

Enhancing the Role of Services Sectors

A Business Perspective

Indonesia - Australia High Level Policy Dialogue

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Key Messages



As generator
to increase
value added
(new source
of growth, job
creation,
poverty
alleviation)



As an Enabler of
others sectors
including
industrial
sectors



**Still low
productivity
& inefficient**
compared to
others
country



**Need to
improve and
create high
quality &
efficiency** of
services
sector

Top 5 Services Sectors Used

Final Consumption

- Government and defence (95.73%):
- Education and Health including other social services (92.86%)
- Construction (91.97%)
- Restaurant and Hotel (79.99%)
- Rail Transportation (66.84%)

Input to services users

- Financial Intermediation (78.87%)
- Services allied to transport (68.67%)
- Electricity, Gas and Water (68.63%)
- Real Estate and Business Services (65.96%)
- Other services (52.64%)

Source: Total transactions based on producers prices (BPS 2009)

Higher education is not competitive to supply employee

Low healthcare worker

Low fixed broadband penetration

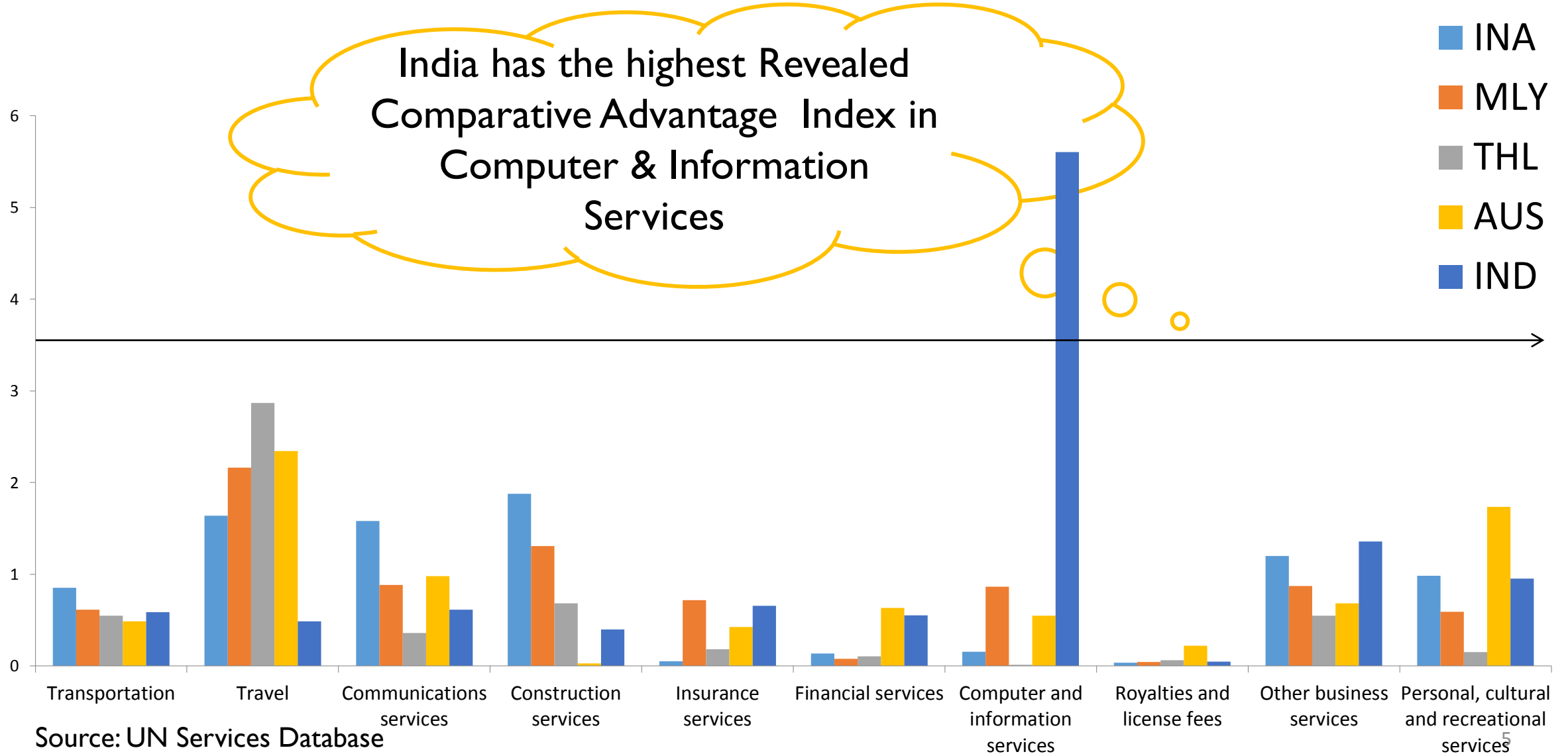
Limited domestic credit to private sectors

Limited services sector to support business in Indonesia

Most restrictive based on Services Trade Restriction Index



Services Revealed Comparative Advantage Index of Indonesia and other ASEAN 2014



Trade in Services

- Trade in services can be seen as a way to
- Like the story of gains from trade in goods, countries willing to have access to services do not necessarily produce the activities locally
 - *Services link, e.g. transportation can be supplied through cross-border provision, so do some telecommunication services*
 - *Greater market access for business services providers brings higher benefits also to local service providers*

The appropriate question perhaps is not
“do we possess a comparative advantage in service production?”

but rather

“can we make good use of lower-cost services in promoting our production bases that can fit into the global production network?”



The correlation between “imported” services value added and exports is quite obvious

- Greater imported services come with greater exports
- Imported services support competitiveness of exported products

Services Trade and Internationalization

When Chinese business recognized that in order to survive in the global market as well as to gain access to global financial market, they realized that they need to adopt the international standards of business governance, including accounting and auditing standards

- China didn't have sufficient services capacity to support this intention
- The strategy is to import the necessary services from China's closest economic allies: Hong Kong

Mapping the Potential of Services Export (part I)

- **Banking:** -high demand and has the capacity to serve the market especially for trade finance and foreign remittances.
- **Insurance** - low demand or high demand but still has limited capacity to serve the market due to high preference on foreign insurance companies in export-import contracts. Still challenging with the current industry capacity.
- **Telecommunication** - high demand and has the capacity to serve the market occurs while serving customers in foreign countries.

Mapping the Potential of Services Export (part 2)

- **Medical Tourism** - high demand and has developing capacity to serve the market. Still challenging to provide the service due to limited resources, yet potential to develop in the future as Indonesia has price competitiveness.
- **Spa Tourism** - high demand and has developing capacity to serve the market and having increasing demand and positive growth along with the growth of tourism sector in Indonesia. Commercial presence of Indonesia spa in other countries is a promising investment. Common market barrier is local (target market countries) regulation which requires employment of local therapists.
- **Business Services Sector** - high demand and has the capacity to serve the market .The presence of global consulting firms in Indonesia brings along higher demand for consulting service in Indonesia through the companies' network and occurs in consulting areas such as business set-up or legal services.

General Strategy

- Developing strategy that takes into account strong linkages between different sectors of services as well as its linkage to goods production
- Industrial Upgrading: More Services Components
- Enhancing competition among services providers
- Developing strong but reasonable regulatory framework
- Prioritizing the development of sectors that can generate significant multiplier impact to the economy

ISD Role as Indonesia Services Council

- as an investment driver: Building the capacity inside
- as a business matchmaker: Bringing the capacity outside
- as a capacity building accelerator

Enhancing Services Role

