



Trade and Employment in Services Indonesia's Forgotten Sector

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Outline

- I. Introduce the services sector
 - dynamics of growth and employment
- II. Services sector trade
 - Exports and imports
 - Inputs into other (commodity) exports
- III. Jobs created directly by services exports and indirectly in through linkages with other sectors

Outline

IV. Policy Issues

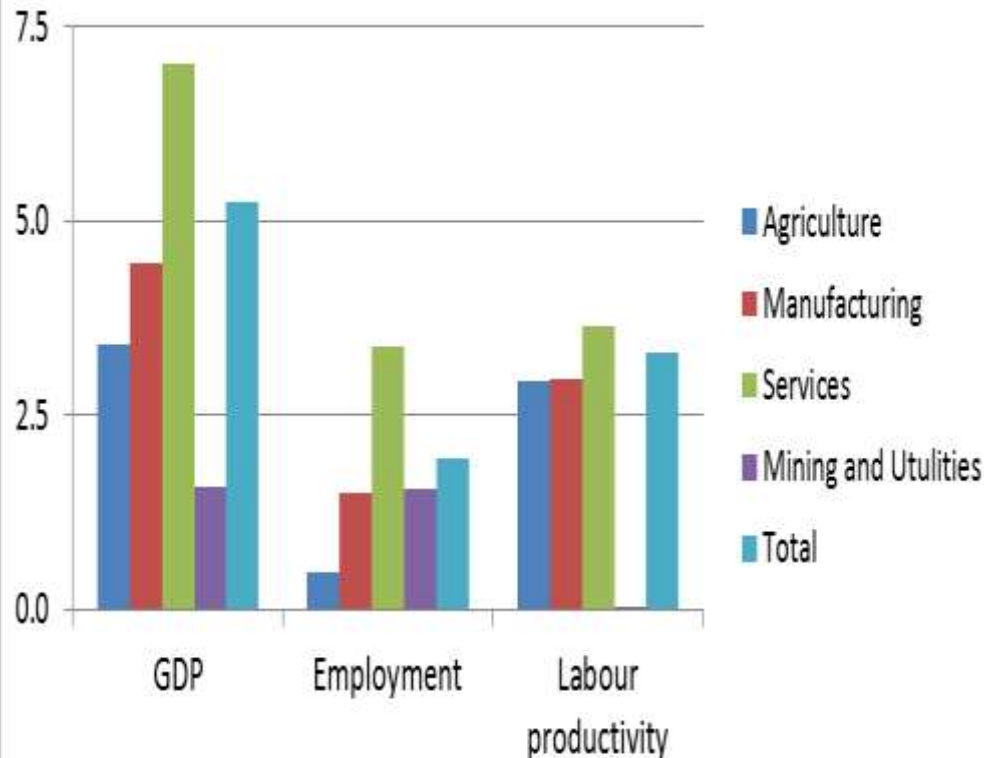
- Greater competition in services, especially in regard to trade issues
- Regulation of migration: more open policies to the employment of foreign workers, but better protection for Indonesians abroad

I.

