



Indonesia
Services Dialogue

Unleashing the Role of Services Sectors to Promote Growth and Competitiveness in Indonesia's Economy



Services at a Glance





What are **Services**?

“Services are the result of a production activity that **changes the conditions** of the consuming units, or **facilitates the exchange** of products or financial assets”

Change effecting services (also referred to as “transformation services”) are outputs produced to order and typically consist of changes in the conditions of the consuming units realized by the activities of producers at the demand of the consumers. The change can take several forms:

- a. Change in the condition of the goods (transport of the good, cleaning, repairing) .
- b. Change in the physical condition of persons (transport of the person, providing accommodation, medical treatment, improvement in appearance).
- c. Change in the mental condition of persons (providing education, information, advice, entertainment in a face to face manner).

Margin services result when one institutional unit facilitates the change of ownership of goods, knowledge - capturing products, some services or financial assets between two other (institutional) units. Examples are the distribution services such as wholesalers and retailers and many types of financial services.



Classification of Services Services?



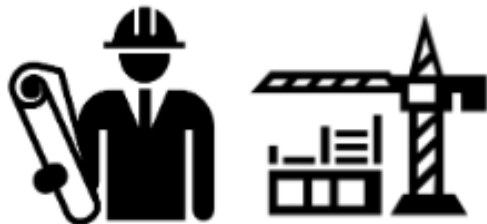
1. BUSINESS

- A. Professional Services
- B. Computer and Related Services
- C. Research and Development Services
- D. Real Estate Services
- E. Rental and Leasing Services Without Operators
- F. Other Business Services



2. COMMUNICATION

- A. Postal Services
- B. Courier Services
- C. Telecommunication Services
- D. Audiovisual Services
- E. Other



3. CONSTRUCTION AND RELATED ENGINEERING

- A. General Construction Work for Buildings
- B. General Construction Work for Civil Engineering
- C. Installation and Assembly Work
- D. Building Completion and Finishing Work
- E. Other



4. DISTRIBUTION

- A. Commission Agents' Services
- B. Wholesale Trade Services
- C. Retailing Services
- D. Franchising
- F. Other



5. EDUCATIONAL

- A. Primary Education Services
- B. Secondary Education Services
- C. Higher Education Services
- D. Adult Education Services
- E. Other Education Services



6. ENVIRONMENTAL

- A. Sewage Services
- B. Refuse Disposal Services
- C. Sanitation and Similar Services
- D. Other



Classification of Services Services?



7. FINANCIAL

- A. All Insurance and Insurance Related Services
- B. Banking and Other Financial Services
- C. Other



8. HEALTH RELATED AND SOCIAL

- A. Hospital Services
- B. Other Human Health Services
- C. Social Services
- D. Other



9. TOURISM AND TRAVEL RELATED

- A. Hotels and Restaurants (including Catering)
- B. Travel Agencies and Tour Operators Services
- C. Tourist Guides Services
- D. Other



10. RECREATIONAL, CULTURAL, AND SPORTING

- A. Entertainment Services (including Theatre, Live Bands, and Circus Services)
- B. News Agency Services
- C. Libraries, Archives, Museums, and Other Cultural Services
- D. Sporting and Other Recreational Services
- E. Other



11. TRANSPORT

- A. Maritime Transport Services
- B. Internal Waterways Transport Services
- C. Air Transport Services
- D. Space Transport Services
- E. Rail Transport Services
- F. Road Transport Services
- G. Pipeline Transport Services
- H. Services auxiliary to all modes of transport
- I. Other Transport Services

12. OTHER SERVICES NOT INCLUDED ELSEWHERE

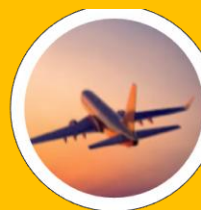


Background: Why Services?

- Services are the main driver of Indonesia's economic growth and job creation;
- Services have been instrumental in reducing poverty in Indonesia over the last decade;
- Services play an important role in enabling the growth and transformation of the economy through critical inter-sectoral linkages;
- Services restrictions are holding back growth and reducing competitiveness;
- Removing services restrictions is a proven strategy to boost growth in Indonesia;
- More open services trade and investment will lead to efficient services but the benefits are not automatic;
- Efficient and high quality services will boost exports of services creating a virtuous cycle;
- The Roadmap for Services Development in Indonesia comprises quick wins and longer term agenda focused on regulatory and institutional reform.



Services by Numbers

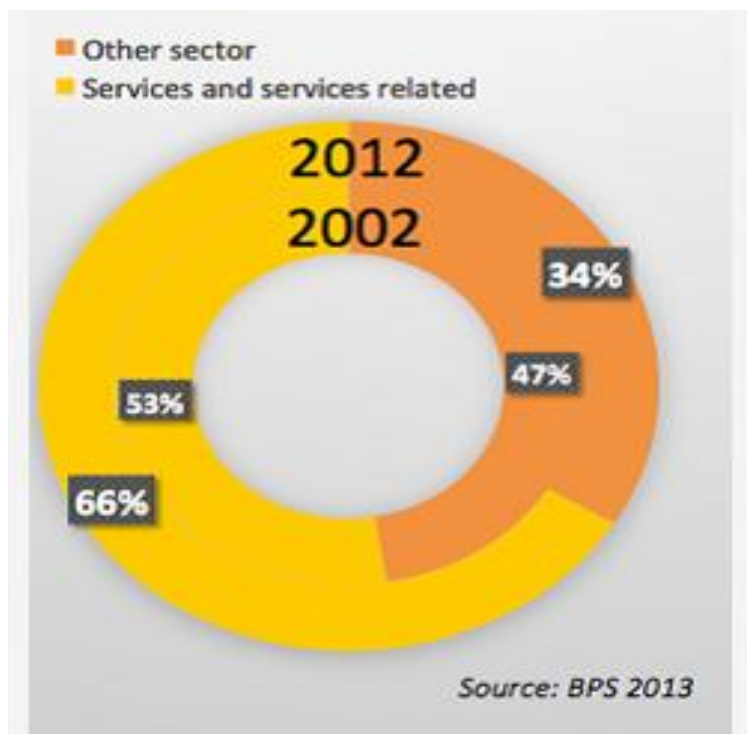




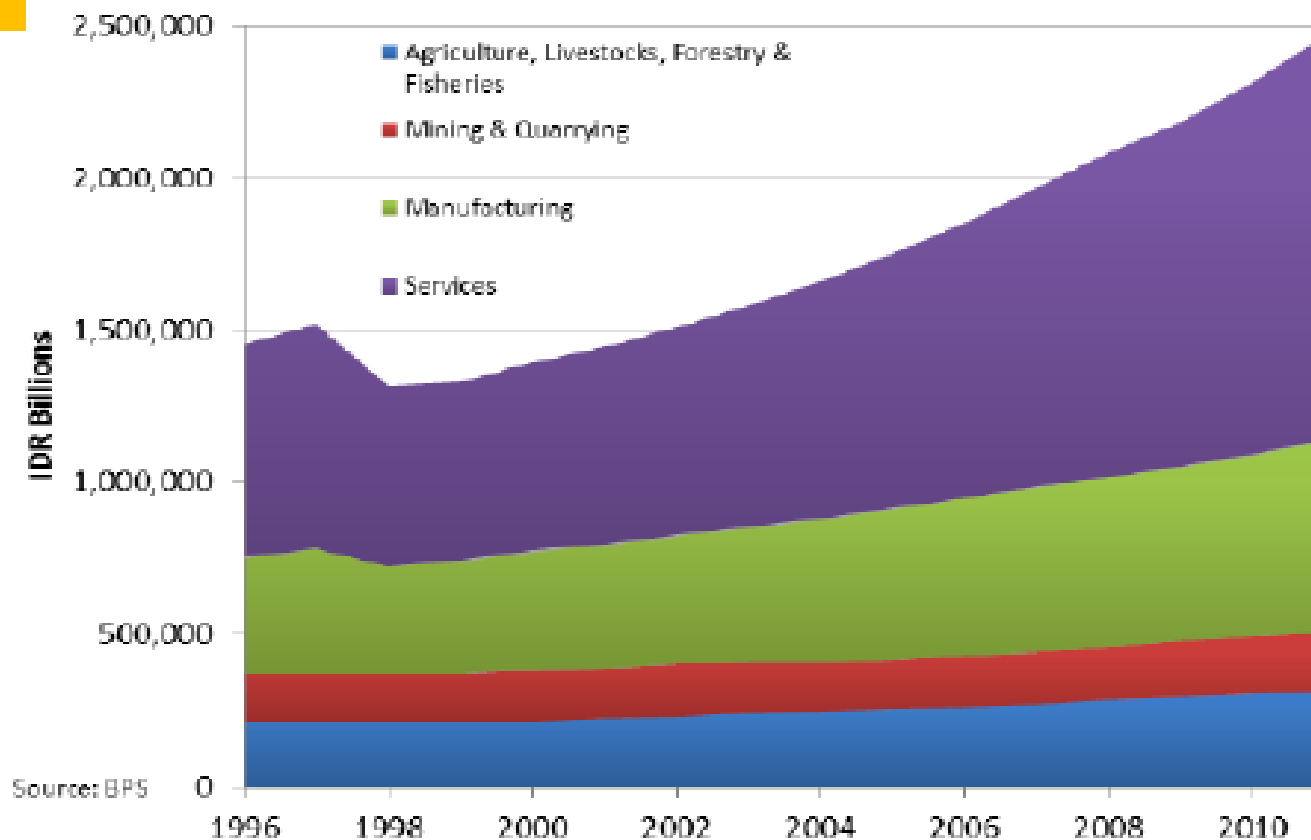
Services by Numbers

1 Services are the largest contributor of value added economy:

Services most important sector;
Direct contribution of services to GDP growth has increased over time.



