the nationality principle and restricts foreign ownership of land; however, it provides limited regulation regarding long-term lease agreements used by foreign nationals. In particular, Indonesian legislation does not comprehensively regulate lease duration, mandatory registration, or government supervision over lease agreements intended for commercial investment. This regulatory gap creates opportunities for long-term lease arrangements to function as alternative mechanisms through which foreign nationals obtain effective economic control over land without formally acquiring ownership rights.[46]

Accordingly, Malaysia offers an important lesson for Indonesia that legal certainty in foreign land regulation is achieved not merely

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[44] Malaysia, "Real Property Gains Tax Act," Pub. L. No. 169 (1976).

[45] Annelies Zoomers, "Globalisation and the Foreignisation of Space: Seven Processes Driving the Current Global Land Grab," *The Journal of Peasant Studies* 37, no. 2 (2021): 429–47, https://doi.org/10.1080/03066151003595325.

[46] and I. M. Budiana Dewi, A. A. I. A., "Regulation of Land Lease Rights Period for Foreign Citizens in Indonesia," *Jurnal Komunitas Yustisia* 4 (2021): 145–58.

through restrictions on ownership but also through integrated regulatory mechanisms combining administrative approval, investment requirements, taxation policy, and continuous governmental supervision. Incorporating similar regulatory safeguards into Indonesia's lease-rights regime would strengthen legal certainty while reducing opportunities for legal circumvention through long-term lease agreements.

3. Ownership of Land and Buildings by Foreign Nationals in Thailand

Thailand adopts a regulatory approach that strongly emphasizes the protection of national land ownership while allowing limited foreign participation through specific statutory mechanisms. The primary legal framework governing land ownership is the Land Code B.E. 2497 (1954), which expressly prohibits foreign nationals from acquiring ownership rights over land unless otherwise permitted under specific legislation.[47] Similar to Indonesia and Singapore, this restriction reflects the principle that land constitutes a strategic national resource whose ownership should remain under the control of Thai nationals.

Although direct ownership of land by foreign nationals is generally prohibited, Thailand provides several alternative legal mechanisms through which foreign investors may participate in the property sector. Foreign nationals may acquire condominium units under the Condominium Act B.E. 2522 (1979), provided that foreign ownership does not exceed 49 percent of the total floor area within a condominium project. In addition, foreign investors may obtain land use rights through investment promotion schemes administered by the Board of Investment (BOI) or through industrial estate regulations for projects considered beneficial to national economic development.[48] These mechanisms demonstrate that Thailand facilitates foreign investment without abandoning the principle of national control over land ownership.

Thailand has also adopted a strict regulatory approach to prevent legal circumvention of foreign ownership restrictions. Nominee arrangements, whereby Thai nationals hold land on behalf of foreign

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[47] Thailand, "Thailand Code Act," Pub. L. No. 2497 (1954).

[48] Thailand, "Thailand, Condominium Act B.E. 2522 as Amended by Condominium Act (No. 4) B.E. 2551" (2008).

investors, are expressly prohibited under the Land Code and related regulations. Thai authorities actively investigate corporate shareholding structures to determine whether companies have been established solely to evade statutory restrictions on foreign land ownership. Companies found to be acting as nominee vehicles may face administrative sanctions, while the underlying transactions may be declared legally ineffective.[49]

Despite these restrictions, long-term lease agreements remain an important legal instrument for foreign investors seeking to obtain effective control over land. Under Thai law, lease agreements may generally be granted for up to 30 years, with the possibility of renewal subject to statutory requirements. In practice, however, some investors have attempted to combine renewable leases with contractual options or nominee structures to obtain long-term economic control over land without acquiring ownership rights. Consequently, Thai authorities have increasingly strengthened regulatory supervision to ensure that lease agreements are not misused as instruments for circumventing statutory prohibitions on foreign ownership.[50]

From a comparative perspective, Thailand illustrates that legal certainty does not depend solely upon prohibiting foreign ownership but also upon establishing effective mechanisms to supervise alternative forms of land control. Unlike Indonesia, which recognises lease rights but provides limited statutory regulation regarding lease duration, registration, and governmental supervision, Thailand complements ownership restrictions with active administrative enforcement against nominee arrangements and regulatory oversight of long-term lease practices. These measures substantially reduce opportunities for foreign investors to obtain *de facto* control over land through contractual arrangements inconsistent with the objectives of national land policy.[51]

Accordingly, Thailand provides an important comparative lesson for Indonesia. The effectiveness of nationality-based land regulation depends not only upon limiting ownership rights but also upon ensuring that alternative legal instruments, including lease agreements, are subject to clear statutory limitations, mandatory registration, and effective

49 Thailand, Thailand Code Act.

50 Thailand, “Civil and Commercial Code” (1925), secs. 537–571.

51 Siems, *Comparative Law*.

governmental supervision. Without such safeguards, long-term lease arrangements may gradually evolve into mechanisms of *fraus legis*, thereby undermining the objectives of the Indonesian Basic Agrarian Law.

4. Comparison of Land and Building Ownership by Foreign Nationals in Singapore, Malaysia, and Thailand

To evaluate the adequacy of Indonesia's regulatory framework governing land lease rights for foreign nationals, this study employs a comparative legal analysis of Singapore, Malaysia, and Thailand. These jurisdictions were selected because they represent neighbouring Southeast Asian countries with comparable economic characteristics as major destinations for foreign investment while adopting different legal approaches to regulating foreign access to land. Their experiences therefore provide valuable comparative perspectives for assessing alternative regulatory models that balance investment promotion with the protection of national land sovereignty.

The comparison focuses on several key regulatory aspects, including the legal framework governing foreign land ownership, restrictions on landed residential property, alternative forms of land tenure, lease arrangements, administrative supervision, and regulatory safeguards against indirect foreign control through nominee arrangements or other legal mechanisms.

