

OECD Services Trade Restrictiveness Index (STRI)

INDONESIA – 2020

Key findings

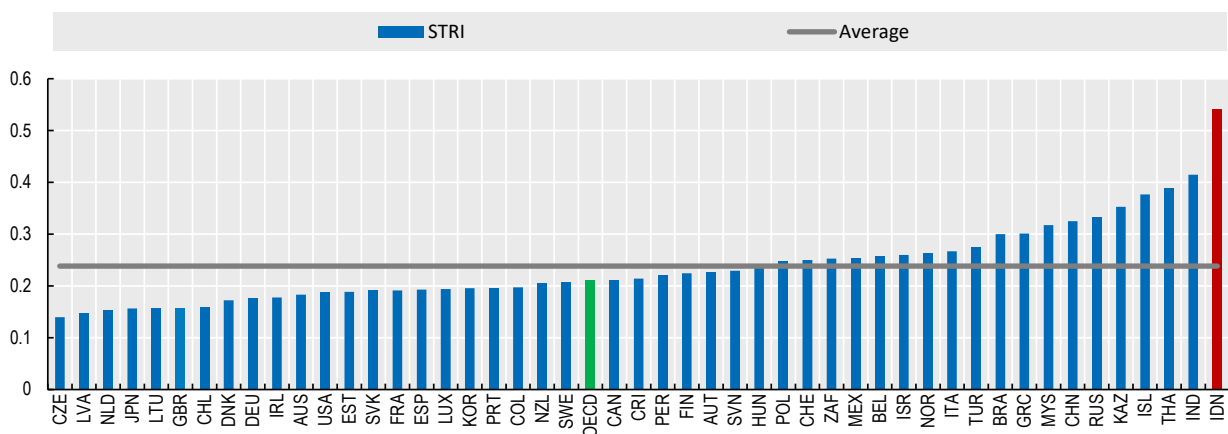
- The 2020 STRI is in Indonesia higher than in all countries for which the indicator is available, reflecting essentially stringent restrictions on foreign entry and to a lesser extent relatively high barriers to competition, especially in the legal services and distribution.
- The pace of reforms has slowed in the past few years. In 2020, the country has continued to liberalise a few sectors, but regulations have been made more stringent in logistics sectors and air transport partly reversing past liberalisation reforms in those sectors. Overall, the indicator points to a slightly less restrictive environment than in 2019.
- Despite some liberalisation, restrictions are particularly prevalent in the distribution sector, telecommunication, legal services and insurance, with more restrictive foreign entry rules than in regional peers.

Recommendation

- Innovation and adoption of technology relies on access to knowledge and to the networks, people, goods and services that carry the knowledge around the world. In this context, Indonesia could benefit from more open markets for services trade.

The 2020 STRI of Indonesia is higher than in other countries in the STRI sample (Figure 1). It has slightly decreased compared to 2019.

