



NADI INSTITUTE

Article Type: Research

Institutional Isomorphism and the Geopolitics of Wealth Defense: A Comparative Legal and Political Economy Analysis of Family Office Regimes in Indonesia, Singapore, and Hong Kong

Luciana Flora¹, Budi Arifandi¹**AFFILIATION:**¹ Ministry of Finance, Republic of Indonesia***CORRESPONDENCE:**

luciana.flora@kemenkeu.go.id

ARTICLE HISTORY**Received:**

24 February 2026

Reviewed:

28 February 2026

Revised:

2 March 2026

Accepted:

7 March 2026

Abstract

The early 21st century has witnessed a significant migration of global capital accumulation to the Asia-Pacific region, precipitating a concurrent rise in the demand for sophisticated wealth management vehicles. This trend has catalyzed a fierce "regulatory competition" among jurisdictions seeking to position themselves as the premier domicile for Ultra-High-Net-Worth (UHNW) capital. This study provides an exhaustive, multi-disciplinary analysis of Indonesia's emerging initiative to establish a domestic Family Office (FO) regime, juxtaposed against the mature, dominant ecosystems of Singapore and Hong Kong. Grounded in Institutional Theory—specifically the mechanisms of mimetic isomorphism—and the political economy of the Wealth Defense Industry, this study interrogates the structural viability of Indonesia's proposal. Central to this inquiry is the profound jurisprudential incompatibility between Indonesia's Civil Law tradition—rooted in the unitary concept of ownership (*Eigendom*)—and the Common Law trust structures that underpin global wealth preservation. The article critically examines the Omnibus Law on the Development and Strengthening of the Financial Sector (*UU P25K*) as a legislative attempt to bridge this divide through the statutory creation of "Trustees". Furthermore, it evaluates the efficacy of fiscal incentives, particularly the tax holidays proposed for the Nusantara Capital City (IKN), in the context of the OECD's Global Minimum Tax (Pillar Two) framework. The study argues that while Indonesia possesses the economic base to sustain a domestic FO industry, its success is contingent upon a fundamental restructuring of legal certainty, beneficial ownership transparency, and the successful mitigation of "institutional voids." Without these structural reforms, the FO initiative risks devolving into a mechanism for legitimizing tax avoidance and entrenching oligarchic wealth defense rather than serving as a catalyst for genuine economic development.

Keywords: *Family Office, Wealth Defense Industry, Institutional Isomorphism, Legal Transplant, Global Minimum Tax*

Introduction

The narrative of global wealth in the 21st century is inextricably linked to the economic ascendance of Asia. As the region's economies have matured from labor-intensive manufacturing hubs to centers of innovation and consumption, a new class of financial elite has emerged. This demographic transition, characterized by the passing of the baton from the "builder generation" of post-war patriarchs to a more globally integrated, professionally minded successor generation, has fundamentally altered the landscape of wealth management (Chung & Yip, 2018). The Family Office (FO) has evolved from a niche construct of Western financial aristocracy into a critical infrastructure for Asian capitalism. Unlike traditional private banking, which focuses primarily on asset allocation, the modern FO serves a holistic function: it acts as the central nervous system of a dynasty's financial, legal, and philanthropic existence, managing the "Socio-Emotional Wealth" (SEW) of the family while balancing financial preservation with legacy continuity (Berrone et al., 2012).

However, the Asian FO landscape is characterized by a stark geographic concentration. Singapore and Hong Kong have established a duopoly, managing the lion's share of the region's private wealth. This dominance is not merely a function of market forces but the result of deliberate statecraft—the engineering of legal and tax environments specifically designed to attract the "Wealth Defense Industry" (Winters, 2011). Indonesia, as the largest economy in Southeast Asia and a G20 member, presents a paradox in this landscape. It is a significant source of the region's private wealth, yet it captures a disproportionately small fraction of the value associated with managing that wealth. Estimates suggest that billions of dollars in assets owned by Indonesian High-Net-Worth Individuals (HNWIs) are domiciled offshore, primarily in Singapore, often returning to Indonesia only as Foreign Direct Investment (FDI) in a phenomenon known as "round-tripping" (Aykut et al., 2017).

