OECD Services Trade Restrictiveness Index (STRI)

INDONESIA – 2022

Key findings

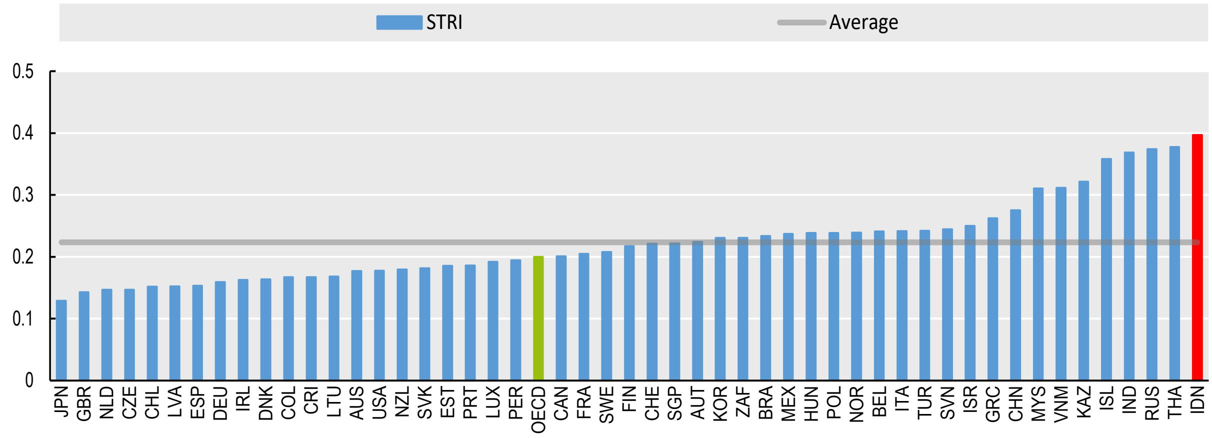
- The 2022 STRI for Indonesia is high indicating stringent regulations on services trade across most sectors.
- Nonetheless, Indonesia has introduced reforms over the past years. Most recently, in 2020 and 2021, a new investment regulation aimed at opening market access in certain sectors.
- Despite some liberalisation, restrictions are particularly prevalent in legal services, accounting services, telecommunication, and insurance services, with more restrictive rules on foreign entry as well as more barriers to competition than regional trade partners.

Recommendation

- Open and well-regulated services markets are essential to facilitate economic recovery, strengthen resilience to future shocks, and promote a more sustainable trading system. To ensure that the benefits of open markets and a rules-based international trading system are preserved, policy makers should focus on minimising barriers that increase trade costs for services providers, weaken the gains from digital transformation and undermine competitiveness.

The 2022 STRI of Indonesia is high compared to other countries in the STRI sample (Figure 1).

