Structural Reforms in Service Sectorsand Development: Case Study of Thailand

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Presentation Outline

1. Service Sector in Thailand: An overview
2. Data Limitations Deficiency
3. Service Sector SWOT Analysis
4. Service Sector Strategic Plan
5. Sectoral Strategy: Telecommunications

Service Sector in Thailand: An overview

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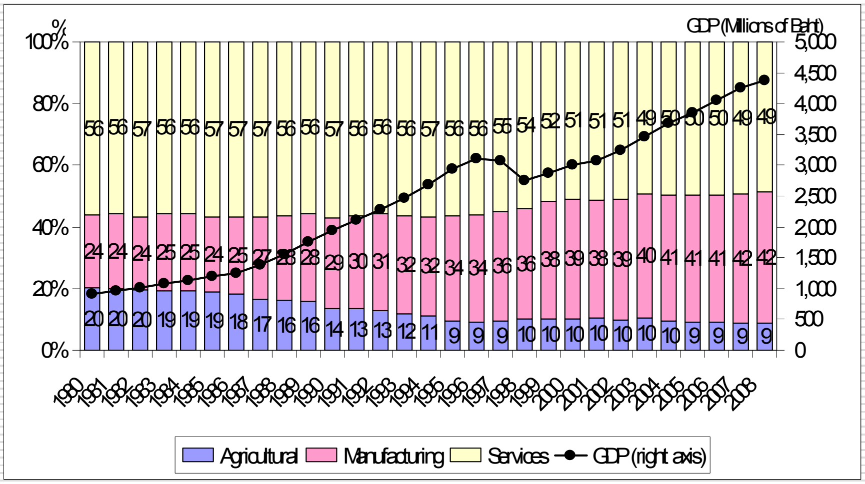
Service Data Available

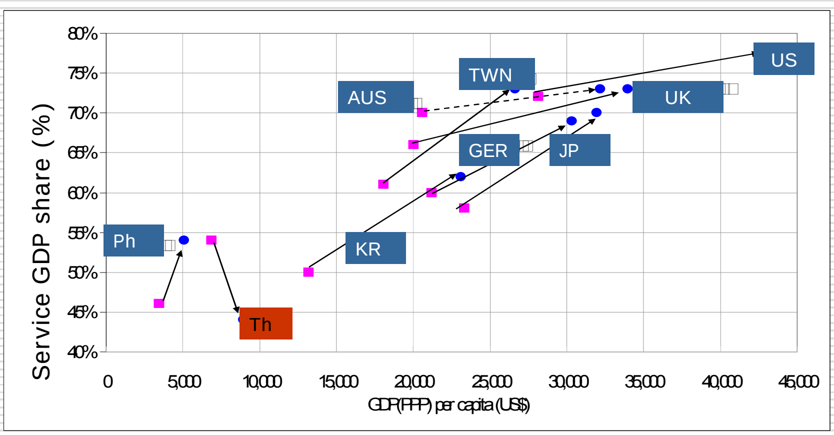
- GDP: 12 sectors (TSIC based on ISIC revision 3) and 27 sub-sectors from the NESDB
- Employment: 12 sectors from the NSO
- Input/Output table year 2000 for (18 sectors)
- BOP (11 sectors)
- FDI (3 sectors: finance, construction and others)

Service Sector GDP (1980-2008)



Source: NESDB

Declining GDP Share (2000-2008)



