

Making Services as a New Driver for Growth in Indonesia

KADIN Business Briefing

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Sjamsu Rahardja

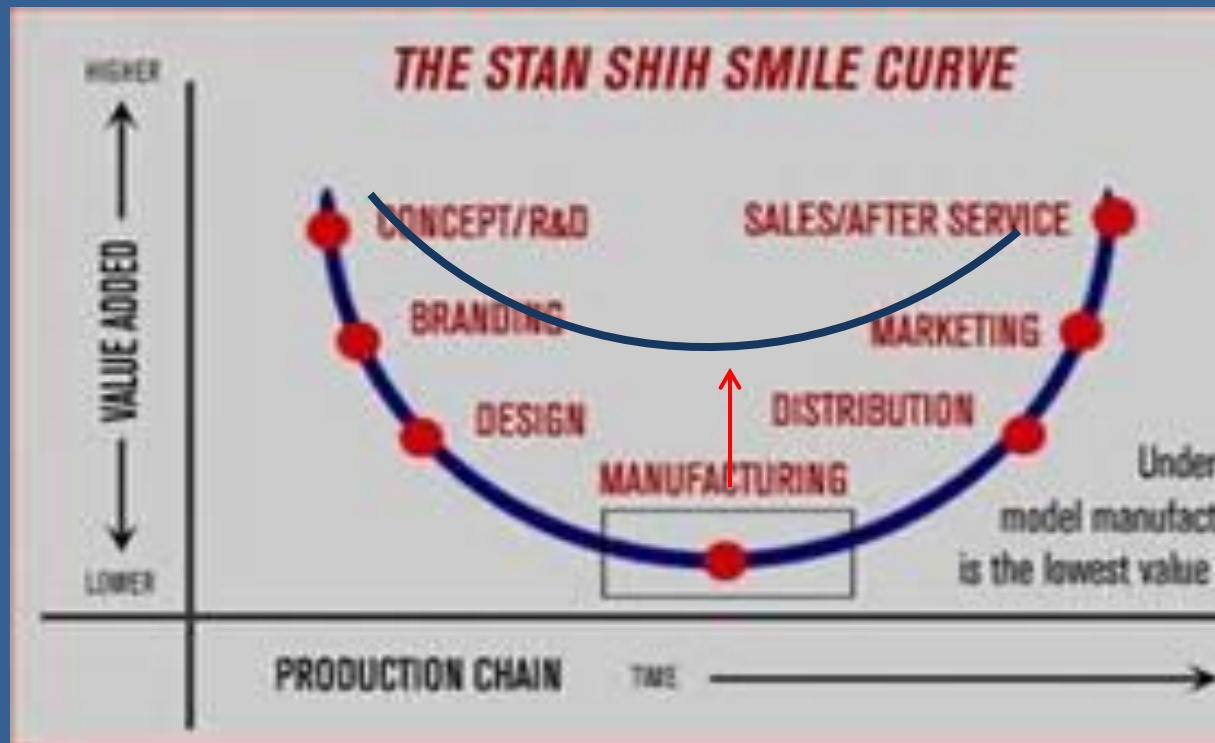
The World Bank

CONTEXT (in an Elevator Conversation)

- Services are increasingly relevant in driving growth based on productivity and value addition
 - Degree of which manufacturing sector is serviced seems matter for value addition
 - Intermediate inputs: 20-30 percent in manufacturers, 50 -70 percent in services
- Opening up to services trade can have the following positive impact on
 - Investment, choices for consumers/producers, innovation, access to market abroad
- “It’s the Pie”:
 - Employment elasticity of services jobs to services GDP: 0.32
 - 1% of increase in services GDP (in construction, transport-communication, and trade sectors) is expected to add 100,000-130,000 jobs in those sectors
 - Demand for services increases with urbanization and income per-capita