Table 1. Comparison of Land and Building Ownership by Foreign Nationals in Singapore, Malaysia, and Thailand

No	Aspect	Singapore	Malay	Thailand
1	Primary Legal Framework	Residential Property Act (Cap. 274); Land Titles Act; Stamp Duties Act	National Land Code 1965; State Land Rules; Economic Planning Unit (EPU) Guidelines	Land Code B.E. 2497 (1954); Condominium Act B.E. 2522 (1979); Civil and Commercial Code; Investment Promotion Act

2	Ownership of Land by Foreign Nationals	Generally prohibited for landed residential property unless approval is granted under the Residential Property Act	Permitted subject to state approval and minimum purchase price requirements	Generally prohibited, except in limited statutory circumstances
3	Apartment / Condominium Ownership	Permitted without ownership quota for private condominiums	Permitted subject to state regulations and minimum purchase price	Permitted up to 49% of the total saleable floor area of each condominium project
4	Ownership of Landed Residential Property	Requires approval from the Minister for Law (administered by SLA)	Permitted subject to state approval and prescribed minimum value	Not permitted for foreign individuals
5	Alternative Land Use Mechanism	Leasehold interests (commonly 99 years on state land)	Freehold (where permitted) or leasehold interests, commonly up to 99 years	Lease agreements up to 30 years, renewable under Thai law
6	Control of Nominee Arrangements	Strict administrative supervision	Corporate ownership and state approval mechanism	Strict prohibition; nominee arrangements are unlawful and actively monitored

7	Financial and Administrative Requirements	Additional Buyer's Stamp Duty (ABSD) of 60% for foreign nationals.	Minimum purchase price requirements (generally RM 1 million, subject to state regulations) and state authority approval.	Registration with the Land Department; condominium ownership limited to 49%; foreign funds must generally be remitted from overseas.
8	Policy Objectives	To protect housing affordability and limit foreign speculation.	Encourage foreign investment while protecting local housing markets	Preserve national land sovereignty while facilitating investment
9	Long-term Lease Schemes	Commonly used for leasehold estates on state land	Widely recognised leasehold tenure (often 99 years)	Lease permitted for 30 years with possible renewal under statutory requirements
10	Regulatory Focus	Fiscal control and administrative approval	Market regulation through price thresholds and state discretion	Ownership restrictions combined with administrative supervision
11	Implications for Foreign Investors	Concentrated in private condominiums and commercial property	Broad access to high-value residential and commercial property	Concentrated in condominiums and long-term lease arrangements

12	Overall Regulatory Character	Most restrictive	Most investment-accommodative	Moderately restrictive

Source: Compiled by the authors from the Residential Property Act (Singapore); National Land Code 1965 (Malaysia); Economic Planning Unit (Malaysia); Land Code B.E. 2497 (Thailand); Condominium Act B.E. 2522 (Thailand); and related statutory materials.

As presented in Table 1.1, Singapore, Malaysia, and Thailand adopt different regulatory models in balancing two competing objectives: preserving national control over land and encouraging foreign investment. Although all three jurisdictions recognise the economic importance of foreign capital, each country employs different legal instruments to regulate foreign access to land according to its constitutional principles, land availability, and national development priorities.[52]

The comparison demonstrates that the principal distinction among these jurisdictions does not lie merely in whether foreign nationals are permitted to acquire land, but rather in how each legal system regulates alternative mechanisms for accessing and controlling land. Singapore adopts the most restrictive approach by generally prohibiting foreign ownership of landed residential property while allowing ownership of private condominium units subject to fiscal controls, including the Additional Buyer's Stamp Duty (ABSD). This regulatory model reflects Singapore's policy of preserving scarce land resources while simultaneously maintaining an attractive investment environment through controlled access to non-landed residential property.[53]

Malaysia adopts a considerably more investment-oriented approach. Rather than imposing an absolute prohibition on foreign ownership of land, Malaysian law allows foreign nationals to acquire residential and commercial property subject to minimum purchase price requirements and approval by the relevant state authority. Since land

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[52] Siems.

[53] Tan Sook Yee, Tang Hang Wu, *Tan Sook Yee's Principles of Singapore Land Law*.

administration falls within the jurisdiction of individual states, regulatory requirements differ among Malaysian states according to local economic conditions and housing policies. This decentralised regulatory model demonstrates how investment facilitation may coexist with governmental supervision through administrative licensing and market-based restrictions.[54]

Thailand adopts an intermediate position by maintaining strict prohibitions on foreign ownership of land while providing alternative legal mechanisms for foreign investment. Foreign nationals may acquire condominium units within the statutory ownership quota and may also utilise long-term lease agreements for land. However, unlike Indonesia, Thailand complements these alternative legal mechanisms with active governmental supervision of nominee arrangements and corporate ownership structures to prevent circumvention of statutory ownership restrictions. This approach reflects the view that restrictions on ownership alone are insufficient without effective administrative enforcement against indirect methods of land control.[55]

The comparative analysis further reveals that all three jurisdictions regulate alternative forms of land tenure more comprehensively than Indonesia. Singapore clearly distinguishes between freehold and leasehold interests, Malaysia regulates foreign acquisitions through licensing and minimum value requirements, while Thailand expressly limits lease duration and strengthens administrative oversight over nominee arrangements. These regulatory safeguards reduce legal uncertainty and minimise opportunities for lease agreements or contractual arrangements to evolve into mechanisms of *fraus legis* that effectively transfer permanent economic control over land to foreign nationals.[56]

For Indonesia, these comparative experiences provide several important lessons for future agrarian law reform. First, statutory regulation should clearly determine the maximum duration, legal characteristics, and permissible purposes of lease agreements involving

[54] Malaysia, National Land Code.

[55] Thailand, Thailand Code Act.

[56] Zoomers, "Globalisation and the Foreignisation of Space: Seven Processes Driving the Current Global Land Grab."

foreign nationals. Second, lease agreements intended for commercial investment should be subject to mandatory registration and governmental supervision in order to ensure transparency and legal certainty. Third, stronger regulatory mechanisms are required to prevent lease agreements from functioning as disguised transfers of ownership through nominee arrangements or excessively long contractual control. These reforms would remain consistent with the nationality principle embodied in the Basic Agrarian Law while simultaneously providing greater legal certainty for legitimate foreign investment.[57]

Accordingly, the comparative analysis confirms that the effectiveness of foreign land regulation depends not solely upon restricting ownership rights but upon the existence of a coherent legal framework governing alternative forms of land control. A regulatory system that clearly defines lease rights, imposes effective administrative supervision, and prevents legal circumvention is more capable of maintaining a balance between national land sovereignty and sustainable investment. These comparative findings therefore provide an important normative foundation for evaluating the weaknesses of Indonesia's current regulation of land lease agreements for foreign nationals, which is discussed in the following section.

C. Analysis of Land Lease Agreements

An agreement is a consent that functions as a legal instrument connecting the parties with respect to property, in which one party is deemed to have promised to perform a certain act, while the other party has the right to demand the fulfilment of that promise. Specifically, regarding the definition of a lease agreement, it can be found in Article 1548 of the Indonesian Civil Code, which states:[58]

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[57] I Gusti Ayu Ketut Rachmi Handayani, Lego Karjoko, "Legal Certainty of Land Rights for Foreign Investors in Indonesia."

[58] Sumardjono, *Tanah Dalam Perspektif Hak Ekonomi, Sosial, Dan Budaya*.

