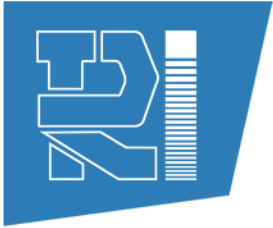




“UNLOCKING ICT”
Liberalization of Services:
Thailand Experience”

July 2, 2013
Centara Grand Hotel, Bangkok

Deunden Nikomborirak
Thailand Development Research Institute



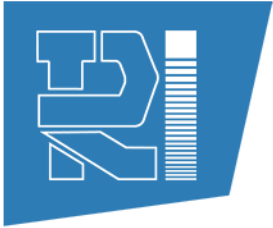
Presentation Outline

1. Role of Service Sector in the Thai Economy
2. Opportunities
3. Challenges
4. Conclusions & Recommendations



1. Role of Service Sector





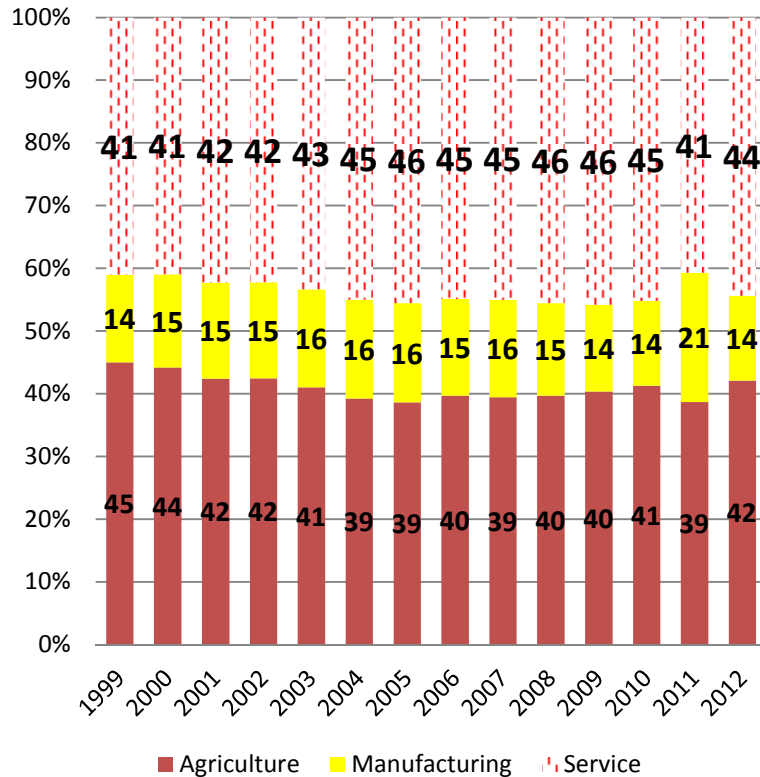
Growth Prospects of the Thai Economy

1. Thailand needs to break away from the “Middle Income Trap”
2. TDRI’s assessment of the impact of the minimum wage increase to 300 baht nationwide reveals that GDP growth can remain positive if labour productivity increases 8.4 %.
3. Bank of Thailand’s assessment shows the Thai labour productivity needs to increase from 4% to 8% to compensate for the wage hike.

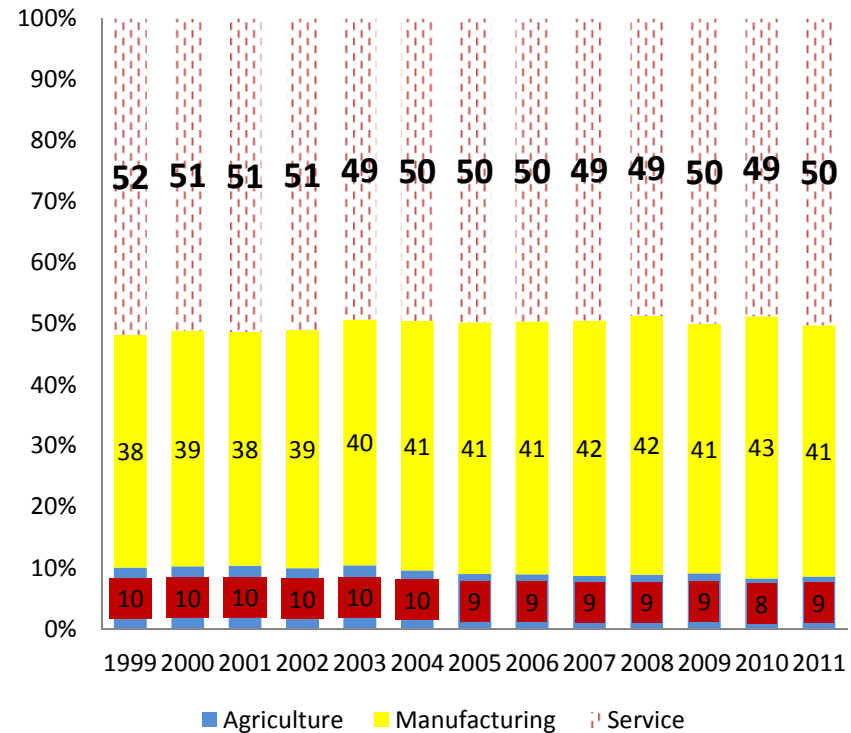


Thailand cannot break away from the middle income trap without a reform of the service sector

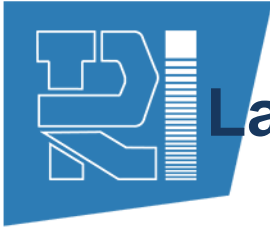
44% of labour force is employed in the service sector