SERVICES ARE KEY FOR VALUE ADDITION IN MANUFACTURING

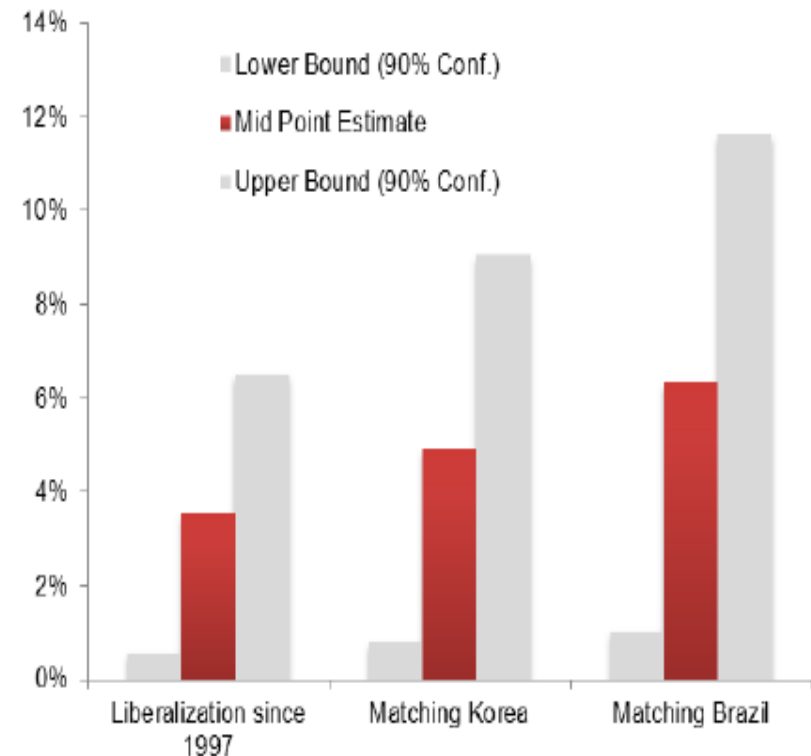
- Pre and post-fabrications may require high-skilled intensive services (yet these are opportunities for SMEs)
- Expand participation in manufacturing and increase productivity of manufacturing activities