Figure 1. Average STRI across countries, 2022



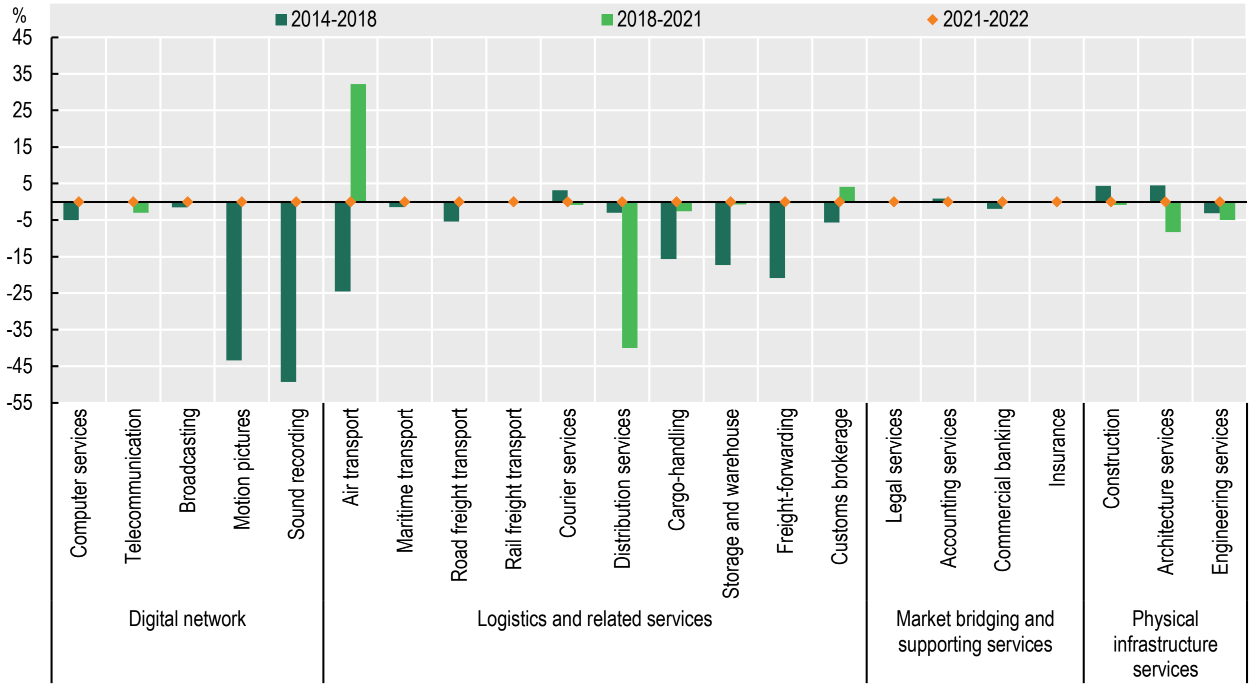
Note: The STRI indices take values between zero and one, one being the most restrictive. The STRI database records measures on a Most Favoured Nation basis. Air transport and road freight cover only commercial establishment (with accompanying movement of people). The indices are based on laws and regulations in force on 31 October 2022. The STRI regulatory database covers the 38 OECD Members, Brazil, China, India, Indonesia, Kazakhstan, Malaysia, Peru, Russia, Singapore, South Africa, Thailand and Viet Nam. The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.
Source: OECD (2022). STRI and TiVA databases.

The 2022 STRI can be explained in large part by general regulations that apply to all sectors of the economy. Certain management positions in corporations are reserved for Indonesian nationals, and commercial or local presence requirements exist in all sectors. Investments in all sectors are subject to screening, and price preferences are given to local providers in public procurement. The acquisition of land and real estate by foreigners is restricted to the right of use for a limited period of years. 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 and limits the duration of their stay.

In 2016, Indonesia introduced significant liberalisation reforms and lowered barriers on foreign investment, notably in motion picture, sound recording and in some logistics sectors (Figure 2). In 2021, Presidential Regulation No. 10, subsequently updated by Presidential Decree 49/2021, introduced other important changes to the regulatory framework on foreign investment in Indonesia. Among others, this Regulation lifted foreign equity requirements in architecture, construction, engineering, telecommunication, and distribution services and reduced the number of sectors that are closed to foreign investment. However, in some cases, including air transport services, the new Regulation introduced more stringent conditions such as lowering the foreign equity limit to 49% after it had been raised to 67% in 2016. No major changes affecting the STRI scores were identified in 2022.

