Indonesia: Emerging Service Sectors and Policy Environment

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Presentation Outline

- Overview of Policy Environment for Services Experts
- Detailed Examination of the Emerging Service Sectors in Indonesia
- Policy Environment and Challenges within the Emerging Sectors
International Services Export Policy (1)

- Indonesia’s key initiatives in international trade in services are:
  - pursuing Indonesia’s export interests in services at international trade negotiations;
  - promoting the export of Indonesia’s services; and
  - better focusing its exports of services.
**International Services Export Policy (2)**

- Indonesia is actively pursuing Indonesia’s international trade in services interests at international trade negotiations.

- Indonesia is pursuing these through its multi track strategy on three fronts – the World Trade Organization, ASEAN and bilateral trade agreements.

- Indonesia is also pursuing improved access to export markets with a focus on expanding the placement of Indonesian workers and specialists in export markets.

**International Services Export Policy (3)**

- Indonesia is complementing opening export markets by promoting exports of services through exhibitions in Indonesia and in export markets.

- Indonesia is mapping its exports of services aiming better target Indonesia’s exports of services by service sectors and export markets so as to maximize its exports of services. The Government of Indonesia is engaging with stakeholders to ensure that it reflects its export interests for services.

- The follow-on from this mapping exercise will be to deeper engage with export markets to reduce their restrictions to Indonesia’s exports of services and promote Indonesia’s export of services to selected export markets.
International Services Import Policy

• To attract Foreign investors in services sectors to reduce poverty and promote faster growth Indonesia needs more private investment in services sectors.

• To meet the scarcity of skilled labor eg. Managers and technical experts and other professional labors

Emerging Service Sectors
Role of Services in the Indonesian Economy

- Contributes 48 percent of Indonesian GDP
- Absorbs approximately 40 percent of employment
  - Primarily informal workers and SME businesses
  - Therefore critical for poverty reduction and sustainable growth
- Competitive services matter for economic productivity
  - Services are intermediate input for producing goods as well as other services
  - 25% of manufacturing inputs and 70% of services inputs are services-related
  - Facilitate and link production processes
- Services industries have shown remarkable performance
  - 1990s: Services growth was correlated more with manufacturing industry
  - 2000 – 2008: “Take-off” with growth at an average rate of 7% per annum

Emerging Service Sectors

- Some of the sectors/subsectors are more developed than the others
- The emerging sectors in Indonesia:
  - Banking
  - Telecommunications
  - Construction
- Indonesia also has a strong interest in movement of natural persons
- Characteristics of these sectors
  - Significant liberalization;
  - Significant past growth or potential for future growth; and
  - More adequately regulated
Banking, Construction, and Communication Services Composition of Indonesian GDP

- Agro industry, farming, forestry and fishing: 16%
- Mining: 9%
- Manufactures: 27%
- Construction: 10%
- Trading, hotel and resto: 13%
- Transportation and communication (ICT): 7%
- Financial, rental and corporate services: 8%
- Electricity, gas and water: 1%
- Other services: 10%

Source: Indonesian Statistical Agency

GDP Growth in Banking, Construction, and Communication Services

- Other services
- Financial, rental and corporate services
- Transportation and communication (ICT)
- Trading, hotel and resto
- Construction
- Electricity, gas and water
- Manufactures
- Mining
- Agro industry, farming, forestry and fishing

Source: Indonesian Statistical Agency
 Role of Banking, Construction, and Communication services in Indonesia Economy

• Banking gives sufficient contribution in Indonesia economy but still need to be developed

• Communication in GDP: Highest growth but the portion still relative small

• Construction is one of the big five on Indonesia GDP but the growth also relative small

BANKING SERVICES
Policy Environment for Banking Services (1)

- Generally, domestic regulations contain liberal market access requirements
- Capital requirement for establishing a commercial bank is relatively low
  - Only 3 trillion rupiah (±US$ 330 million)
- The ownership requirement is relatively open for individual or corporate
- The foreign equity participation is up to 99%

Policy Environment for Banking Services (2)

- Non financial company can own a bank
- Foreign company can gain commercial presence by joint venture with local company and foreign equity participation can be up to 99%
- Single Presence Policy: Controlling shareholder only can own one bank
- People's Credit Bank (BPR) is only for local companies
Challenges (1)

❖ Identification of Sector Interests
• Further analysis and consultation needed to identify the interests of banking sector

❖ Harmonization
• Need to harmonize all the policies on the banking services
• Includes need to revisit Indonesian banking architecture to empower private sector.

Challenges (2)

❖ Competitiveness
• Indonesian banking competitiveness generally are still low compared to ASEAN peer countries.
• Despite liberal market access regulatory environment, Indonesian banking competitiveness is still low compare with peer countries such as Malaysia (±US$ 550 million) and Singapore (±US$ 110 million)
• Based on assessment of performance indicators (assets, capital adequacy ratio (CAR), non-performing loan (NPL), etc), Indonesian banking industries are still left behind by peer countries, such as Malaysia, Singapore and Thailand.
• Efficiency level of Indonesian banking industries is still not optimal
The State of Play in the Telecommunication (ICT) Sector

- Domestic industries have dominated the goods side of telecommunications, e.g. terminal device, transmission equipment, switching, and the migration of telecommunication products from nomadic to digital.
- The supporting technology, such as the manufacturing of solar cell, antenna, repeater, and tower, has also been dominated by domestic Industries.
- The ability of manufacturing Wi-Fi and Wimax are the newest capabilities of domestic industries.
- The supporting telecommunication industries, such as optic cable have grown to 7 companies with capacity up to 930,000 fiber-km per year and with 80% of local content.
### The Effect of Liberalization on Mobile Tariffs

