Services Trade in Indonesia

EXPLORING PATTERNS, POLICIES, AND REFORM SCENARIOS

OECD

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Foreword

Services and services trade play an increasingly important role in Indonesia's economy as they represent new sources of growth, job creation, and overall wellbeing. This study explores patterns, policies, and reform scenarios of Indonesian services trade building on the OECD's expertise, data, and analysis. The stylized facts and findings presented here aim to inform the discussion on a co-ordinated policy action amongst Indonesian policy makers and stakeholders so as to maximise the contribution of services trade to the country's economic development.

This study covers the role of services trade in the Indonesian economy at both the aggregate and granular sectoral levels; the regulatory environment for services trade, including domestic regulatory and policy developments, as well as the relevant services trade disciplines in Indonesia's regional trade agreements; and potential reform packages that target services trade, with an assessment of their potential impact on the Indonesian economy.

This study was prepared by the Trade Policy Division of the OECD. It was funded by a voluntary contribution from the Department of Foreign Affairs and Trade (DFAT) of Australia, and its scope and structure were designed in close collaboration with the Directorate of Services Trade Negotiations in the Ministry of Trade of Indonesia. The analysis relied on OECD databases, as well as on in-house and academic research in the area of services trade reforms.

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Acronyms

AAMNE	Analytical Activity of Multinational Enterprises
AFAS	ASEAN Framework Agreement on Services
AMS	ASEAN Member States
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
ATISA	ASEAN Trade in Services Agreement
BATIS	Balanced Trade in Services
EBOPS	Extended Balance of Payments
ERIA	Economic Research Institute for ASEAN and East Asia
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
GATS	General Agreement on Trade in Services
ICT	Information and communication technology
IP	Intellectual property
IT	Information Technology
MNE	Multi-National Enterprise
MRA	Mutual Recognition Arrangement
STRI	Services Trade Restrictiveness Index
RCEP	Regional Comprehensive Economic Partnership Agreement
RTA	Regional Trade Agreement
TiSMoS	Trade in Services by Mode of Supply
TiVA	Trade in Value Added
WTO	World Trade Organisation

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Executive summary

Services play an important role in the economic development and structural transformation of emerging economies. Transportation, courier, logistics, and distribution services are essential in supporting the creation of well-functioning and resilient supply chains, as well as integration into existing ones. Telecommunications, audio-visual and computer services shape digital connectivity and promote the adoption of digital technologies, in addition to fostering innovation in the digital economy. Legal, accounting, insurance, and banking services are pivotal in facilitating business, trade, and finance. Architectural, engineering, and construction services are the cornerstones of the physical infrastructure, and tourism services represent an extraordinary economic opportunity for value creation and employment. Lastly, health and education directly contribute to the development of human capital and to better lives.

Trade in services creates opportunities for growth across all sectors of the economy and represents an access channel to international markets. However, barriers to services trade embedded in domestic regulations remain high and limit the potential contribution of services trade to economic development.

In 2022, Indonesia was the fourth most populous country in the world and had the sixth largest economy in the Southeast Asia and Pacific regions in terms of gross domestic product. The country returned to positive economic growth following the COVID-19 pandemic, which temporarily interrupted its long and steady growth since the end of the Asian financial crisis in the late 1990s.

Indonesia's economic development has shown a clear pattern of structural transformation toward the services sector, which accounts today for almost 60% of the country's total value added and employment. In comparison to many regional economies in the Association of Southeast Asian Nations (ASEAN), however, Indonesia trades less in services relative to manufacturing and agricultural goods. Moreover, while the services sector has expanded its relative importance in the country's economic activity, Indonesia's contribution to global shares of services trade flows did not steadily increase in the last two decades prior to the outbreak of COVID-19 in 2019.

The analysis presented in this study shows that services imports, either through cross-border trade or supplied via locally established affiliates of foreign services providers, represent an important channel for Indonesian firms and consumers to access services for which the domestic sectors are relatively small. These sectors include digital network services such as telecommunication, computer, and information services, as well as professional, scientific and technical services. On the export side, the data show strong performances in tourism and construction services. Sectors such as distribution, financial and insurance, telecommunication, computer and information services, and professional, scientific and technical services also display positive trends in terms of services sales by Indonesian multi-national enterprises abroad.

The design of an effective policy strategy to leverage the potential of services trade for economic development must be based on a granular assessment of services trade-related policies and regulations across all sectors. The present analysis of the policy data identifies economy-wide barriers that undermine trade and investment not only in services, but across other economic activities. These barriers affect in particular strategic sectors such as financial services, a number of professional services, telecommunications, and several transport and logistics services. In physical infrastructure services, however, Indonesia maintains an open regulatory environment, even when compared to OECD countries.

Services trade and services trade policies are not easy to measure. Notwithstanding the improvements in methodology, an accurate and comprehensive empirical assessment of services trade flows across sectors and modes of provision remains challenging. Similarly, trade policies for services are inherently more complex than those for goods, with implications for the availability of detailed and standardised data. This study therefore relies on databases at the forefront of statistical efforts in the field of services trade and services trade policy, including the OECD-WTO Balanced Trade in Services database, the international benchmark for analytical estimates of balanced services trade flows constructed from the balance of payment statistical framework; the OECD Analytical Activity of Multinational Enterprises database, which builds on the foreign affiliate statistics framework and enables to assess services supplied through the establishment of commercial presence or Mode 3 services trade; and the OECD Services Trade Restrictiveness Index database, an evidence-based tool that provides information on regulations affecting trade in services in 22 sectors across 50 countries.

Building on recent OECD analytical work, this study shows that Indonesia would gain from reforms that target services trade not only in terms of significant reductions in the current structure of services trade costs, but through significant positive economic spillovers along supply chains, particularly in manufacturing sectors that use services intensively as intermediate inputs, such as finance, telecommunications, and transport. Assessments via potential reform scenarios substantiate these findings and provide solid options for policy action that promote services trade.

Policy implications

Services will be the driver of growth in Indonesia/ They account for 58% of total value added in Indonesia's economy, generate 37% of the value added in gross exports, and employ over half of all Indonesian workers. Yet despite a vibrant and increasingly digital economy, Indonesia's trade in services is subdued compared to regional and international trade partners, highlighting the need for a targeted national services trade strategy and a regulatory reform agenda to strengthen the competitiveness of the country's services providers domestically, regionally, and internationally.

Prioritise high-impact economy-wide reforms/ International markets represent an important channel of access to foreign state-of-the-art services, technology, and capital. Removing economy-wide barriers are important low-hanging fruits as their benefits tend to spill over to other economic activities. The objective of removing restrictions to services trade should not be pursued in isolation, but accompanied by efforts to identify other relevant barriers that could prevent economic actors taking full advantage from greater openness. As such, Indonesia should prioritize policy reforms that have economy-wide effects, including by easing localisation requirements for foreign companies, further facilitating the temporary entry of foreign personnel and key foreign services providers, and enhancing access to public procurement markets.

Leverage the momentum to accelerate liberalisation in key services sectors: Indonesia's major regulatory reforms over the past three decades have contributed to a more open, competitive, and innovative services sector. Further liberalisation efforts could concentrate on sectors where trade cost reductions and productivity gains are the highest, including financial services, telecommunications, transport, and professional services. Indonesia could also leverage ongoing international efforts by, for example, joining the Joint Statement Initiative on Services Domestic Regulation and related Reference Paper at the WTO, and by reiterating its commitments to good practices on domestic licensing procedures and regulatory transparency. Positive spill overs would be more widespread as these sectors provide intermediate inputs to other industries, such as manufacturing and agriculture sectors, that would benefit from cheaper and better-quality services inputs.

Embrace global digital trade through enabling policies and regulations: The rapid digitalisation of economic and social activities, as well as increased access to Internet by Indonesian firms and consumers present important opportunities for growth, job creation, and well-being. To reap the benefits of digital trade, Indonesia should aim to lower unnecessary trade barriers that affect digitally-enabled services and promote policies that allow Indonesian firms and consumers to participate more widely in digital trade while benefiting from greater access to foreign digital services.

1 The role of services in Indonesia's economy

This chapter assesses the role of the services sector in Indonesia with a focus on trade. It presents an overview of aggregate services trade patterns, covering trade in value added, balanced trade flows, and services that are supplied via the establishment of a commercial presence.

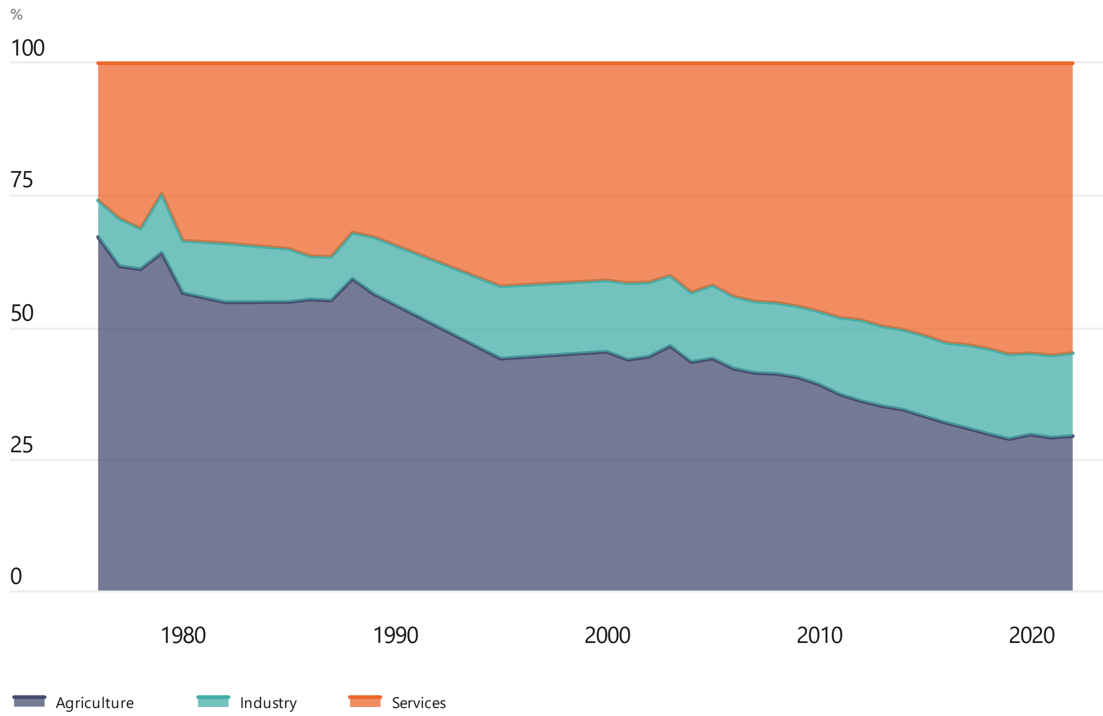
Key points

- There has been steady economic growth in Indonesia, characterised by a structural transformation in which services account for an ever-increasing share of economic activity.
- Compared to regional averages, Indonesia trades less in services both in terms of gross trade flows and as value added embedded in aggregate exports. Services value added in Indonesian manufacturing exports originate mainly from the domestic services sector.
- At an aggregate level, Indonesia's services imports are higher than exports. Significantly, the country's contribution to global shares of services trade flows did not systematically increase in the last two decades prior to the outbreak of COVID-19 in 2019.

Indonesia is a populous country with a large economy. In 2022, its total population as recorded by the World Bank was 276 million, the fourth largest in the world after India, the People's Republic of China (hereafter "China"), and the United States. According to World Bank data, Indonesian gross domestic product in 2022 was the sixth largest among countries in the Southeast Asia and Pacific region, after China, Japan, India, Australia, and Korea, and the sixteenth largest in the World. Services are an important element of the Indonesian economy. They account for 58% of total value added, a slightly larger figure than the average of the Association of Southeast Asian Nations (ASEAN) economies (55%). Similarly, 55% of Indonesian workers are active in the services sector, while agriculture and industry account for only 29% and 16%, respectively.[1]

The change in the composition of employment across sectors reveals a pattern of structural transformation, with the share of Indonesia workers progressively more engaged in services and industry activities as compared to in agriculture (Figure 1.1). This shift has accompanied the overall process of Indonesia's economic development, the most recent phase reflected in the GDP per capita growth rate which has been almost constantly above 3% since the Asian financial crisis at the end of the 1990s; the exception occurred in 2020 due to the COVID-19 pandemic (OECD, 2021[1]).

Figure 1.1. Structural transformation and the growing role of services in Indonesia's employment rate



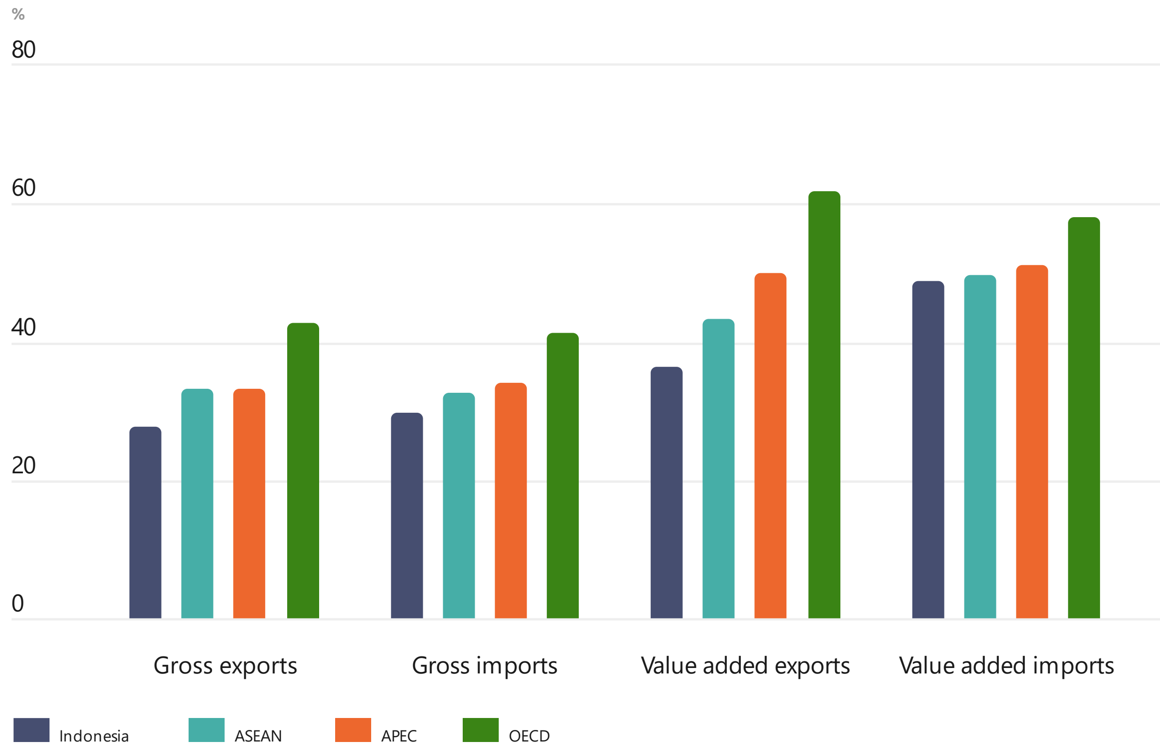
Note: Construction sector is included in services.
Source: International Labour Organization (ILO).

1.1. Services in Indonesia's international trade

Shifting the focus to Indonesia's trade patterns, services account for 28% of gross exports and 30% of gross imports; they generate 37% and 49% of the value added embedded in total gross exports and imports, respectively.

Overall, the footprint of services in Indonesian trade is smaller than the average regional patterns as computed for ASEAN economies. On average, services across ASEAN countries cover more than 30% of gross trade flows, as well as 44% and 50% of the value added embedded in total gross exports and imports, respectively. These numbers are not far from the averages of the Asia-Pacific Economic Cooperation (APEC) economies but remain several percentage points below those of OECD countries, where services account for more than 40% of gross trade flows and approximately 60% of value added embedded in total gross trade (Figure 1.2).

Figure 1.2. Share of services in total trade by key trade indicators



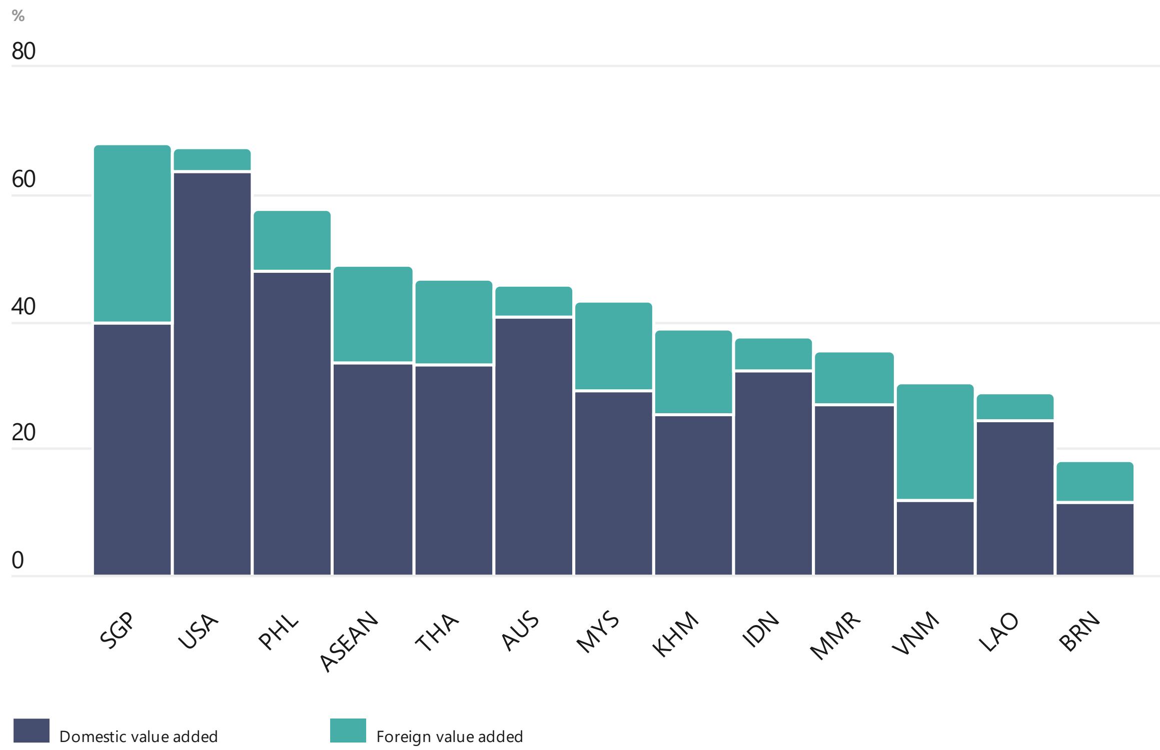
Note: Papua New Guinea is missing in APEC calculations.
Source: TiVA, year 2019.

Decomposing the origin of services value added embedded in Indonesian total gross exports reveals that the majority of value added is generated within the domestic sector. This is true for many other economies, including those with a large and diversified services sector such as the United States.

The evolution in nominal terms on Indonesia's services trade as reflected by the balanced trade flows of the OECD-WTO Balanced Trade in Services (BATIS) database shows a consistent increase, interrupted only in 2020 due to disruptions caused by the COVID-19 pandemic (Figure 1.4).[2] Since 2005, services imports doubled from around USD 15 billion to almost USD 30 billion in 2021. In 2019, they reached a peak of USD 36.6 billion. Similarly, services exports grew from USD 11 to USD 26 billion from 2005 to 2019, decreasing sharply to USD 15 billion in 2020 due to the contraction of travel and construction services during the COVID-19 pandemic (Box 1.1).

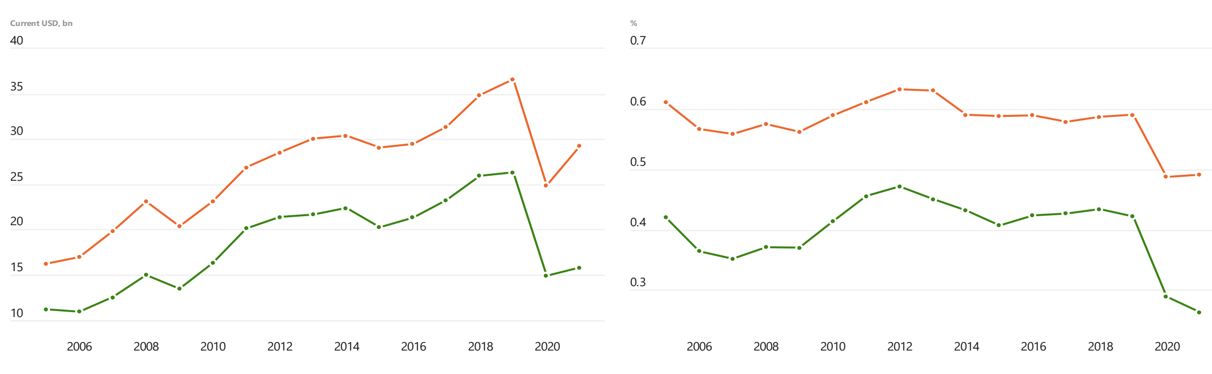
From 2005 to 2019, Indonesia's services trade did not diverge much from the evolution of global services trade, accounting for approximately 0.6% of world services imports and 0.4% of world services exports during the whole period. However, these figures decreased by a decimal percentage point between 2019 and 2020, highlighting the stronger negative impact of the COVID-19 pandemic on Indonesia's services trade relative to the rest of the world.

