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**Trade and employment in services:
The case of Indonesia**

Chris Manning
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Trade and
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Preface

The primary goal of the ILO is to contribute, with member States, to achieve full and productive employment and decent work for all, including women and young people, a goal embedded in the ILO Declaration 2008 on *Social Justice for a Fair Globalization*,¹ and which has now been widely adopted by the international community. The integrated approach to do this was further reaffirmed by the 2010 Resolution concerning the recurrent discussion on employment².

In order to support member States and the social partners to reach this goal, the ILO pursues a Decent Work Agenda which comprises four interrelated areas: Respect for fundamental worker's rights and international labour standards, employment promotion, social protection and social dialogue. Explanations and elaborations of this integrated approach and related challenges are contained in a number of key documents: in those explaining the concept of decent work,³ in the Employment Policy Convention, 1964 (No. 122), in the Global Employment Agenda and, as applied to crisis response, in the Global Jobs Pact adopted by the 2009 ILC in the aftermath of the 2008 global economic crisis.

The Employment Sector is fully engaged in supporting countries placing employment at the centre of their economic and social policies, using these complementary frameworks, and is doing so through a large range of technical support and capacity building activities, policy advisory services and policy research. As part of its research and publications programme, the Employment Sector promotes knowledge-generation around key policy issues and topics conforming to the core elements of the Global Employment Agenda and the Decent Work Agenda. The Sector's publications consist of books, monographs, working papers, employment reports and policy briefs.⁴

The *Employment Working Papers* series is designed to disseminate the main findings of research initiatives undertaken by the various departments and programmes of the Sector. The working papers are intended to encourage exchange of ideas and to stimulate debate. The views expressed are the responsibility of the author(s) and do not necessarily represent those of the ILO.



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¹ See http://www.ilo.org/public/english/bureau/dgo/download/dg_announce_en.pdf

² See http://www.ilo.org/public/libdoc/ilo/2010/110B09_108_engl.pdf

³ See the successive Reports of the Director-General to the International Labour Conference: *Decent work* (1999); *Reducing the decent work deficit: A global challenge* (2001); *Working out of poverty* (2003).

⁴ See <http://www.ilo.org/employment>.

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Acknowledgments

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List of acronyms and technical terms

AEC	ASEAN Economic Community (free trade targeted in a range of sectors by 2015)
AFAS	the ASEAN Framework Agreement on Services
AFC	Asian Financial Crisis (1997-98)
BNP2TKI	National Foreign Worker Placement Agency
CGE	Computerized General Equilibrium (Model)
EPA	(Japanese-Indonesian) Economic Partnership Agreement
FDI	Foreign direct investment
GATS	the General Agreement on Trade and Services
GFC	Global Financial Crisis (2008-09)
ICT	Information Communication Technology
IMTA	Permit for Utilization of Foreign Manpower in Indonesia
MNP	(Temporary) Movement ‘natural persons’ or international migration in service industries regulated under GATS
Mode 1	Cross border supply in services trade
Mode 2	Consumption abroad in services trade
Mode 3	Commercial presence, or foreign investment in services
Mode 4	Temporary international migration, or the movement of natural persons
MP3EI	The Master Plan for (accelerated expansion of) Indonesian economic development, 2011-2025
MRA	Mutual Recognition Agreement
POEA	Philippines Overseas Employment Administration
PTAs	Preferential Trade Agreements
TCF	Textiles, Clothing and Footwear industries
TKA	Tenaga Kerja Asing, Foreign Workers in Indonesia
TKI	Tenaga Kerja Indonesia, Indonesian Workers Abroad
WTO	World Trade Organization

Section 1: Introduction

This study examines the importance of the services sector and associated government policies for employment in Indonesia. It focuses on international trade and investment in services, international migration, and policies affecting employment in service sector trade agreements (especially in Mode 4).

We investigate the growth of services and its linkages with other sectors in terms value-added and employment from the national accounts, trade and labour force data and the input-output data. This includes an examination of the international trade and investment in services, and their impact on employment, and international migration (bearing in mind data constraints in this area). The analysis of empirical data on employment in services leads into a discussion of policy options and alternatives. Here the report concentrates on developments in policy towards services, through the various modes of supply identified in GATS and its ASEAN equivalent, AFAS (the ASEAN Framework Agreement on Services), as well as in regional and bilateral PTAs and partnership arrangements. Special attention will be given to Mode 4 in international agreements in services.

Key Issues

This study is informed by a broad policy framework that focuses on connectivity as a key to raising productivity, employment and living standards, by linking the main production, service and population centres, at home and abroad⁵. In particular we focus on the dimension of connectivity that relates to the relationship between tradable goods sectors (agriculture, manufacturing and mining) and services.

Four key ideas are central to our approach. First, services play a critical role in this connectivity, especially through trade, transport and communications networks. Raising productivity in services feeds into productivity and international competitiveness in tradable goods sectors, and thereby increases national employment and living standards. Second, raising productivity and living standards through improved connectivity requires substantial investment in human capital. Critical to these efforts are the endeavours on the supply side to raise the quality of services, especially in education and health, and the deployment of high quality professionals in a range of service activities to meet domestic and international demand.

Third, an internationally competitive services sector depends on making the services sectors more competitive, by reducing regulation that serves narrow sectional interests, and encouraging greater participation of both domestic and overseas investors and service suppliers in the main service sectors. Finally, Indonesia has opportunities to both increase earnings of foreign exchange, and raise domestic productivity in services by increasing the quality of employees engaged in service activities abroad and allowing greater engagement of foreign professionals, selectively, in key areas at home. Some of these opportunities can be realized through bilateral and regional trade and investment agreements, such as through AFAS.

⁵ The main arguments are contained in Indonesia's 'Master Plan' framed in 2011.

Several propositions are examined in the report and are a focus of the study⁶:

1. **Services are playing an increasingly major role in the Indonesian economy and employment.** They are important both as consumption goods and inputs to production in tradable goods sectors. Service sector employment tends to be dualistic with ‘new’ and ‘old’ services co-existing side by side, and both growing strongly. The old services, mostly in the informal sector are responding to labour supply pressures and demand opportunities at the lower end of the formal skill range. New services, through employment in professions and managerial related jobs, arise for a variety of reasons, especially as the middle class grows and the economy diversifies. Factors include both increased supply of educated manpower and increasing as well as more varied demand for education, health, recreation, managerial and business services.
2. **From the supply side, one crucial role of services in the economy and labour market is as inputs into tradable goods sectors.** High quality and affordable services underpin competitiveness in international trade. Services exports are small relative to the export of goods but their indirect contribution as inputs is large, especially in light manufacturing. The productivity of service sectors is thus critical to export competitiveness and employment in other sectors. From the supply side, the quality of manpower engaged in service industries is especially important for raising productivity and creating jobs. Alternatively, output in the main tradable goods industries creates significant jobs in service sectors: in trade, shipping, finance and business services, to name but a few of the indirect linkages.
3. **International migration is playing an important role in generating export earnings (remittances) in services, and improving the skill base at home.** Two areas are important. First; largely unskilled migration is significant through both government regulated and privately managed placements abroad. Second, more skilled migration is especially associated with business and professional services, both of which are regulated in regional and multilateral trade agreements. In each of these areas, the issues are quite different. For unskilled labour, the main issue is protection of unskilled workers through regulation and supervision at home and abroad, especially pertaining to domestic helpers. Improving domestic supply capacity to facilitate the export of more skilled manpower abroad is a feasible objective, but only in the medium to longer term. For skilled and professional manpower, the main issue is increasing the skills at home by providing both improved education and training and greater exposure to international competition.
4. **Increased productivity and competitiveness of services can be promoted through various modes of supply internationally.** These are identified in multilateral and regional trade forums as the four ‘Modes’ of services trade: cross-border trade, consumption abroad, commercial presence, and the movement of (‘natural’) persons, or international migration. Indirect effects on employment through Mode 3 in particular are likely to be important for development of skills. The direct effects of bilateral and regional agreements through ASEAN are anticipated to be small in the foreseeable future. This is partly because of the strong protectionist bent and influence of domestic professional associations in receiving countries, makes negotiating costs very high. Bilateral arrangements may offer more opportunities for professional migration on a limited scale. Nonetheless, regional agreements which seek to tackle some of the thorny issues related to unskilled and often unregulated migration, may contribute significantly to welfare, even if these jobs are not covered, technically, by the AFAS (or indeed GATS) framework.

⁶ Many of the issues are raised in ILO (2012).

Section 2: Output and employment in services

The services sector largely carried the Indonesian economy during the recovery years after the Asian Financial Crisis. It is now the largest of the most important sectors – bigger than agriculture and manufacturing combined – and its share increased throughout the first decade of the 21st century. It provided more jobs than any other sector from the middle of the 2000s. In our survey of growth and employment in the sector, we first look at output and employment in the sector and in the sub-sectors that make up services.

The services sector is often classified as non-tradable, partly for convenience in comparison with the more obviously tradable goods industries, agriculture, mining and manufacturing. Employment and output are more likely to be driven by domestic rather than overseas demand, compared with tradable goods sectors. Nevertheless, there are three good reasons for eschewing this simple classification. First, services sector ‘exports’ are in fact quite significant, not only in obvious areas such as tourism, but also in trade, transport and business and financial services. Indonesian ships, planes, trading houses, business groups and financial services compete in regional and international markets.

Second, following the framework discussed above, our presentation of data on recent trends and structure is premised on an understanding that relationship between trade and employment in services depends partly on the international competitiveness in the main ‘tradable’ sectors. Greater competition helps determine employment in these sectors, through indirect linkages with services industries.

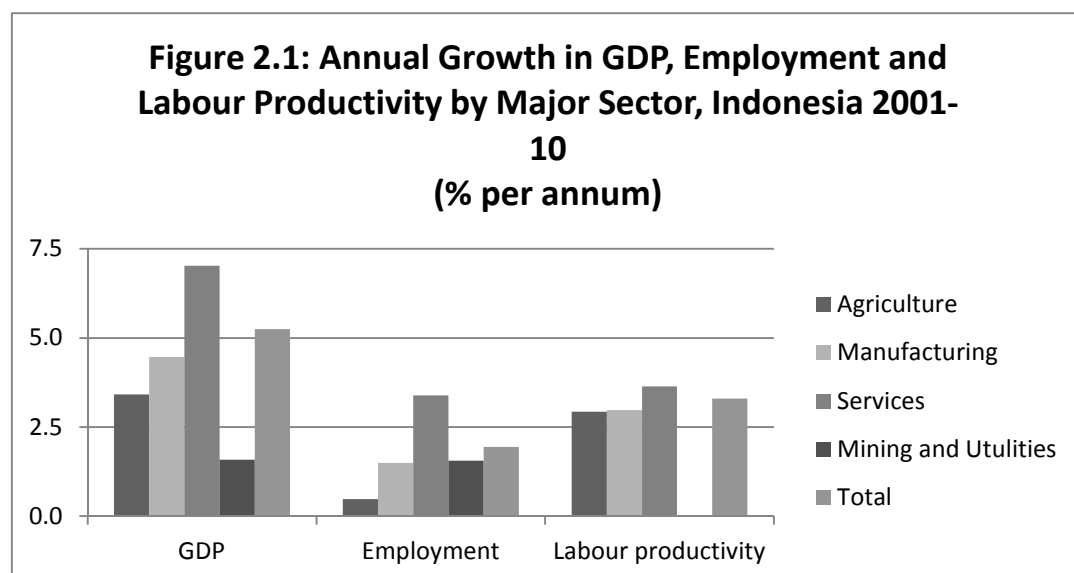
Finally, international competitiveness of services feeds into the capacity of tradable goods to compete in world markets. For example, a more productive education sector is important for of higher value added products to be able to contest in developed country markets, in competition with developing country competitors⁷.

We first look at the growth in the service sector compared with the other three major, more obviously tradable, sectors: agriculture, manufacturing and mining. The discussion then turns to various sub-sectors in the services and to some special characteristics of employment in services, especially related to formal and informal sector relationships, and gender roles.

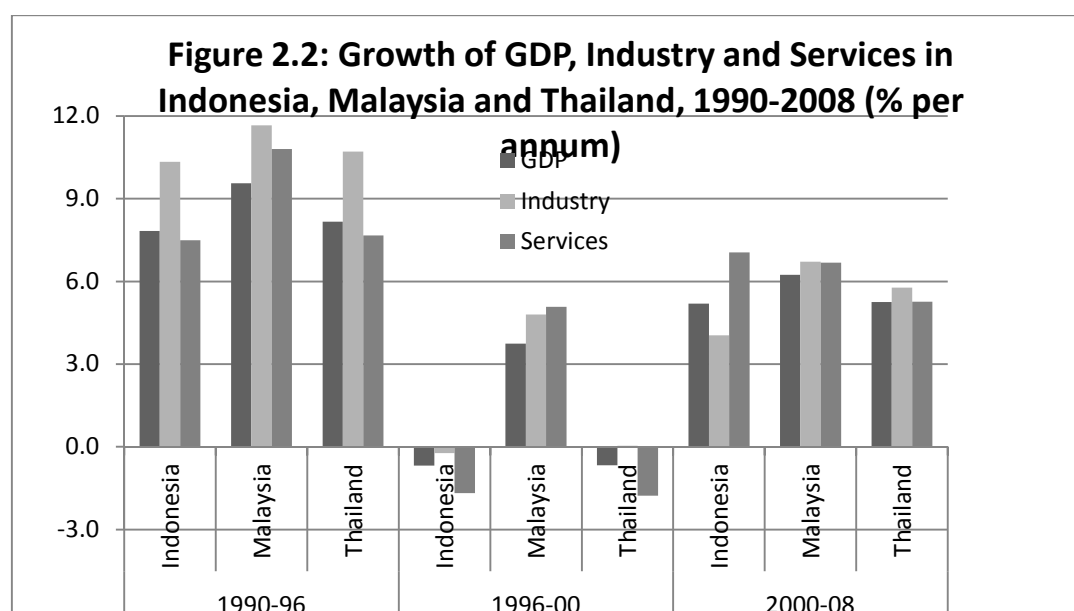
⁷ This is true, even if estimating the competitiveness of key service activities is a major challenge: the regulatory environment in relation to international competition is less open to precise measurement, compared with the case of commodity trade (at least in the case of tariffs applied to trade in commodities).

The importance of service industries for value added and employment

Figures 2.1-2.3 show overall trends in service output and employment relative to other sectors. The first point to note is the much faster growth in value added and employment in services than in the other major sectors. The value of output in services grew almost twice as fast, and employment increased more than twice the rate recorded in agriculture, manufacturing and mining in the 2000s (Figure 2.1)⁸. In just one decade, the share of services to GDP rose from 44 to over 50 per cent, and the employment share rose by a similar magnitude, to slightly less than 50 per cent of all employment in 2010.



Source: Statistics Indonesia, National Accounts and National Labour Force Survey (SAKERNAS) 2001 and 2010.



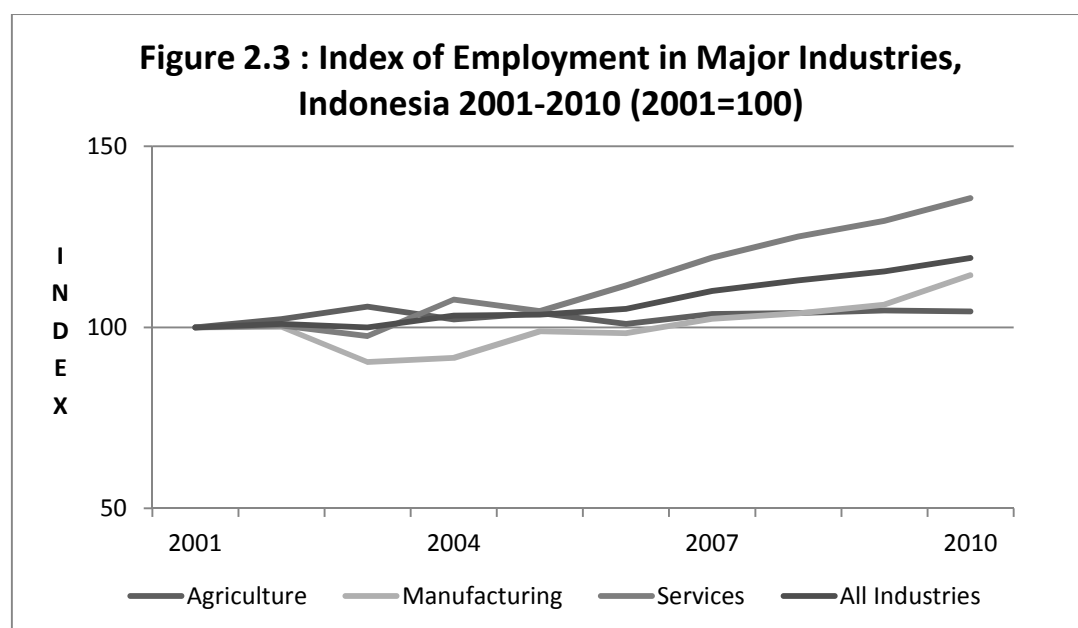
Source: Asian Development Bank, Key Indicators, 2010.

