

Roles of Services Sector in Economic Activities

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Indonesia's Services Dialogue

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Introduction

- Services sector is not traditionally seen as a viable engine of growth and employment generation
 - Historically seen to be relatively jobless growth, in particular in the developing countries
- Recent studies on services and economic development shows that services sector is becoming more important in economy
 - Productivity in this sector has accelerated faster than other sectors, including in many developing countries

Two Importance of Services

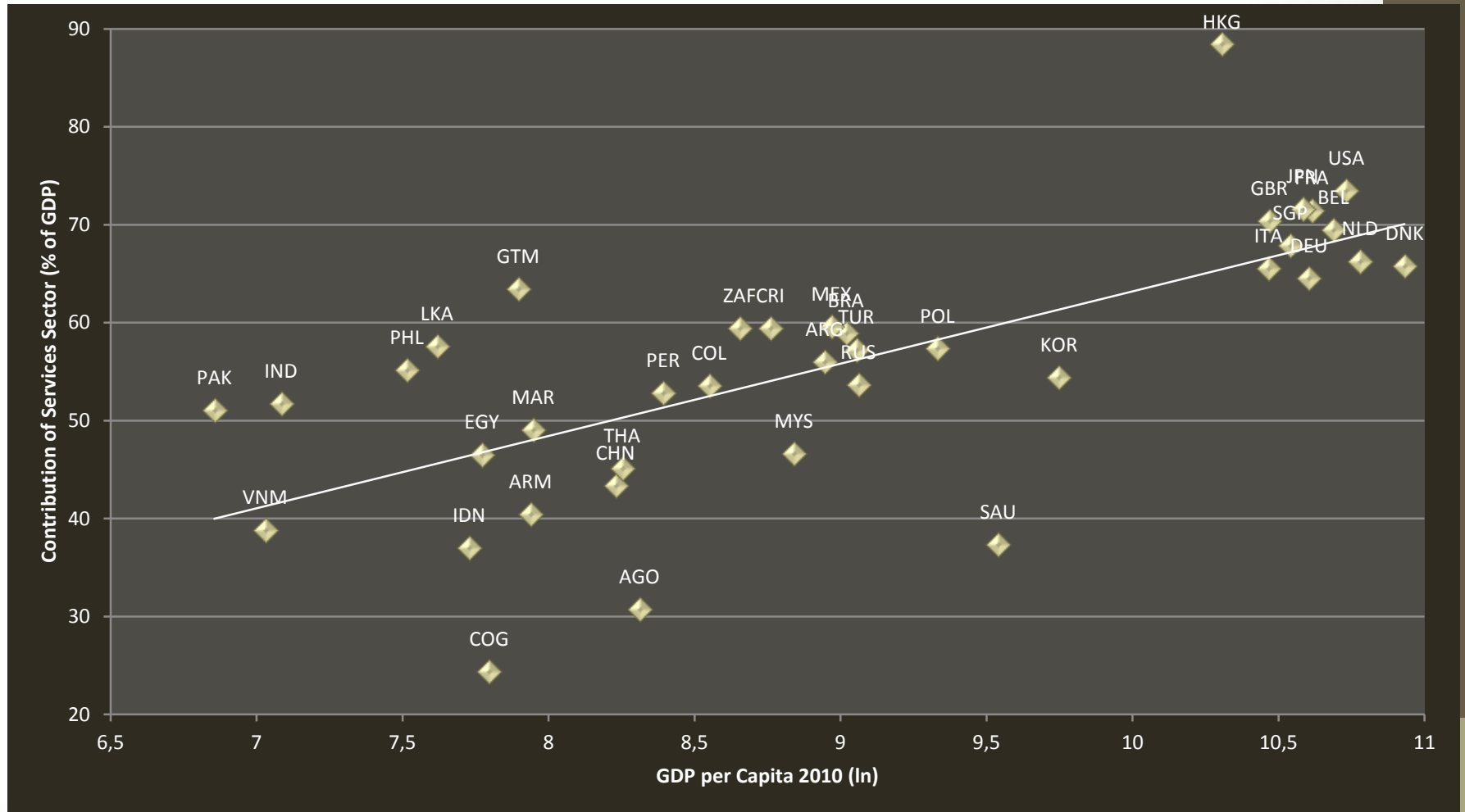
Services as production sectors

- Value added
- Employment
- Exports

Services as inputs

- Inputs to other sectors of production
- Providing basic socio-economic needs to population