Figure 1.3. Services contribution to total gross exports



Source*:* TiVA, year 2019.

Figure 1.4. Indonesia services trade: Values and world shares



Note: Figures represent Mode 1, 2 and 4.
Source: OECD-WTO BATIS Database (balanced flows).

Box 1.1. The heterogeneous responses of services trade to the COVID-19 pandemic

The steep decrease in Indonesia's aggregate services imports and exports between 2019 and 2020 hides a significant degree of heterogeneity across more granularly defined services sectors. The sectors experiencing the strongest trade disruptions were travel and construction services, for which imports and exports decreased by close to 50% for construction and 75% for travel services (Figure 1.5, Panels 1 and 2). This reflects the type of restrictions implemented during the COVID-19 pandemic, which limited the international movement of people, essential for trade in construction services and for business and personal travel.[1] A very different pattern appears for services with a high degree of digital tradability, such as finance, insurance services, and telecommunications, computer and information services which all experienced sustained import and export growth between 2019 and 2021 (Figure 1.5, Panels 1 and 2).

Figure 1.5. Heterogeneous sectoral response to COVID, imports and exports of services

Notes: Telecommunications include computer and information services. Change between viewing imports (Panel 1) and exports (Panel 2) can be viewed by using the drop-down menu at the bottom of the figure.
OECD (2022[2]) illustrates how domestic tourism, the main driver of Indonesian tourism before 2020, has played a leading role in the recovery of the tourism sector in Indonesia.
Source: OECD-WTO BATIS Database (balanced flows).

Although not captured by services trade estimates derived from the balance of payments statistics, Indonesia's purchase and supply of services through the establishment of a commercial presence — or Mode 3 services trade — also increased in nominal terms when compared to the early 2000s (Box 1.2). Mode 3 services trade can be measured by the output of foreign affiliates of multi-national enterprises (MNEs) (e.g. UN et al. (2012[3]) Andrenelli et al. (2018[4])).[3] Following this approach, the present study relies on the OECD Analytical Activity of Multinational Enterprises (AAMNE) database (Cadestin et al., 2018[5]) and presents Indonesia's Mode 3 services imports as proxied by the output of foreign-controlled affiliates located in Indonesia, and Mode 3 services exports by the output of Indonesian MNEs affiliates abroad.

Box 1.2. Services modes of supplies as defined by the WTO

Mode 1. Cross-border trade

From the territory of one Member into the territory of any other Member. Example: A user in country A receives services from abroad through its telecommunications or postal infrastructure. Such supplies may include consultancy or market research reports, tele-medical advice, distance training, or architectural drawings.

Mode 2. Consumption abroad

In the territory of one Member to the service consumer of any other Member. Example: Nationals of A have moved abroad as tourists, students, or patients to consume the respective services. This mode is not covered in the STRI.

Mode 3. Commercial presence

By a service supplier of one Member, through commercial presence, in the territory of any other Member. Example: The service is provided within A by a locally-established affiliate, subsidiary, or representative office of a foreign-owned and — controlled company (e.g. bank, hotel group, construction company).

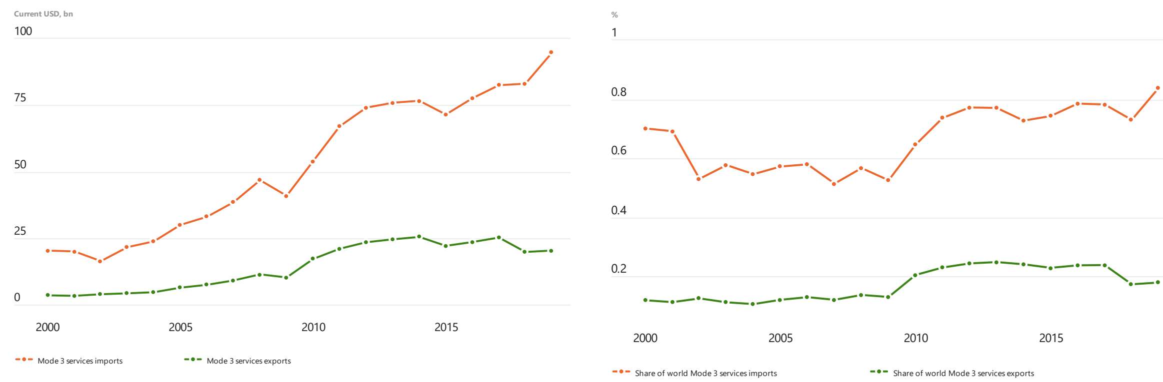
Mode 4. Movement of natural persons

By a service supplier of one Member, through the presence of natural persons of a Member in the territory of any other Member. Example: A foreign national provides a service within A as an independent supplier (e.g. consultant, health worker) or employee of a service supplier (e.g. consultancy firm, hospital, construction company).

Source: World Trade Organisation, see here.

When considering broad sectoral categories, Mode 3 services imports and exports are consistently ranked above agriculture, but below manufacturing. While there is a clear upward trend in the evolution of Mode 3 services imports in nominal terms, which rose about five-fold between 2000-19, Mode 3 services exports have remained at around USD 20 billion since the early 2010s (Figure 1.6). Indonesia's share of Mode 3 services trade increased slightly during the period 2000-19. In the case of Mode 3 services imports, the percentage share of world trade went from less than 0.6% for most of the 2000s, to more than 0.8% in 2019. The increase was less pronounced for Indonesia's Mode 3 exports; the share of world trade grew from just above 0.1% to around 0.2% during most of the 2010s.

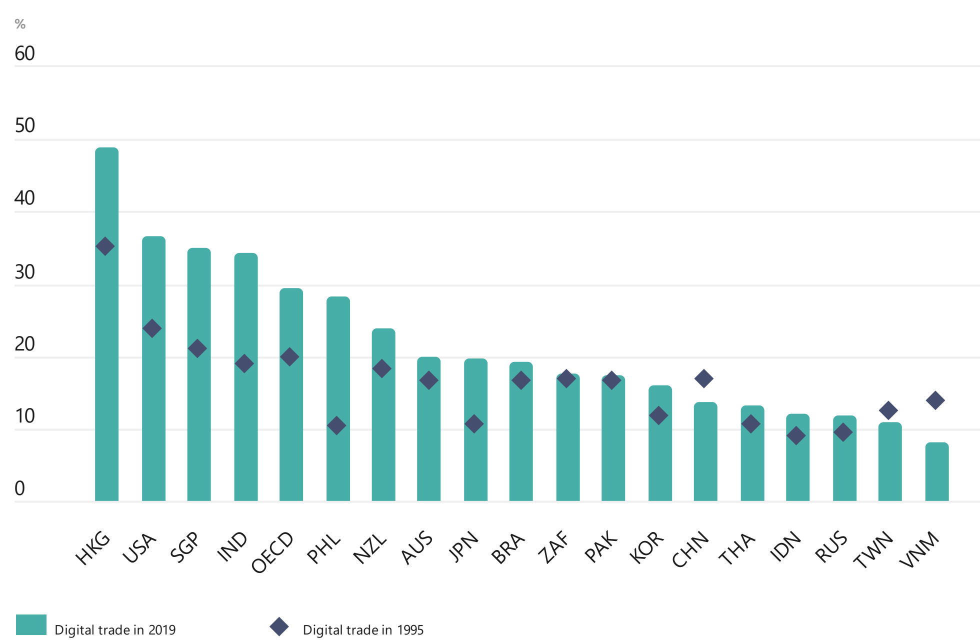
Figure 1.6. Mode 3 Indonesia services trade: Values and world shares



Source: OECD Analytical AMNE Database.

Services are important elements in digital trade. Defined in the *Handbook on Measuring Digital Trade* (IMF; OECD; UNCTAD; WTO, 2023[6]) as "all international trade that is digitally ordered and/or digitally delivered", digital trade can be proxied using trade in digitally-deliverable services (including computer, telecommunications, financial, and business services) plus measures of digitally-ordered trade. In the absence of official statistics and following the estimation approach proposed by López González, Sorescu and Kaynak (2023[7]),[4] digital trade accounted for 12% of Indonesia's total exports in 2019, an increase from 9% in 1995. While these figures are higher than or very close to other economies in the region (e.g. Viet Nam or Thailand), they remain several percentage points below the OECD average, for which the share of estimated digital trade in total exports was 30% in 2019 (Figure 1.7).

Figure 1.7. Share of digital trade in total exports, 2019 vs. 1995



Note: Selected economies and OECD average. Digitally-delivered trade is identified as information and communication technology (ICT) services (ISIC 61, 62, 63) and other digitally-deliverable services (ISIC 58 to 60, 64 to 66 and 69 to 82). Digitally-ordered trade is identified as digital inputs (ICT goods and services and other digitally deliverable services) in non-digital sectors (all those not counted as digital).
Source: Own calculations using TiVA database (2023).

1.2. Concluding remarks

Indonesia's services shares of value added and employment are consistent with the country's economic development. However, Indonesia trades relatively less services than its regional and global peers, and has a relatively lower services content in aggregate imports and exports. Prior to the COVID-19 pandemic, Indonesia's contribution to global services trade flows had remained flat over the previous two decades, accounting for percentage shares that ranged from 0.2% to 0.8% of global trade, depending on the direction of the trade flow and the mode of services provision. Moreover, the Indonesian footprint in digital trade, where services play a crucial role, is relatively low with respect to the OECD average. These patterns highlight a significant potential to strengthen the role of services in Indonesia's trade strategy.

Services trade is increasingly recognised as an important driver of economic growth and sustainable development (WTO and World Bank, 2023[8]; Nayyar, Hallward-Driemeier and Davies, 2021[9]). One reason for this is the role services play as intermediate inputs across all sectors of the economy. Easier accessibility to these inputs, either from a competitive domestic sector or from international markets, could improve the economic performance of Indonesian firms. The evidence presented in this chapter has shown that services value added in Indonesian manufacturing exports originates mainly from the domestic services sector. The observed higher services intensity of gross exports in regional peers reveals an opportunity for Indonesia to bolster its trade in services in support of its overall export performance.

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Notes

[1] Value added figures are computed from the OECD Trade in Value Added (TiVA) Database, while shares of employments across sectors are calculated using data from the International Labour Organization.

[2] The OECD-WTO BATIS database (OECD, 2024[10]) builds on official balance of payments statistics available at the national level and supplements these with estimates derived through different statistical and econometric techniques. This database provides the best possible estimates for bilateral services trade flows, offering state-of-the-art solutions to technical difficulties and limited availability of official statistics on bilateral services trade (Fiallos and Liberatore, 2023[11]). The present study relies only on the OECD-WTO BATIS database. While balanced values are often relatively close to the reported values, differences can exist due to over- or under-reporting.

[3] To capture Mode 3 services trade and avoid double counting with BOP reported trade flows, only locally sold output should be considered. However, due to measurement challenges total output is typically used.

[4] López González, Sorescu and Kaynak (2023[7]) identify digitally-delivered trade as the sum of trade in telecommunication, IT and other information services, publishing and audio visual, financial and insurance activities, and administrative and support services. Digitally-ordered trade is identified as digital inputs (all previously listed services plus information and communication technology goods) in non-digital sectors (all those not counted as digital).

2 The strengths and potential for growth of Indonesia's service sectors

This chapter presents a statistical overview of Indonesia's services output and trade. By analysing individual services, it identifies the sectors and partner countries that most contribute to the country's services trade balance across different modes of services trade.

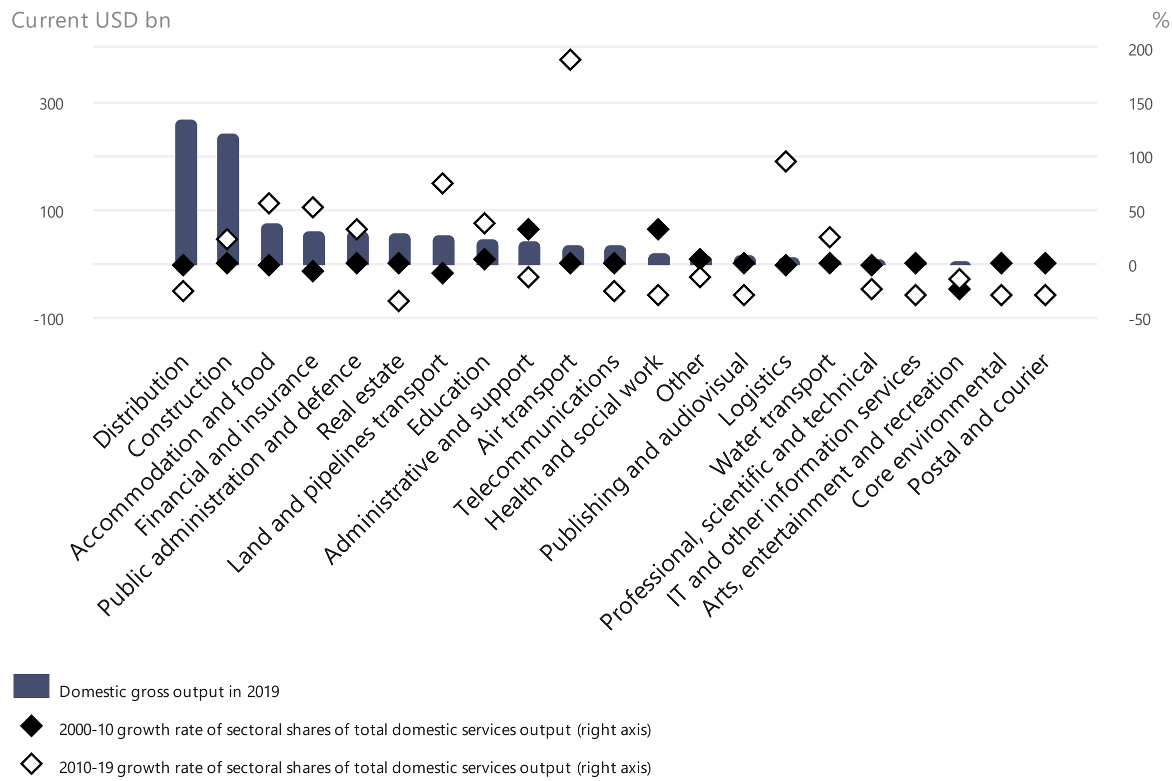
Key points

- Distribution and construction are the largest services sectors in terms of gross output in Indonesia. The relative shares of gross output have been growing for services that support supply chains and market bridging and supporting services, including transport and logistics.
- Digital network services are small in terms of gross output and their shares of total services output in Indonesia have shrunk over the last decade prior to the COVID-19 pandemic. A similar pattern is observed for professional, scientific, and technical services.
- Cross-border (Mode 1) imports of services provide a crucial channel of access to telecommunication, computer and information services for Indonesian firms and consumers, while imports via a commercial presence (Mode 3) bolster access to distribution and financial services.
- Services exports, as captured by estimates derived from the balance of payments statistical framework, are highly concentrated in travel services, including tourism and other services, that are exported to foreign residents but consumed in Indonesia (Mode 2).
- A broader range of sectors, such as distribution, financial and insurance services, telecommunication, transport, and professional services, are important for Indonesia's services exports either as sales of Indonesian MNE affiliates abroad (Mode 3 exports) or as sources of value added embedded in Indonesia's manufacturing exports.
- Asia has the largest footprint of Indonesian services imports and exports across modes of services provision.

2.1. The contribution of services sectors in gross domestic output

The services sector in Indonesia generates gross output of USD 1 129 billion, representing 55% of total gross output in 2019, against 29% by manufacturing and 13% by agriculture and mining.[1] Within this large services sector, the size of its sub-sectors varies considerably. Distribution and construction services are the largest sectors in terms of domestic gross output, accounting in 2019 for more than USD 270 billion and USD 240 billion, respectively (Figure 2.1). Domestic gross output of transport services sectors amount to a total value of about USD 100 billion. Accommodation and food services (which include short-stay accommodation for visitors and other travellers, as well as the food and beverage services activities[2]), financial and insurance, public administration and defence, and real estate activities are also relatively large sectors, with values of domestic gross output ranging from USD 76 billion to USD 60 billion. Education, administrative and support services, telecommunication, health and social work services, and other services generate between USD 49 and USD 20 billion of gross output, followed by publishing and audio-visual services (USD 17 billion), and logistics (USD 15 billion). Professional scientific and technical services, IT and other information services, arts, entertainment and recreation services, core environmental services, and postal and courier activities are the smallest sectors, accounting for volumes of domestic outcome slightly above or below USD 10 billion (Figure 2.1).

Figure 2.1. The gross output of domestic services sectors



Source: OECD TiVA.

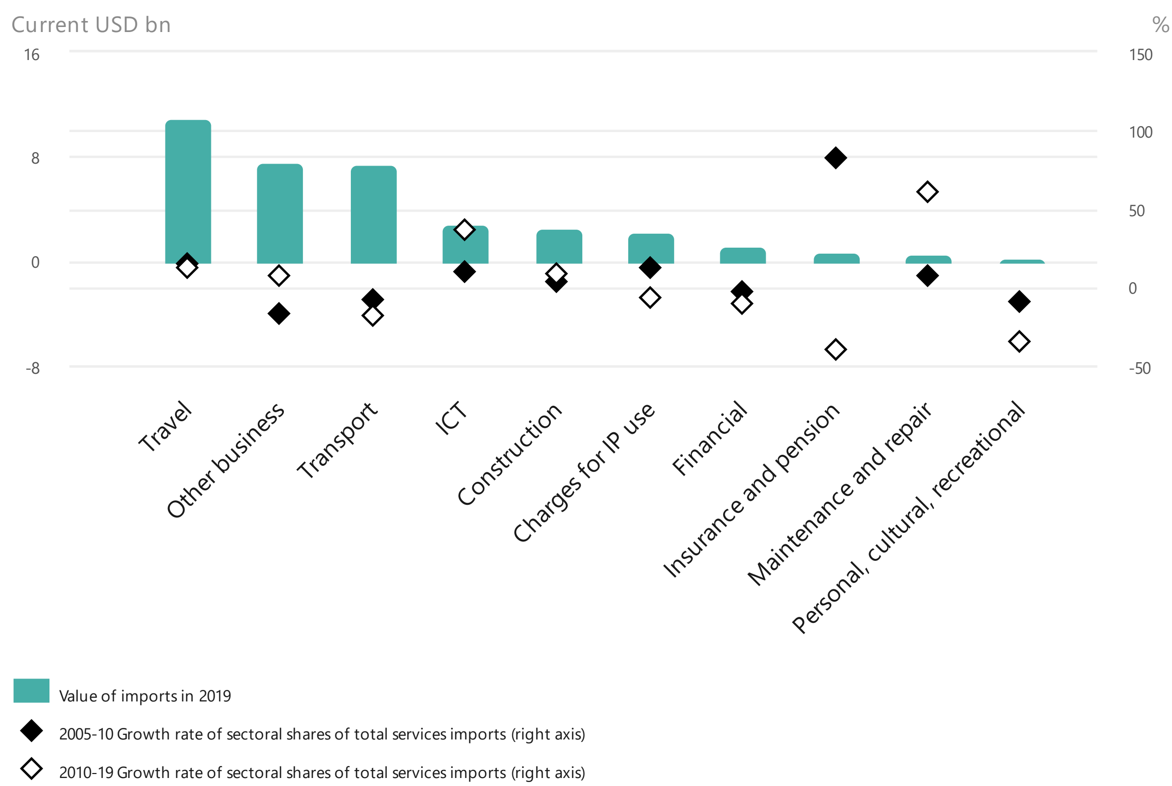
Sectoral shares of total services gross output in Indonesia remained constant from 2000 to 2010, reflecting similar positive nominal growth rates of gross output across sectors.[3] These growth rates were more heterogeneous during the subsequent decade, which generated very different changes in the relative size of sectoral domestic production. From 2010 to 2019, the air transport services sector nearly tripled its relative size in terms of domestic gross output (190% growth rate of its sectoral share), and the relative size of logistics services grew by almost 100%. Land and pipelines, transport, accommodation and food services, and financial services showed growth rates above 50%. Following closely behind were education services (37%), public administration and defence services (both at 32%), while water transport and construction grew by almost 25%. All other services sectors plotted in Figure 2.1 display negative growth of their relative size, from -15% in arts, entertainment and recreation services to -34% in real estate activities.

The distribution and evolution of gross output across Indonesian services sectors show the importance of services that support supply chains (i.e. transport and logistics services), which are clearly on an expansionary trajectory within total services output. A similar pattern emerges for financial and insurance sectors, which are important market bridging and supporting services. Digital network services, such as telecommunication, information technology (IT) and other information services, which are crucial to support the development and uptake of digital solutions throughout the economy, were much smaller in terms of gross output and decreased over time in relative terms during the last decade prior to the outbreak of the COVID-19 pandemic.

2.2. Sectoral patterns of services imports

Consumers and firms rely on imports to access services beyond those provided by domestic suppliers. The importation of travel services encompasses tourism and business travel; these accounted for the highest volume of sectoral services imports by Indonesia in 2019 (USD 11 billion, representing 30% of total services imports). Other business and transport services were equally large in terms of services imports in the OECD-WTO BATIS database (each around USD 7.5 billion, representing 20% of total services imports in 2019).[4] In relative terms, both other business and transport services imports shrunk between the years 2005-10. However, in the subsequent decade, the former grew by 7%, while the latter continued to shrink, decreasing by almost 20% of total services imports when compared to 2010 (Figure 2.2).