⁸ The scope of services includes construction in this report, unlike in the national accounts, where construction is grouped with industry. The mostly non-tradable construction industry is combined with services in discussions of services trade at regional and international forums. In 2010, construction accounted for just under 7% of total Indonesian GDP and just over 5% of employment.

The slower growth in manufacturing output after the AFC in 1997-98 has been a general phenomenon in Southeast Asia (Aswicahyono et al., 2008). Nevertheless, even in regional perspective, one important difference with several other Southeast Asian countries has been the slow recovery of industry in Indonesia after the AFC, relative to services. For example, services grew much faster than manufacturing in Indonesia in the 2000s, reversing the situation in the 1990s before the AFC. In contrast, manufacturing continued to grow as fast as services in Thailand and Malaysia, even though both industries registered a much slower rate of growth than before the AFC (see Figure 2.2).

At the same time, it is important to bear in mind that overall labour productivity was lower in services than in manufacturing or mining, a feature of the sector that remained as true in 2010 as it did in 1990 (Manning, 1992). The sector characterized by contrasting modes of production: low productivity, traditional segments – the ubiquitous street sellers, for example – coexist with modern segments that register much higher value added per worker (see below).

The second important characteristic is the wide range in growth rates between the main service sub-sectors (Table 2.1). Most notable has been the very rapid growth in value added in communications, on the one hand, in contrast to the slow growth in government services, on the other. By 2010, the contribution of the communications sector to GDP was already higher than that of government, after lagging well behind a decade earlier. In between these two extremes, growth rates in most other sectors are bunched together, with slightly higher growth (around 6-7 per cent per annum) in transport which slowed appreciably, providing some indirect evidence of the possible impact of poor investment in infrastructure on value added.



Source: Statistics Indonesia, National Labour Force Survey (SAKERNAS), 2001 – 2010.

Table 2.1. Growth and Changing Share of Output, Major Service Industries Indonesia, 2000-2010

Table 2.1: Growth and Changing Share of Output, Major Service Industries Indonesia, 2000-2010						
	Growth Rates		% of Services Output (%)		Share of GDP (%)	
	2000-2005	2005-2010	2000	2010	2000	2010
Construction	6.0	7.4	12.5	12.4	5.5	6.5
Trade	5.4	6.2	36.7	33.2	16.2	17.3
Transport	7.0	4.8	7.6	7.0	3.4	3.7
Communications	17.1	22.7	3.0	11.0	1.3	5.8
Financial services	6.7	6.3	18.9	18.3	8.3	9.5
Government	1.2	4.6	11.4	7.7	5.0	4.0
Private and Community	7.4	7.2	9.9	10.4	4.3	5.4
All Services	5.6	7.3	100.0	100.0	44.0	52.2
All Sectors	4.6	5.0			100.0	100.0

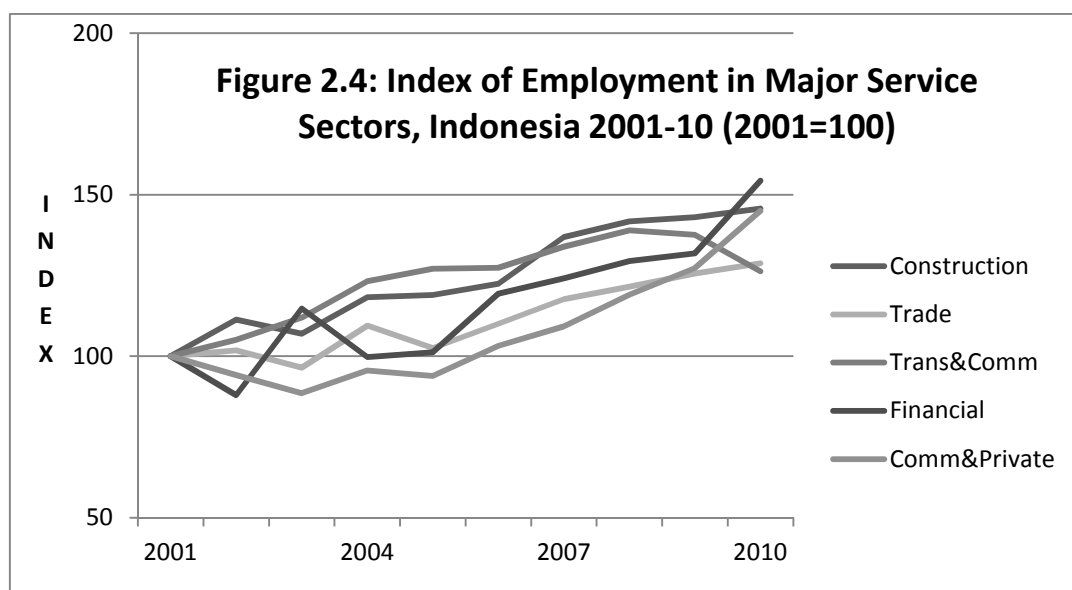
Source: Statistics Indonesia, National Accounts, various years.

Despite these quite big contrasts in growth of value added, employment expanded quite quickly in most service industries (Figure 2.4). Hence the correlation between value added and employment growth seems rather weak. For example, employment in transport and communications increased less quickly than might be expected from the very high rates of growth of value added. The gains in value added in this sector appear to have been high, mainly because of productivity growth, including the introduction of new products and new skills in ‘software’, as well as hardware in ICT. Thus job creation appears less directly related to output growth than in several other sectors (Figure 2.5). Conversely employment in other services (government, community and social services) was quite rapid, despite the slow growth of value added in government, which makes up a significant share of this sub-sector.

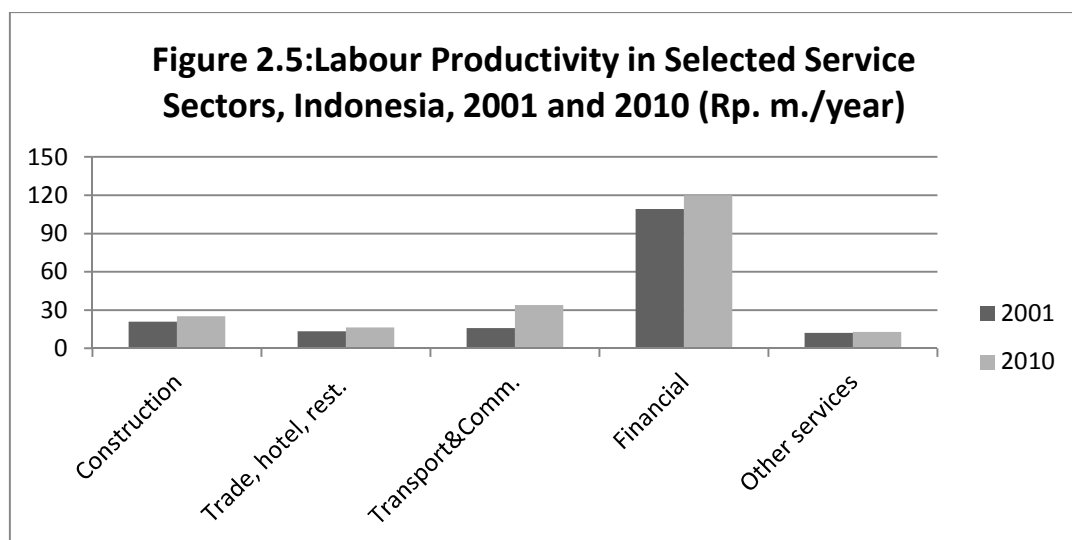
At the same time, the contrast between sub-sectors in value added per workers remains quite stark, despite differing growth rates. Thus value added per worker in financial services remained around 10 times higher than in most other sectors in 2010, while value added in trade and in ‘other’ services remained lower than in other sectors (see Figure 2.5). Overcoming the dualistic nature of services is as great a challenge as it is in manufacturing. It is partly associated with a still elastic supply of unskilled labour which crowds into the low productivity sectors.

Output and employment in the main services sub-sectors

Some tentative explanation for differing growth rates in output, employment and productivity within sub-sectors can be found in the data on value added growth in various sub-sectors, from the national accounts (Table 2.2). Three sub-sectors are of particular interest: transport, financial services and private and social/community services. In the transport sub-sector, the marked contrast between double digit annual growth rates in deregulated air transport, contrasts with very slow expansion of over-regulated sea-transport, and only moderate growth in road transport. The latter two activities feature prominently in the connectivity agenda in the MP3EI, which is the Master Plan for (accelerated expansion of) Indonesian economic development, 2011-2025 (Bappenas, 2011). However, institutional and regulatory reforms are necessary for these sectors to play a more dynamic role in linking regions and population centres⁹.



Source: Statistics Indonesia, National Accounts and National Labour Force Survey (SAKERNAS) 2000 and 2010.



Source: Statistics Indonesia, National Accounts and National Labour Force Survey (SAKERNAS) 2000 and 2010.

⁹ One important step towards improving road transportation networks was the passing of the controversial land acquisition law in parliament in December 2011, although only after a delay of several years.

Second, in the area of financial and business services, growth has been slow in banking institutions which dominate the sector, whereas non-banking institutions have grown strongly. Rental markets and business services have also expanded quite quickly. While the former is symptomatic of a continuing boom in property markets, the latter supports a general picture of a quite dynamic business environment, despite a range of regulatory and institutional constraints.

The value of output from private and social/community services all grew quickly (See Table 2.2). The economy, diversified, and the middle class grew during the decade of the 2000s (World Bank, 2011). In contrast, government services grew quite slowly, especially from around the mid 2000s, as public revenue and spending struggled to keep up with an increasingly dynamic private sector.

Characteristics of service sector employees

Since we do not have data on the characteristics of service sector workers in the export, sector, it is useful to examine the characteristics of all service sector workers, by main industry, mindful of the fact that there will be some differences with the distribution of people employed in activities related to exports.

Table 2.2. Growth and Distribution of Output in Selected Service Sub-Sectors, Indonesia 2000-2010

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Activity	Growth Rate (%) 2000-2010	Share of sub-sector (%)	
		2000	2010
Transport			
Land Transport	5.0	46.6	42.6
Maritime Transport	2.0	14.8	10.0
Air Transport	13.6	9.5	20.5
Services Related to Transport	5.4	23.5	22.3
Other transport*	3.5	5.7	4.5
<i>All Transport</i>	5.9	100.0	100.0
Financial Services			
Banks	4.9	47.7	40.9
Non-bank Financial Institutions.	8.1	7.3	8.6
Building Rental	7.5	27.6	30.6
Business Services	7.9	16.7	19.3
Other Financial Services	5.7	0.7	0.7
<i>All Financial Services</i>	6.5	100.0	100.0
Private-Social Services			
Social & Community	6.9	26.3	25.3
Amusement & Recreation	7.0	8.0	7.7
Personal & Household	7.5	65.8	67.0
<i>All Private Services</i>	7.3	100.0	100.0
All Services	6.5		
GDP	5.1		
*Rail and inland water transport			

Source: Statistics Indonesia, National Accounts, 2000 and 2010.

Regrettably, not all sub-sectors can be broken down to examine productivity trends. In particular, there is no further breakdown in the national accounts for wholesale and retail trade, the largest sub-sector of all, which accounts for around one quarter of total output in services. Similarly, the rapidly growing communications sector remains a black box. Although it is reasonable to expect that ICT is playing a big role, we simply do not know how much new technology in mobile phones, Facebook and other internet tools is driving output and productivity growth in these sectors. Nor is there knowledge of where the obstacles are, and hence the direction of necessary human capital and associated policy initiatives to help overcome them.

Data limitations aside, how did employees in services compare and contrast with workers in other sectors? Employees in service industries were marked by characteristics rather different from the stereotypes of the sector, which tend to focus on high levels of informality, and on services as an employer of the last resort for rural 'surplus' labour. Compared with agriculture and manufacturing, service industries employed a higher percentage of white collar, formal sector and educated workers than the main tradable goods sectors (Table 2.3)¹⁰. Over 80 per cent of all white collar and tertiary employees in Indonesia work in services, just as many times the number of highly educated professionals employed in agriculture, manufacturing and mining combined.

Services sub-sectors

The heterogeneity of employment in services is illustrated by the contrasts in employee characteristics across sectors¹¹. New private sector service activities engage well educated professionals, and coexist with traditional service activities in petty trade, transport and other services (especially domestic helpers). By far the largest sector of employment was trade, followed by construction, with education in third place (Figure 2.6).

In retail trade, a very small proportion of employees are white collar (professional, managerial or clerical), nearly 80 per cent were engaged in the informal sector, and just under two thirds had only graduated from lower secondary school or less (See Annex Table 2.1). The picture is similar in construction, hotels and restaurants and road transport¹². In construction, an even smaller proportion of workers had graduated from senior high or at the tertiary level in 2010.

Among modern sector activities, government and educational services have stood out in service sector employment for several decades. In both cases, the work force consists of a high proportion of professionals and tertiary educated employees. Privatization of secondary and tertiary schooling and the 20 per cent budget allocation to education mandated in the constitution has probably contributed to this. Over 60 per cent of all employed tertiary graduates worked as civil servants or teachers in schools, academies or universities in 2010 (Figure 2.7). Private sector services, especially banking, still play a very minor role in total employment, and even in the employment of graduates or white collar workers. These activities accounted for a little over three per cent of all service workers, and only a slightly higher proportion of more educated employees.

¹⁰ In this study, the informal sector is defined crudely as all self-employed (both with and without family help), family workers and casual wage employees in and outside agriculture. A more refined, only slightly different, definition employed by Statistics Indonesia (BPS) excludes those self-employed who are professionals.

¹¹ For an earlier treatment of the role of services in economic development, See Riddell (1985).

¹² A high proportion of employees in hotels and restaurants were informal and had low levels of schooling. The modern part of this sector, concentrated in the large cities like Jakarta, contributes only a small share of total employment, besides the ubiquitous warung and low cost accommodation that is common for lower middle class travelers throughout Indonesia.

Table 2.3. Distribution of Main Industries by Occupation, Formal-Informal Status and Schooling, Employed Population, Indonesia, 2010 (Percentages)

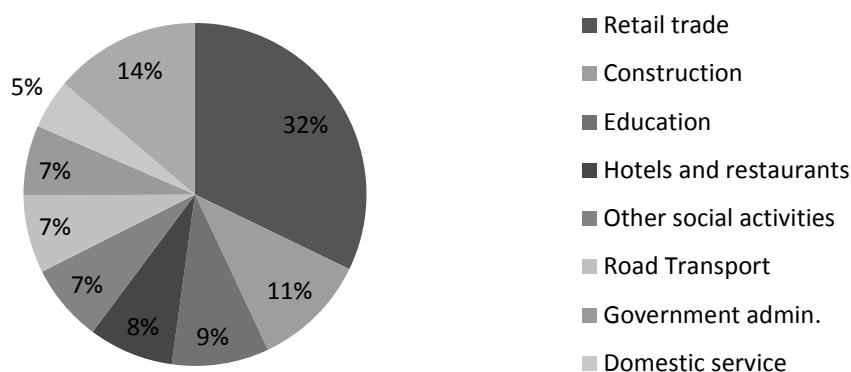
INDUSTRY	Distribution	Occupation White collar	Formal-Informal			Completed Schooling	
			Informal	Formal		<=Primary	Tertiary
Agriculture	38.5	0.3	91.5	8.5	100	74.9	0.3
Mining	1.2	5.9	50.6	49.4	100	54.4	2.9
Manufacturing	12.7	5.0	42.8	57.2	100	40.2	2.3
Electricity, gas and water	0.2	18.2	12.5	87.5	100	12.2	6.2
Construction	5.1	6.0	61.0	39.0	100	51.6	2.9
Trade, rest. And hotels	20.8	3.6	74.4	25.6	100	40.3	2.8
Transport and communications	5.2	5.3	65.9	34.1	100	39.4	3.3
Finance and business	1.6	24.2	15.2	84.8	100	7.4	21.7
Gov., community and private	14.7	44.4	24.1	75.9	100	19.8	21.2
SUB-TOTAL: Construction & Services.	47.4	17.4	54.5	45.5	100	33.9	9.2
TOTAL							
%	100.0	9.1	67.1	32.9	100.0	50.7	4.8
Population (Million)	109.0	9.9	73.2	35.8	109.0	55.3	5.2

Source: Statistics Indonesia, National Labour Force Survey (SAKERNAS), 2010.

