An Initial Step Towards Efficiency of Services Sectors in Indonesia: from a Negotiator Point of View

DIRJEN KERJA SAMA PERDAGANGAN INTERNASIONAL
KEMENTERIAN PERDAGANGAN

JAKARTA, 20 OCTOBER 2015
Trade in Services in the Midst of Global Challenges....

Internal condition:
- Lack of services suppliers that provide a good quality of services
- Lack of services suppliers that provide an efficient services
- Services sectors development needs a huge capital that can’t be fulfilled by domestic

External condition:
- Proliferation of RTAs/FTAs as a respond of the stagnancy of WTO/Doha negotiation
- Issues of global value chains embodied in RTAs provision
- Other new issues such as e-Commerce, Competition, IPR
- Positive list vs negative list approach
- Demand to focus not only to market access limitation but also national treatment limitation

Way forward
- Policy recommendatio to create a conducive, certain and predictable business climate
- An adjustable and offensive negotiation strategy

A competitive services sectors which supports the Indonesia economic growth
- Higher contribution of services to economic growth, employment, and export performance
- Higher performance of domestic services suppliers in international market
- Higher ability of domestic services suppliers in providing a good quality and efficient services
- Higher engagement in global value chains
The Ministry of Trade of the Republic of Indonesia

SERVICES SECTORS IN THE MID-TERM NATIONAL DEVELOPMENT PLANNING (2015-2019): DEVELOPMENT STRATEGY IN SUPPORTING FOREIGN TRADE POLICY

Utilizing the services commitments in international trade agreement

Participation in services global value chain in order to enhance the competitiveness of services sectors

Enhancing coordination among respective Ministries in developing and implementing services sectors roadmap

Increasing the quality of priority services sectors:
1. Services as an export booster: Transportation services, tourism services and construction services
2. Services as a facilitator of trade and economic productivity: logistic services, distribution services and financial services

Increasing the quality of trade in services statistics to provide an accurate data and information

The increasing quantity and quality of priority services sectors:

The Ministry of Trade of the Republic of Indonesia
The challenge is to move up the value chain into higher value-added tasks while deciding which activity to outsource / offshore.

Source: Business Week Online. May 16, 2005
STRI dan Water in the GATS

Average for 12 sectors

Level of trade restrictiveness permitted by the GATS (bound level)

Actual level of trade restrictiveness (STRI)

Note: The sectors included in the graph are three audio-visual services sectors, the four professional services, construction, computer services, distribution services, and rail and road transport services.
Figure 3. STRI: Telecoms

STRI by sector and policy area

Note: The STRI indices take values between 0 and 1. They are calculated on the basis of the STRI regulatory database which contains information on regulation for the 34 OECD Members, Brazil, China, India, Indonesia, Russia and South Africa. The STRI database records measures applying on a most-favoured-nation basis; preferential trade agreements are not taken into account. Air transport and road freight cover only commercial establishment (with accompanying movement of people).
STRI by sector and policy area

Note: The STRI indices take values between 0 and 1. They are calculated on the basis of the STRI regulatory database which contains information on regulation for the 34 OECD Members, Brazil, China, India, Indonesia, Russia and South Africa. The STRI database records measures applying on a most-favoured-nation basis; preferential trade agreements are not taken into account. Air transport and road freight cover only commercial establishment (with accompanying movement of people).
INDONESIA’S SERVICES COMMITMENT IN INTERNATIONAL TRADE AGREEMENT

Figure 1. Growth in APEC FTAs

Source: PSU, APEC in Charts 2014.

Figure 2. Number of FTAs and FTA partners

Note: Data is as of September 2014.
Source: APEC in Charts 2014 and APEC Policy Support Unit computation.
INDONESIA’S SERVICES COMMITMENT IN INTERNATIONAL TRADE AGREEMENT

• Services commitments consist of mode 1, 2, 3 and 4 commitment.
• In some cases the commitment of each mode of supply may be linked. For example: commitment in mode 1 can be linked with mode 3 in terms of requiring commercial presence or representative office for a services supplier to provide services through mode 1, so-called “local presence”
• Another example would be commitment in mode 3 that can be linked with mode 4 commitment. In this commitment natural persons who is allowed to enter one country’s market, is an employee of a company which has a commercial presence in that country. The category of such natural persons, named “Intra corporate transferee/ICT”
• Mode 1 and 3 are considered to be economically most important, accounting for 80-90 percent of total trade in services.
• Mode 4 also plays a critical role as it links to the flow of services supply through the other modes, and contributes to economic activity