> "*Sewa adalah suatu persetujuan di mana satu pihak mengikatkan diri untuk memberikan pihak lain kenikmatan atas suatu barang selama jangka waktu tertentu dan untuk pembayaran harga yang pihak terakhir sepakati untuk bayar*. ("A lease is an agreement whereby one party binds himself to provide the other party with the enjoyment of an item for a certain period of time and for the payment of a price that the latter agrees to pay.")

In essence, a lease is based on an agreement between the party who wishes to lease the object (the lessee) and the party who grants the lease (the lessor). A lease agreement contains the object of the agreement and also stipulates the price and the duration of the lease. There are five principles in contract law, i.e.:[59]

1. The Principle of Freedom of Contract
   The principle of freedom of contract can be seen in Article 1338 paragraph 1 of the Indonesian Civil Code, which states: "All agreements legally made shall apply as law for those who make them." This principle grants the parties the freedom to enter or not enter into a contract with another person, and to determine the content and clauses of the contract, as well as the form of the contract, whether written or oral.
2. The Principle of Mutual Consent
   The principle of mutual consent is derived from Article 1320 Paragraph 1 of the Indonesian Civil Code. The article states that one of the requirements for the validity of an agreement is the existence of mutual consent between the parties. This principle reflects the notion that contracts are generally not made through formal procedures but instead arise from the agreement of both parties.
3. The Principle of Legal Certainty (*pacta sunt servanda*)
   The principle of legal certainty, also known as the principle of pacta sunt servanda, relates to the consequences of an agreement. Judges or third parties must respect the terms of the

[59] Nany Suryawwati Marchelo Ivan Darmawan, "Analisa Yuridis Tentang Perjanjian Sewa Menyewa Tanpa Batas Waktu," *Law, Development & Justice Review* 6 (2023): 182.

agreement reached by the parties. They may not interfere with the content of a contract made by the parties.

4. The Principle of Good Faith
   This principle is expressed in the third paragraph of Article 1338 of the Indonesian Civil Code, which states: "Agreements must be executed in good faith." This principle requires both parties, the creditor and the debtor, to fulfil the terms of the agreement based on trust and good faith.
5. The Principle of Privity of Contract
   The principle of personality provides that a person enters into or terminates a contract only for their own benefit. This is reflected in Articles 1315 and 1340 of the Indonesian Civil Code.

In addition to the principles of contract law, the validity of an agreement must also satisfy several legal requirements;

1. Mutual Consent of the Parties
   The first requirement for an agreement to be considered valid is the mutual consent of the parties. This means that both parties must agree to the contract without any coercion or pressure, and the consent must be given based on the free will of each party. This requirement is emphasized in Article 1321 of the Indonesian Civil Code.
2. Capacity of the Parties
   Regarding a person's legal capacity, Article 1330 of the Indonesian Civil Code explains who is deemed incapable or lacking the legal capacity to enter into an agreement.
3. A Specific Subject Matter
   A specific subject matter refers to the object of the obligation, which must be clear in order for the agreement to be valid. The object of the obligation is the performance, such as giving, doing, or refraining from doing something, as described in Article 1234 of the Civil Code.
4. A Lawful Purpose
   The Indonesian Civil Code does not provide a detailed explanation of what constitutes a lawful cause. However, it stipulates that a cause becomes unlawful when it is prohibited

by law or is contrary to morality or public order. This is stated in Article 1337 of the Indonesian Civil Code.

Article 1570 of the Indonesian Civil Code regulates the form of agreements and states that an agreement has a fixed duration depending on its form. The form of an agreement may be either written or oral. If the agreement is made in writing, it becomes void by operation of law without the need for termination. If the agreement is made orally, it terminates when one of the parties notifies the other of their intention to end the agreement.

Furthermore, a lease agreement contains three essential elements;

a. the existence of an object or item being leased;
b. the existence of a lease period or duration;
c. the existence of payment of a certain price or rent.

These three elements distinguish a lease agreement from other types of agreements. They also reflect the essential validity requirements of agreements as provided in Article 1320 of the Indonesian Civil Code. If an agreement does not fulfill these elements and requirements, it will not be recognized by law, even if the parties acknowledge it. Such an agreement will not be binding and its performance cannot be enforced. Even if carried out in practice, if a dispute arises and the matter is brought before a court, the court may annul the agreement or declare it void.

In a lease agreement, the existence of the leased object and the rental price is mandatory. These two elements are also referred to as essential elements or essentialia. Essential elements are defined as elements that must be included in an agreement, because without them the agreement is considered nonexistent. Subekti states that:

> *"Peraturan tentang sewa-menyewa yang termuat dalam bab ketujuh dari Buku IlI B.W. berlaku untuk segala macam sewa menyewa, mengenai semua jenis barang, baik bergerak maupun tak bergerak, baik yang memakai waktu tertentu maupun yang tidak memakai waktu tertentu, oleh karena "waktu tertentu" bukan syarat mutlak untuk perjanjian sewa-menyewa"* ("The regulations on leasing contained in Chapter Seven of Book III of the Indonesian Civil Code apply to all types of leasing, regarding all types of goods, both movable and immovable, whether for a specified time or not, because a 'specified time' is not an absolute requirement for a lease agreement.*")*

The Indonesian Civil Code does not contain clear provisions regarding the duration of a lease, as Article 1548 of the Civil Code only provides the definition of a lease and stipulates that a lease shall last "for a certain period of time." Likewise, the regulations contained in Law Number 5 of 1960 concerning Basic Agrarian Principles do not provide rules regarding the maximum duration of a lease. The use of the phrase "for a certain period of time" in Article 1548 of the Civil Code may lead to multiple interpretations and creates a gap that allows leases to be made without any clear time limit.

Contract law as regulated in statutory provisions is not always mandatory in nature, meaning that the parties may set aside those provisions through rules they establish themselves, based on the principle of freedom of contract as provided in Article 1338 Paragraph 1 of the Indonesian Civil Code. Accordingly, any person may create an agreement in any form and with any content, as long as it does not contradict statutory law, public order, or morality.[60]

A lease agreement is a consensual contract, meaning that the agreement becomes valid and binding upon the parties once they reach mutual consent regarding two matters; the object and the price. Thus, the agreement is created and mutually agreed upon by both parties in accordance with the principle of freedom of contract, and it gives rise to obligations in which one party must deliver the object of the lease, while the other party must pay the rental price. However, the object delivered only constitutes the transfer of authority or the right to use the leased item. Therefore, a lease agreement is classified as a reciprocal agreement because it creates rights and obligations for each party.

