



TRADE IN SERVICES & NEGOTIATIONS

Private Sector Perspective

Indonesia Services Dialogue Council



Main Recommendations

(from Private Sector Perspective)

- Strengthen coordination & consultation between private sector and government on services trade negotiations and regulations
- Ensure regulations are transparent, non-discriminatory, and practical to administer
- Adopt policies to encourage competitive services, including relevant Fiscal Policy (eg Tax on Services Exports)
- Leverage Services Coalitions role and network at national, regional, and global level (eg. ISD, Indonesia Services Dialogue Council as services coalition umbrella organization in Indonesia)
- Mobilize businesses to drive initiatives on building capacity for services trade

Recognizing Complexities of Services Business: Need extra efforts to develop & regulate

- Intangible – ‘anything that you cannot drop on your foot’
- Inseparable – simultaneous delivery and consumption, often with the supplier and consumer both present (even via the Internet), which enables consumers to affect or shape the performance and quality of the service;
- Heterogeneous – high variability in service delivery, which can allow a degree of flexibility and customization that can give businesses a real advantage over competitors;
- Perishable – although they can be pre-ordered, services cannot be stored and carried forward to a future time period, which makes them ‘time dependent’ and very perishable (with no need for inventory management as there is with the supply of goods).

Services Sector: Enabler and Backbone of Economy

- Technology-based infrastructure services such as telecommunications, which are crucial for communicating orders and sales, and enabling electronic commerce via the Internet;
- Transport and logistics services, for moving raw materials, components and finished goods;
- Financial services, which provide access to finance and investment and are necessary to concluding payments and insuring the movement of goods;
- Health and education services, which are critical to ensuring a healthy and well-trained workforce;
- Professional services such as accountancy and legal services, which underpin a healthy market economy;
- Business services, which help to reduce transaction costs.

So many business areas with its complexities: Independency vs Interdependency

- Business services (e.g. professional, such as legal, accountancy, architectural and engineering; computer services)
- Communication services (e.g. postal, courier, telecommunications, audiovisual)
- Construction and related engineering services
- Distribution services (e.g. wholesale, retail)
- Educational services
- Environmental services
- Financial services (e.g. insurance, banking)
- Health-related and social services
- Tourism and travel related services
- Recreational, cultural and sporting services (e.g. entertainment, news agency)
- Transport services (e.g. sea, air, road, rail, ancillary)
- Other services

Four Modes of Services Supply

Mode	Short description	GATS definition	Examples
1	Cross-border supply	From the territory of Country A to the territory of Country B	Electronic commerce or Internet trade, international communications
2	Consumption abroad	In the territory of Country A to the service consumer of Country B	Tourism (e.g. travel, health, education related)
3	Commercial presence	By a service supplier of Country A, through commercial presence in the territory of Country B	Physical presence through subsidiary, branch, representative office, joint venture or other legal entity
4	Movement of natural persons	By a service supplier of Country A, through presence of natural persons of Country A in the territory of Country B	Use of people skills, e.g. intra-company transfers, business visitors, independent professionals

SWOT Analysis

Indonesia Trade in Services

Strength	Weaknesses
<p>Comparative advantage in labour-intensive services</p> <p>Growing entrepreneurial culture</p> <p>Relatively low labour costs</p> <p>Historical and cultural linkages with some potential target markets</p> <p>Abundance in historical, artistic, cultural and natural</p>	<ul style="list-style-type: none">• Language skills• Limited infrastructures• Ineffective regulations• Limited financial and administrative resources• Lack of adequate instruments and methodologies for market intelligence• Information deficits• Political instability• Low brand recognition and difficulties in establishing credibility with international suppliers• Lack of coordination among regulatory• Institutions• Burdensome business environment• Service exporters not highly motivated to participate in government consultations• Government resources still focus on promoting merchandise trade• Enforcement of copyright laws

SWOT Analysis

Indonesia Trade in Services –cont'd

Opportunities	Threat
<ul style="list-style-type: none">• Geographical position can provide opportunities in transport, financial and other services• High demand for services labour• Network of diaspora in potential target markets	<ul style="list-style-type: none">• Increasing cost of business• Increasing competition• Increasing protectionist feelings in advanced economies towards offshoring of services• Brain drain

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Coordination & Consultative Approach: *Government vs Private Sector*

- Trade in Services negotiations can only be really effective if they suit both government policy objectives and business priorities.
- There is little point in negotiating market opening in sectors where business has little interest or competence. Services coalition (eg ISD), both national and across borders, promote business interests and prevent trade negotiations from taking place in a consultative vacuum.
- Services coalition (eg ISD) can also support government in identifying negotiating priorities and required regulations.