Indonesian GDP at Constant 2000 price

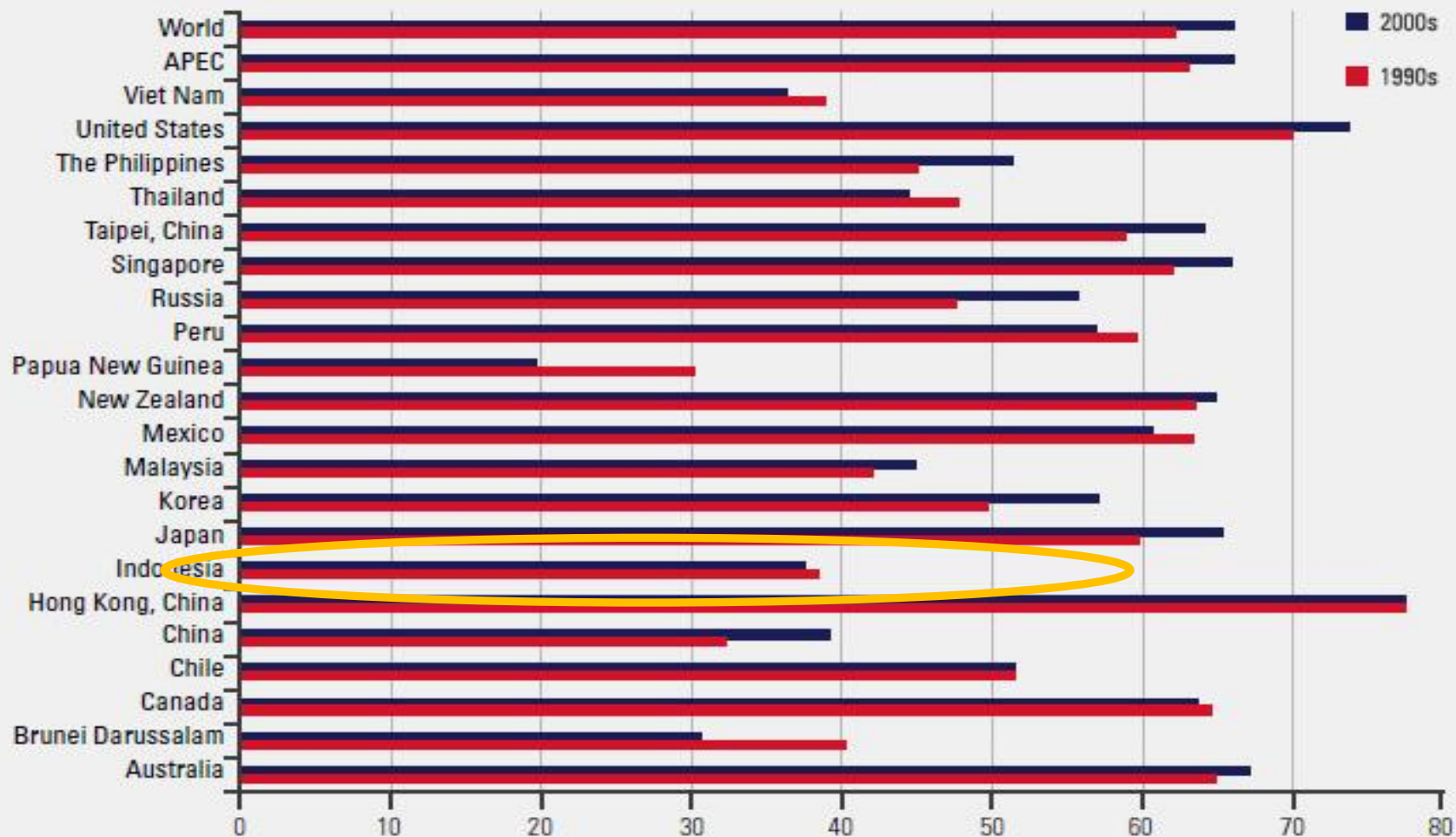


Source: Duggan, Rahardja, Varela "Services Sector Reform and Manufacturing Productivity Evidence from Indonesia" (WB, 2013)



Services by Numbers...2

Services as a share of GDP



Source: World Trade Organization, Time Series on International Trade, adapted from Pasadilla and Chanda (2011)



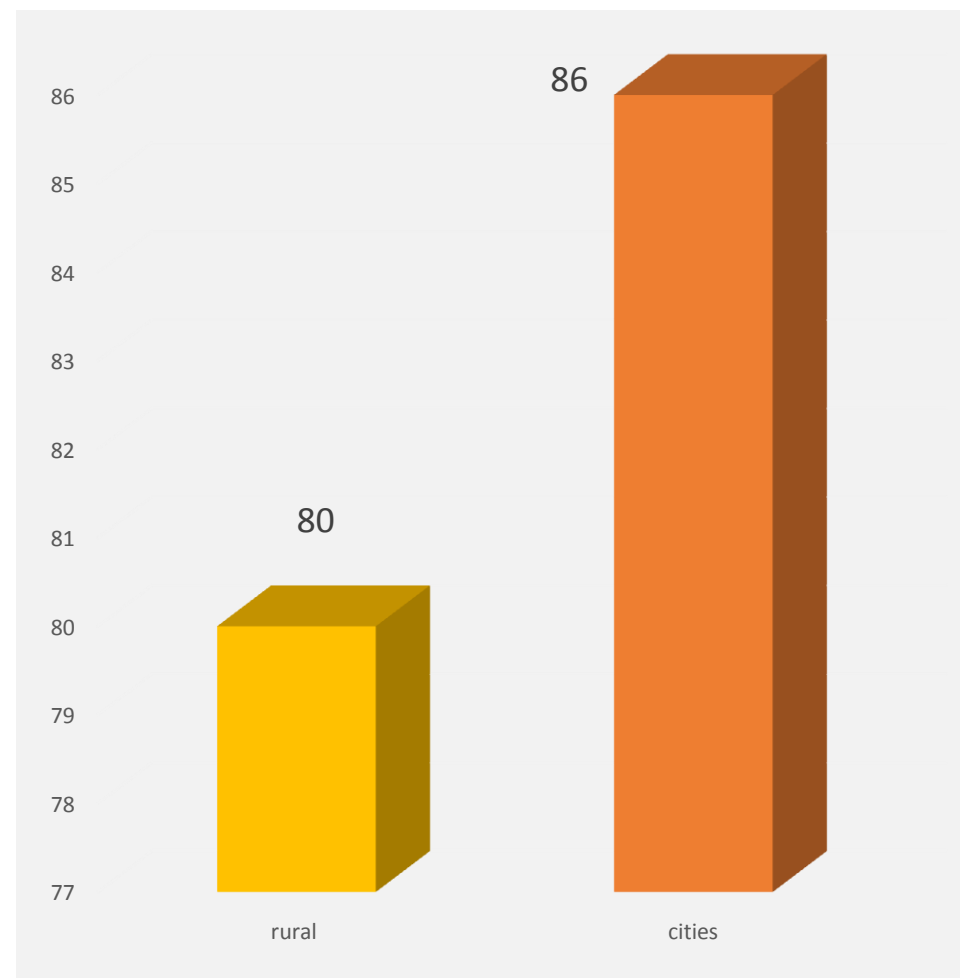
Services by Numbers...3

2 Services as poverty alleviation instrument

Between 1984-2008 the growth of Services Sector manifested into about **80% of rural poverty reduction** and **86% of urban poverty reduction**.

Thus, services sector support:

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

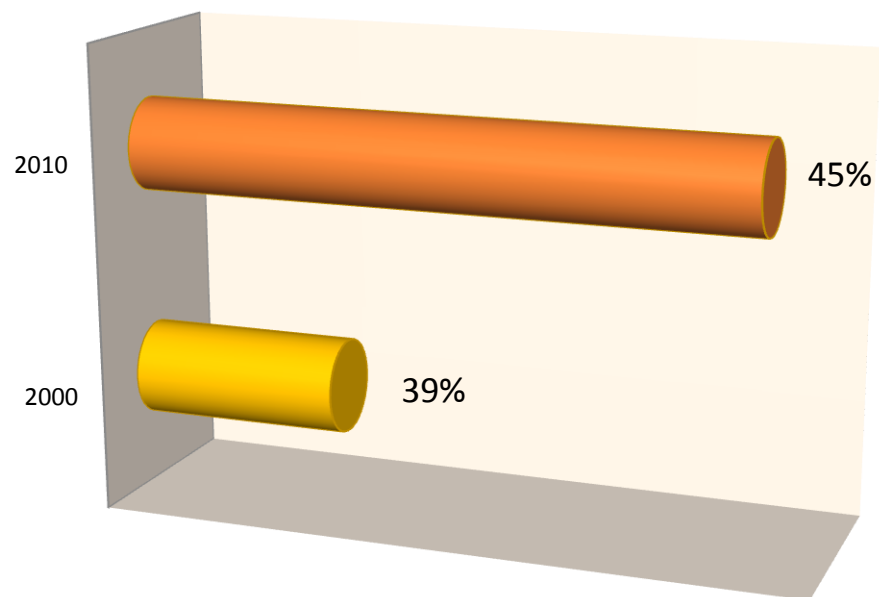


Source: SMERU 2010

3

Services is the engine of job creation

Services employment share to other sector has increased over time – from **39%** in 2000 to **45%** in 2010.



Source: BPS - 2010

- During 2000-2010, services has contributed highest provider in creating new employment and created far more jobs than other sectors:

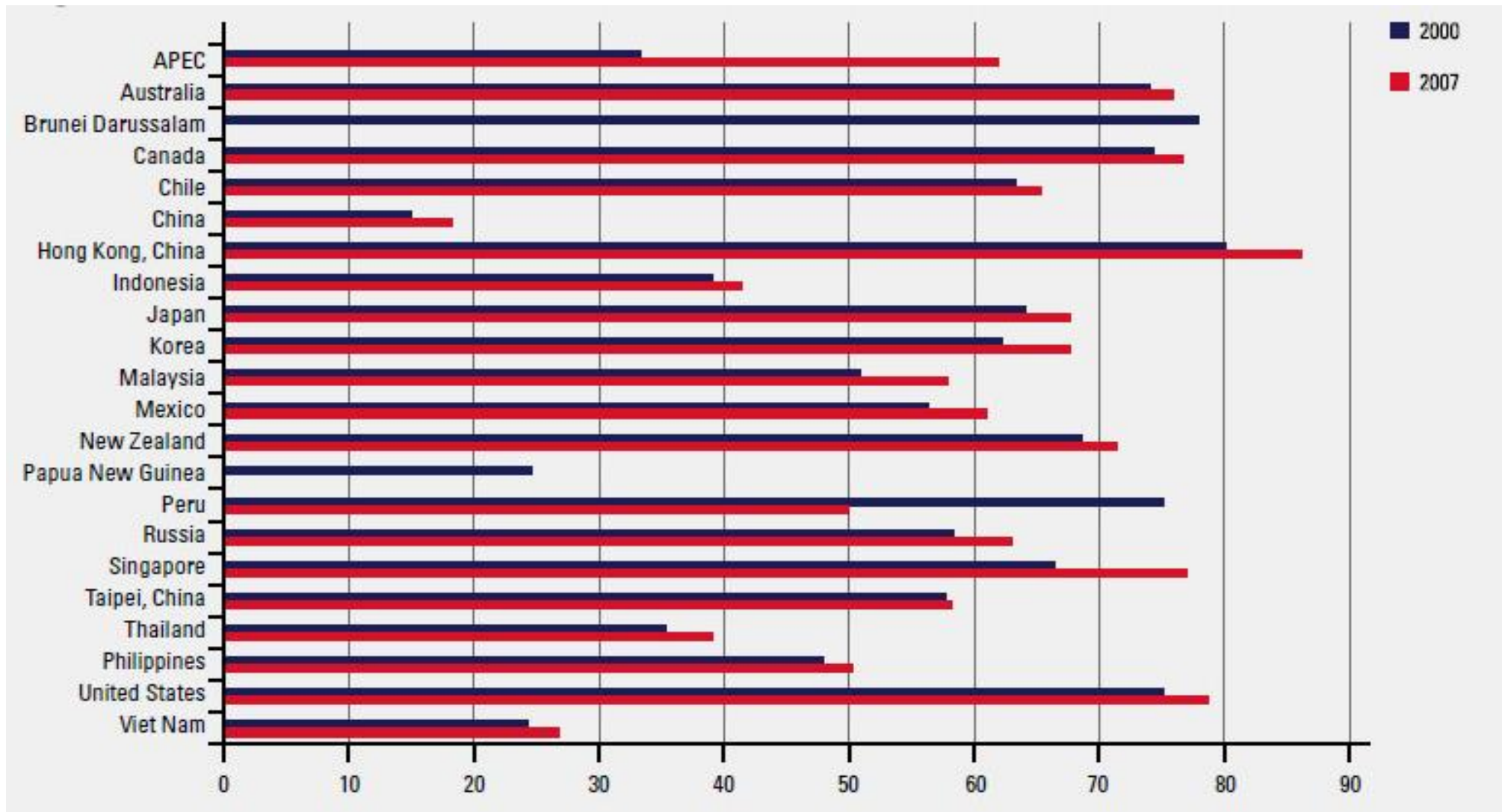
❖ Services:	21.7 million jobs
❖ Manufacturing:	2.2 million jobs
❖ Mining:	750,000 jobs
❖ Agriculture, Hunting & Forestry:	650,000 jobs
❖ Public Administration:	600,000 jobs
❖ Others:	400,000 jobs
❖ Fishing:	300,000 jobs