Figure 1. Average STRI across countries, 2020



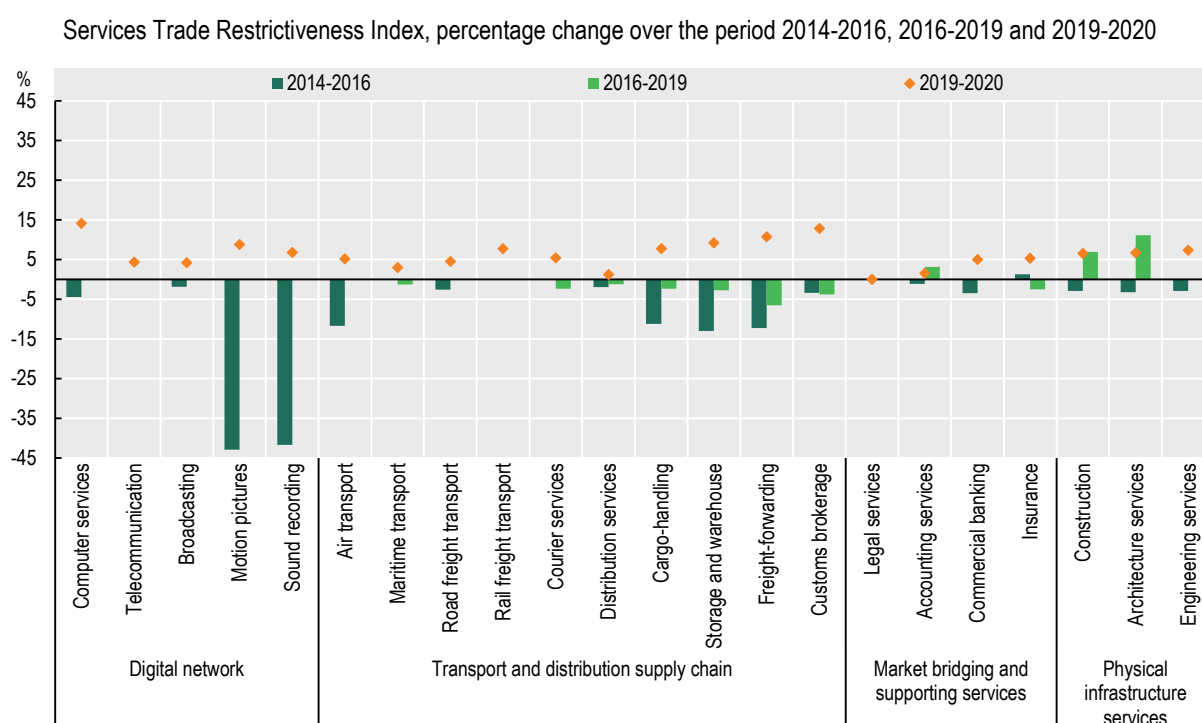
Note: The STRI indices take values between zero and one, one being the most restrictive. The STRI database records measures on a Most Favoured Nations basis. Air transport and road freight cover only commercial establishment (with accompanying movement of people). The indices are based on laws and regulations in force on 31 October 2020. The STRI regulatory database covers the 37 OECD countries, Brazil, China, Costa Rica, India, Indonesia, Kazakhstan, Malaysia, Peru, Russia, South Africa, and Thailand.

Source: OECD STRI and TiVA databases (2020).

The 2020 index is in large part due to 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 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. There is at least one major state-owned enterprise in all sectors except for computer services, motion pictures and sound recording. Indonesia applies labour market tests on all categories of service providers covered in the STRI and the duration of stay is limited.

Prior to 2016, Indonesia introduced significant liberalisation reforms, notably in motion picture and sound recording and in some logistics sectors (Figure 2). Since then the pace of reforms has slowed markedly and was even reversed in a few sectors, for instance in architecture services and construction. In 2020, the country has continued to liberalise maritime and road freight transport and distribution, at a slow pace, but regulations were tightened in most logistics sectors and in air transportation.

