Business Sector Preparedness in Facing AEC 2015 on Services and Labor

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How Important is ASEAN for Indonesia: Export Perspective
How Important is ASEAN for Indonesia: Import Perspective

![Graph showing ASEAN importance over time](image)
Main Sources of Indonesia’s FDI

- ASEAN: $5495.89 Billion
- Japan: $4712.89 Billion
- United States: $2435.75 Billion
- European Union: $2414.02 Billion
- South Korea: $2205.48 Billion
- Africa: $801.73 Billion
- Taiwan: $402.64 Billion
- Hong Kong: $376.24 Billion
- China: $296.88 Billion
- Brazil: $275.73 Billion
- Australia: $233.53 Billion
- Other Europe: $152.54 Billion

Rest of the World: $8,141.17 Billion

FDI yang berasal dari negara-negara ASEAN+6 di tahun 2013 mencapai USD 13.8 Billion atau 48.2% dari total FDI, sedangkan dari EU dan US mencapai USD 4.8 Billion atau 16.8% total FDI.

Source: BKPM (2014)
Value of FDI
ASEAN

Chart 1
Value of annual foreign direct investment inflows (US$ millions)

Source: UNCTAD
# Key Economic Data

## ASEAN

<table>
<thead>
<tr>
<th>Country</th>
<th>Size of the economy (US$ billions)</th>
<th>Population (millions)</th>
<th>GDP per capita (US$)</th>
<th>Trend rate of annual economic growth (real GDP) 2013 to 2018 (%)</th>
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</thead>
<tbody>
<tr>
<td>ASEAN</td>
<td>2,397.54</td>
<td>625.31</td>
<td>3,770</td>
<td>5.64</td>
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<tr>
<td>Brunei</td>
<td>16.18</td>
<td>0.42</td>
<td>38,760</td>
<td>3.10</td>
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<td>Cambodia</td>
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<td>15.14</td>
<td>1,070</td>
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<tr>
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<td>Laos</td>
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<td>Thailand</td>
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<td>67.01</td>
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<td>Vietnam</td>
<td>170.55</td>
<td>89.71</td>
<td>1,901</td>
<td>6.38</td>
</tr>
</tbody>
</table>

Source: Economist Intelligence Unit; data for 2013
Blue Print - AEC

- Single market and production base
- Competitive economic region
- Integration into the global economy
- Equitable economic development

Motto: One Vision, One Identity, One Community (Est. 08 Feb 1967)
ASEAN ECONOMIC COMMUNITY

Strategic Schedule

SINGLE MARKET AND PRODUCTION BASE
- Free flow of goods
- Free flow of services
- Free flow of investment
- Freer flow of capital
- Free flow of skilled labor
- Priority Integration Sectors
- Food, Agriculture and Forestry

COMPETITIVE ECONOMIC REGION
- Competition policy
- Consumer Protection
- Intellectual Property Rights
- Infrastructure development
- Taxation
- e-Commerce

EQUITABLE ECONOMIC DEVELOPMENT
- SME development
- Initiative for ASEAN Integration (IAI)

Integration into the Global Economy
- Coherent Approach towards External Economic Relations
- Enhanced participation in global supply networks
Blue Print – AEC...3
- Cross Border Supply (i.e. cross border architect and engineering supplies (direct contact, internet based, etc));
- Consumption Abroad (i.e. hospitals in Singapore and Malaysia cater to Indonesian patients);
- Commercial Presence (i.e. Samsung has its plant factory in Indonesia);
- Presence of Natural Persons (i.e. foreign workers in Indonesia).
| Mode 3. | Commercial presence of the foreign service provider(s) may be in the form of joint venture and/or representative office, unless mentioned otherwise. Joint Venture should meet the following requirements:  
1. should be in the form of Limited Liability Enterprise (PT)  
2) not more than 49% of the capital share of the Limited Liability Enterprise (PT), may be owned by foreign partner(s) |
| Mode 4. | Subject to Indonesian Labour and Immigration Law and Regulations, only directors, managers and technical experts/advisors, unless mentioned otherwise, are allowed with a maximum stay of two years subject to one year extension. Manager and technical experts (intra corporate transfer) are allowed based on economic need test. |
Services are the main driver of Indonesia’s economic growth and job creation.

Services have been instrumental in reducing poverty in Indonesia over the last decade.

Services play an important role in enabling the growth and transformation of the economy through critical inter-sectoral linkages.

Services restrictions are holding back growth and reducing competitiveness.

Removing services restrictions is a proven strategy to boost growth in Indonesia.

More open services trade and investment will lead to efficient services but the benefits are not automatic.