Gender roles in service activities

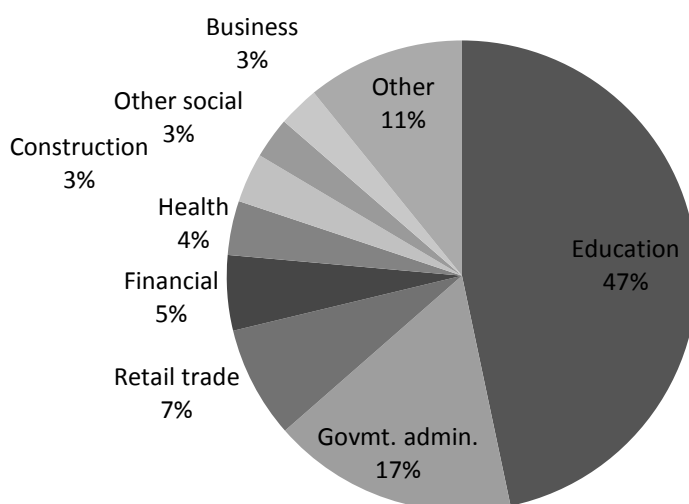
Some of the ‘traditional’ activities were especially reserved for females. Among the informal sector activities, females were ‘over-represented’ in by far the biggest single (two digit) sector, retail trade, and also in restaurants and hotels (Table 2.4). At the other extreme, they were over-represented in some activities where regular wage jobs predominated, such as in health, and education, as teachers and lecturers. It is striking that well over half of female employees in services and construction were concentrated in the same three activities (retail trade, teaching and as domestic work) that accounted for over half of all employment of women in services 25 years earlier (Manning, 1998: 263)¹³.

Figure 2.6: Distribution of Employment in Main Service Sector Activities, Indonesia 2010



Source: Statistics Indonesia, National Labour Force Survey (SAKERNAS) 2010.

Figure 2.7: Distribution of Tertiary Graduates in Major Service Activities, Indonesia, 2010



¹³ Of course, the most notable subsequent change in the 1990s was the increase in female employment in ‘modern’ factory work, in the export-oriented TCF industries that expanded rapidly in the decade before the AFC, but have stagnated since then. In 2010, females outnumbered males by almost 2:1 in these industries.

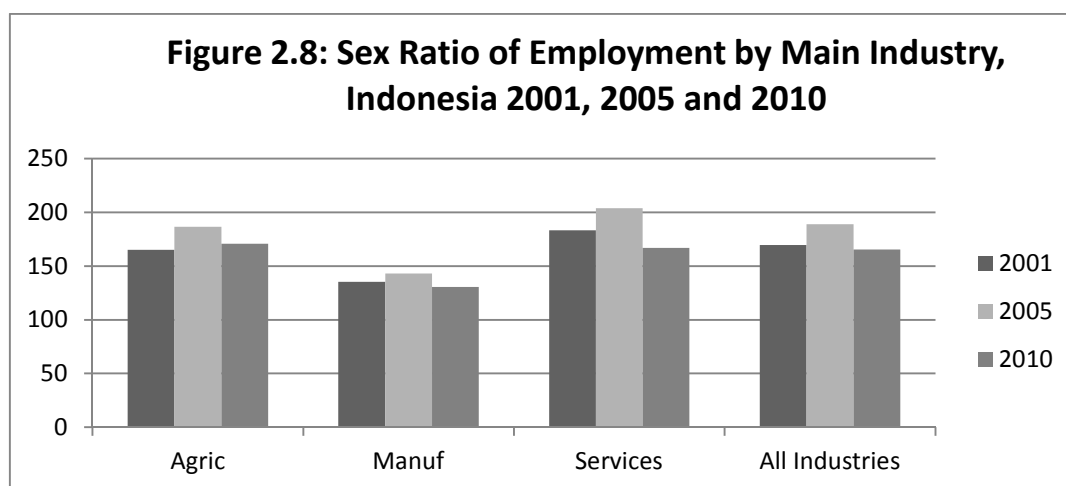
Nevertheless, the data suggests a degree of occupational mobility among females associated with improvements in educational achievement. Outside those activities that require more physical strength (e.g., construction and road transport), it is noticeable, that females had quite high levels of representation and accounted for just under 40 per cent of total employment in all services. In most activities in trade, transport and community services, the level of female ‘representation’ (the share of female employment in the given sector relative to female employment in all sectors) was above 50 per cent.

Recent trends in service sector employment

Annex Table 2.2 shows some of the trends in service sector employment over the past five years, a period when employment in services has been growing quite strongly¹⁴. Overall, employment shifted towards ‘modern’ services. At least senior high and often tertiary schooling is increasingly required for a ‘regular’ job. The number of professionals engaged in modern sector activities appears to have grown very strongly, by over 10 per cent a year in the period 2005-2010 after stagnating in the early 2000s (data not shown in the table). This is consistent with a significant expansion in the share of tertiary educated people employed over the same period from (2005-2010), from three to just under five per cent, many of who are working in the education and health sectors, as well as in trade.

However, in sectors where informal labour is more pronounced, the share of informal workers has remained high and has risen in some sectors (e.g. construction) in the 2000s, as the demand for formal sector jobs has tended to stagnate (Manning and Purnagunawan, 2011). While the share of workers with only a primary level of schooling, or less, fell in the female dominated retail trade sector, it rose in construction and road transport, which are mainly the preserve of male workers.

Figures 2.8 and 2.9 provide some data on trends the sex ratio of employment (males to 100 females) in major industries in Indonesia in the 2000s. Seemingly related to higher levels of female schooling over the past decade, there was an improvement in the representation of females in business and finance, and also in government, community and social services. However there was no clear pattern in other sectors.

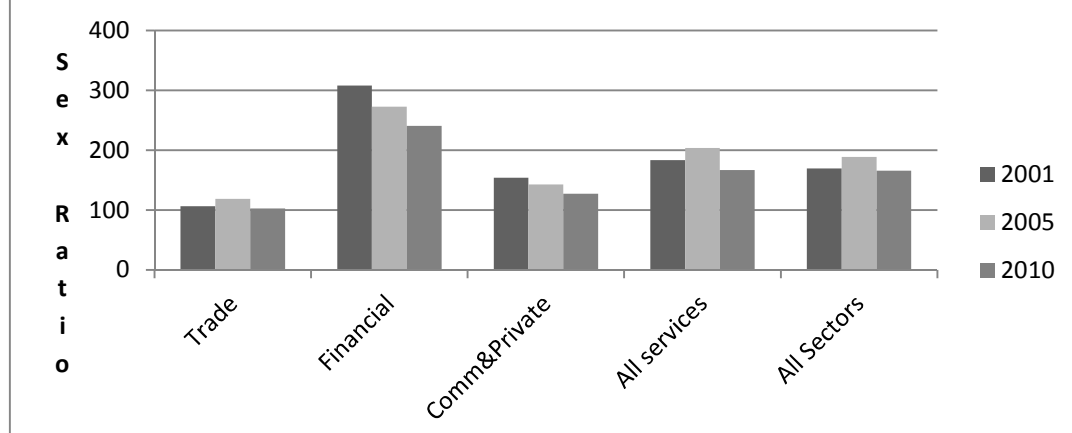


Note: Services includes construction in this figure.

Source: National Labour Force Survey, selected years (August round).

¹⁴ Nonetheless, the situation has changed in regard to the level of schooling; the share of more educated workers rose steeply over the past two decades. Two decades earlier (in 1990), less than five per cent of workers in trade, hotels and restaurants had graduated from senior high school compared with over 35% in 2010 see Manning (2002).

Figure 2.9: Sex Ratio of Employment in Major Service Industries, Indonesia 2001, 2005 and 2010



Note: Neither construction or transport and communications are included since both industries are almost entirely dominated by males (a ratio of over 10:1). All services do include males however.
Source: National Labour Force Survey, selected years (August round).

Table 2.4. Female employment in services sub-sectors, ranked by informal sector employment grouping, Indonesia 2010

	% of Total Employment	% of all Female Employment In Services*	Female Representation**
Informal > 60% of total employment			
Retail trade	32.1	44.3	1.38
Construction	10.8	0.7	0.07
Hotels and restaurants	8.0	11.2	1.40
Other organizational/social	7.4	4.8	0.64
Road Transport	7.3	0.4	0.05
Informal 30-60% of total employment			
Household (domestic service)	4.7	9.3	1.99
Other transport	2.4	1.1	0.47
Wholesale trade	2.1	1.3	0.63
Trade assoc. with transport	1.5	0.9	0.60
Post and telecomm.	1.2	1.0	0.83
Cultural, recreational, sport	0.9	0.6	0.66
Exports and imports	0.1	0.1	1.13
Informal <30% of total employment			
Education	9.2	13.9	1.52
Government administration	6.6	4.0	0.61
Health	2.1	3.6	1.70
Financial services	1.9	1.8	0.91
Business services	1.5	0.9	0.61

* Excludes "other activities"

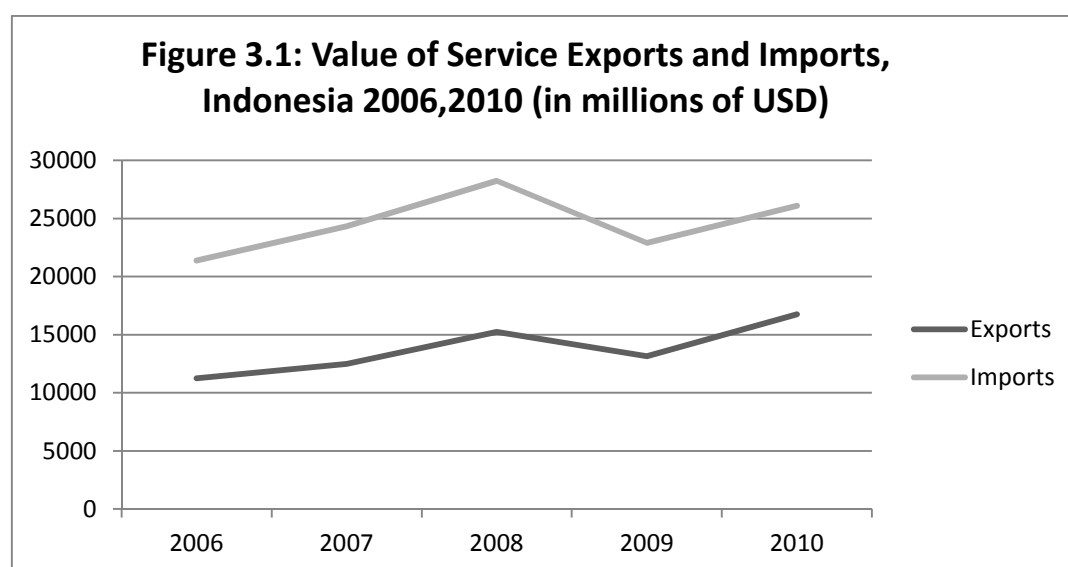
**Ratio of female share of employment in each activity relative to female share in employment in all service sectors.

Statistics Indonesia, National Labour Force Survey (SAKERNAS), 2010.

Section 3: Trade and employment in services

Services are an important part of Indonesia's global trade and thus have a significant impact on the domestic labour market and employment. This applies especially to employment generated through services exports, which grew at a moderate rate in the 2000s. We look first at some of the data on service sector exports from the balance of payments data, and then turn to services exports and employment data from the latest input-output table for Indonesia (2005).

Indonesia experienced steady growth in trade of both goods and services during the 2000s. Amounting to only slightly more than 10 per cent of the value of total exports and imports, both exports and imports of services grew close to the same rate as commodity trade. Exports of services grew at close to ten per cent per annum in nominal USD terms and a slightly slower of eight per cent per annum in real terms from 2000-2010 (Figure 3.1).



Source: Bank Indonesia, Balance of Payments Statistics, 2006-2010.

In contrast to commodity (goods) trade, Indonesia sustains a significant deficit in services trade. Imports, at nearly to USD 26 million, were almost twice the value of services exports in 2010 (Table 3.1). The absolute size of the deficit in services trade increased during the 2000s to just under \$10 billion in 2010 (nominal value). In relative terms (as a percentage of total trade), the deficit also increased, although less steeply. There is no obvious reason why trade in services should be balanced, especially given a high domestic elasticity of demand for service products from the rest of the world. However, the data do suggest that there is much potential for services exports to grow faster (see below).

Main components of trade in services: Transport, Travel and other business services

Both imports and exports mainly consisted of three groups of services: transport, travel and 'other' business services (Figure 3.2). Exports and imports increased in all categories from 2006 (the first year for which we have more detailed data on services trade). We deal with each in turn.

The increases in both exports and imports were much larger in travel category than for the other two groups. On the export side, travellers coming to Indonesia earned the country approximately USD 7 billion in foreign exchange, or slightly under half of the value of all services exports in 2010. Three quarters of travel earnings came from tourism (personal travel), and a further one-quarter was related to business travel (Table 3.2)¹⁵. The value of foreign exchange earned in both of these categories rose sharply from the mid-2000s through to 2010, at an average rate of over ten per cent per annum.

Table 3.1. Trade in services, Indonesia 2006 and 2010 (in thousands USD)

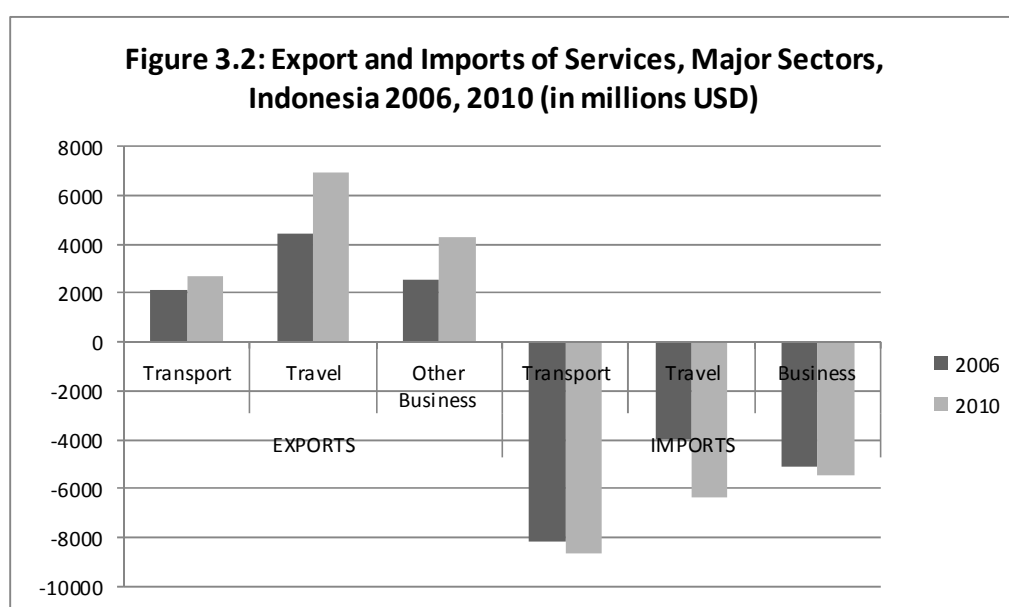
EXPORTS	2006	2010	% Change
Transport	2102	2665	26.8
Travel	4448	6958	56.4
Communications	1102	1126	2.2
Construction	456	520	14.0
Insurance	32	22	
Financial services	183	332	81.4
Computers, information	118	114	-3.4
Royalties, license fees	13	60	
Other business	2564	4309	68.1
Personal, cultural, recreational	74	104	40.5
Government	427	555	30.0
TOTAL	11519	16765	45.5
IMPORTS			
Transport	-8181	-8673	6.0
Travel	-4030	-6395	58.7
Communications	-571	-547	-4.2
Construction	-986	-592	-40.0
Insurance	-384	-1153	200.3
Financial services	-346	-450	30.1
Computers, information	-595	-585	-1.7
Royalties, license fees	-872	-1616	85.3
Other business	-5086	-5456	7.3
Personal, cultural, recreational	-124	-133	7.3
Government	-219	-490	123.7
TOTAL	-21394	-26090	22.0
Net Exports	-9875	-9325	

Source: Bank Indonesia, Balance of Payments Statistics.

¹⁵ These figures probably understate earnings from business travel since many short-term business visitors tend to come to Indonesia on a tourist visa.

At the same time, travel of Indonesians abroad accounted for significant share (around one quarter of) payments to foreigners, so that the net travel account showed only a small surplus. Like incoming travellers, Indonesian visitors overseas consisted mainly of people going abroad for personal reasons (tourism, family reunion and the haj), although Indonesian business travellers also accounted for a sizeable share (around one-third) of payments abroad for travel¹⁶.

Travel abroad by the growing middle class for both work and leisure is a relatively new phenomenon for many Indonesians, and can be expected to increase quite quickly in coming years. Expenditure of Indonesian tourists and business travellers abroad increased at around the same rate as income from visitors to Indonesia. In terms of actual numbers, the total number of travellers going abroad rose from 3.4 to 4.5 million over the four years 2006-2010, also very close to the absolute number and increase in inbound travellers. Perhaps surprisingly, on average Indonesians traveling abroad were spending only slightly less than foreign tourists or business travellers to Indonesia (Table 3.2).



Source: Bank Indonesia, Balance of Payments Statistics, 2006 and 2010.