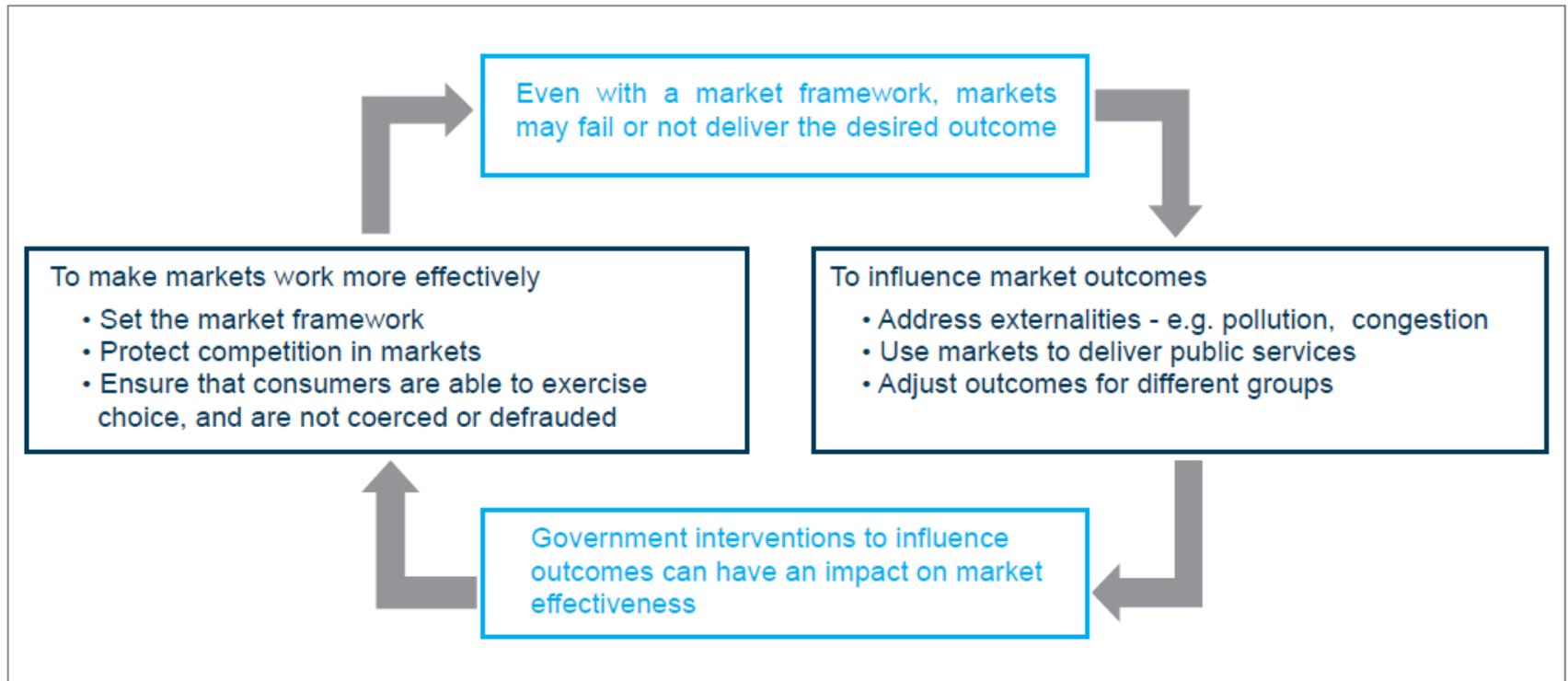
Balancing Regulations & Trade Opening

- The main barriers to trade in services involve the way government regulate services sectors.
- On the one hand, regulation is necessary to ensure consumer protection, services standards and other public interest objectives; on the other hand, it can act as a significant restriction and can curtail the market access granted to foreign suppliers in trade agreements → Needs more balanced approach
- “Sequencing Process” is very important. Governments have an important role to play in putting in place the preconditions for an efficient set of service industries, for instance, enforcing compliance requirements is very important to ensure sound environment for Financial Services sector.
- Requires more integrative trade opening with a careful combination of competition and regulation.

Reasons to Regulate

- Correction of market failures – situations where markets do not function properly to deliver the goods or services that consumers want;
- Social objectives – such as poverty reduction, improvements in living standards, or standards of healthcare;
- Control of market power – through the application of competition law, to ensure that market power is not abused by stronger suppliers;
- Change in consumer behaviour – such as limiting the availability of socially undesirable products or services;
- External reasons – such as environmental protection.

Reasons to regulate



	Traditional instruments	Market-based approaches
Providing public services	Direct provisions	Competitive tendering User choice
Influencing private markets	Regulation Taxes and subsidies	Trading schemes Self-regulation

Private Sector needs to be involved in RIA (Regulatory Impact Assessment)

- Government regulates to achieve perfectly legitimate objectives. The means of achieving those objectives, however, may not be the most efficient from the point of view of business.
- Regulatory impact analysis (RIA) is a tool for assessing the socioeconomic impacts of regulatory proposals by comparing them with other options for achieving the same goals.
- **Private Sector (Business Companies)** has a part to play by contributing to the impact analysis. Indeed, it is generally in business' interests to do so.
- Dialogue with stakeholders and interested parties is an important, indeed essential, part of the process.
- By consulting first and then acting, governments minimize or avoid altogether the risk of taking action that leads to disagreement or dispute. Business therefore needs to position itself to provide objective, evidence-based contributions to the decision-making process.

RIA: Suggested Steps

RIA works by setting a number of logical steps to follow when preparing policy options. It sets out the evidence for and against policy options by analysing their possible impacts.

Identify the problem	Describe the problem, the key players affected, the drivers and underlying causes, and develop a baseline scenario including a sensitivity and risk assessment.
Define the objectives	Set objectives, both general and specific, that are relevant to the problem and its essential causes; use SMART (Specific, Measurable, Achievable, Realistic, Time-dependent) analysis.
Develop the main policy options	Identify policy options, distinguishing between substance and options for delivery; check that the options are proportionate to the problem; narrow the range of options through screening for technical and other constraints; measure for effectiveness, efficiency and coherence.
Analyse the impacts of the policy options	Identify the economic, social and environmental impacts of each option; identify who is affected; analyse the impacts against the baseline scenario; assess the administrative burden and simplification benefits; consider risks and uncertainties in each option, including obstacles to compliance.
Compare the options	Weigh up the positive and negative effects of each option; show aggregated and disaggregated data; compare impacts on each affected stakeholder group; identify a preferred option.
Outline policy monitoring and evaluation	Identify indicators of success and an outline of future monitoring and evaluation arrangements.

Private Sector Expectations on Government Regulations

- Domestic regulation should be administered in a reasonable, objective and impartial way.
- Governments should be transparent in their decision processes and adopt the least trade restrictive option in new regulation to achieve market liberalization.
- Existing and future regulations should be made public and available to consumers and businesses with adequate time for comments before the rules are adopted.
- Companies should be allowed to innovate by introducing new products; government control or prior-approval procedures should be fair and not restrict consumers' access to new products.
- Regulatory enforcement should ensure quality of service and avoid restrictions on the supply of services.
- Licensing should not be introduced unless it is justified by an objective and clearly identified need which cannot be satisfied otherwise; complex, time-consuming, arbitrary or discriminatory licensing requirements should be avoided.
- The status and the role of regulatory authorities should be clearly defined and rationalized to avoid unjustified procedures and burdensome requirements, with independent regulatory authorities in some sectors in order to develop objective and transparent decision mechanisms.
- Remaining monopolies should be regulated to ensure fair competition with new market entrants competing in liberalized areas and be prohibited from cross-subsidizing competitive services with revenue obtained from monopoly activities.