- Since the start of the 21st century, **3 out of every 4** new jobs that were created In Indonesia were in services and service related sectors



Services by Numbers...5

Share of Services Employment in Total Employment 2000, 2007

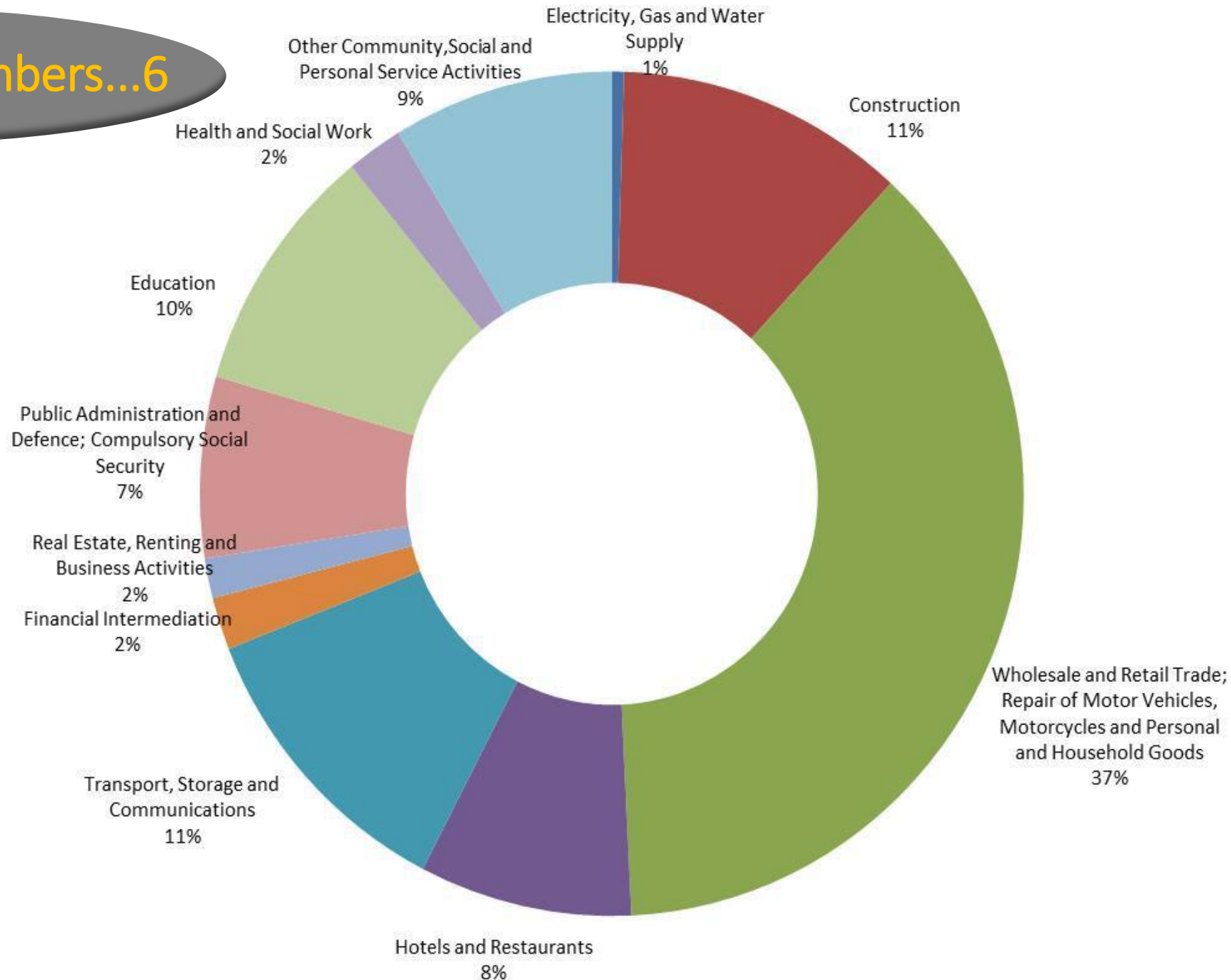


Source: International Labour Organization, Key Indicators of the Labour Market downloaded via APEC Statistics



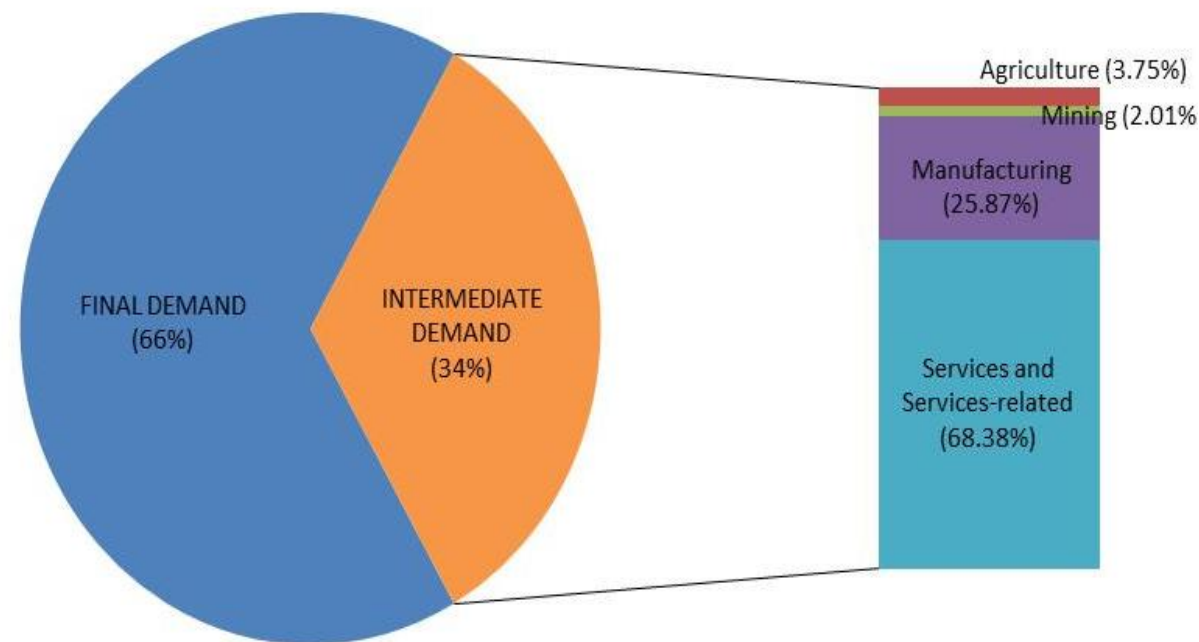
Distribution of Employment and Occupation in Services

Sources: (ILO 2013)



4 The Connectivity between services and other elements in the Economy

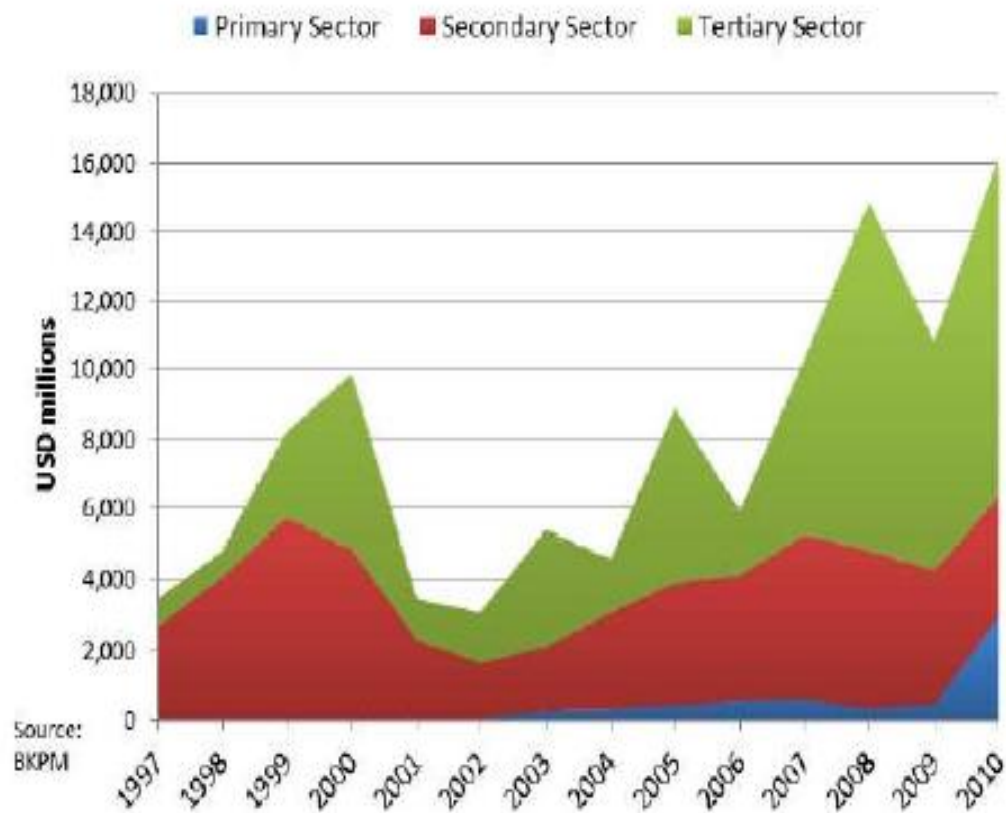
- Services are purchased for two uses:
 - To use by itself
 - To use an input into making something else.
- In Indonesia $\frac{2}{3}$ of services are purchased for **direct use**. For eg, if you go to the hospital, you are there to use their services to get better.
- The other $\frac{1}{3}$ of services are purchased to be used **to do something else**. For example most of road transportation is being purchased to facilitate some other business to happen.