The Indonesian government's recent discourse on establishing a Family Office regime—centered potentially in Bali or the new capital, Nusantara (IKN)—represents a strategic pivot from a resource-based economy to one that seeks to financialize its domestic wealth. The logic is compelling: by creating a domestic ecosystem for FOs, the state aims to repatriate capital, deepen domestic financial markets, and capture tax revenue that currently flows to foreign treasuries. However, this initiative faces "institutional voids"—gaps in the legal and regulatory fabric that raise transaction costs and uncertainty (Khanna & Palepu, 1997). Unlike its neighbors, Indonesia operates under a Civil Law system that does not natively recognize the Trust, the fundamental building block of Anglo-American wealth management (Sitkoff, 2014).

This article addresses the primary research question: *Can Indonesia successfully transplant a Common Law-style Family Office regime into its Civil Law system to compete with Singapore and Hong Kong, and what are the political-economic implications of doing so?* To answer this, the study employs a comparative legal and political economy approach, analyzing legal statutes such as Indonesia's Civil Code and *UU P2SK* against

Singapore's VCC Act and Hong Kong's Trustee Ordinance, while also evaluating regulatory frameworks concerning tax incentives and global compliance standards.

Theoretical Frameworks: Institutional Isomorphism and Wealth Defense

To elevate this analysis beyond a mere policy review, it is essential to ground the discussion in robust theoretical frameworks that explain state behavior in the global financial system.

2.1 The Wealth Defense Industry (WDI) and Oligarchy

The theoretical cornerstone of this analysis is Jeffrey Winters' concept of Oligarchy and the Wealth Defense Industry (WDI). Winters (2011) defines oligarchs not by their political office, but by their command of massive material resources that allow them to defend their wealth against dissipation. The WDI consists of the professional intermediaries—lawyers, tax accountants, wealth managers—who provide the technical mechanisms for this defense, primarily through Income Defense (minimizing taxes) and Property Defense (protecting assets from seizure or redistribution).

In the Indonesian context, wealth defense has historically been informal, relying on patronage networks during the Suharto era. However, the democratization of Indonesia and the integration of global financial standards (such as the Common Reporting Standard and FATF requirements) have forced a shift toward formal, legalistic wealth defense (Hadiz & Robison, 2013). The Family Office represents the institutional apex of the WDI. By seeking to host FOs, Indonesia is attempting to "onshore" the WDI. The state is effectively proposing a new social contract with its oligarchs: bring your assets home, and we will provide the legal shields and fiscal incentives previously sought in offshore jurisdictions. This raises critical questions regarding inequality, as enabling such structures without robust redistributive mechanisms may exacerbate the gap between capital returns (r) and economic growth (g), a dynamic Piketty (2014) identifies as a fundamental driver of modern inequality.

2.2 Institutional Isomorphism in Emerging Markets

Sociological Institutional Theory, particularly the work of DiMaggio and Powell (1983), explains why disparate organizations and states grow increasingly similar. Indonesia's push to adopt a "Trust" law and a "Financial Center" in IKN serves as a clear case of *mimetic isomorphism*. In conditions of uncertainty, entities model themselves after successful peers to gain legitimacy. Indonesia attempts to copy the visible structures of Singapore (such as the Variable Capital Company) and Dubai (DIFC) to signal its modernity and reliability to global capital.

However, a critical risk in this process is "decoupling," where formal structures are adopted—such as passing a Trust Law—but actual practice remains unchanged due to conflicting underlying norms. This leads to "Ceremonial Adoption," where laws exist on paper to satisfy global investors or international bodies, but the underlying institutional

void remains unfilled (Meyer and Rowan, 1977). Furthermore, the theory of Legal Transplants by Alan Watson (1974) suggests that while laws can move between systems, they often face rejection if they clash with the "legal culture" of the host. Indonesia's attempt to introduce the Common Law Trust into a Civil Law system represents a significant "legal irritant" (Teubner, 1998), as the Civil Law concept of property is absolute and unitary, whereas the Trust requires a duality of ownership.

