Defining Strategies for Globally Competitive Services Sector

Philippine Services Conference
Makati City, 4 October 2016

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KADIN INDONESIA

KEMENTERIAN PERDAGANGAN REPUBLIK INDONESIA MINISTRY OF TRADE

APINDO

Agenda

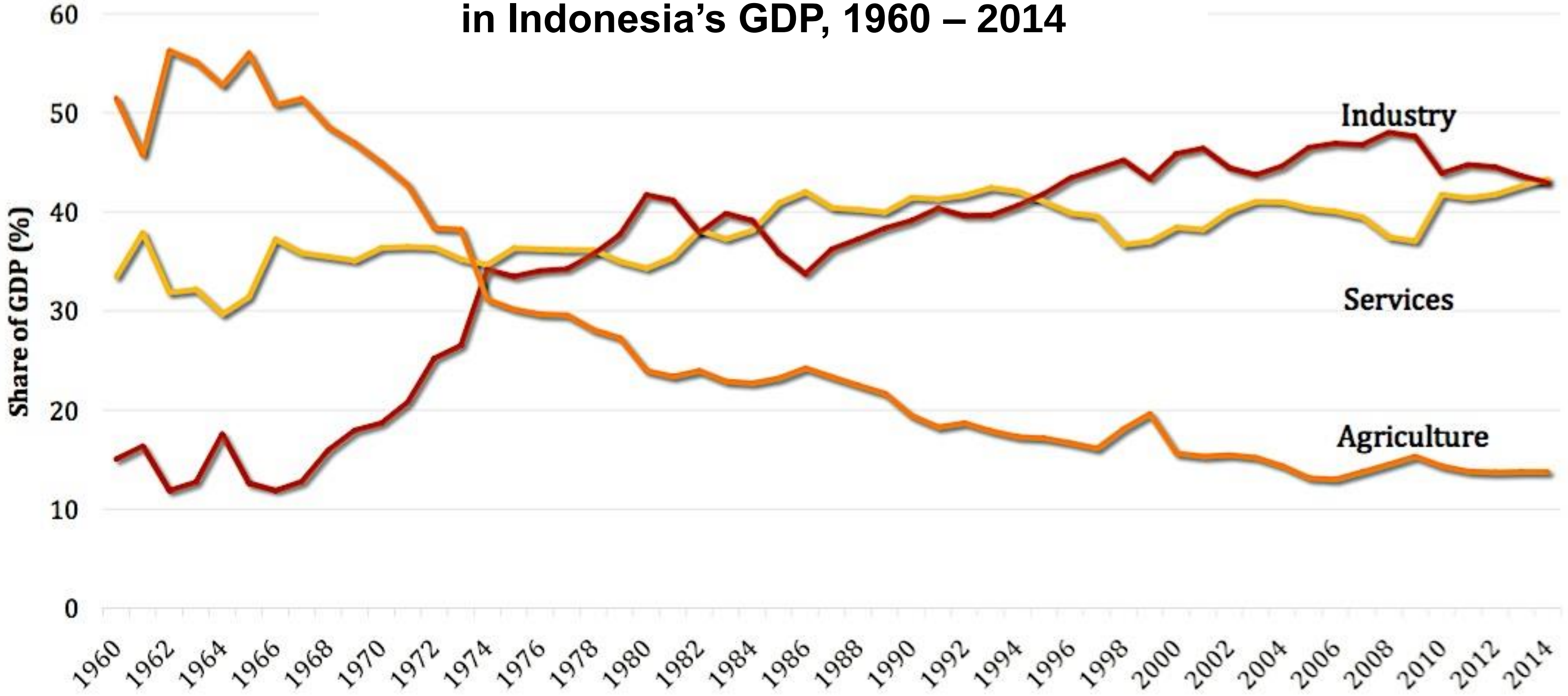
1. Services Sector in Indonesia
2. Services under RCEP
3. Services under TPP
4. Case Studies in Services Liberalization and Reforms
    a. Indonesia (Airlines Services)
    b. Indonesia (Logistics Services)
    c. Malaysia (Higher Education Services)
    d. Singapore (Financial Services)
5. Indonesia's Effort in AFAS Commitments
6. Strategy to Increase Services' Competitiveness
7. Conclusion
8. References

