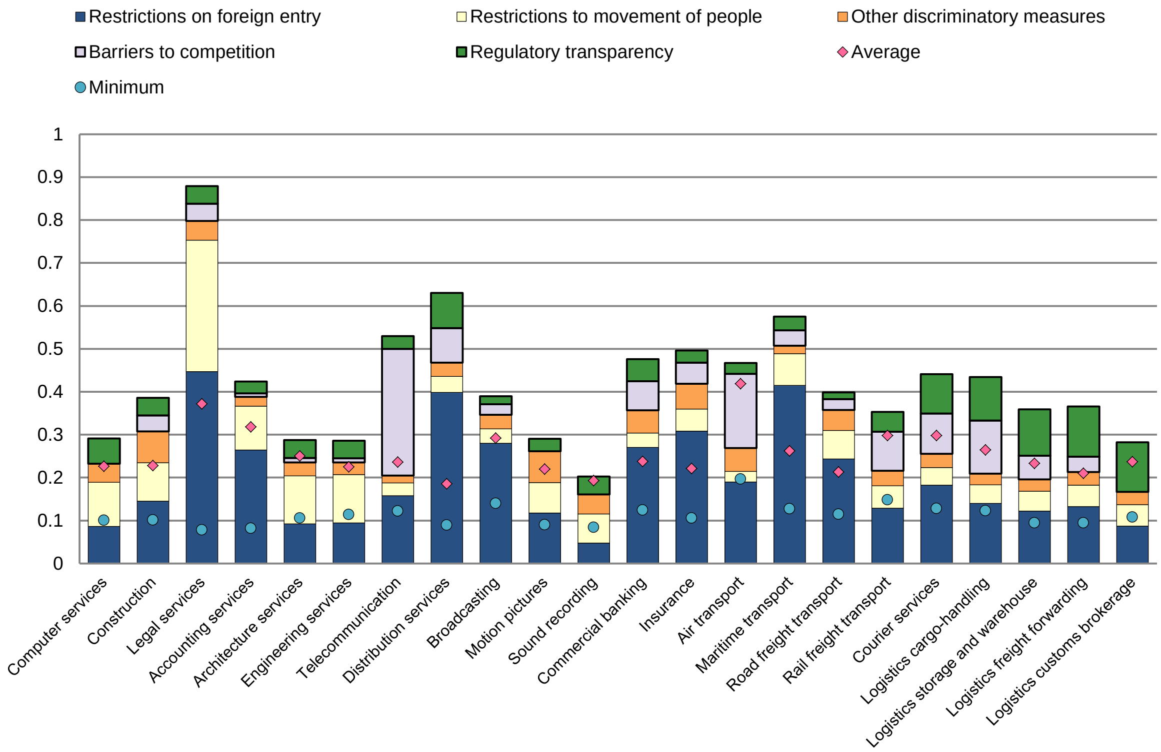
OECD Services Trade Restrictiveness Index (STRI): Indonesia

Indonesia exported services worth USD 21 billion and its services import value was USD 30 billion in 2015. Travel services are the largest services exporting sector and transportation services are the main category of services imports.

Indonesia's score on the STRI in the 22 sectors is shown below, along with the average and the lowest score among the 44 countries included in the STRI database for each sector.

STRI by sector and policy area



Note: The STRI indices take values between zero and one, one being the most restrictive. They are calculated on the basis of the STRI regulatory database which contains information on regulation for the 35 OECD Members, Brazil, China, Colombia, Costa Rica India, Indonesia, Lithuania, Russia and South Africa. The STRI database records measures on a Most Favoured Nations basis. Preferential trade agreements are not taken into account. Air transport and road freight cover only commercial establishment (with accompanying movement of people).

