



TPSA Project Conducts a Workshop on “Trade in Services and Services Export Promotion” for Indonesian Government Officials and Business Associations

While Indonesia has been successful in the promotion of its traditional exports—agri-foods, textiles, and furniture—the future economic and social stability of the country depends on its efforts to diversify and reduce its dependence on those traditional sectors. It is time for Indonesia to further explore and capitalize on the rapidly growing exports of services to international markets. The 21st century belongs to “services.”

Capacity-Building Is Key

Building the capacity of government officials to negotiate regional, bilateral, and multilateral trade agreements and to establish and implement a trade promotion strategy (including services) has become a priority for Indonesia. To this end, the Canada-Indonesia Trade and Private Sector Assistance (TPSA) Project, which is funded by Global Affairs Canada and administered by The Conference Board of Canada, is undertaking a series of training initiatives to ensure government officials are equipped with the skills and knowledge required to pave the way forward.

A two-day workshop was conducted on March 30 and 31, 2016, in Bandung to provide an overview of “Trade in Services and Service Export Promotion.” Through a combination of presentations and interactive discussions, the participants had the opportunity to discuss issues and ideas on how to strengthen the involvement of Indonesian small and medium-sized enterprises (SMEs) in trade in services, and how government agencies



Workshop participants actively take part in discussions.

and business associations can promote services exports. The workshop was designed and delivered by the TPSA senior trade expert (Wenguo Cai) and a trade in services specialist (Diane Girard).

Over 40 government trade officials from the Ministry of Trade (DGNE) and the Indonesia Export Training Centre (IETC) attended, as well as senior representatives of selected service sector



business associations. As the umbrella organization representing service sector business associations, senior representatives from the Indonesia Services Dialogue (ISD) played an active role in the workshop, outlining their mandate, objectives, and key activities.

Workshop Themes

The workshop centred around eight key themes and was intended to deepen the knowledge and build the capacity of the participants in each of these areas:

1. services trade policy and promotion
2. measuring and improving trade in services statistics
3. road map for SME export services readiness
4. a case study on Canadian services export promotion
5. how government agencies can support services exports
6. how business associations can support services exports
7. the role of coalitions of services industries
8. roundtable discussion on the way forward

The Importance of Trade in Services

Historically, economic growth and development were associated with the agricultural and manufacturing sectors. Services were considered non-transportable, non-tradable, and non-scalable. The service sector was not considered a driver of economic growth.

Conventional theories of growth through industrialization and the role of the services sector in economic development are, however, coming under increasing scrutiny. Tremendous advances in technology and communications—accessible for the most part across the world—in complement with increased liberalization of services, are transforming the economic landscape. Through the Internet and supporting technologies, practically all services have effectively become potentially tradable, supply and demand has become global, and the international competitiveness of services firms has, to some extent, been levelled.¹

In many developing countries, services contribute more to gross domestic product (GDP) growth, job creation, foreign direct investment, and poverty

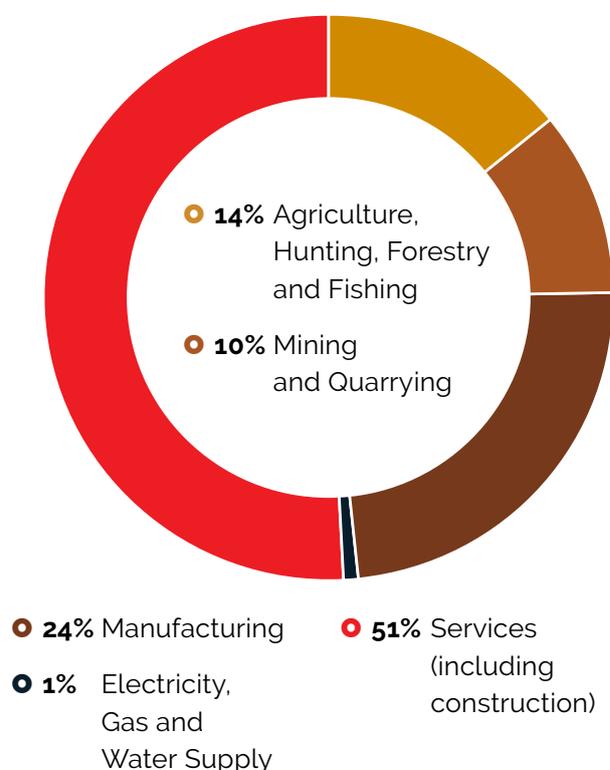
reduction than the agricultural and manufacturing sectors. In 2013, the services sector accounted for over 70 of global GDP, ranging from a GDP contribution of 48 per cent in low-income countries to 74 per cent in some high-income countries. These figures have increased steadily over the past 30 years.² The services sector accounts for nearly half (44 per cent) of global employment: 37 per cent in developing economies and 74 per cent in developed economies.³ The services sector has also become the largest provider of jobs for women, who occupy over 55 per cent of all jobs in this sector.

