INDONESIA – 2023

Key findings

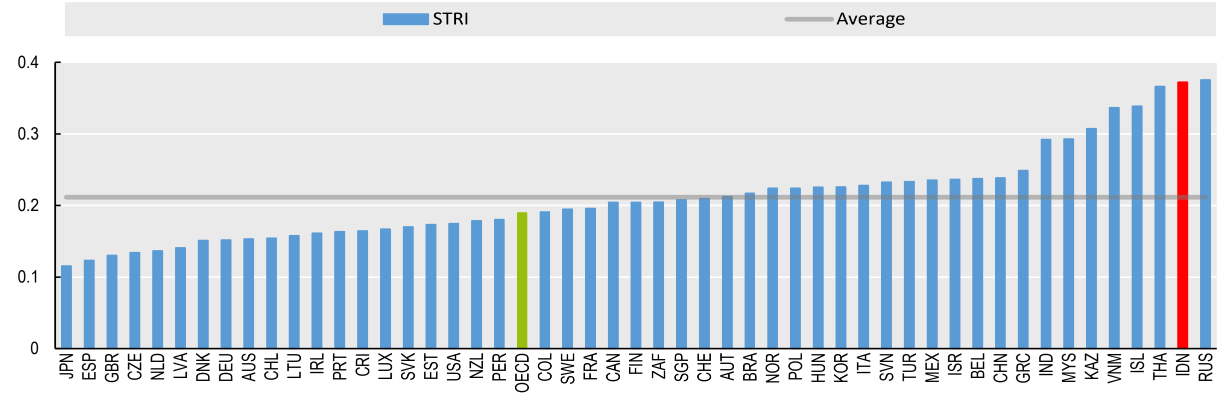
- The 2023 STRI for Indonesia is above the OECD average, and relatively high compared to other countries in the STRI sample, indicating stringent regulations on services trade across most sectors.
- The index has increased slightly compared to 2022. Relevant changes in 2023 include a new regulation on business undertakings in the e-commerce sector.
- 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

- Trade in services strengthens resilience across supply chains, facilitating environmental sustainability and promoting greater inclusiveness. To ensure the benefits of open markets and a rules-based international trading system, national and multilateral action is needed to lower barriers and reduce trade costs, promote greater regulatory interoperability, and facilitate the digital transformation of economies.

The 2023 STRI of Indonesia is above the OECD average, and high compared to other countries in the STRI sample (Figure 1).

Figure 1. Average STRI across countries, 2023[i]



OECD (2023). STRI and TiVA databases.

The 2023 STRI can be explained in large part by general regulations that apply to all STRI sectors. Certain management positions in corporations are reserved for Indonesian nationals, and commercial or local presence requirements exist in all sectors. Investment in all sectors is 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.

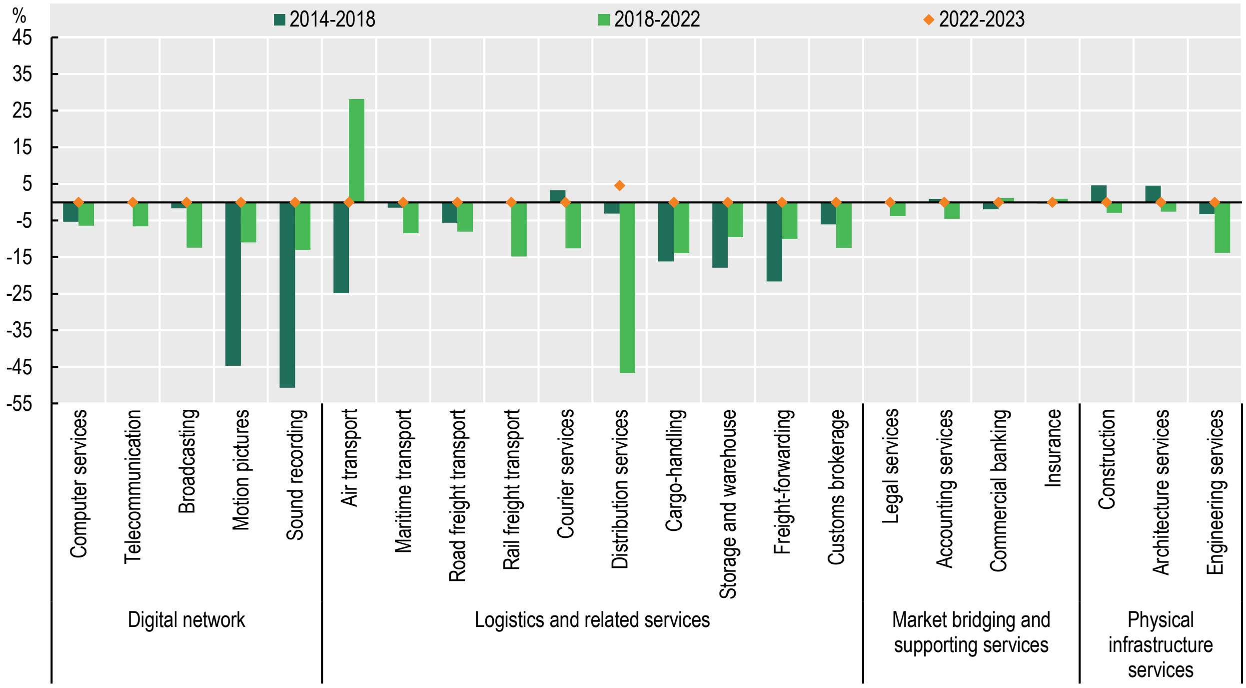
In 2016, Indonesia introduced significant liberalisation reforms and lowered barriers on foreign investment, notably in motion picture, sound recording and in some logistics sectors (Figure 2). In 2021, Presidential Regulation No. 10, subsequently updated by Presidential Decree 49/2021, introduced other 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.

