Economic growth is expected to attain 3.1 percent in both 2016 and 3.2 percent in 2017 accelerating from 2.8 percent last year with private consumption and public investment as key drivers as consumer sentiment recovers, households deleverage and large public infrastructure projects are implemented. The Thai economy decelerated to 3.2 percent in 2016Q3 compared to 3.5 percent in Q2 as public spending, private investment and private consumption slowed. A firm recovery has yet to take hold amid a slowdown in domestic demand in 2016Q3. Major drivers of growth associated with economic recovery such as private consumption and private investment have yet to show a broad-based and sustained expansion. Public spending and private consumption are projected to underpin growth in 2017 with headwinds from more uncertain global economic prospects. Continued commitment to implementing structural reforms is critical to raising the long-term growth path.
Domestic demand weakened despite a boost in net exports in 2016Q3. The economy in 2016Q3 grew by 3.2 percent compared to 3.5 percent yoy in 2016Q2 due to exports as well as manufacturing and services. Public investment slowed while private investment contracted by 0.5 percent yoy in line with a fall in capacity utilization and weak business sentiment. Fiscal spending fell by 2.4 percent yoy in 2016Q2 while public construction slowed and highlights the risk of fiscal stimulus fading out in H2 2016 and Q1 2017 before a firm recovery takes hold. Private consumption growth slowed as expected due to the one-time rush to buy new passenger car models in the previous quarter. Indices of durable and semi-durable purchases remain low. However, the recovery in farm income in terms of both price and quantity supported private consumption expansion. The Consumer Confidence Index, particularly in the agricultural sector, showed initial signs of a recovery.

On the supply side, tourism receipts was a key driver while agriculture rebounded after recovering from a long and severe drought. Tourist arrivals increased by 13.1 percent, mostly from China, slowing somewhat from the surge observed in 2016Q1 amid the government clamp-down on zero-baht tours for Chinese tourists. Tourism receipts increased 17.1 percent. Hotels and restaurants grew by 15.9 percent, accelerating from the previous quarter. Agricultural production turned positive at 0.9 percent after seven quarters of contraction due to a severe drought. Manufacturing growth remained anemic at 0.9 percent due to weak domestic demand.

The positive trade balance continued to expand in 2016Q3 as exports of goods and service expanded and imports decreased slightly. Merchandise and service exports grew due to manufacturing products, fishery products and travel receipts due to tourism (3.4 percent). Exports benefited from expanded demand in Europe, US and CLMV. Imports showed recovery from the previous quarter as imports of raw materials expanded (1.3 percent). In Q3 2016, foreign direct investment and portfolio flows into Thai assets continued as Thai direct investment abroad expanded.

Fiscal spending continued to expand in support of economic growth. FY2016 saw total budget disbursement to an impressive 94.3 percent. However, the capital disbursement rate was 66.8 percent, well below the targeted 87 percent set by the Cabinet in September 2015. Nevertheless, actual disbursement was not unexpected given Thailand’s average historical disbursement rate of approximately 70 percent.

Thailand’s fundamentals remain strong. Inflation remained low at 0.89 percent in January and October 2016, edging up due to higher domestic petroleum prices and well as continued fresh food price rises. The policy rate has remained accommodative and on hold at 1.5 percent since April. The exchange rate showed less volatility compared to regional currencies while depreciating to 25.78 THB/USD mid-December 2016 in anticipation of faster pace of Fed rate hiking in line with other currencies as the US dollar strengthened, compared to 35.13 THB/USD end-June 2016. Foreign currency reserves remained high at US$174.1 billion on 9 December 2016 compared to US$180 billion end-July 2016. The current account posted a surplus due to improved exports and high tourism receipts while imports remained low and is estimated to be at 5.6 percent end-2016.

While poverty has declined over the last two decades, both poverty and inequality still pose significant challenges. As of 2013, 7.3 million Thais were still living in poverty (based on the current national poverty line, or about US$3.20 in 2011 PPP). Moreover, an additional 6.7 million were living within 20 percent above the national poverty line and remained vulnerable to falling back into poverty. Inequality has declined over the past three decades, but remains high compared with many countries in East Asia. Significant disparities in household income and consumption can be seen across and within regions of Thailand. Pockets of poverty remain concentrated in lagging regions such as the Northeast, North, and Deep South. Slowing growth, low commodity prices, and a severe drought in recent years would have likely adversely affect vulnerable groups such as the rural poor or the elderly and constrained further poverty reduction.