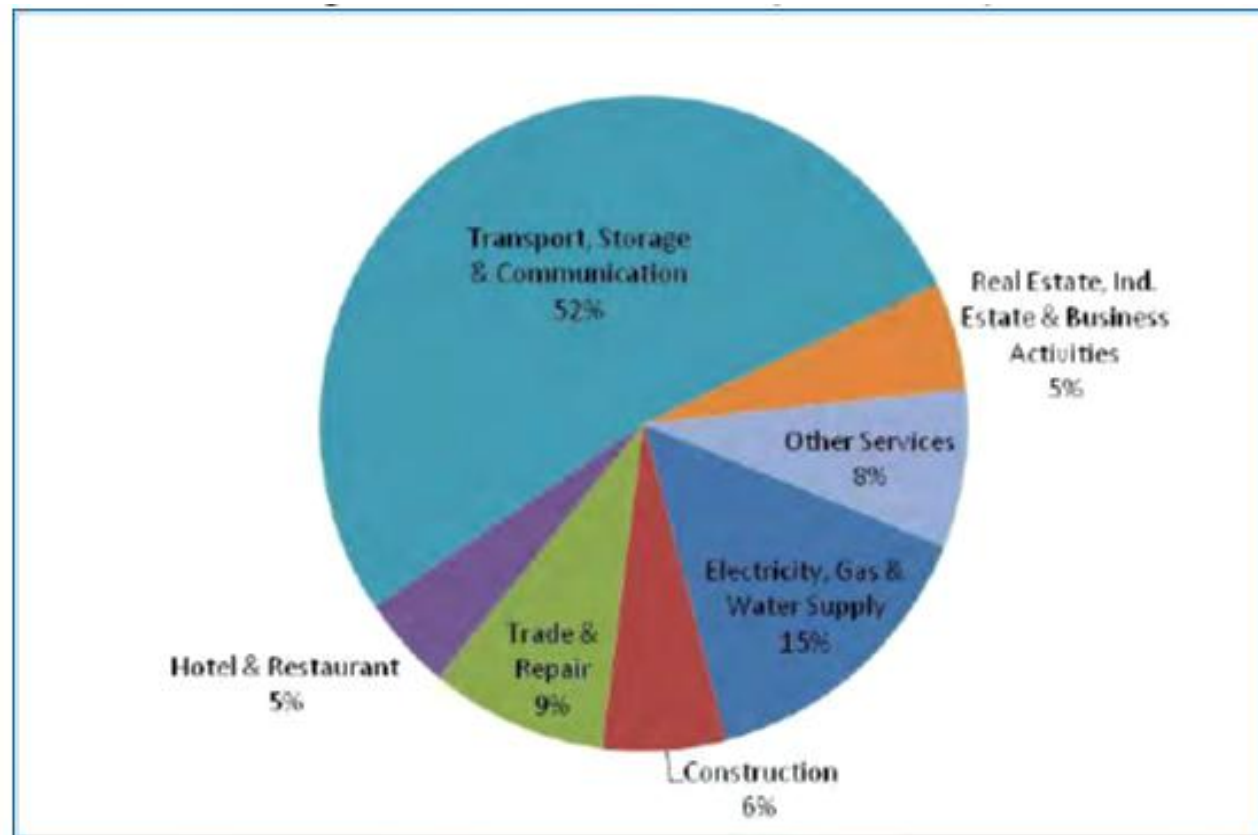
Demand for services: 66% of the total demand for services is use for final consumption, 34% comes from producer (intermediate demand). About 34% of services sector production is intermediate demand from other production sectors. Only 66% final product from services sectors is directly consumed by end consumers.

5 The most FDI now in Services

Inward FDI by Sector



FDI in Communication Services as a Percent of all Services (2000-2012)



Note: Excluding oil&gas, Non-Bank Financial Institution, Insurance, Leasing, Investment,
Source: BKPM (accessed on 8 March 2013)



Services by Numbers...9

6 Services numbers on export

The true picture on services exports

- In the traditional measure of exports, services constitute **only 10% of Indonesia's exports**.
- However, if we take into account these embedded services, Indonesia's services exports **rise to USD 28 Billion**.
- In other words, ratio of services in exports **doubles from 10% to 21.5%** of total exports (in value added terms).

Percentage Value Added of Communication Services as Embedded in Exports (2009)

Industry	Gross Exports (USD Million)	Services Industry Value Added Embodied In Gross Exports (USD M)
Agriculture, hunting, forestry and fishing	2910.1	208.5
Mining and quarrying	26217.7	1274.8
Food products, beverages and tobacco	18467.4	2725.9
Textiles, textile products, leather and footwear	11377.6	2404.6
Wood, paper, paper products, printing and publishing	6239	1413.8
Chemicals and non-metallic mineral products	23762	2865.1
Basic metals and fabricated metal products	6514.5	1191.8
Machinery and equipment, nec	5181.6	1812
Electrical and optical equipment	9863.9	2741.8
Transport equipment	3753.8	762.9
Manufacturing nec; recycling	3156.8	660.3
Electricity, gas and water supply	0	0
Construction	0	0
Wholesale and retail trade; Hotels and restaurants	3020.1	2231.4
Transport and storage, post and telecommunication	5123.9	3978.4
Financial intermediation	163.9	154.8
Business services	1953.2	1674.1
Other services	2652.2	1938.9
TOTAL	130357.9	28039.4

9.9% of total gross exports 21.5% of total gross exports

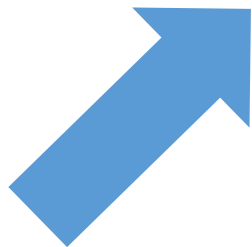
14 % VA Transportation and communication embodied in gross exports

Sample Cases; services for other sectors





Services Content in Modern good



\$144 Inputs from suppliers

\$30 Distribution (Logistics)

\$45 Retail

\$80 Apple (including R&D,
Design, Profit)

The Ipod Example

Retail Price: \$299

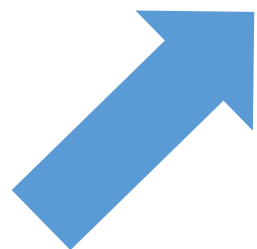
Source: Constructed from Linden et al (2007)



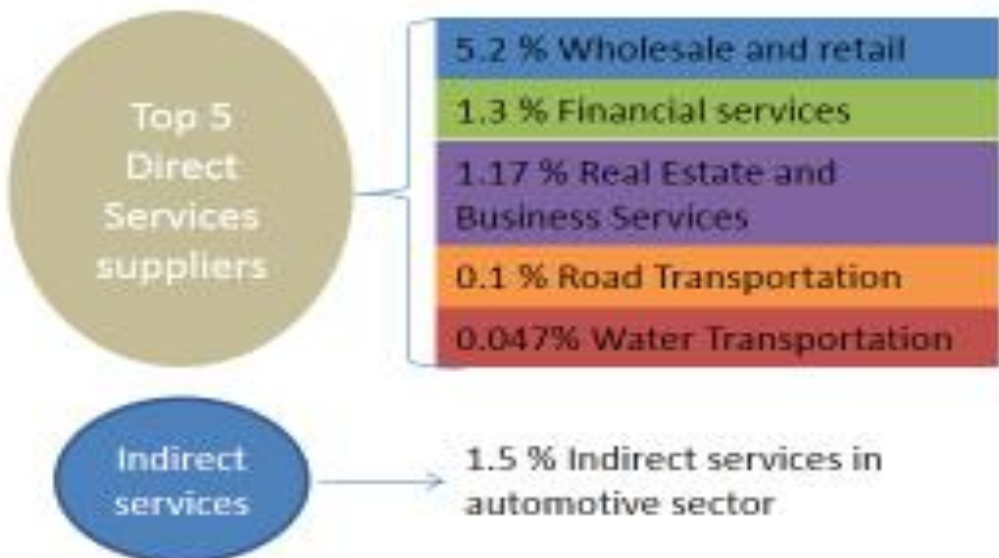
Services input into Other Sector



**46.5 % of
GOODS**



**Example Inputs into
the Automotive Sector**



**Total 12.5 %
of Services**

- Non-Goods and Services
Components : 41 %**
- Import Intermediate Input
 - Wages and Salaries
 - Business Surplus
 - Depreciation
 - Indirect Tax
 - Subsidies

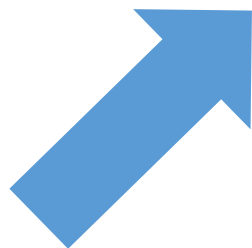
Source: Based on Table 2. Total Transaction based on producer prices (BPS 2009)



Services input into Other Sector

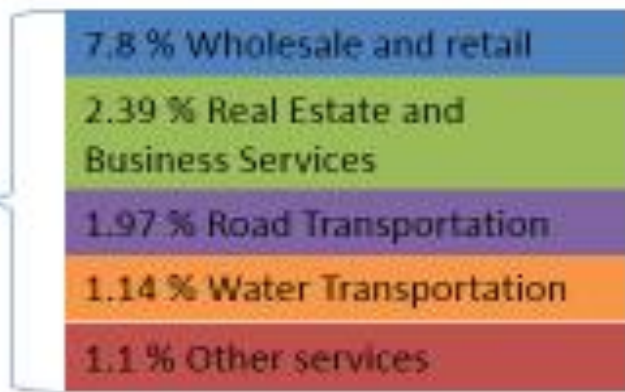


**52.47 % of
GOODS**



**Example Inputs into
the Electronic Sector**

Top 5
Direct
Services
suppliers



**19.03 % of
Services**

Indirect
services

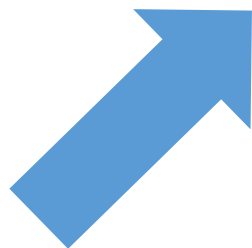
1.53 % Indirect services in
electronic sector

- Non-Goods and Services
Components : 28.5 %**
- Import Intermediate Input
 - Wages and Salaries
 - Business Surplus
 - Depreciation
 - Indirect Tax
 - Subsidies

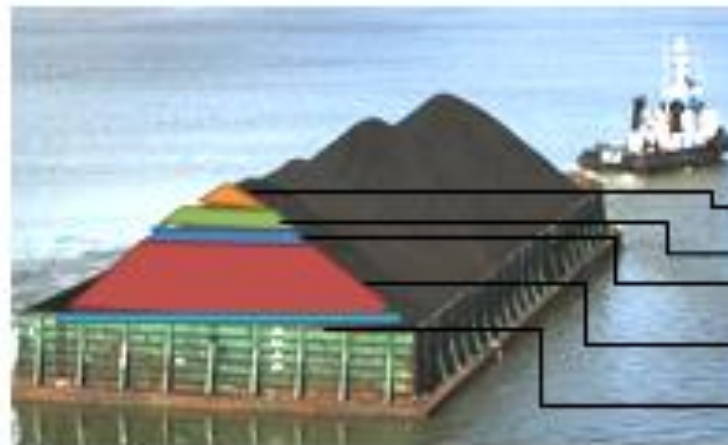
Source: Based on Table 2. Total Transaction based on producer prices (BPS 2009)



Services input into Other Sector

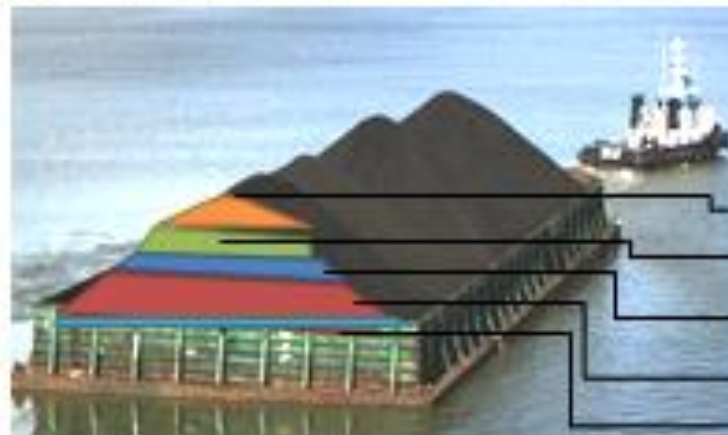


Example Inputs into the Mining Sector



Indonesia

- 3.88 % Services
- 14.19 % Others
- 9.62 % Compensation of employees
- 69.49 % Gross operating surplus
- 2.82% Other taxes



Australia

- 16.6 % Services
- 23.5 % Others
- 11.6 % Compensation of employees
- 47.7 % Gross operating surplus
- 0.7% Other taxes

Source: Constructed from OECD STAN database, Indonesia IO Table, ITS Global (2010)