Figure 2.2. Imports across services sectors, Modes 1, 2 and 4

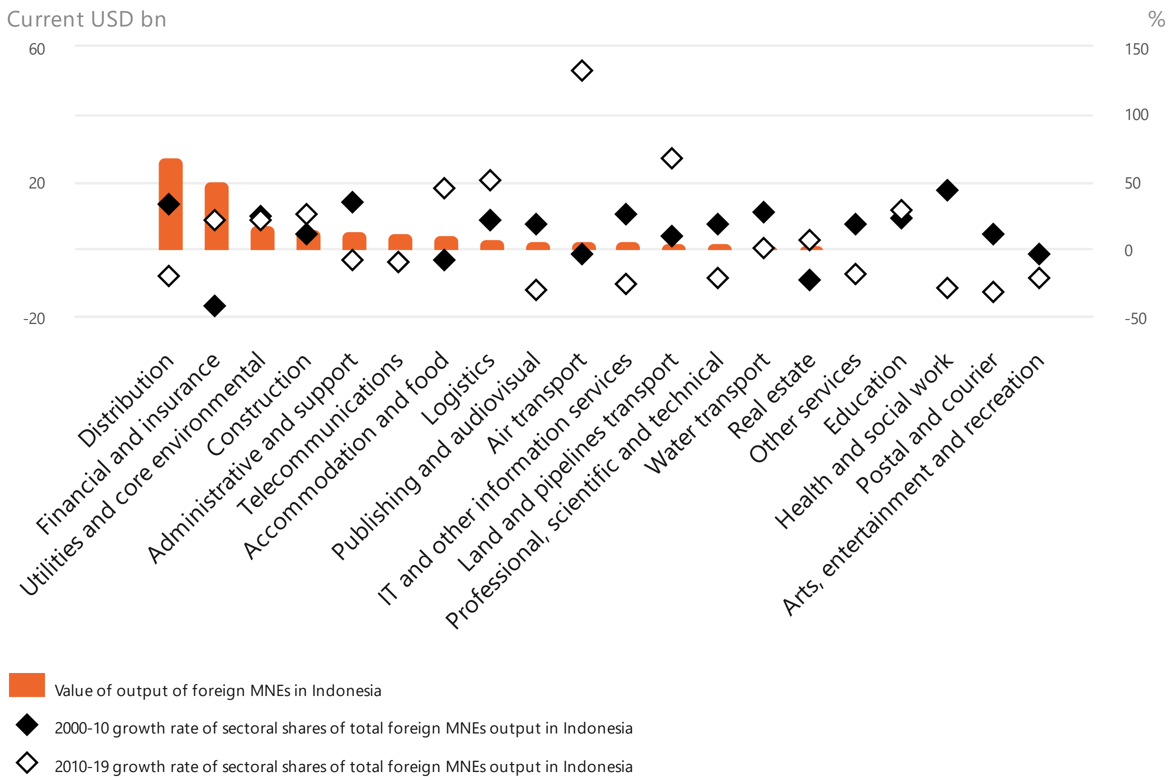


Source: OECD-WTO BATIS Database (balanced flows).

The other sectors covered in the services trade data plotted in Figure 2.2 account for smaller import values, but show heterogeneous dynamics in the evolution of their share of total services imports. Construction services, information and communication technology (ICT) services (including telecommunication, computer and information services), as well as maintenance and repair services display a growing relative size, while other sectoral aggregates including charges for the use of intellectual property (IP), financial services, insurance and pension services, and personal, cultural and recreational services all contracted in relative terms during the period 2010-19.

Mode 3 services imports, proxied by the gross output of foreign multinationals in Indonesia, show a significant degree of concentration in distribution and in financial and insurance services. In these two sectors, the 2019 output of foreign multinationals in Indonesia was estimated to have been USD 27 billion and USD 20 billion, respectively. Together, these sectors amounted to more than half of total Mode 3 services imports, but the long run dynamics of their relative importance shows opposite patterns. The share of finance and insurance services in total Mode 3 imports decreased from 2000 to 2010, but grew by almost 20% in the following decade, while that of distribution services expanded between 2000-10 and shrunk during the subsequent decade (Figure 2.3).

Figure 2.3. Mode 3 services imports across sectors



Note: Public administration and defence had a value of 0 and hence not included in the graph. MNE stands for Multi-National Enterprise.
Source: OECD Analytical AMNE Database.

Over the decade prior to the COVID-19 pandemic, the share of Mode 3 services imports decreased for postal and courier activities, publishing and audiovisual services, health and social work, IT and other information services, arts, entertainment and recreation services, professional, scientific and technical services, telecommunication services, and administrative and support services. Conversely, the shares of transport services, logistics, accommodation and food services, education, construction, utilities and core environmental services, and real estate activities increased.

Compared to domestic output, services imports show different values and relative dynamics across sectors. For instance, imports of transport services, considering all modes of service provision in 2019, account for about 13% of the value of domestic output in that sector. The share of transport services imported via the establishment of a commercial presence of foreign MNEs in Indonesia (Mode 3) increased between 2010 and 2019 (Figure 2.3), contributing to the relative increase of domestic gross output in the transport sector. Instead, imports of transport services through other modes of provision (Figure 2.2) were shrinking with respect to other sectors in the decade prior to the COVID-19 pandemic. These observations suggest that foreign direct investment (FDI) could become a more important access channel to transport services for Indonesian firms and consumers.

A different pattern emerges when looking at digital network services. It has been noted that telecommunications, IT and other information services (or ICT services) occupy a relatively small and decreasing share of services' gross domestic output in Indonesia (Figure 2.1). Imports from international markets are therefore an important access channel for these services. ICT services' share of Mode 3 imports, which in 2019 accounted for 16% of domestic gross output,[5] has also been shrinking (Figure 2.3), while ICT services imported via other modes of provision including digitally (worth 6% of the value of gross domestic output in the sector in 2019[6]) increased compared to other sectors. This reveals the strategic importance of digital trade in the ICT sector as an expanding channel to source digital network services from international markets. It also highlights the potential to increase inward FDI in these sectors.

Data from the WTO Trade in Services by Mode of Supply (TiSMoS) database on services imports through the temporary movement of foreign residents (Mode 4) suggests that Mode 4 plays a significant role in several sectors, such as computer services, where estimated Mode 4 imports for 2017 (the latest available year in the TiSMoS database) amounted to USD 456 million; engineering services, USD 213 million; scientific and other technical services, USD 64 million; and architectural services, USD 37 million.

2.3. Sectoral patterns of services exports

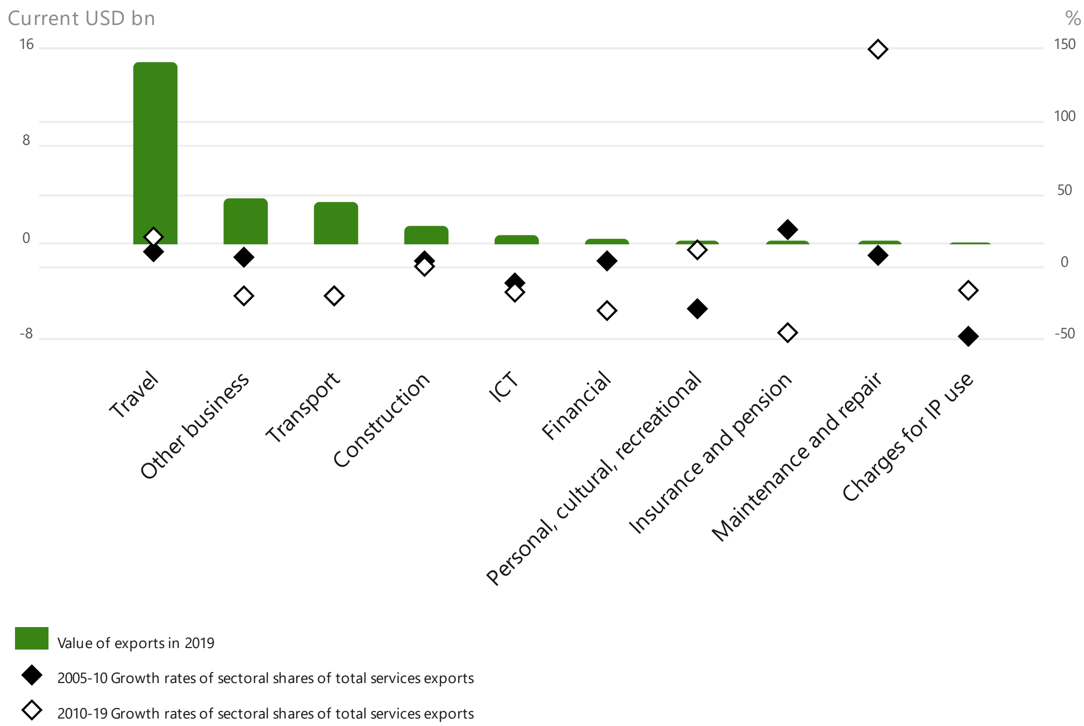
Exports are a direct indicator of sectoral performance and competitiveness. With respect to economic development, exports are positively correlated with firm level productivity and represent a channel to scale up production and increase employment.

According to the aggregate sectoral categories in the OECD-WTO BATIS database, travel services in Indonesia (including tourism and business travel) represented nearly 60% of the total services exports in 2019, with a value of USD 15 billion, and its relative share grew at increasing rates over the periods 2005-10 and 2010-19 (Figure 2.4). Other business services, and transport services follow with much smaller export values (USD 3.7 billion and USD 3.4 billion, respectively) and their shares of total services exports contracted in the decade leading up to 2019. Exports of construction services were equal to USD 1.4 billion in 2019 and accounted for a stable share of total services exports at around 5%.

Among services sectors with lower exports values, personal, cultural, recreational activities, and maintenance and repair services increased their share of total services exports during the period 2010-19. All others, including ICT, financial, and insurance and pension, shrank in relative terms, with insurance and pensions showing a negative nominal growth rate during the same period. Charges of IP use also contracted in relative terms, though at a slower rate compared to the period from 2005 to 2010 (Figure 2.4).

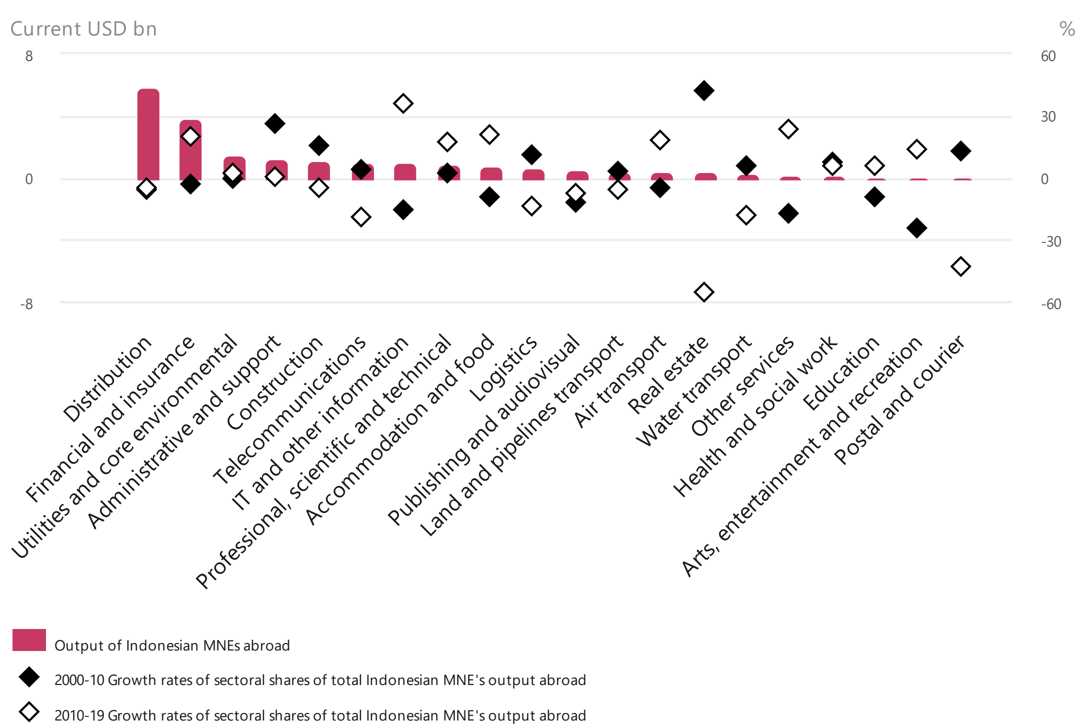
Distribution, and financial and insurance services were the service sectors with the highest values of Mode 3 services exports in 2019, with values of USD 5.8 billion and USD 3.8 billion, respectively (Figure 2.5). Finance and insurance shares of total Mode 3 services exports grew by almost 20% between 2010-19. IT and other information services, other service activities, accommodation and food services, air transport, professional, scientific and technical services, arts, entertainment and recreation services also expanded their share of total Mode 3 services exports by double digit rates during the last decade prior to the COVID-19 pandemic.

Figure 2.4. Services exports across sectors, Modes 1, 2 and 4



Source: OECD-WTO BATIS Database (balanced flows).

Figure 2.5. Mode 3 services exports across sectors

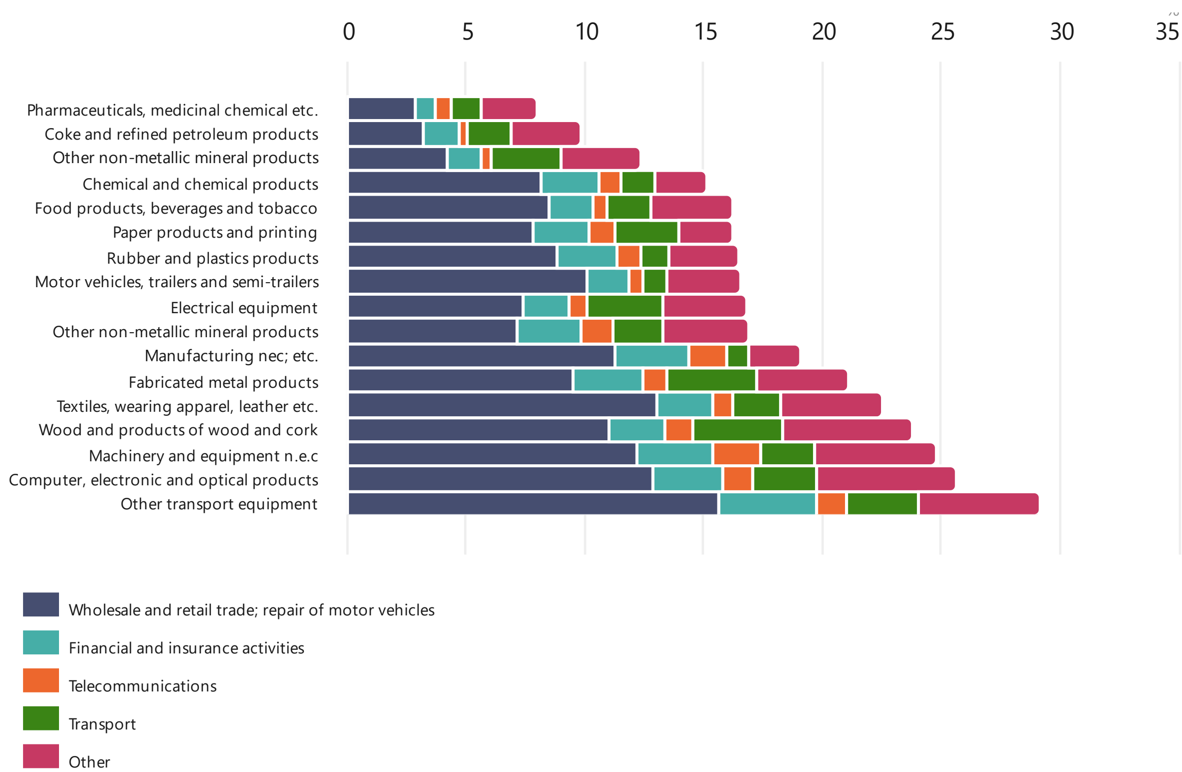


Note: Public administration and defence had a value of 0 and hence not included in this figure. MNE stands for Multi-National Enterprise.
Source: OECD Analytical AMNE Database.

Based on the WTO's TiSMoS database, Mode 4 services exports play an important role for some services sectors in Indonesia. These include engineering (where the 2017 value of services exported through the temporary movement of Indonesian engineers abroad totaled at USD 439 million), construction (USD 184 million), scientific and other technical services (USD 99 million), and computer services (USD 52 million).

Overall, exports account for a small share of domestic output in many services sectors (e.g. approximately 7% in finance and insurance, 5% in the ICT sector, 4% in transports7) and are larger than imports only for travel services and personal, cultural and recreational services as measured in the BATIS database. However, as highlighted in Chapter 1, services sectors generate 37% of the value added embodied in total gross exports across all sectors of the Indonesian economy. In particular, when looking at value added content of Indonesia's gross exports across manufacturing sectors, several services sectors stand out as important sources of value added (Figure 2.6). These include distribution (as captured in the value for wholesale and retail trade services), transport, financial and insurance, and telecommunication services, which are all crucial intermediate inputs and key enablers of production and exports in all sectors of the economy.8

Figure 2.6. Percentage of services content of Indonesian gross manufacturing exports



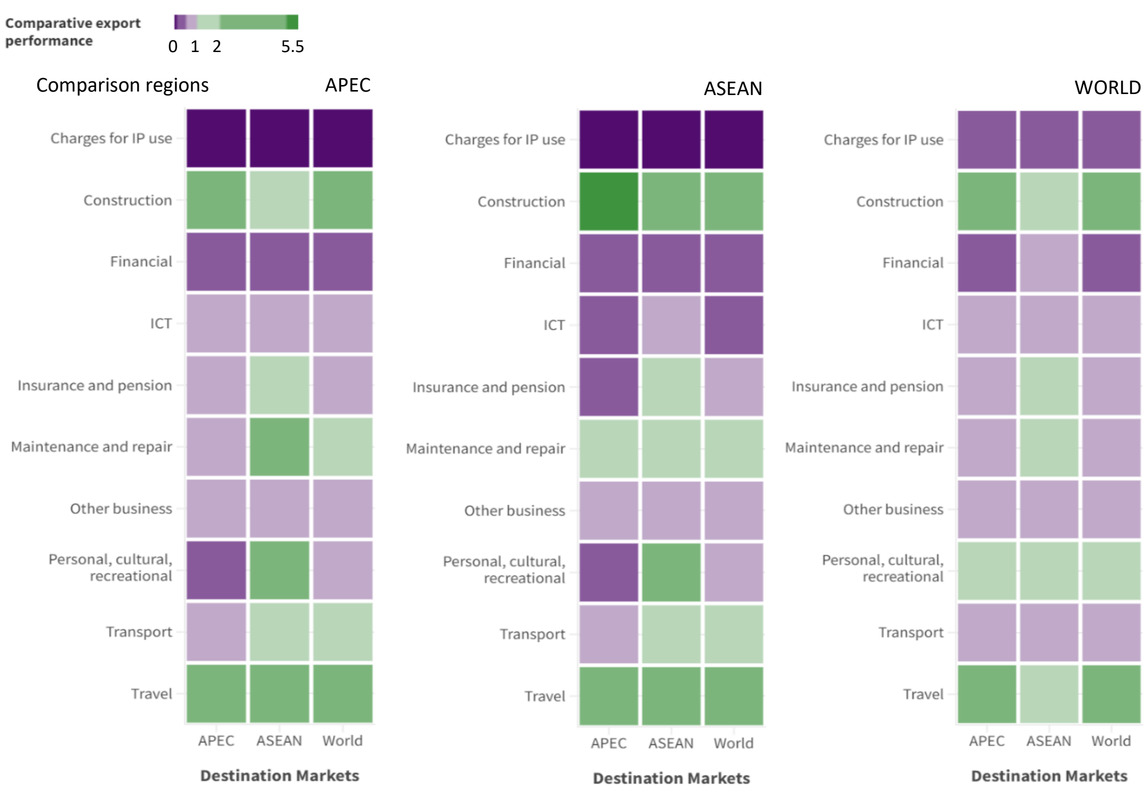
Source: OECD TiVA.

2.4. Comparative export performance

Further insights on Indonesia's services competitiveness is obtained by looking at export performance from a comparative perspective. Figure 2.7 interactively reports the values of a standard indicator of comparative export performance across service sectors and destination markets. A regional aggregate can be selected, e.g. World (all countries covered in the data), APEC and ASEAN, to compare Indonesian exports with other economies. The basic mechanism of the indicator is to take the ratio between the share of a sector in Indonesia's total services exports and compare that to the same sector's share of total services exports of the selected regional aggregate. A value larger than 1 shows a higher level of export specialisation by Indonesia in a sector relative to other services, as compared to the selected region. The indicator plotted in Figure 2.7 is computed with export values averaged over the three-year period 2019-21 and its final formula introduces a dynamic component to reflect how the trend compares to the previous 2016-18 period.[9]

The comparative performance indicators highlight the strength of Indonesia's exports in construction services and tourism services embedded in the travel sectoral category of the OECD-WTO BATIS database. These patterns are confirmed across destination markets and regions selected for comparison (Figure 2.7). In contrast, Indonesia shows a relatively weaker comparative export performance in the sectors of other business services, ICT and financial, as well as in exports of those services that generate fees, commissions, or royalties for IP use, including patents, trademarks, copyrights, industrial processes and design.

Figure 2.7. Indonesia's comparative export performance, Modes 1, 2 and 4



Notes: In the non-PDF version of this graph, you can switch between comparison regions "ASEAN", "APEC" and "World" via the icons in upper left side of the figure. Values above 1 (shades of green) indicate a stronger comparative export performance with respect to comparison regions, towards the destination markets. Comparative export performance indicators are computed using export flows averaged over the three-year period from 2019 to 2021 and account for the trend from 2016 to 2018.
Source: OECD-WTO BATIS Database (balanced flows).

