Policy Recommendation
Kementerian Perekonomian RI, 20 Oktober, 2015
oleh Yose Rizal Damuri
Classification of 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
   E. 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

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
Parallel to structural transformation from agricultural-based economy to manufacturing and services-based economy, services sectors’ contribution to GDP has increased from 38% in 1970 to 51% in 2014.

Source: BPS (2014)
Most subsectors of services have maintained higher growth level than the national average growth over the past 15 years. Some of them, including utilities, transport and communication sectors, were able to maintain double-digit growth in the middle of global financial crisis in 2009.

Source: BPS (2014)
Services sectors currently employ 43% of total employment. As part of the economy’s structural transformation, employment in agricultural sector has declined, although in relatively low rate.

Source: World Development Indicator (accessed on July 28th 2015)
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.

- 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

Source: BPS - 2010
Distribution of Employment and Occupation in Services

Sources: (ILO 2013)
Indonesia imports USD 33 billion of services in 2014, from USD 26 billion in 2010. Nevertheless, Indonesia’s exports of services has grown faster from USD 16.7 billion in 2010 to USD 23 billion in 2014.

Source: Bank Indonesia (2014)
Indonesia’s main services exports are travel services, other business services and transportation services. Travel services accounts for almost 44% of all Indonesia’s services exports in 2014, or equal to USD 10 billion.

Source: Bank Indonesia (2014)
Indonesia’s main services imports are also in travel services, transportation services and other business services. The value of the three sub-sectors account for 79% of Indonesia’s services imports in 2014.

Source: Bank Indonesia (2014)
In terms of exports of services, they may ‘only’ contribute less than 10% of Indonesia’s exports of goods and services. However, services contribute a lot more in term of contribution of value added in gross exports. In 2011, services content of Indonesia’s gross exports reaches 28.9% of gross value added.

Source: Bank Indonesia and OECD, calculated (accessed on August 23rd 2015)
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).

Source: OECD-WTO Trade in Value added
Services value added in Indonesia’s gross exports provided by domestic suppliers reach 24.17% of gross exports in 2011. The figure was higher in 1995 with 33.91% of gross exports. Meanwhile, services value added in Indonesia’s gross exports provided by foreign suppliers reach 4.68% in 2011, while it was 6.08% in 1995.

Source: OECD (accessed on August 23rd 2015)
In comparison to nearest regions, Indonesia has lower services content in its gross exports. Services content of ASEAN’s gross exports reach 44.91% of gross exports while it is 45.18% for East Asia in 2011.

Source: OECD (accessed on August 23rd 2015)
Note: ASEAN includes Brunei, Indonesia, Cambodia, Malaysia, Philippines, Singapore, Thailand, Vietnam, while East Asia includes Japan, Korea, China, Hong Kong, Taipei.
For the case of Indonesia, sectors (other than services sectors) with the highest services content in its gross exports are computer and electronic equipment industry with 29.8% of services content. Meanwhile, the non-services sectors with the lowest services content in its gross exports are mining and quarrying with 4.61% of services content.

Source: OECD, calculated
Study by AIPEG shows that rail transportation has the highest backward linkage among services subsectors. With 2.06 backward linkage, an output of 1 million IDR in rail transportation requires IDR 2.06 million of input from the whole economy.

<table>
<thead>
<tr>
<th>Subsector</th>
<th>Backward Linkage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rail transportation</td>
<td>2.06</td>
</tr>
<tr>
<td>Restaurant and hotel</td>
<td>1.97</td>
</tr>
<tr>
<td>Construction</td>
<td>1.84</td>
</tr>
<tr>
<td>Electricity, gas and water</td>
<td>1.83</td>
</tr>
<tr>
<td>Road transportation</td>
<td>1.77</td>
</tr>
<tr>
<td>Water transportation</td>
<td>1.74</td>
</tr>
<tr>
<td>Education and Health (also, other social services)</td>
<td>1.72</td>
</tr>
<tr>
<td>Air transportation</td>
<td>1.7</td>
</tr>
<tr>
<td>Wholesale &amp; Retail</td>
<td>1.68</td>
</tr>
<tr>
<td>Government and defense</td>
<td>1.64</td>
</tr>
<tr>
<td>Other Services (Recreation, Culture, and Sporting Services, and Personal Services)</td>
<td>1.63</td>
</tr>
<tr>
<td>Services allied to transport</td>
<td>1.59</td>
</tr>
<tr>
<td>Financial Intermediation</td>
<td>1.49</td>
</tr>
<tr>
<td>Real estate and Business Services</td>
<td>1.42</td>
</tr>
<tr>
<td>Communication</td>
<td>1.3</td>
</tr>
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Source: AIPEG (2014)
In regards to forward linkage, financial intermediation has the highest forward linkage with 2.46. It means that an output of IDR 1 million of financial intermediation, there will be an increase of IDR 2.46 million of output of the economy which use financial intermediation as input both directly and indirectly.