The Incumbents: Comparative Ecosystems of Singapore and Hong Kong

To understand the benchmark Indonesia aims to reach, one must dissect the regulatory architectures of the region's incumbents. Singapore and Hong Kong have evolved distinct but convergent strategies, engaging in a "Race to the Top" marked by high institutional quality and legal innovation.

3.1 Singapore: The Hegemon of Hybridity

Singapore hosts approximately 59% of Asia's Family Offices, a dominance built on a tripartite foundation: legal innovation, fiscal precision, and regulatory stability (KPMG, 2021). Central to this ecosystem is the Variable Capital Company (VCC), introduced in 2020. The VCC addresses the limitations of traditional corporate structures by allowing for seamless redemption and subscription of shares, essential for investment funds, where paid-up capital implies the Net Asset Value (NAV). Furthermore, the VCC's umbrella structure allows a single FO to house multiple sub-funds with segregated assets and liabilities, ring-fencing risk while maintaining confidentiality, as the register of shareholders is not accessible to the public (ACRA, 2020).

Fiscally, Singapore does not rely on blanket tax holidays but on specific exemptions contingent on economic substance. Sections 13O and 13U of the Income Tax Act provide exemptions for funds managed by family offices, provided they meet minimum Asset Under Management (AUM) thresholds (SGD 20 million and SGD 50 million, respectively) and commit to local business spending (MAS, 2022). These requirements ensure that the tax benefits provided generate multiplier effects in the local economy through high-value employment and consumption of professional services.

3.2 Hong Kong: The Resilient Gateway

Hong Kong leverages its proximity to Mainland China and its territorial tax system to remain a fierce competitor. The city operates a territorial tax regime, meaning offshore income is generally tax-exempt. In 2023, this was enhanced with a concession for Family-Owned Investment Holding Vehicles (FIHVs). Managed by an eligible Single Family Office (SFO), an FIHV is exempt from profits tax on qualifying transactions if it manages at least HKD 240 million (approx. USD 30 million) and incurs HKD 2 million in local operating expenses (FSDC, 2023). Structurally, Hong Kong offers the Open-Ended Fund Company (OFC) and the Limited Partnership Fund (LPF), vehicles designed to offer flexibility comparable to Singapore's VCC and Cayman structures, specifically targeting Private

Equity and Venture Capital through tax neutrality for "carried interest" (Inland Revenue Department, 2023).

The Indonesian Context: Structural Impediments in a Civil Law System

Indonesia's ambition to replicate the success of its neighbors faces a foundational jurisprudential hurdle: the incompatibility of its Civil Law system with the trust structures that underpin global wealth management.

4.1 The Jurisprudential Schism: Unitary vs. Dual Ownership

In Common Law jurisdictions, the Trust relies on the concept of "dual ownership": the Trustee holds the legal title, while the Beneficiary holds the equitable title. This separation is crucial for asset protection, ensuring that trust assets are not part of the Trustee's personal estate in the event of bankruptcy (Sitkoff, 2014). Conversely, Indonesia, operating under the Civil Code (*Kitab Undang-Undang Hukum Perdata*), adheres to the principle of unitary ownership (*Eigendom*). Indonesian property law does not recognize a split between legal and equitable title. Consequently, if a Settlor transfers assets to a Manager (Trustee), the Manager becomes the legal owner. The Beneficiary holds only a contractual claim against the Manager, not a proprietary claim over the assets. This creates an unacceptable level of agency risk for UHNWIs; if the Trustee declares bankruptcy, the assets are considered part of the *Boedel Pailit* (bankruptcy estate) and can be seized by general creditors (Simanjuntak, 2019).