Real GDP growth is projected to be 3.1 percent in 2016 and 3.2 percent in 2017, accelerating from 2.8 percent in 2015. Consumption would continue to underpin growth, although modestly, as consumer confidence improves and households deleverage, whereas private and foreign direct investment are likely to stay low levels due to weak external demand and political uncertainty. The current account balance is expected to narrow as domestic demand and imports recover. Fiscal stimulus, a major driver of growth, is expected to slow in the remainder of 2016 and beginning of 2017 due to long-standing implementation challenges of large public infrastructure projects. The budget for FY2017 was enacted on October 1, 2016 at the amount of 2,733 trillion baht, increasing by 0.5 percent from FY2016 excluding the supplementary budget. Continued structural reforms and implementation of public infrastructure projects (dual track rail and rail upgrading) in 2017 would help crowd in private investment and contribute to a more positive outlook. Lastly, stronger-than-expected US growth will support a recovery in exports.

Some temporary slowdown in private spending in Q4 is expected as Thais undergo a period of mourning after the passing of His Majesty King Bhumibol Adulyadet in October. The mourning phase was set to last 30 days but many companies have postponed major events for 100 days until the end of January, resulting in postponement of some economic activity. However, holiday tax breaks on shopping and domestic tourism may offset some of the slowdown at the end of the year. Also, the government’s rice price support scheme, primarily through soft loans and equivalent to almost 0.7 percent of GDP will support farm income. Tourism is expected to decelerate, at least temporarily, from the government’s clamp-down on the illegal “zero-dollar” tours which involves mainly Chinese tourists – the largest group of any country. The Tourism Authority of Thailand estimates that the number Chinese visitors could fall to about 9.6 million from an estimated 10 million in 2016 as a result.

The first risk is a deterioration in global economic prospects, particularly the euro area which will weigh on Thai export recovery. The Brexit vote reflects a significant rise in economic, political, and institutional uncertainty, which is expected to adversely affect euro area growth, particularly advanced European economies. In addition, uncertainty about the incoming U.S. administration’s trade policy weighs on euro area sentiment, increasing the likelihood that accommodative monetary policy will continue to be pursued. Euro area weakness will also impact Japan where growth remains fragile. For Thailand, the euro area accounts for almost 10 percent of total exports and 12 percent of FDI. Nonetheless, Thai authorities have ample monetary and fiscal buffers while a flexible exchange rate serves as a buffer against external shocks.

A second risk is a rise in Thailand’s political uncertainty if ongoing political reforms become postponed or fail to satisfy broad segments of society. In such a scenario, political uncertainty could delay public spending, ongoing economic reforms and weigh on consumer and investor confidence. However, the passing of the draft constitution in the public referendum held in August 2016 and the recent accession of Crown Prince Maha Vajiralongkorn mitigate this risk.
CHAPTER 2

Services as a New Driver of Growth

The service sector can serve as a new driver of growth to help Thailand achieve high income and new job opportunities to serve both domestic and global markets. Services is becoming increasingly important to growth due to its complementarity with manufacturing, criticality in the global value chain and rising tradability given technological advances. However, in Thailand, services accounts for approximately half of output, utilizes a substantial 40 percent of the labor force and lags behind manufacturing productivity by 30 percent. Unlike many peers, Thailand’s service sector share has not grown, is dominated by lower-productivity industries employing lower-skilled workers and boasts a low share of services exports which tend to be in “traditional” sectors.

Thailand has on average a more restricted service market particularly in professional services such as accounting, legal, architecture, engineering, and management consulting compared to ASEAN peers and other regions in the world. Examples of successful services liberalization in ASEAN highlight how the combination of private sector initiative and government support can increase service output and exports (e.g. Singapore: financial services; Malaysia: higher education; Thailand: health services; Philippines: telecommunications-based services).

A supportive regulatory environment for doing business, reduced policy restrictiveness both at the border and behind the border, greater competition and deeper trade integration through for example implementation of AEC commitments will be critical for fostering productivity growth and innovation particularly in services. In addition, addressing skill gaps and ensuring quality education for all are also important for ensuring worker readiness.