When replicating the exercise using data on Mode 3 services exports, a few Indonesian services sectors show a slightly higher relative performance in exports to the world compared to global export patterns, as well as to APEC and ASEAN patterns (Figure 2.8). This is the case notably for construction services, telecommunications, utilities and core environmental services, publishing and audiovisual services, and health and social services. Indonesia appears relatively less competitive in the export of professional, scientific, and technical services, and IT and other information services. This pattern changes when Indonesia's comparative export performance is assessed against total export performance of ASEAN economies, in which case Indonesia shows higher comparative export performance in the aforementioned sectors, especially towards destination markets that include the APEC and ASEAN regions.

Figure 2.8. Indonesia's comparative export performance, Mode 3

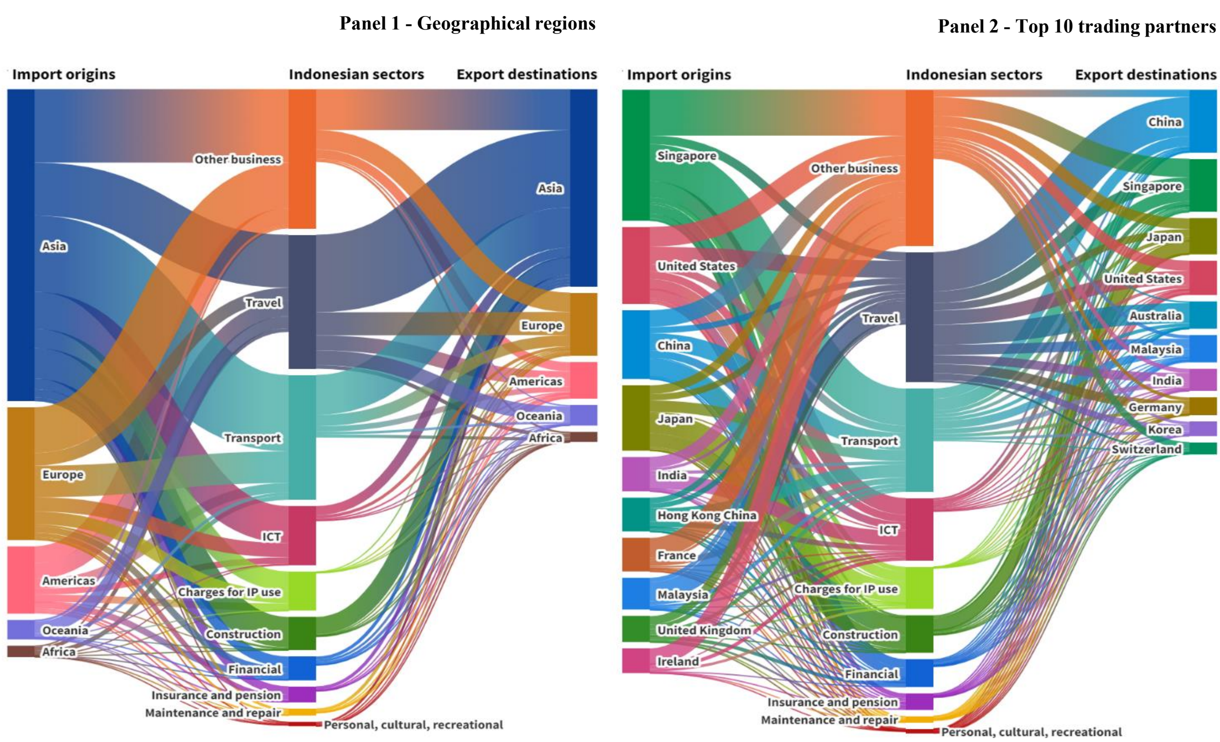
Notes: In the non-PDF version of this graph, you can switch between comparison regions "ASEAN", "APEC" and "World" via the icons in upper left side of the figure. Values above 1 (shades of green) indicate a stronger comparative export performance with respect to comparison regions, towards the destination markets. Comparative export performance indicators are computed using export flows averaged over the three-year period 2017-2019 and account for the trend from the 2014 to 2016 period.
Source: OECD Analytical AMNE Database.

Overall, while Indonesia's comparative export performance remains relatively weak in many services sectors other than construction, the relative competitiveness of exports via the establishment of a commercial presence seems to be stronger for a larger set of services sectors, especially when compared to ASEAN regional patterns.

2.5. Major trade partners

Notwithstanding the decline in the role geographic proximity plays as a determinant of cross-border (or Mode 1) trade in communication, financial and business services (Benz, Jaax and Yotov, 2022[1]), the Asian region continues to account for the highest share of Indonesia's imports and exports across those and other services sectors (Figure 2.9, Panel 1). Six of the top 10 economies that Indonesia imports services from are in Asia: Singapore is first in the ranking, followed by the People's Republic of China (hereafter "China"), Japan, India, Hong Kong China, and Malaysia. Amongst the ten largest destination markets for Indonesia's services exports, six are Asian economies — China, Singapore, Japan, Malaysia, India, and Korea. European countries rank second most important for Indonesia's services trade, with France, the United Kingdom, and Ireland among the top 10 service exporters to Indonesia, and Germany and Switzerland among the top 10 importers of Indonesian services. The United States is also a key trading partner, accounting for the second largest share of Indonesia's services imports and the fourth largest share of services exports. Finally, Australia is among the top 10 destination markets for Indonesian services exports, with an import profile highly concentrated in the travel sector (Figure 2.9, Panel 2).

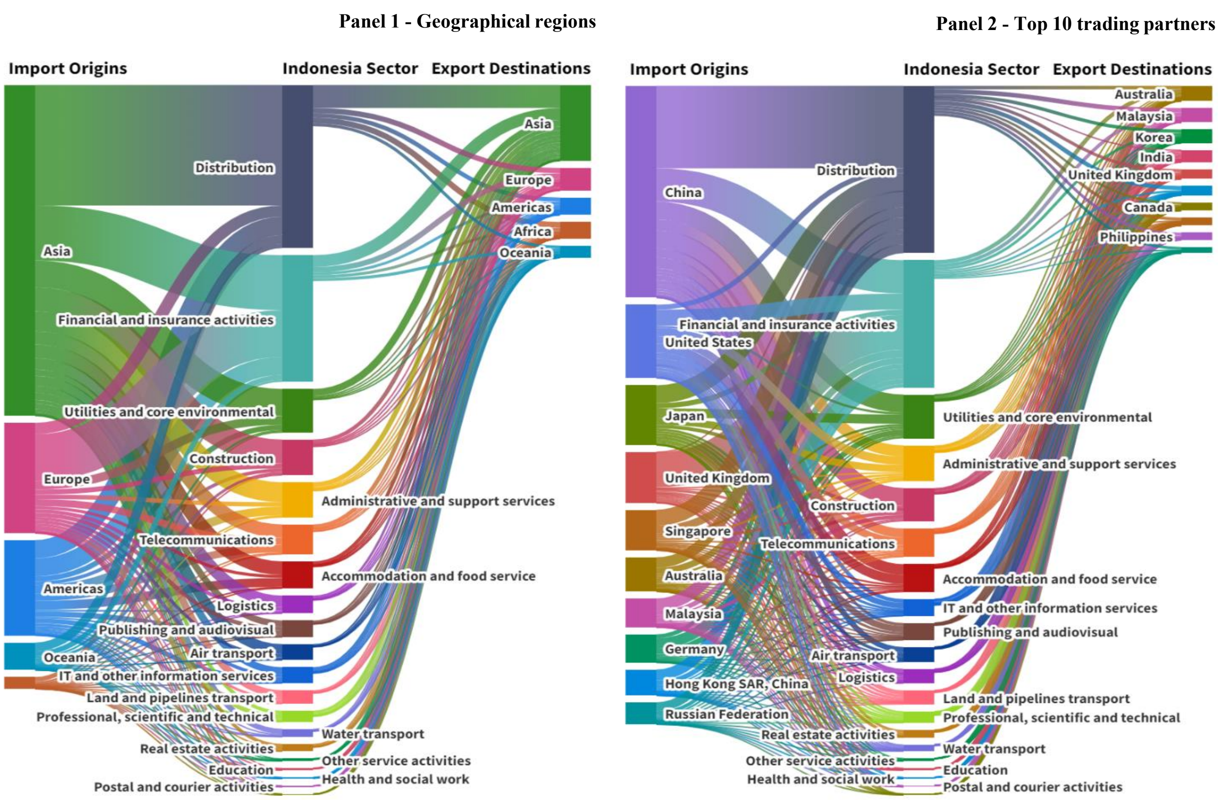
Figure 2.9. Indonesian Modes 1, 2 and 4 trade flows, by top 10 trade partners and regions



Note: In the non-PDF version of this graph, you can switch between "Geographical regions" and "Top 10 trading partners" view via the icons in upper left side of the figure. Geographical regions are based on U.N. classification. Values in USD millions, nominal. Plotted values are averages of yearly observations over the three-year period from 2019 to 2021.
Source: OECD-WTO BATIS Database (balanced flows).

Asia and Europe, as Indonesia's first and second major partners, play a similar role when exploring Mode 3 services trade flows (Figure 2.10). The output of Asian MNEs controlled affiliates in Indonesia is concentrated in distribution services, with almost half of these services provided by Chinese firms. The primary output of European MNEs' affiliates is in financial and insurance activities, driven by affiliates controlled by United Kingdom's MNEs. Africa is the only region where Indonesian's Mode 3 exports are larger than imports, with distribution services, and finance and insurance activities being the most relevant sectors for both trade flows. Australia is the top market in terms of services output by affiliates controlled by Indonesian MNEs, followed by Malaysia, Korea, India, United Kingdom, Hong Kong China, Canada, Singapore, the Philippines, and Nigeria.

Figure 2.10. Indonesian Mode 3 trade flows, by top 10 trading partners and regions

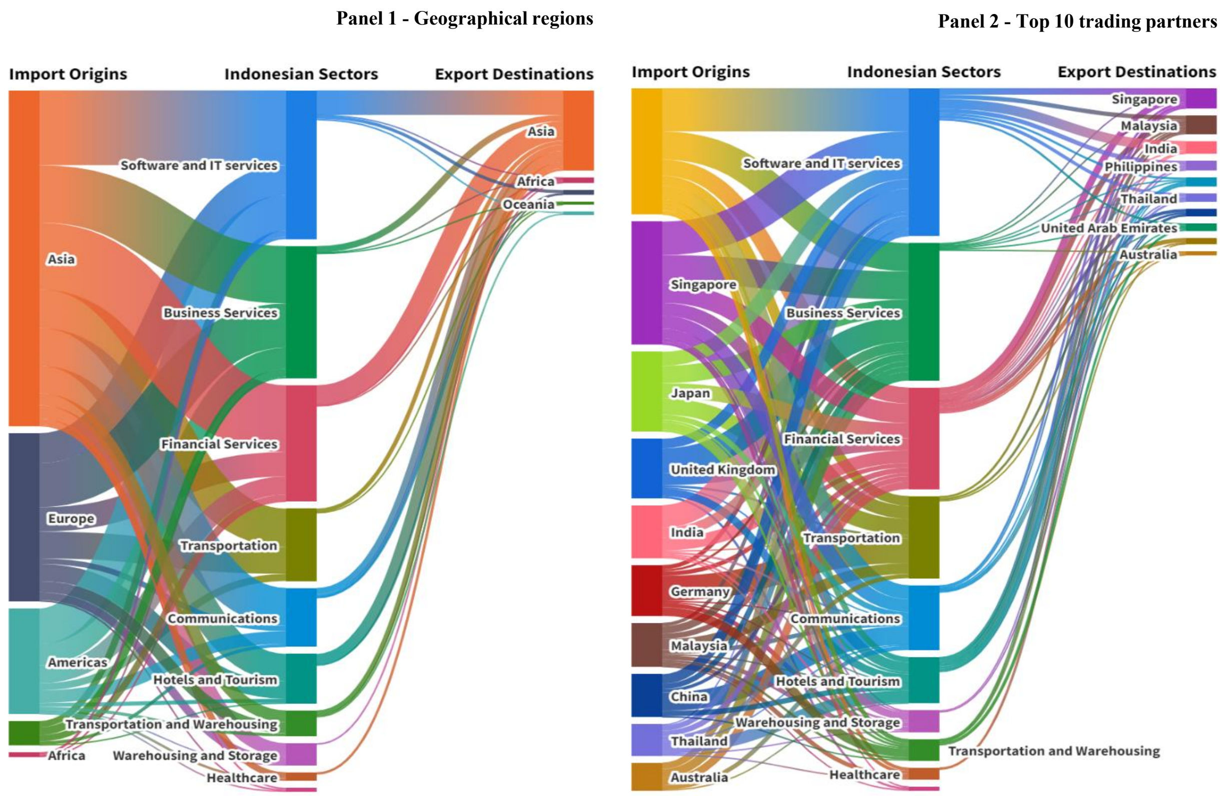


Note: In the non-PDF version of this graph, you can switch between "Geographical regions" and "Top 10 trading partners" view via the icons in upper left side of the figure. Geographical regions are based on U.N. classification. Values in USD millions, nominal. Plotted values are averages of yearly observations over the three-year period from 2017 to 2019.
Source: OECD Analytical AMNE Database.

Figure 2.11 highlights the importance of Asia as a source of greenfield investments into Indonesia's service sectors and as a destination market for greenfield investment by Indonesian services MNEs. Singapore, Japan, India, Malaysia, China, and Thailand are among the top 10 economies that have engaged in greenfield FDI projects in Indonesia. All with the exception of Japan are among the top 10 economies where Indonesian greenfield FDI projects were executed, together with the Philippines, and Viet Nam. Beyond the Asian region, the United States, the United Kingdom, Germany, and Australia are important origin countries, while the United Arab Emirates, Saudi Arabia, and Australia are the only non-Asian economies among the top 10 destination markets. Based on the number of inward and outward greenfield

FDI projects from 2003 to 2023, the software & IT services sector stands out as the most dynamic for Indonesia among those included in The Financial Times fDi markets database.

Figure 2.11. Number of greenfield FDIs in and out of Indonesia, by top 10 countries and regions



Note: In the non-PDF version of this graph, you can switch between "Geographical regions" and "Top 10 trading partners" view via the icons in upper left side of the figure. Geographical regions are based on UN classification. Plotted values are the total number of projects from 2003 to 2023.
Source: fDi Markets, a service from The Financial Times Limited 2022. All Rights Reserved.

2.6. Concluding remarks

This chapter has shown that Indonesian services sectors differ considerably in size and display heterogeneous dynamics. Distribution and construction are the largest services sectors in terms of domestic gross output. The relative shares of domestic gross output have been growing for services that support supply chains and market bridging services, including transport, logistics, financial and insurance services. In contrast, digital network services are relatively small in terms of gross output and their share of total services output decreased over the decade prior to the COVID-19 pandemic. A similar pattern is observed for professional, scientific and technical services.

For imports, services trade acts as an access channel for some services sectors whose domestic footprint is relatively small and contracting. This is the case for cross-border (Mode 1) imports that provide a growing fairway for telecommunication, computer and information services, as well as for other business services which include, among others, research and development services; professional services such as legal, accounting, and management consulting; scientific and technical services. The number of greenfield FDI projects in Indonesia is concentrated in IT and business services. The output of foreign MNEs in Indonesia (Mode 3 services imports) bolsters the sectors of distribution and financial services.

Indonesian services exports in the OECD-WTO BATIS database are highly concentrated in travel services, including tourism and other services, which are exported to foreign residents that consume these in Indonesia (Mode 2). Construction, personal, cultural and recreational, and maintenance and repair services increased their relative share of total services exports over the decade prior to the COVID-19 pandemic. These are also the sectors where Indonesia has systematically shown higher relative export performance in comparison to ASEAN, APEC and World aggregate trading regions. Other sectors have displayed significant export values or increasing relative shares either through exports via commercial presence or Mode 3 (such as distribution, financial and insurance but also IT and other information services, and professional, scientific and technical services) or indirectly, as value added embedded in manufacturing exports (e.g. distribution, financial and insurance, transport and telecommunication).

Looking at the geographic distribution of Indonesia’s services trade, while Asia remains the region with the largest footprint of Indonesian services imports and exports, the United States, Australia, the United Kingdom, and a few European countries are often among Indonesia’s top 10 trading partners across sectors and modes of provision.

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UN; IMF; OECD; Eurostat; UNCTAD; UNWTO; WTO (2012), *Manual on Statistics of International Trade in Services 2010*, United Nations publication, https://unstats.un.org/unsd/tradeserv/TFSITS/msits2010/docs/MSITS%202010%20M86%20(E)%20web.pdf. [3]

Notes

[1] Figures on gross domestic output are computed from the OECD TiVA database.

[2] Detailed descriptions of the sectors in the ISIC Rev 4 classification used in Figure 2.1 are available at https://unstats.un.org/unsd/publication/seriesm/seriesm_4rev4e.pdf.

[3] For each services sector, its share of total services gross output is defined as the ratio between gross output in the sector and the sum of gross output across all services sectors covered in the analysis.

[4] The sectoral aggregate "other business services" in the Extended Balance of Payments (EBOPS) statistical framework and in the OECD-WTO BATIS database covers many diverse activities, including: research and development services; professional services such as legal, accounting, and management consulting; scientific and technical services, e.g. architecture and engineering services; core environmental services; services incidental to agriculture and mining; operating leasing services; trade-related services partly capturing distribution services (the margins of the traders who own the good being sold are usually not captured in trade related services) UN et al. (2012[3]).

[5] The figure 16% is obtained as the percentage share of 2019 Mode 3 imports of telecommunication plus IT and other information services (from the OECD Analytical AMNE database as plotted in Figure 2.3) over 2019 gross domestic output of telecommunication plus IT and other information services (from the OECD TiVA database as plotted in Figure 2.2).

[6] The figure 6% is obtained as the percentage share of 2019 imports of telecommunication, computer and information (or ICT) services as recorded in the OECD-WTO BATIS Database (Figure 2.2) over 2019 gross domestic output of telecommunication plus IT and other information services (from the OECD TiVA database as plotted in Figure 2.2).

[7] These figures are computed as the percentage share of 2019 sectoral exports from the OECD-WTO BATIS database over 2019 sectoral gross domestic output from the OECD TiVA database.

[8] The share of value added in gross exports is not a perfect measure of relative importance of a sector. Higher shares of value added can also reflect the cost of relatively more expensive and/or relatively less efficient services inputs, especially when exporters rather than final consumers are more likely to absorb these costs due to high competition in export markets. While this caveat needs to be taken into account when analysing services' shares of value added (see, for example, the discussion in a similar OECD country study on services competitiveness in India (Benz, Khanna and Nordås, 2017[2]), the importance of services in supporting exports performance of Indonesian manufacturing sectors is beyond doubt.

[9] The indicator, originally introduced by Balassa (1965[4]), is computed according to the following formula:

$$\frac{1}{2}\left(r_{g,d}^{s}(t_1) + r_{g,d}^{s}(t_1) \times {r_{g,d}^{s}(t_1)}\Big/{r_{g,d}^{s}(t_0)}\right)$$

where $r_{g,d}^{s}$ is the ratio between: a) the share of sector s in Indonesia's total services exports to destination market d, and b) the share of the same sector in the total services exports to d by all economies in the region or group g. Formally, defining exports of sector s by country or group i to destination market d as

$X_{i,d}^{s}$, and total services exports by country or group i to destination market d as $X_{i,d}^{tot}$, the expression of $r_{g,d}^{s}$ can be written as:

$$r_{g,d}^{s} = \frac{X_{IDN,d}^{s}}{X_{IDN,d}^{tot}} \bigg/ \frac{X_{g,d}^{s}}{X_{g,d}^{tot}}$$

Finally, t_1 and t_0 indicate that the relevant export values are computed as an average over the three-year period 2019-2021 and 2016-2018 respectively. It is not uncommon to further interpret these types of indicators as a measure of revealed comparative advantage, i.e. the ability to produce a good or to perform a service at a lower opportunity cost. However, recent studies have documented how these measures, by reflecting all factors influencing trade flows, can introduce significant biases if used as empirical proxies of comparative advantage which notably only depends on a specific sub-set of these factors (see, for example, Leromain and Orefice (2014[5]) and Shepherd (2022[6]).

3 The regulatory environment for services trade in Indonesia

This chapter describes the regulatory environment for services trade in Indonesia using the OECD Services Trade Restrictiveness Index. It presents domestic regulatory and policy developments that affect services trade and maps the country's participation in regional trade agreements and their coverage of relevant services trade disciplines.

Key points

- The regulatory landscape in Indonesia is complex and dynamic with major policy developments and reforms re-shaping services trade and investment in recent years.
- On average, economy-wide barriers remain high compared to OECD and regional averages. This undermines trade and investment potential not only in services, but across other economic activities. Services trade barriers also tend to be high in strategic sectors such as financial services, some professional services, telecommunications, and some transport and logistics services. In physical infrastructure services, however, Indonesia maintains an open regulatory environment, even compared to OECD countries.
- Regulatory reforms over the last years, including Law No. 11 of 2020 on Job Creation (also known as the Omnibus Law) contributed to lowering trade barriers, including through the implementation of a negative list approach on foreign investments which liberalised investment in certain services sectors.
- Indonesia continues to face regulatory challenges on digital trade and e-commerce, with relatively high barriers and recent regulatory developments that impose additional conditions on foreign e-commerce providers.
- Indonesia has benefitted from participation in ASEAN, which promotes an open intra-ASEAN market for services trade, investment and the movement of professionals. While Indonesia conducts its own trade negotiations with non-ASEAN partners, it has benefitted from ASEAN's extra-regional efforts, including ASEAN plus one free trade agreements and the recently concluded Regional Comprehensive Economic Partnership Agreement (RCEP) that Indonesia implemented in 2023.
- Indonesia could benefit from joining the WTO Joint Statement Initiative on Services Domestic Regulation and adopting the Reference Paper on Services Domestic Regulation that would help align domestic regulatory reforms with international best practices to improve transparency, facilitate licensing requirements and procedures, qualification requirements, and technical standards for services providers.