BETTER ACCESS TO COMPETITIVE SERVICES PROVIDERS HAS IMPROVED MANUFACTURING PRODUCTIVITY

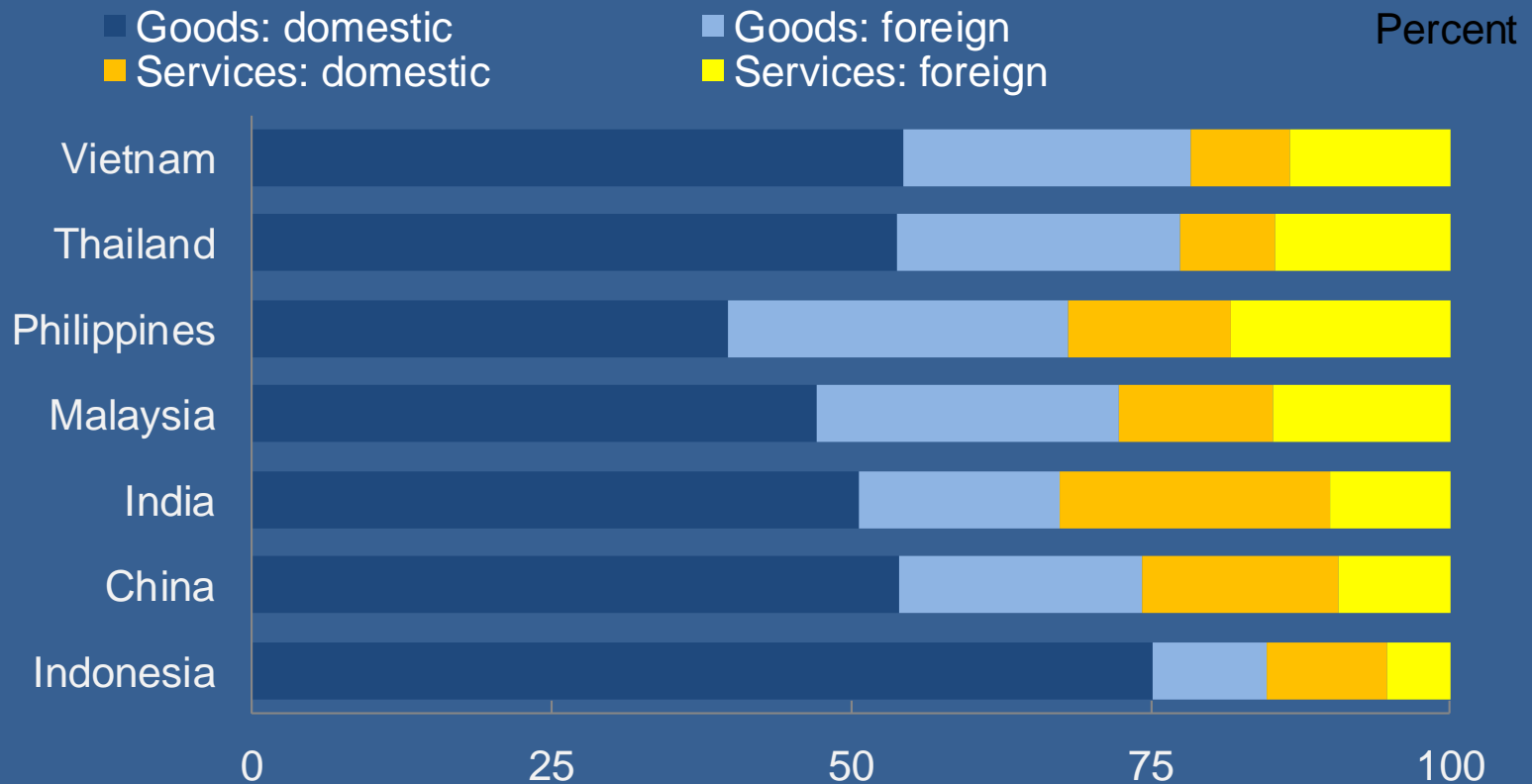
- Average impact from reform since 1997 on TFP was 3.5% (8% of the total increase in TFP since then)
- Suppose services reform in Indonesia were to match Brazil, the impact on TFP could be around 6%
- GDP elasticity of services to manufacturing GDP: 1.34

Estimated impact (elasticity) of services reform on TFP



INDONESIA'S MERCHANDISE EXPORTS ARE LESS "SERVICED" COMPARED TO REGIONAL PEERS

Composition of the region's gross merchandise exports



Source: OECD-WTO TIVA database; CEIC; World Bank staff calculations.

INDONESIA'S MANUFACTURED EXPORTS ARE RELATIVELY LESS "SERVICED"