The provisions governing lease agreements are regulated in detail in Article 1548 of the Indonesian Civil Code, which states that a lease is:

> "*suatu persetujuan dengan mana pihak yang satu mengikatkan diri untuk memberikan kenikmatan suatu barang kepada pihak yang lain selama waktu tertentu, dengan pembayaran suatu harga yang disanggupi oleh pihak tersebut terakhir itu*". ("an agreement whereby one party binds himself to provide the enjoyment of a

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[60] Bambang. Sofyarto, *Hukum Pertanahan: Asas, Prinsip, Dan Norma*. (Jakarta: Raja Grafindo Persada, 2018).

good to the other party for a certain period, with the payment of a price agreed upon by the latter").

Subekti, in his book entitled *Perjanjian*, states that:
"*Dalam perjanjian sewa-menyewa sebenarnya tidak perlu disebutkan untuk berapa lama barang disewakan, asal sudah disetujui harga sewanya*" ("In a lease agreement, it is not strictly necessary to state for how long the goods are leased, provided the rental price has been agreed upon")

Thus, a lease without a time limit may be carried out with the consent of both parties as long as the rental price is determined. Furthermore, the provisions in Law Number 5 of 1960 concerning Basic Agrarian Regulations, which serve as the national foundation for land regulation in Indonesia, govern several types of land rights, one of which is the right of lease. According to this law, the right of lease is the authority granted to a person to use or occupy an object belonging to another party, whereby the party leasing the object must pay a price determined by the party granting the lease. The law does not regulate the duration or time limit for the granting of the right of lease. Therefore, a lease agreement without a time limit may be made based on the principle of consensualism, whereby an agreement is considered to have been formed once the parties reach mutual consent on its essential terms, without requiring any particular formality.

By referring to the principle of freedom of contract, it follows that individuals may enter into any agreement with any content, as long as it does not conflict with statutory law, morality, or public order. Likewise, the principle of *pacta sunt servanda* provides that every agreement lawfully made is binding and has legal force, and therefore must be performed and may be enforced. However, it must be emphasized that the validity requirements of a contract must still be met, because an agreement cannot be made or enforced if those requirements are not fulfilled.

The termination of an agreement may occur as the result of an act or event, whether desired or not desired by the parties. In essence, a lease will terminate if determined by three circumstances, such as:[61]

a. Termination of the lease as determined in writing (Article 1570 of the Indonesian Civil Code)

   In a lease agreement where the duration is established in writing, the lease automatically ends when the period agreed upon by the parties expires. If the duration of the lease has been set out in a written agreement, the lease terminates precisely at the time stipulated. However, if the lessor wishes to end the lease prematurely, Article 1579 of the Indonesian Civil Code provides that "The owner of the property may not terminate the lease by stating that he wishes to use the property himself, unless such a right was agreed upon at the time the lease agreement was made." When the stipulated period has expired, no notice of termination is required. Therefore, once the lease period determined in the agreement ends, the lessee must immediately return the leased property in the same condition as when it was handed over.

b. Termination of a lease agreement made orally for a certain period

   Article 1571 of the Indonesian Civil Code states: "If the lease is not made in writing, the lease does not end at the time previously determined; if either party wishes to terminate the lease, they must observe the period of notice established by local custom." Under this provision, the termination of an oral lease does not occur automatically with the passage of time. Instead, termination requires notice from one of the parties wishing to end the lease, with due regard to the reasonable notice period according to local custom. The time interval between the notice of termination and the actual expiration of the lease is known as the notice period.

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[61] Nyoman Surya Bramantya, "Perjanjian Sewa Menyewa Hak Tanah Jangka Waktu Seumur Hidup," *Jurnal Analogi Hukum* 5 (2023): 241.

c. Termination of a lease without any predetermined duration
In this type of lease, the termination and ending of the agreement generally occur at a time deemed reasonable by both parties. This conclusion arises because the law does not regulate the manner of ending written or oral lease agreements that contain a specific duration or an appropriate notice period. Therefore, the method of termination is guided by mutual understanding and local customary practices.

Article 1579 of the Indonesian Civil Code represents the provision applicable to individuals whose minds are directed toward lease agreements where the duration has been specifically determined. The article states:

> *"Pihak yang menyewakan tidak dapat menghentikan sewanya dengan menyatakan hendak memakai sendiri barangnya yang disewakan, kecuali jika telah diperjanjikan sebaliknya"* ("The lessor cannot terminate the lease by stating that he intends to use the leased goods himself, unless otherwise agreed")

Based on the provisions regarding the termination of agreements, a lease agreement without a time limit may also be terminated. Returning to the principle of consensualism, where an agreement is formed on the basis of mutual consent of the parties, its termination may likewise be based on the mutual consent of the parties. Therefore, if the agreement is made in writing, the parties may agree to terminate the lease according to their mutual understanding by making amendments to the written agreement, as arranged and executed by the parties involved.[62]

It can be seen that this article is intended for, and may only be applied to, lease agreements with a specified duration. It is appropriate that a person who has leased out their property is not permitted to terminate the lease before the agreed period ends by claiming that they wish to use the property themselves. However, if the property is leased without any specified duration, the lessor is naturally entitled to terminate the lease at any time, provided that they comply with the

[62] Ingrid Soerodjo, *Hukum Pembuktian Dalam Praktik Pertanahan.* (Jakarta: Kencana, 2019).

procedures and notice period required for termination according to local custom.

Based on the provisions concerning the termination of agreements, a lease agreement without a time limit may also be terminated. Returning to the principle of consensualism, where the agreement is formed on the basis of mutual consent between the parties, its termination also requires the mutual consent of both parties. Thus, if the agreement is made in writing, the parties may reach an agreement to end the lease in accordance with their mutual understanding by making amendments reflected in a written document arranged by the parties involved

This requirement is found in Article 11 Paragraph 2 of Law Number 4 of 1992 concerning Multi-Storey Housing (hereinafter referred to as the Multi-Storey_Housing Law) and Article 1154 of the Indonesian Civil Code. Article 11 Paragraph 2 of the Multi-Storey Housing Law states: "The termination of the legal relationship arising from the lease of a multi-storey housing unit as referred to in Paragraph (1) shall be carried out after written notice is given at least thirty days prior to the date of termination." This indicates that in the context of multi-storey housing, written notice must be provided by the party wishing to terminate the lease at least thirty days before the intended termination date.

In addition, Article 1154 of the Indonesian Civil Code also provides guidance regarding notice of termination in lease agreements. The article states that if no agreement exists between the lessee and the property owner, the termination of the lease occurs upon the delivery of written notice thirty days prior to the termination date. However, the notice requirement may vary depending on the lease agreement signed by the parties involved. In certain cases, the lease agreement may contain notice requirements that are longer or shorter than thirty days. Therefore, it is important to refer to the specific lease agreement applicable between the parties in order to understand the exact notice requirements.