Table. Thailand / Selected Economic and Social Indicators

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<tbody>
<tr>
<td>Real gross domestic product</td>
<td>0.8</td>
<td>7.3</td>
<td>2.8</td>
<td>0.9</td>
<td>2.8</td>
<td>3.1</td>
<td>3.2</td>
</tr>
<tr>
<td>Private consumption</td>
<td>1.8</td>
<td>6.3</td>
<td>0.8</td>
<td>0.6</td>
<td>2.1</td>
<td>2.3</td>
<td>2.4</td>
</tr>
<tr>
<td>Government consumption</td>
<td>3.4</td>
<td>7.5</td>
<td>4.7</td>
<td>1.7</td>
<td>2.2</td>
<td>3.6</td>
<td>3.2</td>
</tr>
<tr>
<td>Gross fixed capital investment</td>
<td>4.9</td>
<td>10.2</td>
<td>-0.8</td>
<td>-2.6</td>
<td>4.7</td>
<td>3.3</td>
<td>2.7</td>
</tr>
<tr>
<td>Exports, goods and services</td>
<td>9.2</td>
<td>5.1</td>
<td>2.6</td>
<td>0.1</td>
<td>0.2</td>
<td>0.4</td>
<td>1.0</td>
</tr>
<tr>
<td>Imports, goods and services</td>
<td>12.4</td>
<td>6.0</td>
<td>1.4</td>
<td>-3.3</td>
<td>-0.4</td>
<td>-0.5</td>
<td>-0.4</td>
</tr>
<tr>
<td>GDP at market prices</td>
<td>0.8</td>
<td>7.3</td>
<td>2.8</td>
<td>0.9</td>
<td>2.8</td>
<td>2.8</td>
<td>3.1</td>
</tr>
<tr>
<td>Agriculture</td>
<td>6.3</td>
<td>3.4</td>
<td>0.4</td>
<td>0.3</td>
<td>1.5</td>
<td>5.3</td>
<td>2.7</td>
</tr>
<tr>
<td>Industry</td>
<td>-4.1</td>
<td>7.4</td>
<td>1.3</td>
<td>-0.6</td>
<td>4.0</td>
<td>2.7</td>
<td>2.8</td>
</tr>
<tr>
<td>Services</td>
<td>5.4</td>
<td>8.0</td>
<td>4.8</td>
<td>2.4</td>
<td>1.9</td>
<td>2.5</td>
<td>3.4</td>
</tr>
<tr>
<td>Output gap</td>
<td>-1.3</td>
<td>2.5</td>
<td>2.1</td>
<td>0.1</td>
<td>0.2</td>
<td>-0.5</td>
<td>-0.4</td>
</tr>
<tr>
<td>Consumer price index, av.</td>
<td>3.8</td>
<td>3.0</td>
<td>2.2</td>
<td>1.9</td>
<td>-0.9</td>
<td>0.5</td>
<td>2.0</td>
</tr>
<tr>
<td>Current account balance, % of GDP</td>
<td>2.4</td>
<td>-0.4</td>
<td>-0.9</td>
<td>3.3</td>
<td>8.9</td>
<td>5.6</td>
<td>4.4</td>
</tr>
<tr>
<td>Fiscal balance, % of GDP</td>
<td>-0.6</td>
<td>-1.8</td>
<td>-0.2</td>
<td>-1.8</td>
<td>-2.1</td>
<td>-2.9</td>
<td>-2.1</td>
</tr>
<tr>
<td>Poverty rate (national poverty line)</td>
<td>13.22</td>
<td>12.64</td>
<td>10.9</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Poverty rate (US$3.10 a day, PPP terms)</td>
<td>1.17</td>
<td>1.23</td>
<td>0.92</td>
<td>0.89</td>
<td>0.75</td>
<td>0.64</td>
<td>0.54</td>
</tr>
</tbody>
</table>

Sources: Central Bank of Thailand and World Bank staff estimates. Historical fiscal balance based in IMF Article IV.
Note: Figures for 2015 are tentative, and may present variations respect to official estimates.
Data in annual percentage change, unless otherwise indicated. e = estimate, f = forecast.
Thailand's journey to upper middle-income has been accompanied by spectacular structural transformation. In the 1980s, Thailand embarked on a high growth path on the back of economic liberalization which promoted labor to reallocate from agriculture to more productive sectors—manufacturing and services. At the same time, Thailand transformed into an exporting powerhouse and benefited from foreign direct investment. The manufacturing sector's share of total output rose rapidly in the 1980s-1990s in hand with a rising share of exports and imports in total output. Manufacturing, as well as services, proved to be key growth drivers while agriculture stagnated. Growth averaged 9 percent in the boom years of 1986-96.