Indonesia and Trade in Services

Services represent the largest sector in Indonesia with 51 per cent of GDP and 53 per cent of employment. Over 7 million jobs depend on trade in services in Indonesia. Key sectors include wholesale and retail trade, hotels and restaurants, and transport.

INDONESIA IS A SERVICES ECONOMY

(share of GDP by sector, per cent, 2014)



Source: Indonesia National Statistics Agency



The government is now taking proactive steps to capitalize on the rapidly growing services sector.

"Services are complicated because they are intangible. We are looking at how we can best formulate a strategy to support trade in services. We have been lagging behind other nations in this area when we should be striving for a leadership position."

—MAROLOP NAINGGOLAN
Directorate of Export Development Cooperation

Indonesia has been quite successful at concluding free trade agreement negotiations with six regional and two bilateral FTAs. Indonesia is party to the ASEAN Free Trade Area (AFTA) and its FTAs with China, India, Japan, Korea, Australia, and New Zealand. Additional FTA negotiations are underway with Australia, India, Chile, and Korea, either bilaterally or with ASEAN as a whole.⁴

"Infrastructure development has always been on top of the national agenda, but I think services also need to be made a priority."

—CHRIS KANTER
Chair, Board of Founders at the Indonesia Services Dialogue (ISD), Jakarta Post, March 10, 2016

How Services Are Traded

The workshop participants learned that one of the challenges in exporting services is that the majority of service providers do not understand how services are traded. With over 150 types of exportable services, the World Trade Organization (WTO) organizes them into the following categories: business services; communications; construction; distribution; education; energy; environment; health and social services; financial; tourism; recreation, culture, and sports; transport; and other services.

It is interesting to note that the majority of developing countries' small and medium service providers do not realize they can export without leaving

home. When considering the WTO's four modes for exporting services, it is important to determine which of the modes are most viable for success.

Mode 1: Cross-border supply

- The service itself crosses the border, primarily via electronic delivery.

Mode 2: Consumption abroad

- The consumer crosses the border, e.g., tourism, foreign students.

Mode 3: Commercial presence

- A local presence is established, e.g., subsidiary or branch.

Mode 4: Movement of natural persons

- The service provider crosses the border to deliver the services, e.g., training, consultancy, construction.

Modes 1 and 2 are ideally suited for developing country service providers. Mode 1 enables the exporter to export services virtually, via the Internet (e.g., ICT outsourcing, call centres, web design, digital animation). Mode 2 enables the exporter to export services to incoming buyers (e.g., tourism-related, foreign students, health and wellness, architecture, engineering, construction, real estate). These two modes have the best opportunity to maximize economic impact through the creation of jobs, reduction of brain-drain, and building the capacity of SMEs to trade while keeping their costs to a minimum. In addition, modes 1 and 2 are more likely to increase the participation of women, who may find it challenging to travel due to family and other commitments. Mode 4 is also viable, however it is often hindered by travel restrictions, visa requirements, work permits, and recognition of credentials. Mode 3 is more related to foreign direct investment in the services sector.

Services exporters can use various factors to help identify potential export markets. These may include markets with trade arrangements that facilitate the movement of people, capital, and



services. Services exporters may consider markets with a high concentration of expatriates or where foreign investors originate.⁵

Services Firms Do International Business Differently From Goods Suppliers

While precise definitions are a matter of debate, and the distinctions between goods and services firms are perhaps declining, several key differences may be observed in how services firms do business at the international level:

- 1. Intangibility**—Services are intangible and cannot be demonstrated at a trade show. Service providers need to find other ways to raise their profile and credibility, for example, by speaking at a conference.
- 2. Clients and Partners**—Services exporters tend to have clients and/or partners rather than geographic markets. These clients/partners often take them to different geographic destinations.
- 3. Provision of Solutions**—Exporting services involves the performance of solutions customized to meet an international buyer's needs.
- 4. Trusting Relationships**—Since services exports cannot be examined on the spot for quality, this lack of tangibility requires that mutual trust be built between buyers and sellers. This often requires the business owner's direct involvement.
- 5. Innovation**—Service providers must promote their capacity to create innovative service offerings in order to differentiate themselves from competitors.