D. Land Lease Agreements Have the Potential to Become Legal Smuggling for Foreign Citizens

Land lease agreements constitute a legally recognised contractual relationship under Indonesian private law and are principally governed by Articles 1548–1600 of the Indonesian Civil Code. Under Article 1548 of the Civil Code, a lease agreement is defined as an agreement whereby one party grants another the right to enjoy the use of an object for a specified period in return for the payment of rent. From the perspective of private law, a lease does not transfer ownership of the leased property but merely creates a temporary contractual right of use between the contracting parties. Consequently, lease agreements are generally regarded as ordinary contractual arrangements whose validity depends upon the fulfilment of the general requirements for contracts under Article 1320 of the Civil Code rather than upon the legal status of the parties as Indonesian or foreign nationals.

However, when land constitutes the object of the agreement, lease arrangements cannot be analysed solely through the framework of private contract law. Unlike movable property, land occupies a unique position within the Indonesian legal system because it is simultaneously the object of private legal transactions and public regulation. The enactment of Law Number 5 of 1960 concerning Basic Agrarian Principles fundamentally transformed Indonesian land law by replacing the colonial dualistic land regime with a unified national agrarian system based upon state control over land, social justice, and the nationality principle (*asas kebangsaan*). Under this framework, contractual autonomy recognised by the Civil Code is not absolute but must operate consistently with the objectives of agrarian law.[63]

The interaction between these two legal regimes gives rise to an important normative issue concerning foreign nationals. The Civil Code permits contracting parties to determine the contents, duration, and economic value of lease agreements according to the principle of contractual freedom, provided that the agreement does not violate

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[63] Adrian Bedner, "Indonesian Land Law: Integration at Last? And for Whom?," in *Land and Development in Indonesia: Searching for the People's Sovereignty* (Singapore, 2016), 63–88.

mandatory legal provisions. By contrast, the Basic Agrarian Law expressly limits foreign access to land by reserving *Hak Milik* (Right of Ownership) exclusively for Indonesian citizens while permitting foreign nationals to utilise land only through limited rights such as *Hak Pakai* (Right of Use) and *Hak Sewa* (Right of Lease). Although this regulatory framework reflects Indonesia's commitment to maintaining national sovereignty over land, it does not comprehensively regulate how lease rights should operate when utilised by foreign nationals for long-term commercial purposes.[64]

The principal regulatory weakness lies not in the recognition of lease agreements themselves, but in the absence of legal safeguards governing their implementation. Neither the Civil Code nor the Basic Agrarian Law prescribes a statutory maximum duration for land lease agreements involving foreign nationals. Likewise, Indonesian legislation does not require the mandatory registration of ordinary lease agreements, establish specific governmental supervision over long-term commercial leasing, or define objective legal criteria for distinguishing temporary contractual utilisation from *de facto* long-term control of land. Consequently, lease agreements extending for thirty, fifty, or even ninety-nine years continue to be recognised as valid private contracts despite producing economic effects that closely resemble ownership.[65]

The absence of statutory limitations on lease duration creates significant legal uncertainty. From the perspective of contract law, the parties remain bound by the agreement for as long as the contractual terms remain valid. However, from the perspective of agrarian law, excessively long lease agreements may undermine the nationality principle by enabling foreign nationals to exercise continuous possession, exclusive economic exploitation, and practical control over land without formally acquiring ownership rights. In this situation, the distinction between temporary land utilisation and ownership becomes increasingly blurred because Indonesian legislation provides no measurable legal standard indicating when a lease ceases to function as a contractual

[64] Boedi Harsono, *Hukum Agraria Indonesia/Sejarah Pembentukan Undang-Undang Pokok Agraria* (Jakarta: Djambatan, 1997).

[65] John F. McCarthy, "Land, Law and Development in Indonesia: Searching for the People's Sovereignty," *Journal of Contemporary Asia* 53, no. 4 (2023): 663–683.

relationship and instead operates as an ownership substitute. This legal uncertainty weakens the effectiveness of the nationality principle while simultaneously limiting the ability of land administration authorities to supervise foreign control over land.[66]

The regulatory inconsistency becomes even more apparent when the Basic Agrarian Law is read together with Government Regulation Number 40 of 1996, Government Regulation Number 18 of 2021, the Investment Law, ministerial regulations issued by the Ministry of Agrarian Affairs and Spatial Planning/National Land Agency (ATR/BPN), and the Indonesian Civil Code. While each of these legal instruments regulates particular aspects of foreign access to land, they pursue different regulatory objectives and do not provide an integrated framework capable of preventing lease agreements from evolving into mechanisms of long-term land control. As a result, inconsistencies arise regarding lease duration, registration, governmental supervision, corporate land control through foreign investment companies, and commercial utilisation of leased land by foreign nationals.

To illustrate these inconsistencies, Table 2.1 maps the principal regulatory objectives, normative gaps, and legal implications contained in the principal legal instruments governing foreign access to land in Indonesia.

Table 2. Mapping of Normative Gaps and Regulatory Disharmony Governing Foreign Access to Land in Indonesia

Regulation	**Relevant Provisions**	**Regulatory Objective**	**Normative Gap / Regulatory Disharmony**	**Implications for Legal Smuggling**
Law No. 5 of 1960 (Basic Agrarian Law)	Arts. 9, 21, 41–44	Restricts ownership rights to Indonesian citizens while permitting limited land use by foreigners.	No statutory limitation on lease duration; no mandatory registration of lease agreements; no supervision of commercial leasing.	Long-term lease agreements may function as *de facto* ownership while formally complying with the nationality principle.

[66] Adrian Bedner, "Indonesian Land Law: Integration at Last? And for Whom?"

Government Regulation No. 40 of 1996	Arts. 39–52	Regulates *Hak Pakai* and *Hak Guna Bangunan*.	Does not regulate the relationship between foreign investment companies and ultimate foreign economic control over land.	Corporate structures may facilitate indirect long-term control of land.
Government Regulation No. 18 of 2021	Arts. 52–56, 91–94	Provides detailed regulation on Hak Pakai and residential ownership.	Commercial land leasing by foreign nationals remains largely unregulated.	Investors are incentivised to utilise lease agreements instead of Hak Pakai.
Law No. 25 of 2007 (Investment Law)	Arts. 5, 6, 14	Facilitates foreign investment.	No explicit integration with agrarian restrictions on land control.	Potential inconsistency between investment policy and the nationality principle.
Ministerial Regulation ATR/BPN No. 29 of 2016	Arts. 2–5	Regulates residential ownership by foreigners.	Business-oriented land leasing is not specifically regulated.	Tourism-related commercial leasing operates with limited regulatory oversight.
Civil Code	Arts. 1548–1600	Governs private lease agreements.	No distinction between domestic and foreign lessees; no statutory limit on lease duration.	Contractual autonomy may enable lease arrangements that resemble ownership in practice.