Horizontal policy measures

Indonesia has a higher STRI score than the sample average in all 22 sectors. This can be explained in large part by general regulations that apply to all sectors in the economy. Certain management positions in Indonesian corporations are reserved to nationals. Investments in all sectors are subject to screening, and price preferences are given to local providers in the context of public procurement. The acquisition of land and real estate by foreigners is restricted to the right of use for a limited period of years. The state has a prominent role in the economy. There is at least one major state-owned enterprise in air transport, banking, broadcasting, construction, courier services, distribution, insurance, maritime, logistics and telecommunication services. At the same time, there are no discriminatory taxes or subsidies, and laws and regulations are transparent and grant due process to foreign providers (e.g. appeal procedures). Indonesia applies restrictions to trade through the movement of natural persons. In particular, it maintains labour market tests on all categories of service providers covered in the STRI (i.e. intra-corporate transferees, contractual services suppliers and independent services providers). The duration of stay for all three categories is limited to 24 months on their first entry permit.

The sectors with the relatively lowest STRI scores

Sound recording, rail freight and air transport are the three sectors with the lowest score relative to the average in Indonesia. Sound recording is part of the sectors recently opened to foreign providers. Foreign investment in sound recording studios was previously prohibited, but it has been liberalised under the 2016 Negative Investment List. Indonesia is among the few countries in the sample which have partially or fully eased foreign equity restrictions in air transport. It currently allows majority foreign ownership in air freight transport, following recent reforms of the sector. There are also no foreign equity restrictions in rail freight. The rail infrastructure is currently owned by the Government, though the Railway Law of 2007 (23/2007) provides rail transport services to be provided by separate railway undertakings.

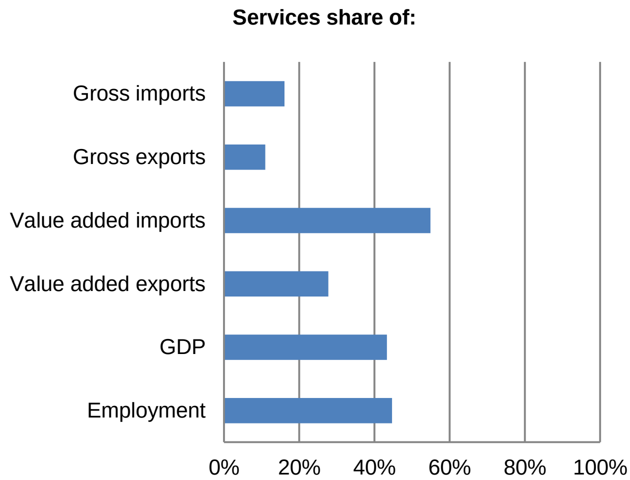
The sectors with the relatively highest STRI scores

Insurance, legal services and distribution services are the three sectors with the highest score relative to the average in Indonesia. Indonesia is among the most restrictive countries in the sample for legal services. Foreign lawyers are not allowed to set up a commercial presence or practice law in the country. They can only be hired by Indonesian advocates to advice on foreign law. The relatively high score for distribution services is largely related to the fact that foreigners are not allowed to invest in large part of retail distribution, including retail stores such as supermarkets and minimarkets. Majority foreign investment in department stores is permitted, but is conditional upon a special license granted by the Ministry of Trade. In insurance, Indonesia maintains a range of investment restrictions, including a cap of 80% foreign equity, nationality requirements for at least half of members of the board of directors and restrictions on branches of foreign insurers. Foreign insurance companies must also be locally established to provide the full range of services in the country. Government ownership is among the main measures recorded in the barriers to competition category.

Recent policy changes

Indonesia has fully or partially opened several sectors to foreign investment under the 2016 Negative Investment List. These include air freight transport, logistics services, telecommunications and audio-visual services.

Efficient services sectors matter



Services account for about 11% of Indonesia's exports and about 16% of its imports. The service share in value added terms is significantly higher for imports (55%) compared to exports (28%), indicating that Indonesia imports services-intensive goods. The contribution of services to exports is lower than the average of the 44 countries. The STRI can be used as a tool for exploring to what extent restrictive regulations explain this relatively low share in exports. Services also account for a higher share of employment than of GDP, indicating that labour productivity is lower in services than in other sectors. Continuing efforts towards best-practice regulation can help further improve efficiency and competitiveness in services.

More information

» Access all of the country notes, sector notes and interactive STRI tools on the OECD website at http://oe.cd/stri
» Contact the OECD Trade and Agriculture Directorate with your questions at stri.contact@oecd.org