Policy Framework to improve Services Competitiveness

Fundamentals

- Infrastructure
- Entrepreneurship and human skills
- Institutions
- Endowments

Domestic policies

- Policies affecting trade, investment and labour mobility in services

Targeted policies

- Special Economic Zones
- Incentives
- Export promotion policies

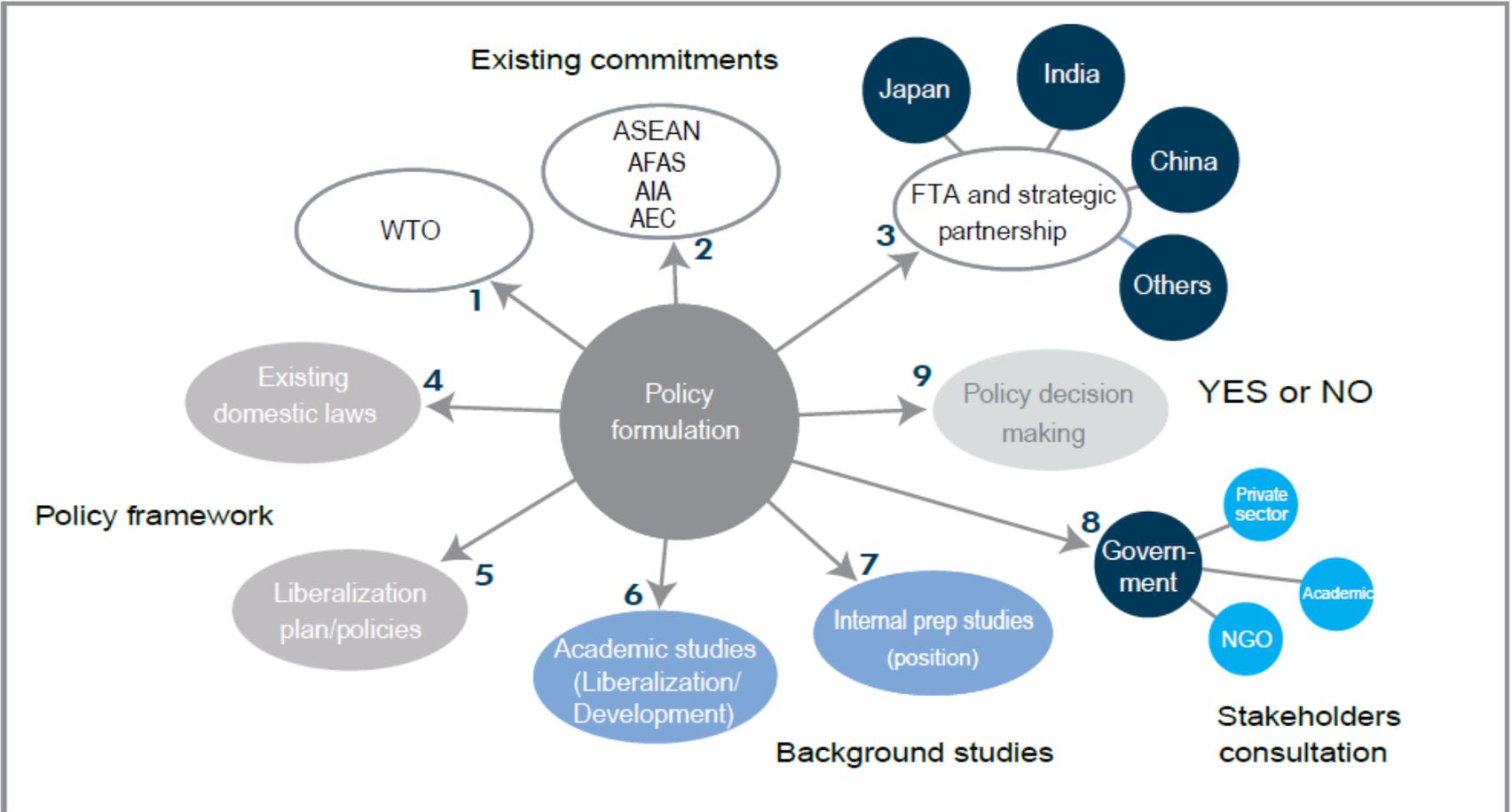
Private Sector Expectations on Govt Policies to Promote Trade in Services

1. Develop skilled human resources
 - Education – high schools and universities; incentives for business to invest in training
2. Promote entrepreneurship, industry clusters and small and medium businesses
 - Facilitate creation of new businesses; regional economic development and innovation
3. Adopt flexible labour laws
 - Facilitate adaptation and reallocation of human resources to more productive and innovative areas
4. Create a tax environment to support the services sector
 - Ensure tax laws that do not hinder service export development
5. Enable competition in deployment of ICT infrastructure and services
 - Competition in ICT infrastructure, network services, value-added services
6. Open markets to trade and investment in services
 - Developing countries should have a competitive advantage in many services
7. Create innovation policies for the service economy
 - University and R&D programmes should support the service sector
8. Create new metrics for the service sector
 - An improved basis could help policymakers and investors

Example of Proposed Policy: 0% VAT on Services Export

- 0% VAT rate in services export is common in international practices, including in many neighboring countries such as Singapore, Malaysia, The Philippines, Thailand, Vietnam, China and Australia.
- In Indonesia, 0% VAT rate only applies to services export of 3 sectors, which are manufacturing services, construction services, maintenance & repair services.
- VAT on Services Exports hurts the competitiveness of domestic services sectors, especially when other countries already eliminated VAT services exports on financial, consultancy, accounting, call center and many other crucial services that provide big employment.
- Benefit of Eliminating VAT on Services Export:
 - Increasing trade and making investment in services look more attractive to potential investors.
 - Boosting economic growth as trade in services increases & lead to new jobs
 - Increasing in tax revenue in the long term
 - Increasing Indonesia's participation in Global Value Chain

Example of Framework on Trade in Services Negotiation



Preparation of Trade in Services Negotiations: Include Private Sector & Government Consultative Approach

- **Strategy.** Is there a national or sector development strategy for services that should inform preparatory work for negotiations? Has thought been given to the place of reform in the development of the domestic service market and the relationship of that reform to international trade negotiations?
- **Coordination.** Is the coordinating authority, agency, or ministry fully in place and ready to operate?
- **Capacity building.** Have capacity-building needs been identified for the overall approach to liberalization and trade agreements – i.e. readiness to liberalize, strategies to adopt in negotiating liberalization and advantages from negotiating access to foreign markets? Are other priorities in related international forums clear to all participants in the preparatory process – for example, positions and commitments taken in the context of bilateral agreements? Is there a reasonable understanding among participants and the coordinating entity as to what measures affect trade in services under international trade agreements? In the case of sector ministries and agencies, how should the capacity-building exercise best be pursued?
- **Inventory of measures.** Does an inventory of measures affecting trade in services already exist at the horizontal and/or sectoral level? Is the information gathered in such inventories also being used to underpin domestic dialogue with key regulatory agencies and external stakeholders and as a means to promote regulatory review and reform processes? Once an inventory of regulatory measures exists, what is the basis to determine which regulatory requirements are in need of change?