**THE SERVICES SECTOR:
CONTRIBUTION TO ECONOMIC GROWTH
AND EMPLOYMENT**

THE SERVICES SECTOR

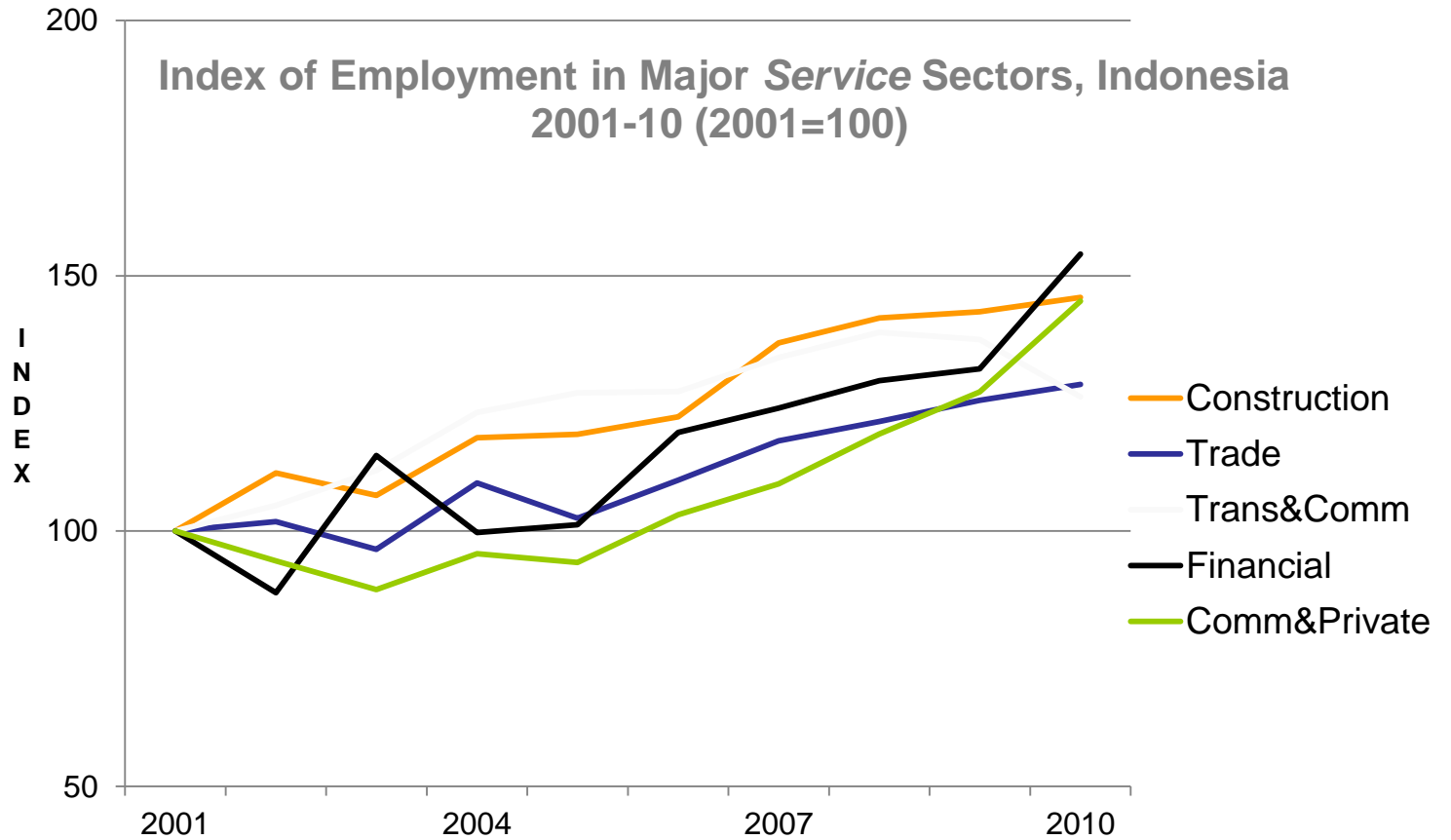
Figure 2.1: Annual Growth in GDP, Employment and Labour Productivity by Major Sector, Indonesia 2001-10 (% per annum)



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 2000s

As a result, in just one decade, the share of services to GDP rose from 44 to over 50%

The employment share rose by similar magnitude



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

Services and employment

Growth and Distribution of Output in Selected Service Sub-Sectors, *High and Low Flyers*, Indonesia 2000-2010

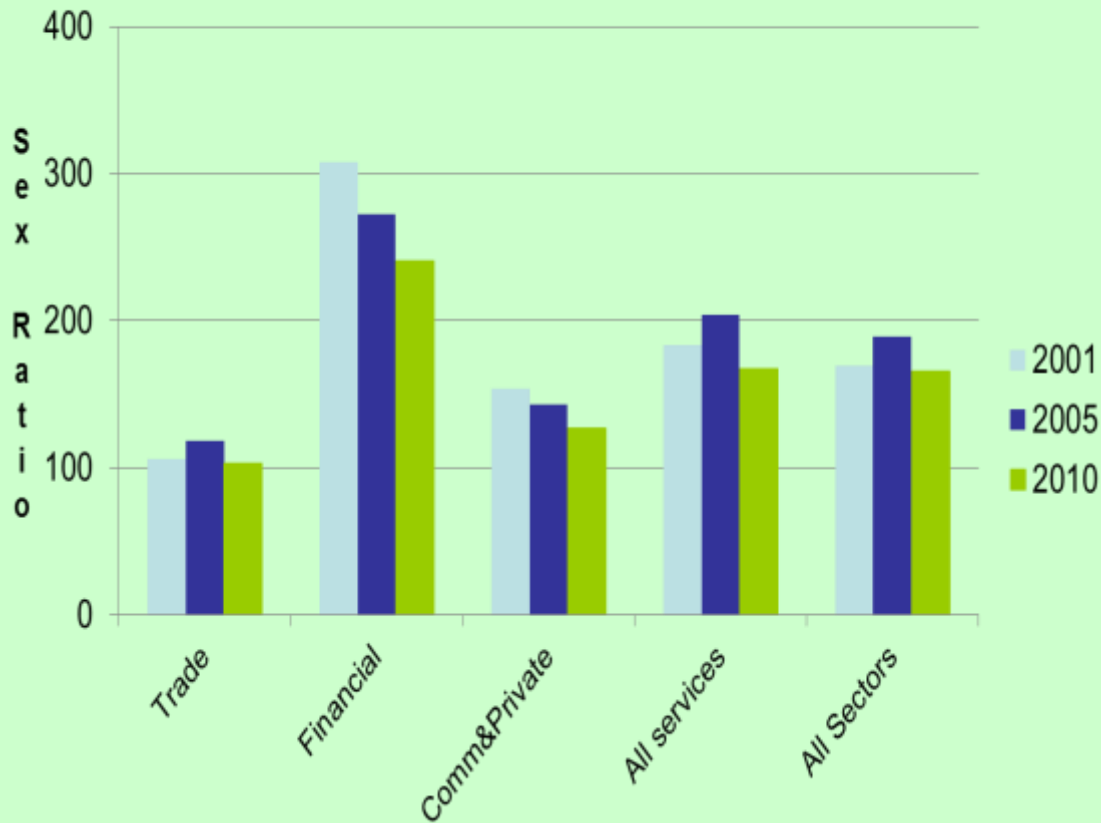
Activity	Growth 2000-10 (% p.a.)	Share of sub-sector (%)	
		2000	2010
Transport			
Sea Transport	2.0	14.8	10.0
Air Transport	13.6	9.5	20.5
<i>All Transport</i>	5.9		
Financial Services			
Banks	4.9	47.7	40.9
Non-bank Financial Instit.	8.1	7.3	8.6
Business Services	7.9	16.7	19.3
<i>All Financial Services</i>	6.5		
Private-Social Services			
Personal & Household	7.5	65.8	67.0
<i>All Private Services</i>	7.3		
All Services	6.5		
GDP	5.1		

