

BUSINESS LAW IN THE ERA OF ARTIFICIAL INTELLIGENCE (AI): BALANCING INNOVATION AND PROTECTION FOR GENERATION Z

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Abstract

The rapid advancement of Artificial Intelligence (AI) has transformed the business landscape in Indonesia, offering opportunities for innovation while posing legal and ethical challenges. Generation Z, as digital natives, is at the forefront of AI's impact, benefiting from enhanced productivity and personalization but also facing risks such as job automation, privacy breaches, and digital consumerism. This study analyzes Indonesia's legal framework for AI in business, focusing on the Electronic Information and Transactions Law (UU ITE), Personal Data Protection Law (UU PDP), and the Ministry of Communication and Informatics Circular No. 9/2023 on AI Ethics. Using a normative qualitative approach and literature review, the research evaluates the effectiveness of existing regulations, identifies legal gaps, and examines AI's implications for Generation Z in business, employment, and digital consumption. Findings reveal that current regulations are fragmented and non-binding, leaving vulnerabilities in data protection, algorithmic accountability, and ethical compliance. Recommendations include developing a comprehensive AI-specific law, enhancing digital literacy for Generation Z, and strengthening regulatory oversight to balance innovation with protection.

Keywords: *Business Law, Artificial Intelligence, Generation Z, AI Regulation, Data Protection.*

1. INTRODUCTION

Artificial Intelligence (AI) has revolutionized the business sector in Indonesia, from e-commerce (recommendation algorithms in Tokopedia, Shopee), fintech (credit analysis in Kredivo), to digital marketing (targeted advertising on Instagram). According to McKinsey (2024), AI has the potential to contribute USD 366 billion to the Southeast Asian economy by 2030, with Indonesia as the main market. However, this development raises legal challenges, such as personal data protection, responsibility for algorithmic decisions, and ethical issues such as bias and discrimination. Generation Z (born 1997–2012), as digital natives, heavily rely on AI in education (e.g. Ruangguru), employment (freelance platforms such as Upwork), and digital consumption (TikTok, Instagram). However, they are also vulnerable to risks such as job automation, privacy violations, and manipulation of consumer behavior through algorithms. In Indonesia, regulations such as Law No. 11 of 2008 concerning Electronic Information and Transactions (UU ITE), Law No. 27 of 2022 concerning Personal Data Protection (UU PDP), and Circular Letter of the Ministry of Communication and Information No. 9 of 2023 concerning AI Ethics have not been able to comprehensively address the complexity of AI. The lack of comprehensive regulations increases risks for Generation Z, who often have limited legal and privacy literacy. This study analyzes the legal framework for AI business in Indonesia and its impact on Generation Z, with the aim of formulating a balanced regulatory approach.

B. Problem Formulation

1. What is the current legal framework for AI-related businesses in Indonesia, and what are its weaknesses?
2. What are the positive and negative impacts of AI on Generation Z in the context of business, employment, and digital consumption?
3. How to balance AI innovation with legal protection for Generation Z?

C. Research Objectives

1. Analyzing the legal framework for AI-related businesses in Indonesia and identifying regulatory weaknesses.

2. Evaluating the impact of AI on Generation Z in business, employment, and digital consumption.
3. Formulate recommendations for regulations that balance innovation and protection.

D. Benefits of Research

1. Theoretical Benefits: Contributing new insights into the study of business law and AI, especially from the perspective of Generation Z in Indonesia.
2. Practical Benefits: Provides guidance for policymakers to formulate AI regulations that protect Generation Z without stifling innovation, as well as raising public awareness of the risks and opportunities of AI.

2. RESEARCH METHODOLOGY

This study uses a normative qualitative approach with a focus on analyzing laws and regulations, including the ITE Law, the PDP Law, and the Circular Letter of the Ministry of Communication and Information No. 9 of 2023. Secondary data was collected through literature studies from academic journals, government reports, and online sources such as McKinsey and World Economic Forum reports. The analysis was carried out in three stages: (1) mapping existing regulations, (2) identifying legal gaps, and (3) evaluating the impact of AI on Generation Z in the context of business, employment, and digital consumption. The normative approach allows for an assessment of the suitability of regulations to actual needs, while the qualitative analysis provides in-depth insights into social and legal implications.

3. DISCUSSION

A. Legal Framework for AI-Related Business in Indonesia

Indonesia does not yet have a specific law for AI. Existing regulations include:

ITE Law (Law No. 11 of 2008, revised 2016): Regulates electronic transactions and data security, but does not cover AI-specific issues, such as legal liability for algorithmic decisions or bias in machine learning. For example, in AI-based credit scoring, there are no clear provisions on accountability if the algorithm makes discriminatory decisions. PDP Law (Law No. 27 of 2022): Regulates personal data management, relevant for big data-based AI applications. However, its implementation is hampered by the lack of implementing regulations and oversight infrastructure. The law also does not regulate algorithm transparency or users' rights to know the logic of automated decisions. Circular Letter of the Ministry of Communication and Information No. 9 of 2023 concerning AI Ethics: Establishes the principles of transparency, accountability, and fairness, but is non-binding, so that company compliance is voluntary.