¹⁶ Payments abroad for the haj were a relatively small share of the total. At slightly less than \$500 million, they amounted to around 15% of the total personal expenditure of Indonesians on overseas travel. The value of these payments is estimated to have risen only slightly over the past several years, despite quite a large increase in the number haj pilgrims.

Table 3.2. The value of payments for overseas travel/tourists to and from Indonesia, 2006 and 2010

No. of travellers and value of payments	Foreign travel to Indonesia		Indonesian travel abroad	
	2006	2010	2006	2010
<i>Number of travellers (millions)</i>				
Tourists/travel for personal reasons	3.4	4.5	3.3	4.5
Business travellers	1.5	2.7	1.7	2.0
<i>Total value of payments (in billions USD)</i>				
Tourists/travel for personal Reasons	3.1	4.7	2.9	4.4
Business travellers	1.3	2.2	1.2	2.0
<i>Average payments per traveller (\$)</i>				
Tourists/travel for personal Reasons	913	1056	867	978
Business travellers	913	845	731	1020

Source: Bank Indonesia, Balance of Payments Statistics, 2010.

Turning to transport, the second major group in services trade, imports stood out. Payments to foreign providers accounted for slightly under one third of the value of all service imports. Transport on the import side consisted mainly of freight of general merchandise items, while oil accounted for around a quarter of the total in this category. Freight imports hardly rose over the past several years, despite a significant increase in the total value of imports, suggesting a decline in unit freight charges set by overseas shippers. In contrast to quite large payments to foreign shippers, Indonesian planes and boats carried a smaller value of goods and passengers abroad, although transport still accounted for around 20 per cent of all service exports.

The export and import of ‘other’ business services, the third major category of services trade, was close to the same value as transport services (see Figure 3.2). On the export side, Indonesia companies have been active in providing business services in the Middle East. Overseas construction companies from Indonesia have been investing in projects such as the construction of toll roads in the Philippines. This group of activities is also likely to consist of individuals working as professionals abroad. On the import side, Indonesia is host to a significant number of business services provided by foreign firms, especially as ancillary activities in the mining sector.

To round off this discussion of services trade, the other smaller categories of service exports and imports deserve brief mention (Figure 3.3). None of these increased significantly in recent years, either on the export or import side. Indeed the import of construction services actually declined in 2010, compared with several years earlier¹⁷. As Indonesia seeks to improve ‘connectivity’ within the country through several large scale infrastructure projects as part of the ‘Master Plan’, one might expect the import of overseas construction services to increase, especially those provided by large Chinese companies with a growing reputation for such activities in other parts of the world. One example is

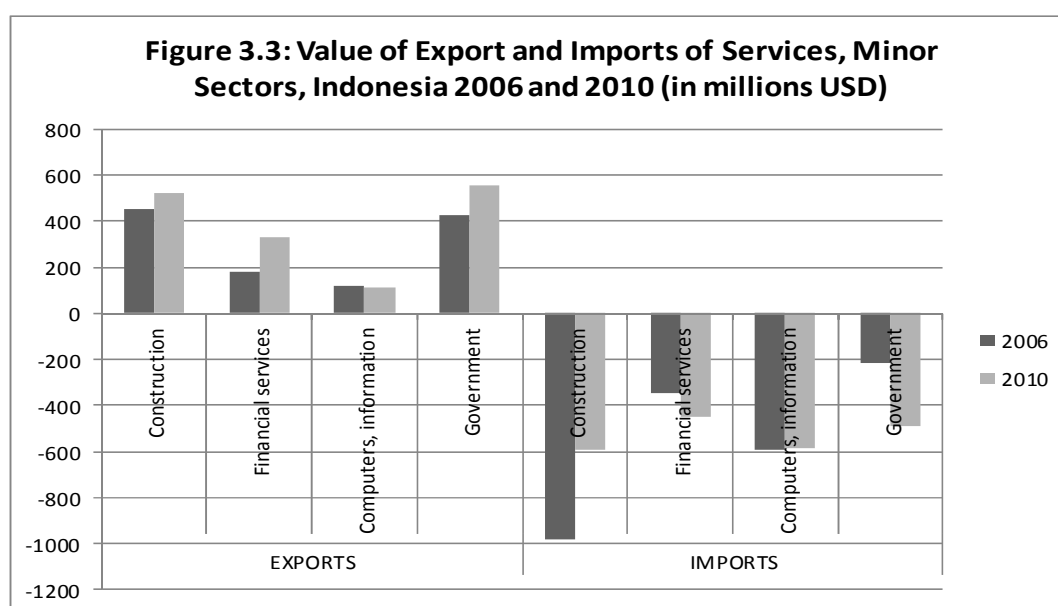
¹⁷ This may have been related to the completion of the Suramadu Bridge that involved Chinese contractors (and had employed a large number of Chinese construction workers).

planned Sunda Bridge, a huge project connecting Java and Sumatra that is envisioned in the MP3EI.

Finally, although small in value, it is worth noting that both the import and export of financial services increased in recent years, as did government services, although both items still remain small.

Trade and employment in services

The latest input-output table provides a useful overview of the structure of employment associated with services trade. We will see that trade in the main tradable commodities has had a large impact on employment in services. This is in addition to the quite large direct effect of services exports on jobs, which is commensurate with this sector's contribution to the total value of exports.



Source: Bank Indonesia, Balance of Payments Statistics, 2006 and 2010.

Table 3.3 provides an overview of the value of exports and associated employment in services, compared with exports of all sectors, including primary and secondary industries¹⁸. As discussed above, the share of exports from service activities from the input-output tables was surprisingly high in 2005 at close to 20 per cent of all the total (dollar) value of exports¹⁹. Jobs in services accounted for slightly less than 20 per cent of the total number of jobs created from export activities. Perhaps surprisingly, the 7.1 million jobs supplied in services in relation to all exports (taking into account both direct and indirect linkages), was more than the total number of jobs created by all manufacturing exports (processed foods, light and heavy industry), which amounted to less than five million jobs (Table 3.4). The number of service jobs created through exports was only second to those generated in primary industries, and exceeded employment creation in manufacturing. Service sector jobs associated with exports dwarfed job creation primary industries which accounted for only ten per cent of all jobs created by exports in 2005.

¹⁸ Some of the data in this section are based on material contained Aswicahyono and Manning (2011) which focuses on manufacturing exports and employment.

¹⁹ The estimated values of service sector exports based on the national accounts data, which form the basis for the I-O tables, were much higher than those reported in the balance of payments tables.

Table 3.3. Total and service sector exports and employment, Indonesia 2005

	All Sectors	Services
Exports (millions USD)	100.7	20.7
Total Employment (millions)	95.5	40.7
Employment induced by exports (millions)*	15.8	7.1
% of total employment	16.6	17.4

Source: Computed from the Input-Output Tables and National Labour Force Data, Statistics Indonesia, various years.

In recent years, service sector jobs associated with exports have increased at the same rate as all exports. In the period 1995-2005, exports accounted for almost two-thirds of new all jobs created in Indonesia, and over one-third of new jobs created in services (see Table 3.4).

The main areas of employment in services associated with exports were similar to those areas most prominent in employment in all service activities in Indonesia. Thus trade was the largest area of employment, and road transport and restaurants also figured prominently (Table 3.5). The huge contribution of trade to employment is presumably a reflection of the labour intensive character of the trade activities associated with exports: exports of primary commodities for example, are likely to engage a large number of traders.

Table 3.4. Employment created by exports in main industries, Indonesia 1995-2005

Sector	Tot. no. of jobs (in millions)	2005		Growth (% p.a.)	1995-2005	
		Jobs related to exports			% of jobs Created	% of all new jobs created by exports
		% of all jobs	Million			
Primary	43.6	9.5	4.1	5.9	33.3	110.5*
Processed Food	1.8	16.8	0.3	2.6	1.3	**
Light Industries	6.4	54.9	3.5	3.2	17.1	65.6
Heavy Industry & Chemical Industries	3.0	28.1	0.8	5	6	61.2
Services	40.7	17.4	7.1	4.0	42.2	36.0
ALL SECTORS	95.5	16.6	15.8	4.3	100	67.4
Total Jobs (m.)					5.52	8.2

*Employment growth in domestic activities was negative over the period 1995-2005.

Source: Computed from the Input-Output Tables, Statistics Indonesia 1995 and 2005.

Table 3.5. Value of service export activities and employment associated with exports, 2005

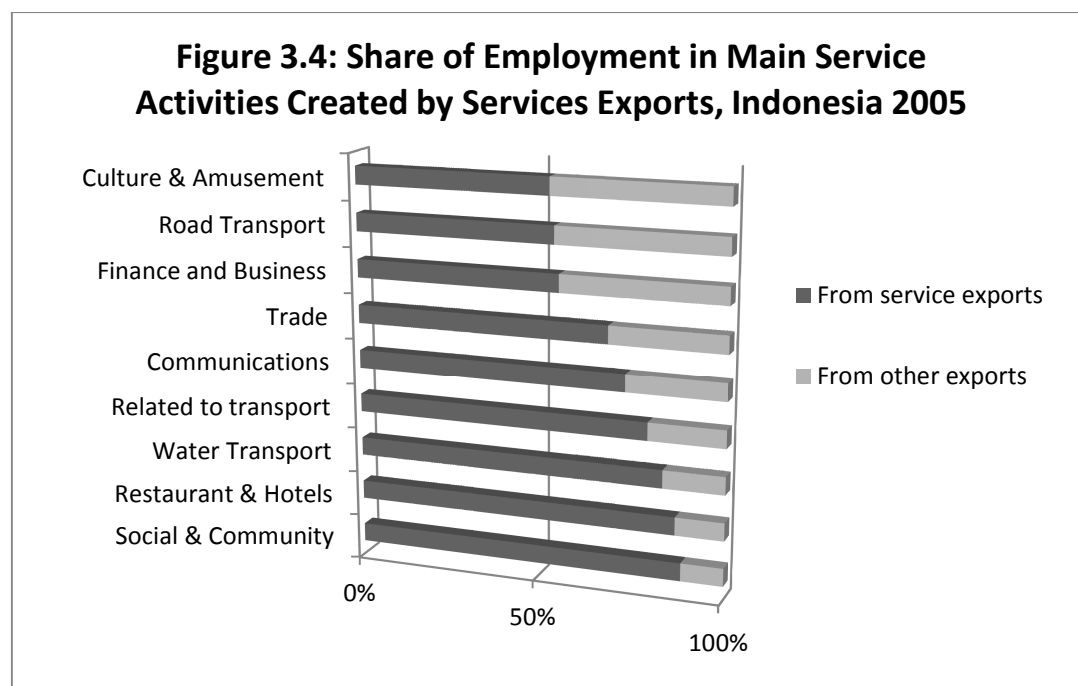
MAIN INDUSTRY /Service Activity	Value of Export Related Activities		Employment	
	Rp. Billion	%	[000]	%
CONSTRUCTION	n.a.	n.a.	89	1.3
TRADE, HOTELS, RESTAURANTS				
Retail Trade	7893	38.1	3986	56.7
Restaurants & Hotels	2510	12.1	316	4.5
TRANSPORT AND COMMUNICATIONS				
Road Transport	1199	5.8	635	9.0
Water Transport	2326	11.2	350	5.0
Services Allied to Transport	819	4.0	200	2.8
Communications	956	4.6	157	2.2
Air Transport	797	3.8	36	0.5
Railways	12	0.1	9	0.1
FINANCE AND BUSINESS	1679	8.1	277	3.9
GOVERNMENT, SOCIAL & PRIVATE SERVICES				
Culture & Amusement Services	752	3.6	594	8.5
Social & Community Services	1422	6.9	251	3.6
Public Administration	337	1.6	87	1.2
Total Services*	20704	100.0	7031	100.0
ALL INDUSTRIES	100681	100681	15825	

Source: Computed from the Input-Output Tables, Statistics Indonesia, 2005.

There were some important differences, however, with employment in services at home. Water (maritime transport), and culture and amusement were important for employment among export activities. Exports were not large in education, health and government services, and hence many fewer jobs related to exports were created in these sectors. Neither education nor health are sectors where Indonesia has a large presence abroad (Mode 3 in services trade under GATS), or where there is significant consumption from abroad of services supplied at home (Mode 2).

Data is not available on the educational, gender and formal-informal sector breakdown of services employment associated with exports. We can be confident, however, that the characteristics of workers whose jobs depended on exports would not be that be different from the characteristics of workers employed in similar activities but producing for the domestic market. First, we could expect exports to have a disproportionate influence on creating more jobs for females in the informal sector associated with the large retail trade sector, and to a lesser extent in restaurants and hotels. Land and maritime transport activities related to exports, on the other hand, are likely to be heavily dominated by males. Second, it is also likely that levels of completed schooling were lower for employees in export oriented service activities. Neither education nor government services, the two main areas where the share of tertiary schooling among employees is high (see Figure 2.7 above), are of much consequence among service sector exports.

There was some variation across service activities in the share of jobs that were created *directly* as a result of exports of services, as against those jobs generated in services by exports from other sectors. Land transport, and finance and business are two examples where production of goods had a big impact on the generation of service sector jobs (Figure 3.4). In these service activities nearly half of all jobs spawned resulted from exports in activities other than services. At the other extreme, a high proportion of employment in several activities (maritime transport, restaurants and hotels and social and community services) were directly related to service sector exports. Jobs in restaurants and hotels associated with exports were presumably directly associated with tourism and overseas business presence, while water transport could be expected to be associated with Indonesian shipping services with ASEAN and Asia.



Source: Computed from the Input-Output Tables, Statistics Indonesia, 2005.

The *indirect* impact of exports on employment in services through the output of conventionally defined tradable goods industries has been important in all sectors (Table 3.6). In primary sectors, processed food and light manufacturing, services employment made up 16-17 per cent of all jobs arising from exports, whereas the share was much larger (44 per cent) for heavy and chemical industries that created many fewer jobs directly. Alternatively, service activities themselves had relatively little impact on jobs in other sectors, except for primary industry (see last column in Table 3.6).

Figure 3.5 illustrates some of these results for the manufacturing industries. The relatively labour-intensive light industries created most jobs directly as a result of exports. But in heavy industry and chemical industries, exports created more jobs indirectly in services than in these. Jobs in transport, trade and financial and other business activities were generated as a result of investment in these more capital intensive manufacturing activities.

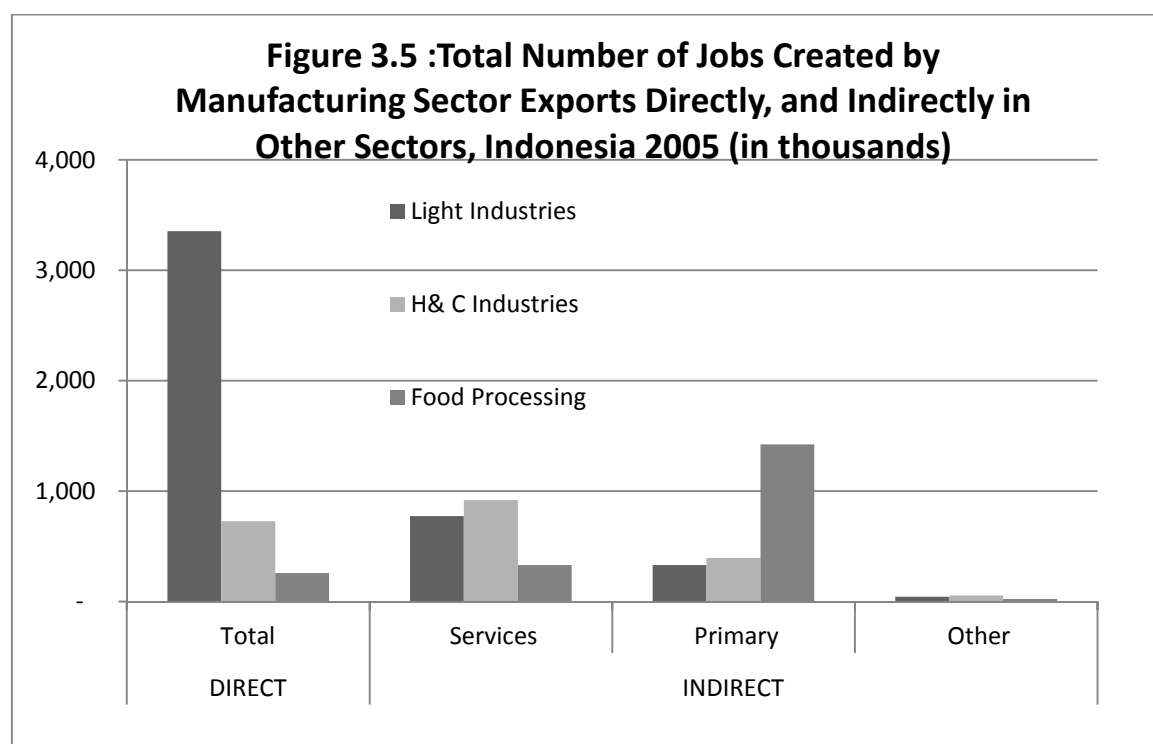
The impact of the cost of services on competitiveness and employment

As highlighted above, one characteristic of services is that they play significant role in the employment and production of other sectors. From the input-output tables we get a picture of how important services are for the cost of production in various export activities. The data also helps point out which services play an important role in determining costs. The broader issue relates to competitiveness: an efficient and competitive service sector is likely to feed into low costs of production prices, and hence increase output, investment and employment in most export industries.