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<td>1.54</td>
</tr>
<tr>
<td>Water transportation</td>
<td>1.52</td>
</tr>
<tr>
<td>Restaurant and hotel</td>
<td>1.28</td>
</tr>
<tr>
<td>Construction</td>
<td>1.14</td>
</tr>
<tr>
<td>Education and Health (also, other social services)</td>
<td>1.10</td>
</tr>
<tr>
<td>Government and defense</td>
<td>1.09</td>
</tr>
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</table>

Source: AIPEG (2014)
The iPod Example

Retail Price: $299

Source: Constructed from Linden et al (2007)
Example Inputs into the Automotive Sector

Services input into Other Sector

Top 5: Direct Services suppliers
- 5.2% Wholesale and retail
- 1.3% Financial services
- 1.17% Real Estate and Business Services
- 0.1% Road Transportation
- 0.047% Water Transportation

1.5% Indirect services in automotive sector

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

Total 12.5% of Services

46.5% of GOODS

Source: Based on Table 2. Total Transaction based on producer prices (BPS 2009)
Example Inputs into the Electronic Sector

Services input into Other Sector

- Top 5 Direct Services suppliers:
  - Wholesale and retail: 7.8%
  - Real Estate and Business Services: 2.39%
  - Road Transportation: 1.97%
  - Water Transportation: 1.14%
  - Other services: 1.1%

- Indirect services:
  - 1.53% Indirect services in electronic sector

Source: Based on Table 2. Total Transaction based on producer prices (BPS 2009)
Example Inputs into the Mining Sector

Source: Constructed from OECD STAN database, Indonesia IO Table, ITS Global (2010)
Example Content in Top Indonesian Products

Food products, beverage & tobacco: 10.71%
Chemicals: 11.39%
Machinery & equipment: 14.97%

Source: Constructed from OECD STAN database, Indonesia IO Table
Amongst other South East Asian countries, Indonesia’s overall Services Trade Restrictiveness Index (STRI) according to World Bank is relatively high. We are even more restrictive in comparison to Malaysia, Thailand, Vietnam and Cambodia.

Source: World Bank (accessed on July 7th 2015)
Note: STRI of the World Bank values restrictiveness with score of 1-100, with 100 as the most restrictive value.
Indonesia’s Services Trade Restrictiveness Index by OECD

The STRI released by OECD shows various degrees of restrictiveness among 18 subsectors of services in Indonesia. Sub-sectors with highest restrictiveness index include legal services, motion pictures industry, air transport and telecommunication industry.

Source: OECD (accessed on July 7th 2015)
Note: STRI of the OECD values restrictiveness with score of 0-1, with 1 as the most restrictive value.
There is pressing need for the government to show stronger political will to mainstream the issue of developing services sectors; Review of negative list of investment to unlock the sub-optimal growth of services sector; Depolitization of regional minimum wage; All overarching policy recommendations should be implemented in short run given their urgency and strategic roles in the development of services sectors and the economy as a whole. Nevertheless, the government can start by implementing review of the negative list of investment and depolitization of minimum wage in short run. Review of the negative list of investment can be conducted also as part of the implementation of AFAS 10. Meanwhile, the depolitization scheme in minimum wage determination has been explored widely with related stakeholders since the previous administration by developing a certain basic formula to calculate annual increase.