Half of GDP is contributed by the service sector

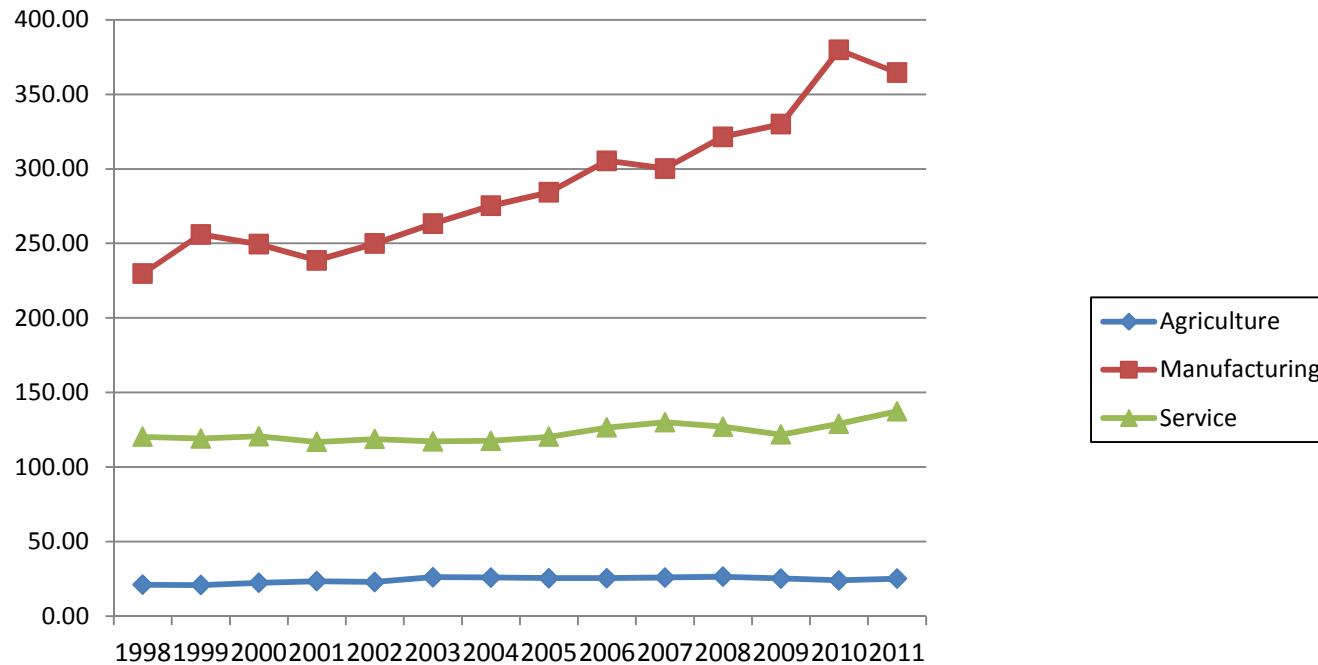


Source: National Income Account, NESDB

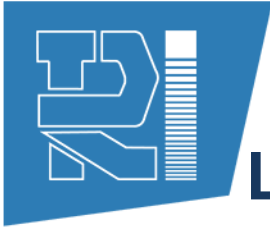


Labour productivity in the service sector is stagnant and well below that in the manufacturing sector

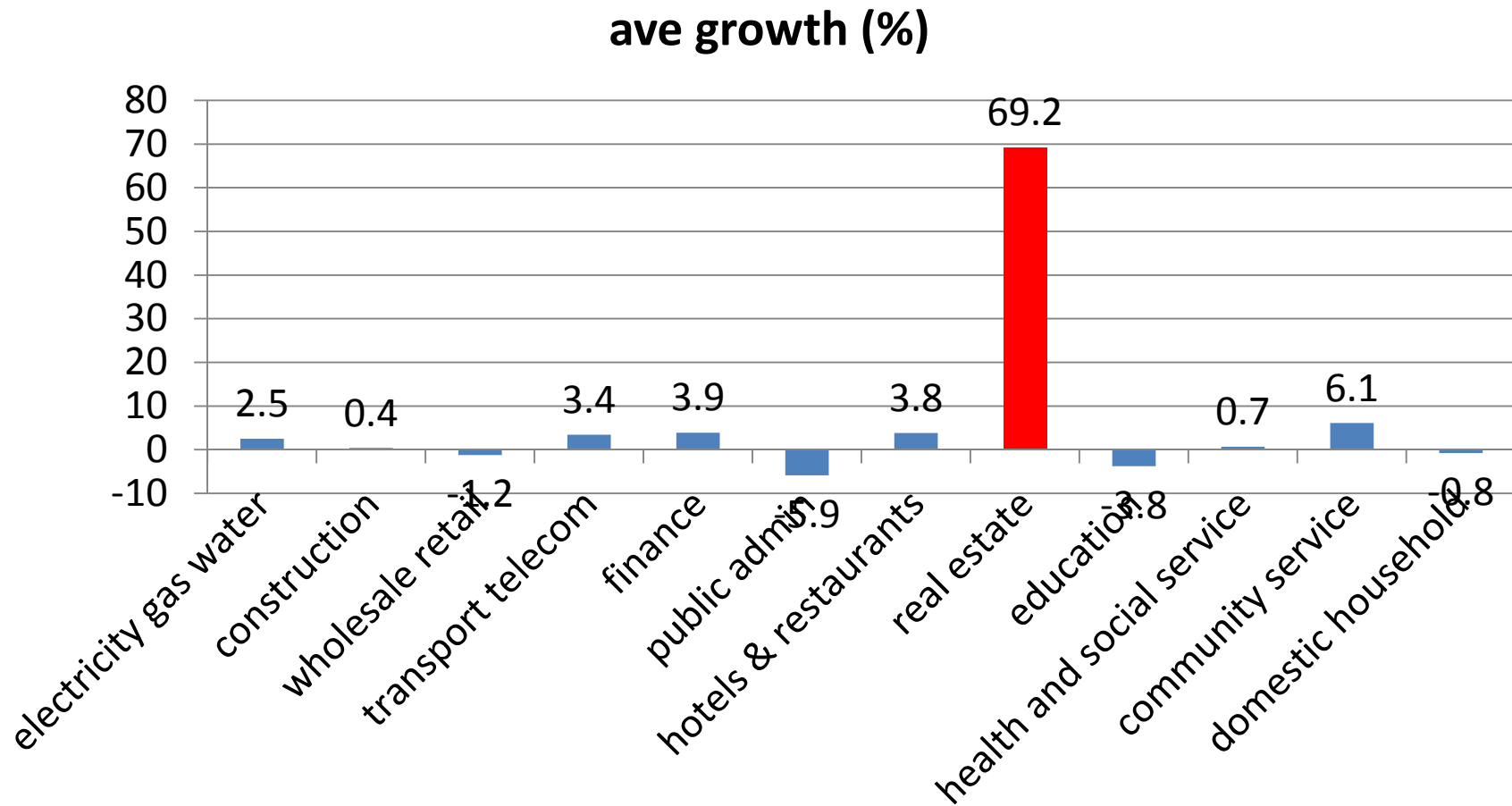
1,000 baht at 1988 prices



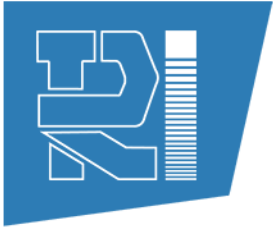
Source: NESDB and Ministry of Labour



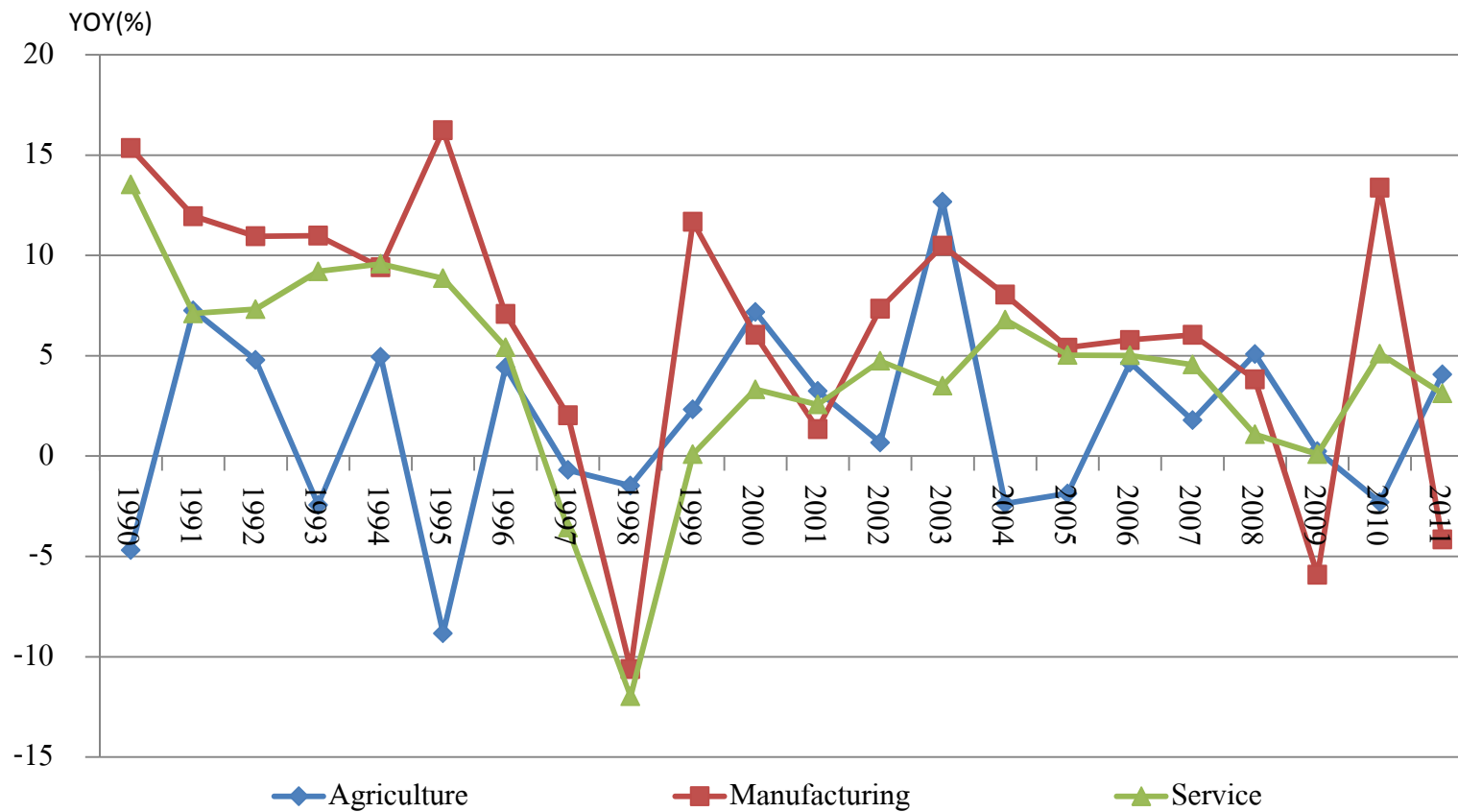
Labor productivity growth by sector (2007-11)