Services Content of various Indonesian Products

Example Content in Top Indonesian Products



Source: Constructed from OECD STAN database, Indonesia IO Table

Services in the ASEAN Context

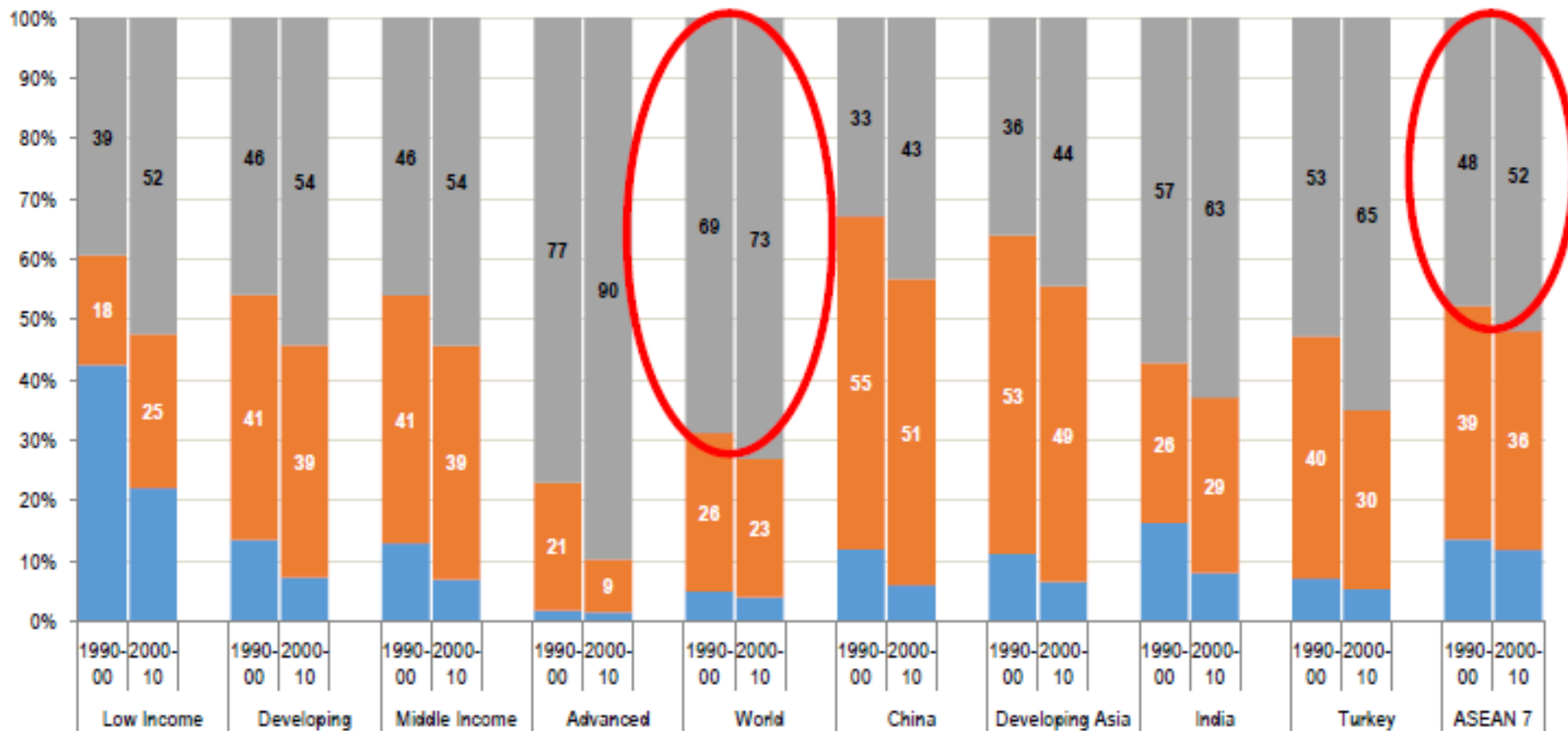




Services in Evidence Based



Increased Role of Services ASEA Source of Growth – Everywhere, especially in advance economic



Source: WDI Data

■ Services

■ Industry

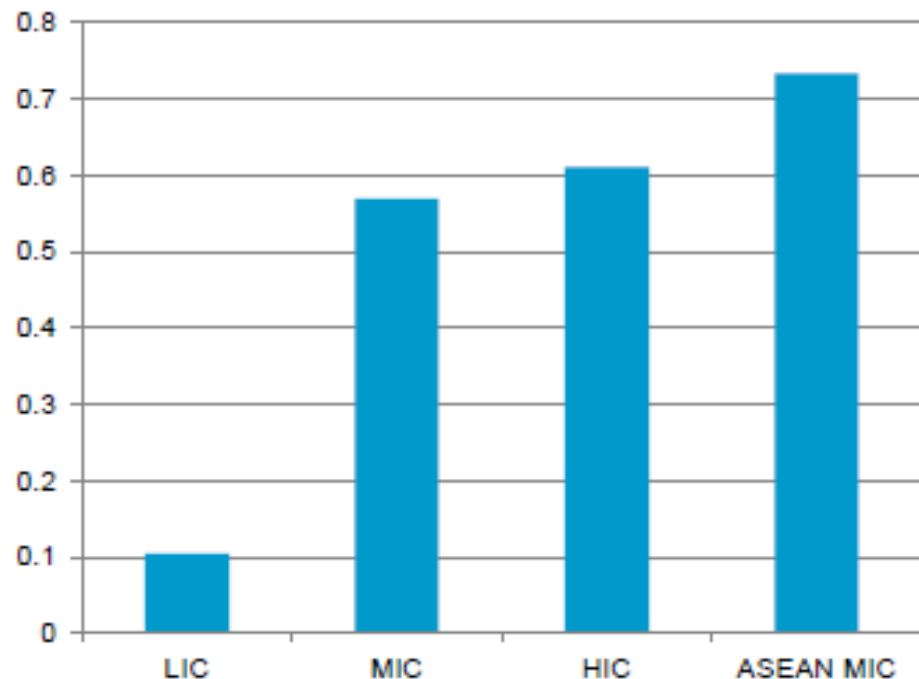
■ Agriculture



Services as a key input

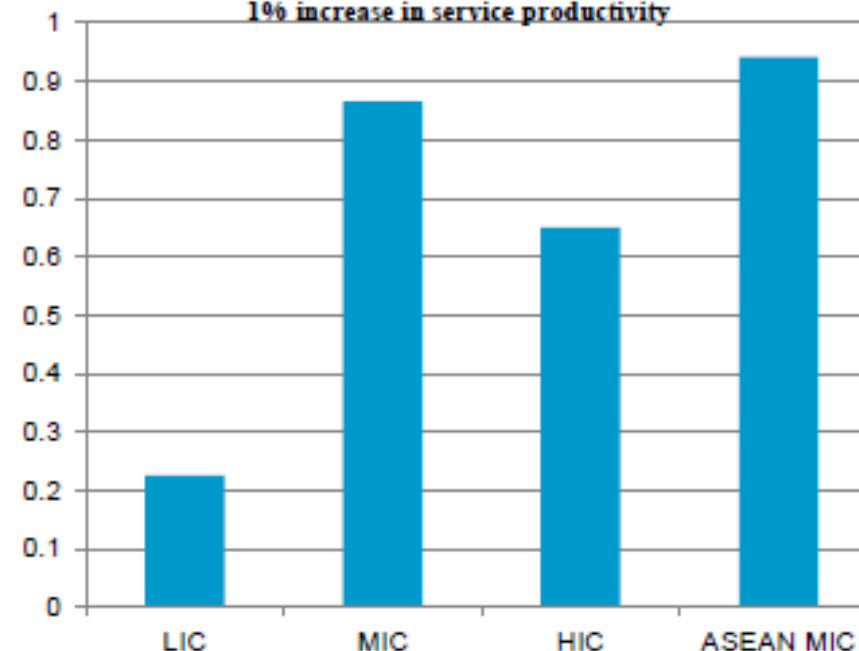


% per capita income increase associated with 1% increase in service productivity



Services Productivity and Income

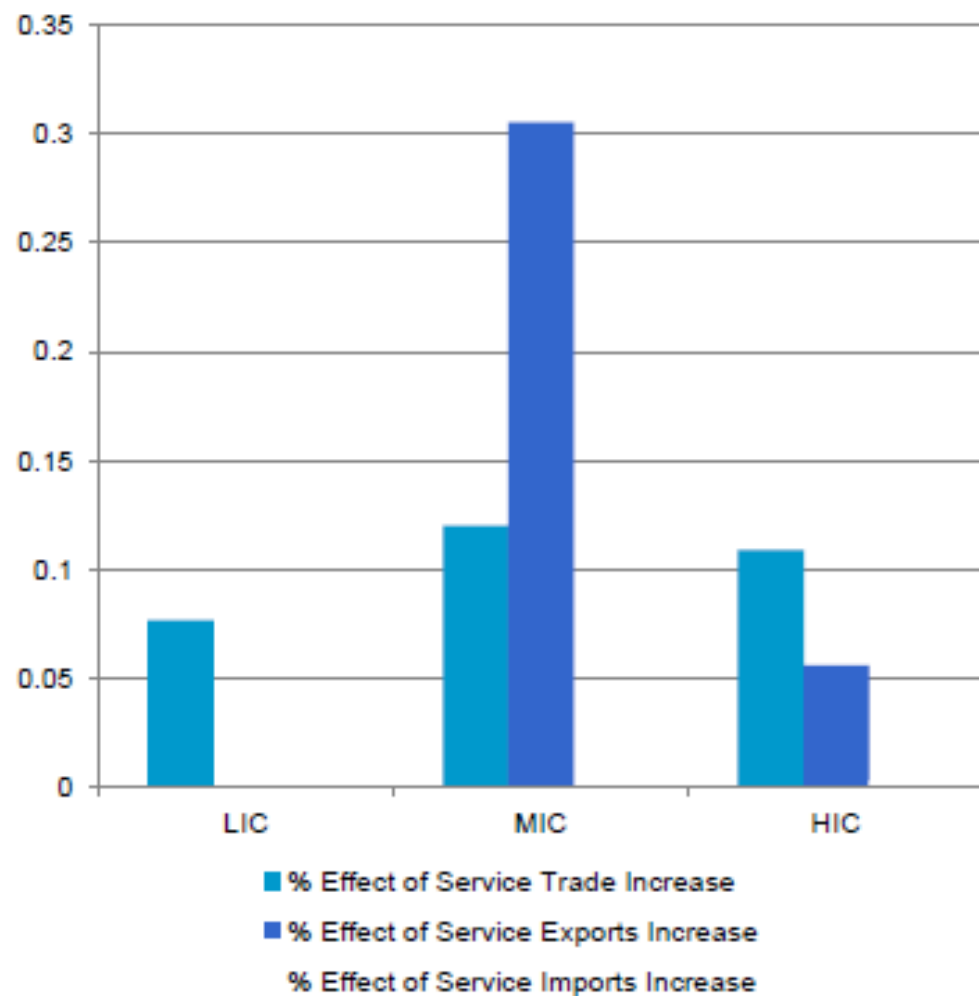
% industrial labor productivity increase associated with 1% increase in service productivity