Other important liberalisation reforms involved cross-border data flows. Since 2019, cross-border transfers of data in all sectors covered by the STRI but financial services (both commercial banking and insurance services) are not subject to approval on an ad-hoc or case-by-case basis. Similarly, no data must be stored locally anymore after 2019, with the exception of data of companies in the financial sectors.

Finally, Figure 2 highlights a slight increase in the STRI for distribution services in 2023 due to new restrictions on e-commerce operations.

Figure 2. Evolution of STRI indices by sector in Indonesia

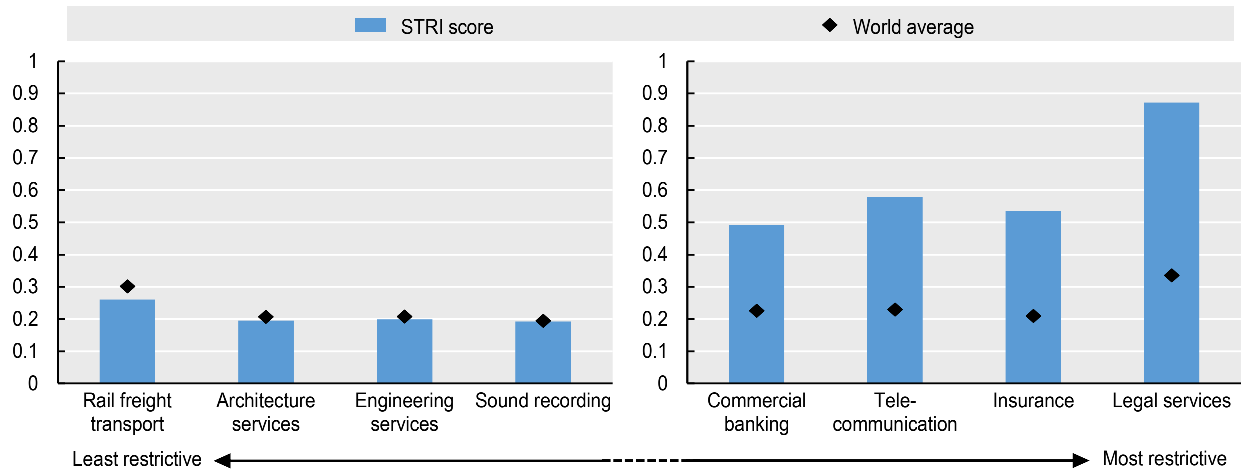
Services Trade Restrictiveness Index, percentage change over the period 2014-2018, 2018-2022 and 2022-2023



OECD (2023). STRI database.

Figure 3 ranks Indonesia's sectors relative to the respective sector's world average. Rail freight transport, architecture services, engineering services and sound recording are the sectors with the relatively lowest scores. Conversely, commercial banking, telecommunications, insurance and legal services are the sectors with the relatively highest scores.