Source: Authors compilation and analysis based on Indonesian agrarian and investment legislation.

As shown in Table 2.1, the principal weakness of the Indonesian legal framework does not arise from a single statute but from the cumulative interaction of multiple legal instruments that regulate land from different legal perspectives. The Basic Agrarian Law emphasises the nationality principle but does not regulate the duration or supervision of lease agreements. Government Regulation Number 18 of 2021 comprehensively regulates *Hak Pakai* but provides only limited regulation concerning commercial leasing by foreign nationals. The Investment Law facilitates foreign investment through corporate entities without expressly integrating agrarian limitations relating to long-term land control, while the Indonesian Civil Code treats lease agreements as ordinary private contracts without distinguishing between domestic and foreign lessees. Collectively, these regulatory inconsistencies create a fragmented legal framework in which long-term lease arrangements remain largely beyond effective administrative supervision.

These regulatory deficiencies also explain why lease agreements have become substantially more attractive than *Hak Pakai* for many foreign investors. Unlike the Right of Use, which is subject to statutory duration, registration requirements, administrative approval, and governmental oversight, lease agreements remain primarily governed by contractual autonomy. Parties are therefore able to negotiate lease periods, renewal clauses, economic rights, and contractual arrangements with relatively limited state intervention. Although this contractual flexibility may facilitate legitimate commercial transactions, it simultaneously creates opportunities for lease agreements to function beyond their original legal purpose as temporary instruments of land utilisation.[67]

From the perspective of legal theory, this phenomenon represents a classic example of *fraus legis* or legal smuggling (*penyelundupan hukum*). Rather than directly violating the statutory prohibition against foreign ownership of land, foreign nationals may employ formally lawful legal instruments including long-term lease agreements, nominee arrangements, irrevocable powers of attorney, and corporate investment structures to obtain practical control over land while maintaining formal compliance with existing legislation. Accordingly, the principal legal issue is not the legality of lease agreements themselves, but whether the existing regulatory framework provides sufficient safeguards to prevent

[67] Zoomers, "Globalisation and the Foreignisation of Space: Seven Processes Driving the Current Global Land Grab."

contractual rights from evolving into mechanisms that effectively circumvent the nationality principle established by the Basic Agrarian Law. The following discussion therefore examines how these regulatory gaps have manifested in practice, particularly through long-term lease arrangements involving foreign nationals in tourism areas such as Bali.

E. Case Example of the Misuse of Land Lease Agreements by Foreign Nationals in Ubud, Bali

The PARQ Ubud development in Gianyar Regency, Bali, represents one of the clearest contemporary examples of how legally valid land lease agreements may evolve into mechanisms for obtaining *de facto* control over land by foreign nationals. Rather than constituting merely a dispute concerning spatial planning, the case illustrates the interaction between private contract law and agrarian law that allows contractual rights to produce practical outcomes substantially similar to ownership. Accordingly, the significance of the PARQ Ubud case lies not in the legality of the lease agreements themselves, but in the manner through which multiple long-term lease arrangements collectively enabled extensive commercial control over land while formally remaining outside the statutory prohibition against foreign ownership established by the Basic Agrarian Law.[68]

Publicly available information indicates that the PARQ Ubud complex was developed on approximately 18,400 square metres of land assembled through numerous lease agreements concluded with local landowners. Several leases reportedly extended for periods of up to thirty-one years and were subsequently utilised for villas, apartments, restaurants, and tourism facilities. From the perspective of Indonesian private law, each agreement remained legally valid because Articles 1548–1600 of the Indonesian Civil Code recognise lease agreements without prescribing a statutory maximum duration. Likewise, the Basic Agrarian Law permits foreign nationals to utilise land through lease arrangements.

[68] and Arina Novizas Shebubakar Nina Carona, Anis Rifai, "Hak Sewa Tanah Untuk Bangunan Oleh Warga Negara Asing (WNA) Sebagai Alternatif Penguasaan Hak Atas Tanah Di Indonesia," *Litigasi* 25 (2024): 3–17, http://dx.doi.org/10.23969/litigasi.v25i1.10632.

The legal concern therefore arises not from individual lease contracts but from their cumulative economic effect, whereby fragmented parcels were consolidated into a single integrated commercial development under the effective control of one foreign investor.

This situation demonstrates the principal normative gap identified in the previous section. Indonesian legislation distinguishes ownership rights from lease rights only in a formal legal sense, yet it provides no objective criteria for determining when long-term contractual control becomes substantively equivalent to ownership. Consequently, although legal title remained with Indonesian citizens, the lessee exercised continuous possession, determined land use, controlled commercial development, and derived exclusive economic benefits over several decades. Such circumstances blur the distinction between temporary land utilisation and permanent land control, thereby weakening the nationality principle that forms one of the fundamental objectives of Indonesian agrarian law.[69]

The PARQ Ubud case also demonstrates how lease agreements may indirectly facilitate the circumvention of spatial planning regulation. The legal issue was not that lease agreements transferred ownership, but that multiple lease contracts enabled the consolidation of protected agricultural land into a single tourism complex without any administrative mechanism requiring authorities to evaluate the cumulative impact of long-term leasehold concentration. Because lease agreements generally remain private contractual instruments rather than registered land rights, government agencies possess limited capacity to identify the total area controlled through multiple leases, the duration of such control, or the commercial activities subsequently undertaken. The absence of mandatory lease registration therefore creates a regulatory blind spot within Indonesia's land administration system.