Table 3.6. Jobs created through each industry own exports, and linkages with other sectors, Indonesia, 2005

Sectors in which jobs were generated	Exporting Sector				
	Primary	Food Processing	Light Industry	Heavy&Chem Industry	Services
Primary Sector	80.3	69.8	7.4	18.9	14.5
Industry					
Process	0.1	12.7	0.2	0.2	0.6
Light	0.6	0.5	74.4	2.4	1.1
Heavy Industry & Chemical Industries	1.8	0.7	0.9	34.7	0.6
Services	17.1	16.2	17.2	43.8	83.2
Total	100	100	100	100	100
Number of workers (m.)	1.4	2.0	4.5	2.1	5.8

Source: Computed from the Input-Output Tables, Statistics Indonesia, 2005.



Source: Computed from the Input-Output Tables, Statistics Indonesia, 2005.

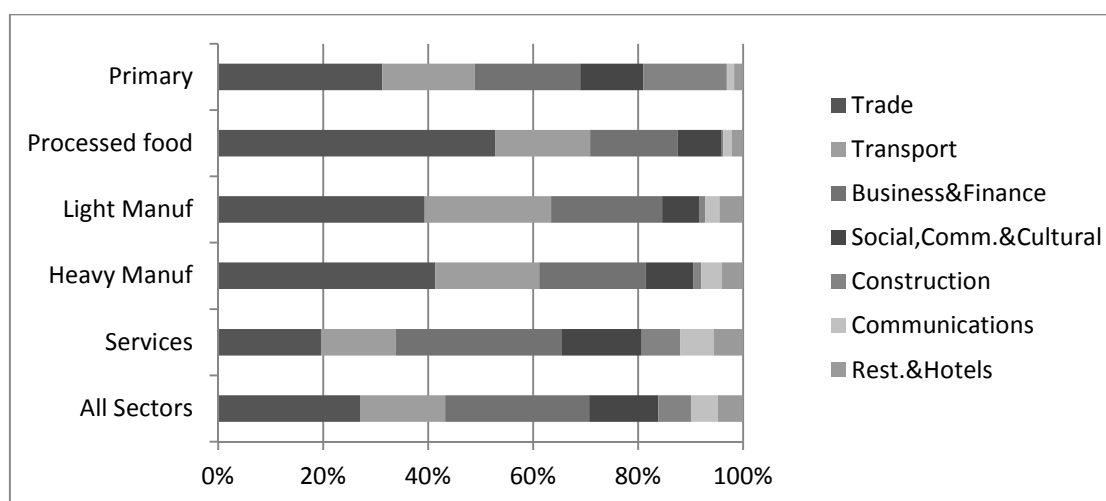
Tables 3.7 and 3.8 and Figure 3.6 present some results from these calculations. Looking at all exports, services inputs account for approximately 16 per cent of the value of output. The large share of these costs comes from domestically produced services, and a small part (less than two per cent) from imports. Compared with their share in total employment, real estate and business services, and financial intermediaries account for a larger percentage of total costs. In contrast, trade costs only account for around a quarter of total costs, versus this sector's contribution to nearly 60 per cent of all employment in service activities associated with exports. Land transport is also important in total costs in export industries. These are the areas where better (and often less) regulations and more competition have the potential to reduce the cost of exports, and have a positive flow-on effect on employment at home.

Table 3.7. Domestic and imported service sector inputs as a share of the value of exports, by service sector activity, Indonesia 2005 (%)

Service Sector Activity	Source of Inputs		Total
	Domestic	Imported	
Trade	3.79	0.00	3.79
Real Estate & Business Services	1.79	1.00	2.79
Financial Intermediaries	2.06	0.12	2.19
Culture & Amusement Services	1.56	0.09	1.65
Road Transport	1.26	0.01	1.26
Construction	0.87	0.00	0.87
Restaurants & Hotels	0.67	0.07	0.74
Communications	0.72	0.01	0.73
Water Transport	0.41	0.26	0.66
Services Allied to Transport	0.37	0.14	0.50
Air Transport	0.22	0.07	0.29
Social & Community Services	0.23	0.05	0.29
Public Administration	0.05	0.00	0.05
Railways	0.03	0.00	0.03
Total Services Input Cost Share	14.02	1.81	15.83

Source: Computed from the Input-Output Tables, Statistics Indonesia, 2005.

Figure 3.6. Contribution of selected service activities to domestic service sector costs in major export industries (%)



Source: Computed from the Input-Output Tables, Statistics Indonesia, 2005.

Table 3.8. Domestic service sector inputs as a share of the value of output in each service activity, by major sector, Indonesia 2005 (%)

Services Activity	SECTOR OF ACTIVITY					
	Primary	Processed Food	Light Manufacturing	Heavy Manufacturing	Services	All Sectors
Trade	1.4	5.7	5.1	5.0	3.8	3.79
Financial Intermediaries	0.6	1.3	1.9	1.1	3.2	2.06
Real Estate & Business	0.3	0.5	0.9	1.3	3.0	1.79
Culture & Amusement	0.5	0.8	0.7	0.9	2.5	1.56
Road Transport	0.5	1.1	2.0	1.4	1.4	1.26
Construction	0.7	0.0	0.1	0.2	1.44	0.87
Communications	0.1	0.2	0.4	0.5	1.2	0.72
Restaurants & Hotels	0.1	0.2	0.6	0.5	1.1	0.67
Water Transport	0.2	0.5	0.7	0.5	0.4	0.41
Services Allied to Transport	0.1	0.2	0.3	0.3	0.6	0.37
Social & Community	0.0	0.1	0.2	0.2	0.4	0.23
Air Transport	0.1	0.1	0.1	0.1	0.4	0.22
Public Administration	0.0	0.0	0.0	0.0	0.1	0.05
Railways	0.0	0.0	0.0	0.0	0.0	0.03
Total Cost	4.6	10.7	13.0	12.0	19.5	14.02

Source: Computed from the Input-Output Tables, Statistics Indonesia, 2005.

Costs incurred through business, real estate and financial sector activities stand out, among domestic service sector costs in various export sectors. While domestic services play a only a small part in primary product costs, they were higher in manufacturing, especially light manufacturing, where trade, road transport and financial intermediaries contribute more to domestic costs. Ensuring that these costs are minimized in light industry, in particular, is likely to pay off through greater international competitiveness and job creation, in competition with other countries in East Asia such as Vietnam, Cambodia, Thailand and China.

Section 4: The role of labour migration and remittances in creating jobs in services

Overseas migration is one area where labour is directly embodied in services exports and imports. In absolute terms, Indonesia has become a significant supplier of mainly unskilled, contract labour to East Asia and the Middle East in the past decade. It is also a destination country for skilled and professional temporary migrants mainly from Asia²⁰. Both flows make a significant contribution to welfare and growth, and help create jobs, even though both still account for a small share of the total work force.

Net movements of labour and international transfers are heavily in favour of labour exports (TKI). Remittances from out-migration are significant (Indonesia ranks among the top 20 countries in terms of the annual level of exchange earnings)²¹. Conversely, remittances of the earnings of foreign workers working in Indonesia amounted to smaller \$1.7 billion in 2010, although the average value of remittances are much higher for foreign labour (TKA) employed in Indonesia.

For TKI the two big, interrelated policy issues have been the low level of skills of workers going abroad and associated low levels of wages and working conditions that Indonesian workers experience overseas. Neither, it seems, can be solved overnight if Indonesia is bent on maintaining a high level of labour exports.

On the import side, the main policy issue has been controlling the inflow of TKA, in contrast to more open policies to skilled manpower from abroad in several other neighbouring countries. The main policy question is why Indonesia places so many restrictions on foreign labour imports given that the numbers are small; the supply of highly trained manpower is struggling to keep up with demand.

We look in more detail at both movements in turn below.

Indonesians employed abroad²²

The composition of Indonesian labour exports, TKI, and remittances are influenced by a variety of factors. These include the supply characteristics of workers; the nature of jobs on the demand side; and regulation of migrant workers in both sending and receiving countries. A high proportion of TKI work in low paying service sectors, especially domestic service, as care givers, drivers and as construction workers. The estimated value of remittances of around \$6.7 billion in 2010 (and a seemingly similar figure in 2011). This was slightly smaller than earnings from tourism in the same year, and equivalent to around one-third of all services exports, or about 3-5 per cent of total foreign exchange earnings. While not large in comparison with the earnings from several major export commodities,

²⁰ Labour exports especially to Malaysia and the Middle East were already significant before the AFC (Hugo, 2000).

²¹ See World Bank (2011: 13). Among Southeast Asian countries, the Philippines ranked highest with estimated earnings of \$21.3 billion in 2010. Indonesia was also ranked behind Vietnam. However, unlike Indonesia which relies heavily on remittances from temporary contract workers, both these countries have a large diasporas of permanent residents abroad. The Malaysia-Indonesia bilateral immigration corridor is estimated to rank 14th in the world in terms of numbers of migrants.

²² Over the past several years, Bank Indonesia has taken a keen interest in the size of foreign exchange earnings and payments related to foreign work. Thanks to a number of careful surveys, most notably in 2008, there is now a much better understanding of the total number of overseas workers, outside the somewhat fragmentary data on placements under the policy direction of the Ministry of Manpower and the management of the National Foreign Worker Placement Agency (BNP2TKI). Recorded government placements only account for around 40% of all international migrants. See Bank Indonesia (2011).

remittances are a direct transfer to households and hence likely to have a much greater impact on welfare²³.

Total remittances have increased gradually from the mid-2000s, even though the stock of migrant workers is estimated to have actually declined slightly. The declines are estimated to have been around 10 per cent: from 4.7 million in 2006 to 4.3 million in 2010²⁴. The value of remittances increased, because of an increase in the number of TKI in high wage countries in East Asia – especially Taiwan and Hong Kong. This was counterbalanced by a smaller share of migrants now going to neighbouring Malaysia (Figure 4.1), which had the lowest level of wages among major receiving countries.

Figures 4.2 and 4.3 show the breakdown and remittances by the main destination countries. While the share of remittances sent from Malaysia declined from 49-42 per cent for 2006 and 2010 that from Saudi rose from 25 to 29 per cent. They also rose in several East Asian countries as well as in several smaller destinations (e.g. in Europe), where the per capita value of remittances were quite high

Thus, the contrasts in the size of the remittances per worker and their estimated change over time were quite marked. They were high and increased more in Japan, Taiwan and ‘Other’ countries, in contrast to the lower level of and smaller annual increases in remittances per worker, in Malaysia and several Middle Eastern countries (Figure 4.4).

Second, from public discussions of the need to move from reliance on informal to formal sector migrants, one would expect that the differences in remittances per overseas worker might be closely related to the number of ‘informal’ migrant workers in countries of destination²⁵. This does not seem to have been the case. Japan, Taiwan and Hong Kong all employed a high proportion of informal (and female) workers from Indonesia; yet average remittances were relatively high. For example, TKI mostly worked in households, as care providers to older people in both Taiwan and Hong Kong.

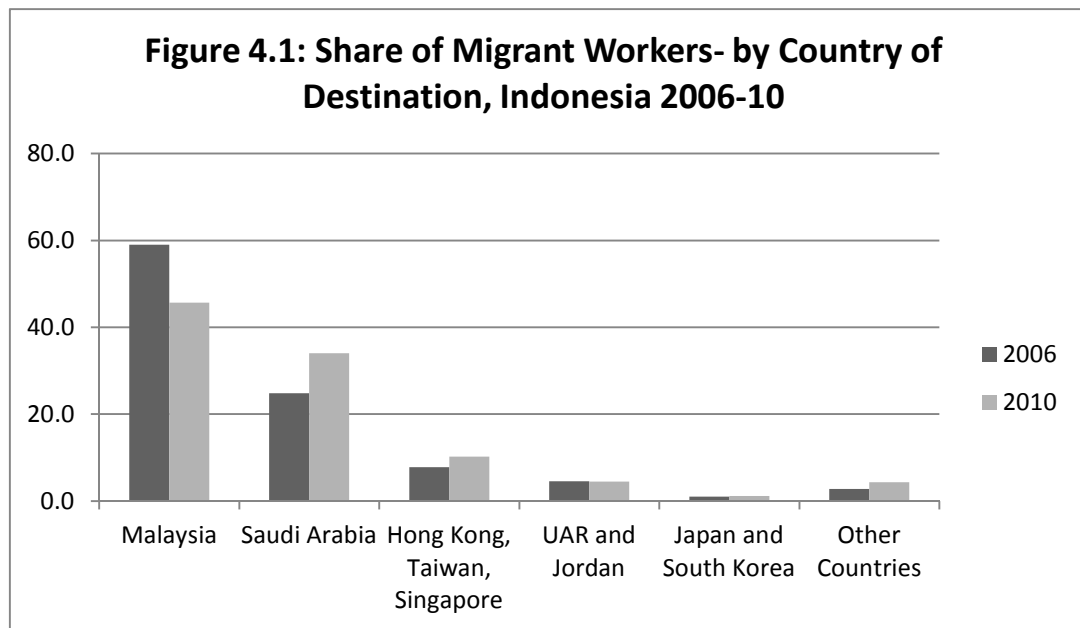
Malaysia, by contrast, is estimated to have the highest share of formal sector workers among the larger destination areas for migrant workers, and also the highest share of unregistered migrants²⁶. The domestic level of wages and their change over time has been a more important factor in determining the level of remittances by migrant workers, rather than whether they worked in the formal or informal sectors.

²³ This was less than the earnings from other major export related activities; the value of remittances was around one-third to one half the value of coal, palm oil and TCF (textiles, clothing and footwear) exports in 2010. See Bank of Indonesia, Balance Payments Statistics.

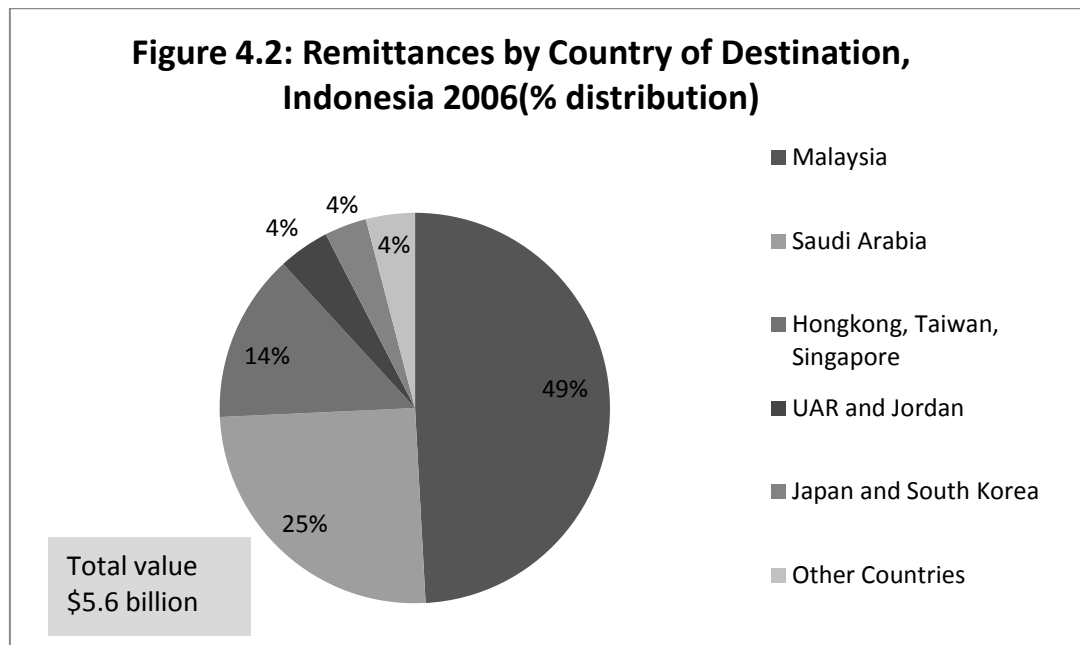
²⁴ The estimated stock of migrant workers had fallen further to 4.2 million during the first three quarters of 2011.

²⁵ In the context of discussions of migrant workers, informal refers mainly to three categories of worker: domestic helpers (by far the largest group), age care helpers working in households and drivers. Formal refers to all wage employees in private companies, both big and small.

²⁶ In 2010, Malaysia accounted for well over two-thirds of all Indonesian formal sectors, wage employees working abroad, mainly in the construction, plantation and manufacturing sectors. Nevertheless, controlling for country of destination, informal workers do appear to have earned less than formal sector workers (Bank Indonesia, 2011).