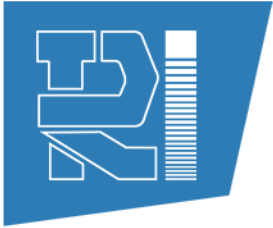
Source: NESDB



Service sector “drags” economic growth

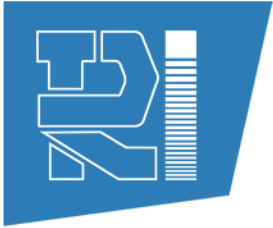


Source: NESDB



Conclusions

1. Low labour productivity in the service sector can be attributed to the foreign equity share cap at 49% in the service sector and domestic rules and regulations that serve to entrench market power of incumbent operators.
2. Low growth and labour productivity in the service sector leads to (1) low wage (2) high costs, low quality and less advanced services, which undermine the competitiveness of the export-oriented manufacturing sector.

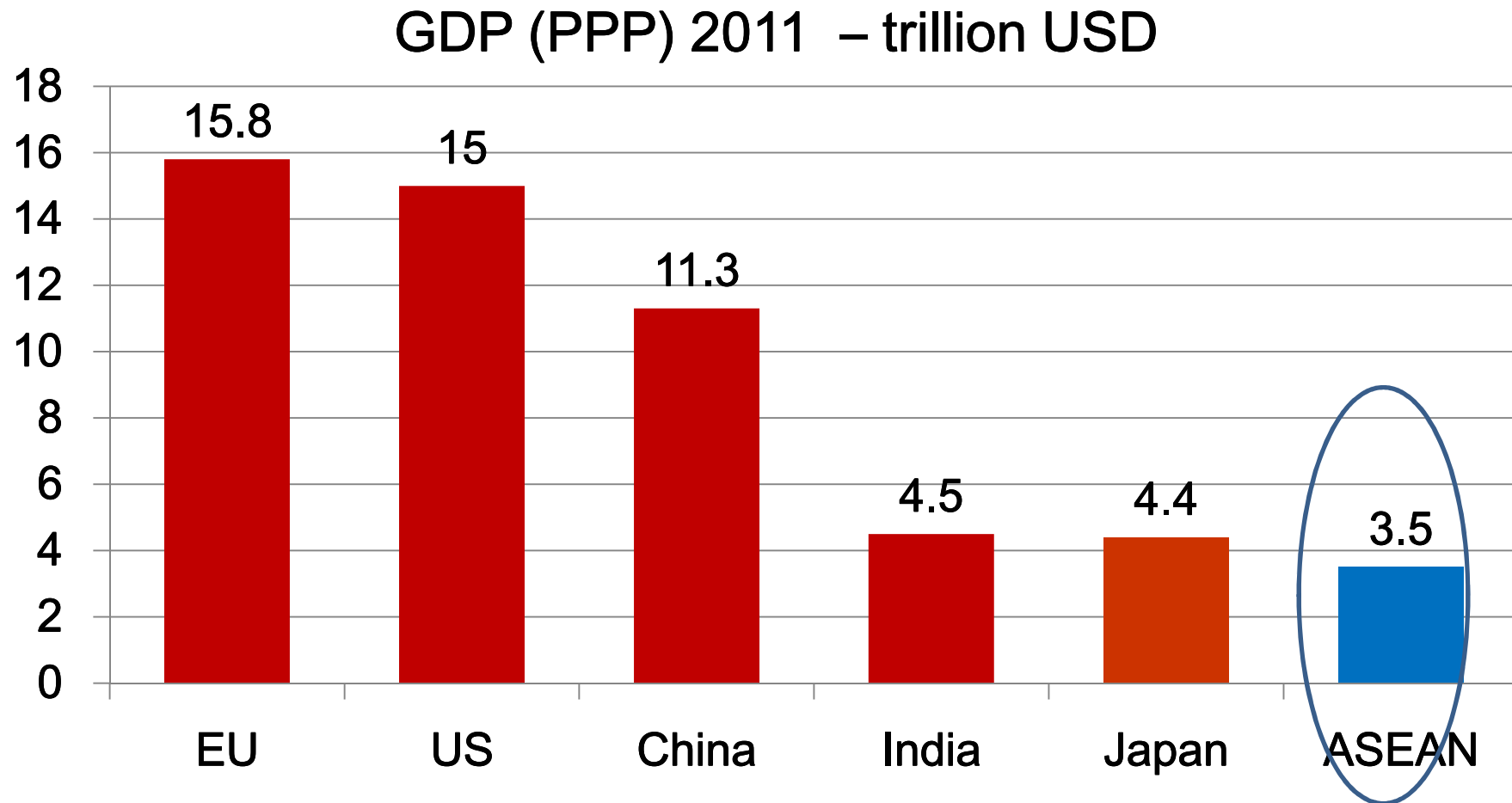


2. Opportunities





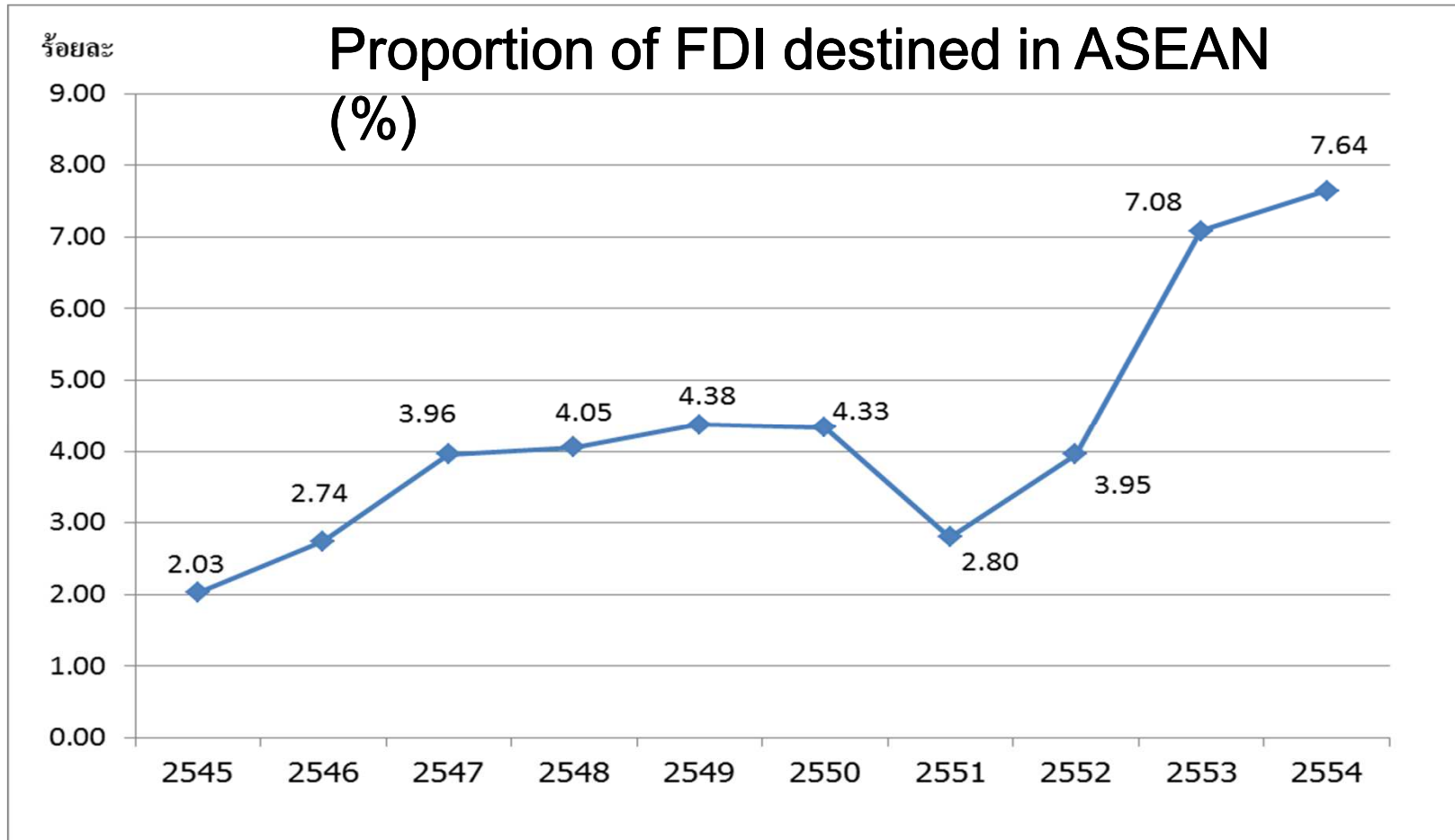
ASEAN Economy ranks 6th in terms of size



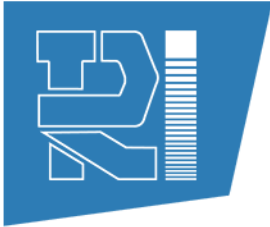
แหล่งที่มา : World Bank database สามารถดาวน์โหลดได้ที่ database.worldbank.org



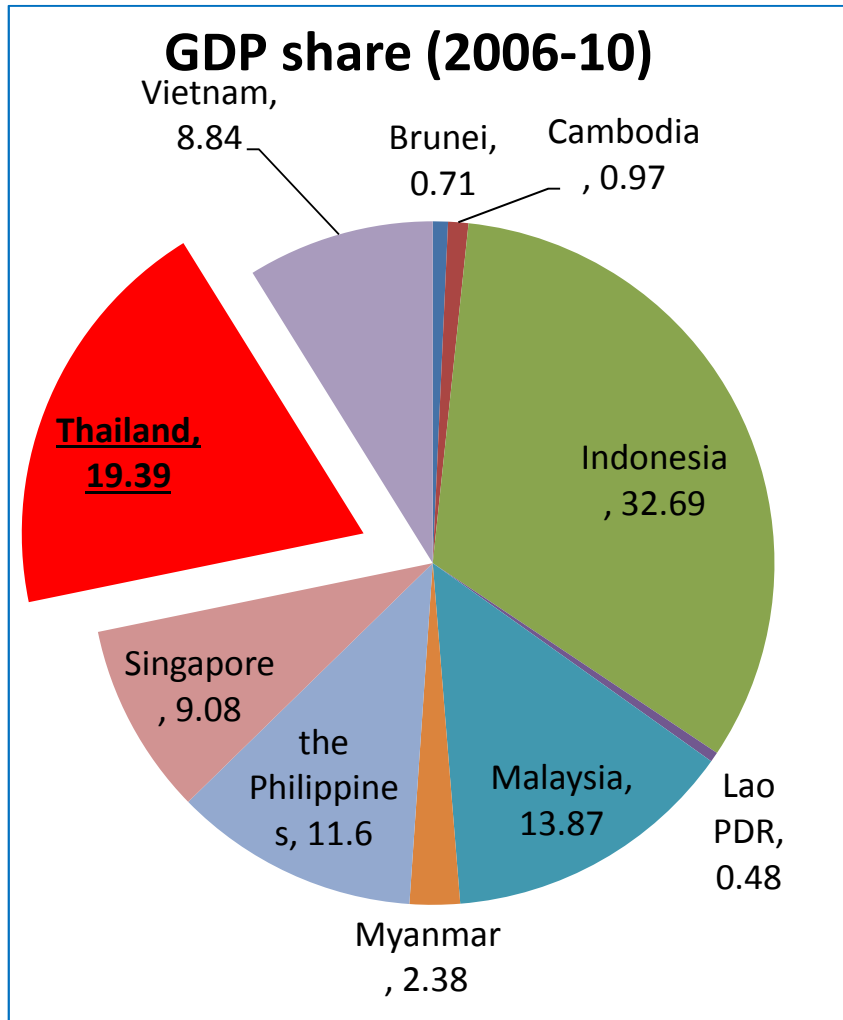
ASEAN is becoming an increasingly important FDI destination



