

## **APINDO: Situating Services Strategically for Indonesia**

The last decade has seen the Indonesian services sector really take off. Services is now the dominant sector in the Indonesian economy, accounting for over 54% of GDP and nearly 50% of employment.<sup>1</sup>

It is also the fastest growing sector of the economy, averaging over 7% per annum for the last decade and creating over 400,000 jobs in the last year alone, predominantly in SMEs.

Despite this growth, Indonesia lags in relative terms in the services area, behind some of its ASEAN partners.

This matters a great deal because services industries are closely linked to all other sectors of the economy and help all of them to function effectively. Key services industries include finance, telecommunications, utilities, transport, distribution, logistics, retail, construction, tourism, education, professional services, computer services, creative and cultural services and others. Many of these are key to Indonesia's economic growth.

Services account on average for more than 25% of all intermediate inputs in Indonesia's goods producing sectors; wood products for example contain roughly 40% of embodied services inputs.

Economy-wide productivity and competitiveness depend heavily on services sector performance. Services are inputs into all final products, including all agricultural and manufactured products.

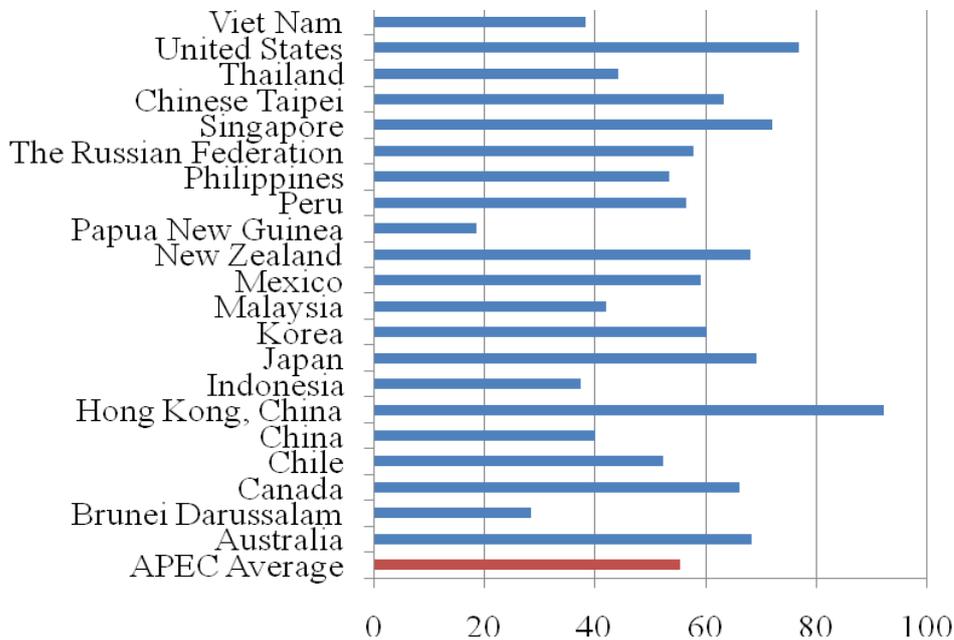
Strategies for increased growth, efficiency and trade in services must therefore be central to Indonesia's national development agenda.

Despite recent improved export performance, Indonesia still has a significant net deficit on trade in commercial services. Services value-added as a percentage of total exports is well below the APEC average, at only around 21%.

Indonesia needs to develop and share widely a consistent national services export strategy, together with a strong supportive public/private dialogue around which the services sector can mobilise to ensure the

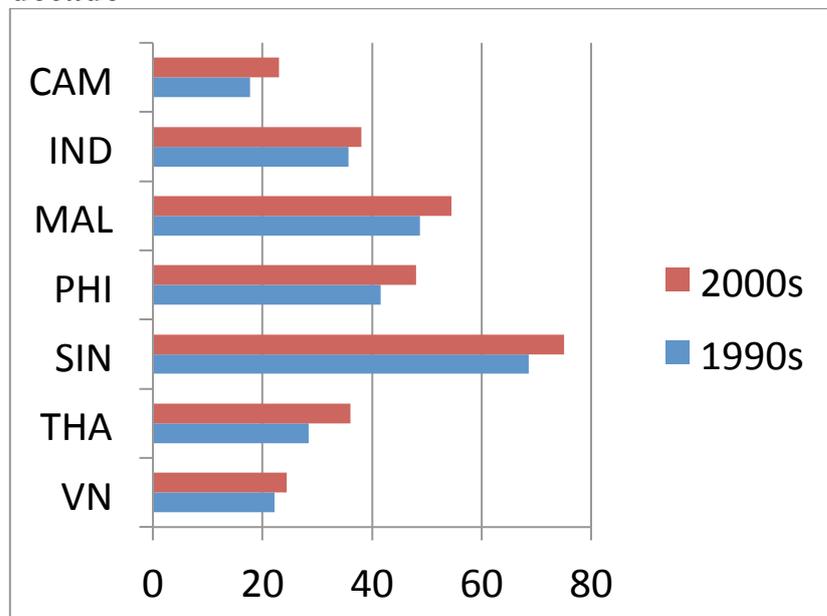
strategy is implemented. APINDO is willing to play this role, in collaboration with key government and legislative partners.