Figure 2. Evolution of STRI scores by sector in Indonesia

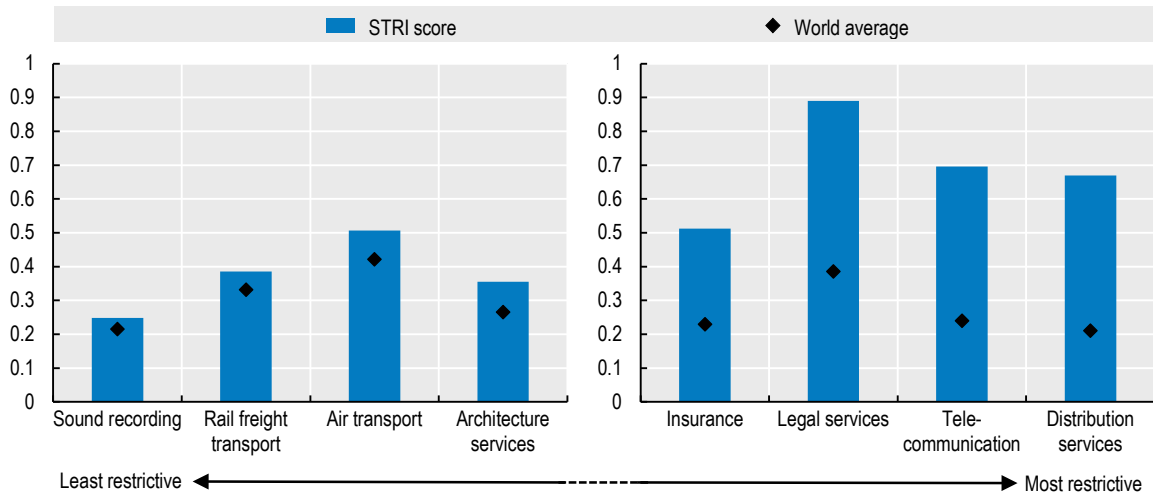


Source: OECD STRI database (2020).

Sound recording, rail freight transport, air transport and architecture services are the sectors with the lowest score relative to the average STRI across all countries (Figure 3). Insurance, legal services, telecommunication and distribution services are the sectors with the highest score relative to the average STRI across all countries.

Rail freight transport is the least restricted services sector in Indonesia compared to Asia and the other best performers elsewhere while distribution services are the most restricted (Figure 4). Restrictions on foreign entry and, to a lower extent, barriers to competition contributed the most to restrictiveness in this sector.