SME Service Provider Challenges

Services firms in developing countries face additional challenges engaging in the global services economy, such as shortages of qualified employees; unreliable electricity and limited broadband; and knowledge about branding, marketing, and quality assurance. They encounter obstacles expanding international commercial networks and also have difficulties identifying commercial and public procurement opportunities in construction,



Trainers from IETC lead an exercise on performing a SWOT Analysis for a typical service firm planning to export.

building, and engineering. Services providers do recognize the need to meet international standards in their own industry, such as in real estate, elective health and wellness services, and fast-growing engineering and architectural services. Domestic regulatory impediments include foreign exchange controls and double taxation, which impede export expansion. Services firms face trade obstacles, such as prohibitions on the provision of a service by a foreign firm, restrictions on foreign ownership, and limitations on the movement of natural persons across borders.⁶

Export Readiness of SME Service Providers

The workshop participants learned that conducting a SWOT analysis (strengths, weaknesses, opportunities, threats) quickly helps to identify a company's export-readiness. A participant from the Ministry of Trade commented that "the SWOT Analysis principle could be applied to the trade negotiation process—examining Indonesia's strengths and weaknesses, as well as the opportunities and threats."

The participants were then taken through an abbreviated version of an SME export-readiness program. The Road Map for Exporting Services is a four-stage training and coaching program that leads to the company's development of a Services Export Plan.

The Role of Government and Business Associations

The role of government in promoting trade in services was of great interest to the participants. A



case study on the Canadian approach was used to demonstrate some specific strategies and initiatives that are in use to support Canadian SMEs.

"Building up the services sector is like a jigsaw puzzle. It is important to have collaboration from all groups—both public and private sectors. We need to fit each of our pieces together to arrive at a well-thought-out plan."

—ISTANTO OERIP
Executive Director of the Association of Indonesian National Engineering Companies

One of the sessions explored a variety of member services that could be offered by business associations, including: establishing an export committee; conducting market and sector research; advocating on behalf of the sector; offering training programs; developing a communications strategy; staging partnering events; and recognizing successes through an awards program.

"Associations do play a key role. By way of example, APINDO is currently conducting extensive consultations and preparing position papers to promote awareness and understanding of services-related issues and opportunities. We can accomplish much more by sharing information and collaborating on solutions."

—DIANA SAVITRI
Executive Deputy Director from the Employers' Association of Indonesia (APINDO)

Coalitions of Service Industries Also Play a Key Role

In order for a country to succeed in the development of its trade in services, it is essential to have a strategic team in place. In some countries, coalitions of service industries (CSIs) take on that role, while working closely with the trade promotion organization or ministry of trade.

A services coalition is an organization of businesses and other stakeholders related to the services

sector; it is effectively the services sector equivalent of a chamber of commerce. While the stakeholders may have diverse interests, they nonetheless share one key interest: the development of the services sector. Although services coalitions fulfill a variety of functions, ultimately the objective of the organization is to enhance the international competitiveness of the services sector and to increase services exports.

Services coalitions currently exist in the following countries:

Developing economies: Antigua & Barbuda, Barbados, Belize, Brazil, China, Colombia, Dominica, Grenada, Guyana, Indonesia, Jamaica, Malaysia, Philippines, Saint Lucia, St. Vincent and Grenadines, Taiwan, and Trinidad.

Developed economies: Australia, Brazil, Canada, Chile, China, Europe, Hong Kong, Japan, New Zealand, the U.K., and the United States.

Indonesia Services Dialogue (ISD)

ISD plays a key role in the coalition of service industries in Indonesia. ISD is a tripartite body coordinated by the Indonesian Employers Association (APINDO), the Indonesian Ministry of Trade, and the Centre for Strategic and International Studies (CSIS).



ISD also acts as a clearing house for policy-related research on services and links with other international and regional services organizations.

ISD's main objectives include: providing a more strategic and integrated approach to the development of Indonesia's services sectors; providing a more inclusive forum for government, business, and individual stakeholders to reform and improve regulations; fostering new evidence-based economic research; and strengthening the capacity of both the public and private sectors in promoting the growth of trade in services.⁷

During the workshop, best practices from several other country coalitions were reviewed. William, from ISD, was invited to provide examples of ISD's work in each of these areas.



"While there are several ministries interested in promoting trade in services, MoT is ideally suited to achieve this objective. ISD plays an important role and can be the trigger for government. It has the capacity and the mandate. We at MoT need to determine how we can form a new unit and support the ISD. We need to examine what tools we can use and how joint working groups can be formed."

—MAROLOP NAINGGOLAN
Ministry of Trade

Participant Feedback

Participants ranked the workshop as being very relevant to their work and in general regarded the training as very good to excellent.