4.2 The "Nominee" Quagmire and Legal Reform

In the absence of formal trust structures, Indonesian UHNWIs often rely on Nominee Arrangements. However, Law No. 25 of 2007 on Investment explicitly prohibits agreements that state ownership on behalf of another party, rendering such arrangements null and void by law (*batal demi hukum*). This legal precariousness necessitates a robust alternative.

The enactment of Law No. 4 of 2023 on the Development and Strengthening of the Financial Sector (*UU P2SK*) attempts to introduce a statutory trust concept: the "Trustee" (*Pengelola Dana Perwalian*). Article 34 of *UU P2SK* defines the Trustee as a specialized entity and introduces the concept of Segregation of Assets (*Pemisahan Aset*), stating that assets entrusted to the Trustee are not part of the Trustee's bankruptcy estate. This provision is a significant "Legal Transplant," attempting to synthetically create the asset partitioning feature of a Common Law trust within a Civil Law statute. However, ambiguity remains regarding private, standalone Family Offices acting as trustees, and the statutory segregation remains untested in Indonesian courts (OJK, 2023).

The Policy Proposal: Incentives, Location, and the IKN Strategy

Indonesia's strategy to attract FOs relies heavily on place-based policies and fiscal incentives, centering on the new capital, Nusantara (IKN). Government Regulation (PP) No. 12 of 2023 establishes IKN as a special economic zone, offering tax holidays of up to 30 years for strategic investments and permitting 100% foreign ownership in certain sectors.

5.1 The Tax Incentive Dilemma and Pillar Two

The proposal to offer extensive tax holidays faces a formidable external constraint: the OECD's Pillar Two Global Minimum Tax. Indonesia is a signatory to this framework, which mandates a minimum effective tax rate (ETR) of 15% for multinational enterprises (MNEs) with annual revenues exceeding EUR 750 million. Most UHNW families operate conglomerates falling within this scope. If Indonesia grants a 0% tax rate to an FO consolidated within such a group, the tax savings in Indonesia will trigger a Qualified Domestic Minimum Top-up Tax (QDMTT) or an Income Inclusion Rule (IIR) in another jurisdiction. Consequently, Indonesia would forfeit tax revenue to foreign treasuries without providing a net benefit to the investor, a scenario described as "revenue forgone" (OECD, 2023).

5.2 Agglomeration Economies and the "Empty City" Risk

Financial centers thrive on agglomeration economies—the clustering of banks, law firms, and talent that reduces transaction costs. While Jakarta possesses this ecosystem, IKN does not. The FO industry is knowledge-intensive, requiring highly specialized professionals. Expecting this talent pool to relocate to a greenfield site in Borneo is historically unprecedented in the short term. Unlike the organic growth of Hong Kong or the state-curated growth of Singapore, IKN attempts to build a financial center *ex nihilo*, risking the "Empty City" phenomenon observed in other planned capitals if the underlying soft infrastructure is missing (Sassen, 2001).

Transparency, Money Laundering, and FATF Compliance

A critical risk for any emerging financial center is the potential to become a haven for illicit financial flows. Transparency of Beneficial Ownership (BO) is the global standard for combating money laundering. While Presidential Regulation No. 13 of 2018 mandates BO disclosure, compliance remains low. The Financial Action Task Force (FATF) 2023 Mutual Evaluation Report highlighted deficiencies in Indonesia's framework for the transparency of legal arrangements (FATF, 2023). If the new FO regime creates opaque structures to attract capital, it could jeopardize Indonesia's FATF membership bid and increase the risk of being placed on the "Grey List," thereby increasing the cost of international borrowing.

Conclusion and Policy Implications

Indonesia's Family Office initiative represents a bold attempt to ascend the value chain of global finance. The economic logic—capturing the value of wealth management currently

outsourced to Singapore—is sound. However, the current strategy, relying heavily on fiscal incentives and place-based marketing, is insufficient to overcome structural legal deficits.

The primary barrier is not tax rates, but legal certainty. The incompatibility of the Civil Law *Eigendom* with the Trust concept creates an agency risk that UHNWIs will not accept. While *UU P2SK* attempts to bridge this with the "Trustee" concept, it remains an untested legal transplant. Furthermore, without a robust ecosystem of professionals and strict AML enforcement, the regime risks becoming a conduit for tax avoidance and round-tripping rather than a driver of genuine economic growth.