Quick wins

1. There is pressing need for the government to show stronger political will to mainstream the issue of developing services sectors;
2. Coordination amongst Ministries is urgent and indisputably needed to be in place;
3. Review of negative list of investment to unlock the sub-optimal growth of services sector;
4. Depolitization of regional minimum wage;
5. Tax allowance should consider type of commodity, availability of infrastructure and actual appetite of the private sectors;
6. Harmonization of regulations which are resulting in impediments of flow of goods, people and services.
Specific Recommendations

Logistics Services

• Integrating Inaport and Inatrade in the Indonesia National Single Window (INSW) as stipulated in Presidential Regulation No. 10/2008 and integration of INSW by all relevant Ministries for efficiency and transparency;

• Establishing the Directorate of Multimodal Transport in the Ministry of Transportation RI as stipulated by GR 8/2011, Transportation Ministerial Regulation No. 49/2005, Law No 39/2008 to oversee logistic centers;

• Re-evaluating of Logistics sector in the Negative List of Investment under Presidential Decree No. 39/2014 such as multimodal transportation, warehousing, cool storage, and other logistic services which will enhance connectivity;

• Reducing regulatory chain for efficiency such as the need to have a Regulatory Agent as stipulated by Transportation Ministerial Regulation No. 32/2015 in the airport which not only adding the cost, but also lead time.
Specific Recommendations

Distribution Services

- Implementing a regulatory check-up by the Ministry of Trade Republic of Indonesia, supervised by the Coordinating Ministry of Economic Affairs Republic of Indonesia. For example, there are 3 Laws, 2 GR, 4 Ministerial Regulations, let alone Regional Regulations related to Franchise (UU No. 7/2014 Tentang Perdagangan, UU No. 20/2008 Tentang UMKM, Undang-Undang No. 5/1999 Tentang Larangan Praktek Monopoli dan Persaingan Usaha Tidak Sehat, PP No. 42/2007, PP No. 17/2013, Permendag No. 58/2014, Permendag No. 57/2014, Permendag No. 60/M-DAG/PER/9/2013, Permendag No. 68/M-DAG/PER/9/2012, Peraturan KPPU No. 6/2009, Keputusan KPPU No. 57/2009, and other local government regulations);
- Depoliticizing minimum wage to ensure stability in business operation through draft GR re. Wage which should be issued ASAP;
- Local content obligation which stipulating 80% over all categories of retail consumer products without any differentiation. The Government has revised Trade Ministerial Decree No. 70/2013 and 7/2014, but clear category of primary, secondary dan tertiary products with different levels of local content will be more doable and compliance aspect will be higher, whereas Indonesia may participate in the “Global Value Chain”.
- Solving challenges in Logistics sector.
**Specific Recommendation**

**Energy Services**

- Incorporating energy-mixed strategy to reach energy self-reliance and security;
- Adjusting the application of royalty tariff with current state of commodity prices (windfall strategy);
- Promoting internship and incentive for engineers (i.e. Talentcorp Malaysia provides incentives for professionals who repatriate back to Malaysia);
- Promoting quality, not only low cost, in tender and procurement process;
- Allowing services provider to bring all goods from overseas to its bonded warehouse or logistic centers (“pusat logistik berikat”) and pay duties/tax for goods sold in the domestic market while goods sold to overseas market is free of duty/tax (i.e. Global Traders Program in Singapore reduces Corporate Income Tax from 17% to 10% for exporters);
- Simplifying the import process for spare parts which specifications are not part of Indonesian National Standard (SNI), as opposed to requirements of recommendations from various Ministries;
- Allowing “LS” (Laporan Survey/Survey Report) to be conducted in the location of destination using international standard laboratory as opposed to in the origin of import.
Specific Recommendation

ICT Services & e-Commerce

• Prioritizing the Indonesia Broadband Plan implementation in various government levels such as e-government, e-education, e-health, e-logistic, dan e-procurement;

• Simplifying Tax Regulation for Digital Industry such as e-Commerce Startup;

• Re-evaluating the inclusion of e-Commerce in the Negative List of Investment;

• Avoiding over-regulating vs facilitating e-Commerce industry;

• Implementing international standard of security and customer protection in e-Commerce industry;

• Re-visiting GR No. 82/2012 regarding Data Center which creates high-cost economy and not promoting ICT sector which in need of FDI.