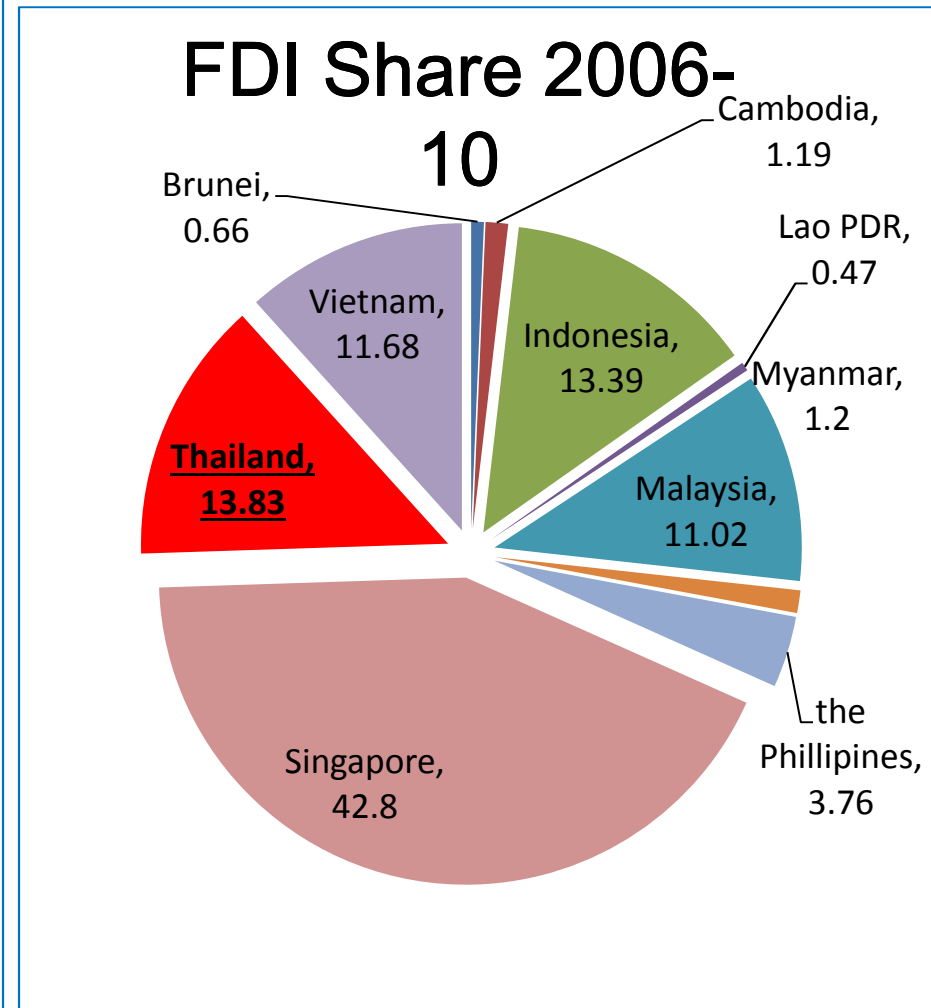
Source: World Investment Report 2012.



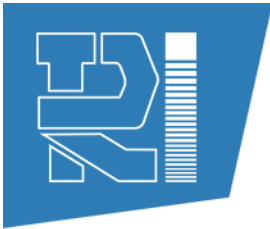
Thailand's FDI share is below her GDP share



