Leveraging Services to Support Economic Development and Value Addition

Direktorat Perundingan Perdagangan Jasa
Ditjen Kerja Sama Perdagangan Internasional
IMPORTANCE OF TRADE IN SERVICES TO INDONESIA'S DEVELOPMENT
Correlation of GDP Growth with the Growth in Services

**Contribution to GDP growth in percentage points**

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP</th>
<th>Services and Services related</th>
<th>Other sectors</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>3.64</td>
<td>2.18</td>
<td>1.46</td>
</tr>
<tr>
<td>2002</td>
<td>4.53</td>
<td>2.38</td>
<td>2.14</td>
</tr>
<tr>
<td>2004</td>
<td>5.03</td>
<td>3.29</td>
<td>1.74</td>
</tr>
<tr>
<td>2006</td>
<td>5.5</td>
<td>3.57</td>
<td>1.93</td>
</tr>
<tr>
<td>2008</td>
<td>6.01</td>
<td>4.28</td>
<td>1.73</td>
</tr>
<tr>
<td>2010</td>
<td>6.22</td>
<td>4.26</td>
<td>1.97</td>
</tr>
<tr>
<td>2012</td>
<td>6.23</td>
<td>4.13</td>
<td>2.1</td>
</tr>
<tr>
<td>2013</td>
<td>5.81</td>
<td>3.8</td>
<td>2.02</td>
</tr>
</tbody>
</table>

Source: BPS
Services as the engine of job creation

Between 2000 – 2010 (Sakernas data), services 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
Services and Poverty Alleviation

- (SMERU), it is shown, 1984 - 2008, 80% of poverty reduction in rural areas and 86% of poverty reduction in cities can be directly attributed to growth in the services sector.

- In other words, over the past 3 decades:
  - 8 out of 10 people who escaped poverty in the rural areas were lifted out of poverty by services.
  - Nearly 9 out of 10 people who escaped poverty in the cities were lifted out of poverty by services.
Foreign Direct Investment in 2000 - 2012

- Services sectors have increasingly attracted more investment
- But investment share of services is declining

FDI realization based on Capital Investment Activity Report

Notes: Excluding Oil & Gas, Banking, Non-Bank Financial Institution, Insurance, Leasing, Investment; Tertiary Sector includes Electricity, Gas & Water Supply and Construction.
Starting in 2010, data are based on LKPM: Laporan Kebijakan Penanaman Modal (Investment Report). Before 2010 data were based on Permanent Licenses.
Source: BKPM
Services Sectors Attracting Investment

FDI in services (2000-2012)

Note: Excluding Oil & Gas, Banking, Non-Bank Financial Institution, Insurance, Leasing, Investment
Source: BKPM
INDONESIA’S SERVICES EXPORTS AND IMPORTS
Services Export: Cross-Border Trade (Mode 1)

Source: Bank Indonesia
Services Export: Cross-Border Trade (Mode 1)

Top 3 exported services by Indonesia through cross-border trade:

1. **Travel services**: accommodation, food and beverages, entertainment, domestic transportation in countries visited

2. **Other business services**: Merchanting and other trade related services, operational leasing and Miscellaneous business, professional and technical services

3. **Freight transportation services**: carriage or transportation of goods and related to export and import of goods
## Services Exports: Indonesia Services Supplier Overseas (Mode 3)

### Indonesia Wholesale and Retail Exporters

<table>
<thead>
<tr>
<th>No</th>
<th>Franchise/ Business Name</th>
<th>Franchise/ Business Type</th>
<th>Country Export</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Metro department store</td>
<td>Department store</td>
<td>Singapore, Malaysia, China</td>
</tr>
<tr>
<td>2</td>
<td>Alfamart</td>
<td>Grocery retail</td>
<td>Vietnam (*block by regulation)</td>
</tr>
<tr>
<td>3</td>
<td>Es Teler 77</td>
<td>Fast food restaurant</td>
<td>Malaysia, Singapore, Australia</td>
</tr>
<tr>
<td>4</td>
<td>J.Co Donuts &amp; Coffee</td>
<td>Bakery retail</td>
<td>Malaysia and Singapore</td>
</tr>
<tr>
<td>5</td>
<td>Edward Forrer Shoes</td>
<td>Shoes chain store</td>
<td>Australia, Malaysia, Hawaii</td>
</tr>
<tr>
<td>6</td>
<td>Ayam Bakar Wong Solo</td>
<td>Restaurant</td>
<td>Malaysia</td>
</tr>
<tr>
<td>7</td>
<td>Bakso Kota Cak Man</td>
<td>Restaurant</td>
<td>Timor Leste</td>
</tr>
<tr>
<td>8</td>
<td>Kebab Turki Baba Rafi</td>
<td>Restaurant</td>
<td>Malaysia</td>
</tr>
</tbody>
</table>