Weaknesses of Regulation:

Lack of Specificity: The regulation does not address technical aspects of AI, such as the development of generative AI or deepfakes. **Lack of Sanctions:** Without legal sanctions, tech companies tend to ignore ethical guidelines, as in the case of the e-commerce data breach. **Global Inequality:** Unlike the European Union's GDPR, which requires algorithmic transparency and the right to an explanation, Indonesia's regulation is not comparable. **Oversight Capacity:** Lack of independent bodies and technical expertise hampers law enforcement.

B. Impact of AI on Generation Z

Generation Z has a symbiotic relationship with AI, with significant opportunities and risks. **AI Opportunities**
Efficiency and Productivity: AI improves efficiency in education (e.g. Ruangguru) and work (Canva for creative content). **Service Personalization:** AI algorithms on Shopee, TikTok, and Netflix provide personalized experiences, with 78% of Generation Z preferring AI-based platforms (Google Indonesia, 2023). **Entrepreneurship:** AI enables Generation Z to start businesses with little capital, such as dropshipping or digital marketing. **Global Job Market:** Freelance platforms like Upwork leverage AI to match workers with clients, opening up global opportunities.

2. AI Risks

- a. Automation and Unemployment: The World Economic Forum (2023) predicts that 23% of global jobs are at risk of being replaced by AI, especially in the administration and retail sectors, threatening Generation Z who are just entering the job market.
- b. Privacy Breach: Data leaks, such as the Tokopedia case (2020), show Generation Z's vulnerability to data misuse.
- c. Digital Consumerism: Recommendation algorithms drive impulse buying, fueling financial problems among Generation Z.

- b. Algorithmic Bias: AI can make discriminatory decisions, such as in AI-based hiring that prioritizes male candidates (AlgorithmWatch, 2023).
- c. Technology Dependence: Using AI like ChatGPT for academic tasks can weaken cognitive skills.

C. Balancing Innovation and Protection

1. Legal Challenges

Technological Complexity: AI models such as generative AI have black-box mechanisms, making it difficult to determine legal responsibility. Global Harmonization: Global technology companies like Google and Meta operate under different regulations, creating loopholes for data exploitation. Resource Capacity: Indonesia lacks expertise for algorithm auditing or regulatory enforcement. Ethics vs. Law: Kominfo's ethical guidelines are not binding, so companies prioritize profit.

2. Socio-Economic Impact

AI is exacerbating the digital divide, with Generation Z in remote areas having less access to technology. Economically, automation threatens 1.5 million entry-level jobs in Indonesia by 2030 (Oxford Economics, 2024). Psychologically, AI algorithms can affect mental health through the pressures of consumerism.

3. Case Study: E-Commerce and Fintech

- E-Commerce: AI algorithms for product recommendations improve efficiency, but dynamic pricing may hurt Generation Z consumers.
- Fintech: AI for credit analysis improves financial access, but automated decisions without transparency can harm users.

4. Comparison with Global Regulations

- General Data Protection Regulation/GDPR (European Union): Requires algorithm transparency and fines of up to 4% of a company's annual revenue.
- AI Act (European Union): Classifies AI by risk, with strict requirements for high-risk applications. Blueprint for an AI Bill of Rights (US): Emphasizes protections from bias and privacy violations.

CLOSING

A. Conclusion

AI has transformed the business landscape in Indonesia, providing opportunities for Gen Z in productivity, personalization, and entrepreneurship. However, risks such as job automation, privacy violations, digital consumerism, and algorithmic bias threaten their well-being. Current regulations (UU ITE, UU PDP, Kominfo Circular) are partial and non-binding, leaving gaps in data protection and algorithm accountability. A balanced regulatory approach is needed to maximize the benefits of AI for Gen Z without compromising their rights.

B. Suggestions

1. AI Specific Law: Formulate laws governing AI algorithm transparency, accountability, and risk classification.
2. Digital Literacy: Expanding education on data privacy and AI ethics for Generation Z.
3. AI Oversight Body: Establish an independent body for algorithm audits and regulatory enforcement.
4. Innovation Incentives: Providing incentives for local AI startups that adhere to ethical standards.
5. Global Collaboration: Adopting best practices from GDPR and AI Act through international forums.
6. Anti-Consumerism Campaign: Raising Generation Z's awareness of the impact of recommendation algorithms.

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