Source: IMD 2001 and 2008

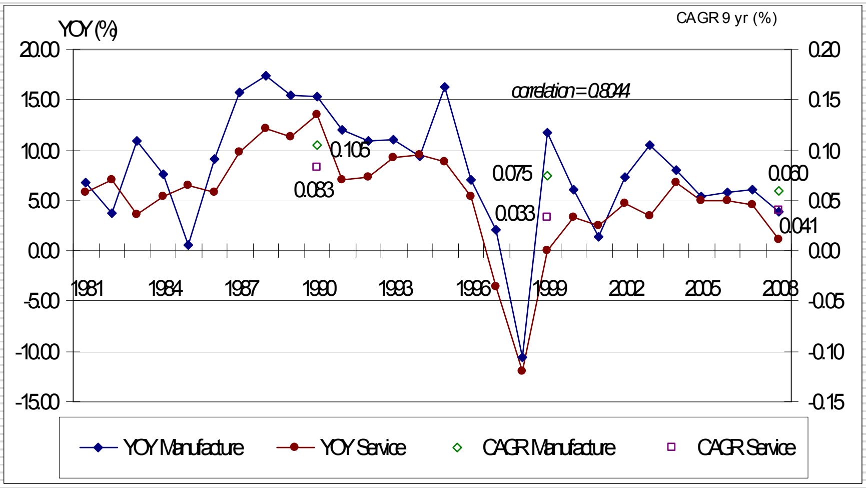
On service sector GDP share…

1. **Demand for service is "derived" from the manufacturing sector. (intermediate services such as banking, logistics)**
2. **Demand for service is income elastic. (final consumer services such as health, education and tourism).**
3. **Most studies could not establish the causal link between service sector GDP share and GDP level.**
4. **India's case illustrates that**

On Service Labor Productivity…

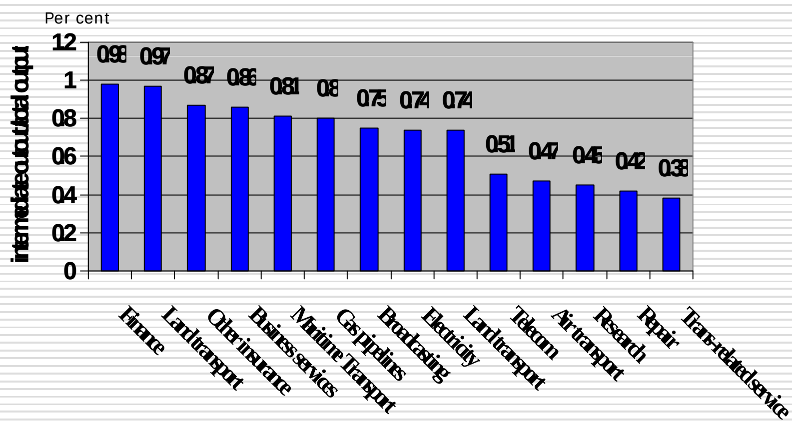
1. Baumol (1967) established that
   1. service sector is more labor intensive than manufacturing. Hence, expansion in service sector share leads to a fall in general labor productivity.
   2. Certain service sector grow as a result of state subsidies not higher productivity such as health, education.