Efficient and high quality services will boost exports of services creating a virtuous cycle.
• Services are the **largest contributor** of value added economy

• Direct contribution of services to GDP growth has increased over time – from **52.66%** in 2002 to **66.33%** in 2012 (BPS 2013)

• The contribution of services in Indonesian trade is much greater when embodied services are recognized

*Source: BPS 2013*
Between 1984-2008 the growth of Services Sector manifested into about 80% of rural poverty reduction and 86% of urban poverty. Thus, services sector supports:

1. 8 out of 10 people who are successful to move out from poverty line in the rural level
2. 9 out of 10 people who are successful to move out from poverty line in the urban level

Source: SMERU 2010
Services are the Biggest Employment Provider

- Services employment share to other sector has increased over time – from 39% in 2000 to 45% in 2010
- During 2000-2010, services has contributed highest provider in creating new employment
Services Role in Other Sectors

- About 34% of services sector production is intermediate demand from other production sectors.
- Only 66% final product from services sectors is directly consumed by end consumers.
- Services sector absorb 23% services sector production to be utilized by their own activities, whilst manufacturing sector is utilizing an average of 10% output from services sector.
- As an intermediate input (i.e. goods and services procured by the firm), the share of services is **31.55 percent**. As a share of total inputs (i.e. intermediate plus primary inputs such as the labour and capital directly employed by the firm), services account for 16 percent.

Sources: (AIPEG 2013)

Total Demand to Services
Ability of services firms to take a regional approach to their business is much harder than in the manufacturing sector due to the nature of a service business, whereby human contact is an important part of the delivery.
Perception of Private Sector
The ASEAN Business Advisory Council survey found **41% of respondents have limited or no knowledge** of ASEAN policy initiatives;

ILO survey also found only **46% of respondents indicated they fully understood the impact of AEC on their enterprises**;

![Figure 4. Understanding of the impact the AEC will have on businesses](image)

Source: ILO, Survey of ASEAN employers on skills and competitiveness (2013).
Deadlines for implementing common industry regulations—the AEC is behind schedule;

But, while the roll-out may be slow, 60% of business leaders remain convinced that the direction of change is positive.
Interestingly, non-ASEAN companies are more likely to have a regional strategy (81%) than local firms (55%).
Opportunity of AEC

- AEC holds the promise of major benefits for companies operating in the region to **reap greater economies of scale** and **improve efficiency** by harmonizing their operations across a wider area. Possibilities for **greater fragmentation of their supply chains** where they can break up their activities into distinct parts and put them into places with the most appropriate costs and skills.

- Having a single market will also help to **reduce complexity**, as companies will be able to **standardize products, services, business models and marketing plans**. Despite the huge diversity across ASEAN, their customers are becoming more similar and can be served with a more unified approach. In some cases, companies think that the opportunities to harmonize and standardize their front office client-facing activities in ASEAN remain limited. However, they feel that **back-office and sales support functions** (such as finance, HR and planning) can be run on a regional basis.

- As capital markets become more joined-up, companies will be able to **access deeper pools of liquidity for raising money**. As labor markets become more integrated, companies will find it **easier to recruit, retain and manage their workforce on a regional basis**.

- Given falling trade barriers and deepening harmonization of industry standards across ASEAN.
Lack of joined-up regulations. In banking for example, the credit card business is best run at scale. The more customers that a bank has, the more efficient the business becomes, not only by having centralized back office processing, but also through better data analytics around a bigger pool of customers, which in turn improves risk management. Yet, in ASEAN, banks are largely prevented from running their credit card businesses across borders. Customer data is required to be kept in-country rather than processed in neighboring places.

One of the greatest impediments to going regional is “the need to be close to customers”. But companies also ranked issues such as un-harmonized industry regulations and inconsistent rules around professional services qualifications as being equally troublesome.

If ASEAN countries can tackle these different rules then the opportunities for the services sector to achieve scale will rise. But other factors could be equally important. Technology has huge potential to help services firms implement a more regional approach.
Barriers in ASEAN: Regulatory Tangles...2

Chart 22
How important are these barriers to adopting a regional approach to providing services across ASEAN?
(Scale of 0 = no barrier to 4 = significant barrier)

- The need to be close to customers
- Different business practices between countries
- Varying industry regulations across ASEAN countries
- Varying regulations governing professional qualifications
- Different levels of market access to foreign firms
- Varying quality of IT and communications infrastructure
- Language barriers
- Different tastes and preferences of local markets
- Data protection rules

Source: Economist Corporate Network
More and more companies are setting up pan-regional management teams with an ASEAN-focused strategy;
Companies are rapidly building a pan-regional sales platform that reaches into every corner of ASEAN;
The ASEAN bloc remains deeply diverse;
But the region’s 10 economies are increasingly integrating with each other;
Customers across the region are becoming more similar;
And the products and services that companies offer across ASEAN are becoming more standardized.
Tertiary enrolment remains very low in some ASEAN countries, while over 50% of employers surveyed agreed that University graduates both added value to the workplace.
Employers in ASEAN include Indonesia believe the **greatest need are for management** and leadership training followed by vocational and technical skill and customer services.