1. Services Sector in Indonesia

a) Make up 45% of GDP 43% of employment
   - About 60 million people employed in services, a 20 million increase in the last decade

b) Services's share is on the rise, while agriculture and industry sectors' share in decline. See the graph below:

Share of Services, Industry, and Agriculture in Indonesia's GDP, 1960 – 2014



Source: World Bank

1. Services Sector in Indonesia *(continued)*

c) The main driver of Indonesia's economic growth and job creation.
  - Rising contribution to employment
  - Services sector has high female participation rate.

d) Instrumental in poverty alleviation

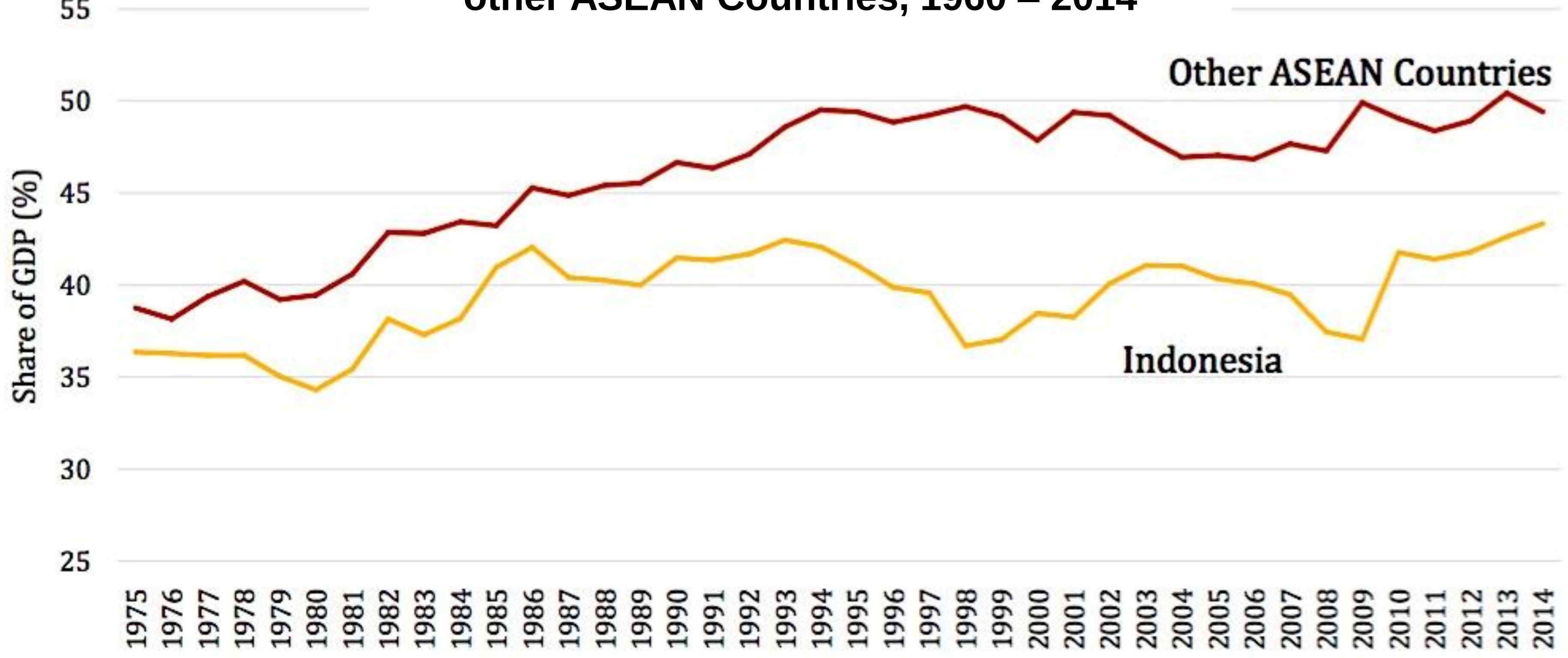
e) Grew at a higher rate than national growth and other sectors.
  - More than double of Agriculture and Industry sectors
  - Highest growth in transportation and communication services

f) Services sector grows with income.