Figure 2. Evolution of STRI indices by sector in Indonesia

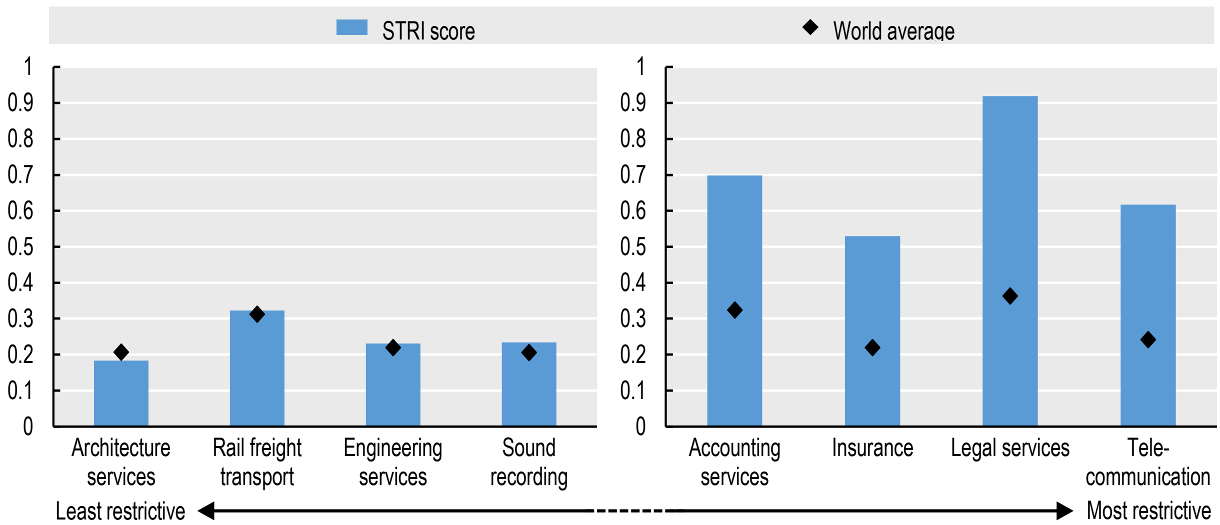
Services Trade Restrictiveness Index, percentage change over the period 2014-2018, 2018-2021 and 2021-2022



OECD (2022). STRI database.

Architecture services, rail freight transport, engineering services and sound recording are the sectors with the lowest score relative to the average STRI across all countries (Figure 3). Accounting services, insurance, legal services and telecommunications are the sectors with the highest score relative to the average STRI across all countries.

Figure 3. Sectoral breakdown - The least and most restricted sectors in Indonesia