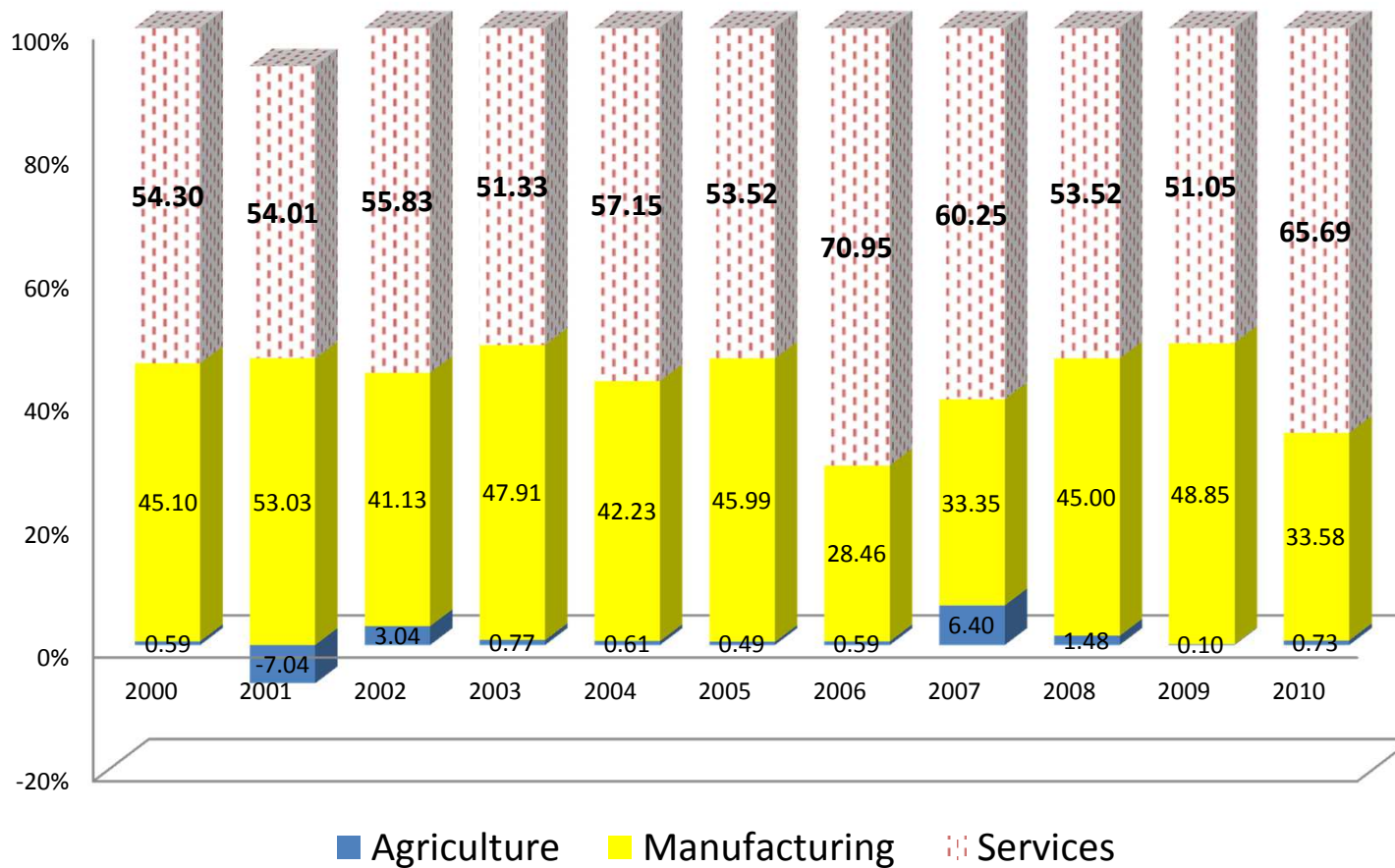
Source: World bank database



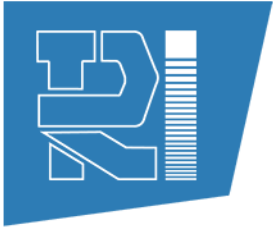
Source: ASEAN Investment Report 2011



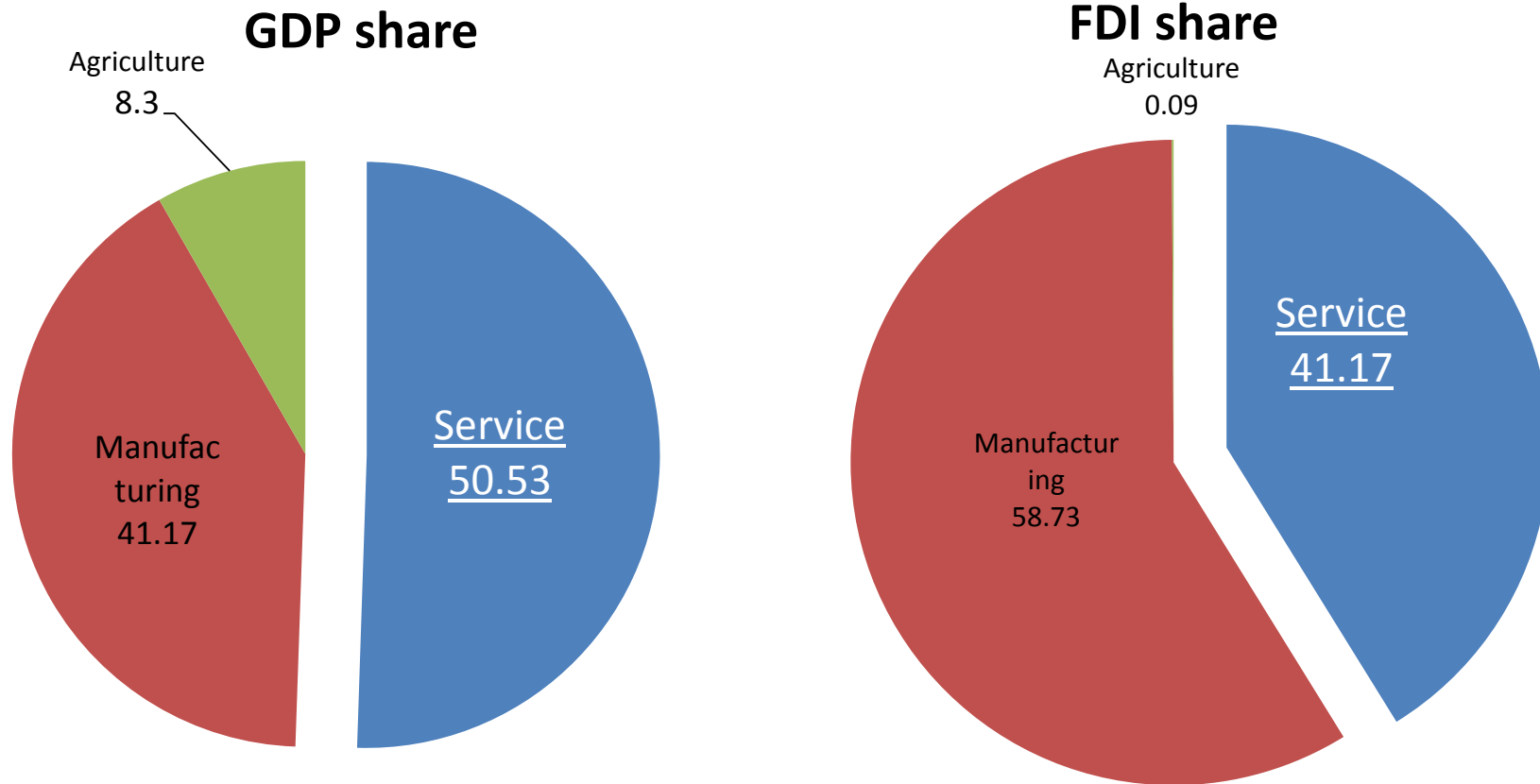
FDI into ASEAN flows mainly into the service sector



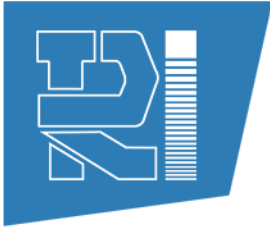
Source: ASEAN Investment Report 2011.



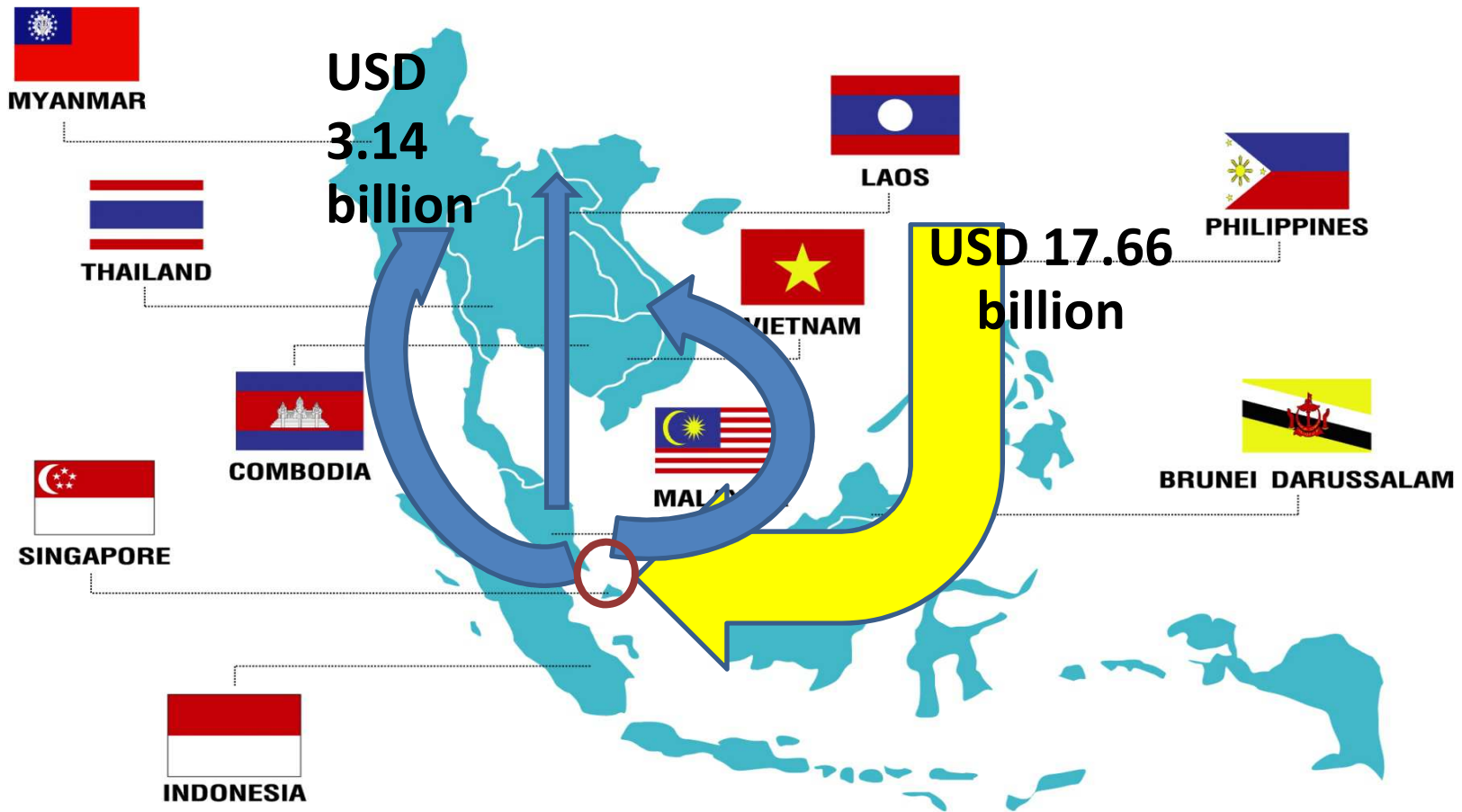
FDI into Thailand is heavily concentrated in manufacturing



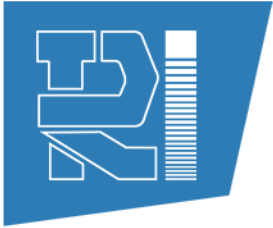
แหล่งที่มา: ASEAN Investment Report 2011.



Singapore is the “ASEAN Gate Keeper”

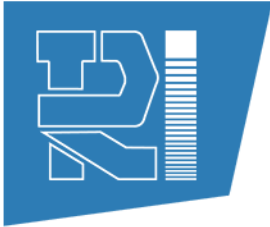


แหล่งที่มา: ASEAN Investment Report 2011. (AVERAGE FDI FLOW DURING 2000-2009)



Observations

- Since Thailand has a relatively restrictive FDI regime, foreign capitals flow through Singapore
- In future when AEC is realized, Thailand stands to receive only “second hand FDI” from Singapore.



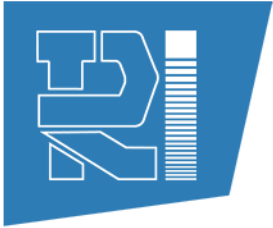
3.
Challenges





How to increase service sector productivity ?