- Fifty per cent of participants indicated that the reason they attended the course was to assist them in their current job, with 32 per cent indicating it would be helpful for future jobs.
- Sixty-three per cent indicated they would frequently use the information gained from this activity, with 37 per cent using it occasionally.
- Eight per cent indicated their overall level of satisfaction as good, 85 per cent as very good, and 8 per cent as excellent.
- Fifty-two per cent indicated their new level of confidence/skills in applying the knowledge as good, with 41 per cent indicating very good, and 7 per cent excellent.
- All participants indicated they would recommend this activity to their colleagues.

The Way Forward

Several questions were raised during the workshop that require further discussion and strategizing. The following are some of the points made during the session:

"We need to determine the competitive advantage of each service sector and subsector."

"How many SMEs are successful in exporting their services and what are their success stories?"

"How can we increase our trade representation in foreign markets to more closely be in line with what other countries are doing?"

"What should we do next? How do we learn further about what other countries have done?"

In response to some of these questions, several ideas were discussed regarding forming a public/private sector working group. The basic guidelines for this group could include the following:

- Foster further collaboration between the public sector and private sector.
- Not set policy, but focus on discussing issues. Resolve them if possible; if not, report upward.
- Meet internally every month, externally on a quarterly basis.
- Identify the right representatives who will be able to attend most of the meetings.
- Host a public forum toward the end of the year to report on progress—invite the media.
- Set objectives for the following year.

Conclusions

The workshop was an effective step for the TPSA project to advance the trade in services discussions among government officials and business associations. The activities were customized according to the needs of the Ministry of Trade and were further enhanced by the active participation of the association representatives.

The participants were provided with flash drives containing all of the workshop files and were encouraged to use the contents themselves and share with co-workers.

Through this technical assistance, Canada hopes to contribute to the Indonesian Government's capacity-building efforts to develop and implement a sustainable trade in services strategy that will enhance economic development.

About the TPSA Project

TPSA is a five-year C\$12-million project funded by the Government of Canada through Global Affairs Canada. The project is executed by The Conference Board of Canada, and the primary implementation partner is the Directorate General for National Export Development, Ministry of Trade.



Celebrating the successful conclusion of the Trade in Services and Services Export Promotion Workshop.

TPSA is designed to provide training, research, and technical assistance to Indonesian government agencies, the private sector—particularly small and medium-sized enterprises (SMEs)—academics, and civil society organizations on trade-related information, trade policy analysis, regulatory reforms, and trade and investment promotion by Canadian, Indonesian, and other experts from public and private organizations.

The overall objective of TPSA is to support higher sustainable economic growth and reduce poverty in Indonesia through increased trade and trade-enabling investment between Indonesia and Canada. TPSA is intended to increase sustainable and gender-responsive trade and investment opportunities, particularly for Indonesian SMEs, and to increase the use of trade and investment analysis by Indonesian stakeholders for expanded trade and investment partnerships between Indonesia and Canada.

The expected immediate outcomes of TPSA are:

- improved trade and investment information flows between Indonesia and Canada,

particularly for the private sector, SMEs, and women entrepreneurs, including trade-related environmental risks and opportunities;

- enhanced private sector business links between Indonesia and Canada, particularly for SMEs;
- strengthened analytical skills and knowledge of Indonesian stakeholders on how to increase trade and investment between Indonesia and Canada;
- improved understanding of regulatory rules and best practices for trade and investment.

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ENDNOTES

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- ² The World Bank, *World Development Indicators Database* (Washington, D.C., 2013). <http://data.worldbank.org/data-catalog/world-development-indicators> (accessed July 19, 2016).
- ³ International Labour Organization, *Global Employment Trends 2012: Preventing a Deeper Jobs Crisis* (Geneva, 2012). www.ilo.org/global/research/global-reports/global-employment-trends/WCMS_171571/lang-en/index.htm (accessed July 19, 2016).
- ⁴ Asia Regional Integration Center, *Free Trade Agreements*, <https://aric.adb.org/fta-country> (accessed July 19, 2016).
- ⁵ The World Bank, *Negotiating Trade in Services: A Practical Guide for Developing Countries* (Washington, D.C., 2009). http://siteresources.worldbank.org/INTRANETTRADE/Resources/239054-1248204247129/Negotiating_Trade_in_Services.pdf (accessed July 19, 2016).
- ⁶ The Jamaica Coalition of Service Industries survey exemplifies how coalitions help members identify problems. See Jamaica Service Sector Survey (2014), <http://jamaicacsi.org/jamaica-service-sector-survey/>.
- ⁷ Indonesia Services Dialogue, www.isd-indonesia.org.