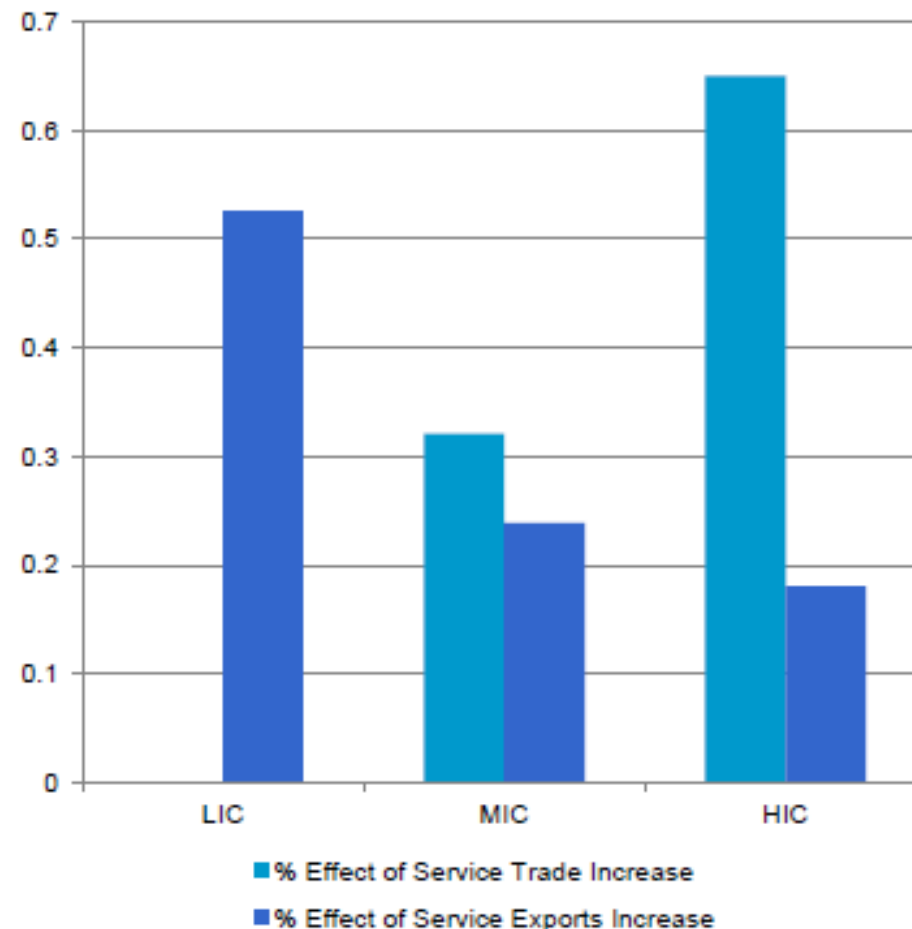
Services Productivity and Industrial Productivity



Services Trade as a Key Input



Services Trade and Income



Services Trade and Industrial Productivity

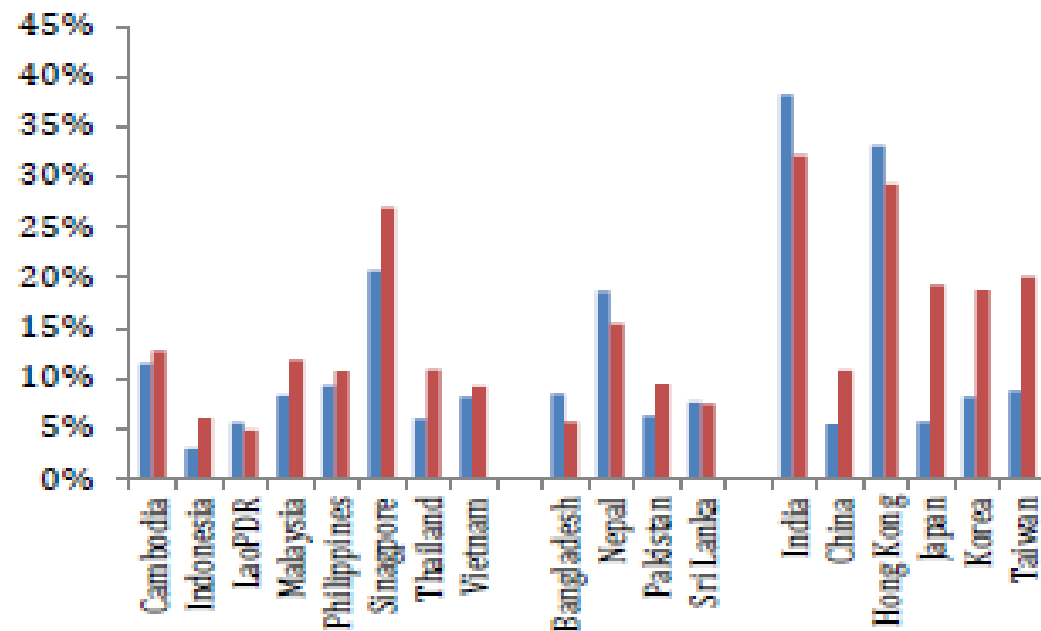
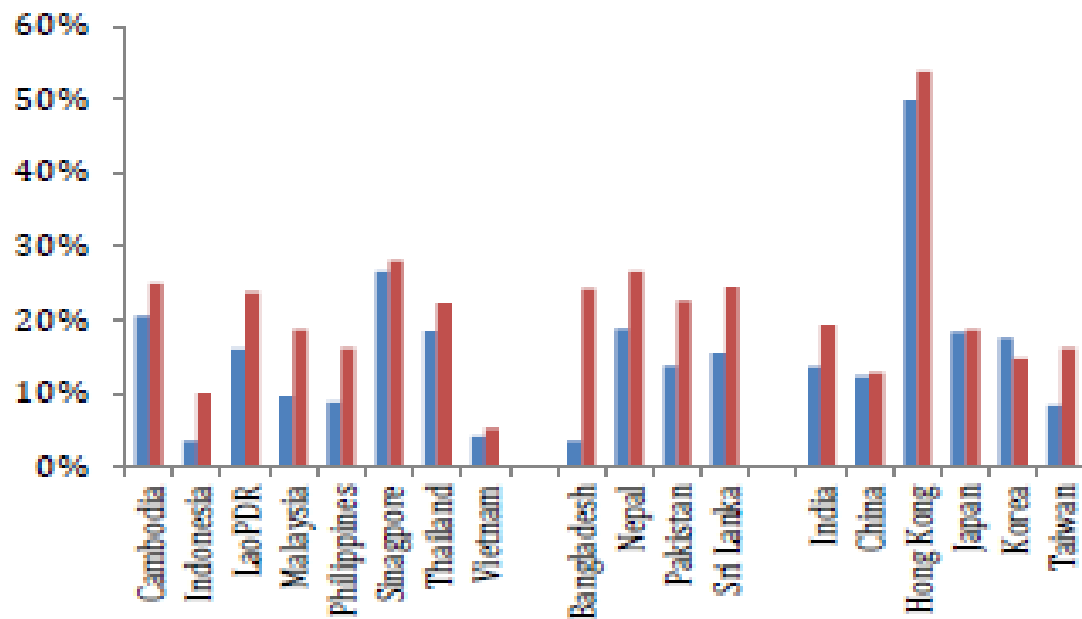


Services Play a Significant Role as input to other export activities



Share of Transport and other services in total exports

Share of other private services in total exports



■ Direct Transport and others ■ Linkages Transport and others

■ Direct Other Private Services ■ Linkage Other Private Services

Source: World Bank Value Added Database.

Note: Due to data limitations we work on the basis of two broad categories. The first category corresponds to transport, distribution, and tourism activities, broadly speaking. The second category ("Other private services") corresponds to activities such as professional services, business services, financial, entertainment services, and others.

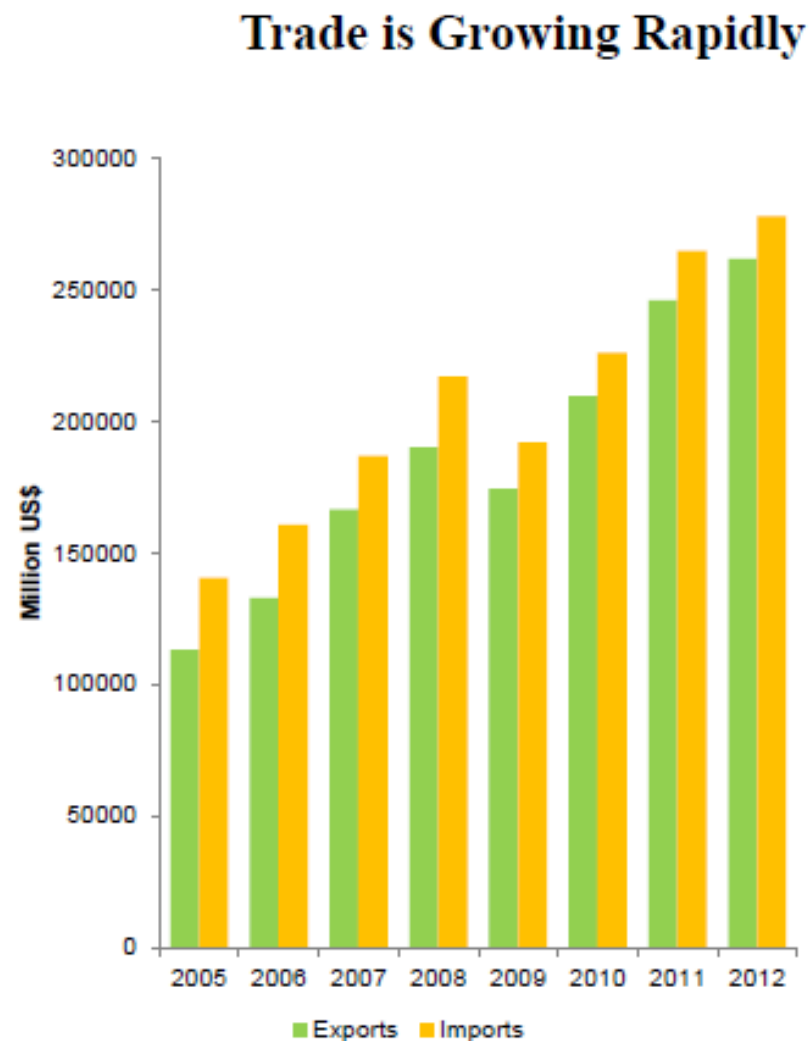
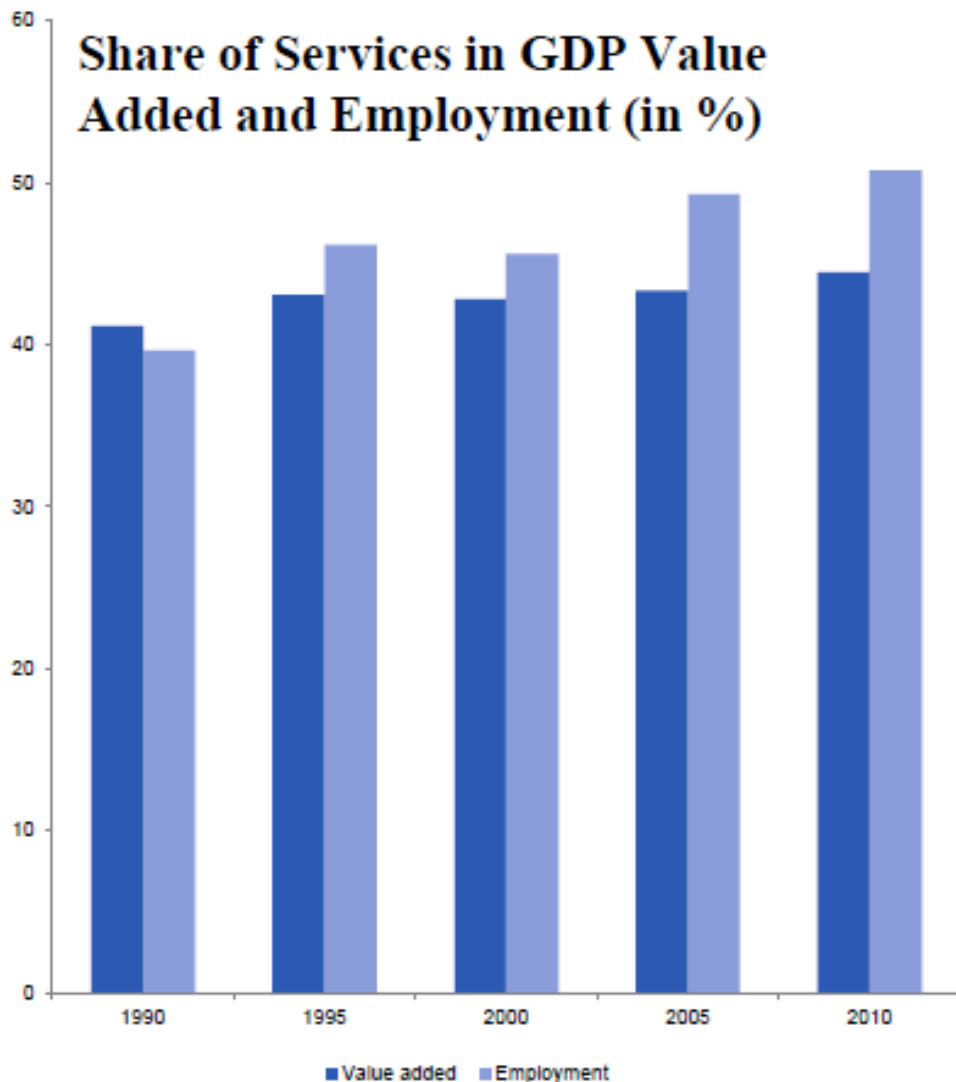
Services trade measure on Value – Added terms