1. Services Sector in Indonesia *(continued)*

g) However, despite rapid growth, Indonesia's services share of GDP remain below ASEAN. See the graph below:

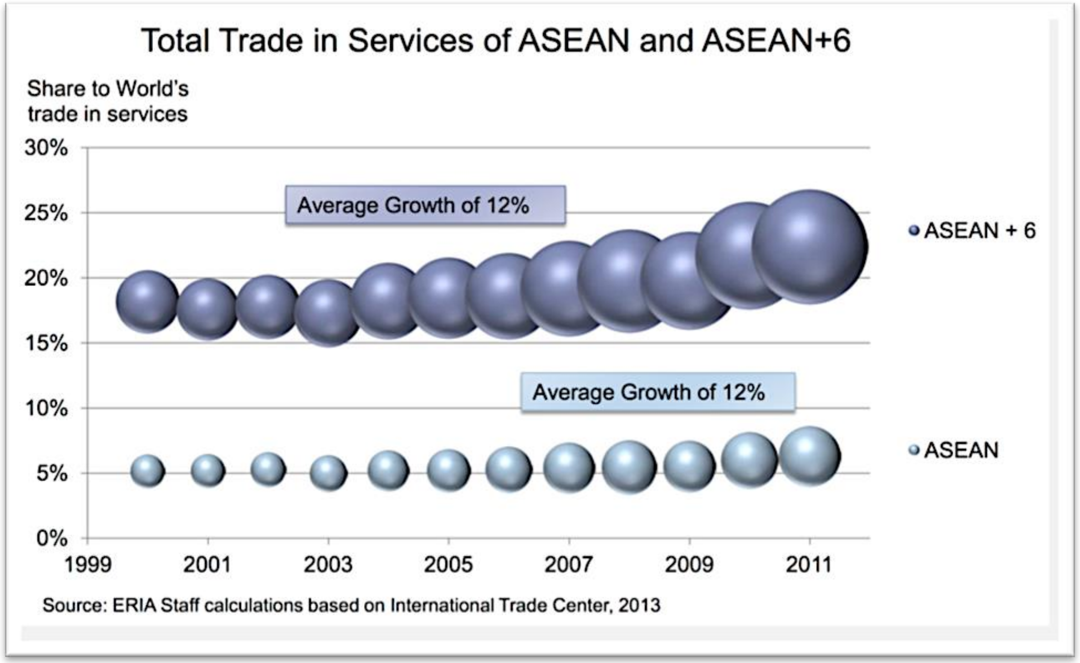
Share of Services in GDP, Indonesia and other ASEAN Countries, 1960 – 2014



Source: World Bank

2. Services under Regional Comprehensive Economic Partnership (RCEP)

a) ASEAN's share to total world's trade in services is still far below the other 6 non-ASEAN countries in the RCEP. See the graph on the right:



b) However, ASEAN's annual growth in services sector and investment are relatively high, with 12% and 22% respectively.

c) RCEP aims to advance integration in services and investment among its members.

   i. Thus, RCEP could help **achieve one of key elements** of the AEC, i.e., "ASEAN investment integration"

   ii. RCEP could also create momentum for the on-going rapid growth of services sector and FDIs in ASEAN.

d) RCEP could facilitate the three **previous investment integration reforms** in ASEAN, i.e.:

   i. ASEAN Investment Guarantee Agreement (IGA) in 1987

   ii. ASEAN Investment Area (AIA) in 1998

   iii. ASEAN Comprehensive Investment Agreement (ACIA) 2009

3. Service under Trans-Pacific Partnership (TPP)

a) One of key elements of TPP is to increase trade in services sector and investment in Asia Pacific.
   i. This could boost FDIs on services in ASEAN, which is relatively low compared to FDIs on goods/production.

b) However, the TPP puts a strong emphasis on lowering regulation on technological and broadband services. The impacts, for example:
   i. ASEAN startups may face greater challenges with the arrival of tech giants from the United States such as Google and Uber
   ii. Could result in increasing competition among telecom giants

4. How Services Liberalization and Reforms Lead to Greater Growth

Case Studies:

a) Air transportation services in **Indonesia**

b) Logistics services in **Indonesia**

c) Higher education services in **Malaysia**

d) Financial services in **Singapore**

4. a. Case Study: Indonesia (Air Transport Liberalization)

Reforms include:

a) Aviation Policies deregulation in 1990s - from being very restrictive to more market-oriented.

b) Domestic Aviation Market reforms, e.g.: easier licenses allowance to new companies.

c) Initial public offering as part of the state-owned Garuda's debt restructuring.