3.1. The general regulatory environment for services trade

Indonesia has a complex regulatory framework affecting product markets and competitiveness for goods and services (Lewis et al., 2022[1]). High regulatory barriers in services trade impede access to foreign services and inputs, increase trade costs, and undermine export competitiveness. Moreover, regulatory differences across countries create frictions for multinational companies, which compound the trade cost effects and reduce incentives to expand into foreign markets. In light of the growing importance of services and services trade for Indonesia's economic growth, it is essential to understand potential gaps and areas where improvements could be made to enable services trade to grow. This chapter analyses the regulatory environment for services trade in Indonesia across 22 major services sectors using the OECD Services Trade Restrictiveness Index (STRI) (Box 3.1).

Box 3.1. The OECD Services Trade Restrictiveness Index (STRI)

The OECD STRI is an evidence-based diagnostic tool that provides an up-to-date snapshot of regulations affecting services trade in 50 countries and 22 sectors.

The STRI suite of tools includes: i) a regulatory database compiled by the OECD based on laws and regulations in force; ii) composite indices taking values between zero (complete openness to trade and investment in services) and one (total market closure to foreign services providers), that quantify the measures identified; and iii) online, interactive policy tools that allow users to compare selected countries and to simulate potential policy reforms. It captures barriers to services trade on a multilateral level without taking into account free trade agreements or conditions applied on a preferential basis.

The regulatory information is organised under five policy areas.

- Restrictions to foreign entry, including, inter alia, information on foreign equity caps, nationality and/or residency requirements for board of directors and managers, and foreign investment screening.
- Restrictions on movement of people, encompassing key restrictions to the movement of foreign services providers such as quotas, labour market tests, limitations to duration of stay, and lack of recognition of foreign qualifications.
- Other discriminatory measures, comprising discrimination of foreign services providers with respect to taxes, subsidies, and public procurement participation.
- Barriers to competition, including information on anti-trust policy, government ownership of major services providers and whether these are exempt from competition law and price regulation.
- Regulatory transparency, recording information on consultation and publication of laws and regulation prior to their entry into force, and excessive red tape in the form of burdensome administrative procedures related to the establishment of a company, obtaining a license or being granted a business visa.

The STRI records laws and regulations enforced at the national level; the regulatory database and indices are updated annually by the OECD.

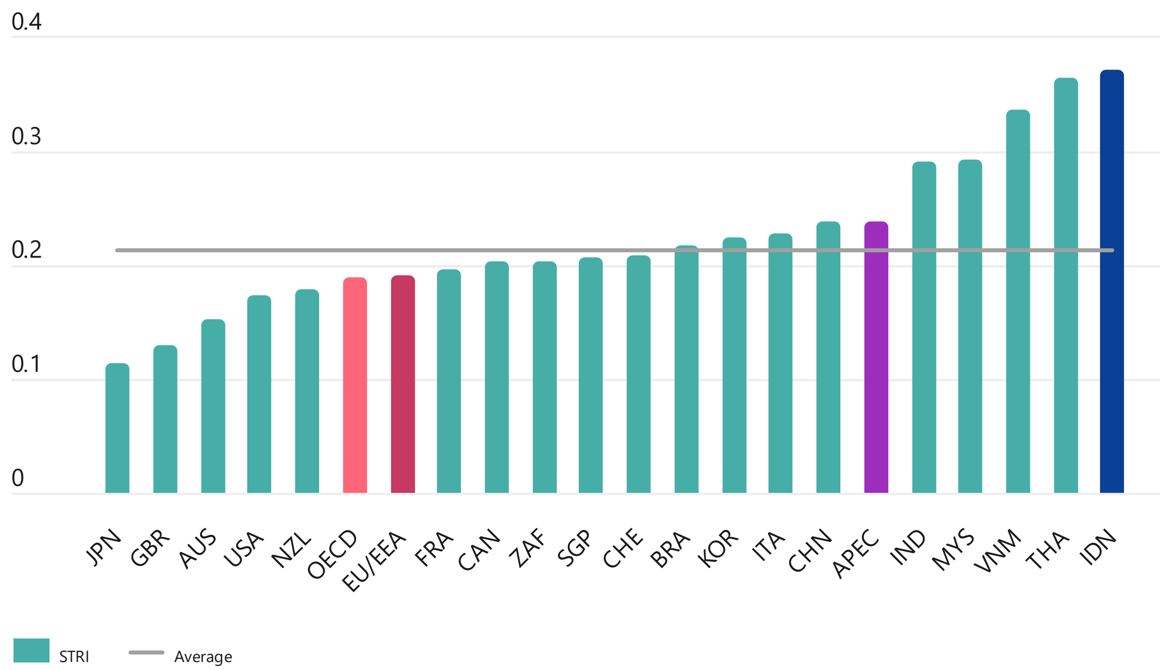
Foreign investment in service sectors is regulated under Indonesia's Investment Law (Law No. 25 of 2007) complemented by additional implementing regulations notably Presidential Regulation No. 10 of 2021 and Presidential Regulation No. 49 of 2021 on Investment Business Areas. The latter specifies the activities where investment is open, conditional, or restricted for foreigners. While investment in a large share of services areas is open under this instrument, some key sectors such as air and maritime transport, as well as courier services remain conditional on fulfilling specific requirements (e.g. adhering to limits on maximum shares that can be owned by foreigners). Moreover, specific investment limitations under sectoral regulations continue to apply in other sectors such as financial, audio-visual and some professional services (e.g. legal and accounting services).

Services activities are also affected by other cross-cutting barriers. For instance, certain management positions in corporations are reserved for Indonesian nationals, and commercial or local presence requirements exist in all sectors. Price preferences are granted to local providers in public procurement. There is at least one major state-owned enterprise in all sectors except for computer services, motion pictures and sound recording. Indonesia also applies labour market tests on all categories of services providers covered in the STRI (i.e. intra-corporate transferees, contractual services suppliers and independent services suppliers with initial durations of stay limited to two years).

The average STRI score of Indonesia is relatively high (0.37 out of a maximum of 1) compared to the APEC average (0.24) or the OECD average (0.19), but it is on par with some of its regional trade partners such as Thailand (0.37) and Viet Nam (0.34) (Figure 3.1).

Figure 3.1. Barriers to services trade are high in Indonesia

Average STRIs for 22 services sectors, 2023

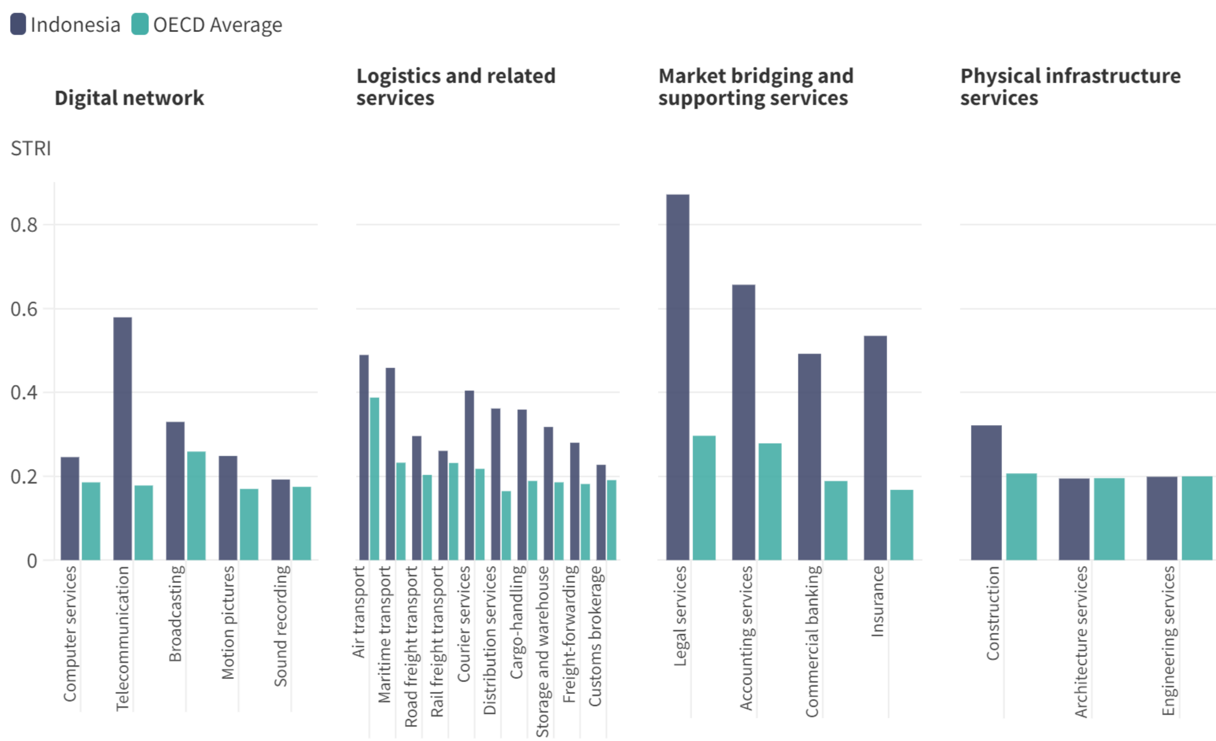


Note: APEC average includes Australia, Canada, Chile, Indonesia, Japan, Korea, Malaysia, Mexico, New Zealand, Peru, Russia, Singapore, Thailand, United States and Viet Nam.
Source: OECD STRI database 2023.

Looking at the STRI scores across the sectors, Indonesia is more restrictive than the OECD average across all but one sector, namely architecture services (Figure 3.2). However, the differences vary across sectors. The highest gap is in market bridging and supporting services, notably legal services, accounting services, and financial services. The difference is also high in some services that underpin digital activities, notably in telecommunications services. While the gap with OECD countries is less pronounced in logistics and transport services, some sectors such as maritime transport, distribution and courier services are substantially trade restrictive. Indonesia's STRI scores are lowest in services that are essential for the development of physical infrastructure, including architecture services where its score is lower than the OECD average, indicating an open regulatory environment for trade.

Figure 3.2. Indonesia's regulatory environment is more restrictive than the OECD average across most services sectors

Indonesia's STRI scores per sector compared to the OECD average, 2023



Source: OECD STRI database 2023.

3.2. Sectoral regulations

3.2.1. Digital network services

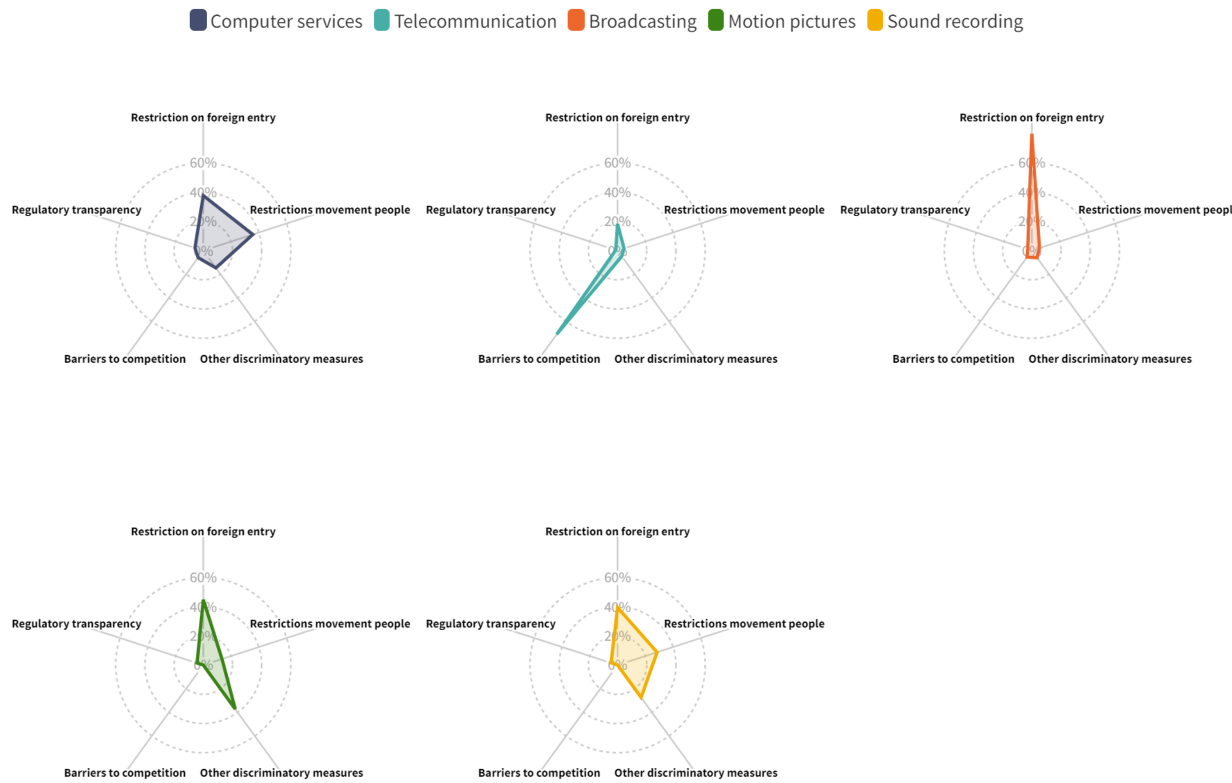
Leveraging the benefits of digital transformation is underpinned by well-regulated essential services that enable reliable, fast, and affordable connection across digital networks. For instance, telecommunications services provide the essential infrastructure for networks to connect while computer services and information and communication technology (ICT) hardware enable end-to-end communication. Content-related services, notably audio-visual services, have been particularly affected by rapid digitalisation as movies, music and other content can be more easily shared or streamed through digital platforms.

For Indonesia, the STRI indicates that foreign services providers face regulatory impediments across most digital network services (Figure 3.3). This is especially the case in content-related services with restrictions on foreign entry contributing close to 80% of Indonesia's STRI score in broadcasting services and over 40% in motion pictures and sound recording services. The share is also high in computer services (37%), complemented by relatively high restrictions (36%) affecting the movement of computer professionals, an essential activity supporting the installation and maintenance of information and communication equipment. In telecommunications services, the highest contribution to the scores comes from barriers to competition (70%) which are due to a combination of different obstacles for effective competitiveness, including the presence of state-owned firms in the sector (PT Telkom Indonesia is a state-owned company that is also majority owner of *PT Telekomunikasi Selular*, or *Telkomsel*), the lack of independence of the

Indonesian Telecommunications Regulatory Body (BRTI), and the presence of dominant service providers across all segments of the telecommunications market.

Figure 3.3. Barriers affecting services in the digital network in Indonesia

Composition of STRI by proportion of policy area, 2023



Note: In the non-PDF version of the document, you can switch between “Combined” or “Sector” view by clicking the icons at the top of the figure.
Source: OECD STRI database 2023.

In addition to barriers affecting digital network services, the OECD Digital STRI provides useful insights into cross-cutting barriers that affect all digital transactions in Indonesia (Box 3.2). The Digital STRI indicates that barriers to digital trade in Indonesia are relatively high compared to OECD, APEC and ASEAN averages (Figure 3.4). This is driven by a combination of factors affecting digital infrastructure and connectivity, electronic transactions, e-payment systems, and other barriers.

While Indonesia follows best practice regulations when it comes to interconnection among providers of communications services, some policies related to data connectivity can impose hurdles on foreign providers. For instance, providers of financial services must store and process financial information in Indonesia. Moreover, data localisation requirements apply also to electronic certification and digital signature service providers as well as electronic system operators that provide public services.

Beyond these localisation measures, however, data can be shared abroad but transfers remain subject to prior co-ordination with the Ministry of Communications and Informatics and require a detailed report by the data holders.

Law No. 27 of 2022 on Personal Data Protection was adopted in October 2022 and is expected to enter into force in October 2024. The new Law streamlines and consolidates existing rules on personal data protection and provides clearer rules on transferring data abroad that will be closer to international best practice. For instance, it allows transfers to other countries when the recipient country has equivalent level of data protection to that of Indonesia or other safeguards are put in place (e.g. binding contractual obligations or consent by the data subject) to ensure an adequate level of protection as data moves abroad.

Other factors contributing to Indonesia's Digital STRI score include lack of participation in the UN Convention on the Use of Electronic Communications in International Contracts or the UN Convention on Contracts for the International Sale of Goods, and some constraints applying to e-payment providers (such as additional capital requirements for banks that aim to provide Internet banking services, foreign ownership and voting limits on non-bank payment services providers and providers of clearing and settlement services).

In October 2023, the Ministry of Trade issued Regulation No. 31 of 2023 that updated previous rules related to business licensing, advertising, guidance and supervision of business operators in electronic commerce. The new regulation introduced more transparent rules for e-commerce providers as well as measures aimed at strengthening consumer protection. Yet from a trade-perspective, certain measures could impose additional hurdles to foreign e-commerce providers. Among these measures, new updates were introduced on the conditions that mandate foreign e-commerce operators to have a representative office in Indonesia (e.g. applies to providers having conducted transactions with at least 1 000 consumers within a year; having delivered at least 1 000 packages to consumers within a year; or having at least 1% of domestic internet users or visitors over the course of one year). E-commerce providers, both domestic and foreign, will also be required to apply a minimum price of USD 100 per unit for purchases of final goods from abroad and will be required to prioritise the commercialisation of domestic goods and services. New rules have also been introduced for social media platforms, including with respect to limiting their role in sales transactions.

Box 3.2. The OECD Digital Services Trade Restrictions Index

The OECD Digital STRI identifies, catalogues, and quantifies barriers that affect trade in digitally enabled services across more than 100 economies. It provides policy makers with an evidence-based tool that helps identify regulatory bottlenecks, design policies that foster more competitive and diversified markets for digital trade, and analyse the impact of policy reforms.

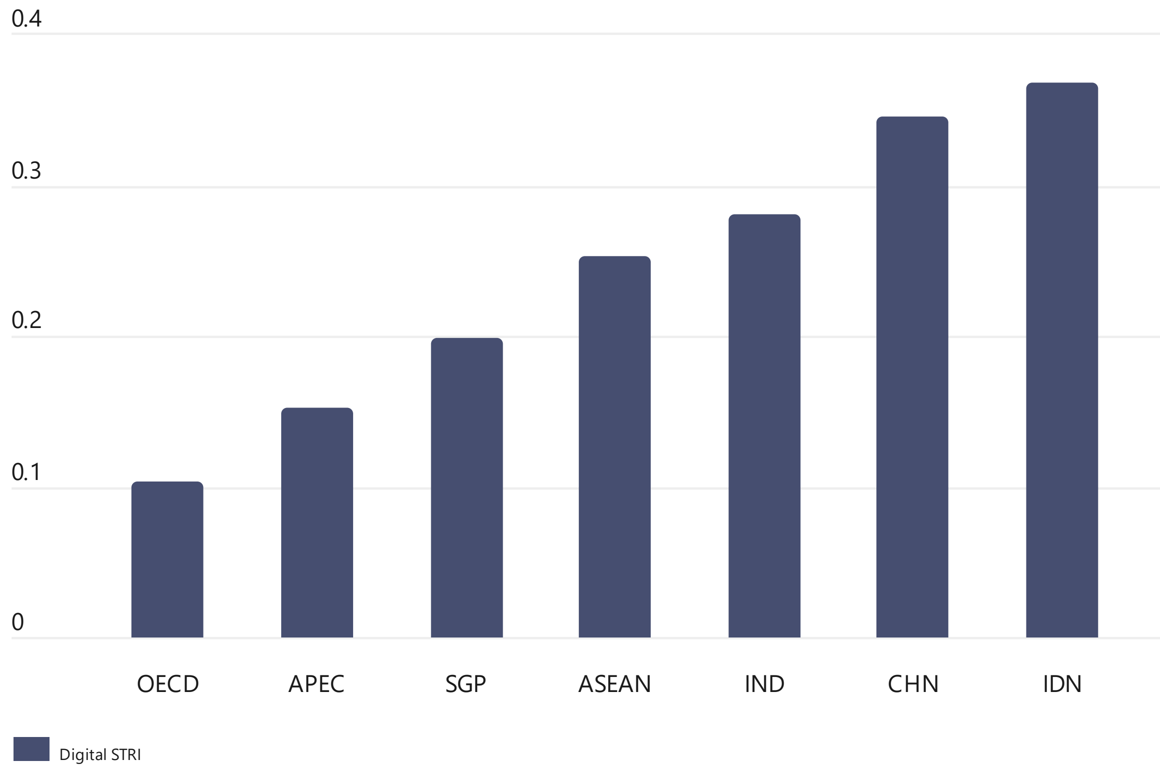
The OECD Digital STRI captures cross-cutting impediments that affect all types of services traded digitally. The indices take values between 0 to 1, where 0 is completely open and 1 is completely closed. They are calculated on the basis of information provided in the Digital STRI regulatory database.