Service Sector Growth



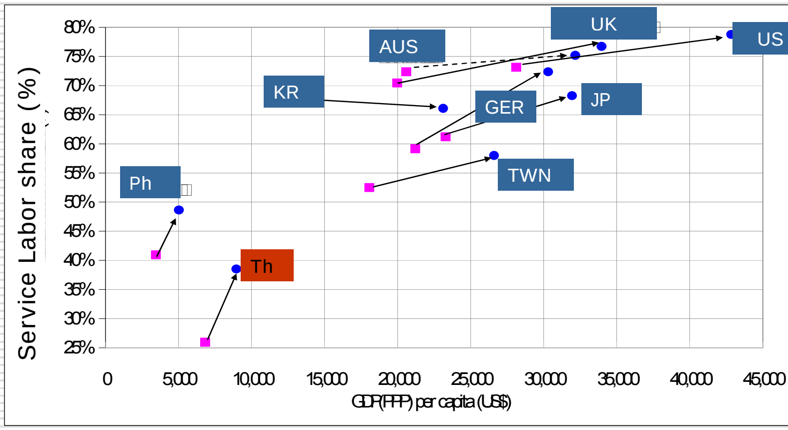
Source: NESDB

Sectors with high Industrial Linkage



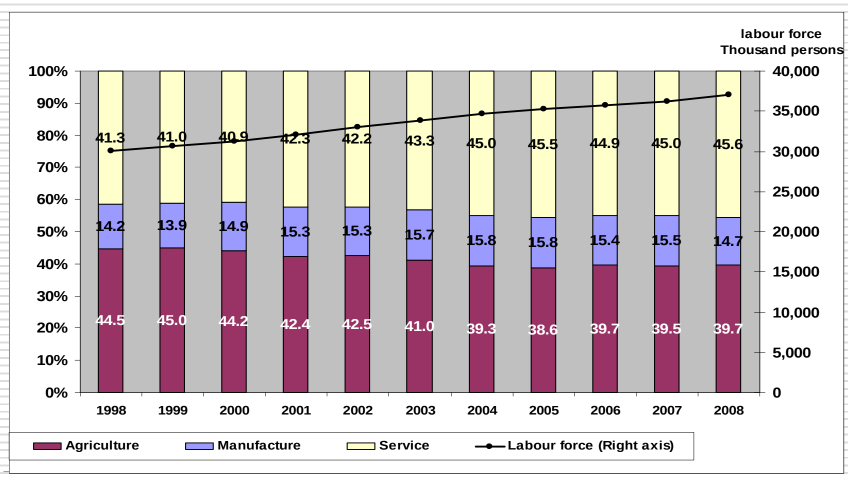
Source: IO table 2000

Increasing Labor Share



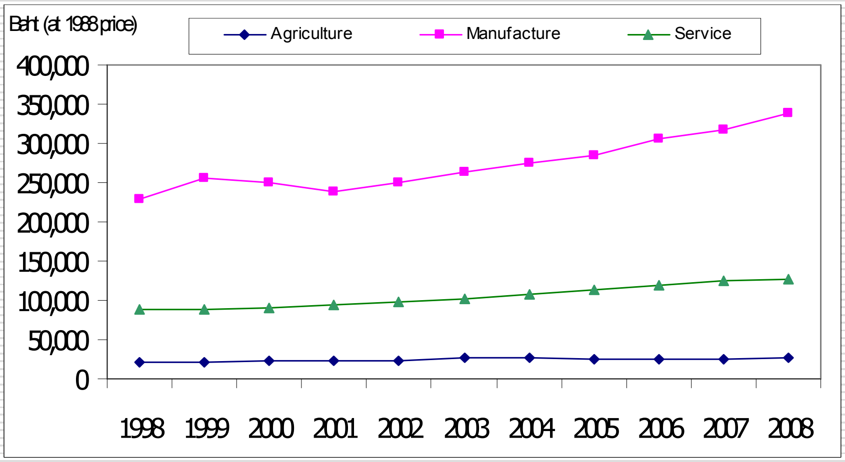
Source: IMD 2001 and 2008

Inter-sectoral labour relocation



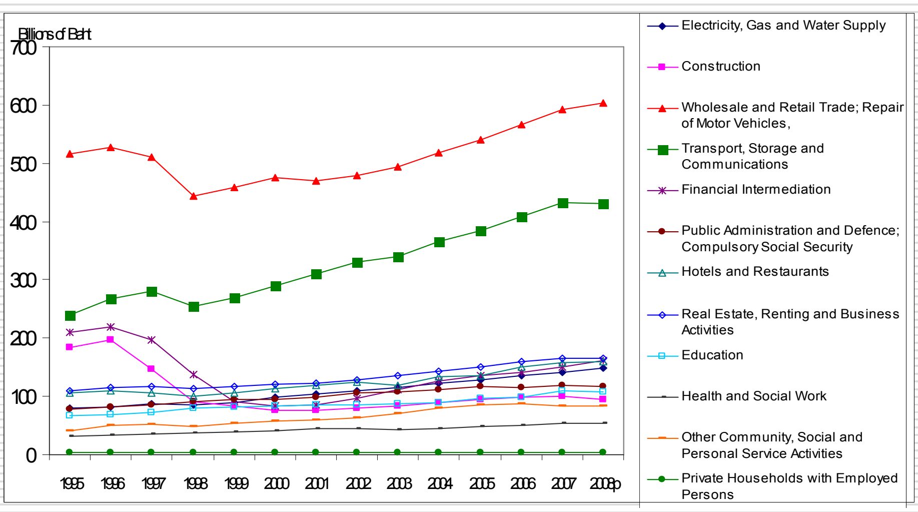
Source: NSO

Slow Productivity Growth



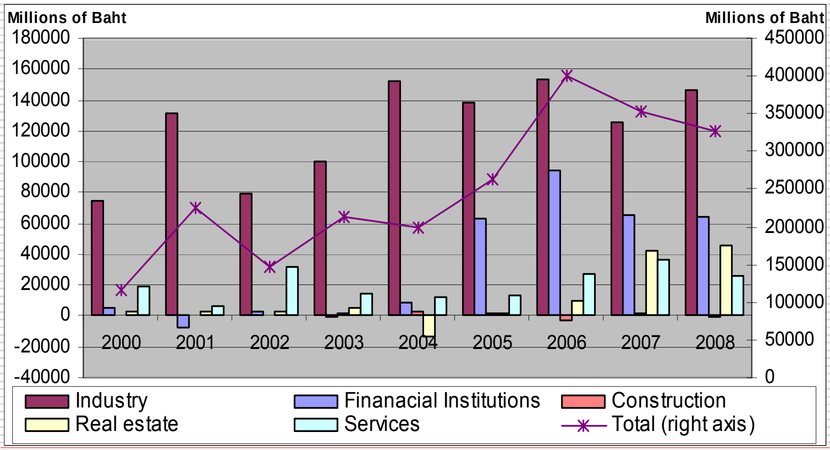
Source: NESDB

Trade in Services



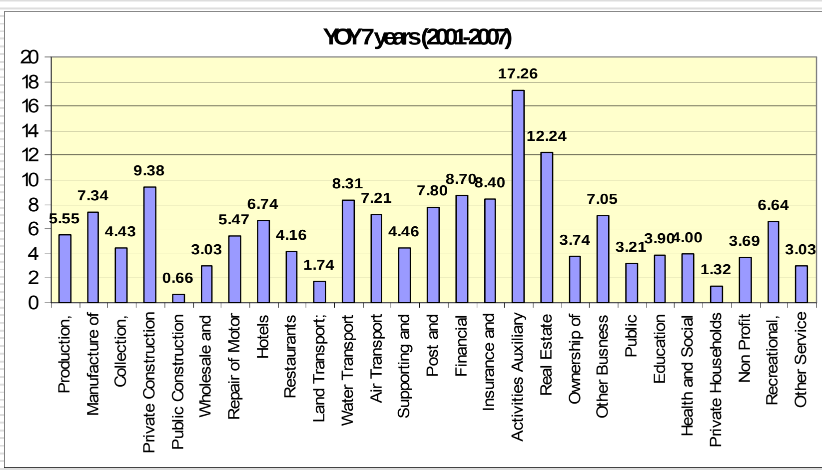
Source: NESDB

Increasing FDI in services



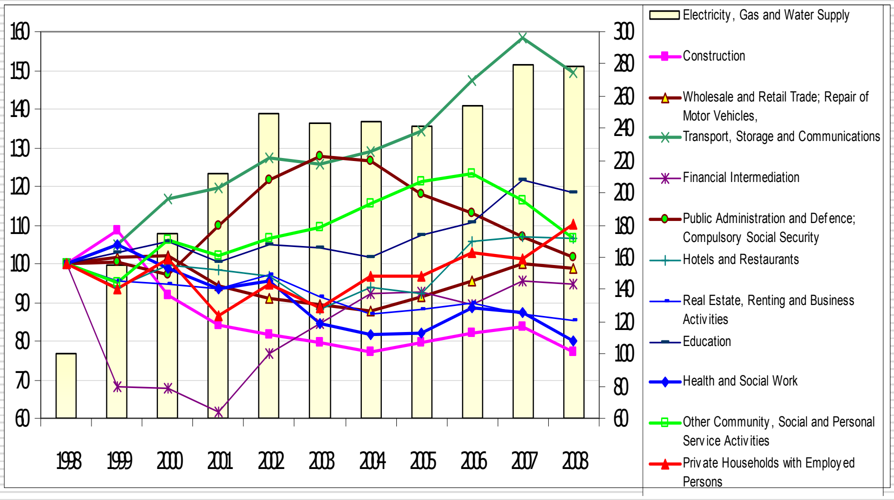
Source: Bank of Thailand

Growth Concentrated in low-productivity consumer services



Source: NESDB

Sectoral Productivity Change



Source: NESDB and NSO

Conclude

Thai Service sector can be described by

- Highly correlated with manufacturing (derived demand)
- Labor intensive – absorption of labor from shrinking agricultural sector
