Indonesian Service Sector: A Comment

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GROWTH DYNAMICS
The rise and the decline of manufacturing
the large share of manufacturing determine the dynamic of GDP if the share is sufficiently large
Growth Dynamic before AFC

Manufacturing moved ahead of GDP
Growth accelerated after the announcement of deregulation packages
Broad based economic policies
Growth Dynamic after AFC

Manufacturing still moves ahead of GDP but especially after 2008 becomes the source of drag, after 2012 the dynamic impact to GDP is intermingled with trade and construction (shown by flat GDP)
Trade and Construction started to impact dynamic of GDP due to the declining share of manufacturing in GDP.
Increasing income disparity may be attributable to declining labor intensive manufacturing since the modern service sector is less inclusive.
Trade may be less inclusive due within sector productivity gap
URBANIZATION
Urbanization

*Indonesia has urbanized rapidly and continues to do so. If managed properly, urbanization can generate productivity gains, economic opportunities and rising incomes.*

- Urbanization in Indonesia has outpaced other East Asian nations.
- There was a 39 percent increase in Indonesia’s urban population between 1995 and 2005 (4.2 percent per annum).
- It is already one of the most urbanized countries in Asia, with an urban population share of 54 percent in 2010, projected to increase to 68 percent by 2025.
- Medium-sized metropolitan areas (with populations of 0.5 – 1 million) have performed better than cities in any other size class in terms of generating benefits from agglomeration economies.
Urbanization in Indonesia

• Issue of competitiveness
  – Positive versus negative externalities in agglomerations
  – Minimum wage
  – Regulation burden

• Inclusive growth major attention needs to be focused on the second tier of metropolitan cities, which are currently stagnating.
  – Employment with decent wage (optimal wage?)
  – How much growth would reduce poverty or inequality

• Productivity gap in services
  – ICT or technological disruption
  – Informal versus formal
  – Self employed – hidden unemployment (pekerja serabutan)
INCOME PER CAPITA AND INEQUALITY: INDONESIA (PROVINCE LEVEL)

Relationship between Predicted Gini Index and per Capita GRP Provinces, 1977-2013

All Provinces
Java-Bali Islands
Sumatera Island
Kalimantan Island
Sulawesi Island
Eastern Islands
Coefficient of variations of province per capita GRP
Overall catching up but there is an increase of disparity within Eastern part of Indonesia
WHAT IS NEEDED
School enrolment at the secondary school is comparable to others but quality is something else.

- **Access**
  - School Enrollment Ratio
  - Thailand, Indonesia, Malaysia, Philippines, Mexico, Turkey, South Korea

- **Quality**
  - PISA 2012—Math Result
  - Ranking: Singapore, 2; Taiwan, 4; South Korea, 5; Brazil, 59; Indonesia, 64; Vietnam, 17; Thailand, 50; Malaysia, 52; Turkey, 43

Source: OECD
Indonesia is among the highest user of social media but interestingly firm sophistication is low
Education

• Less on rotten memorization and reciting more on composition, analytical, critical and creative thinking

• to improve communication and language skills, some computer literacy, arithmetic and simple logic

• Launch a national program for upgrading technical competencies and skills of incumbent teachers/instructors