Turning to sub-sectors

- Communications was the ‘primadonna’ – growing at close to 20% per annum in the 2000s
- Relatively deregulated industries such as air transport, non-banking finance and business services grew especially quickly
- highly regulated ones such as sea transport had and banking grew much less quickly
- problems

Services and employment

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



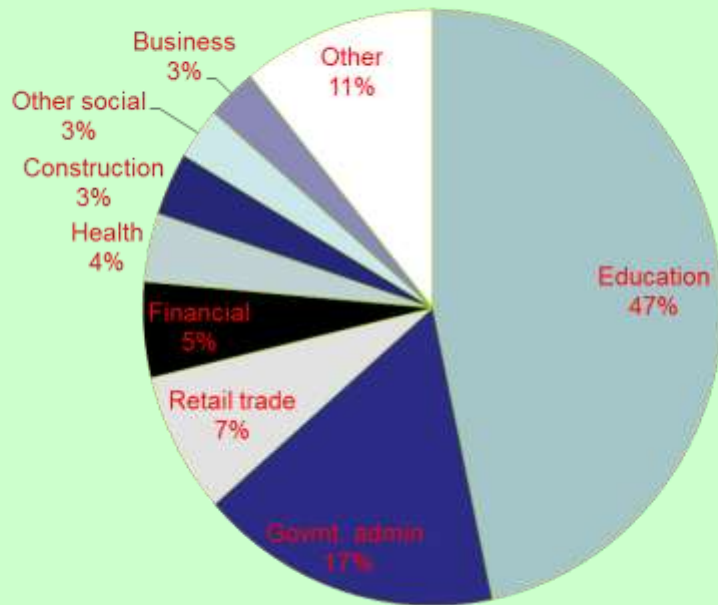
2. Some characteristics of service sector workers and activities

By gender

- trade the only sector where females achieved reasonable parity with males
- community and social services came second (financial services a male domain)
- Nevertheless females in the service sector were spread across the formal and informal sectors (see table) 8