Preparation of Trade in Services Negotiations – cont'd

- **Timing.** Where regulatory change appears necessary, can or should changes be contemplated within the timeframe of ongoing international negotiations? Should these changes be part of the country's negotiating offer?
- **Offer.** What is the criterion to choose measures and/or modes of supply to determine which sectors should be offered as bound, partially bound or unbound? Has a clear distinction been established between defensive and offensive interests? How does the government establish its negotiating red lines, i.e. points beyond which it is not prepared to engage or commit?
- **Export interests.** Are offensive interests able to take advantage of the negotiations, or is there need for additional capacity-building, in particular for private-sector supply? Have export-market studies been conducted within government or by the private sector? Has all relevant information (public, private, international) regarding export interests been compiled, analysed and circulated among the preparatory group?
- **Consumers/users.** How significant is the voice of consumer/user groups in the formulation of service sector policy? Should technical assistance be directed at nurturing such voices or sustaining their development?
- **Consultation.** Has the coordinating entity managed to organize the consulting process with relevant stakeholders in the public and private sectors, including trade unions and non-governmental organizations? Is the consultation process with stakeholders broad enough to be truly representative?
- **Decision-making.** Does the decision-making process seek to achieve a proper balance between sectoral, individual corporate and economy-wide objectives (both offensive and defensive)?

Example of Scorecard Tool as the Basis for Services Sector Prioritization on Trade in Services Negotiations

Services sector	GDP Share	Export	Import	Score	Rank
Transportation	3	2	1	6	1
Tourism	8	3	2	13	2
Communication	6	4	6	16	3
Educational	4	8	4	16	4
Construction	2	9	5	16	5
Distribution	1	6	9	16	6
Financial	7	7	7	21	7
Health and social	5	12	10	27	8

Sector of interest to requesting countries	Sectors of export interest	Sectors of import interest	Mixed interests	Sectors needing priorities	Rank
Business services	Computer and related	R&D, rental/leasing services		Professional services	Not ranked
Communication services			Audiovisual, telecoms, courier		3
Construction services			Construction and related engineering services		5
Distribution services	Distribution services			Commission agent services, wholesale and retail services	6
Educational services		Educational services (except primary and secondary)		Primary and secondary services	4
Environmental services				Environmental services	Not ranked
Financial services	Life, accident and health insurance		Non-life insurance, reinsurance, banking		7
Health and social services		Hospital services	Other human health services	Social services	8
Tourism and travel-related services		Hotels and restaurants	Travel agencies and tour operators	Tourist guide services	2
Recreational, sporting and cultural services		News agency services	Personal, cultural and recreational services, entertainment services, libraries and museums, sporting services	Other	Not ranked
Transport services	Maritime transport services, pipeline transport, transportation of other goods	Air transport services, services auxiliary to all modes of transportation	Rail and road transport services	Internal waterways transport	1

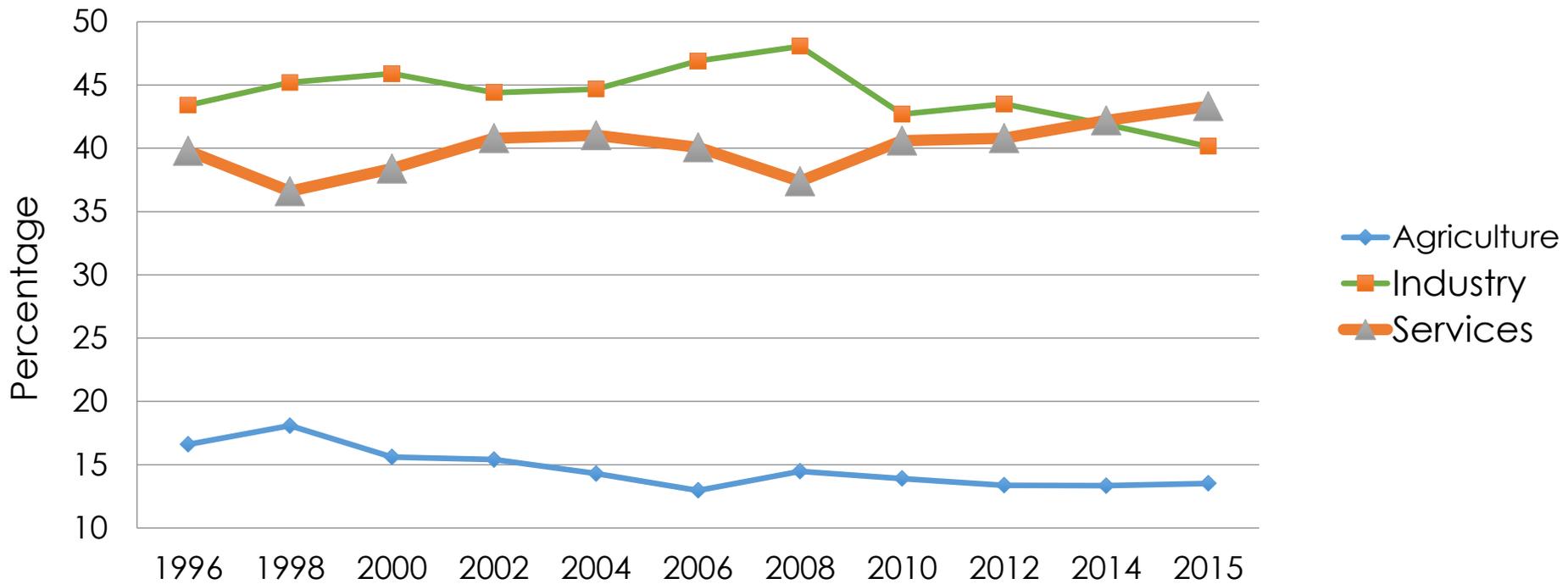


INDONESIA SERVICES SECTOR: UPDATE & PROPOSED PRIORITIES



Services sector continues to growth and contribute to GDP made up 43% in 2015 (a 1% increase from 2014). Services sector share to GDP surpasses the others sector (industry & agriculture

Economic Sectors Share to GDP (Value-Added)