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

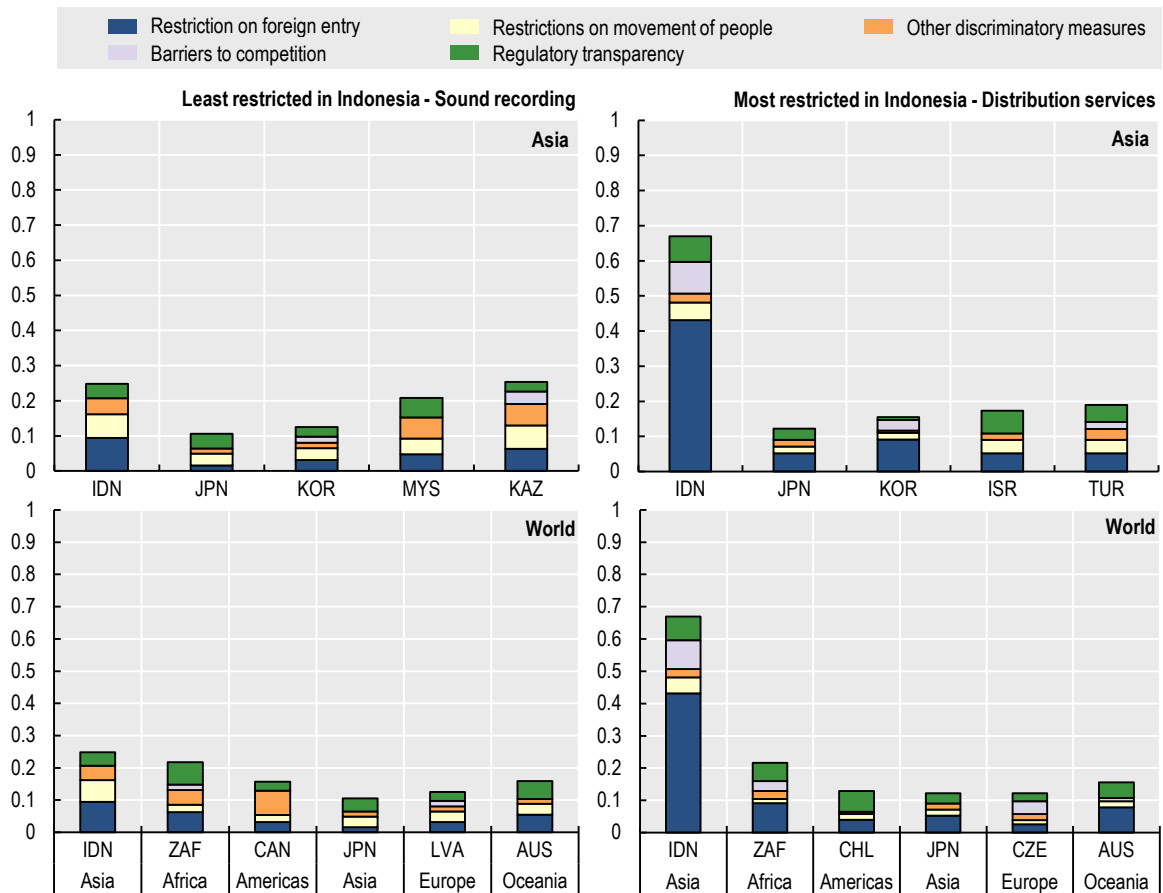


Note: Selection was made based on how far the sectors' score were from the world average score, as a percentage difference

i.e. $(STRI_{country, sector} - STRI_{world average, sector}) / STRI_{world average, sector}$

Source: OECD STRI database (2020).

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

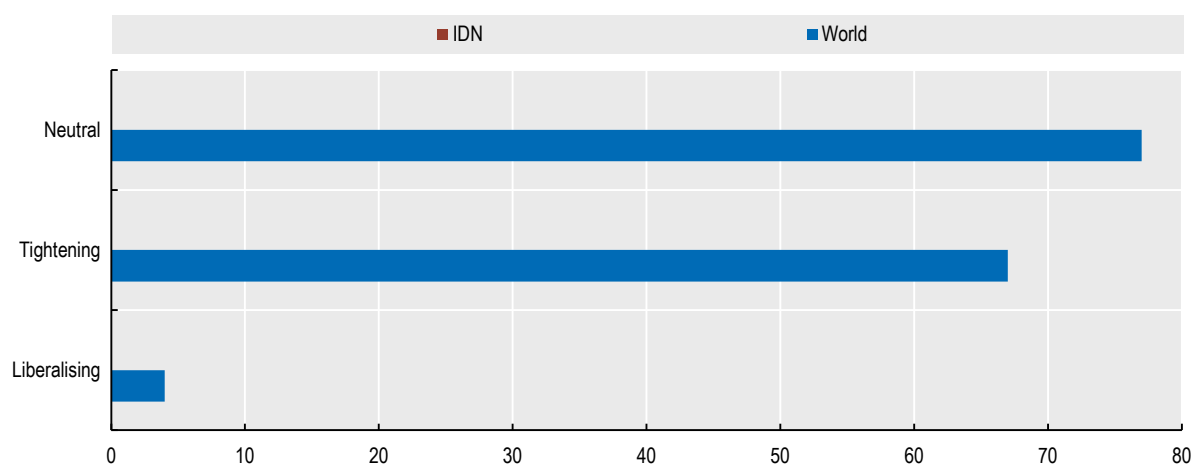


Source: OECD STRI database (2020).

Special focus: Impact of COVID-19-related measures on the stringency of services regulations

While Indonesia has adopted several measures in response to the COVID-19 crisis, these were either temporary in nature or not directly relevant for the measures considered in the STRI database. This contrasts with a number of countries, which have tightened their investment screening process or their visa requirements (Figure 5).

Figure 5. COVID-19 related measures in Indonesia and in the world



Source: OECD STRI database (2020).

Key reforms

In 2020, restrictions on foreign entry were increased in logistics, insurance and air transport. In 2017, more favourable conditions for the release of imported goods before determination and payment of duties have 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. As of 2018, the foreign equity limit in accounting firms has been lowered to 20%, from previously 49%. The law also requires half of all partners to be licensed accountants. Furthermore, technical specifications should now use local products and follow national standards subject to availability in the construction sector, which affects the conditions of competition in public procurement in favour of local providers.

More information

- » Access all country and sector notes, and interactive STRI tools on the OECD website at <http://oe.cd/stri>
- » Read more about services trade policies and their impact in [Services Trade Policies and the Global Economy](#)
- » Contact the OECD Trade and Agriculture Directorate with your questions at stri.contact@oecd.org