Value-added in manufactured goods exports

Indonesia

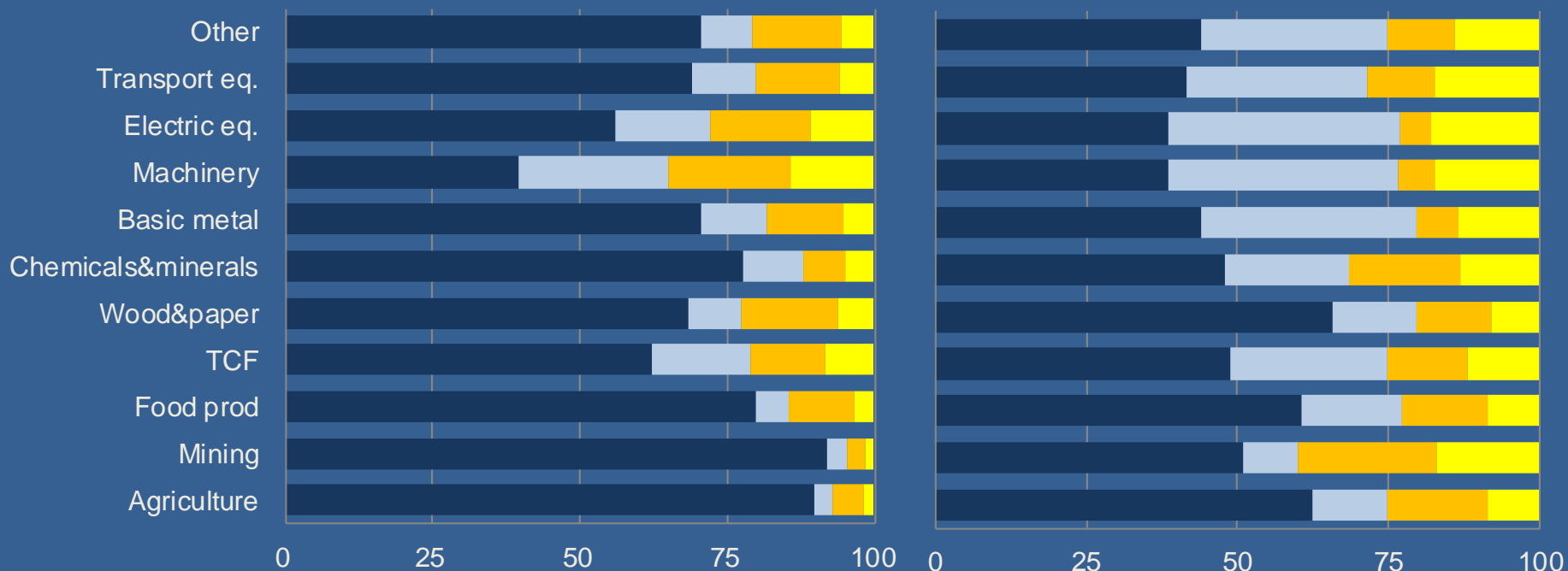
Malaysia

■ Goods: domestic
■ Services: domestic

■ Goods: foreign
■ Services: foreign

Percent

Percent

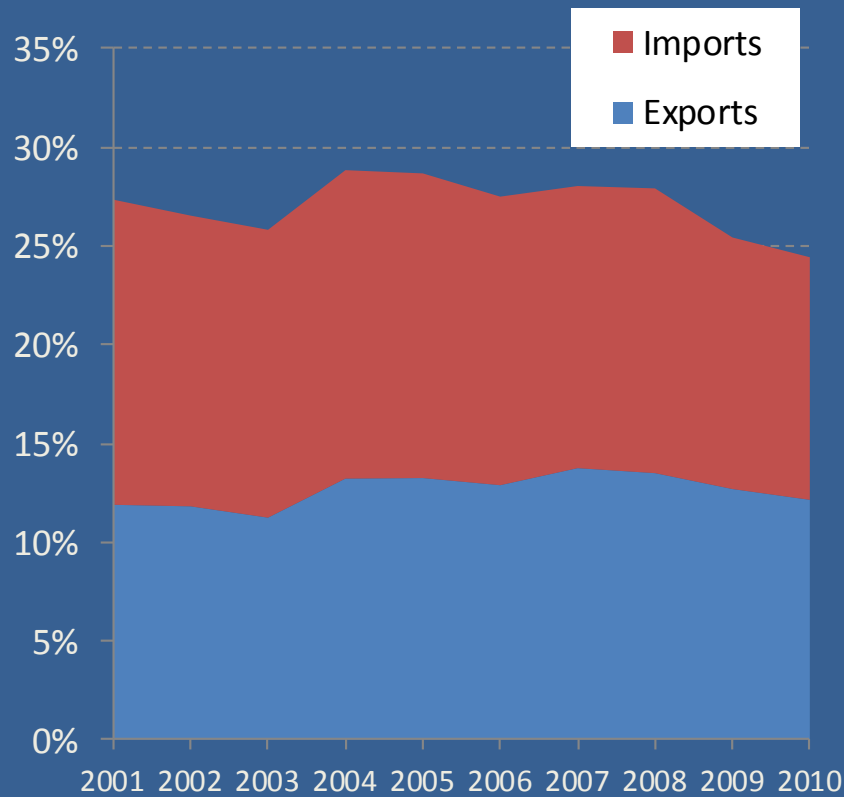


AEC BLUEPRINT FOR “FREE FLOW OF SERVICES”