INDONESIA’S SERVICES COMMITMENT IN INTERNATIONAL TRADE AGREEMENT

Issue

• Relation between mode 3 (commercial presence and investment)
• Different regime in liberalizing trade in services and investment
• Trade in services: positive list approach, Investment: negative list approach
• However, domestically, investment regime also applies to services sectors in committing an autonomous liberalization *(Perpres No. 39/2014, includes all sectors)*
• The negative list approach is more on the perspective of inviting investors in establishing company while trade in services has a broader perspective yet having natural persons/professionals in supplying services
• Indonesia has a defensive strategy in trade in services negotiations
• Negotiators are facing problem in determining country’s position that is mostly influenced by unwillingness of line Ministries in making commitment as well as requesting market access of services sectors.
• It is understand that common mindset about trade agreement (FTA) is that it will “threat” domestic suppliers competitiveness as there will be participation of foreign suppliers in domestic market
• This condition results in a less level of commitment in international trade compared to existing regulation (policy space/water)
• Many countries argue that policy space reflects an uncertainty and unpredictable condition for services suppliers/foreign investors in supplying services
SERVICES SECTORS’ EXISTING MEASURES AND INTERNATIONAL TRADE COMMITMENT

- When Indonesia still facing an old mindset of liberalization, the urgency of catching up the new issues in negotiation and liberalization demand is getting higher.
- In the AFAS negotiation, ASEAN member states are obliged to fulfill threshold in finalizing each package of commitment. In AFAS 10 negotiation, Indonesia facing problems in fulfilling the obligation.
- In priority integration sectors (PIS), where it is obliged to committed 70% FEP, it is uneasy to convince respective Ministries to make such commitment, although some sub sectors/sectors are not regulated or openly regulated (high level of FEP in DNI).
Way Forward

- Noted policy suggestion based on research and discussion on energy services, distribution services, ICT services and logistic services

1: On the issue of political will in prioritizing services sectors development: it is well understand that the importance of services is captured in the inclusion of trade in services as one of development strategy in supporting foreign trade (as mentioned in slide 2). The RPJMN itself has also tasked some activities, one of which is to formulating and implementing “roadmap of services sectors”. Roadmap of services sectors would be a comprehensive guidance for all services stakeholders in developing services sectors not only in the view to fulfill domestic needs but also to increase competitiveness of domestic services suppliers. The competitive services sectors would be an export potential. The next work would be on how to “downstream” the tasks into real strategy.

2: On the issue of enhancing coordination and accelerate implementation: there is major concern on the development of services sectors policy which are inconsistent, overlap and contained high political interest. The regulation of services sectors sometimes not consider the role of that sector to the other sectors (embodied and embedded services). The other concern would be lack of monitoring and enforcement of the regulations.
Way Forward

• **3:** on the issue of **reviewing investment negative list/DNI**: it would need a high commitment and effort from all respective Ministries and government institutions. There is concern on the consideration of one policy, for example the fact that computer related services is not included in DNI, and we can simply say that it is open 100% for foreign investors. However when it is requested to open 100% for an FTA commitments, the answer is not necessarily yes. This fact shows that there is a room of unpredictability for unregulated sectors.

• **4:** on the issue of **determining minimum labor wage**: it needs a strong commitments of parties related in determining labor wage. The higher consideration of productivity, skill, competency etc in determining labor wage. The highlight issue would be on the ability to be objective and see the needs of labor, company as well as country as it is realized that it will influence the conduciveness of investment climate in Indonesia.
The main goal to develop services sectors is to achieve a competitive and efficient services sectors, that can provide a good quality of services to domestic consumers as well as international market. If one of the strategy in achieving the goal is to engage in international trade agreement, which requests country to facilitate foreign services suppliers through reducing or eliminating market access barriers, is there any guarantee that it would necessarily creating a good quality of services? How about the discrimination in national treatment, i.e technical standard, licensing etc?
LAMPIRAN
Figure 11. Manufacturing exports and services restrictiveness

a. Accounting and auditing services

b. Computer services

c. Engineering services

d. Legal services

e. Air transport

f. Maritime transport
k. Commercial banking

l. Insurance

m. Telecommunication

n. Construction

Note: All manufacturing exports per capita figures refer to 2009 figures.
Source: APEC Policy Support Unit computation based on OECD-WTO TIVA, OECD Services Trade Restrictiveness Index (STRI) and World Bank World Development Indicators databases.
Thank you