Source: Bank Indonesia, Balance of Payments Statistics, 2006 and 2010.



Source: Bank Indonesia, Balance of Payments Statistics, 2006 and 2010.

Although the average size of remittances per worker is an important indicator of welfare among migrant households, in practice, the level of wages actually received by individual workers and hence value of remittances is a complicated because of recruitment fees and deductions. These appear to vary considerably according to the region of recruitment and also the extent of costs borne by recruiting agents (calo) and firms at the local level (Kuncoro, et al., 2011). For example, workers recruited for jobs in the more lucrative East Asian countries reportedly incur deductions (mainly official) from their wages for a much longer period of time than workers going to the Middle East. Kuncoro et al. (pp. 15-19) argue that the high level of deductions especially for workers employed in Malaysia, leads to a high proportion of migrants preferring to take their chances through

‘illegal’ channels, as unregistered migrants, thus avoiding most government mandated charges, which are later recouped recruiting agents and recruiting companies²⁷.

What about the flow of migrant workers abroad? Here the data are more sketchy, and there are many gaps in the absolute figures on placements²⁸. Nevertheless the data suggest that around 75 per cent of migrants have been female for the past several years, the large majority of whom work in the informal sector as domestic workers²⁹. This is especially true throughout the Middle East, and is also the case in Singapore and Hong Kong. In the latter two countries, close to 100 per cent of all Indonesian workers are engaged in domestic service. Other important occupations include aged care workers, drivers and construction workers. Manufacturing and plantation workers are only important in the case of Malaysia.

Placements of domestic workers are reported to have fallen quite dramatically from mid-2011 owing to the ban on new contracts for placements to Saudi Arabia, from September 2011. The ban was introduced as a reaction to the beheading of an Indonesian maid in August 2011³⁰. As a result, it is estimated that the number of formal sector workers will exceed that of new informal recruits approved through government programs for the first time in 2011³¹. However, it also seems likely that Indonesia will find it much more difficult to compete with other Asian countries like the Philippines and India in placing more skilled activities abroad, especially in those jobs requiring a high level of English language proficiency.

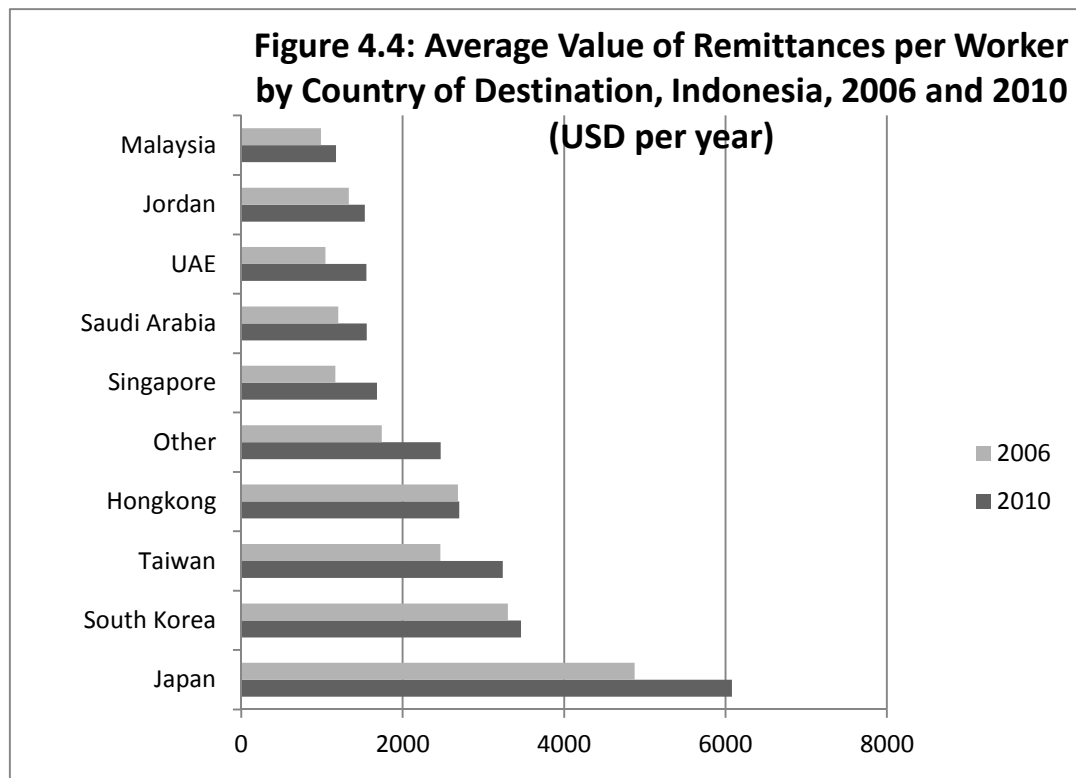
²⁷ It is not altogether clear as to why the recruitment fees differ so much between countries; Kuncoro et al. imply it is related partly to costs and the balance of supply and demand for migrant workers and migrant work.

²⁸ The Ministry of Manpower only reports data on workers sent abroad under the supervision of the National Labour Placement Agency (BNP2TKI).

²⁹ Gender appears to matter for the welfare effects of remittances sent back home in the Indonesian case; research based on IFLS data suggest that female migrant remittances benefit those back at home more (Nguyen and Purnamasari, 2011). In 2010, an estimated 601,000 out of 860,000 workers managed by government agencies were classified as informal.

³⁰ Saudi Arabia has accounted for over half of all Indonesian domestic workers employed overseas in recent years. In response to the beheading and repeated maltreatment of Indonesian maids, the government plans to reduce official placements of domestic workers abroad by 50,000-75,000 per year, down from a target of 300,000 in 2011 to 100,000 in 2015, and then just 25,000 in 2017 (unpublished data from the Ministry of Manpower).

³¹ Of course a considerable share of TKI are unregistered (estimated at over 50% in Malaysia and probably around 10-20% in the Middle Eastern countries), although the proportion seems to be significantly smaller in other, more tightly managed migration destination countries in East Asia. The share of formal sector migrants can be expected to rise as a consequence of the bans on sending workers to selected Middle Eastern countries.



The experience in Japan with nurses and care-workers under the Economic Partnership Agreement (EPA) signed in 2007 is instructive³². A target was agreed upon in the EPA of 1000 workers to be employed in Japan as nurses and care-workers for the aged. From the beginning of the program in 2008, only 363 nurses and 428 caregivers had been placed in Japan by August 2011, still some 200 short of the target. Despite the large number of nurses in Indonesia, in practice, the Indonesian government has found it difficult to recruit tertiary educated and qualified nurses with sufficient experience, and Japanese language proficiency³³. Even more difficult is the process of certification for on-going employment, after the first three years³⁴.

Proficiency in Japanese has been the main obstacle to passing the exams, which are exactly the same exam as taken by prospective Japanese nurses seeking accreditation. It has been extremely difficult for foreign nurses to graduate, even if they are highly competent and knowledgeable in the theory and practice of nursing. In this case, the requirement that the test be taken in Japanese appears to act as a 'non-tariff barrier' for entry into the Japanese labour market, on anything but a temporary basis.

While this may be an extreme example, it does highlight two major barriers that more skilled Indonesian workers face, in seeking employment abroad. The first relates to language and the second to the quality of schooling in domestic institutions, and the recognition of Indonesian degrees overseas. Both have been highlighted as problems in recent research on Indonesian education (Suryadarma, 2011).

³² The authors wish to especially thank Dr. Kazu Chatani for his assistance in helping with some of these data on the placement of Indonesian workers in Japan.

³³ Prospective nurses and care givers are given three months language training in Indonesia and a further six months in Japan before taking up their jobs.

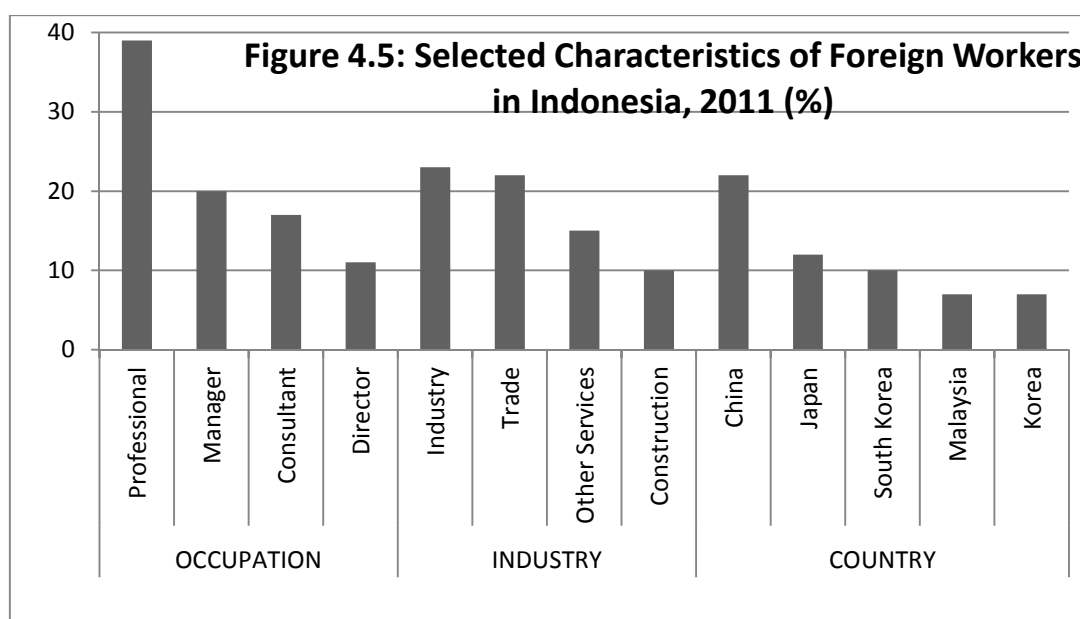
³⁴ No care givers had taken the test by August 2011, as they are required to have 4 years working experience in Japan first. A final exam has to be taken by the nurses and care givers to gain full accreditation for continuing employment in Japan. Hitherto, only 17 of the nurses or less than five per cent of the total number trained had passed the exam and hence will not be permitted to continue working in Japan after the expiry of their three year contract.

In-migration of skilled manpower

Indonesia imports a small number of migrant workers, a significant proportion of who are employed in foreign establishments on transfer arrangements, or as technical and professional staff. Numbers have increased in recent years as has the composition of the TKA working in Indonesia.

Service sectors accounted for the majority of foreign employees, especially in trade, education, tourism, management services and construction (Figure 4.5)³⁵. Most were tertiary educated. Bank Indonesia (2010) in its most recent survey of foreign workers found that well over half of a sample of foreign workers had at least a bachelor's degree.

The number of foreign workers employed in Indonesia on contract increased quite significantly from the mid-2000s, more than doubling from 2005 to 2011 (from 26,000 in 2005 to an estimated 57,000 in 2011; see Figure 4.6). This is despite the fact that regulations are quite tight in regard to the approval of foreign workers, including a modest foreign worker fee of \$100 per month³⁶. Numbers had plummeted after the Asian Financial Crisis to less than 20,000 and had only recovered slowly by the mid-2000s; subsequently, numbers increased more quickly, as the economy picked up, and foreign investment began to accelerate from around 2005. As noted above, remittances amount to slightly less than Rp. 2 billion, or approximately one-third the value of remittances sent back to Indonesia from TKI.



Source: Bank Indonesia, Survey of Indonesian Overseas Workers, 2011 (unpublished).

The composition has also changed over time. Accounting for a small proportion of the total five years ago, Chinese migrants (mainly employed on major construction contracts) accounted for around one-fifth of the total, or over 10,000 workers in 2011 (see Figure 4.5). For the first time, this figure eclipsed the number of Japanese and Koreans that have been the dominant foreign work force groups for most of the 2000s³⁷. It is part of a more general trend towards employment of Asian workers, which has intensified since the AFC. For example, Indians and Filipinos are now significant groups among the expatriate

³⁵ Figure 4.5 only records the occupations, industries and countries of residence that account for a significant number of foreign workers. In Figure 4.5, the categories in each group do not sum to 100.

³⁶ See Section 5 below for details.

³⁷ This compares with closer to 10-20% of all professionals and managers comprising foreign employees in Singapore, and a slightly smaller proportion in Malaysia.

work force, replacing Americans and Australians who were among the largest groups of TKA immediately after the crisis in 1998.



Source: Ministry of Manpower, unpublished statistics.

Quite a large share (around 20 per cent) of TKA is now working outside Java in natural resource industries (Bank Indonesia, 2010). This group has probably increased in recent years, although we do not have data on trends by region within Indonesia. Nonetheless, the majority of expatriates are still concentrated in the great Indonesian honey pot, the capital Jakarta, amounting to just fewer than 30,000 in 2009.

In terms of occupation, a significant share of TKA (close to 40 per cent) is professionals, employed in a range of sectors, followed by managers and consultants. Technical staff and supervisors were two occupational groups in which numbers have increased sharply in recent years, a development that is probably associated with a significant share of Chinese workers working on construction projects.

In Section 5 below, we discuss policy issues in regard to movement of professionals into Indonesia, and between countries in the ASEAN region more generally. However, the numbers need to be put into perspective. While employment of foreign workers is a politically sensitive subject, the number is still very small for a country of Indonesia's size. Even in the modern sector work force the numbers are small in relative terms: around 0.5 per cent of all white collar workers in Indonesia in 2010³⁸.

Given that the supply of unskilled, female domestic workers has dominated out-migration, policy efforts are concentrated on changing the balance between 'informal' sector migrants such as domestic workers and the smaller outflow of 'formal' sector workers. They have also focused on minimizing the utilization of skilled and professional foreign workers in Indonesia, in light of high rates of educated unemployment. These issues are discussed in Section 5.

³⁸ This compares with closer to 10-20% of all professionals and managers comprising foreign employees in Singapore, and a slightly smaller proportion in Malaysia.

Section 5: Policy issues

In the area of policy, there is no immediately obvious focus of initiatives to bolster services employment in relation to trade; this contrasts with the well-known debates on policy for growth and employment in agriculture and manufacturing (ILO, 2012). The most important policy issues relate to better, often less, regulation of a myriad of service industries that feed into the competitiveness of both tradable and non-tradable goods industries, including other service industries. As we saw in the previous section, the gains from better regulation can be substantial in terms of employment. A second set of issues relates specifically to promoting services trade by delivering greater openness through regional and bilateral preferential ('free') trade agreements or PTAs. For Indonesia, by far the most important among the latter, have been commitments made through AFAS, the ASEAN Framework Agreement on Services.

In this section, we focus on international negotiations through AFAS. The section also deals with policies on the export of labour, both insofar as they affect Indonesian exports of skilled manpower abroad, and imports of skilled manpower to improve productivity at home. In addition, it addresses policy issues related to the exports and welfare of unskilled manpower, including new policies adopted in recent times for the protection of workers abroad.

Creating a more competitive services industry

Several studies suggest that Indonesia is quite moderate by international standards in its regulation of the main service industries. This is compared with a selection of 20-25 other OECD and developing countries, including several ASEAN regional economies such as Malaysia, Thailand and Vietnam (Dee, 2008)³⁹. Thus, for example, Indonesia was ranked more restrictive in telecommunications, postal and courier services, and higher education, but moderate or less restrictive with regard to road services, retail trade and air passenger transport.

With the aid of a CGE model Dee (2008) estimates that the removal of some of the barriers to competition in services is likely to deliver significant gains in output and employment, for both domestic and overseas investors. Indonesia would gain most in terms of lower prices (and costs), through the deregulation of distribution services. Other industries in which deregulation is estimated to deliver significant benefits are telecommunications, maritime transport and education services (in order of importance), over the medium to longer term. The reforms involve lifting restrictions on foreign participation in these sectors, on both equity and the participation of foreign skilled manpower. Benefits would also flow from promoting competition by the removal of general regulatory restraints to trade. Examples of the restraints include giving special preference to small and medium enterprises in distribution, and often onerous registration requirements for both domestic and foreign providers.

In higher education services, an area especially important for human capital formation and skills development, the reforms would involve relaxing the requirements that foreign investors have to form joint ventures with domestic providers (Dee, 2008: 38-39). Benefits derive from both improved productivity in the education sector, as well as in the economy at large. They would be manifested in improvements in employment and incomes of graduates. The latter is especially important; bearing in mind that unemployment of tertiary graduates is one key area of policy concern in Indonesia.

³⁹ This section of the paper draws heavily on Dee (2008). In addition to applying a CGE model to estimate the impact of regulatory reform, Dee also draws on studies by the OECD and the Australian Productivity Commission.

One important finding from the CGE model is that removal of discrimination against foreign providers in PTAs would bring rather limited benefits. For example, Dee estimates that preferential trade agreements would deliver gains amounting to less than 10 per cent of the benefits from “full regulatory reform” (Dee, 2008: 43). This underscores the point that PTAs frequently have limited benefits to the economy. PTAs only target areas that directly discriminate against foreigners, rather than more general regulatory restrictions that impede competition, and hence restrict output and employment.