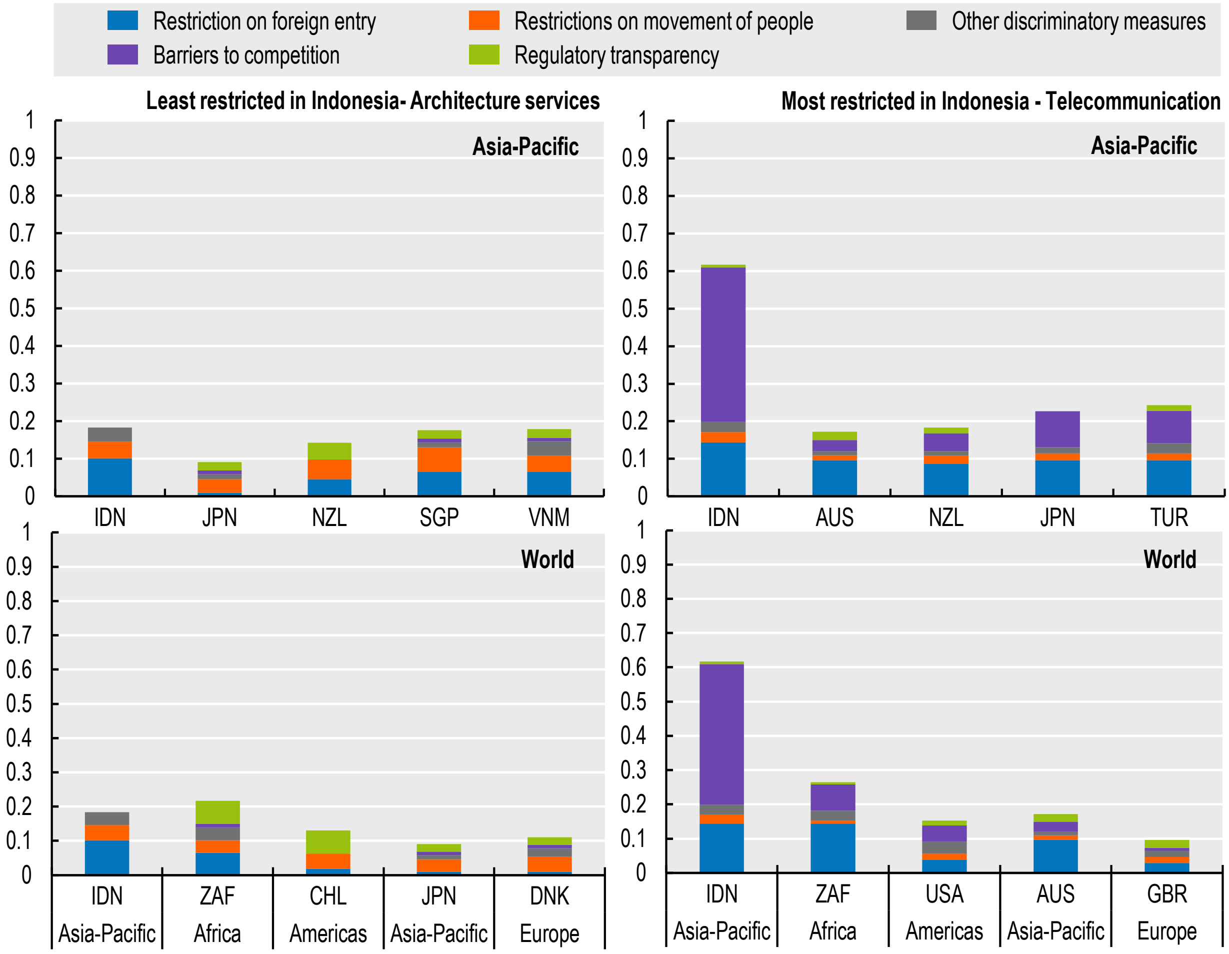


Note: Selection was made based on how far the sectors' score were from the world average score, as a percentage difference i.e. $(STRI_{country,\ sector} - STRI_{world\ average,\ sector}) / STRI_{world\ average,\ sector}$
Source: OECD (2022). STRI database.

Architecture services are the least restricted in Indonesia compared to the sample average. Relatively low barriers in the policy area of regulatory transparency have had an impact compared to other countries. One of the policies that contributed to keep the score relatively low is that there is a maximum time allowed to the regulator for decisions on applications for licenses. Moreover, while the cost to obtain a business visa slightly increased in 2022, it remains relatively low compared to other countries in the region. The low score is also affected by changes introduced in 2021 that lifted foreign equity limits in the sector. However, the composition of the scores indicates that barriers to foreign entry and barriers to the movement of people remain relatively high compared to some regional peers. This is mostly due to economy-wide measures.

Telecommunications are the most restricted services sector in Indonesia in comparison to the sample average. Barriers to competition are significant compared to best performers mainly due to the presence of state-controlled enterprises in the sector (Figure 4).

Figure 4. Indonesia compared to Asia-Pacific and World's best performers



Source: OECD (2022). STRI database.

Recent policy changes

Presidential Regulation No. 10 of 2021 took effect in March 2021 setting out important new regulation on foreign investment in Indonesia and replacing the previous Presidential Regulation No. 44 of 2016 that introduced a negative list for investment regulation. The new positive investment list introduced by Presidential Regulation No. 10 of 2021 has been updated through Presidential Decree 49/2021.

The new investment Regulation was one of the implementing measures introduced as a result of the 2020 Law No. 11, the Omnibus Law on Job Creation, which aimed to improve the conditions for foreign investment.

More information

» Access all country notes, sector notes, and interactive STRI tools at http://oe.cd/stri

» Read more about services trade policies and their impacts in Services Trade Policies and the Global Economy

» Contact the OECD Trade and Agriculture Directorate with your questions at stri.contact@oecd.org

» More information about measuring the regulatory environment for services trade in the APEC region: https://apecservicesindex.org/