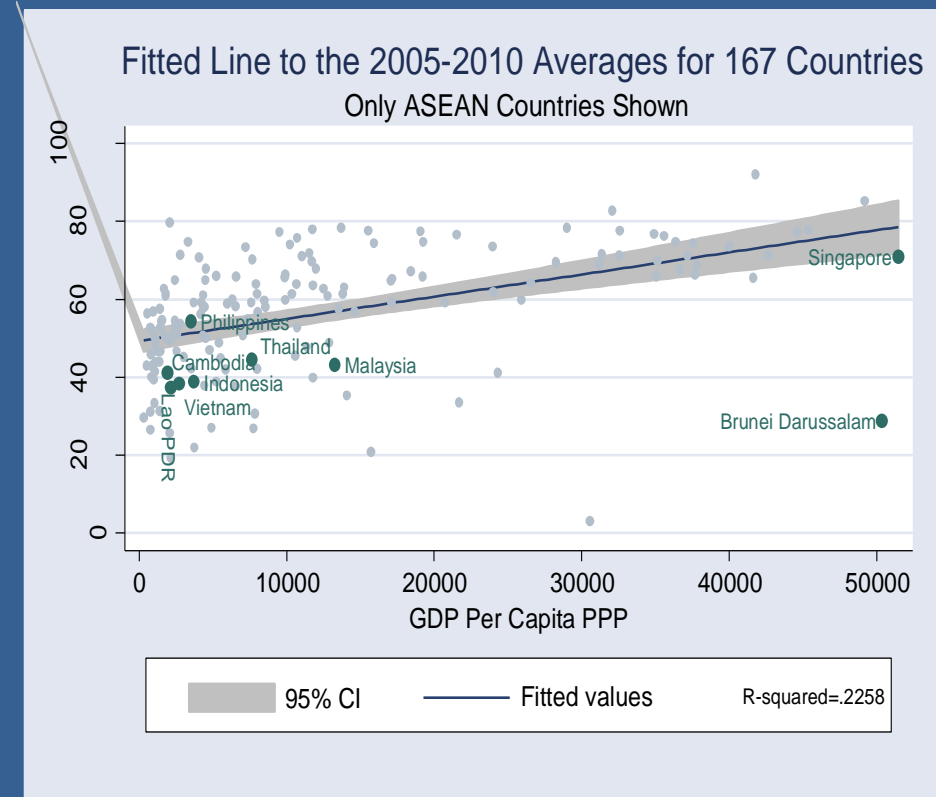
- By 2015, substantially no restriction on services suppliers. For 4 priority sectors (air transport, healthcare, e-ASEAN, tourism), the target is 2010. For logistics, the target is 2013
- No restrictions on service delivery via mode 1 (cross-border trade) and mode 2 (consumption abroad), except for bona fide regulatory reasons, such as public safety
- Progressive removal of other limitations on market access via mode 3 (commercial presence/FDI) by 2015
 - Gradual expansion of the foreign (ASEAN) equity participation permitted in each sector, to be no less than 70 per cent by 2010 in the four priority sectors, and to be no less than 51 per cent by 2010 and 70 per cent by 2015 in all other sector
- MRAs for architectural services, accounting, surveying qualifications, medical and dental practitioners