Source: Distribution Services Policy Advice Report, 2011
## Services Exports: Indonesia Services Supplier Overseas (Mode 3)

### Indonesia Construction Services Exporters

<table>
<thead>
<tr>
<th>No.</th>
<th>Company Name</th>
<th>Type</th>
<th>Country Exporter</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>PT. Adhi Karya</td>
<td>Contractors</td>
<td>Oman, Singapore</td>
</tr>
<tr>
<td>2.</td>
<td>PT. Wijaya Karya</td>
<td>Contractors</td>
<td>Algeria, Iraq, Myanmar, Brunei and Comoros</td>
</tr>
<tr>
<td>3.</td>
<td>PT. Bumi Resources</td>
<td>Mining Services</td>
<td>China, India, Japan, Taiwan, Philippines, Yemen, Mauritania, Malaysia, Hong Kong, Philippines, Thailand, Korea, Chile</td>
</tr>
</tbody>
</table>

Source: Construction Equipment in Indonesia, 2013
## Services Exports: Indonesia Services Supplier Overseas (Mode 3)

### Indonesia Transportation Services Exporters: Maritime and Inland waterway Transportation

With regard to location, these exports are to the rest of Asia, the EU (specifically through Netherlands) and in one instance to Papua New Guinea

<table>
<thead>
<tr>
<th>Company</th>
<th>Operation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Samudera Indonesia</td>
<td>Maritime freight</td>
</tr>
<tr>
<td>Meratus Lines</td>
<td>Maritime freight</td>
</tr>
<tr>
<td>Salam Pacific Indonesia Lines</td>
<td>Maritime freight</td>
</tr>
<tr>
<td>Temas Lines</td>
<td>Maritime freight</td>
</tr>
<tr>
<td>Djakarta Lloyd</td>
<td>Maritime freight; maintenance and repair</td>
</tr>
<tr>
<td>Andhinka Lines</td>
<td>Maritime freight</td>
</tr>
<tr>
<td>Ritra Logistics</td>
<td>Maritime freight</td>
</tr>
<tr>
<td>Berlian Laju Tanker</td>
<td>Maritime freight</td>
</tr>
<tr>
<td>Adhimas Putra Perkasa</td>
<td>Rental of vessel with crew</td>
</tr>
<tr>
<td>Rig Tenders Indonesia</td>
<td>Inland waterways pushing and towing</td>
</tr>
<tr>
<td>Sea Horse Indonesia</td>
<td>Internal waterways pushing and towing</td>
</tr>
<tr>
<td>Surya Prima Bahtera</td>
<td>Maritime maintenance and repair</td>
</tr>
<tr>
<td>Pan-United Shipyard</td>
<td>Maritime maintenance and repair</td>
</tr>
<tr>
<td>Kumala Indonesia</td>
<td>Maritime maintenance and repair</td>
</tr>
<tr>
<td>Batam Expresindo Shipyard</td>
<td>Maritime maintenance and repair</td>
</tr>
</tbody>
</table>

Source: Transportation Services Policy Advice Report, 2012
## Services Exports: Indonesia Services Supplier Overseas (Modes 2 & 3)

### Indonesia Transportation Services Exporters : Air Transportation

<table>
<thead>
<tr>
<th>Company</th>
<th>Operation</th>
</tr>
</thead>
<tbody>
<tr>
<td>GMF Aeroasia</td>
<td>Maintenance and repair. Services aircraft from (i.e. exports to) Malaysia, Thailand, Singapore, China, Chinese Taipei (Taiwan), Japan, Hong Kong China, South Korea, Australia, United States, Netherlands, Ireland, Iceland, United Kingdom, France, Spain, Greece, United Arab Emirates, Saudi Arabia, Bangladesh, Armenia, Kenya, Nigeria, South Africa, Ukraine, Yemen, Pakistan, and India.</td>
</tr>
<tr>
<td>GMF Professional Aviation Services (part of GMF Aeroasia)</td>
<td>Maintenance and repair. Equipped to provide export services in the education of flight personnel and outsourcing on certification, inspection, maintenance engineer, maintenance technician as well as aircraft engineering services.</td>
</tr>
<tr>
<td>Gapura Angkasa</td>
<td>Services auxiliary- ground and cargo handling. Exports through Mode 2 to a number of airlines from: Singapore, Malaysia, Myanmar, Vietnam, China, Thailand, Brunei, Australia, South Korea, Netherlands, Hong Kong China, United States, Qatar, Russia</td>
</tr>
<tr>
<td>JAS Airport Services/Cardig Aero Services</td>
<td>Services Auxiliary- ground and cargo handling. Exports through Mode 2 to Malaysia, Chinese Taipei, India, China PRC, Hong Kong China, United States, United Kingdom, United Arab Emirates, Philippines, Singapore, Netherlands, Kuwait, Germany, Australia, Qatar, Turkey, Macau, Yemen, Sri Lanka and Japan.</td>
</tr>
</tbody>
</table>