<table>
<thead>
<tr>
<th>Country</th>
<th>2004 RPM (US cents/minute)</th>
<th>2009 RPM (US cents/minute)</th>
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</thead>
<tbody>
<tr>
<td>China</td>
<td>15</td>
<td>8</td>
</tr>
<tr>
<td>Indonesia</td>
<td>20</td>
<td>10</td>
</tr>
<tr>
<td>Singapore</td>
<td>5</td>
<td>3</td>
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<tr>
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<td>India</td>
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<td>14</td>
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<td>Hong Kong</td>
<td>30</td>
<td>20</td>
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</tbody>
</table>

Source: Ministry of Communication & Information

### Policy Environment for ICT Services (1)

- Telecommunication Law No. 36 year 1999 is designed to have a fair competition in telecommunication industry and no more monopoly in this industry.

- This Telecommunication Law gives key guidances for telecommunication reformation including liberalization of the industry, provisions for operators, and development for competition structure of telecommunication industry.

- To regulate the implementation, government stipulates government act, ministry regulation and others.
Policy Environment for ICT Services (2)

Quality
- Quality of Service: Not available
- Penalty policy: Not available

Security
- Policy: Security on Telco Network (Gov Reg 62 Year 2000)
- Facility: Not available

2004
- Government Act 7 Year 2009
- Security on Internet Infrastructure (Ministry Regulation 26 Year 2007)
- Cyber law (Electronic & Internet Transaction Act)

2009
- 5 regulation for local, long distance, international call, cellular and FWA services
- ID-SIRT II as (Indonesia National CSIRT/CC)

Challenges

- Telecommunication infrastructure need to be upgraded to introduce convergence application. Upgrading could be done by expanding capacity of access and backbone in several cities.
- More local content and application
CONSTRUCTION SERVICES

The Condition of Indonesia Construction Sector (1)

- Services Suppliers:
  - National:
    - No Qualification Consultants and Contractors
      | No | Qualification | Consultants | Contractors |
      |----|---------------|-------------|-------------|
      | 1  | Big           | 372         | 1,162       |
      | 2  | Medium        | 1,027       | 15,398      |
      | 3  | Small         | 4,958       | 122,343     |
      | TOTAL|             | 6,357       | 138,903     |

- Foreign:
  - Contractors = 128 entities
  - Consultants = 65 entities

Source: Ministry of Public Works
The Condition of Indonesia Construction Industries (2)

- Construction Labourers
  - 5,252 million people (5% of total labour force)
  - Experts= 10%
  - Skilled labourers= 30%
  - Non-skilled labourers= 60%

- Main export markets are Malaysia and Middle East.
  - Mode III and Mode IV
  - Indonesian companies establish in export markets and then place Indonesian construction workers and specialists in export markets.

Policy Environment for Construction Services

- Indonesia’s policy objective for construction services, as set out in Law No. 19/1999, focuses on developing a strong, competitive and quality Indonesian construction sector. This is closely linked to Indonesia’s infrastructure development policy objectives.

- Indonesia’s infrastructure development policy objective, as set out in the current National Medium Term Development Plan 2004-2009, focuses on improving the quantity and quality of infrastructure equitably across Indonesia.
Challanges

Export Obstacles:
- National competitiveness is still low:
  - Access to capital (limited and not competitive)
  - Access to guarantees (high cost)
- Profit repatriation by some countries (e.g. Algeria)
- Double taxation on export of construction services
- Payment certainty issues

Foreign Companies Penetration in Indonesia:
- Domestic market distortion: the small number of foreign entities dominate 60% of domestic market
- Clauses in International Loan Agreements that require domestic company to involve the corporate lending
- Difficulties on implementation of transfer knowledge/skill from foreign companies to national companies.

Movement of Natural Persons
Indonesia Strong Interest in Mode IV

- Indonesia as developing and labour-abundant country has a strong interest in market access for workers. Indonesia also participates actively in bilateral, regional and multilateral negotiation on movement of natural persons.

- So far, movement on natural persons in WTO is still in practice limited to skilled workers, and as developing country, Indonesia has more interest on semi and low skilled workers.

- Indonesia has sent request in WTO on Mode 4 to 9 countries, i.e. USA, Australia, Japan, EU, Switzerland, Canada, Norway, Korea, and New Zealand with focus on human health, computer and related, construction and related engineering, hotel and restaurant, agricultural, mining and manufacturing services.

Indonesia objectives on Movement of Natural Persons

- The objectives of developing Indonesian labour services in international trade are:
  - Increasing scale and value of export on labour services, especially movement from unskilled and low skilled labour to high value labour; and
  - To manage import labour services to increase Indonesia productivity and competitiveness in international trade.
Challanges

- Opposition to liberalization of the movement of natural persons by destination countries (both developed and developing).

- Mode 4 is the least liberalized mode, both in depth and coverage.

- Lack of domestic policy framework in Indonesia.
  - Indonesia still needs to develop legal framework for the protection of workers' rights and adequate domestic regulation, such as certification, qualification etc.

- High protection on destination country for foreign labour which can be seen in the domestic regulations such as licensing and qualification requirements.

THANK YOU