At the same time, it is important to underscore the importance of reforms that promote greater competition among domestic providers. Deregulation should provide more access to foreign competition through liberalization of trade, capital flows and labour flows. Other regulatory reforms can also drive productivity and the delivery of cheaper and better quality services. In airlines and telecommunications, the two cases of dramatic increases in the supply of services, it has principally been opening up of competition to domestic players which have been behind both low prices and wider consumer choice, in Indonesia in the 2000s (Damuri and Anas, 2005; Lee and Findlay, 2006). In the case of telecommunications, deregulation in 1999 allowed the private sector to invest directly without the requirement of linking to a state-owned company. Indonesian teledensity increased from a low four to a much more competitive 16 per cent in the first decade of the 2000s, while mobile phone users per 100 persons rose from a low 2 to 92, or close to parity by 2010. Indonesian air travel is reported to have increased fivefold since 2000, reaching 60 million passengers in 2011 (*Business Times*, May 1 2012).

Indonesia has developed a nascent service sector export industry that goes beyond Mode 4. While ASEAN is a significant stepping stone for the engagement of service companies abroad, Indonesia has become more intensively involved with a number of other countries in recent years. In almost all these areas, imports of selected services can make a significant contribution to international competitiveness, especially in cross-cutting service areas such as education, banking, transport and communications. One major problem in areas like education and logistics is a lack of consistency in the regulatory framework, especially the conflicting signals from a more ‘liberal’ investment law and the, sometimes, restrictive implementing regulations. Both, moreover, are at odds with ministerial regulations, which tend to be more restrictive, especially in regard to foreign participation (Tongzon, 2009; Magiera, 2011).

Besides the obvious candidates of Singapore and Malaysia in ASEAN, most important among these countries are Japan, Indonesia’s largest trading partner for many years, Saudi Arabia, the destination area of 200-300,000 Indonesian pilgrims in recent years, and Australia, the nearest neighbour to much of eastern Indonesia. Business services in particular have opportunities to develop both the import and export side, especially through the export and import of professional services (Bartlett and Carmichael, 2009).

In Singapore and Malaysia, banking and accountancy, and nursing services are prominent; Indonesian companies have been involved in the design of interactive games and cartoons/animated films in Japan; Saudi Arabia is host to a number of major construction companies, but also other less skilled activities such as building or cleaning companies. Besides accessing Indonesia as a tourist destination area, Australians also learn the language and related cultural skills in Indonesia, and make Indonesia the target for national conventions. For the most part, it is generally considered that increasing access to overseas service sector markets will be best pursued on a regional and bilateral basis rather than through the WTO and GATS.

The Ministry of Trade has especially identified creative services as areas in which Indonesia has the capacity to expand much more into international markets (Ministry of Trade, 2008). It is widely believed that Indonesians have a comparative advantage in artistic, computer and industrial design, architecture, and in audio-visual arts. While still

very small in total, the experience of companies like *Urbane Indonesia*, are having an impact, especially through Mode 1 (cross border supply) but also Mode 3 (commercial presence) delivery of services abroad (See Box below). However, a faster growth depends on improving the business environment at home, including the supporting infrastructure such as electricity supply.

Nevertheless, direct delivery of services abroad by services companies in Indonesia has been one strategy for getting around restrictions that limit the effectiveness of MRAs. Although these gains are difficult to quantify, they are reported in areas of industrial design and architectural services. The manager of *Urbane*, for example, reports that the skills its employees have accumulated from study and employment abroad have contributed to the delivery of high quality services to a range of countries in the Asia Pacific region (see Box).

Delivering high-quality services abroad

One Indonesian company based in Bandung, *Urbane*, has been delivering architectural services abroad to large infrastructure projects in Asia since 2003. Its founder Mochamad Ridwan initially studied in California and then worked abroad in New York and Hong Kong, including with the US firm EDAW which is renowned internationally in area of design and architecture for large scale infrastructure projects. Urbane has acted as a contractor for EDAW in projects in Southeast Asia and China, such as for the Waterfront Masterplans in Singapore and Shao Xing, China, and the Sukhotai Urban Resort Master Plan in Bangkok. Later, the company branched out to undertake designs projects in collaboration with other multinationals in Asia and the Middle East, especially in the major cities in China (Beijing, Kunming and Guangzhou).

In total, the company had completed more than 40 major design projects overseas by 2010, most of them for city and municipal governments. At home, Urbane has been engaged in the design of numerous single building projects in Jakarta and Bandung, such as Tower I, the University of Tarumanegara and Al-Azhar International School in Bandung, as well as for several mixed-use building complexes. Most of the Projects were managed through the internet and worth between around \$200,000 (mostly domestic) and \$600,000 (mostly foreign). In interviews, Ridwan has stressed the importance of delivery of the projects on time for success in this field.

Regional preferential trade agreements: The case of AFAS

In the area of services, reforming intra-ASEAN trade has been a priority in Indonesia's regional trade negotiations with foreign countries. This is an integral part of moving towards an ASEAN Economic Community (AEC), ambitiously scheduled to achieve a free flow of services by 2015. Indonesia has typically made more progress in gaining access to skilled labour markets abroad through AFAS, than it has in multilateral fora at the WTO through GATS. Thus it is more insightful to focus on the former, regional agreement rather than on the multilateral context⁴⁰.

Negotiations under AFAS (the ASEAN Framework Agreement on Services) cover the four 'modes' of services trade, including Mode 4, the movement of natural persons, which deals with the temporary migration of skilled manpower. As with most other ASEAN countries, limitations to trade within ASEAN are relatively small for Mode 1 (cross border supply) and Mode 2 (consumption abroad) in trade in services. This is in contrast to commitments under Mode 3 (commercial presence, or foreign investment in services) and Mode 4. In the latter two modes of supply, restrictions are more widespread

⁴⁰ However the design of the schedules, the general principles and the scope of the agreement across industries in AFAS are almost exactly the same as under GATS.

in almost all sectors of services trade (Nurridzki and Rahardja, 2009)⁴¹. In the ten sectors covered in AFAS, Indonesia imposes almost no restrictions in Mode 1 or Mode 2, both with regard to market access and national treatment (restrictions imposed on foreign suppliers and/or investors). Supply of design and architectural services internationally via the internet is one area in which Indonesian firms have made significant inroads, for example, even though the outflow of Indonesian skilled manpower is relatively limited (see below).

In the case of Mode 3, the presence of foreign suppliers is restricted through foreign equity limitations. Nurridzki and Rahardja (2009:14-23) provide some detail on the restrictions. The most common is limiting foreign capital participation to 49 per cent or less than majority ownership. This restraint applies to many sectors and sub-sectors, and even in air transport and related services, an industry which is otherwise quite deregulated domestically, by international standards.

More generally, it is argued that domestic regulations passed by ministries often come into conflict with obligations made in international fora. To quote Nurridzki and Rahardja (page 28):

“Indonesia’s involvement in many international service negotiations ...is not sufficient to guarantee a better regulatory framework for services ... This is mainly because of other regulations [that are] implemented by government agencies on the service industries in Indonesia [extend] beyond those that have been negotiated in the international agreements.”

Restrictions are also apparent in areas that can expect to have a significant impact on employment and human capital. Nurridzki and Rahardja (2009:9) note that in the important education sector, controls regarding national treatment (i.e., discrimination against foreign providers) are still common, while in other areas they seek to give advantage to domestic business; an example of the latter is, government commitments to promote domestic tourism. These controls might support employment of Indonesians in the short term. However, it is open to question whether favouring local investors to promote jobs is wise in the medium to longer term. Additionally, restrictions are also quite widespread in the health sector with regard to the employment of foreign doctors and registration of foreign hospitals in Indonesia. Education, tourism and health are all areas in which deregulation is needed, bearing in mind that they are heavily dependent on raising quality through links to foreign providers.

Thus, in sum, liberalization of trade in services through the regional framework in AFAS is well advanced for Modes 1 and 2, but is still at a relatively early stage for foreign participation in the Indonesian services sector through Modes 3 and 4.

We now turn to Mode 4, involving agreements allowing foreign workers access to Indonesia, and at the same time opening up opportunities for Indonesian workers to participate in other country’s labour markets, with special reference to the ASEAN context.

⁴¹ Nurridzki and Raharja evaluate progress in Indonesia’s commitments to regional deregulation of services trade, investment and migration in ASEAN, up to and including agreements made in the 7th. round of negotiations in AFAS, concluded in 2009. In the successive rounds of negotiation under AFAS, the broader goal has been the ultimate creation of an ASEAN Economic Community. Free trade, broadly defined, is targeted within ASEAN by the year 2015, although there are a number of qualifications already in place and more expected.

Regulating and promoting labour migration

As noted in Section 3, Indonesia mainly exports unskilled or semi-skilled workers and imports skilled and professional manpower. On both counts, the large majority of migrants are employed in services, in foreign firms and as independent professions. Policy stances tend to deal mostly with two sets of issues: first, regulating the engagement of skilled manpower in Indonesia, as well as seeking access for skilled Indonesians to work abroad, through trade negotiations. Second, they focus on maintaining a flow of Indonesian workers abroad to support skill acquisition, remittances and labour market transformation at home. In the latter case, one important issue is ensuring the rights to proper protection of unskilled manpower recruited to work abroad, through regulations that set standards both at home and abroad.

We first deal with incoming foreign workers employed in Indonesia (TKA), then Mode 4 and mutual arrangements to facilitate migration of professionals, and finally policies aimed to protect overseas migrant workers (TKI).

Policies towards incoming foreign workers

In the ASEAN context, Indonesia has adopted a conservative approach to the employment of foreign workers. The main principles for the employment of foreign workers are set out in the Manpower Law of 2003 (Law No. 13), asserting that foreign workers should only be employed in Indonesia if there is evidence that no Indonesians are available to take up positions⁴². Various policies have thus been adopted to promote a quick replacement of foreign workers with nationals. Employers should give priority to Indonesian workers, obtain a permit from the Ministry of Manpower to specify which positions are to be held by foreigners (justifying their appointment ahead of Indonesians), nominate potential replacements/understudies, and undertake regular training to facilitate this outcome⁴³.

A 1995 Presidential decree provides a detailed negative list of all occupations closed to foreigners, as well as a positive list of positions open to foreigners, both of which vary slightly depending on the ownership structure of the enterprise (foreign owned, joint venture or domestic owned). In addition to the requirements of previous legislation, the 2008 Ministerial regulation specifies further requirements: foreign employees must have at least five years' experience in the field(s) relevant to their nominated position, and must be fluent in the Indonesian language, as well as have an understanding of Indonesian "culture" as subjective as this may be. Details of employment are set out in the Permit for Utilization of Foreign Manpower or IMTA, submitted to the Ministry of Manpower, and also approved by the relevant line ministry.

In many respects, policies are similar to those in the Philippines, and contrast with more open policies towards foreign workers adopted by the Singaporean and Malaysian governments. In these countries, foreign workers are regarded as an essential component for industrial and technological upgrading (increasing the supply of 'creative talents') in the former group of countries. In the case of Indonesia, on the other hand, the public focus tends to be on foreign workers as a static, necessary evil, only employed because of short-term labour market realities. In public documents and discussion, foreign 'talents' are rarely viewed as a potentially dynamic input in the development process. Further, the

⁴² This principle that was established firmly during the early nationalist years in the late 1950s, by Law Number 3, 1958 regarding the Placement of Foreign Workers.

⁴³ The important general legislation includes the first foreign and domestic investment laws in 1967 and 1968, and the Manpower Law of 2003, with details mainly contained in Presidential Decree number 75, 1995 and a regulation issued by the Ministry of Manpower in 2008 (Number Per.02/Men/III/2008). The latter deals with criteria for utilizing foreign workers, and specific procedures for employing foreigners, to be set out in a document ('plan'), based on a blueprint issued by the Ministry of Manpower. See Bank Indonesia (2010: 14-16) for details.

reality that most foreign workers are several times more expensive than potential domestic substitutes, and hence the market will automatically filter out foreigners at the earliest opportunity, is rarely countenanced in public documents or debate.

From one standpoint, the policy stance might seem justified. Like the Philippines, Indonesia has long faced a problem of high unemployment among educated people; rates are usually double digit, and often well above 20 per cent among educated young people⁴⁴. But there seems no obvious logic in the notion that tight controls over the 57,000 foreign work forces will help mitigate the unemployment rate of some 1.1 million tertiary graduates, who were recorded as out of work in 2010. As already noted, foreign skilled workers make up a tiny proportion of the total work force, despite the fact that foreign investment is pervasive in some sectors, especially in oil and mining⁴⁵. The tight policy with regard to foreign workers also seems to contradict several assessments of the labour market that point to bottlenecks related to shortages of skilled manpower (Di Gropello, Kruse and Tandon, 2011). In sum, these restrictions seem to be more related to general nationalistic sentiments than any logical assessment of the needs for skilled workers from abroad.

Of course, from a national employment standpoint the rationale for a more liberal policy towards the deployment of foreign professionals lies in creation of more jobs domestically, as a consequence of overcoming skilled manpower bottlenecks. The contention is not unlike similar arguments for more liberal policies towards FDI. Thus employment of highly skilled medical specialists, or specialized engineers facilitate employment of other doctors and nurses, or general engineers as capital sees new opportunities provided by the temporary import of skills. To facilitate this, Indonesia could adopt complementary policies to ensure the necessary skilled and professional manpower are available to optimize the deployment of foreign manpower. This includes policies to increase the quality of its higher education institutions, including a more relaxed attitude on foreign investment in education. One example is the appointment foreign professors and researchers in local campuses (on a contract basis).

The narrow approach to employment of foreign workers is reflected in Indonesia's approach to facilitating labour movement through Mode 4 negotiations and MRA agreements, most prominent in the ASEAN (AFAS) context. The government has tended to pursue a policy of concluding bilateral swaps, or commitments with other countries in the region, to provide similar access for skilled labour to each other's market in both countries. This is in contrast to treating the demand for skilled manpower as an issue separate from access of Indonesian skilled labour to jobs abroad; as tends to be the approach in several other countries such as Singapore and Malaysia.

Mode 4 and Mutual Recognition Agreements (MRAs)

In the GATS and AFAS framework, efforts to open international labour markets to temporary movement 'natural persons' (MNP), are focused on four categories of skilled labour: business visitors, traders and investors, inter-corporate transfers and movement of professionals abroad. Liberalizing movements of the first three categories are especially relevant for freer flows of foreign investment and closer trade ties. The movement of professionals is more complicated. It depends on mutual recognition of skills (mutual recognition agreements or MRAs) between the sending and receiving countries.

⁴⁴ Over the five year period 2005-2009, the unemployment rate for tertiary graduates averaged a little over 12 per cent, according to data from the National Labour Force Survey (August round), only slightly lower than for secondary graduates.

⁴⁵ Even though the supply of foreign workers has increased in the past decade, their share relative to the supply of skilled manpower is very low: currently around 0.5 per cent of all white collar workers (57,000 in 2010, compared with just under ten million white collars overall, and nine million white collar workers in services).

Facilitating MNP has generally been much easier internationally and in Indonesia, in the first three areas, compared with the interchange of professionals. The latter, has proved by far the most difficult because of obstacles in building the capacity to assess overseas competencies and, more importantly, to counter the protectionist regulations of professional organizations which seek to protect their members from overseas competition⁴⁶.

Within ASEAN, progress has been slow in achieving the main goals of integrating priority sectors (e-commerce, air travel, tourism and logistics), and developing core, internationally recognized, competencies for these professionals, to be extended to all service sectors by 2015. Thus in the seventh round of AFAS negotiations completed in 2009, none of the ten priority sectors were affirmed as completely open to temporary labour migration of professionals into Indonesia. All had restrictions, in regard to both market access and national treatment (Nurridzki and Raharja, 2010: 10). Nevertheless, although it is moderately restrictive, Indonesia does not stand out. Several other ASEAN countries, such as the Philippines and Thailand, impose a similar range of restrictions on deployment of foreign professionals in their countries (Manning and Sidorenko, 2007).

Mutual recognition agreements for professional groups are an essential ingredient for facilitating cross-border mobility of skilled manpower. A range of professional groups have been engaged in developing common standards, including MRAs, within ASEAN since 2005⁴⁷. Yet several impediments remain to greater mobility between countries, including failure to give proper recognition of degrees (related to the varying quality of institutions), and English language competency, in the case of Indonesia and Thailand in particular. More generally, a range of domestic restrictions in specific areas such as in education and health, continue to limit both employment of foreign professionals in Indonesia as well as outward mobility of Indonesian professionals⁴⁸.

Encouragement of MNP has also faced major challenges in bilateral trade agreements, as the example of nurses and care-givers in the case of the EPA with Japan illustrates (see Section 4 above)⁴⁹. It should be noted that some of these difficulties are generic. Nielson (2004), taking the example of mostly developed OECD countries, finds a range of reasons (professional pride in local standards, difficulties in recognizing equivalence of on-the-job and formal training, and different systems of licensing across countries). All make development effective MRAs particularly difficult across countries.