Services Sector in Economy



Source: WDI 2010

Services in Indonesia's Economy

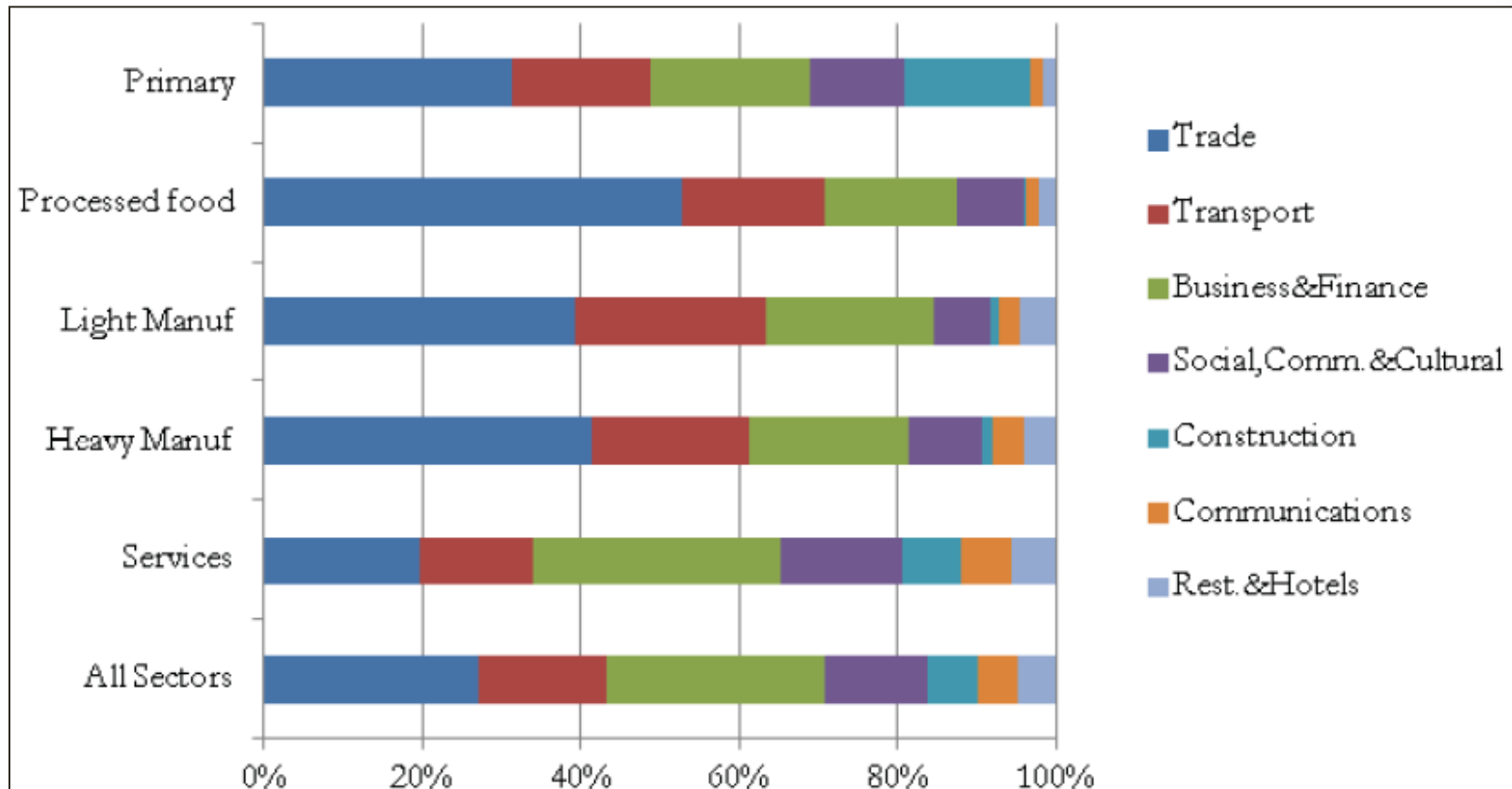
	Growth Rates		% of Services Output (%)		Share of GDP (%)	
	2000-2005	2005-2010	2000	2010	2000	2010
Construction	6.0	7.4	12.5	12.4	5.5	6.5
Trade	5.4	6.2	36.7	33.2	16.2	17.3
Transport	7.0	4.8	7.6	7.0	3.4	3.7
Communications	17.1	22.7	3.0	11.0	1.3	5.8
Financial services	6.7	6.3	18.9	18.3	8.3	9.5
Government	1.2	4.6	11.4	7.7	5.0	4.0
Private and Community	7.4	7.2	9.9	10.4	4.3	5.4
All Services	5.6	7.3	100.0	100.0	44.0	52.2
All Sectors	4.6	5.0			100.0	100.0