From the perspective of comparative property law, effective land governance requires transparency not only regarding legal ownership but also regarding beneficial control over land. Contemporary scholarship increasingly recognises that formal legal title alone is insufficient to identify the actual party exercising economic control over immovable

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[69] McCarthy, "Land, Law and Development in Indonesia: Searching for the People's Sovereignty."

property, particularly where contractual or corporate arrangements obscure the practical allocation of rights and benefits. This concern is equally relevant to long-term lease arrangements involving foreign nationals because the absence of administrative transparency allows contractual rights to function as substitutes for ownership without meaningful regulatory oversight.[70]

Viewed through the doctrine of *fraus legis*, the PARQ Ubud case illustrates that legal smuggling does not necessarily arise through unlawful contracts but through the strategic use of legally valid instruments to achieve outcomes inconsistent with legislative intent. Rather than directly violating Article 21 of the Basic Agrarian Law, long-term lease agreements enabled practical control over land while maintaining formal compliance with statutory requirements. The cumulative effect of these arrangements undermined the nationality principle by allowing foreign investors to enjoy economic powers substantially comparable to ownership without acquiring legal title. The case therefore confirms that the principal weakness lies not in the legality of lease agreements but in the fragmented regulatory framework governing their implementation.[71]

The regulatory deficiencies identified in Table 2.1 are clearly reflected in the PARQ Ubud development. The absence of statutory limitations on lease duration, the lack of mandatory registration of long-term lease agreements, the absence of mechanisms for monitoring cumulative land control, and the fragmentation of regulation between agrarian law, investment law, and spatial planning law collectively create opportunities for lease agreements to evolve into instruments of *de facto* land acquisition. Consequently, the principal lesson derived from the PARQ Ubud case is not that lease agreements should be prohibited, but that Indonesian agrarian law requires a more integrated regulatory framework capable of ensuring that lease rights remain temporary contractual rights rather than mechanisms for circumventing restrictions on foreign ownership of land. [7]

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70 Ben McFarlane and Nicholas Hopkins, "Ownership Beneath: Transparency of Land Ownership in Times of Economic Crime," *Oxford Journal of Legal Studies* 44, no. 1 (2024): 74–103.

71 David Fox, "Relativity of Title at Law and in Equity," *The Cambridge Law Journal* 65, no. 2 (2006): 330–65, https://doi.org/10.1017/S0008197306007148.

The PARQ Ubud case therefore reinforces the central argument of this study that future agrarian reform should introduce mandatory registration of long-term lease agreements involving foreign nationals, establish statutory limitations on lease duration for commercial purposes, and strengthen institutional coordination between the Ministry of Agrarian Affairs and Spatial Planning/National Land Agency (ATR/BPN), regional governments, and spatial planning authorities. Such reforms would enhance legal certainty for legitimate foreign investment while simultaneously safeguarding the nationality principle and preventing lease agreements from functioning as instruments of legal smuggling.[72]

F. The Need for Mandatory Registration of Land Lease Agreements Involving Foreign Nationals

One of the principal weaknesses of Indonesia's current land administration system lies not in the legal recognition of land lease agreements themselves, but in the absence of an administrative mechanism capable of identifying who actually controls land, for how long, and for what purpose. Unlike *Hak Milik* (Right of Ownership), *Hak Guna Bangunan* (Right to Build), *Hak Guna Usaha* (Right to Cultivate), and *Hak Pakai* (Right of Use), all of which are subject to mandatory registration under Government Regulation No. 24 of 1997 concerning Land Registration, ordinary land lease agreements remain outside the national land registration system. Consequently, the State possesses information regarding the legal owner of a parcel of land but lacks reliable information concerning the person who exercises long-term factual control over that land through contractual arrangements. This administrative blind spot significantly weakens governmental supervision over foreign access to land and creates opportunities for lease agreements to be used as instruments of legal circumvention rather than merely temporary contractual rights.

This regulatory deficiency extends beyond a mere administrative omission. In practice, a foreign national may lease numerous parcels of

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[72] Hopkins, "Ownership Beneath: Transparency of Land Ownership in Times of Economic Crime."

land from different Indonesian landowners without any authority being able to identify that the cumulative leasehold interests effectively constitute a single pattern of extensive land control. From the perspective of private law, each lease agreement is independently valid because it satisfies the contractual requirements prescribed by Article 1320 of the Indonesian Civil Code. From the perspective of agrarian law, however, the cumulative effect of these agreements may enable a foreign national to exercise long-term economic control over extensive areas of land that, in substance, closely resembles ownership despite the formal title remaining vested in Indonesian citizens. This situation illustrates the structural tension between the Civil Code, which prioritises contractual autonomy, and the Basic Agrarian Law, which seeks to preserve the nationality principle and ensure that control over land ultimately remains under Indonesian sovereignty.[73]

The absence of mandatory registration also demonstrates that the principle of publicity (*asas publisitas*), which constitutes one of the fundamental principles of Indonesia's land registration system, has not been fully implemented in relation to land lease agreements involving foreign nationals. Pursuant to Article 19 of the Basic Agrarian Law and Government Regulation No. 24 of 1997, land registration serves three principal objectives: ensuring legal certainty, providing legal protection, and establishing a reliable source of information concerning land tenure. Nevertheless, because lease agreements are treated solely as private contractual relationships rather than registrable interests in land, information concerning the identity of foreign lessees, the duration of leasehold arrangements, the cumulative area under their control, and the commercial utilisation of leased land remains outside the national land information system. Consequently, land administration authorities are unable to monitor patterns of long-term land control or identify circumstances in which lease agreements have evolved into mechanisms for circumventing statutory restrictions on foreign ownership.[74]

[73] Adrian Bedner, "Indonesian Land Law: Integration at Last? And for Whom?"

[74] Agus Suhariono, "Sistem Publikasi Pendaftaran Tanah (Kajian Sistem Publikasi Negatif Bertendensi Positif)," *Notaire* 5, no. 1 (2022), https://doi.org/10.20473/ntr.v5i1.21882.

From the perspective of contemporary land governance, this regulatory gap is inconsistent with international developments that increasingly emphasise transparency in land tenure as an essential component of good governance, sustainable land administration, and legal certainty. Recent scholarship demonstrates that effective land administration systems should record not only legal ownership but also other forms of long-term control capable of generating significant economic, environmental, and social consequences. Accordingly, although lease agreements do not transfer ownership, long-term lease arrangements involving foreign nationals should likewise be incorporated into the national land administration system because they may substantially affect patterns of land utilisation, investment, and spatial development.[75]

The proposed registration mechanism would not alter the legal nature of lease agreements or transform lease rights into proprietary rights. Rather, registration should function solely as an administrative instrument designed to enhance transparency, accountability, and governmental supervision. The registration process should record, at minimum, the identity of the lessor and lessee, the location and size of the leased land, the duration of the lease, the intended use of the land, and any contractual extension provisions. Such information would enable the government to determine whether the utilisation of lease agreements remains consistent with their intended function as temporary contractual arrangements or has instead developed into a mechanism for long-term land control inconsistent with the nationality principle embodied in the Basic Agrarian Law.[76]

Importantly, this proposal is institutionally and politically feasible because it does not require any amendment to the Basic Agrarian Law itself. Instead, regulatory reform may be achieved through amendments to Government Regulation No. 24 of 1997 or through the issuance of a Ministerial Regulation by the Ministry of Agrarian Affairs and Spatial Planning/National Land Agency (ATR/BPN) introducing mandatory

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[75] Jaap Zevenbergen, *System of Land Registration: Aspects and Effects. Delft: Geodesy 51. ISBN 90 6132 277 4*, 2002.