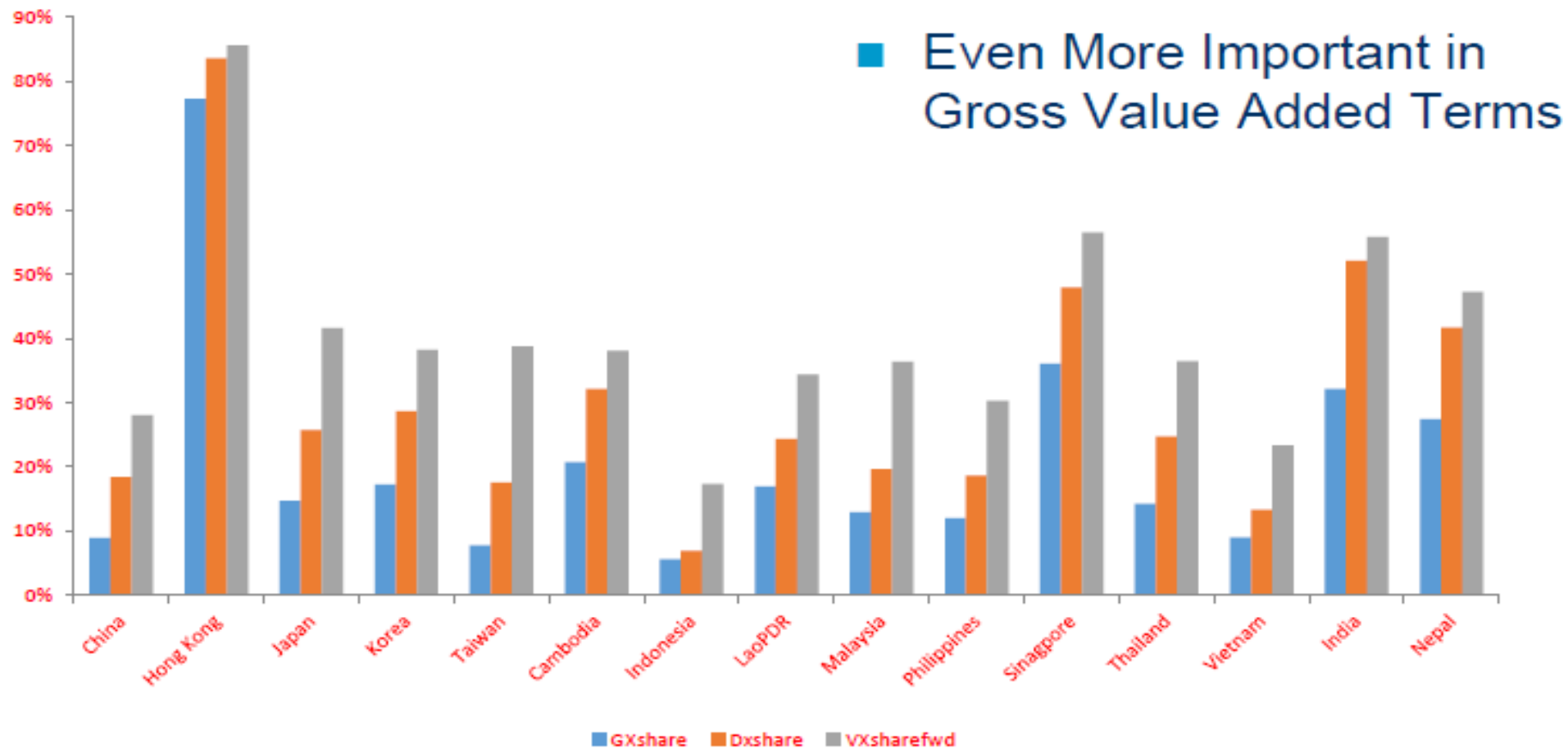
The ASEAN Experiences



Opportunities
and
Challenges



Services exports as share of total exports: Gross, Value Added, and Total



Source: WDI and World Bank Export of Value Added Database.
 Note: GXshare = Gross Exports Share, DXshre = Direct Exports Share, VXshsrefwd = Total Exports Share.



Key Messages of **Services in ASEAN**



1

Services Growth and Trade are Closely Linked to Productivity Growth, especially in middle income countries



2

Services trade have grown rapidly. When measured in terms of value-added, services contribution to total exports increases significantly



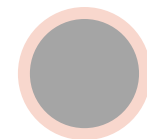
3

In ASEAN countries also services are a fundamental input to other activities and therefore a key determinant of the region's competitiveness



4

Services' role in ASEAN countries is below what would be expected from a dynamic region as East Asia



5

Data suggests that there is scope for greater regional integration in services in ASEAN that can help to achieve gains from economies of scale from a market of 600 million people and USD 2.3 trillion GDP

Services in Country Studies





Advance and Middle **Income Economies**

Advanced Economies:



- Most of 2000s European growth (80 percent) and US (70 percent) Productivity growth attributed to Services sector's contribution.
- Research suggests that differences in aggregate productivity levels and growth rates among seven advanced economies countries were largely explained by differences of the performance in the service sector

Middle Income Economies:



- In Chile FDI in services closely linked to manufacturing productivity, especially helpful for small firms.
- In Indonesia relaxing equity restrictions in both the transport, and the electricity, gas, and water sectors led to significant productivity gains of manufacturing firms



Country Studies - Mexico

Mexico Enacts Comprehensive Reform in its Telecommunications and Broadcast Media Sectors



Key elements of the reforms include:

- Permitting up to 100% foreign ownership of companies engaged in telecommunications services, including satellite communications.
- Up to 49% ownership will be allowed in radio and television broadcasting, subject to a requirement of reciprocity.
- Empowering a new regulatory authority to identify dominant market participants and to force those participants to remove barriers to entry.
- Launching new broadband infrastructure
- Removing barriers to effective enforcement, simplifying the concession/administrative structure, and resolving disputes efficiently.

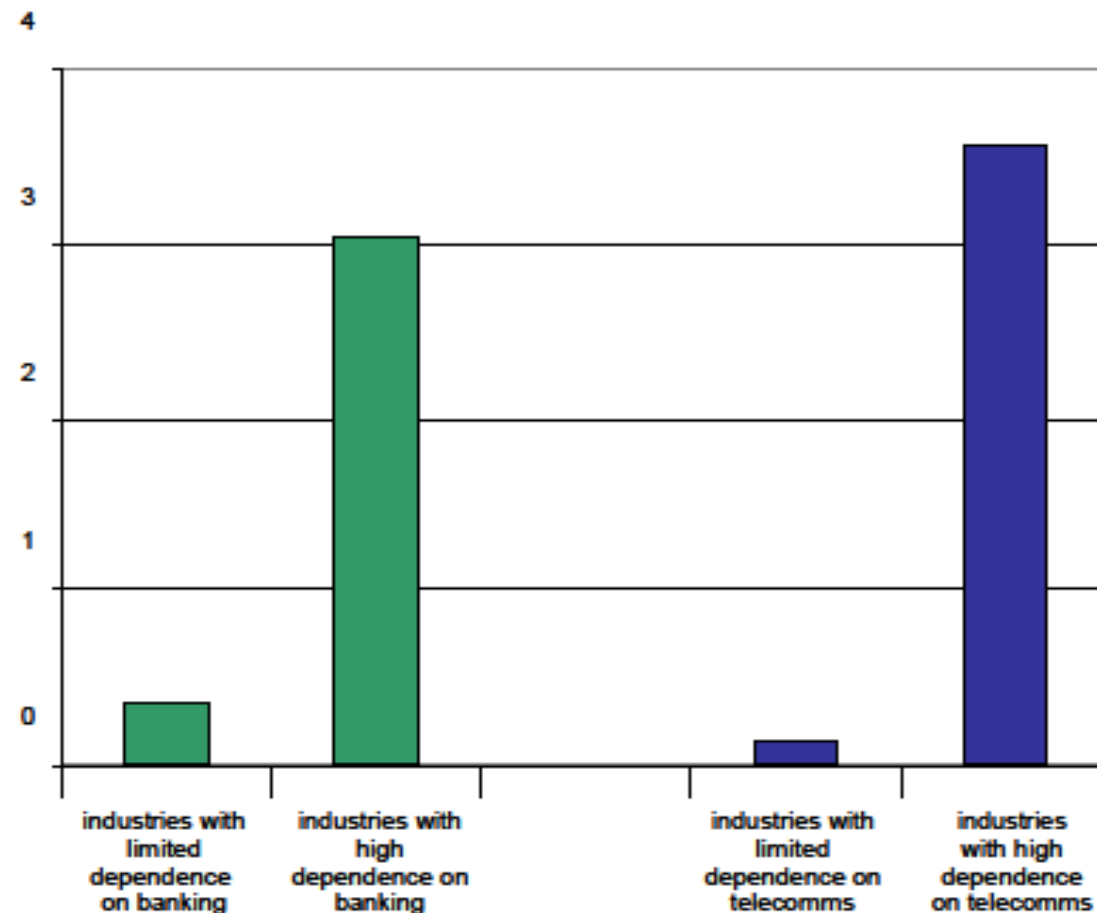
Services reform boosts not only productivity and exports in services, but also the performance of downstream manufacturing industries



- Study based on panel data for 4,000 Indian firms for the 1990-2005 period finds that
- **banking, telecommunications** and **transport** reforms all have significant positive effects on the productivity of manufacturing firms
- Similar studies on the Czech Republic, Chile and African countries present robust empirical evidence

Percent

Gains in Annual TFP Growth After Services Reform



Source: Arnold, Javorcik, Lipscomb and Mattoo (2010).

The Challenges





Trapped in Traditional Services

Share of Services in Value Added 1990 and 2010 (%)

Sector Modernization for Growth

- Low productivity in Asia's service sector, Indonesia in particular reflects the dominant role of traditional services industries, such as : **wholesale retail, hotels and restaurants, real estate, transportation services.**
- Advanced economies, in contrast, have shifted toward modern services, such as: **ICT, finance and professional business services**, which tend to enjoy higher productivity.