**Figure 8. Training typologies needed**

Notes: Figures for ASEAN give the un-weighted average of all the survey responses; shares bigger than 5 per cent are labelled in the diagram.

Source: ILO, Survey of ASEAN employers on skills and competitiveness (2013).
Free-flow of skilled workers promoted under MRA may serve as a partial solution to the skill shortage.

ILO survey indicates that enterprises are most likely (90%) to increase investment in skills and training for workers to make them more productive.
The number of intra-ASEAN migrants has increased from some 1.5 million in 1990 to some 6.6 million today and expected to intensify after 2015 and beyond; International migrants make up almost 50% of population in Brunei Darussalam and Singapore and some 6-8% in Thailand and Malaysia;

In contrast, international migrant stocks < 1 every 200 people in the other ASEAN member states (Vietnam is the lowest 1 in 1,700 and Indonesia is the second lowest)
ILO forecasts between 2015-2030 ASEAN's total labor force will grow by **59.3 million workers**, half of these coming from Indonesia.

Indonesia demographic dividend will reach its climax in 2020-2030 with the dependency of non-productive age (**100 productive age vs 46 non productive age population**) ILO survey reports suggests that mobility in ASEAN **may not fluctuate once AEC integration takes effect**, since workers may not have the appropriate skills or languages yet to compete.

![Source: ILO, ILOSTAT database, based on TRENDS econometric models (2013).](image)
The AEC Blueprint designates MRA as the main mechanism after 2015, equivalent skills will be recognized across ASEAN.

MRA concluded have covered service providers under 8 professional occupations: accounting, architecture, dentistry, engineering, medical practices, nursing, surveying, tourism.
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- **MRA status is mixed.** Progress is much more advanced for architecture and engineering, while the MRAs help to provide a more level playing field across the region for skilled labor, many local regulations still stand in the way. For example, nurses in Thailand are required to speak Thai in order to work there. In Malaysia, foreign engineers can only practice in the country if they have a minimum of 10 years of experience, are sponsored by a local Malaysian company, and it can be proven that no local engineers can perform the role.

- **Lack of harmonization for professional qualifications** is still a major impediment to business. Only 2.8% say that the rules governing qualifications in their industry across ASEAN are highly uniform, while 38% describe them as not at all uniform. Just over a third of companies state that the situation is improving.

- One of the biggest impacts of the AEC will be **greater mobility of people.** Example: excellent technical managers in Thailand, but struggle to find similar talent in Indonesia.

- There are **cultural issues** too. A Thai engineer might not want to go and work in Indonesia.
Mutual Recognition Arrangement

Chart 23
How uniform across ASEAN are standards and regulations governing professional qualifications for staff in your industry? (% of respondents)

- Not at all uniform: 38.0%
- Somewhat uniform but not improving: 22.5%
- Somewhat uniform and improving: 36.6%
- Highly uniform: 2.8%

Source: Economist Corporate Network
recommendations
• National Industry Development (i.e. SNI – National Standard Indonesia which is commensurate with global standard, Indonesian National Single Window implementation and adoption by relevant Ministries, etc);

• Infrastructure Development (i.e. implementation of policy which supports bankable PPP, effective budget allocation to implement the national logistic system: alignment for strategic ports, airports, trains and ships connectivity);

• Logistics Development (i.e. National Policy on Logistics, CATS – Custom Advance Trade System), reduction of dwelling time, INSW implementation, On-line TPS in Tj Priok, KPPT – Integrated Custom Service Area such as Cikarang, Auto gate system, i-care INALOG, etc);

• Investment Development (i.e. Implementation of OSS Center, enhancement of DNI, harmonization of various laws and regulations, effective tax allowances etc);

• Trade Development (i.e. e-SKA implementation, drafting of e-Commerce Government Regulations, bilateral and regional FTA discussions).
The integration of Inaport and Inatrade on Indonesia’s National Single Window System should be accelerated to allow for the flow of goods and documents to be simultaneously processed, thereby reducing costs in ports.

To increase connectivity between regions, and given Indonesia’s diverse geographical terrains, there should be stronger commitment to develop a multimodal services.

Local governments, which have relatively higher commitment to the development of a logistic sector in their regions, should be recognized as champions for the development of the sector.

Given the multi-sector nature of the logistic sector, a focal point needs to be appointed to coordinate various institutions responsible for the sector, including local governments. The appointment of any focal point or coordinating body should have a strong legal framework such as Law or Perpres with clear matrix of roles and responsibility for each related ministries and bodies.
Review on the negative list of investment for the investment in logistics sector. The 2014 DNI regulates lower foreign equity limitation for some activities in logistics sectors, e.g. multimodal logistic services and cold storage facility.