Aswicahyono and Manning (2012)

Exports of Services

	Exports	Annual $\Delta\%$	Imports	Annual $\Delta\%$
Transport	2665	2.4	-8673	0.6
Travel	6958	4.6	-6395	4.7
Communications	1126	0.2	-547	-0.4
Construction	520	1.3	-592	-5.0
Insurance	22	0.0	-1153	11.6
Financial services	332	6.1	-450	2.7
Computers, information	114	-0.3	-585	-0.2
Royalties, licenses	60	0.0	-1616	6.4
Other business	4309	5.3	-5456	0.7
Personal, cultural, recreational	104	3.5	-133	0.7
Government	555	2.7	-490	8.4
Total	16765	3.8	-26090	2.0

Services in Other Production Sectors



Aswicahyono and Manning (2012)

Services Sector Inputs in Exports

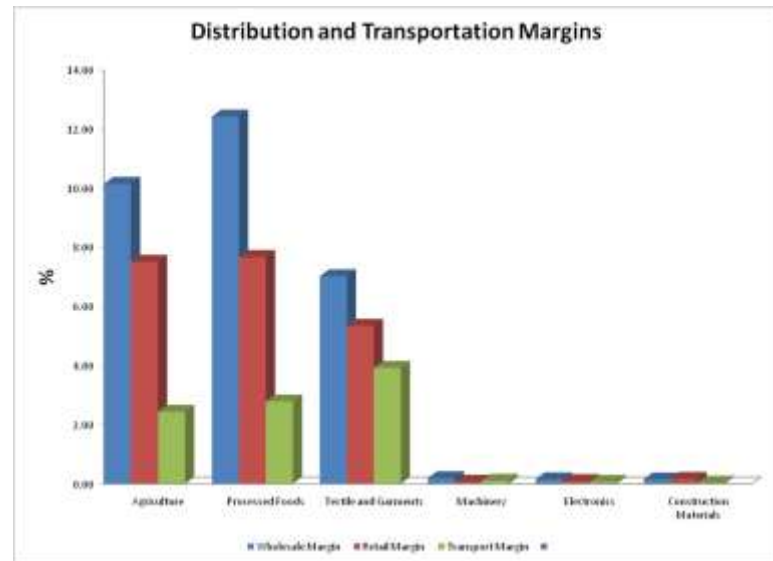
- Statistics on Trade in services undermines the importance of services in trade
 - Services contributes to 16% of the value of exported output
 - Trade and business services are the main inputs to exports
 - Transport services are also quite important

Sector	Contributions (%)
Trade	3.79
Real Estate and Business Services	2.79
Transport Services	2.24
Financial Intermediaries	2.19
Communication	0.73
Services allied to transport	0.50
Other Services	3.60
Total Services Inputs	15.83

Input Output Table 2005

Transportation and Distribution

- Inefficient transportation results to higher cost of distribution
- Poor services sector leads to inefficiency and high cost economy.
 - High distribution margins, meaning higher price of goods
- Reduce the ability for price transmission
 - Price shock in Papua, do not trigger arbitrage from other parts of Indonesia



Lesson Learned:

Improvement in Services

- Services should not be seen only as separate production sector, but also as important inputs to economic activities
- Distribution-related services play important roles in determining efficient production
 - May reduce prices of goods and services; preliminary calculation on improving efficiency can lead to 2.5-3% price reduction
 - Efficient distribution channel may also increase producers earnings, and might increase wages in other sectors as well
- The policy challenge is in ensuring a competitive and efficient distribution system
 - Improve infrastructure needed for the development of relevant services
 - Reduce barriers to entry for distribution and logistics-related services, both government and business barriers
 - Improve business climate and reduce “pungli” (illegal retribution)