

# Services trade and the Indonesian third unbundling

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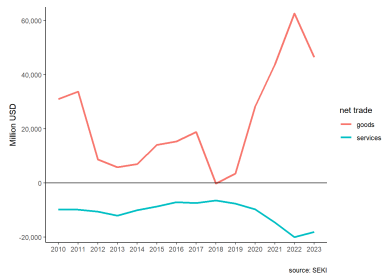
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# Indonesian services



Indonesia has always been a net importer of trade. Export services is dominated by tourism, while import services is dominated by logistics and business services.



Indonesian government often concerned with deficit trade, but trade in services has often neglected in the discussion.

## But more!

- ▶ With the ever decreasing cost of trade, separating a value up to tasks level (Baldwin, Freeman, and Theodorakopoulos 2024; Kimura 2018).
- ▶ Feedback mechanism from the third unbundling may benefits domestic manufacturing (Kimura 2018).
- ▶ In fact, exporting high-value services directly can be a good strategy for growth.

## About the chapter

- ▶ The state of trade in services in Indonesia
- ▶ Services as manufacturing inputs
  - ▶ using Input-Output.
  - ▶ services import-manufacturing export cointegration.
- ▶ Preliminary conclusions

# The third unbundling

- ▶ Unbundling: how much part of the supply chain of production can be traded across border increase the use of comparative advantage (Baldwin 2016; Kimura 2018).
  - ▶ trade cost: 1st, communication costs: 2nd, face-to-face costs: 3rd.
- ▶ 3 development paths: step-by-step, leap-frogging, feedback (Kimura 2018)
- ▶ The last two makes services ever more important:
  - ▶ leap-frog to supplying part of a services tasks, or;
  - ▶ Feedback, using services to improve manufacturing.

## Services in manufacturing

- ▶ Melitz (2003): non-trivial trade cost makes small-margin firms lose.
- ▶ Services can lower this cost: bridge information gap on the market, business customs and regulations in other countries, especially for new firms entering export market (Lodefalk 2014)
- ▶ In Sweden, firms with higher services embedded in its final products increases its intensity of export (Lodefalk 2014)
- ▶ In Indonesia, 10 per cent increase in service intensity of a firm increase its productivity by 7 to 8 per cent (Hing and Thangavelu 2023)

# Services trade in Indonesia

- ▶ Trade in services is complicated amid 4 modes (Magiera 2011):
  - ▶ mode 2 & 4 → Visa and KITAS regulations
  - ▶ mode 3 → investment and operational.
- ▶ Magiera (2011): complicated authorities, unlike goods. Makes it hard to discuss Deep Trade Agreements (Syahputri and Gupta 2024).
- ▶ IJEPA: no evidence it improves services trade (Syahputri and Gupta 2024)

## Data: BaTIS

- ▶ First launched in 2017 by OECD and WTO (Liberatore and Wettstein 2021),
- ▶ Balanced data from two trading partners.
- ▶ Not very good outside of rich countries.
- ▶ used to build other databases like TiVA.

Table 1: Services classification in BaTIS

Code	Category description
SA	Manufacturing services on ph
SB	Maintenance and repair service
SC	Transport
SD	Travel
SE	Construction
SF	Insurance and pension service
SG	Financial services
SH	Charges for the use of intellec
SI	Telecommunications, comput
SJ	Other business services
SK	Personal, cultural and recreat
SL	Government goods and service