The Digital STRI is organised under five policy areas: Infrastructure and connectivity; Electronic transactions; Payment systems; Intellectual property rights; and Other barriers affecting trade in digitally enabled services.

For more information, see http://oe.cd/dstri.

Figure 3.4. Barriers to digitally enabled services in Indonesia compared to OECD and regional trade partners

Digital STRI scores, 2023



Note: The Digital STRI scores range between zero and one where one indicates the most restrictive regulatory environment. APEC average includes Australia, Canada, Chile, Indonesia, Japan, Korea, Malaysia, Mexico, New Zealand, Peru, Russia, Singapore, Thailand, United States and Viet Nam. ASEAN average includes Brunei Darussalam, Cambodia, Indonesia, Lao, Malaysia, Philippines, Singapore, Thailand, and Viet Nam.
Source: OECD Digital STRI database 2023.

3.2.2. Logistics, transport, and other services supporting supply chains

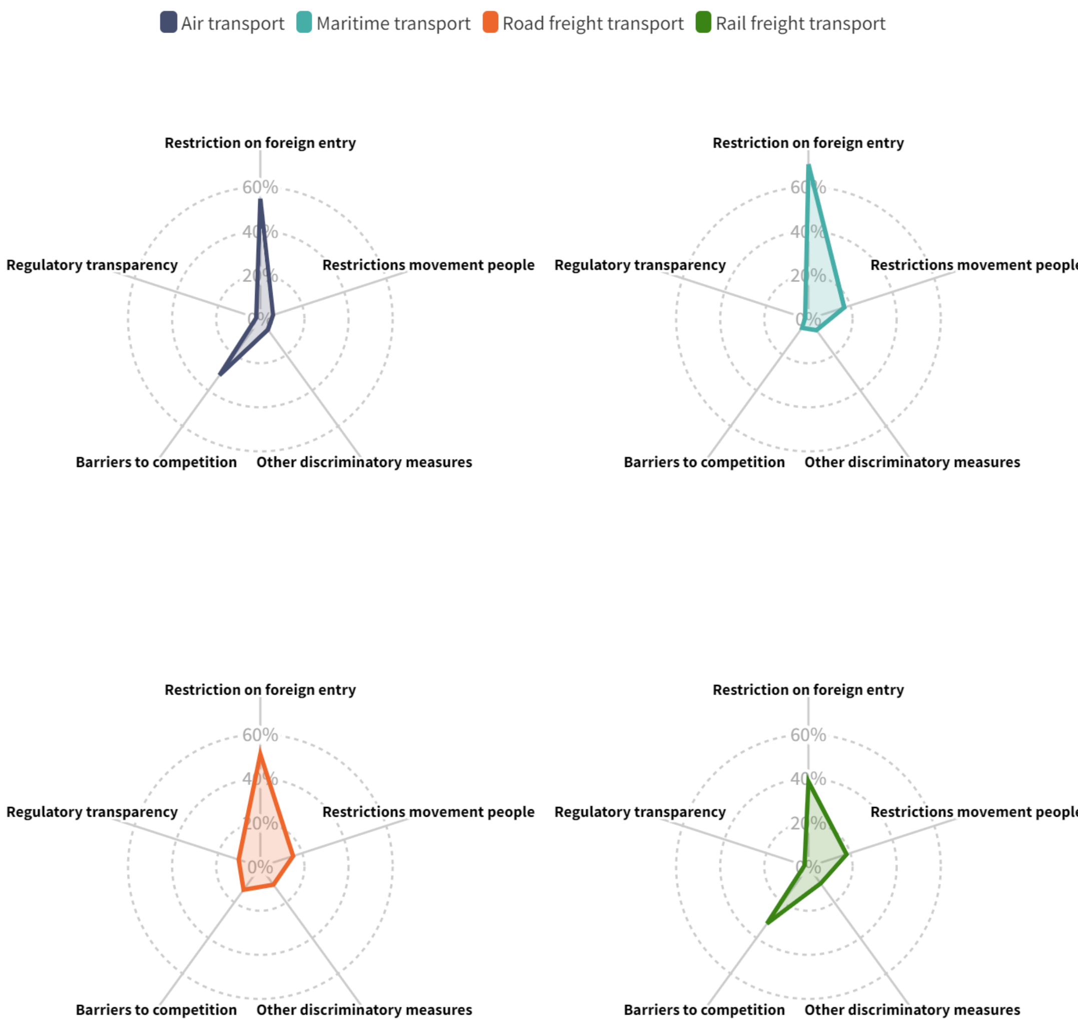
As production along global value chains has become more sophisticated and geographically distant in recent years, transport and logistics services have evolved significantly to cover a wide range of activities for integrated supply chain management, from network strategy design to the distribution and delivery phases. The rise of online retail sales has accelerated this process through a rapid increase in the volume of parcel deliveries, underscoring the importance of reliable and fast shipments across markets.

The STRI covers several services sectors that are relevant enablers of supply chains, including four transport services (air, maritime, rail and road freight transport), four logistics services (cargo handling, storage and warehousing, freight forwarding and customs brokerage), as well as distribution services and courier services.

The level of barriers affecting these sectors is relatively high in Indonesia, compared to OECD countries, especially in sectors such as maritime transport, logistics cargo handling and courier services (Figure 3.5 and Figure 3.6). Like in other sectors, barriers to foreign entry constitute a considerable share (over 50% on average) of the overall index value which reflects to a large extent the contribution of horizontal (economy-wide) measures. Additional measures include, for example, limitations on maximum foreign capital ownership for sectors such as air transport and parts of maritime transport for which a limit of 49% foreign ownership applies under Presidential Regulation 10 of 2021. Such measures can have a higher impact on the ability of foreign companies to establish affiliates in Indonesia and as such contribute to higher indices. Interestingly, courier services, previously unlimited, has become subject to a 49% foreign ownership limit under Presidential Regulation 10/2021. However, postal services, previously limited to a maximum 49% foreign ownership, is now removed from the list and thus fully open.

Figure 3.5. Barriers affecting transport services in Indonesia

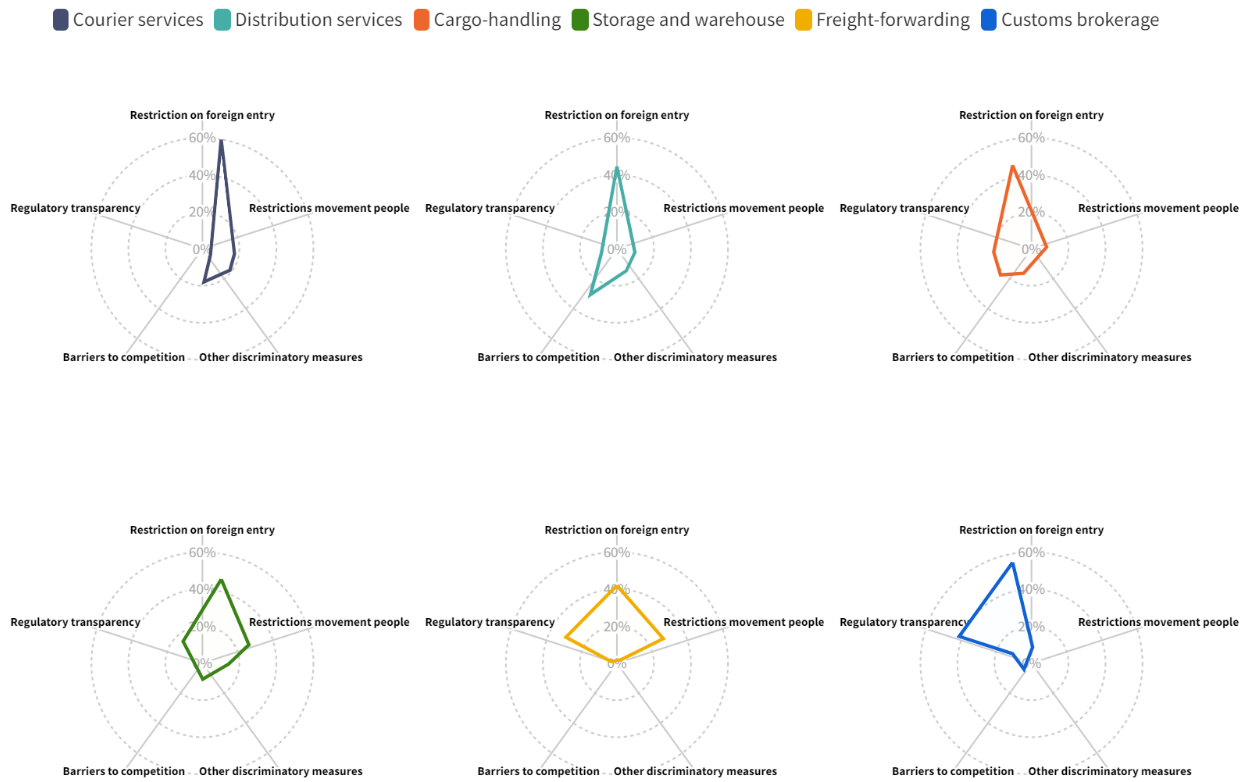
Composition of STRI by proportion of policy area, 2023



Note: In the non-PDF version of the document, you can switch between “Combined” or “Sector” view by clicking the icons at the top of the figure.
Source: OECD STRI database 2023.

Figure 3.6. Barriers affecting logistics, courier, and distribution services in Indonesia

Composition of STRI by proportion of policy area, 2023



Note: In the non-PDF version of the document, you can switch between "Combined" or "Sector" view by clicking the icons at the top of the figure.
Source: OECD STRI database 2023.

Barriers to competition are more prominent in sectors such as air transport and rail freight transport (both above 30% of overall index value). State-owned enterprises are present in both sectors: PT Garuda Indonesia in air transport and PT Kereta Api Indonesia in rail freight transport. As state-owned enterprises, they enjoy certain exemptions from competition law under Article 51 of the Indonesian Competition Law (Law No. 5/1999). In air transport, additional measures include forbidding commercial airport slot exchanges and price regulation on domestic routes, while in rail freight transport, the sector regulator is not fully independent from the Government.

Other policy areas, e.g. restrictions on the movement of people and discriminatory measures, tend to make a smaller contribution to the scores, although in some sectors these can still be significant (e.g. 26% of the score value in logistics freight forwarding is due to restrictions on the movement of people). Restrictions on regulatory transparency have a higher contribution in logistics services due to impediments related to customs procedures (e.g. Indonesia has a single window for customs procedures, but other customs facilitating measures, namely pre-arrival processing and advance rulings are not in place).

3.2.3. Market bridging and supporting services

With the growing complexity of international business models, market bridging and supporting services become essential for firms supplying services across multiple markets. For instance, financial services ensure access to credit, payment systems and insurance to scale up production and sales. Trustworthy, transparent, and easy to understand accounting information is needed in order to assess creditworthiness and ensure compliance with financial regulation. Legal services are necessary to support operations at home and affiliates abroad, ensure compliance with regulations and support the enforcement of contracts.

Restrictions on foreign entry in Indonesia contribute the most to services trade barriers in each of these sectors, especially in insurance (84%) and commercial banking (72%) (Figure 3.7). In accounting and auditing as well as legal services, in addition to restrictions on foreign entry, barriers to the movement of people are substantial impediments. Professionals often travel across borders to supply services and often depend on having the appropriate qualification or license before they can provide services. In Indonesia, in both professional services, the possibility for foreign participation is limited. In the case of accounting and auditing, the number of foreign partners in the Office of Public Accountants is limited to no more than one-fifth of all partners and foreign public accounting firms need to associate with a local firm. In legal services, foreign companies are not allowed to establish law firms in Indonesia and Indonesian nationality is required to obtain a licence to practice.

Figure 3.7. Barriers in market bridging and supporting services in Indonesia

Composition of STRI by proportion of policy area, 2023

Note: In the non-PDF version of the document, you can switch between “Combined” or “Sector” view by clicking the icons at the top of the figure.
Source: OECD STRI database 2023.

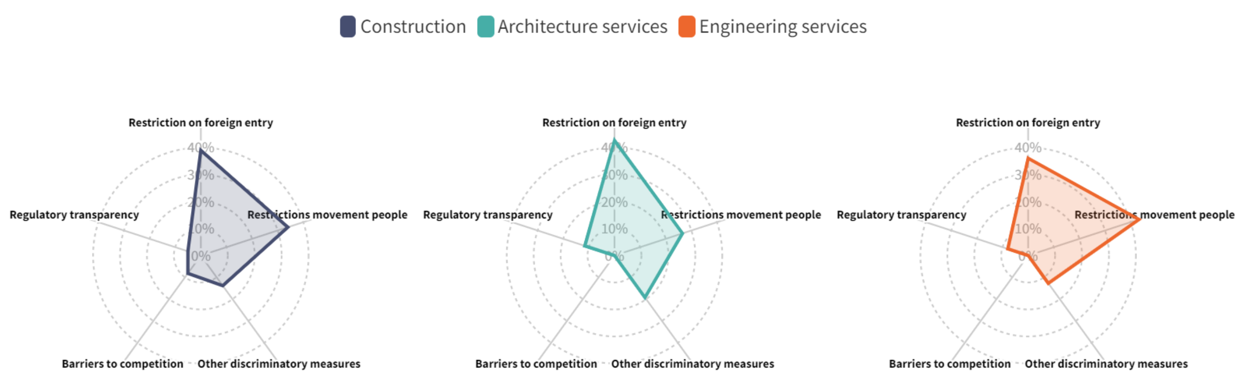
3.2.4. Services contributing to physical infrastructure development

Architecture, construction and engineering services are essential for infrastructure development and contribute to advancing industrial development and essential infrastructure such as roads, bridges, and buildings. Construction services have historically been considered strategic and are often closely linked to procurement and allocation of fiscal resources. Architects and engineers are key professionals contributing to the design and technical feasibility of constructions projects. These service areas are highly complementary and often provided by the same company.

Restrictions on foreign entry remain a high contributor (close to 40%) to the STRI scores across all three sectors (Figure 3.8). Construction services are governed under Law No. 2 of 2017 which requires foreign entities to establish either a representative office in co-operation with an Indonesian construction company or to incorporate a legal entity in a joint venture with an Indonesian partner. Licenses for representative offices are granted for three years, while licenses for joint ventures are not limited as long as they carry out at least one project every three years.

Figure 3.8. Barriers to infrastructure related services in Indonesia

Composition of STRI by proportion of policy area, 2023



Note: In the webbook version of this report, you can switch between “Combined” or “Sector” view by clicking the icons at the top of the figure.
Sources: OECD STRI database 2023.

Impediments on acquiring land and real estate can be cumbersome in these sectors as they have a direct bearing on the development of construction projects. In Indonesia, acquisition of land and real estate is not prohibited, but foreigners can only be granted a right of use (known as Hak Pakai) for 30 years with a possible extension of 20 years. Land ownership must remain with the government or an Indonesia citizen. Prior to 2023, eligibility for Hak Pakai required a special limited stay permit (Izin Tinggal Terbatas or ITAS). This requirement was lifted, however, in September 2023 in an effort to promote foreign investment and economic development by opening the real estate market to foreigners.

The scale and complexity of construction projects make it highly labour-intensive, requiring both skilled and unskilled labour. Restrictions on the movement of people have a significant impact on Indonesia’s indices for all three sectors, but are highest in engineering services (43%) and construction services (34%). Apart from labour market tests and other horizontal restrictions, the movement of qualified construction personnel and construction engineers may be affected by licensing issues. For example, Indonesia has a residency requirement for construction engineers and temporary licenses for engineers are not in place. However, foreign qualifications are recognised and foreign engineers are allowed to participate in domestic construction projects.

In light of important government demand for infrastructure development, restrictions in public procurement have a particular bearing on construction projects. Procurement in Indonesia is governed by the Procurement of Government Goods and Services Presidential Regulation No. 16/2018 which allows foreigners access to the procurement market, although certain preferences are granted to local suppliers in the process. Moreover, Indonesia not a party to the WTO Government Procurement Agreement (GPA) which enables a mutually open government procurement market among its parties.[1] Moving towards participation in the WTO GPA could improve Indonesia's access to foreign knowledge, capital and technology, while safeguarding the participation of Indonesian firms in the area of procurements.

3.3. Regulatory developments

The regulatory environment in Indonesia has changed substantially over the past decades. Annual information in the STRI database facilitates the identification of regulatory changes that are relevant for services trade across all sectors covered. The standard period covered in the STRI dates from 2014 but reform patterns can go back far beyond that. In order to better understand Indonesia's long term regulatory developments, this section reflects on the reforms undertaken as far back as 1989 utilising the STRI as a tool to identify key regulatory reforms since then.

As shown in Figure 3.9, Indonesia has undertaken considerable reforms over the past decades, gradually opening up to international services trade and improving its domestic regulatory environment. Compared to the 1989 benchmark, Indonesia's average STRI had dropped by around 35% by 2023.

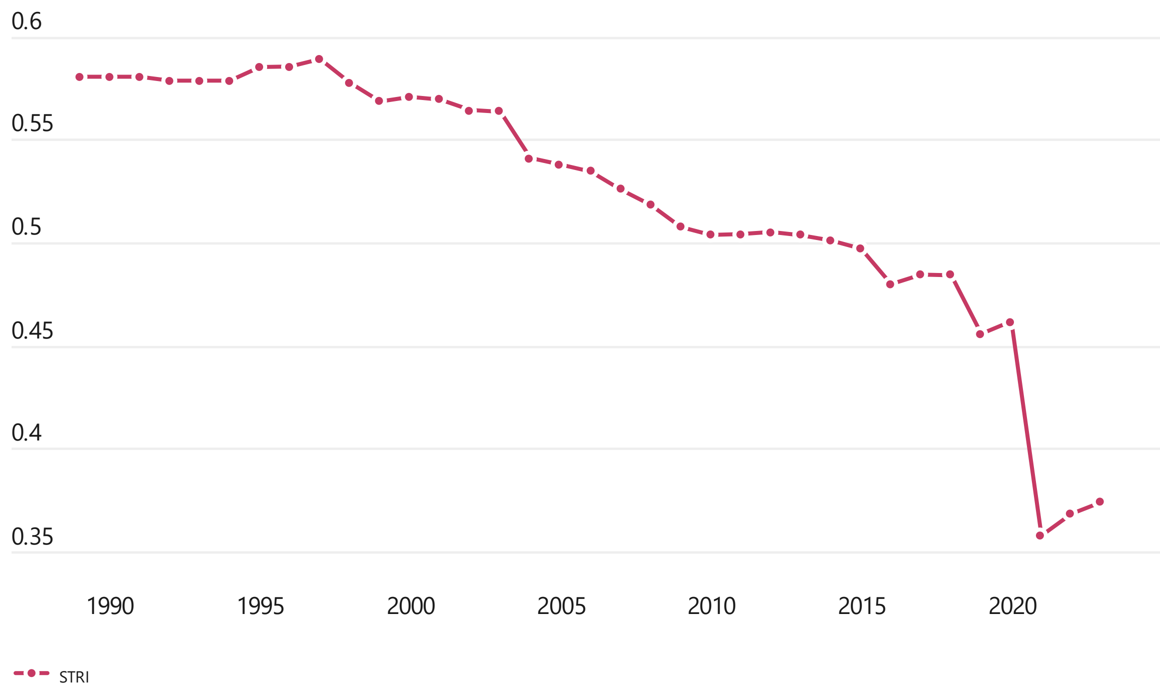
While the pace of reform has been uneven between 1989 and 2023, it has accelerated substantially in recent years, especially since 2021 when a new investment regime came into force. Foreign investment in Indonesia is regulated under Law No. 25 of 2007 which mandates the government to define which sectors are open to foreign investment and under what conditions. In March 2021, Presidential Regulation No. 10 of 2021 (as updated by Presidential Decree 49/2021) was enacted and replaced Presidential Regulation No. 44 of 2016. A key reform under PR 10/2021 was to open up all sectors to foreign investment except those listed in the instrument as closed or restricted to foreign investment. In addition to moving to an "open by default" negative list approach, PR 10/2021 reduced the scope of sectors that remain restricted: the current list mentions 69 business sectors as closed to foreign investment and 26 business sectors as partially restricted. Under the previous Presidential Regulation 44/2016, there were over 160 sectors closed to foreign investment and over 200 sectors partially restricted.

While the scope of liberalisation is substantial, in some cases, such as air transport services, the new PR 10/2021 introduced more stringent conditions such as lowering foreign equity limits to 49% after they had been raised to 67% in PR 44/2016.

PR 10/2021 is one of the implementing measures introduced as a result of Law No. 11 of 2020 on Job Creation (as amended by Law No. 6 of 2023) also called the Omnibus Law. This instrument introduced a broad mandate for the government to ease foreign investment restrictions and to foster job creation for Indonesians. While the scope of reforms has progressively widened, Indonesia has introduced new restrictions, notably with regards to foreign e-commerce services providers.

Figure 3.9. Services trade liberalisation in Indonesia between 1989 and 2023

STRI weighted sector averages, 1989-2023



Note: Averages based on 22 services sectors covered in the STRI. Weights based on the OECD TiVA. The STRI takes value between 0 and 1, where 1 indicates the most restrictive regulatory environment for services trade. Lower averages indicate a more open regulatory environment.
Source: Authors' elaboration based on OECD STRI database 2023.

Table 3.1 presents examples of key regulatory developments undertaken by Indonesia between 1995 and 2023.