**Figure 1: Services Value-Added as a % of Exports  
(Indonesia 38%; APEC average 58%)**



Source: ABAC Report “Understanding Services at the Heart of a Competitive Economy”, November 2011

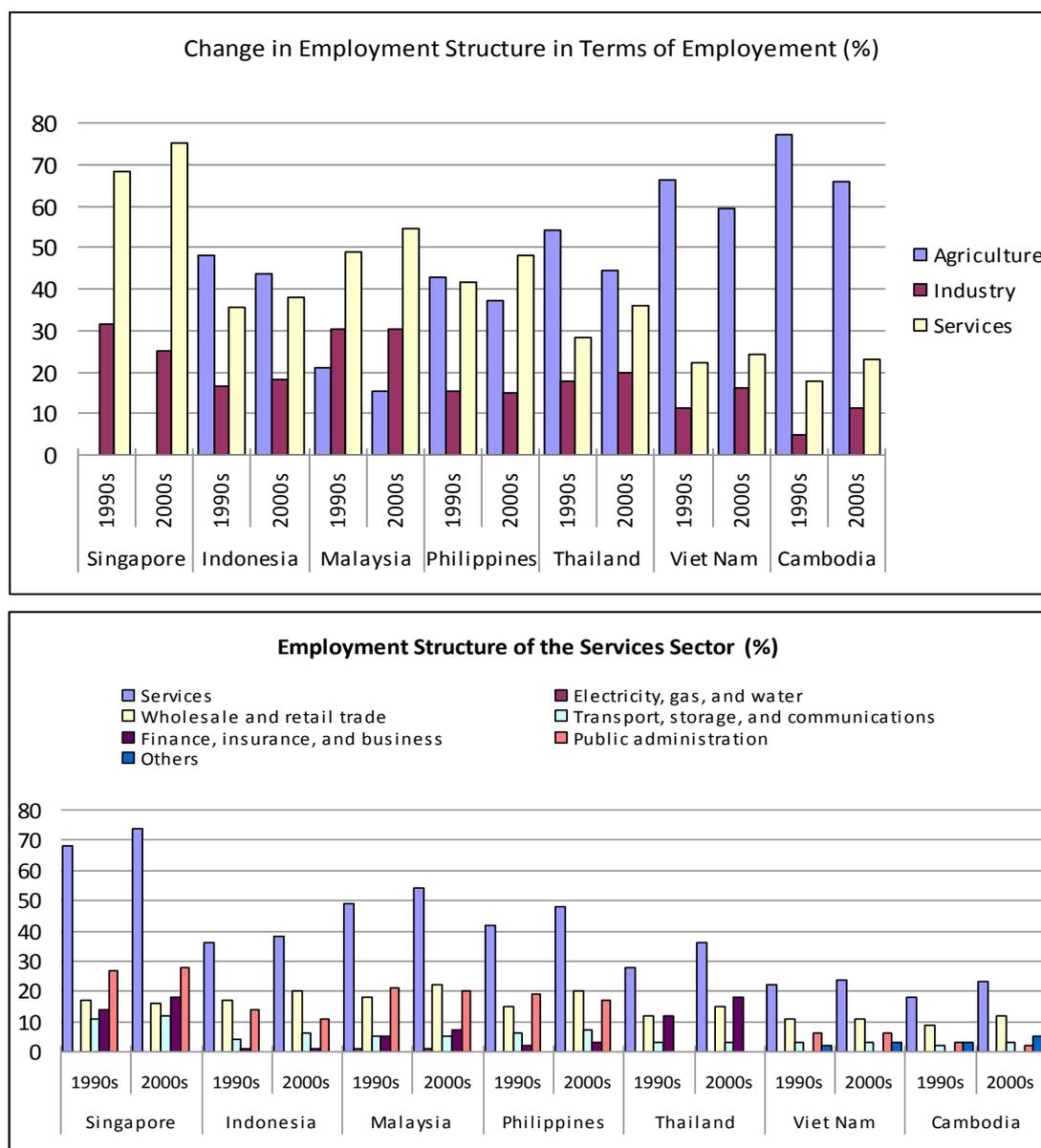
**Figure 2: Services Share of Employment; Growth over the last decade**



Source: Chanda, R and Pasadilla, G “Employment and People-Movement Impact of Services Trade Liberalisation”, Paper presented at PECC/ADBI Conference on

Figure 3: Changes in Sectoral Shares of Employment

**(Services will soon overtake agriculture for total employment in Indonesia).**



Source: Aldaba and Pasadilla, ASEAN Services Sector and the Growth Rebalancing Model, ADBI Working Paper 246, 2011

<sup>i</sup> World Bank data