1. Relax FDI restrictions to promote much needed transfer of technology into the service sector.
2. Revise domestic sectoral regulations that harm competition
3. Revise rules and regulations that discourage FDI.



3.1 How to liberalize ?

1. Thailand needs a “Roadmap” for service liberalization
2. The Foreign Business Act 1999 needs to be amended by
 - (1) changing the list 3 from positive list to negative list
 - (2) identify sectors that warrants protection based on benefits to the economy and not to the specific industry
3. Take steps to liberalize the following sectors:
 - Services supporting the manufacturing (finance and banking, insurance, transport, telecommunication and energy)
 - Services that are monopolistic or oligopolistic

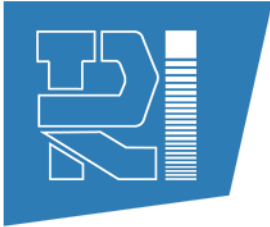


Liberalization Goals under AEC (mode 3)

Sectors	Targets
Priority Sectors: e-ASEAN, Healthcare and tourism services	51% - 2008 70% - 2010
Logistics	51% - 2010 70% - 2013
Construction	51% - 2010 70% - 2015
Other services	51% - 2010 70% - 2015

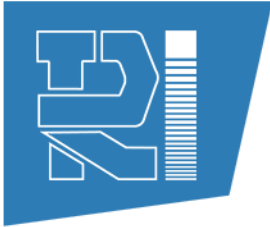
The scheduling of liberalisation commitments in each round shall be accorded with the following flexibilities:

- Possibility of catching up in the next round if a Member Country is not able to meet the parameters of commitments set for the previous round;*
- Allowing for substituting sub-sectors that have been agreed to be liberalised in a round but for which a Member Country is not able to make commitments with sub-sectors outside the agreed sub-sectors; and*
- Liberalisation through the ASEAN Minus X formula.*



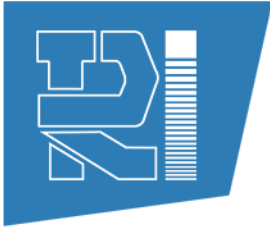
AFAS 7th Package (2009) - 1

Subsectors		AEC		AFAS7					
		Target	Year	Thailand	Malaysia	Singapore	Philippines	Indonesia	Brunei
E-ASEAN	Mobile telephone	51% 70%	2008 2010	49%	51%	73.99%	40%	49%	Domestic regulation
	Online information	51% 70%	2008 2010	49%	51%	100%	40%	51%	No commitment
	Consultancy	51% 70%	2008 2010	100%	100%	100%	40%	Joint operation	Domestic regulation
Healthcare	Hospital services	51% 70%	2008 2010	49%	51%	51%	40%	49%	Domestic regulation
	Medical and dental services	51% 70%	2008 2010	49%	51%	100%	No commitment	49%	No commitment



AFAS 7th Package (2009) - 2

Subsectors		AEC		AFAS7					
		Target	Year	Thailand	Malaysia	Singapore	Philippines	Indonesia	Brunei
Tourism	Hotel lodging	51% 70%	2008 2010	49%	51%	100%	40%	100%	Joint venture with local co. only
	Meal serving	51% 70%	2008 2010	49%	51%	100%	40%	51%	No commitment
	Travel agency/ tour operator	51% 70%	2008 2010	49%	51%	100%	60%	49%	No commitment
Logistics	Storage and warehouse	51%	2010	49%	49%	100%	100%	49%	49%
	Maritime cargo handling	51%	2010	49%	49%	100%	100%	60%	49%
	Freight transportation	51%	2010	49%	49%	100%	40%	49%	49%



Thailand's 8th Package (August 2012) -

examples

Telecom

- *Telex Telegraph and Facsimile*
- *Telecom Management consultant*

Tourism

- *บริษัท*
- *6 star hotel*
- *Tourist Information (excluding accommodation and flight reservation)*

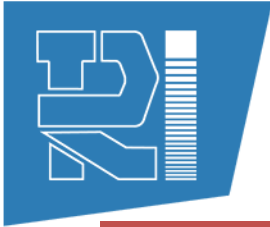
70% equity share

Health

- Private hospital*
- *Veterinary service*
- *Rehabilitation*

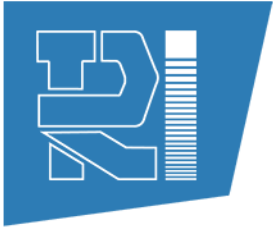
Logistics

- *Transportation of frozen goods, gas and containers*
- *Customs service*
- *Freight shipping*
- *Storage and warehousing for sea transport*
- *freight reloading*



Services targeted to be liberalized

service	Number of operators	Name of operator	Market share
Energy			
Purchasing and sales of gas	1	PTT.	100
Import of LPG	1	PTT.	100
Gas transportation	1	PTT.	100
Gas distribution	3	PTT.	100 (including subsidiaries)
Energy			
Electricity Generation	5	EGAT	82 (including subsidiaries)
Purchasing and sales of electricity	1	EGAT	100
High voltage electricity transmission	1	EGAT	100
Telecom			
Satellite	1	บมจ. ไทยคม	100



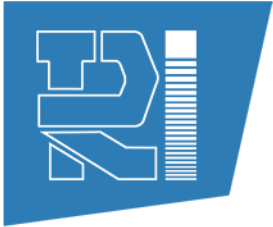
3.2 Reform at the sectoral level

Telecom

- Abolish the Foreign Dominance regulation announced by the NBTC in 2012
- Establish rules to promote fair use of telecom network such as fair IC charges, roaming and infrastructure sharing rules

Energy

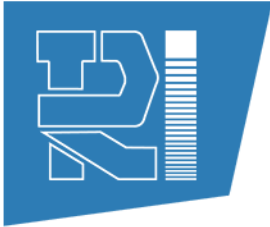
Third party access to gas pipeline and electricity grid networks



3.2 Reform at the sectoral level (2)

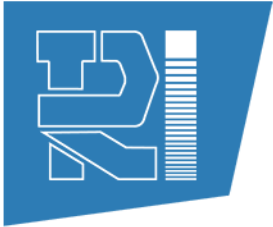
Banking

- Abolish “ceilings” for all banking service fees established by the Bank of Thailand
- Lift restriction on the number of branches imposed on foreign banks.



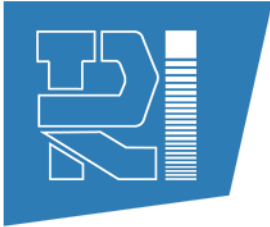
3.3 Revise rules that discourage FDI

- Lift the 4 to 1 rule governing the hiring of foreign nationals
- Relax restrictions on certain professionals such as lawyers or engineers
- Shift investment incentive rules from L-intensive manufacturing-based to skill-intensive service-based industries.