SERVICES REMAIN A BIG CHALLENGE IN ASEAN

Services Trade Share to GDP has been flat

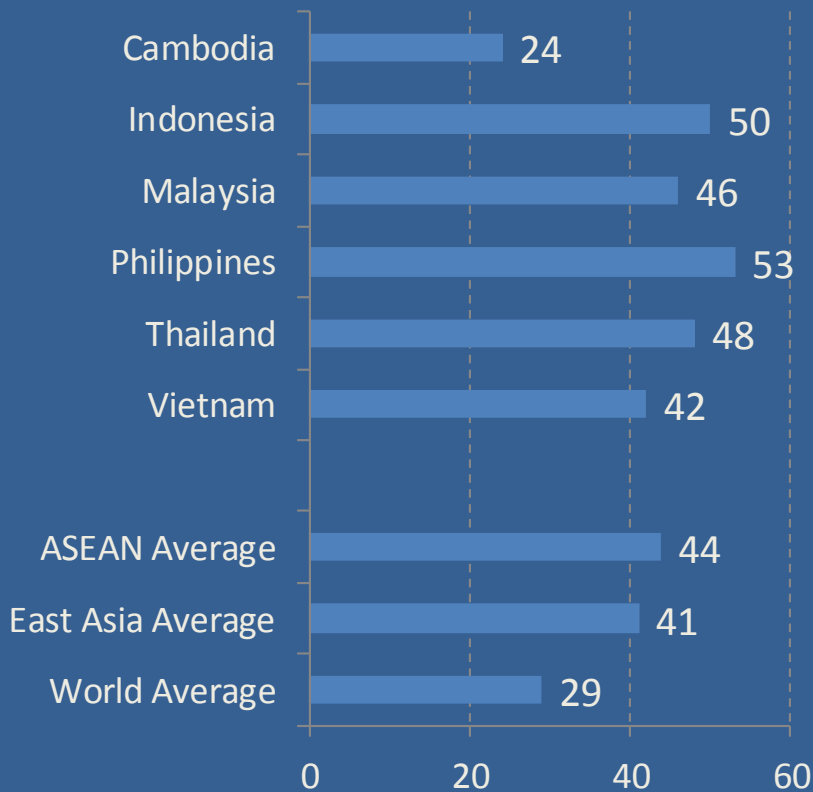


With ASEAN countries have room to boost growth in services

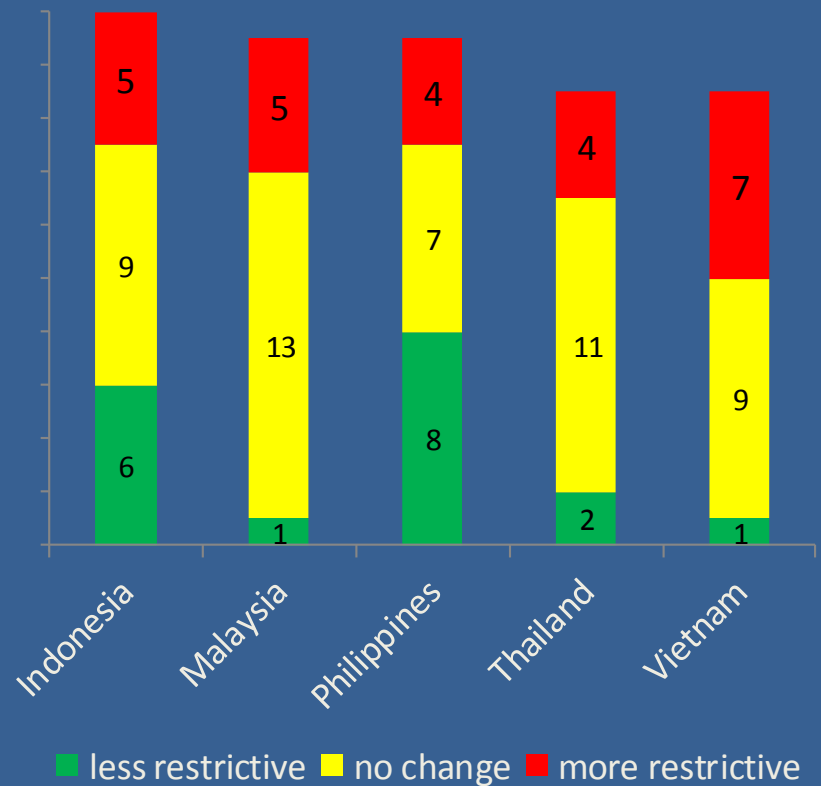


ASEAN SERVICES POLICIES ARE MORE..