Services and employment

Distribution of Tertiary Graduates in Major Service Activities, Indonesia, 2010



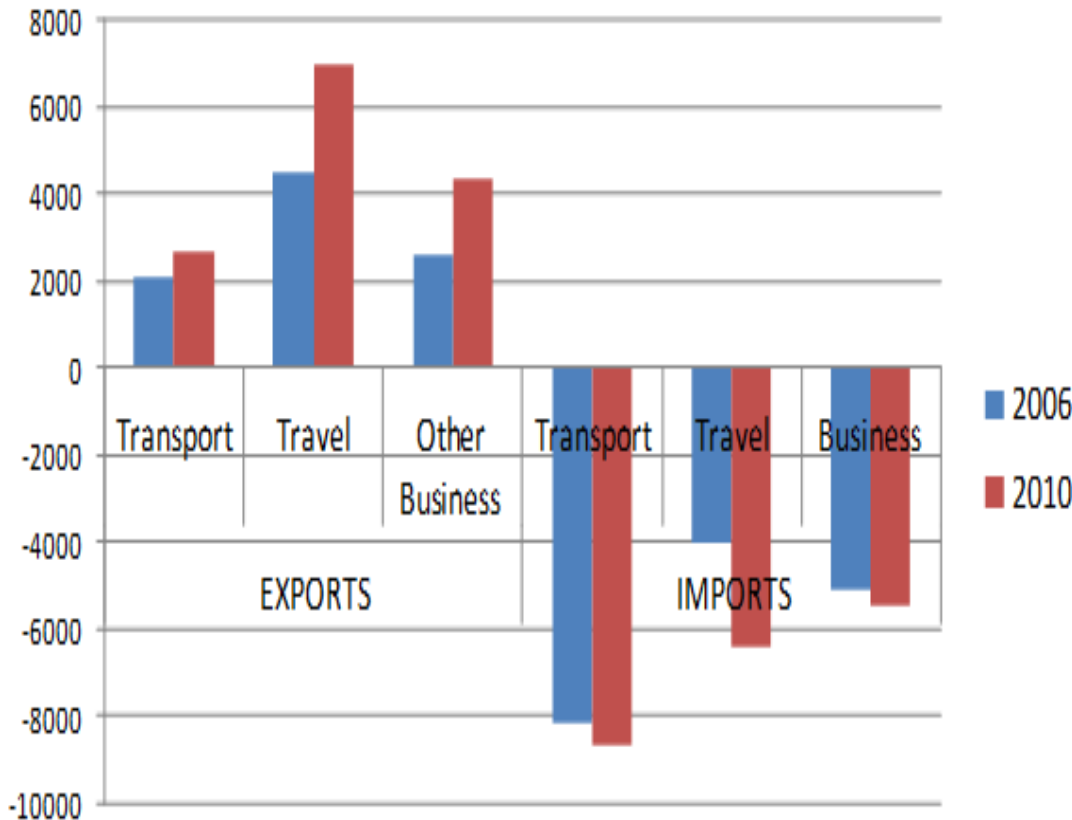
(Characteristics) By education:

- The distribution of jobs changes a lot if we just look at the tertiary educated: some big differences with all workers:
 - Almost half all tertiary educated people in services were in education (teachers, etc.)
 - Together with government services this accounts for nearly two-thirds of graduate employment
 - While retail-wholesale trade accounted for over 40% of all jobs, it absorbed just 7% of graduates

II. SERVICES TRADE

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Figure 3.2: Export and Imports of Services, Major Sectors, Indonesia 2006, 2010 (\$ million)



Exports of services grew at close to 10%/ annum in nominal US\$ term from 2000-2010

In contrast to goods trade, Indonesia sustains a significant deficit in services trade

Imports at nearly US\$26 M were almost twice the value of services exports in 2010

Large percentage of services exports come from travel, while on the imports side, the large proportion of the services imports come from transport

III. TRADE AND EMPLOYMENT

DIRECT AND INDIRECT IMPACTS

II. SERVICES TRADE

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.

Services inputs account for approximately 16% of the value of exported output

The large share of these costs come from domestically produced services, and a small part (<2%) from imports

The large percentage of total costs come from trade, real estate and business services, financial intermediaries, culture & amusement services and road transport costs

Table 3.3: Total and Service Sector Exports and Employment, Indonesia 2005

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

The share of exports from service activities was surprisingly high in 2005 at close to 20% all the total value of exports

Jobs in services accounted for slightly less than 20% of the total number of jobs created from export activities

7.1 million jobs supplied in services in relation to all exports was more than the total number of jobs created by all manufacturing exports 14

- Jobs were created indirectly in services in all industries ..
- The share was especially large in the capital-intensive industries

Jobs Created through Own Exports and Linkages with Other Sectors, 2005

Exporting Sector	Primary	Food Ind	Light Ind	H&C Ind	Services
Primary Sector	80.3	69.8	7.4	18.9	14.5
Food Ind	0.1	12.7	0.2	0.2	0.6
Light Ind	0.6	0.5	74.4	2.4	1.1
H&C Ind	1.8	0.7	0.9	34.7	0.6
Services	17.1	16.2	17.2	43.8	83.2
Total	100.0	100.0	100.0	100.0	100.0
No.workers (m.)	1.4	2.0	4.5	2.1	5.8

IV. POLICY ISSUES

V. POLICIES

- CREATING A MORE COMPETITIVE SERVICES SECTOR
 - Moderate levels of regulation by ASEAN standards
 - CGE models: greatest benefits from deregulation in distribution, telecom, maritime transport and education
 - Lifting restrictions on foreign investment and skilled labor (eg. FDI in tertiary education)
 - Greater domestic competition also critical for lower cost delivery of services (eg. airlines)

POLICIES

- **NEGOTIATIONS IN A REGIONAL CONTEXT: AFAS**
 - Fewer restrictions on cross-border supply and consumption of services abroad ('Modes' 1 and 2), but more barriers to FDI and labor migration ('Modes' 3 and 4)
 - Not merely an issue of restrictions on FDI, but implementing regulations by line ministries (examples in post and distribution services, higher education).