To create a viable FO hub, Indonesia must pivot from a "Race to the Bottom" (tax competition) to a "Race to the Top" (institutional quality). This requires expediting robust implementing regulations for *UU P2SK* to ensure "Common Law compatibility," abandoning the tax haven model in favor of tax neutrality contingent on economic substance, and strictly enforcing beneficial ownership transparency to align with global standards. Only by addressing these structural fundamentals can Indonesia transform its wealth defense industry from a mechanism of oligarchic preservation into a pillar of national development.

References

- Aykut, D., Sanghi, A., & Kosmidou, G. (2017). *What to Do When Foreign Direct Investment Is Not Direct or Foreign: FDI Round Tripping*. World Bank Policy Research Working Paper No. 8046.
- Berrone, P., Cruz, C., & Gomez-Mejia, L. R. (2012). Socioemotional Wealth in Family Firms: Theoretical Dimensions, Assessment Approaches, and Agenda for Future Research. *Family Business Review*, 25(3), 258–279.
- Chung, H., & Yip, M. (2018). *Trusts and Modern Wealth Management*. Cambridge University Press.
- DiMaggio, P. J., & Powell, W. W. (1983). The Iron Cage Revisited: Institutional Isomorphism and Collective Rationality in Organizational Fields. *American Sociological Review*, 48(2), 147-160.
- FATF. (2023). *Anti-money laundering and counter-terrorist financing measures – Indonesia, Fourth Round Mutual Evaluation Report*. Financial Action Task Force.
- Financial Services Development Council (FSDC). (2023). *Policy Statement on Developing Family Office Businesses in Hong Kong*. Hong Kong SAR Government.
- Hadiz, V. R., & Robison, R. (2013). The Political Economy of Oligarchy and the Reorganization of Power in Indonesia. *Indonesia*, 96, 35-57.

- Inland Revenue Department. (2023). *Tax Concessions for Family-owned Investment Holding Vehicles*. The Government of the Hong Kong Special Administrative Region.
- Khanna, T., & Palepu, K. (1997). Why Focused Strategies May Be Wrong for Emerging Markets. *Harvard Business Review*, 75(4), 41-51.
- KPMG. (2021). *Establishing a family office in Singapore: Structure considerations and tax incentive schemes*. KPMG Singapore.
- Meyer, J. W., & Rowan, B. (1977). Institutionalized Organizations: Formal Structure as Myth and Ceremony. *American Journal of Sociology*, 83(2), 340-363.
- Monetary Authority of Singapore (MAS). (2022). *Fund Tax Incentive Schemes for Family Offices*. Government of Singapore.
- OECD. (2023). *Tax Challenges Arising from the Digitalisation of the Economy – Global Anti-Base Erosion Model Rules (Pillar Two)*. OECD Publishing.
- Otoritas Jasa Keuangan (OJK). (2023). *The Quarterly Report on Indonesia Financial Sector Development*. OJK Institute.
- Piketty, T. (2014). *Capital in the Twenty-First Century*. Harvard University Press.
- Sassen, S. (2001). *The Global City: New York, London, Tokyo*. Princeton University Press.
- Simanjuntak, R. (2019). The Role of Curators in Bankruptcy Estate Management. *Journal of Indonesian Legal Studies*, 4(1), 89-102.
- Sitkoff, R. H. (2014). Trusts and Estates: Implementing Freedom of Disposition. *St. Louis University Law Journal*, 58, 643-682.
- Teubner, G. (1998). Legal Irritants: Good Faith in British Law or How Unifying Law Ends Up in New Divergences. *Modern Law Review*, 61(1), 11-32.
- Watson, A. (1974). *Legal Transplants: An Approach to Comparative Law*. Scottish Academic Press.
- Winters, J. A. (2011). *Oligarchy*. Cambridge University Press.