- Low growth in (high productivity) supporting services, high growth in (low productivity) final services.
- Declining labor productivity in some sectors

Given that the service sector is a major source of employment and that services are important inputs into manufacturing production, improving service sector productivity can help boost labor income and industrial sector's competitiveness.

2. Data Limitations and Deficiency

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Service GDP data limitations

1. Service GDP figures are likely to be underestimated because VA of (intangible) services is often embedded in that of (tangible) goods.
2. Actual price may be distorted because of the use of inappropriate deflator
3. Labor productivity may be underestimated if labor input is not counted in terms of "heads" rather than "hours" worked.

Thailand's Service Data Deficiency

- Inconvertibility of one set of data and another such as IO table and GDP data
- High level of Aggregation due to limited sample size (GDP)
- Outdated data

* With highly aggregate data, policy-making in specific service business is impossibleใ

3. Service Sector SWOT Analysis

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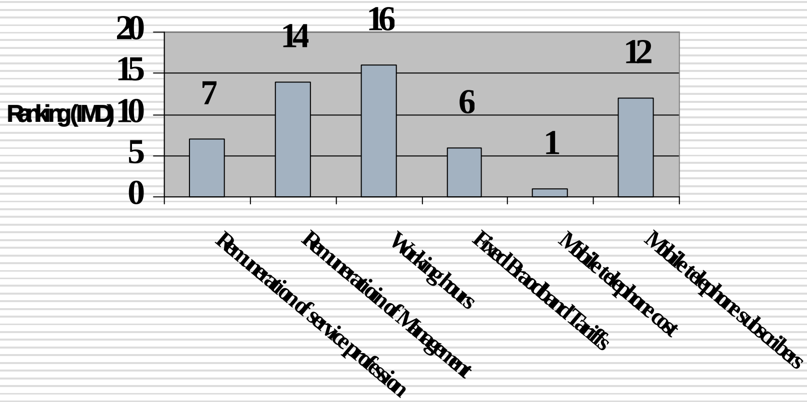
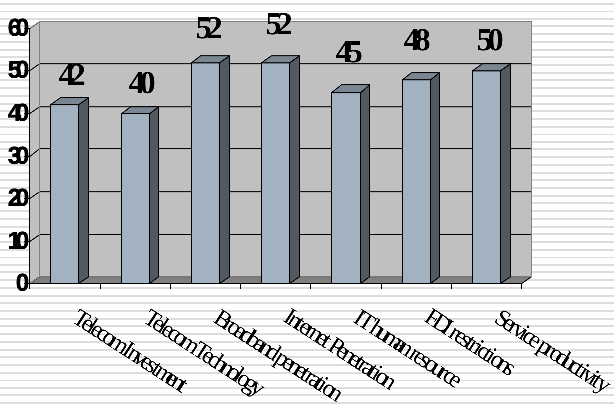
Strength (IMD Ranking out of 55)



Source: IMD World Competitiveness Yearbook 2009

Weakness (IMD ranking out of 55)



Source: IMD World Competitiveness Yearbook 2009

Opportunity

1. Rising demand for health and personal care
2. Geographical Advantage
3. Economic expansion in neighboring countries
4. Technological advancement allowing Outsourcing

Threat

1. Catching up by neighboring countries
2. Increasing IT advantage in many services (retail, banking, logistics)
3. Volatile energy prices impose risks on small players