4. Conclusion & Recommendations

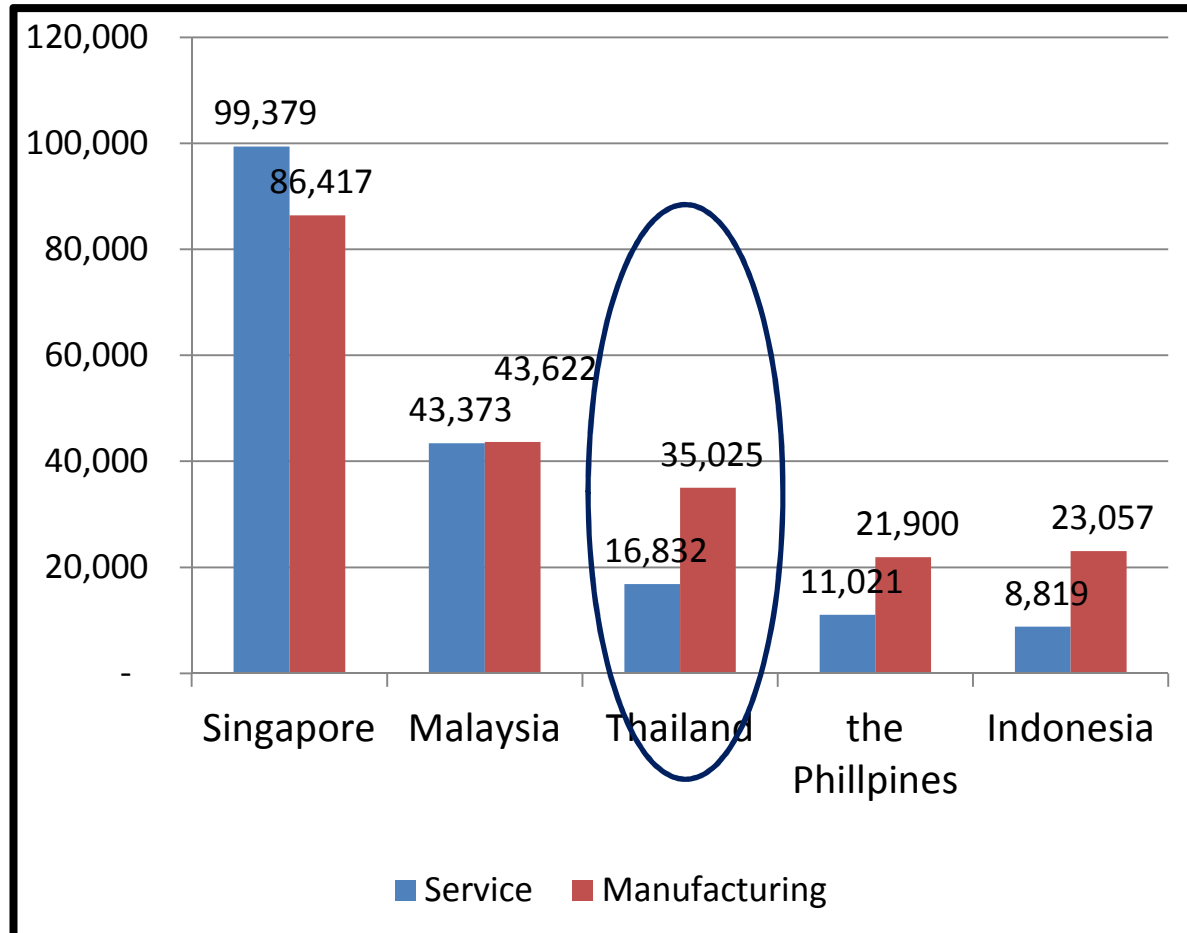




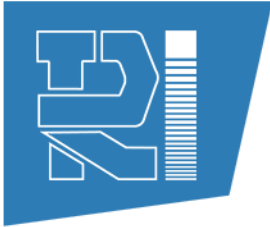
Labour productivity in manufacturing and services

(\$ per person per annum)

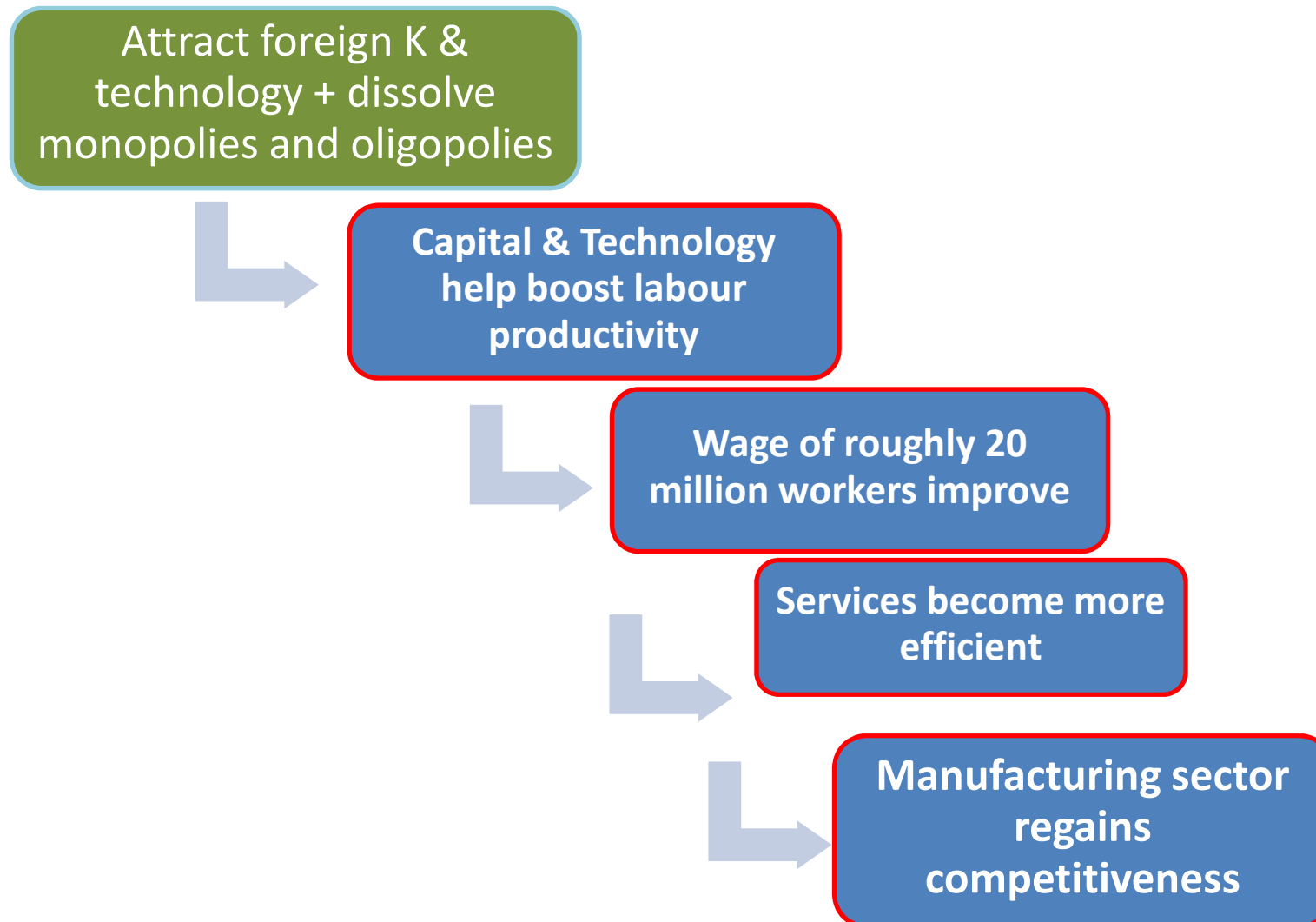
The Thai economic structure mimics that of relatively less developed countries

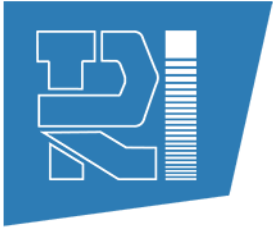


Source: IMD World Competitiveness Yearbook 2012



Service sector reform will help Thailand escape middle income trap ...





Thank you very much !!!