Figure 3. Sectoral breakdown - The least and most restricted sectors in Indonesia compared to world average

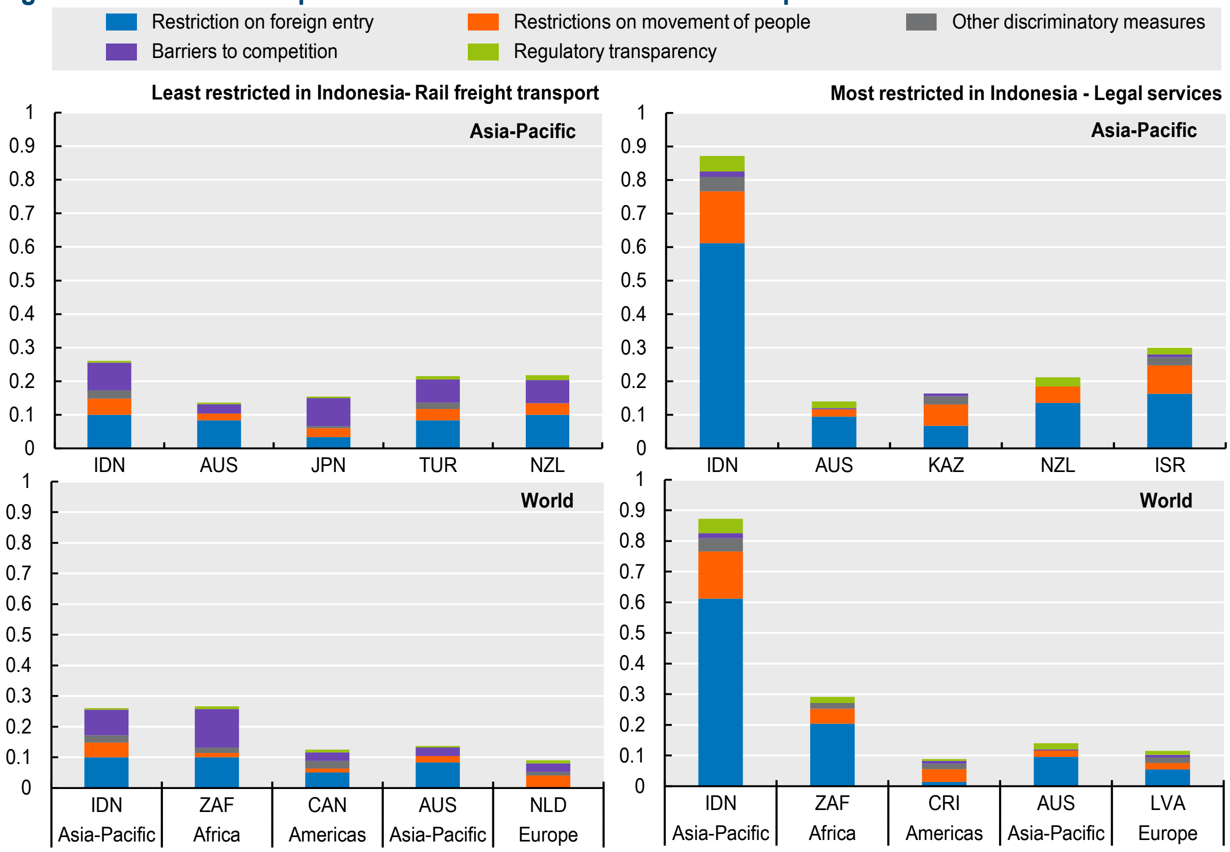


Note: Selection was made based on how far the sectors' score were from the world average score, as a percentage difference i.e. $(STRI_{country,\ sector} - STRI_{world\ average,\ sector}) / STRI_{world\ average,\ sector}$
Source: OECD (2023). STRI database.

Rail freight transport is the least restricted in Indonesia compared to the average STRI across all countries. Relatively low barriers in the policy area of regulatory transparency have had an impact compared to other countries. Examples of Indonesian policies that contributed to keep the score relatively low and that represent best practices include: the absence of nationality or residency requirements on the board of directors; the absence of foreign equity restrictions; and the absence of regulations setting prices for rail freight transport services. 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.

On the other hand, legal services are the most restricted services sector in Indonesia compared to the average STRI across all countries. The restrictions on foreign entry and on movement of people are significant compared to best performers in Asia-Pacific. Some of the measures that contribute the most to the score are the complete closure of the sector to foreign equity, labour market tests for all types of foreign suppliers and nationality requirements for licenses in the sector (Figure 4).

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



Source: OECD (2023). STRI database.

Recent policy changes

In 2023, a regulation of the Ministry of Trade (No. 31/2023) introduced new restrictions, including the prohibition for social media platforms to carry out e-commerce transactions and the obligation for foreign e-commerce platforms to apply a minimum price of USD 100 to their sales. Furthermore, the same regulation mandates that foreign e-commerce platforms are required to set up a local presence in Indonesia to engage in cross-border services trade, whenever a number of conditions are realized, including if the platform is visited by at least 1% of domestic internet users within the period of one year.

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 was 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 the Global Economy

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

» More information about measuring the regulatory environment for services trade in the ASEAN region: oe.cd/aseanSTRI

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

[1]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 2023. 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.