Table 3.1. Examples of key regulatory developments affecting services trade in Indonesia between 1995-2023

Year	Sector	Reform
2023	E-commerce	Under Ministry of Trade Regulation No. 31 of 2023 on Business Licensing, Advertising, Guidance and Supervision of Business Actors in Trade via Electronic Systems, several changes were introduced to e-commerce providers related to licensing and business models, advertising, competition and consumer protection among other areas. For example, under this new measure, foreign e-commerce platforms need to apply a minimum price of USD 100 to their domestic sales.
2021	Horizontal	Presidential Regulation No. 10 of 2021 (as updated by Presidential Decree 49/2021) was enacted and replaced the previous Presidential Regulation No. 44 of 2016. PR 10/2021 opened up all sectors to foreign investment except those listed as closed or restricted to foreign investment
2020	Horizontal	In November 2020, Indonesia enacted Law No. 11 of 2020 on Job Creation (as amended by Law No. 6 of 2023) also called the Omnibus Law. The objective of the Law is to attract more investment, foster the creation of new jobs and stimulate the Indonesian economy by improving the business environment (e.g., streamlining licensing procedures and simplifying land acquisition) and harmonizing various laws.
2018	Accounting, construction	As of 2018, the foreign equity limit in accounting firms was lowered to 20%, from 49% previously. The law also requires one half of all partners to be licensed accountants. Furthermore, technical specifications should now use local products and follow national standards subject to availability

Year	Sector	Reform
		in the construction sector, which affects the conditions of competition in public procurement in favor of local providers.
2017	Distribution, Courrier, logistics, maritime transport, construction	In 2017, more favourable conditions for the release of imported goods before determination and payment of duties benefitted distribution, courier and logistic services. In the same year, Indonesia revoked minimum capital requirements for maritime transport service. However, the Construction Act of 2017 imposed nationality requirements on the management of construction and architecture companies.
2016	Horizontal	Under Presidential Regulation 44/2016, Indonesia has fully or partially opened several sectors to foreign investment including air transport, logistics services, telecommunications, audio-visual services (motion pictures and sound recording), and architecture and engineering services. Minimum capital requirements for certain corporation structures were also removed in 2016.
2013	Horizontal	In 2013, the Indonesian Investment Coordinating Board introduced Regulation No. 5/2013 which requires foreign investment to have a total investment value greater than IDR 10 000 000 000 (around USD 600 000). In the same year, there was a relaxation in the movement of natural persons, as the duration of stay increased from one to two years, as stipulated by Government Regulations No.31/2013.
2012	Horizontal	In 2012, the requirement that board of directors must be nationals in all sectors except for financial service sectors was revoked under the Ministry of Manpower and Transmigration Decree No. 40/2012. However, the same decree required that the industrial relation manager and human resource manager must be national in all sectors.
2010	Construction, courier services	Through Presidential Decree No. 36/2010, Indonesia increased the maximum foreign equity share in construction to 67%, up from the previous limit of 55%. Similarly, in courier services, the foreign equity share increased to 49%, having been previously fully closed to foreign investment.
2007	Telecommunications, logistics, transport, and commercial banking	Under Presidential Decree No. 77/2007, Indonesia increased the maximum foreign equity share in telecommunication (from 49% to 65%) and logistics freight forwarding services (from fully closed to 49%), and fully liberalized rail freight transport from a previous limit of 95%. However, there were decreases in the foreign equity share limit for maritime (from 95% to 49%), road freight transport (from 100% to 49%), and insurance (from 100% to 80%). Starting in 2007, as per Bank Indonesia Regulation No. 9/8/PBI/2007, commercial banks were mandated to have national managers. Moreover, since 2007, the screening on foreign investment no longer explicitly considers economic interests
2002	Logistics cargo handling	Under the Ministry of Transportation Regulation No. 14/2002, the foreign equity limit for cargo handling logistics was raised to 49%, having previously been totally closed to foreign investment
2000	Telecommunications, transport	Under the enactment of Presidential Decree No. 96/2000, limitations were introduced on foreign ownership in certain sectors that were previously fully liberalized. These included telecommunication (49%), air transport (49%), maritime transport (95%), and rail freight transport (95%
1998	Telecommunications, transport	Through Presidential Decree No. 96/1998, telecommunication, air transport, maritime transport, and rail freight transport were fully liberalized, from previously being completely closed to foreign investment
1997	Horizontal	Under Manpower Act No. 25/1997, Indonesia began imposing restrictions in the form of a performance requirement. It became mandatory for an employer to appoint an Indonesian national as an associate to a foreign worker for technology and knowledge transfer purposes. The associate should also receive training to attain the same qualifications as the position held by the foreign worker
1995	Horizontal	Under Presidential Decree 75/1995, it became a requirement for the board of directors to be national, whereas previously there were no restriction on the nationality of the board of director. In the same year, under Act No. 1/1995, the minimum capital requirements were set at IDR 20 million, marking a change from the previous absence of any minimum capital requirements

3.4. Indonesia's involvement in regional initiatives on services trade

Indonesia is increasingly concluding regional and preferential agreements as a means to progressively expand regional and international economic integration (Table 3.2). Much of these efforts take place through ASEAN, which has been a key avenue to pursuing more ambitious trade agreements as a regional block.

Table 3.2 A selection of Regional Trade Agreements (RTAs) with Indonesia relevant to services trade

Regional Trade Agreement	Entry into force	Services provisions
Agreements by Indonesia		
Indonesia – Korea Comprehensive Economic Partnership Agreement	1 January 2023	Covers chapters on trade in services, professional services, movement of natural persons, financial services, professional services, among others.
Indonesia-EFTA Comprehensive Economic Partnership Agreement	1 November 2021	Covers chapters on trade in services, and specific annexes on issues such as the movement of natural persons supplying services, recognition of qualifications, telecommunications, and financial services, among others.
Indonesia – Australia Comprehensive Economic Partnership Agreement	5 July 2020	Covers chapters on trade in services, professional services, financial services, telecommunications, as well as movement of natural persons, among others.
Indonesia – Japan Economic Partnership		Covers chapters on trade in services, movement of natural persons, and annexes on financial services.
Agreements by ASEAN		
Regional Comprehensive Economic Partnership (RCEP) Agreement	1 January 2022 (2 January 2023 for Indonesia)	RCEP consolidates the agreements between ASEAN and FTA partners and aims to modernise and expand regional trade.
ASEAN – Hong Kong, China Free Trade Agreement	4 July 2020	Covers chapter on trade in services with accompanying schedule of specific commitments.
ASEAN – Australia – New Zealand Free Trade Agreement	10 January 2012	Covers chapters on trade in services, movement of natural persons, and contains annexes on financial services, telecommunications, electronic commerce.
ASEAN – Korea Free Trade Agreement	1 January 2010	Covers market access and national treatment commitments in over a hundred services sectors.
ASEAN – India Trade in Services Agreement	1 October 2010	The ASEAN-India Trade in Services Agreement includes provisions on transparency, domestic regulations, recognition, market access, national treatment and dispute settlement
ASEAN – Japan Comprehensive Economic Partnership (AJCEP) Agreement	1 December 2008	Covers chapters on Trade in Services, and includes Annexes on Financial Services and Telecommunication, as well as chapters on the Movement of Natural Persons.
ASEAN – China Agreement on Trade in Services of the Framework Agreement on Comprehensive Economic Cooperation	1 July 2007 (updated in 2015)	Covers provisions on trade in services, including specific commitments in various sectors. In the context of an update in 2015, further sectors were opened. A third round of update is planned for 2024.
Agreements intra-ASEAN		
ASEAN Trade in Services Agreement (ATISA)	5 April 2021	ATISA superseded AFAS and aims to deepen integration in services sectors and create a more open and transparent environment for services suppliers in ASEAN. A key development was to adopt the Schedules of Non-Conforming Measures on a negative list approach. There are three specific annexes under ATISA on financial services, telecommunications services and air transport ancillary services. The MNP Agreement remains in force and complementary to ATISA.
ASEAN Agreement on Movement of Natural Persons	14 June 2016	The MNP Agreement provides enhanced commitments related to the movement of people in ASEAN. It superseded similar commitments in earlier AFAS packages.
ASEAN Comprehensive Investment Agreement	2009	Incorporates obligations on the prohibition of performance requirements.
ASEAN Framework Agreement on Services (AFAS)	12 August 1998	AFAS aims to substantially eliminate restrictions to trade in services among ASEAN member states with the objective to move towards more open services trade in the region. There have been ten packages of commitments under the AFAS, seven additional packages in financial services, and eight additional packages of commitments in air transport services.
ASEAN Mutual Recognition Agreements (MRAs)		MRAs facilitate the mobility of professional services providers by enabling mutual recognition of qualifications. ASEAN has concluded seven MRAs covering services such as engineering, architecture, accounting, medical, dental and nursing services.

Indonesia has concluded economic partnership agreement with Korea, members of the European Free Trade Area (EFTA), Australia, and Japan. All these agreements cover chapters on trade in services, with scheduled commitments attached, as well as specific chapters on financial services, telecommunications, professional services and specific provisions dealing with the movement of natural persons providing services. Indonesia also began negotiations with the European Union in 2016 and with Canada in 2021.

As a member of ASEAN, Indonesia has been actively involved in trade agreements negotiated by ASEAN with other key trade partners in the region. Currently, ASEAN has agreements with Hong Kong, China, Australia, New Zealand, Korea, India, Japan, and the People's Republic of China (hereafter "China"). ASEAN negotiations have been underway with Canada since 2021, and new rounds of negotiations were convened in June 2023 to upgrade the ASEAN-China FTA 3.0 from the previous version concluded in 2022. Although negotiations with the European Union began in 2007, these have been on pause since 2009 in favour of bilateral negotiations among ASEAN members and the European Union.

In both Indonesia's bilateral trade agreements and those concluded through ASEAN, services liberalisation features prominently. These agreements all cover specific chapters on trade in services with varying degrees of market access and national treatment commitments covering a broad range of sectors. Several agreements also have provisions on telecommunications, financial services, professional services, and electronic commerce.

In order to broaden and deepen regional trade, the Regional Comprehensive Economic Partnership Agreement (RCEP) was launched in 2012 between ASEAN and its free trade agreement partners (Australia, China, India, Japan, New Zealand, and Korea).2 RCEP aims to be a comprehensive and ambitious economic partnership agreement that complements existing bilateral and plurilateral agreements in the region. It also seeks to enhance market openness among ASEAN trade partners that were not connected before. For example, Japan had no agreement with Korea or China before RCEP even though negotiations for a trilateral free trade agreement were underway between 2011 and 2019.3

Within and among ASEAN members, the integration of services trade has advanced progressively over the past 30 years. During this time, ASEAN members have signed and implemented several trade agreements, including the ASEAN Free Trade Agreement (AFTA) in 1993 and the ASEAN Framework Agreement on Services (AFAS) in 1995. The most recent Agreement, the ASEAN Trade in Services Agreement (ATISA), entered into force in April 2021 and superseded AFAS.

An important policy milestone on services liberalisation was the adoption of the ASEAN Economic Community (AEC) Blueprint in November 2007 that helped to formalise and re-enforce ASEAN member states' (AMS') commitments to move towards the free flow of services in the region. In December 2015, the ASEAN Economic Community was formally established and the ASEAN Economic Community Blueprint 2025 was adopted as a roadmap to guide AMS' efforts towards deeper services integration and enhance AMS' competitiveness in services.

AFAS was an important mechanism to increase co-operation amongst AMS to improve the efficiency and competitiveness of the services sector, to diversify the production capacity, supply, and distribution of services within and outside ASEAN, to eliminate restrictions on trade in services amongst AMS, and to promote trade in services by expanding the depth and scope of liberalisation beyond the General Agreement on Trade in Services (GATS).

Superseding AFAS, ATISA aims to encompass all the achievements that AMS made and provides an important development by mandating AMS to transition progressively to a negative-list approach on their schedules of commitments. In other words, this entails a transition towards "open by default" trade and investment across all industry sectors except those specifically listed by AMS.

In November 2012, ASEAN Economic Ministers signed the ASEAN Agreement on Movement of Natural Persons (MNP), which enhanced commitments related to the movement of people in ASEAN previously incorporated under AFAS commitments. The MNP Agreement supersedes these and provides a complementary set of commitments to the new ATISA.

In addition, ASEAN co-operation on trade in services has benefitted from a series of mutual recognition agreements (MRAs) aimed at facilitating mutual recognition of qualifications of professional services, including those of engineers, architects, accountants, and medical and dental practitioners.

3.5. Concluding remarks

This chapter reviewed the regulatory environment for services trade in Indonesia using the OECD STRI. The regulatory landscape in Indonesia is complex and dynamic with major policy developments and reforms re-shaping services trade and investment in recent years. On average, economy-wide or horizontal barriers remain high compared to OECD and regional averages which undermine trade and investment not only in services but across other economic activities. Services trade barriers also tend to be high in strategic sectors such as financial services, some professional services, telecommunications, and some transport and logistics services. However, in physical infrastructure services, Indonesia maintains an open regulatory environment, even when compared to OECD countries. Regulatory reforms in recent years, including Law No. 11 of 2020 on Job Creation (also known as the Omnibus Law), have contributed to lowering trade barriers, including through the implementation of a negative list approach on foreign investments which liberalised investment in several services sectors.

Indonesia continues to face regulatory challenges on digital trade and e-commerce, with relatively high barriers and recent regulatory developments imposing further conditions on foreign e-commerce providers. It has benefitted from its participation in ASEAN, which promotes an open regional market for services trade, investment and the movement of professionals. Although Indonesia conducts its own FTA negotiations, it has benefitted from ASEAN's extra-regional efforts, including ASEAN plus one FTAs and the recently concluded Regional Comprehensive Economic Partnership Agreement that Indonesia implemented in 2023.

Indonesia could benefit from joining the WTO Joint Statement Initiative on Services Domestic Regulation and adopting the Reference Paper on Services Domestic Regulation that would help align domestic regulatory reforms with international best practices to improve transparency, facilitate licensing requirements and procedures, qualification requirements and technical standards for services providers. Evidence suggests that alignment with these disciplines could bring substantial benefits in terms of trade costs reduction (OECD-WTO, 2021[2]).

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Notes

[1] Indonesia has been an observer to the GPA in the Government Procurement Committee since 31 October 2012.

[2] India withdrew from RCEP negotiations in November 2019.

[3] For more details, see https://www.mofa.go.jp/ecm/ep/page23e_000337.html.

4 Reform scenarios

This chapter uses the OECD STRI to present potential reform packages that target services trade in Indonesia and examines their possible impact on the Indonesian economy.

Key points

- The OECD STRI offers extensive information to identify policy measures that would reduce services trade restrictions in Indonesia and facilitate the design of reform packages. Reform packages targeting horizontal policy measures can reduce the STRI score for most services sectors covered by the STRI in Indonesia. Other examples of reform scenarios using sector-specific policy measures can have a stronger impact on the targeted sectoral STRI scores.
- Many important reforms have been implemented in recent years, and enhancing these would substantially benefit firms and consumers in Indonesia. Reform packages could reduce trade costs by significant amounts. Indeed, the most ambitious reform package targeting legal services could cut services trade costs by 71%.
- Removing barriers to services trade can have positive effects along supply chains, boosting the productivity performance of manufacturing firms and sectors that use services intensively as intermediate inputs.

From a policy perspective, identifying reforms can be a daunting task, especially when it is not sufficiently clear where reforms are most needed and what benefits these may bring to domestic firms and consumers. The STRI regulatory database and indices enable policy makers to identify services sectors where reform could be undertaken and simulate the potential impacts of such reforms on the index values. In turn, the simulated indices can be used in empirical analysis to understand a reform’s likely impact on key variables such as trade cost reductions or productivity increase in manufacturing industries downstream in the supply chain. This chapter explores two types of potential reform scenarios for Indonesia: on a horizontal level to assess the scope for economy-wide reforms that affect all sectors, and secondly in selected services sectors of key importance such as transport, logistics, and communication services. The selection of measures included in the scenarios are based on whether there is currently a restriction in place for those measures and whether a prospective reform measure could progressively take place through policy action.

4.1. Description of the reform packages

Horizontal reform packages can be impactful as they apply across all sectors in the economy with potential spill-over effects going beyond services industries. Table 4.1 illustrates horizontal measures that currently reflect some degree of restrictiveness in Indonesia (Chapter 3). The action on the measures listed would hypothetically lower the measure specific STRI score to zero for all sectors. This represents the horizontal reform scenario.

Table 4.1. Reform scenario: List of horizontal measures where reforms could be made in Indonesia

Remove requirement that managers must be national
Ease restrictions on acquisition and use of land and real estate by foreigners
Lift performance requirements
Lift commercial presence requirements
Remove labour market tests or similar economic considerations for intra-corporate transferees, contractual and independent services suppliers
Ease preferences for local suppliers in public procurement

Source: OECD STRI Regulatory database 2023.

Developing reform scenarios beyond the horizontal one is contingent on selecting those sectors that are relevant for Indonesia's services trade, have the greatest potential for innovation, and create scope for participation in global value chains for Indonesian firms. As such, services such as transport and logistics are important sectors to consider. Moreover, some services are key for a large number of business activities and support competitiveness in other sectors. For example, telecommunications and legal services are among the most widely used services inputs across all business activities. Consideration should also be given to Indonesia's domestic and regional trade strategies and priorities in order to maximise the benefits of implementing these reforms in the future. Table 4.2 presents the measures proposed for the reform scenarios for air and maritime transport, logistics cargo-handling services, telecommunications services, and legal services.

The left-hand side charts in Figure 4.1 and Figure 4.2 below display the changes in the sectoral STRI scores implied by the horizontal and sector-specific reform scenarios, respectively.

Table 4.2. Reform scenario: List of sector-specific measures where reforms could be made in Indonesia

Maritime transport
Remove foreign equity restrictions
Remove limits to the proportion of shares that can be acquired by foreign investors in publicly-controlled firms
Ease measure that requires operation through joint ventures only
Remove restrictions to own and/or register vessels under national flags
Improve access to cabotage for foreign vessels
Lift statutory monopoly on port services
Lift local presence requirements
Remove exclusive rights for port concessions to operate the port infrastructure
Air transport
Remove foreign equity restrictions
Remove limits to the proportion of shares that can be acquired by foreign investors in publicly-controlled firms
Remove restrictions on legal form
Lift exemption for publicly-controlled firms from the application of the general competition law
Improve competitive allocation and exchange of airport slots
Remove price regulation on domestic routes
Logistics cargo-handling
Remove limits to the proportion of shares that can be acquired by foreign investors in publicly-controlled firms (air, ports, road and rail)
Ease measure that requires operation through joint ventures only
Lift exemption for publicly-controlled firms from the application of the general competition law (cargo-handling at airports, ports, road and rail
Remove price regulation
Improve accounting separation and limit cross-subsidisation
Telecommunications
Remove limits to the proportion of shares that can be acquired by foreign investors in publicly-controlled firms
Ease conditions on subsequent transfer of capital and investments
Monitor and adjust *ex ante* competition rules in mobile segment
Legal services
Remove foreign equity restrictions to practice international law
Remove equity restrictions applying to not licensed individuals or firms in international law
Remove prohibitions on hiring locally-licensed lawyers
Remove nationality or citizenship requirements to practice international law

Source: OECD STRI Regulatory database 2023.

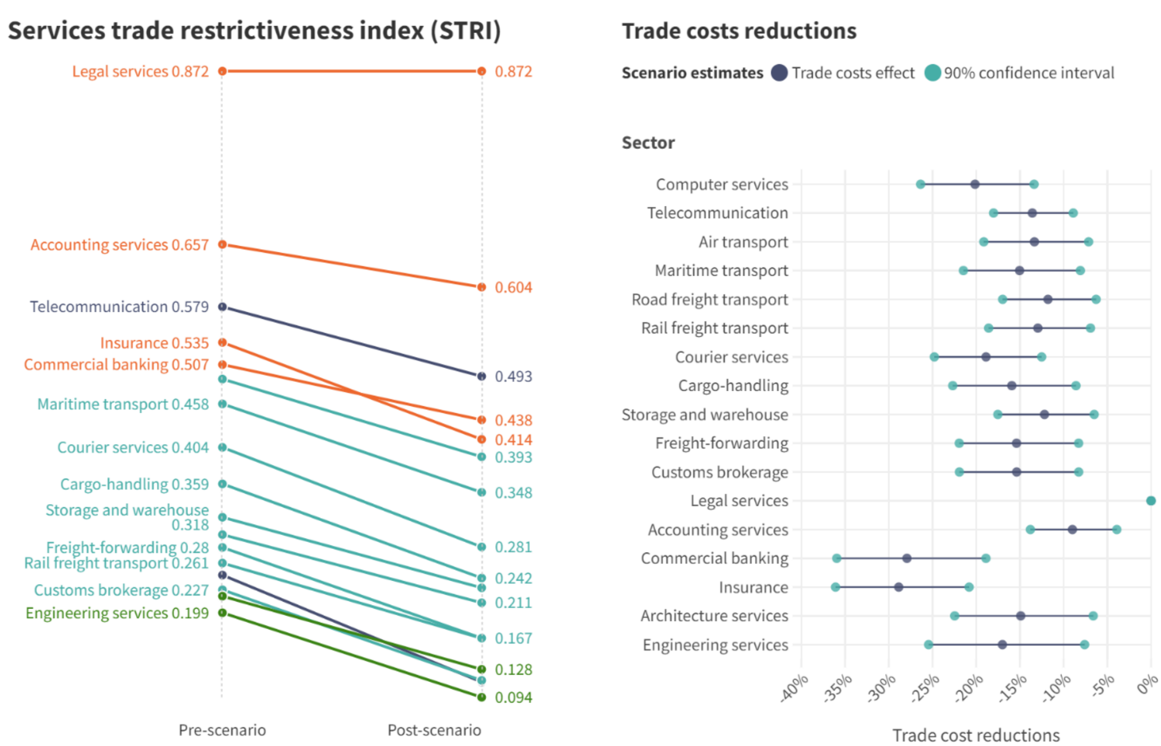
4.2. Description of impacts

The cumulative effect of implementing both horizontal and sector-specific reform scenario as described above could lead to a 50% decrease in the average STRI for 22 services sectors covered by the STRI index. Section 4.2 illustrates what this could mean for Indonesia's trade costs and productivity.