Source: Transportation Services Policy Advice Report, 2012
## Services Exports: Indonesia Services Supplier Overseas (Mode 3)

### Indonesia Tourism Services Exporters

<table>
<thead>
<tr>
<th>No.</th>
<th>Company Name</th>
<th>Type</th>
<th>Country Exporter</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Santika Indonesia Hotels and Resorts</td>
<td>Hotel</td>
<td>Singapore</td>
</tr>
<tr>
<td>2.</td>
<td>Aston International</td>
<td>Hotel</td>
<td>South-east Asian Countries</td>
</tr>
<tr>
<td>3.</td>
<td>Taman Sari Royal Heritage Spa</td>
<td>Spa</td>
<td>Japan, Malaysia, Czech Republic, Bulgaria and Canada</td>
</tr>
<tr>
<td>4.</td>
<td>Martha Tilaar</td>
<td>Spa</td>
<td>Malaysia, Singapore</td>
</tr>
</tbody>
</table>

Source: Tourism Services Policy Advice Report, 2012
Services Import: Cross Border Trade (Mode 1)

Source: Bank Indonesia
Services Import: Cross Border Trade

- The top 3 services that are directly imported by Indonesia are:
  1. Freight Transportation
  2. Other Business Services
  3. Tourism and Travel Related Services

- As goods export increases, freight transportation increases, and this contributes to the freight deficit.

- Indonesian exporters are using foreign shippers because of complexity of reasons, such as: cost, availability of vessels on different routes, requirements of buyers.
SERVICES SUPPORTING INDONESIA'S PRIORITY CLUSTERS
Embedded and Embodied Services in goods

- Services are embedded and embodied in goods and play an important role in enabling the growth and transformation of the economy.
- The concepts of ‘embodied’ and ‘embedded’ services have been widely used to describe the role of services in production.
- Embodied services are generally defined as a service whose product constitutes an input into the manufacture of a good, such as: transportation services, telecommunications services, financial services and business services.
- Embedded services are those that constitute an input into the sale of a good, such as retail, after-sales support, and inventory management.
The challenge is to move up the value chain into higher value-added tasks while deciding which activity to outsource/offshore.

Source: Business Week Online. May 16, 2005
Services Content in Modern Goods: The iPod Example

$144$ Inputs from suppliers

$30$ Distribution (Logistics)

$45$ Retail

$80$ Apple (including R&D, Design, Profit)

Retail Price: $299

Source: Constructed from Linden et al (2007)
## Services Input into Indonesia’s Priority Sectors

Services are needed for goods to be high value and competitive

<table>
<thead>
<tr>
<th>Priority Sectors</th>
<th>Goods Input</th>
<th>Direct and Indirect Services Inputs</th>
<th>Other Input Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Automotive</td>
<td>48 %</td>
<td>12.5 %</td>
<td>41 %</td>
</tr>
<tr>
<td>Electronic</td>
<td>52.47 %</td>
<td>19.03 %</td>
<td>28.5 %</td>
</tr>
<tr>
<td>Textile</td>
<td>44.39 %</td>
<td>16.31 %</td>
<td>39.3 %</td>
</tr>
<tr>
<td>Chemicals</td>
<td>59.44 %</td>
<td>11.46 %</td>
<td>29.1 %</td>
</tr>
<tr>
<td>Food Processing</td>
<td>53.15 %</td>
<td>15.35 %</td>
<td>31.5 %</td>
</tr>
<tr>
<td>Bamboo, wood, and rattan</td>
<td>39.34 %</td>
<td>18.46 %</td>
<td>42.2 %</td>
</tr>
<tr>
<td>Rubber and plastic</td>
<td>58.48 %</td>
<td>14.12 %</td>
<td>27.4 %</td>
</tr>
</tbody>
</table>