[76] Arie Lestario and Erlina Erlina, "Sistem Pendaftaran Tanah Yang Memberikan Perlindungan Hukum Bagi Pemegang Sertifikat Hak Atas Tanah Di Indonesia," *Notary Law Journal* 1, no. 1 (2022), https://doi.org/10.32801/nolaj.v1i1.1.

registration for long-term lease agreements involving foreign nationals. Since Indonesia already possesses an established land registration infrastructure administered by ATR/BPN, the proposed reform merely expands the scope of registrable land-related information rather than creating an entirely new institutional framework. Consequently, implementation costs would remain relatively modest while substantially improving administrative transparency and legal certainty.[77]

To facilitate effective implementation, this study proposes a four-stage regulatory roadmap. The first stage concerns regulatory reform. Government Regulation No. 24 of 1997 should be amended, or alternatively supplemented by a dedicated Ministerial Regulation, requiring all land lease agreements involving foreign nationals that exceed a specified duration or are intended for commercial purposes to be registered at the local Land Office. The regulation should also require the registration of amendments, renewals, assignments, and terminations of registered lease agreements.

The second stage involves administrative integration. ATR/BPN should develop a digital registration module integrated within the existing electronic land administration system. The database should record the identity of foreign lessees, the geographical location of leased land, the duration of leasehold interests, land area, intended use, and any subsequent contractual extensions. Integration with existing cadastral information would enable authorities to identify cumulative leasehold interests held by the same foreign individual or legal entity across multiple locations.

The third stage requires inter-agency coordination. Registration data should be integrated with the Directorate General of Immigration, the Directorate General of Taxes, the Ministry of Investment/BKPM, regional governments, and spatial planning authorities. Such coordination would enable cross-verification of immigration status, business licensing, taxation compliance, and conformity with regional spatial plans, thereby strengthening administrative oversight over foreign land utilisation.

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[77] Walter Timo de Vries dan Jaap Zevenbergen, "Fit-for-Purpose Land Administration: Recent Developments and Future Directions," *Land Journal* 10, no. 10 (2022): 1070, https://doi.org/10.3390/land10101070.

The fourth stage concerns regulatory enforcement. Failure to register lease agreements should give rise to administrative consequences, including restrictions on land administration services, administrative fines, refusal of lease extensions, or cancellation of registration where lease agreements are proven to function as instruments of legal circumvention. These sanctions would reinforce the effectiveness of mandatory registration while discouraging the use of lease agreements as mechanisms for disguised long-term land control.

Ultimately, the proposed reform would strengthen Indonesia's land administration system without altering the existing prohibition against foreign ownership of land. Instead, it would enhance transparency regarding long-term land control, improve legal certainty for legitimate investors, facilitate more effective governmental supervision, and reduce opportunities for legal smuggling (*fraus legis*) through long-term lease agreements. By integrating lease registration into the existing land administration framework, Indonesia would be better positioned to balance investment facilitation with the constitutional objective of maintaining national sovereignty over land resources.

Conclusion

This study demonstrates that the principal legal issue concerning foreign control over land in Indonesia does not lie in the legality of land lease agreements themselves, but rather in the fragmented regulatory framework governing their implementation. Although land lease agreements constitute valid contractual relationships under the Indonesian Civil Code, their interaction with the Basic Agrarian Law, investment legislation, and land administration regulations has created significant normative gaps that enable foreign nationals to obtain *de facto* long-term control over land without formally acquiring ownership rights. The PARQ Ubud case illustrates that these regulatory inconsistencies extend beyond private contractual relations and create opportunities to circumvent spatial planning regulations, thereby weakening the nationality principle (*asas kebangsaan*) that constitutes one of the fundamental pillars of Indonesian agrarian law.

The principal contribution of this study lies in its systematic identification of the legal gaps and regulatory disharmony embedded within Indonesia's legal framework governing foreign access to land. These inconsistencies are found across multiple legal instruments, including the Indonesian Civil Code, the Basic Agrarian Law, the Investment Law, Government Regulation No. 24 of 1997 on Land Registration, Government Regulation No. 18 of 2021, and various implementing regulations in the land administration sector. This study further reconceptualises the notion of legal smuggling (*fraus legis*) in Indonesian agrarian law by demonstrating that such practices are not limited to *nominee arrangements*, as commonly discussed in the existing literature, but may also be carried out through long-term land lease agreements that exploit regulatory loopholes and weak administrative oversight. Furthermore, through a comparative analysis of Singapore, Malaysia, and Thailand, this study demonstrates that these jurisdictions have adopted clearer regulatory mechanisms governing foreign access to land through combinations of ownership restrictions, licensing systems, administrative supervision, and national land policy safeguards. These comparative findings provide valuable normative guidance for developing a regulatory model that is better aligned with the characteristics and objectives of Indonesia's agrarian legal system.

Based on these findings, this study proposes a regulatory reform roadmap centred on the establishment of a mandatory registration system for land lease agreements involving foreign nationals as the principal instrument for closing the legal gaps that have facilitated legal smuggling. The proposed roadmap includes harmonising the Basic Agrarian Law, Government Regulation No. 24 of 1997 on Land Registration, Government Regulation No. 18 of 2021, the Investment Law, and related implementing regulations, while introducing specific provisions governing the registration, reporting, monitoring, and limitation of long-term land lease agreements involving foreign nationals. Rather than restricting legitimate foreign investment, this reform aims to establish a more transparent, accountable, and integrated land administration system capable of enhancing legal certainty, strengthening administrative oversight, safeguarding the nationality principle, and promoting sustainable land governance in Indonesia.

This study is limited by its normative legal approach, which relies primarily on statutory analysis and a single case study (PARQ Ubud). Consequently, the findings have not yet been supported by comprehensive empirical evidence concerning the actual scale of long-term land lease practices involving foreign nationals across Indonesia.

Future research should undertake empirical mapping of long-term land lease agreements involving foreign nationals, particularly in major tourism destinations such as Bali, Lombok, and Labuan Bajo, while also examining the institutional feasibility of integrating mandatory lease registration into Indonesia's digital land administration system.

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Acknowledgment
None.

Funding Information
None.

Conflicting Interest Statement
There is no conflict of interest in the publication of this article.

Publishing Ethical and Originality Statement
All authors declared that this work is original and has never been published in any form and in any media, nor is it under consideration for publication in any journal, and all sources cited in this work refer to the basic standards of scientific citation.

Generative AI Statement
None.