Restrictiveness (STRI Data)

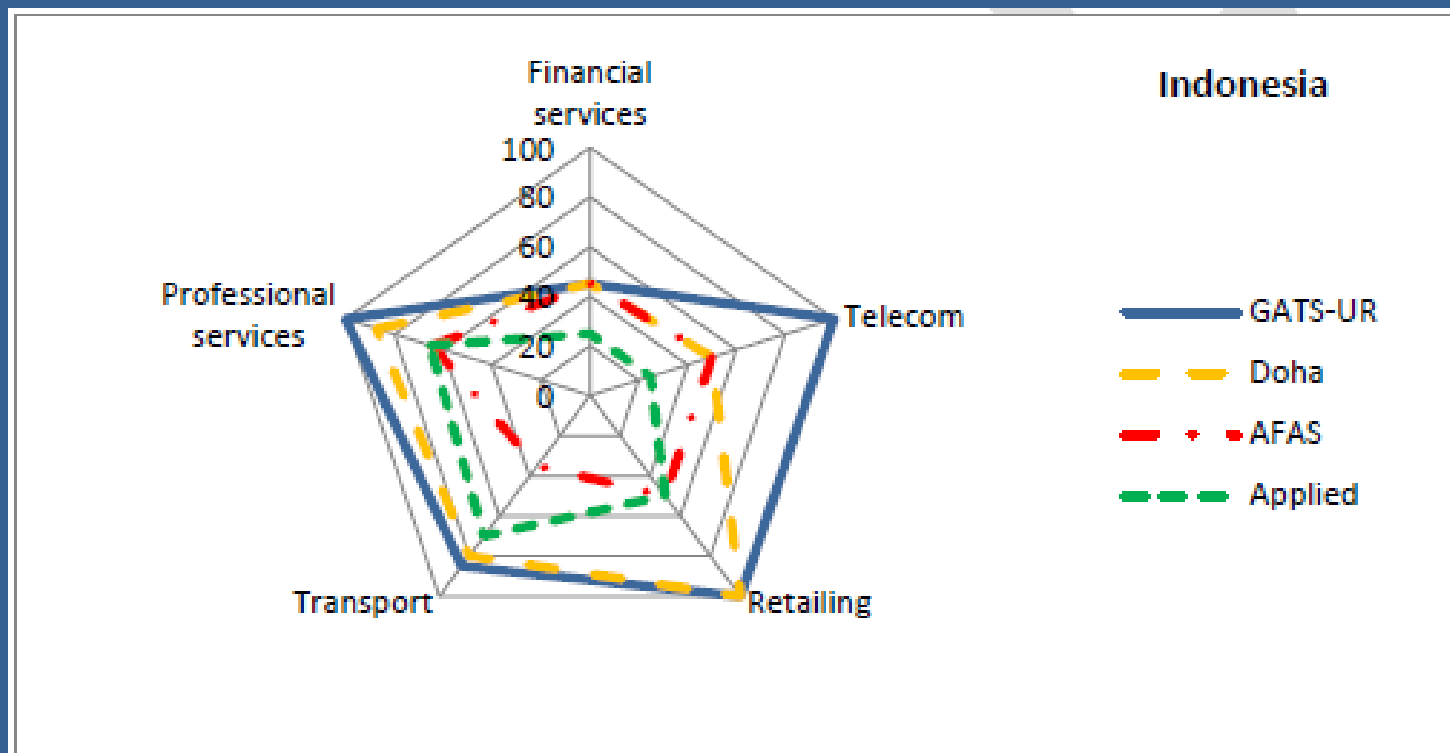


With Little Progress (change in STRI between 2007/2008 to 2010)



INDONESIA'S POLICY GAPS VARY WIDELY

- Services trade commitments and policies (higher value indicates more restrictive policy measures)



ISSUES AT STAKE

- Potential benefit for the economy is large BUT realization will depend on coherent and sound regulatory regime
 - Asymmetrical level of competition between goods and services industries
- Need to address capacity constraints of local services providers, such as
 - Skills and qualifications
 - Access to reliable infrastructures
- Need to address challenges in regulatory environment
 - Implementing good industry-specific regulations (financial prudential, service standards, quality assurance) in parallel with opening up
 - Avoiding market capture/monopoly; ensure sharing of bottleneck infrastructure
 - Ensure public service obligation, if needed, to avoid “cream skimming”

TERIMA KASIH

Please send comments/questions to
srahardja@worldbank.org