Results:

a) Indonesia started with 1 state-owned airline company, now has 17 private domestic airlines and a total of 27 scheduled airlines.

b) Competition from private airlines encouraged domestic airlines' improvement and competitiveness.

c) Rapid growth in domestic market demands, further creates jobs in air transportation services.

d) Indonesia air travel has increased five fold from 2000 to 2011, and now the 5th largest domestic air market in the world.

4. b. Case Study: Indonesia (Logistic Services)

On going issues:

a) High shipping and inventory costs.
b) Further relaxation in custom regulations needed to increase the flow of exported and imported goods.
c) Unbalanced distribution of logistic services – currently very concentrated in Java

Reforms include:

a) Logistic reforms still considered to be low.
b) However, there have been recent efforts in Logistic reforms, especially in border agency area.
c) Some relaxation in logistic regulation.

Results so far:

a) Indonesia's Logistic Performance Index increases from 2.76 in 2010 to 3.08 in 2014 (from 75th position in 2010 to 53rd in 2014).

4. c. Case Study: Malaysia (Higher Education Services)

Reforms include:

a) Changes in education and immigration policy in the 1990s, e.g.:

   i. Allowing private institutions and foreign universities to offer tertiary degrees

   ii. Encouraging the recognition of degrees internationally

   iii. Easier migration and visa policies for foreign students

Results:

a) Greater revenues from “consumption abroad,” i.e. from foreign students in the country.

   i. From 2003 - 2011, the number of International students in the country more than tripled, mostly from Indonesia and China.

b) Competition from foreign higher education has led to better domestic education service providers.

4. d. Case Study: Singapore (Financial Services)

Reforms include:

a) Singapore's Monetary Authority (MAS) adopted policies to protect retail banking in 1970s.

b) This includes the introduction of Qualifying Full Bank (QFB) program, i.e., new banking licenses.

c) The removal of 40% limit on foreign shareholding of local banks.

d) Increasing transparency by strengthening regulatory framework through more demanding disclosure standards, liquidity support, and deposit guarantees.

e) Bilateral and multilateral agreements to fasten reforms.

Results:

a) A rapid growth in exports and imports of insurance and financial services

b) Since the 2000s, finance has become the biggest contributor to trade services surplus.

c) Maintained itself as the financial center in the ASEAN region.

5. Indonesia's Efforts in AFAS and AEC Commitments

a) Three presidential instructions for economic reforms for AEC commitments in 2008, 2011, and 2014
b) The creation of the National Committee of AEC
c) On-going reforms in National Logistic Systems
d) Relaxation in Licenses for Indonesia National Single Window (INSW)
e) Fewer bureaucracies, e.g., Ministry of Trade as the gateway for International Trade
f) Strengthening the role of National Standards of Indonesia (SNI) to improve the quality of goods and services

6. Strategy to Increase Services' Competitiveness

a) Increase market access, i.e., reduce barriers to entry,
    i. to incentivize companies to develop innovations and offer quality services
b) Reforms in the systems of licensing, registration and permit issuance,
    i. to lower the cost of doing business
    ii. to promote investment
c) ASEAN Integration on trade in services should be through Mutual Recognition Arrangements (MRAs).
    i. RCEP could be the platform for MRAs.
    ii. RCEP as a pathway to make AEC's "free flow of trade in services" a reality.

6. Strategy to Increase Services' Competitiveness *(continued)*

d) Increase cooperation in services through dialogues and forums among ASEAN members,
   i. to increase information of the services market
   ii. to diversify production capacity, supply and distribution of services within and beyond ASEAN
e) Reforms and improvements that provide better delivery of *Modes of Supply* (services in cross-border trade)

7. Conclusion

a) Services restrictions are holding back growth and reducing competitiveness
b) Removing services restrictions is a proven strategy to boost growth
c) Case studies show that liberalization and reforms in services sector, when done correctly, can lead to overall growth.
d) The RCEP could strengthen ASEAN's engagement in the global economy.
e) The RCEP and TPP could used as pathways to APEC's Free Trade Area of the Asia-Pacific (FTAAP).
f) Both could help build momentum for global trade reforms.
g) Both are designed to mutually reinforce and deepen regional economic integration, which will enhance trade and investments flows in ASEAN.

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