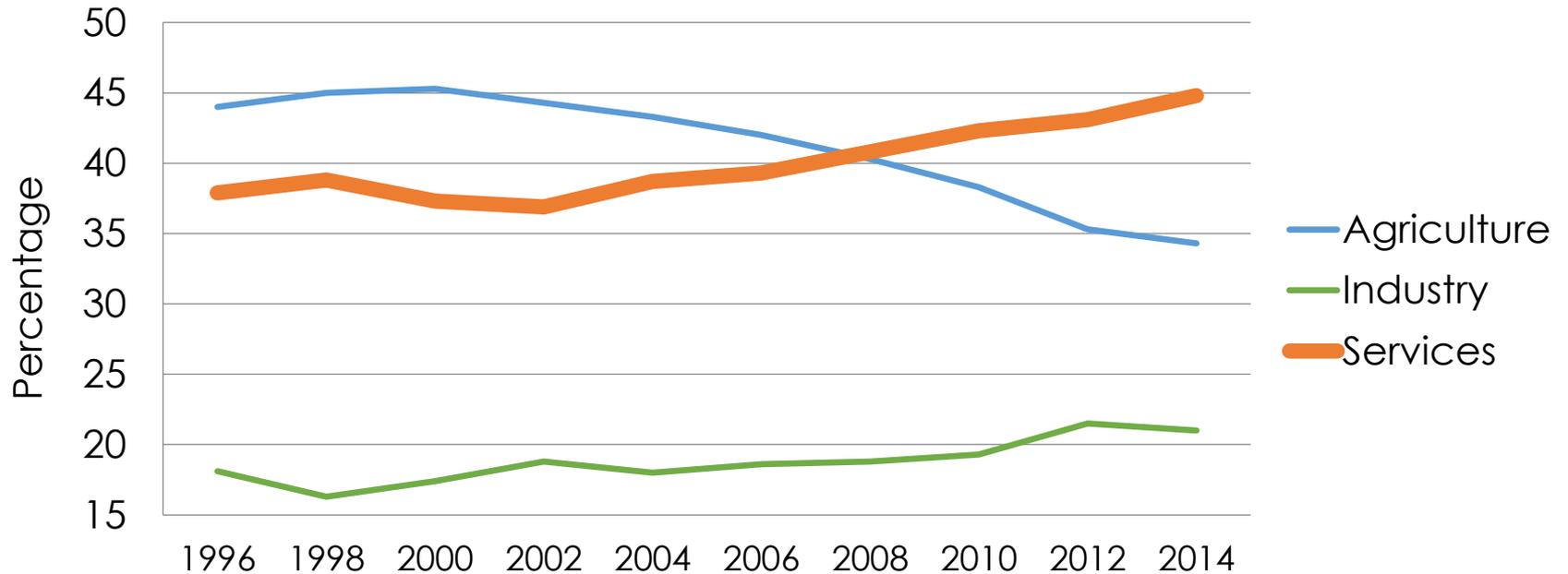


Sources: World Bank (2016)



Services the only sector that continues to create a largest share of total employment (45%) while industry and agriculture are in stagnant and decline respectively (22% and 33%)

Employment Distribution

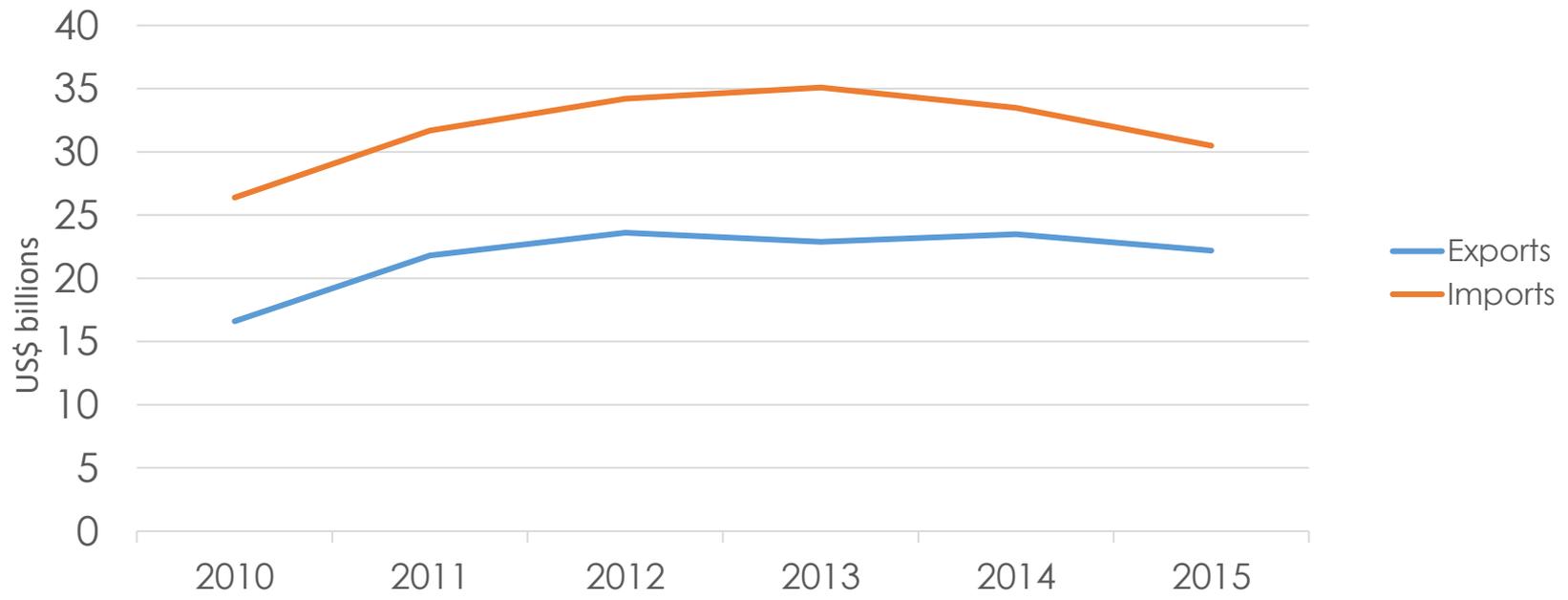


Sources: World Bank (2016)



However trade in services remain in deficit. Services export was at \$22,2 billion in 2015 while services import was at \$30.5 billion (deficit of \$8,3 billion). Moreover, services sector only made up 11% of total export and 16% of total import.