The development of integrated industrial zones in various parts of the archipelago should be accelerated. The planning and implementation of industrial zones development should inherently include the planning and implementation of integrated logistic system. Ensuring the already-appointed Special Economic Zones to have integrated logistic system can be the start.

Policy should be mainstreamed and increasingly integrated to the global value chains (GVCs).

The development of global value chains requires active transportation both for imports and export that will reduce trade costs between countries.
Solving challenges in logistic sector. Many challenges in distribution sector are challenges in the logistic sector. Moreover, underdevelopment of distribution sector in less-developed regions in Indonesia may not caused by lack of demand in the regions, rather due to lack of transportation and logistics services available in order to create trade.

Regulations affecting distribution sector are widely spread in different ministries and local government regulations. These regulations may aim to regulate the production part of the industry, but end up regulating the distribution process of the industry. The regulatory check-up should complement the Ministry of Trade’s efforts in concluding implementing regulations that are part of the commitment of the new Trade Law.

Depoliticizing Minimum Wage. Government must accelerate efforts to create guideline in depoliticizing minimum wage. The idea of the guideline is to link minimum wage with productivity. Hence, having the guidelines can promote predictability and fairness in the decision of minimum wage rate, without hurting business climate.

Opportunities from E-Commerce. Technology is one of the pathways for services competitiveness in the region. Given the geographical barriers, SMEs face barriers in accessing a wider market. In this regards, e-commerce may become one of the solutions for intra-trade in Indonesia and inta-trade in ASEAN. Hence, assisting the making of blueprint of e-commerce becomes not only important because e-commerce is part of distribution channel, but also because e-commerce can be key aspect in developing the sector to be more competitive and inclusive.
World Bank and BPS have predicted that Indonesia will suffer a shortage of 10 million skilled workers by 2025.

To achieve a modest target of 6 percent annual GDP growth, Indonesia will require around 50 million skilled workers.
Input for Professional Certifications

Kebutuhan dan Pemenuhan Sarjana Teknik

200.000
175.000
150.000
125.000
100.000
75.000
50.000
25.000
ST
25.000
50.000
75.000
100.000
125.000
150.000
175.000
200.000
25.000
50.000
75.000
100.000
125.000
150.000
175.000
200.000


1997: 21.000 /thn
2004: 45.000 /thn
2010: 57.000 /thn
2015-2020: 90.500 /thn
2020-2025: 139.500 /thn
2025-2030: 189.000 /thn

120.000 /thn?
174.000 /thn?
1. **Inovasi Teknologi** membangun kemandirian dan nilai tambah industri pendukung infrastruktur, menggantikan produk impor.

2. Pemerintah membangun litbang (R&D) melalui kerjasama Perti, Industri (ABG) serta memberikan insentif bagi perusahaan yg mengembangkan R & D

3. **Program sertifikasi Insinyur Profesional** untuk Sarjana teknik dan SDM Teknik non-ST

4. **Sosialisasi** meningkatkan minat pelajar SMA ke Perti teknik, ketepatan waktu studi dan agar tetap berprofesi di keinsinyuran.

5. **Peningkatan kapasitas Perti** dalam proses skripsi sesuai kebutuhan dan percepatan pembukaan prodi penyelenggaraan Program Profesi Insinyur (PPI)

6. **Program Diaspora Insinyur Indonesia** dengan mencontoh model Talentcorp Malaysia dengan memberikan insentif bagi para profesional yang kembali ke Indonesia (keringanan pajak, tempat tinggal bagi pasangan dan anak, dll.)

7. Melihat kembali **kebijakan pendidikan nasional** yang memberikan kesempatan lebih besar bagi pengembangan kualitas pendidikan di Indonesia.
• Indonesia Services Dialog has initiated some dialogs since 2010 to engage awareness. ISD received full support from MoT, APINDO, KADIN and CSIS that ISD is a tripartite body to facilitate a more structured dialogs to promote growth and greater efficiency of the Indonesian Services Sectors;

• Conduct a regulatory review of all enabling service sectors with the highest forward linkages and identifying discriminatory measures in business services, communication services and distribution services to provide regulatory input to RPJM 2015-2019;

• MRAs should be combined with other national policies aiming at facilitating high-skilled labor mobility;

• After mapping Strategic Value and Skilled Competitiveness in 8 MRA sectors, concrete actions to enhance quality, quantity, management and infrastructure must be collaboratively implemented and measured as part of RPJM 2015-2019;

• Raise the level of partnership with policy makers/regulators, business sectors and education/training providers to improve the relevance of curricula and strengthen apprenticeship system.
Thank you