4. Service Sector Strategic Plan

Strategy

1. To promote competitiveness of the manufacturing sector
2. To promote long-run competitiveness of Thai industries
3. To attract FDI
4. To elevate the quality of life of

Strategic Goal 1: Increase productivity of supporting services

1.1 Boost productivity in key infrastructure service by

- Review anti-competitive clauses embedded in long term concessions (telecom, transport)
- Seek to abolish procurement privileges granted to state operators
- Pass sectoral laws governing the establishment of a comprehensive sector-specific regulatory body (transport, water, (joint) telecom & broadcasting)
- Pass regulatory rules that would help to promote free and fair competition in the market.
- Promote consolidation of service operators

1.2 Promote the use of IT in key supporting services such as banking and logistics.

Strategic Goal 2: Laying the foundation for long-term competitiveness

Strategy 2.1: Encourage expansion in telecom network infrastructure

Strategy 2.2: Draw up strategic plan to expand service market into neighboring countries. (the use of NEDA, EXIM Bank)

Strategy 2.3: Draw up human resource development plan and devise government schemes to support such plan

Strategic Goal 2: Laying the foundation for long-term competitiveness

Strategy 2.4: Promote IT services by implementation of e-government

Strategy 2.5: Set up certification programs for skilled professions in order to promote skills development.

Strategy 2.6: Improve service sector database

- NSO should establish standard classification of service sectors to allow convertibility of data from different sources
- Budget allocated for the collection of services data such as service sector GDP, employment and IO table, should be increased to accommodate greater level of sectoral disaggregation.

Strategic Goal 3: Attracting FDI

Strategy 3.1: Revise rules that pose obstacles to foreign investment in services

- Revise list 3 of the Foreign Business Act 1999
- Revise rules and regulations governing foreign employment and the issuance of foreign work permits

Strategy 3.2: Target investment promotion policy at services with high forward and backward linkages.

Strategic Goal 4: Improvement in the Quality of Life of Citizens

Strategy 4.1: Implement concrete universal service goals in basic services (telecom, electricity and water)

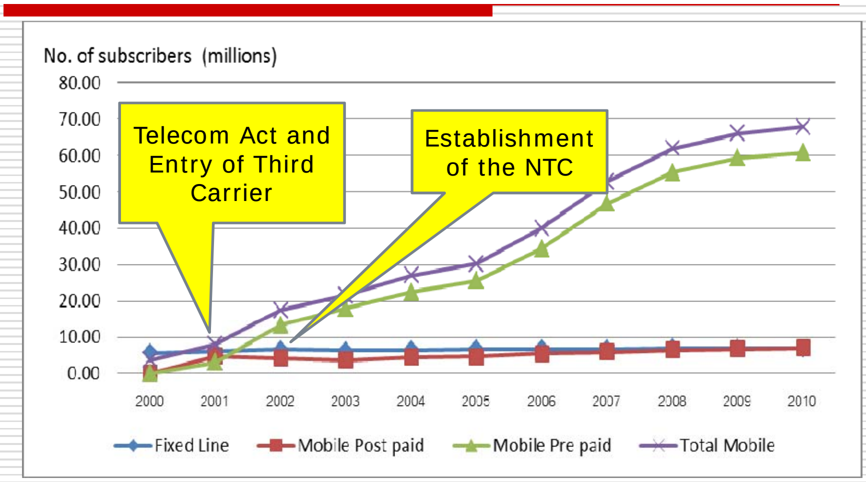
Strategy 4.2: Pass and implement essential rules required to protect consumers – i.e., service reliability and quality standard and affordability.