Trade in Services over the Years

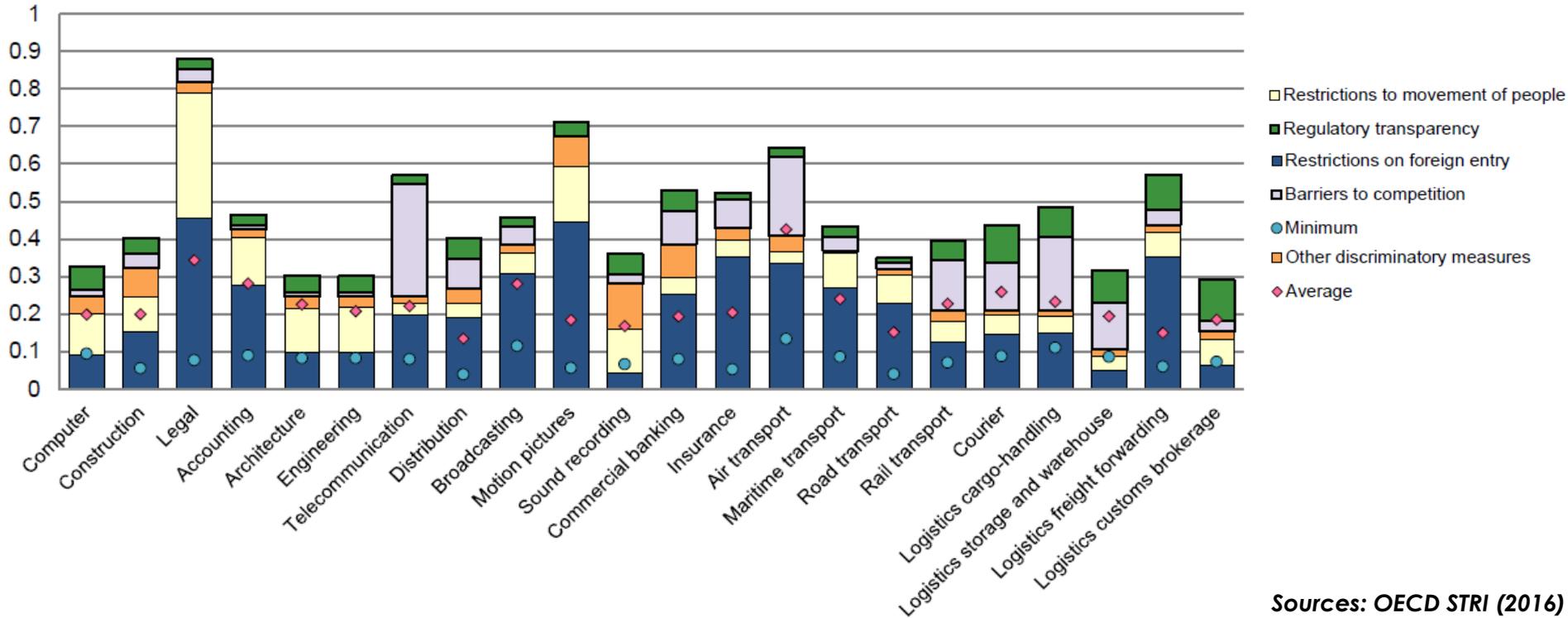


Sources: ISD Calculation based on Bank Indonesia (SEKI -2016)



Services Trade Restrictiveness Index shows that logistic, architecture, and engineering services are three sector with the lowest scores (better performance). The sector with highest score are legal services, motion pictures, and air transport.

Services Trade Restrictiveness Index by Sector and Policy Area



Sources: OECD STRI (2016)



Tourism Services: *Where we are...*

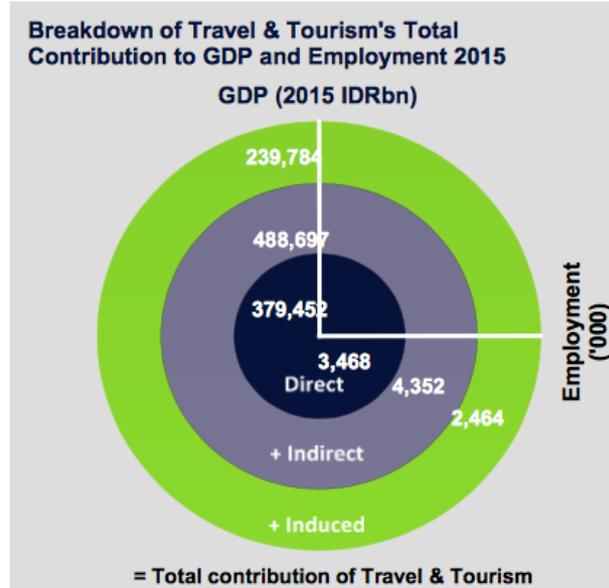
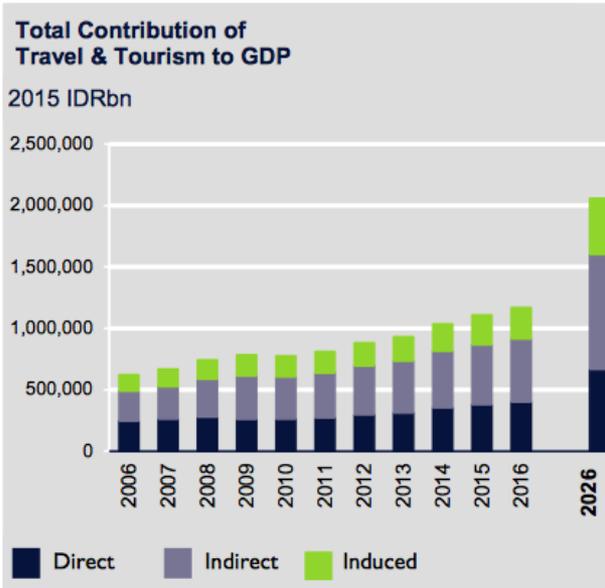
- Visitor exports reached 6.4% of total exports in 2015, forecasted to grow by 1% in 2016.
- Tourism investment was 5% of total investment, it should rise by 7% in 2016.

Sources: World Tourism and Travel Council (2016)

WORLD RANKING (OUT OF 184 COUNTRIES):

Relative importance of Travel & Tourism's total contribution to GDP

15 ABSOLUTE Size in 2015	93 RELATIVE SIZE Contribution to GDP in 2015	21 GROWTH 2016 forecast	33 LONG-TERM GROWTH Forecast 2016-2026
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Indonesia tourism contribution to GDP and employment is well below neighbouring countries

Travel & Tourism's Total Contribution to GDP		2015 % share
19	Cambodia	29.9
34	Thailand	20.8
55	Vietnam	13.9
58	Malaysia	13.1
73	Australia	10.8
76	Sri Lanka	10.6
77	Philippines	10.6
	World	9.8
93	Indonesia	9.6
	Asia Pacific	8.5
117	China	7.9
142	India	6.3

Travel & Tourism's Total Contribution to Employment		2015 % share
22	Cambodia	26.9
50	Thailand	15.4
56	Australia	12.6
65	Malaysia	11.4
70	Vietnam	11.2
79	Philippines	10.3
87	Sri Lanka	9.7
	World	9.5
99	India	8.7
100	Indonesia	8.7
	Asia Pacific	8.6
103	China	8.4