Services trade reforms can have large and positive economic impacts. An initial direct effect of removing policy restrictions to services trade can materialise through lower services trade costs. This is important given that services trade remains subject to higher trade costs compared to agriculture and manufacturing, especially in emerging economies (WTO, 2019[1]). Regulatory restrictions to services trade as captured by the sectoral STRI scores for Indonesia imply very high trade costs for the corresponding sectoral services trade flows.

One approach to quantify the potential benefits of reforms is to estimate the trade cost reduction associated with a lower STRI score. Based on the methodology applied in Benz and Jaax (2020[2]), the estimated trade cost reductions for the Indonesian sectors analysed ranged from 9% for accounting services to 29% for insurance services (Figure 4.1).

Figure 4.1. Horizontal measures reform scenario



Note: Percentage reductions in trade costs are based on changes in *ad valorem* equivalents (AVE) of STRI scores. The AVE of an STRI score for Indonesia is the uniform *ad valorem* tariff rate (expressed as a percentage of the price) that, if applied by Indonesia to the relevant trade flow, would result in the same estimated reduction of services imports by Indonesia due to the regulatory barriers reflected in its STRI score. The following sectors were not covered in the estimations due to lack of data: broadcasting services, construction services, distribution services, motion pictures and sound recording services. In legal services, changes in the horizontal measures have no implication due to a combination of sector specific barriers that effectively close the market for international trade.
Source: OECD STRI database 2023. Trade costs calculations based on methodology in Benz and Jaax (2020).

The scenario developed from the horizontal reform package described in Section 4.1 is associated with economically significant trade cost reductions for the majority of the covered sectors. As illustrated by Figure 4.1, the highest gains are estimated for the two financial services sectors, where the horizontal reform package could lead to a decrease in trade costs of almost 30%.Computer and courier services follow with trade cost reductions of just around 20%. A small impact is estimated for accounting services and legal services. For the latter, there is no trade cost reduction estimated as the hypothesised horizontal reform package would not lead to any reduction in the STRI score given that foreign companies cannot establish law firms in Indonesia and Indonesian nationality is required to obtain a license to practice. These two sector specific barriers effectively close the market to international trade, with the result that the horizontal reform package has no impact on the regulatory regime.

The case of legal services in Indonesia provides a good reason to assess the potential impact of reform packages that go beyond horizontal measures. The most critical barrier to foreign entry in legal services is the exclusion of foreign equity from legal firms operating in the country. Relaxing this restriction on foreign equity would have a significant effect in and of itself, although policy measures that would allow foreign firms to provide legal services would enable greater benefits. In terms of estimated reduction in trade costs, the hypothesised reform package specific to legal services is associated with trade cost reductions of 71%. While smaller, the estimated trade cost reductions associated with the other sector specific reform packages imply significantly lower trade costs for telecommunication, maritime and air transport services, and logistics cargo-handling services (Figure 4.2).

Lower services trade costs can have implications that go beyond the targeted services sector. Given the prominent role of services as intermediate inputs across manufacturing sectors, reducing services trade costs also means facilitating access of manufacturing firms' to international markets of key intermediate inputs, such as financial services, telecommunication or transport services. Under the assumption that international markets can offer a greater variety of services at a lower quality-adjusted cost, reforms that remove policy restrictions to services trade can positively impact the economic performance of Indonesia's manufacturing firms. The variety, quality, and cost of services available to manufacturing firms can help determine their productivity.

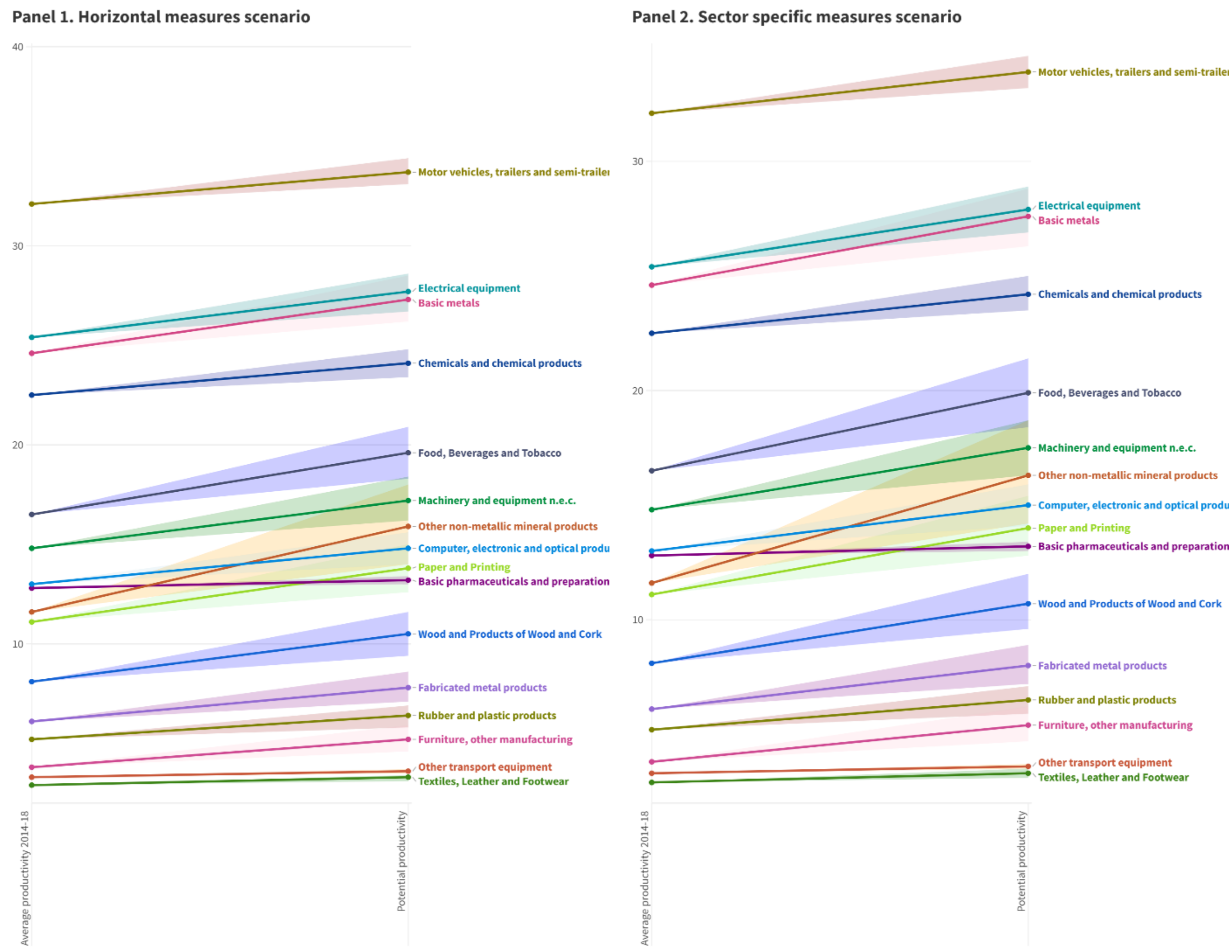
A growing body of empirical evidence shows that when restrictions on (upstream) services trade are lifted, the performance of (downstream) firms and sectors using services intensively in their production processes improves.[1] Joint work by the Economic Research Institute for ASEAN and East Asia (ERIA) and the OECD provides an in-depth analysis of this spillover effect with a review of selected studies from the relevant body of empirical research (Zen et al., 2023[3]). This joint work provides new estimates for empirical linkages between removing restrictions to trade in financial services and firm-level productivity in Indonesia. The analysis by Zen et al. (2023[3]) uses firm-level data sourced from Indonesia's census of medium and large manufacturing firms and shows that lower barriers to financial services trade in Indonesia are associated to economically and statistically significant increases in the productivity of firms that rely on financial services as intermediate inputs. Zen et al. also find that restrictions to financial services trade can exert a more pronounced impact among the smaller firms in their sample. Due to the fixed cost nature of many services trade barriers, eliminating these restrictions will disproportionately favour smaller firms that, due to their limited scale, generally have fewer incentives and resources to cover these fixed costs.

Figure 4.2. Sector-specific measures reform scenario

Note: Percentage reduction in trade costs are based on changes in *ad valorem* equivalents of import values.
Source: OECD STRI database 2023.Trade costs calculations based on methodology in Benz and Jaax (2020[2]).

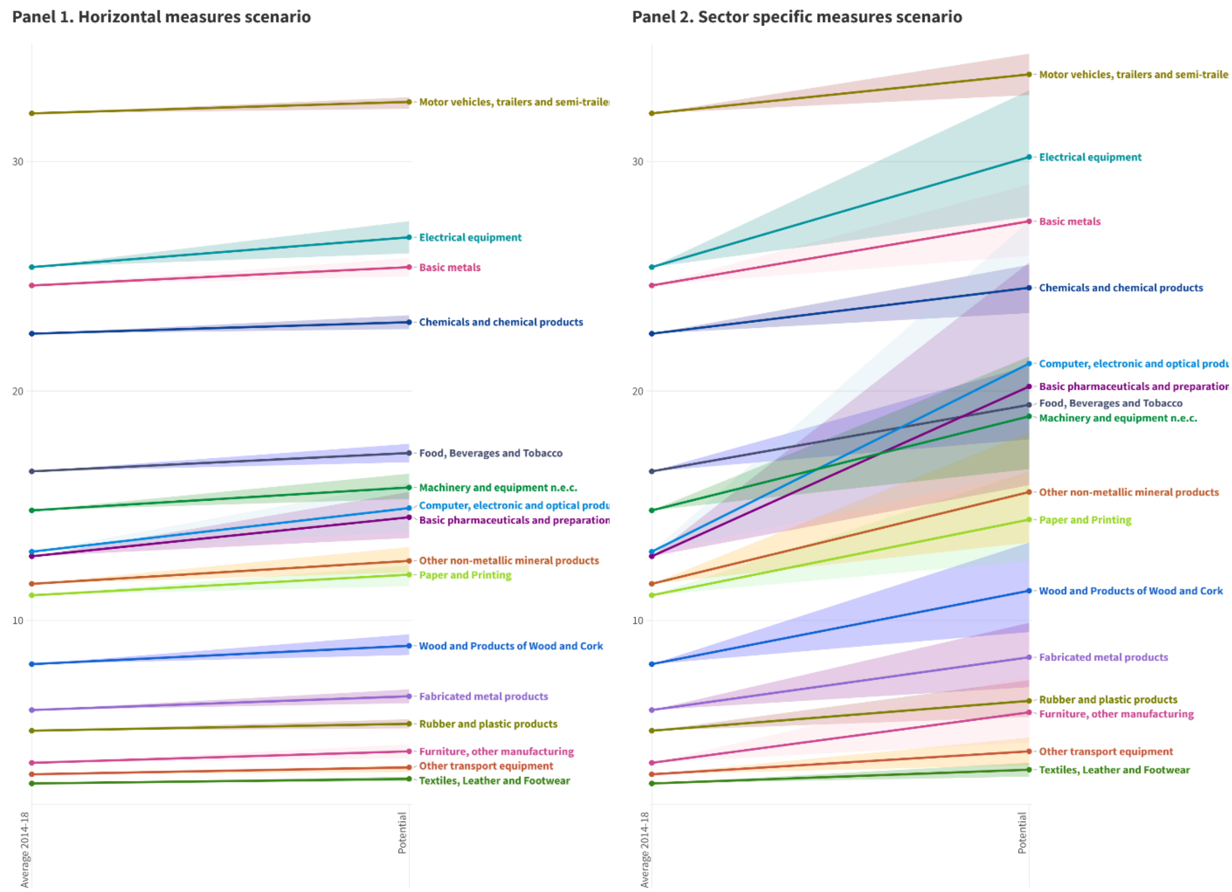
Looking beyond policies that target financial services, other OECD analysis extends the investigation of the spillover effects of regulatory reforms to several services sectors (Benz et al., 2023[4]). Using the OECD STRI as a measure of services trade policy reforms, and data on labour productivity for 17 manufacturing sectors in 44 economies[2] during the five-year period 2014-2018, Benz et al. (2023[4]) find positive, economically and statistically significant linkages between removing services trade restrictions in financial services, air transport and telecommunication services, and with labour productivity of manufacturing sectors that use these services as intermediate inputs. Their estimates can be used to quantify the productivity increases associated with some of the reform packages described in Section 4.1. Figure 4.3 and Figure 4.4 display the estimated changes in labour productivity corresponding to the horizontal and the sector specific reform packages in air transport and telecommunication services, respectively. More precisely, they show how these estimated changes would increase productivity in Indonesian manufacturing sectors from its average level computed over the period 2014-2018.[3]

Figure 4.3. Downstream effect on productivity in Indonesia's merchandise sectors: Air transport services scenarios



Note: The maximum and minimum productivity estimates post-scenario are based on 90% confidence intervals. Labour productivity is measures as value added (in thousands current US dollar) per employee. The sector of coke and refined petroleum products features outlier values of labour productivity and is removed from this quantification exercise.
Sources: OECD STRI database 2023. Trade costs calculations based on the methodology presented in Benz et al. (2023[4]). Data on labour productivity in Indonesia are sourced from the OECD Trade in Employment (TiM.) database.

Figure 4.4. Downstream effect on productivity in Indonesia's merchandise sectors: Telecommunications services scenarios



Note: The maximum and minimum productivity estimates post-scenario are based on 90% confidence intervals. Labour productivity is measures as value added (in thousands current US dollar) per employee. The sector of coke and refined petroleum products features outlier values of labour productivity and is removed from this quantification exercise.
Sources: OECD STRI database 2023. Trade costs calculations based on the methodology presented in Benz et al. (2023[16]). Data on labour productivity in Indonesia are sourced from the OECD Trade in Employment (TiM.) database.

Estimated productivity increases are economically significant. Lower barriers to trade in telecommunication services following the hypothesised horizontal reform package, are associated with an estimated average increase in labour productivity across manufacturing sector of 8%. This figure raises to 30% when considering the sector-specific reform package for telecommunication. The reduction in the STRI score for air transport implied by the horizontal reform scenario is associated with an 18% average downstream productivity increase, while the estimated average productivity increase corresponding to the sector specific reform package for air-transport is equal to 19%.

Estimated downstream productivity increases are very large for several manufacturing industries. For example, the reduction in barriers to air transport trade embedded in the sector specific reform package are expected to increase productivity by 42% for the set of economic activities in the sector labelled "Furniture, other manufacturing", which includes activities such as "manufacture of medical and dental instruments" as well as "installation of industrial machinery and equipment". The average labour productivity of this sector in Indonesia over the period 2014-2018 is roughly USD 4 000 of value added per employee, the third lowest values across the 17 manufacturing sectors covered in the analysis. The estimated productivity change associated with the hypothesised reform package could bring labour productivity in the sector from the baseline level of USD 3 700 to a post-reform value between USD 4 700 and USD 6 200 (Figure 4.3, Panel 2). Increased openness to trade in air transport services is expected to be advantageous for the transportation of high-value-to-weight ratio goods and for business travel by engineers and managers in these manufacturing industries.

Moving to the reform packages for trade in telecommunications services (Figure 4.4), the simulation foresees steep increases in labour productivity within the "Computers, electronic and optical products" manufacturing sector. In the case of the sector-specific reform package (Figure 4.4, Panel 2), the hypothesised policy change would increase labour productivity of that manufacturing sector from a baseline level of USD 13 000 of value added per employee to a post-reform level of between USD 16 400 and USD 27 400 value added per employee, making this sector the fifth best performer in Indonesia in terms of labour-productivity. This outcome underscores the significant contribution of telecommunications services in furnishing the foundational infrastructure for contemporary information and communication technology.

The estimated trade cost reductions and productivity increases associated with services trade reforms presented in this section are indicative and subject to the methodological caveats that are extensively discussed in the technical literature. However, they provide a strong signal in support of a positive role of an open regulatory framework in services sectors for economic development in Indonesia.[4] While this signal can inform policy design, the literature points to the existence of significant heterogeneity in the impact of services reforms, something which is still largely unexplored.

Indeed, regulatory changes that target services sectors do not happen within silos and their outcomes can be influenced by interactions with other aspects of the policy and economic landscape in the reforming country.[5] For example, broad aspects of governance institutions (e.g. the control of corruption, regulatory quality, and the rule of law) in a country implementing services trade policy reforms can be crucial in triggering positive spillover effects of increased openness to services trade (Beverelli, Fiorini and Hoekman, 2017[5]). Building on this finding, Beverelli, Fiorini and Hoekman (2019[6]) show how weak governance institutions can limit the downstream effects of ambitious policy reforms targeting Mode 3 services trade for ten economies in the East Asian region, including Indonesia.[6] One implication in the context of services reform design is that the objective of removing restrictions to services trade should not be pursued in isolation, but accompanied by efforts to identify other relevant barriers that could prevent economic actors taking full advantage from greater openness. Detailed priorities and solutions cannot be pre-determined, however; they require analysis and deliberation by government officials, regulators, and stakeholders, including the private sector. Recent developments to tackle corruption, reduce bureaucracy and improve the regulatory framework for investors documented by the *OECD 2020 Investment Policy Review of Indonesia* are important efforts in the right direction (OECD, 2020[7]).

4.3. Concluding remarks

Based on the detailed policy measures in the OECD STRI database, this chapter has presented a portfolio of possible reform packages that would remove some of the main restrictions to services trade in Indonesia. An illustrative reform package focusing on policy measures targeting all services leads to a decrease in the STRI score across nearly all services sectors in Indonesia. Tailored reform scenarios that have sector-specific policy measures have a greater impact on the STRI scores of targeted sectors.

Reform packages have been assessed in terms of their potential impact on the Indonesian economy. By mapping STRI score reductions with estimated percentage changes in trade costs, this chapter has documented how services trade reforms can significantly reduce the high trade costs embedded in the regulatory restrictions across Indonesian services sectors. Lower services trade costs increase access to services for consumers and businesses. Building on methods and results from a growing body of empirical evidence, the present analysis has also shown the strong potential for services trade reforms to boost labour productivity of manufacturing sectors.

The hypothesised reform packages proposed here and the analysis of their possible impact on the Indonesian economy can help inform policy action to ensure an open and competitive services sector in line with the APEC Services Competitiveness Roadmap, and ultimately to leverage the potential of services trade as a driver of economic growth and development in Indonesia.

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Notes

[1] See, for example, Arnold, Mattoo and Narciso (2008[12]); Arnold, Javorcik and Mattoo (2011[10]); Arnold et al. (2015[11]); Barone and Cingano (2011[13]); Bas (2014[14]); Bourlès et al. (2013[15]); Hoekman and Shepherd (2015[16]); Beverelli, Fiorini and Hoekman (2019[6]); and Benz et al. (2023[4]).

[2] The sample covers all OECD countries, as well as Brazil, The People's Republic of China, India, Indonesia, Russian Federation, and South Africa.

[3] Labour productivity is measured as value added per employee (in thousands of current USD), based on data from the OECD TiVA database and the OECD Trade in Employment (TiM) database (Benz et al., 2023[4]).

[4] Sustainability dimensions of the Indonesian economy will also likely be affected by services trade reforms. Reduced policy barriers to services trade can positively impact Indonesia's sustainability performance by increasing the availability and quality of services that are relevant to the process of achieving sustainable development goals. Indicative findings in the literature show a negative correlation between services trade restrictiveness and poverty reduction, life expectancy, gender equality, access to water, and reduction of CO2 emissions (Fiorini and Hoekman, 2018[9]). Further research is required for a more robust empirical assessment of these relationships.

[5] Discussions on the methodological caveats in the empirical assessments of the impact of services trade reforms is found in Benz and Jaax (2020[2]) and Benz et al. (2023[4]). The latter underscore and partially investigate the heterogeneity in the effects of services trade reforms.

[6] In a similar vein, Ahsan (2013[8]) studied the effect of removing trade barriers to the importation of intermediate (goods) inputs on the productivity of Indian firms. Greater productivity gains are observed in those Indian states where the judicial system is more efficient, suggesting that complementary reforms that increase the speed of contract enforcement can bolster the positive effect of a trade policy reform designed to provide domestic firms with greater access to foreign inputs.

Services Trade in Indonesia

EXPLORING PATTERNS, POLICIES, AND REFORM SCENARIOS

Services and services trade play an increasingly important role in Indonesia's economy as they represent new sources of growth, job creation, and overall wellbeing. This study explores patterns, policies, and reform scenarios of Indonesian services trade building on the OECD's expertise, data, and analysis. This analysis covers the role of services trade in the Indonesian economy at both the aggregate and granular sectoral levels; the regulatory environment for services trade, including domestic regulatory and policy developments, as well as the relevant services trade disciplines in Indonesia's regional trade agreements; and potential reform packages that target services trade, with an assessment of their potential impact on the Indonesian economy. The stylized facts and findings in this study aim to inform the discussion on a co-ordinated policy action amongst Indonesian policy makers and stakeholders so as to maximise the contribution of services trade to the country's economic development.

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