5. Liberalization in the Telecom Market

Thailand’s Telecom Development Milestones

- Before 1992: State Monopolies
- 1992: Private Concessions with Revenue Sharing Schemes
- 2001: Telecom Act which ends state monopoly and established licensing
- 2002: Establishment of the National Telecommunications Commission (NTC) & Entry of major third mobile player into the market (joint venture between Orange and TRUE)

The dynamic mobile market following market liberalization



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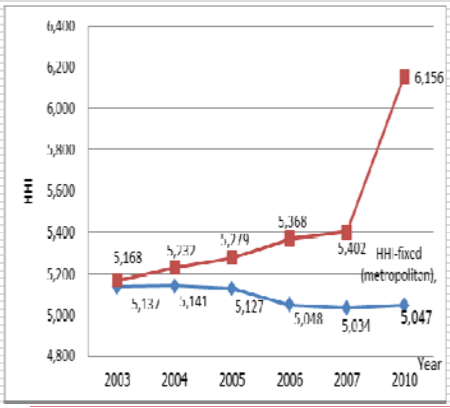
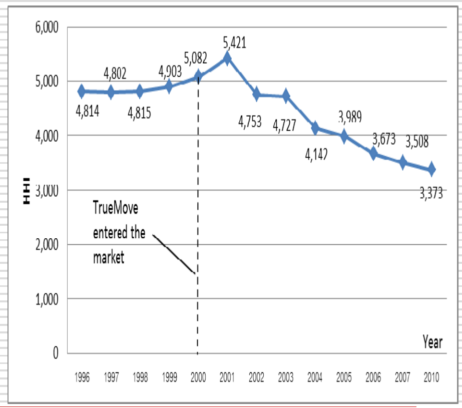
Competition in cellular intensified

Fixed Line



Mobile



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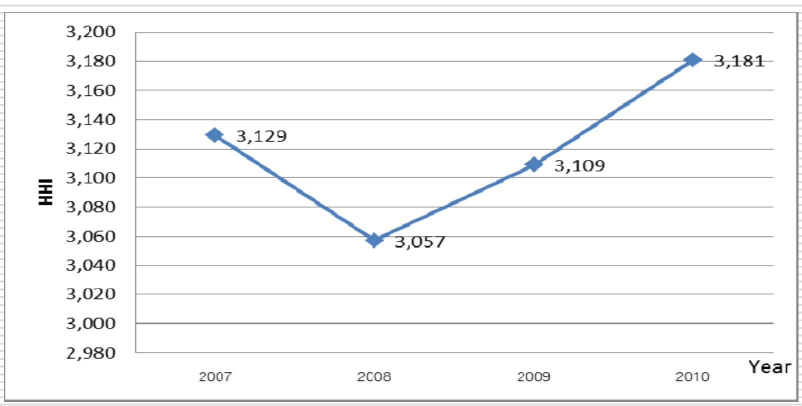
Competition in Broadband: Fragile



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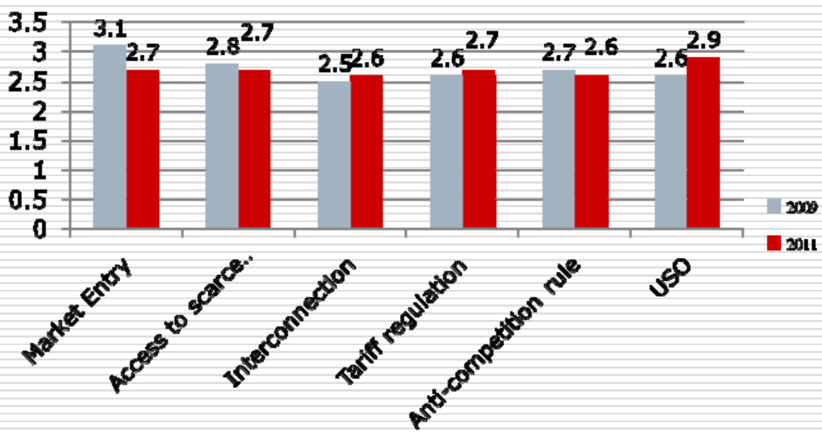
Regulatory regime pose major obstacle to competititon



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Remaining Barriers to Competition

- Foreign Investment Restriction
- Unfair licensing
- Ineffective interconnection regulation
- resale regulation/law
- Concessions
- Unequal access to frequencies

Conclusion

Private participation and market liberalization can go a long way in promoting growth in the service industry. But appropriate regulatory rules are required to ensure free and fair competition in the market.

THANK YOU