Sources: World Tourism and Travel Council (2016)



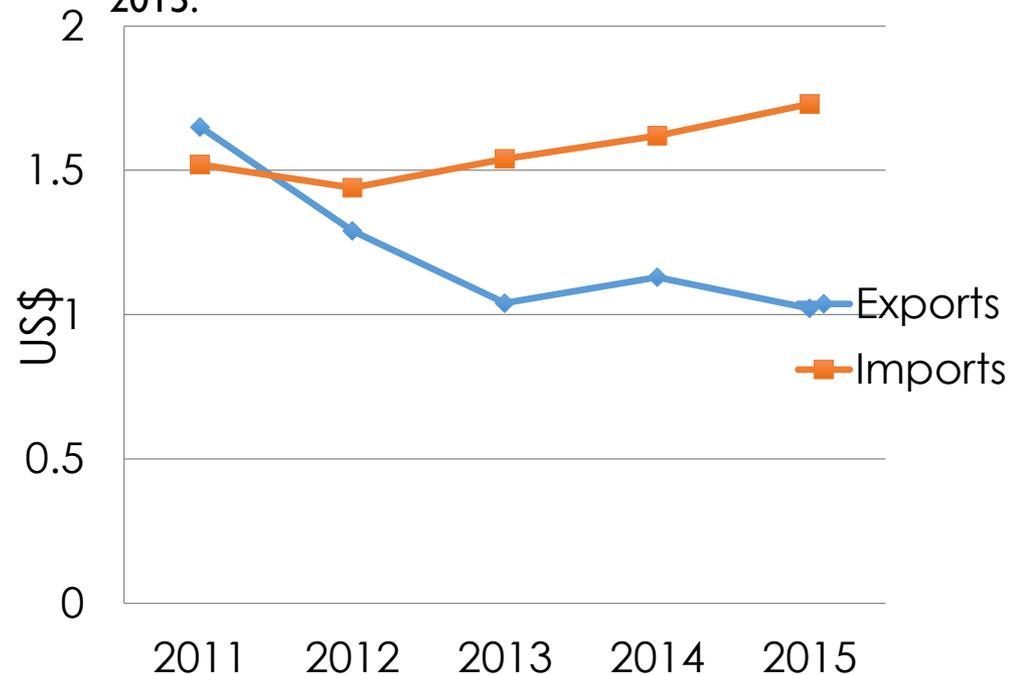
ICT; *Connectivity today...*

Internet Penetration Rate and Impacts

- APJII 2016 survey finds that Internet penetration reaches 51% of population in 2016 (132.7 million people), that's a 44 million increase from 2014 (88 million people) and 70% of all internet users access internet by mobile phones.
- Oxford Economics 2016 Highlight 1% increase in mobile internet could add US\$640 million to GDP

Trade in ICT Services (in USD billions)

Domestic ICT industry relies a lot on foreign ICT provider. It can be seen from ICT import has surged since 2012 while export remain stagnant. ICT had a trade negative of -745 million dollar in 2015.



Sources: ISD Calculation based on Bank Indonesia (SEKI-2016)



E-commerce: *Bringing the market closer...*

- Most popular B2C site in Indonesia in 2013, is Amazon despite not having a local presence, recently overtaken by Lazada Indonesia (Rocket Internet) by providing better servicing the local market including Indonesian language marketing, same day delivery and customized payment schemes (Lazada was recently acquired by Alibaba at \$1 billion dollars to increase Alibaba's reach in Southeast Asia)
- Zalora which is Rocket Internet's fashion platform is also doing well in the local market. Local fashion designers also sell on line themselves or through platforms. Other players are Rakuten Belanja Online (subsidiary of Japanese giant Rakuten).
- As for on line forums local players lead such as Kaskus being the leader on on line platforms (6.8 million registered users) and OLX being second. And C2C marketplace, Tokopedia a local player is growing exponentially as well as bukalapak.com. Tokopedia claims to draw 10 million monthly visitors per month with shoppers buying an average of Rp.2 million of products a month in 2014.
- Brick and mortar retail all responding also with e-commerce platforms: Matahari Mall, MAP Mall



Logistic and Transportation; *What holding back?*

- World Bank's Logistics Performance Index (LPI) has Indonesia at 63rd place in 2015, 10 points lower from 53rd in 2014. (LPI 2016)
- High shipping and inventory costs
- Further relaxation in custom regulations needed to increase the flow of traded goods and services
- Unbalanced distribution of logistics services – currently very concentrated in Java
- There have been some efforts Logistics reforms, especially in border agency area
- Logistics sector reforms are essential both for the development of remote regions and for economics diversification



Insurance Services; *The impact of global downturn...*

Regulations, laws and accounting standards

- Government increased effort to prepare a framework for Indonesian insurance industry development
- Compliance with stringent tax regulations
- Limitation of foreign ownerships
- Implementation of insurance standards (SFAS 62, SFAS 28/36) and insurance regulations which have vary interpretations due to unclear implementation guidance.

Trend towards auto insurance and unit-link products

- Auto insurance cover and unit-link products has become more popular and is preferred by consumers in Indonesia.
- Companies not offering auto insurance through multi finance/bancassurance and unit-link products appears to grow at a slower pace.

Challenges in the Indonesian Insurance Industry

Competitive landscape

- Insurance industry in Indonesia shows a large opportunity for growth in the future (low market penetration, large numbers of people who are underinsured/uninsured)
- The insurance industry in Indonesia is fragmented considering the large number of players
- Limited underwriting capacity of domestic insurers (shifting premiums to overseas)

Distribution network and talent

- Traditional ways versus bancassurance.
- Distribution channel competition.
- Bancassurance becomes more common and popular in the recent trend. Strategic initiatives is one of the key in growing customers base.
- Scarcity of talents for insurance expertise

Financial market

- Interest rate – volatile interest rates will create challenges to financial performance
- Volatility of exchange rates
- Limited availability of investment portfolios

Sources: PWC (2016)