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

Source: Based on Table 2. Total Transaction based on producer prices (BPS 2009)

5.2% Wholesale and retail
1.3% Financial services
1.17% Real Estate and Business Services
0.1% Road Transportation
0.047% Water Transportation

46.5% of GOODS

Total 12.5% of Services

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

Top 5 Direct Services suppliers

Indirect services

1.5% Indirect services in automotive sector
Example Inputs into the Electronic Sector

Source: Based on Table 2. Total Transaction based on producer prices (BPS 2009)
Tops 5 Services Sectors Used as Inputs into the Priority Sectors

1. Wholesale and retail
2. Financial services
3. Real estate and business services
4. Road transportation services
5. Communication services
How does Indonesia’s Use of Services Compare with Global Practice

Share of services in the automotive sector in the global industry is 3 times higher than in Indonesia
Lessons

- Indonesia’s products have less value added services e.g. Global average share of services in automotive is 37%, while in Indonesia is only 12.5% (Direct and Indirect services inputs).

- Why? Because:
  - Indonesia’s automotive sector has no research and development input.
  - Indonesia’s automotive sector has very limited “coordination services” inputs such as: telecommunication, IT and management services. These inputs are very important to increase efficiency.

- Why is this important? Because without these services, Indonesia cannot climb the value chain to be a global production hub.
THE ROLE OF TIS NEGOTIATION
Current International Cooperation on Services

1. Good/best services can be provided by local providers as well as international/global ones → Competitive markets are necessary for the availability of best services

2. More open and competitive markets → facilitated by either/both unilateral action of each country or and binding commitments by countries (multilateral or regional/bilateral)

3. At present, when multilateral talks on services under DDA, inactive, preferential/regional scheme flourishes
Current International Cooperation on Services

1. Preferential/ regional arrangement has some following characteristics:
   • WTO +, Article V. Economic Integration
   • Modalities: shifted from GATS patron to such as Cross-border type; Listing of sectors: Positive type to Negative one
   • Cross cutting issues, new issues

2. The emergence of substantially open fora for services: KORUS, TPP, RCEP, FTAAP
Current Commitment

1. Indonesia joins commitments on opening services in the following tracks
   • Multilateral: Uruguay, DDA (on process)
   • Regional: ASEAN/ AFAS, ASEAN-Partners, RCEP
   • Bilateral: IJEPA (agreed); IKCEPA, IECEPA, Indonesia-India, Indonesia-Australia, Indonesia-EU (on-process)

2. Indonesia commitments on the said fora ranging from less one (WTO Uruguay) to more (AFAS). It is understandable, preferential scheme fulfills the principle of Art. V GATS

3. The different commitments resulted from the existing strategy as well existing understanding of the delegates
Evaluation

1. Existing commitments not optimally utilized by Indonesia
   - Common strategy, opening for anytime/ future purposes
   - In negotiations, we are not aggressive in companies making request to other countries to open up for Indonesia because our sectors are worried that it means they will also have to open
     ➔ Result is that in services, we have little new market access in partners and our commitments do not help “hilirasi”.

Evaluation

2. Existing rules agreed by Indonesia challenged by recent changes in some agreed rules by some for a

3. Recent economic development needs various, developed and modern services
   → contribution to output and a factor of production
   → Support the industry of other sectors, value chain
A more comprehensive and detailed approach for Indonesia should be formulated to address the offensive goals as well as the sensitivity of some issues:

1. Market access for Indonesian companies in areas of capacity.
2. Signal Indonesia’s commitment to investment in sectors that promote “hilirasi” in the priority sectors.
3. SMEs, non-economic objectives, local business participation

The sector that are most important for negotiations to support investment are:

1. Wholesale and retail
2. Financial services
3. Real estate and business services
4. Road transportation
5. Communication services
Challenges

➢ Support more opportunities for sectors that are directly exporting:
  1. Tourism and travel services
  2. Other business services
  3. Freight transportation services

➢ Involvement of all stakeholders on the development of services trade:
  1. ISD
  2. Other consumers
  3. Others
Challenges

- Formulating blueprints for the development of services:
  1. Mainstreaming services development in the 3rd RJPMN
     - APINDO proposal to elected Leaders
  2. Guidelines for international cooperation on trade in services

- Internal preparation to face AEC 2015 for services and skilled labors
  - More open market to all AMS (128 sectors, almost no limitation to 3 modes, FEP min 70%, more open to mode 4)
  - Urge Indonesian business to take the benefit of this opportunity
Thank You