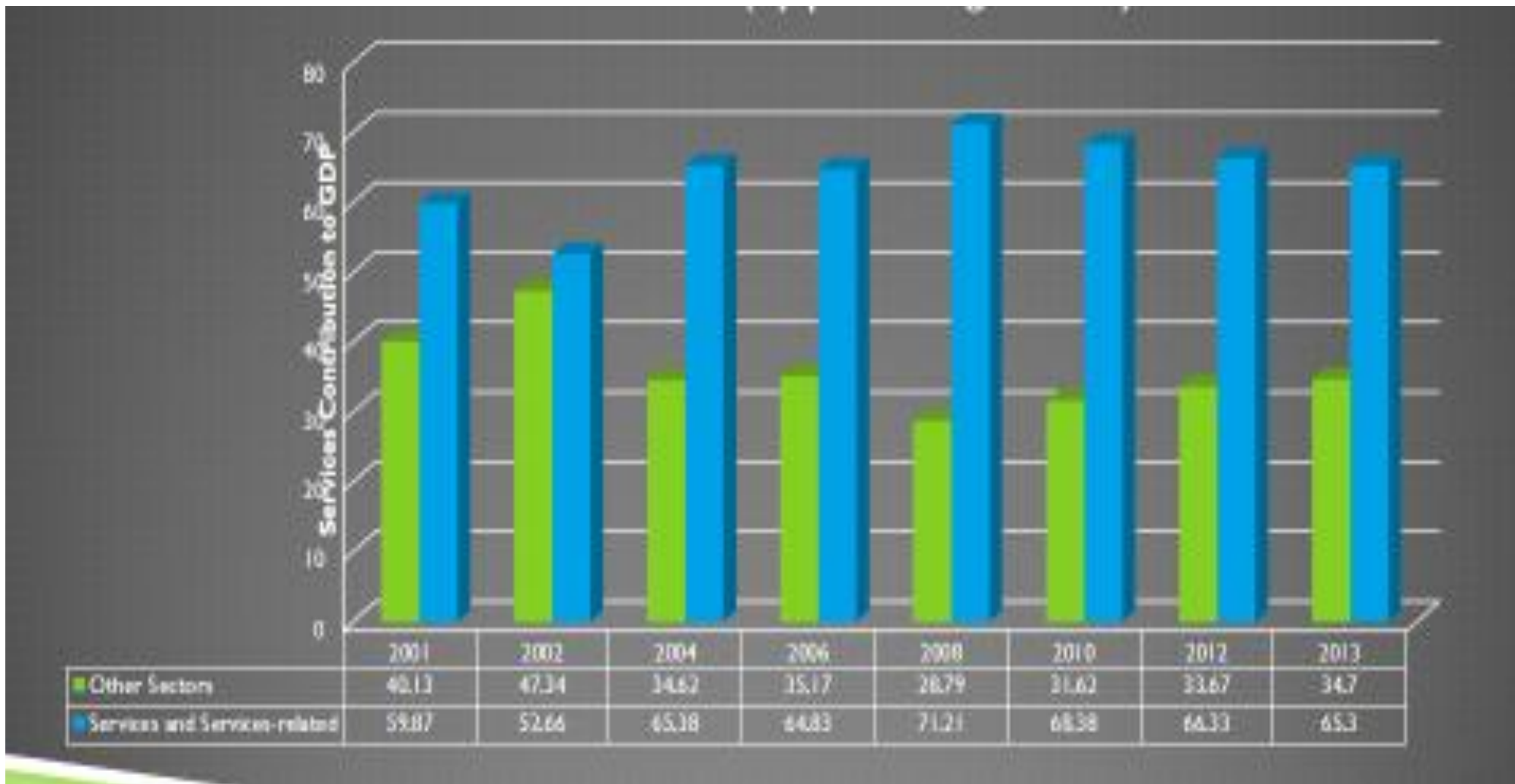
Economy	Total services		Trade		Hotels and restaurants		Transport and storage		Real estate and dwellings		Public administration, community, personal, and other services		Communication, finance, and business services	
	1990	2010	1990	2010	1990	2010	1990	2010	1990	2010	1990	2010	1990	2010
Developing Asia														
PRC	31.5	43.4	6.8	8.5	1.6	2.1	3.8	4.9	2.1	7.3	7.9	11.2	9.4	9.4
Hong Kong, China	87.2	92.9	21.8	24.0	3.0	3.3	7.7	8.1	5.1	5.2	30.3	27.9	19.4	24.4
India	46.1	54.7	11.8	15.1	1.0	1.4	6.4	6.4	5.0	6.1	13.3	14.5	8.8	11.2
Indonesia	42.4	37.7	13.5	10.9	3.2	2.8	6.1	3.4	2.9	2.6	10.1	10.2	6.5	7.8
Republic of Korea	51.5	58.5	11.8	8.6	2.4	2.3	4.7	4.2	6.5	7.2	14.8	20.1	11.2	16.1
Malaysia	44.9	46.0	10.9	11.9	2.2	2.3	3.8	3.3	5.4	4.1	8.3	9.7	14.4	14.6
Philippines	50.8	55.1	14.7	17.4	...	...	3.2	3.9	5.8	6.5	15.7	13.4	11.5	13.9
Singapore	67.8	71.7	13.1	16.5	3.5	2.2	11.4	8.6	3.6	4.1	9.6	10.7	26.6	29.6
Taipei,China	55.0	66.2	13.4	18.8	1.7	2.0	4.6	3.3	6.4	8.9	17.5	20.8	11.4	12.4
Thailand	50.9	43.0	17.8	13.1	5.4	4.7	4.5	4.1	2.2	1.4	9.7	12.0	11.3	7.7
OECD														
France	69.2	79.7	11.8	10.6	2.3	2.6	4.6	5.0	9.8	13.4	21.7	26.1	18.9	22.0
Japan	59.8	72.6	12.8	12.3	...	...	4.9	4.5	9.4	13.0	19.1	25.7	13.6	17.2
United States	73.4	80.2	12.9	11.6	3.4	3.8	3.0	2.8	12.1	12.2	23.0	24.8	18.9	25.1
Latin America														
Chile	49.8	53.9	14.7	9.4	...	...	5.0	5.9	4.9	4.4	12.7	16.2	12.5	17.9
Mexico	61.1	64.2	15.7	11.5	2.2	3.3	6.9	5.7	8.8	10.0	14.9	20.4	12.4	13.1

... = data not available or combined with other services, OECD = Organisation for Economic Co-operation and Development, PRC = People's Republic of China.
 Note: Initial data for Malaysia and Hong Kong, China are from 2000; for Indonesia and Mexico from 1993; and for the Philippines from 1998. Latest data for the PRC and Japan are from 2009.
 Sources: ADB estimates using data from CEIC Data Company (accessed 25 April 2012).



Since the Global Financial Crisis, the Services Sector is in Decline

Contribution
to GDP (by
percentage
Share)



Source: BPS accessed 27 March 2014



When services coughs, the whole economy catches a cold

Contribution
to GDP
Growth in
percentage
points



Source: BPS accessed 27 March 2014

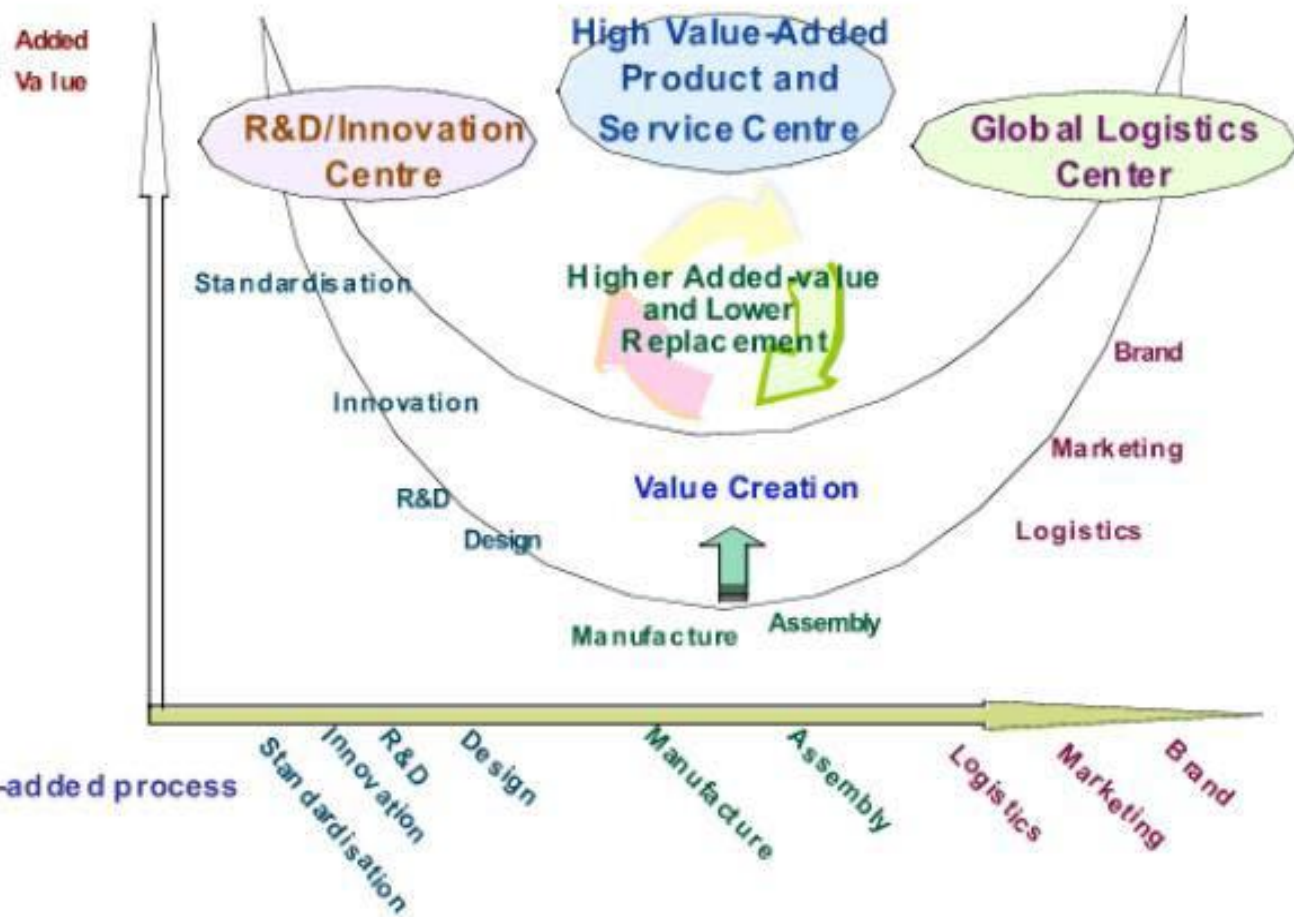
The Recommendations





Smiley Face

"Smiley Face": conceptual model of the shift to a high value added, globally integrated, services economy



- **To create higher value added, services need to be improved**
 - Better service links support communication and exchange of knowledge
 - Service links also reduce cost and increase incentives to acquire knowledge
- **Even more important when talking about industrial upgrading**
 - Moving up the value chain involves higher services embodied in production
 - Business services is the key



Modern services as key to improve services sector

- **Eichengreen and Gupta (2009)** : Modern services enjoy the highest productivity growth among service industries and their share of output tends to rise rapidly as high income is achieved.
- Key to improving Indonesia's services sector productivity overall lies in shifting from traditional services industries with add value to modern service industries with **high value addition**.