Tourism Services; *Unlocking New Tourism Destinations*

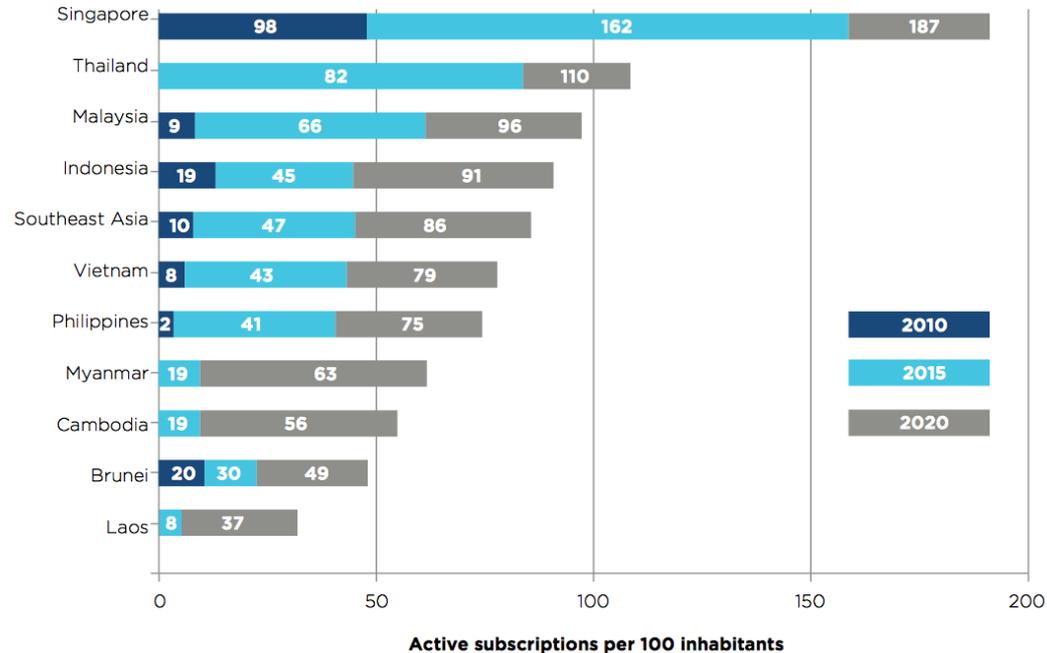
- Tourism services is a promising growth sector in the economy. This is an opportunity to unlock: (private) investment, new jobs, higher export earnings, and infrastructure improvement
- The Ministry of Tourism Republic of Indonesia has focused on developing 10 destinations which required US\$20 billion to create the ten destinations as “Bali Baru”.
- The World Bank has planned on giving a loan worth US\$200 million to develop 3 of the 10 selected destinations which are Mandalika, Danau Toba, and Borobudur.
- Every \$1 million in tourism and travel spending support around 200 jobs and \$1,7 million in GDP for Indonesia.



ICT & e-commerce; *Creating Disruptive Growth*

- The increasing mobile internet growth stands to contribute \$30.1 billion in GDP and 498,000 new jobs by 2020 (Oxford Economics 2016)
- An increase of another 35% in internet penetration rate by 2020 (as predicted), could add a total of \$44 billion to the GDP (Allan Asher, AIPEG 2016)

Mobile internet forecast 2020



Sources: Oxford Economic 2016



Healthcare Services; *For More Affordable and Available Services*

- One of the most promising sectors since the launch of JKN in 2014
- Health spending forecasted to increase by 200% by 2020 from US\$ 26 Bn (3.1% of GDP in 2011)
- Pharmaceutical industry forecasted to grow at 10-12% per year
- Medical device market to grow by 13% pa, projected to be at 1.22 bn by 2018
- JKN means increasing access to Health, caused health services to be undersupplied, which led to hospital groups rapidly plan to launch new facilities and programmed to cover the whole population by end of 2019.
- However, number of Indonesian physicians are relative low compared to neighbouring countries (0.4 per 1000 populations (far below Singapore 2.3, China 1.8, Malaysia 1.6, Philippines 1.2, Vietnam 0.8)
- This applies the same to hospital bed (1.0 per 1000 people), compared to China 3.3, Vietnam 2.9, Malaysia and Singapore 2.0, Philippines 1.1 (make graph of this)



Improving Services Performance

- **Strengthening Infrastructure.** Spending on Infrastructure was USD57.3bn in 2014, projected to increase to US\$138.6bn by 2025. Moreover, RPJMN (2015-2019) – is a good start to improve infrastructure but also need support from the private sectors and regulations need to be attractive to investors
- **Intensifying Digitalization.** Digital infrastructure sharing has strategic importance for licensed operators trying to extend network while minimizing costs for Indonesia Broadband Plan (*Rencana Pita Lebar Nasional*). This will lead to higher penetration rates and therefore facilitate many new sectors, i.e. e-commerce, etc.
- **Streamlining Regulation.** Increase market access, i.e. reduce barriers to entry to incentivize companies to develop innovations and offer quality services and reforms in the systems of licensing, registration and permit issuance.

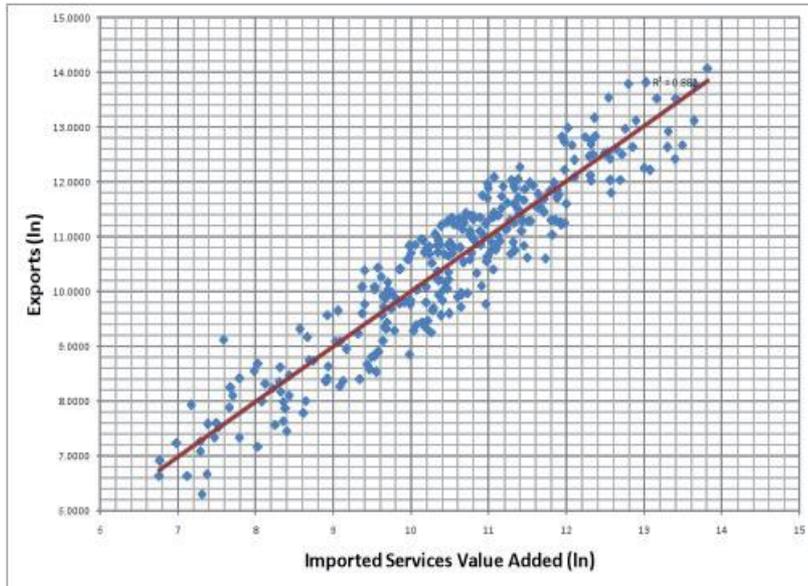


Lowering Trade Barriers: *zero-ing value-added tax (VAT) in services...*

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 - Increasing in tax revenue in the long term
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Harnessing Bilateral and multilateral FTAs and CEPAs



- There is a strong correlation between import of services and export performance
- The FTAs & CEPAs facilitates sufficient supply of **quality** services to support the economy
- The FTAs & CEPA can improve the performance of Indonesia's services sector through increased competition and transfer of know how
- The FTAs & CEPA might open opportunity for Indonesian supply Mode 4 services
- An agreement in services will force the authority to review all existing regulations, while at the same time increasing regulatory transparency

THANK YOU