⁴⁶ For example, in the case of doctors, the Indonesian Doctors Association requires all practitioners to have had registered with the Indonesian Medical Council for a period five years prior to opening a practice. This strong protectionist tendency among professional organizations is equally a problem at regional and multilateral levels for the mobility of independent professionals.

⁴⁷ These include engineering (2005), nursing (2006), architectural and surveying (2007), medical and dental practitioners and accountancy (2007).

⁴⁸ See Manning and Sidorenko (2007) for the case of health care workers in ASEAN, and Nurridzki and Raharja (2010: 23-25) for impediments for the employment of foreign doctors in Indonesia (including the need for licenses from local government agencies, and prior registration with the Indonesian Medical Council, as mentioned above).

⁴⁹ Both Thailand and the Philippines have similar arrangements through PTAs for temporary skilled manpower movements to Japan, in limited numbers, in nursing, as chefs and in the entertainment industry. Although the numbers are still very small, in both cases, the Filipino and Thai workers seem to have been more successful than Indonesians in gaining a foothold in niche markets in Japan.

Policies aimed to protect overseas migrant workers

Indonesia became a significant exporter of migrant workers later than several other major exporters such as the Philippines or Malaysia (Hugo, 2003). The development of policies to manage the process efficiently and protect migrant workers has also been slow. For example, the main legislation regulating migrant workers was only passed in 2004, and the independent body established to help manage overseas migration, BNP2TKI (The National Body for Protection and Placement of Overseas Workers) was only established by law in 2007 (by Presidential Decree No. 81), after several decades of high levels of migration to Malaysia and the Middle East. Indonesia began establishing labour attachés in a number of key destination areas in the 2000s. Policies have been reactive, mainly in response to domestic criticism of the harsh treatment of migrant workers in the Middle East in particular, and of many unregistered (illegal) migrant workers in nearby Malaysia (Jones, 2000). On all these counts, policy lagged behind the Philippines where the overseas employment administration (POEA) had been set up more than a decade earlier, and had already established some 20 active labour attaché officers abroad. POEA has had an enviable reputation for promoting the rights of its overseas workers through strong representations at home and abroad (ILO, Jakarta: 2006).

Partly in response to strong criticism from political parties and NGOs, the government has taken a more proactive stance in regard to the placement and protection of migrant workers in the past several years. The different roles of BNP2TKI and the Ministry of Manpower in managing migrant workers were clarified by a Presidential Decree in 2006, although there still appears to be overlapping functions that undermine the effectiveness of government policies (Kuncoro, et al., 2011: 23-27). In 2009, the government suspended all official placements to Malaysia, owing to a dispute on a number of issues (including level of wages and protection for Indonesian domestic workers)⁵⁰. Subsequently, in August 2011, it temporarily halted the sending of all domestic workers to Saudi Arabia and several other Middle Eastern countries, as a reaction to the beheading of an Indonesian maid for alleged murder of her employer. Unlike in the case of Malaysia, government programs had not been resumed (as of early 2012), and the government is adamant that the ban will remain in place, at least until satisfactory MOUs are signed. The goal is to bestow basic rights and protection to employees in domestic service in Saudi Arabia and some other Middle Eastern countries⁵¹.

This export ban builds on current policy of seeking to encourage more formal sector employees to work abroad, in place of less educated and more vulnerable domestic workers and other 'informal' workers, who are to be phased out. While this appears to be a worthwhile goal, efforts to increase the flow of skilled workers abroad are unlikely to have much impact in the short run to medium term. This is especially true given the relative shortage of a highly internationally mobile, skilled work force in Indonesia, and hence still high returns to applying skills at home. Language problems are also generally a much bigger barrier to skilled migration than for unskilled workers. In addition, it appears that there is still not strong demand among skilled tradesmen such as plumbers, electricians and carpenters to work abroad for long periods of time. If contracts are not renewed, net profits to recruiting firms and agents are thus smaller and hence they have less incentive to manage skilled compared with unskilled migrants (Kuncoro et al., 2011: 18-24). In addition, it is not clear that a blanket ban on export of house maids is desirable from the standpoint of labour welfare. Relatively high earnings and better protection (albeit still

⁵⁰ After a longer period of negotiation, Indonesia and Malaysia agreed on a several key issues, including the right of domestic workers to take a day's leave and on minimum wages. Official placements to Malaysia are to resume in early 2012, following the signing of a new MOU in late 2011.

⁵¹ Officials with the Ministry of Manpower were not optimistic that Saudi Arabia would agree to Indonesia's requests in this regard.

incomplete by developed country standards) than in many formal sector jobs, are offered in domestic service, in countries like Hong Kong and Singapore.

In light of the failure to make much progress on the movement of professionals within ASEAN under AFAS, there is an argument for coordinating efforts among the sending and receiving countries in the region to set a common level of employment standards for unskilled migrant workers within ASEAN⁵². This is especially the case, given that several of the main receiving countries (for example, Singapore and Malaysia) have not yet signed the ILO convention on the protection of migrant workers. One might expect that such a convention would help overcome disruption caused by disputes between sending and receiving countries, such as Indonesia has experienced with Malaysia in recent years. From Indonesia's perspective, it would make good sense to extend the framework beyond ASEAN to all of East Asia, so that it also covers the main migrant receiving countries: Hong Kong, Taiwan and Japan.

The government would need to develop a more consistent approach to labour rights' issues at home and abroad, if Indonesia is to champion a regional approach to improve the protection afforded to unskilled migrant workers. Observers in the NGO and labour rights community have been critical of the government's equivocal stance on the international rights of migrant workers. For example, in 2010, Indonesia announced that it would sign the international covenant on the protection of migrant workers, but had not submitted a proposal to parliament a year later. Neither does it support a bill dealing with the rights of domestic workers at home. The government's hesitation on the international covenant, and lukewarm support for the domestic law on migrant workers, was made even more problematic when the President announced his support for a separate, special convention on the rights of international domestic workers, in a landmark speech to the 100th annual meeting of the ILO in Geneva in June 2011⁵³.

The second area of relative government neglect relates to the failure of local governments to make adequate provision for the protection of workers during recruitment phase in Indonesia, before departure abroad⁵⁴. Analysis of a range of local regulations in several key sending areas in 2009-10 indicates much stronger emphasis on placement and extraction of rents from overseas workers, rather than on the protection of workers or safeguarding their rights (Bachtar, 2011).

⁵² The standards may well need to vary according to the sector of employment: improved conditions for wage employees on plantations, or in small scale agriculture may benefit from the regulation of a different menu of standards, to those of importance for welfare among household domestic workers.

⁵³ There has not been strong government support to passing of a proposed draft law on the protection of domestic workers at home (and there has been solid business opposition to the bill). This is obviously inconsistent with the government's backing for the covenant (proposed by the Philippines) on the protection of domestic workers internationally. President Yudhoyono has been branded as insincere by some labour activists, who claimed his statement in Geneva was "no action, talk only" (Jakarta Post, 16/06/2011).

⁵⁴ Basic principles on pre-departure recruitment and training of potential migrant workers are set out in the 2004 law (Law No. 39) on the Placement and Protection of Indonesian Migrant Workers.

Section 6: Conclusions

Services have played an increasingly major part in the Indonesian economy and employment since the Asian Financial Crisis. On both counts services now dominates other sectors. While most of the jobs are linked to domestic rather than international sources of demand, jobs created through exports are also significant. Overall, both modern and traditional segments of the industry stand out in services: a large informal sector depending on cheap, relatively unskilled labour and an equally large formal sector where many of the participants are better educated and hold regular wage jobs in government, education, health and other services. Most professionals in Indonesia are concentrated in services, and their participation in finance and business services in particular contributes to levels of average productivity that is considerably higher than in manufacturing.

We have highlighted the growth of the middle class over the past decade as critical for expanding domestic demand for services. International demand, on the other hand is especially linked to tourism, transport and business services, as well migration of Indonesia workers abroad. The increased supply of educated manpower is one factor contributing to the growth in employment in services. At the same time, this report has stressed low quality of schooling at both basic and advanced levels as one major constraint to export of services, as well as out-migration of formal sector employees and professionals abroad.

One crucial role of services in the economy and labour market is as inputs into tradable goods sectors and exports. We found that on average services amount for 15-20 per cent of the value of output across export industries. Most of the service sector costs incurred by export industries are domestic. Their costs are especially high in trade, financial intermediation and real estate and business sectors. Thus, high quality and affordable services – in trade, transport, communications and business – underpin competitiveness in international trade, and the jobs that flow from them. From the supply side, the quality of manpower engaged in service industries is especially important for raising productivity and creating jobs.

While services exports are small relative to the export of goods, indirectly the tradable goods sectors (broadly defined) create many jobs through linkages with service industries. In fact, in some industries, such as heavy industry and chemicals, more jobs created indirectly in services for each one million dollar of exports, than are generated directly. Output in the main tradable goods industries creates significant jobs in service sectors in trade, shipping, finance and business services, to name but a few of the main indirect linkages.

International migration is one of the sources of employment and earnings for Indonesian workers in service industries. Mainly unskilled migration has contributed significantly to foreign exchange earnings and migrant family incomes. However, Indonesia has not yet developed a comprehensive system of protection for migrant workers like the Philippines, especially in the informal sector, although there have been significant improvements in the past several years. One strategy has been to suspend the export of certain categories of workers, such as domestic workers from time to time. These have involved workers recruited through government programs, most notably Saudi Arabia. Related to this, the government has drawn up a program to actively promote more skilled, formal sector workers. The latter programs are likely to expand slowly, however, given competition from other labour exporting countries, and language difficulties that are more important among skilled migrants abroad.

Policy issues

Regional trade agreements in ASEAN under the rubric of AFAS have promoted services trade through deregulation especially in regard to removing barriers to foreign investment. This regional framework has been an important vehicle for constraining the protectionist tendencies among interest groups and economic nationalists at home. However, progress has been slow in removing restrictions on foreign participation in key service industries, such as education and health, which are particularly important for human resource development and productive employment. Efforts have been made to promote mutual recognition agreements for professionals in ASEAN. Some important gains have been made with regard to greater international mobility of some professional groups such as architects. But reforms in Indonesia and other ASEAN countries have faced difficulties, mainly because of the barriers to entry stipulated by the professional associations. The potential benefits from reforms that open these and other service industries up to more competition large.

The removal of some of the barriers to both foreign and domestic competition in services is likely to deliver significant gains in output and employment, for both domestic and overseas investors. The report has focused on four areas of reform in particular. First, benefits are predicted to flow from reforms that promote greater competition among domestic providers, by lifting more general regulatory restraints to trade. Providing more access to foreign competition through liberalization of trade, capital and labour flows is only one aspect deregulation. For example, in airlines and telecommunications, opening up of competition to domestic players have been behind both low prices and wider consumer choice.

Second, both globally and within a regional context, the main areas for reform are in Mode 3 and Mode 4. Greater engagement of foreign players would benefit Indonesia especially in distribution services. But gains in employment can also be made through opening up telecommunications, maritime transport and education services over the medium to longer term. Some of these reforms involve lifting restrictions on foreign participation. They would need to be introduced judiciously to avoid disruption of existing domestic players. A special strategy may require for the opening up vulnerable state enterprises to domestic as well as foreign competition, as is the case in several neighbouring countries.

Third, less restrictive policies towards the deployment of skilled foreign manpower can have favourable effects on employment, as well as profiting business. The engagement of foreign workers has risen in Indonesia in recent years, and this appears to have filled a gap in the supply of highly skilled manpower, to meet growing and new demands. The rationale for a more liberal policy towards the deployment of foreign professionals lies in creation of more jobs domestically. This can help overcome manpower bottlenecks, and support job creation for skilled and less skilled Indonesian workers in services, construction and trade. Thus employment of highly skilled medical specialists or specialized engineers from abroad may facilitate employment of other doctors and nurses, or general engineers, as business sees new opportunities provided by the temporary import of skills. On the other hand, complementary policies, such as those designed to improve the quality of tertiary institutions, may be required to ensure that the necessary skilled and professional manpower are available to optimize the utilization of foreign manpower.

A fourth and final area of potential reform is to develop a regional set of common labour standards and rights for unskilled workers (currently not covered under AFAS) in the main industries of labour migration in ASEAN. From Indonesia's perspective, it would make good sense to extend the framework beyond ASEAN to all of East Asia, so that it also covers the main migrant receiving countries: Hong Kong, Taiwan and Japan. However, the government may need to develop a more consistent approach to labour

rights' issues at home and abroad, if Indonesia is to champion a regional approach for better protection of unskilled migrant workers.

The report also addresses several cross-cutting issues that involve reform of the legal framework governing services trade and employment. One set of issues relates to the conflict between the national and investment law, and implementing legislation passed by line ministries. The latter generally tend to be more restrictive in relation to foreign participation and competition more generally, as well as protective of certain industries and occupational groups. Postal services, distribution in general, telecommunications, education and health are all areas where these contradictions create uncertainty for investors, and hence impact on investment and employment. Another set of issues relate to the tension between national legislation and implementation (and sometimes explicit policies) in the regions. This has been highlighted in research on the recruitment standards imposed in legislation for TKI, in contrast to actual policies undertaken in the regions, with the backing of local leaders and parliaments.

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Annex

Table 2.1. Distribution of Construction and Services Sub-Sectors by Occupation, Formal-Informal Status and Schooling, Indonesia, 2010

INDUSTRIES/SUB-SECTORS	Distribution	Occupation	Formal-Informal (%)			Completed Schooling (%)	
	%	% White collar	Informal	Formal		<=Primary	Tertiary
CONSTRUCTION	10.8	6.0	61.0	39.0	100	51.6	2.9
TRADE, REST. AND HOTELS							
Retail trade	32.1	2.5	78.6	21.4	100	41.7	2.2
Hotels and restaurants	8.0	3.4	71.5	28.5	100	44.0	1.7
Wholesale trade	2.1	13.2	49.9	50.1	100	28.9	7.5
Trade assoc. with transport	1.5	13.3	39.2	60.8	100	9.6	12.4
Exports and imports	0.1	22.4	38.1	61.9	100	17.4	15.0
TRANSPORT AND COMMUNICATIONS							
Road Transport	7.3	0.8	76.4	23.6	100	47.8	0.8
Other transport	2.4	9.8	43.9	56.1	100	28.0	5.6
Post and telecomm.	1.2	24.0	45.2	54.8	100	10.2	14.2
FINANCE AND BUSINESS							
Financial services	1.9	21.3	5.0	95.0	100	2.4	24.8
Business services	1.5	27.9	28.6	71.4	100	14.0	17.7
GOV., COMMUNITY AND PRIVATE							
Education	9.2	88.7	5.9	94.1	100	2.3	46.8
Other organizational/social	7.4	8.4	61.5	38.5	100	32.7	3.5
Government administration	6.6	47.1	0.3	99.7	100	3.3	23.5
Household (domestic service)	4.7	2.1	33.2	66.8	100	60.4	0.6
Health	2.1	69.7	19.0	81.0	100	9.8	16.2
Cultural, recreational, sport	0.9	39.3	36.6	63.4	100	19.1	10.9
Other	0.2	6.1	81.4	18.6	100	65.2	6.0
TOTAL	100.0	17.4	54.5	45.5	100	33.9	9.2

Statistics Indonesia, National Labour Force Survey (SAKERNAS), 2010.

Table 2.2. The Changing Distribution and Characteristics of Construction and Services Employment, Indonesian 2005 and 2010

SUB-SECTORS	Distribution (%)		Informal Sector (%)		Schooling			
	2005	2010	2005	2010	% ≤Primary		% Tertiary+	
					2005	2010	2005	2010
<i>Large Informal Sector</i>								
Retail trade	37.4	32.1	81.9	78.6	48.3	41.7	1.9	2.2
Road Transport	11.9	7.3	80.5	76.4	45.6	47.8	0.6	0.8
Construction	11.5	10.8	56.0	61.0	52.3	51.6	2.1	2.9
Household (domestic service)	6.9	4.7	49.9	33.2	57.7	60.4	0.7	0.6
<i>Small informal sector</i>								
Education	7.2	9.2	2.0	5.9	1.5	2.3	35.5	46.8
Government administration	6.5	6.6	0.7	0.3	4.8	3.3	20.9	23.5
Other organizational/social	3.2	7.4	52.3	61.5	39.0	32.7	2.7	3.5
Finance and business	2.9	3.4	14.9	15.2	9.1	7.4	28.1	21.7
<i>Sub-Total</i>								
Other services*	12.5	18.5						
All Services*	100.0	100.0	57.4	54.5	38.9	33.9	6.6	9.2

*Includes hotel and restaurants and other smaller sectors. Data on hotels and restaurants are not comparable in 2005 and 2010. This activity is estimated to have accounted for around 8 per cent of all services employment in 2010.

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