However, the Thai economy has lost its dynamism in the past decade and is approaching the limits of an old growth model based on exports, manufacturing and abundant labor. The past decade has seen a secular decline in economic growth from an average annual rate of more than 9 percent in the boom years of 1986-96 to less than 2 percent a year in the last two years. Structural change has stalled. Service sector still remains focused on “traditional services” such as tourism and has declined as a share of GDP unlike other emerging markets. The manufacturing sector has stopped growing and faces competition from China and other emerging markets. Comparing Thailand’s Global Competitiveness Score (compiled by the World Economic Forum) in 2006-07 and 2015-16 is telling. Ten years ago, Thailand looked strong and healthy on all the dimensions tracked by the World Economic Forum. It stood out relative to ASEAN, upper-middle-income countries, as well as its structural peers, and it even looked impressive relative to high-income countries. Today, however, Thailand no longer stands out—the pack of other countries has caught up with it on virtually all dimensions. Over the past decade, mega projects that could have relieved agriculture stagnated. Growth averaged 9 percent in the 1986-1997 boom years of 1986-96. However, the Thai economy has lost its dynamism in the past decade and is approaching the limits of an old growth model based on exports, manufacturing and abundant labor. The past decade has seen a secular decline in economic growth from an average annual rate of more than 9 percent in the boom years of 1986-96 to less than 2 percent a year in the last two years. Structural change has stalled. Service sector still remains focused on “traditional services” such as tourism and has declined as a share of GDP unlike other emerging markets. The manufacturing sector has stopped growing and faces competition from China and other emerging markets. Comparing Thailand’s Global Competitiveness Score (compiled by the World Economic Forum) in 2006-07 and 2015-16 is telling. Ten years ago, Thailand looked strong and healthy on all the dimensions tracked by the World Economic Forum. It stood out relative to ASEAN, upper-middle-income countries, as well as its structural peers, and it even looked impressive relative to high-income countries. Today, however, Thailand no longer stands out—the pack of other countries has caught up with it on virtually all dimensions. Over the past decade, mega projects that could have relieved infrastructure constraints and made Thailand the hub of ASEAN did not get off the ground. Thailand also did not seize its “head start” to invest in its institutions and in innovation to make its universities the envy of the region and its businesses world-class.

Going forward, potential growth is projected to remain low and, with aging population and sluggish private investment, to become increasingly dependent on productivity growth. The World Bank projects Thailand’s average growth to be approximately 3.2 percent in 2016-2018 which is below the potential growth typical of emerging markets that transition into advanced economies. As investment is unlikely to return to pre-1997 levels, productivity growth will become increasingly important for sustaining higher potential growth and attaining high income. The labor force is projected to shrink beginning in 2017 and by 2040, elderly people will account for more than one-quarter of Thailand’s total population, the highest share of elderly of any developing country in East Asia and the Pacific. In addition, new sources of productivity growth from innovation and within-industry must be fostered as productivity gains from structural transformation are diminishing. Firms, particularly SMEs, will need to shift from a cost based to a value or knowledge based competitive advantage.

The Thai government’s economic reform program seeks to harness new engines of growth such as technology, innovation and also encompasses many service industries. The ongoing reform program encompasses areas such as competitiveness (10 targeted industries include 5 S-curve innovative industries, SME promotion, ease of doing business, skills and education, special economic zones), tax (personal, property, inheritance tax, FDI and SME tax incentives), state-owned enterprises (state-owned enterprises and specialized financial institutions), infrastructure (rail, road, and air links; integrated water management) and digital economy (broadband access, e-payments for SMEs and online commerce, start-ups). The 10 industries targeted as Thailand’s new economic growth engines include next-generation cars, smart electronics, medical and wellness tourism, agriculture and biotechnology, food for the future, robotics for industry, logistics and aviation, biotech and biochemical, digital and medical sectors. It is both striking and propitious that many of these targeted industries are in services or if not depend on services as a crucial input. In addition, 81 percent of SMEs operate in the service sector, particularly retail and wholesale.

Analysis shows that Thailand has considerable potential to increase productivity in the future. Not only is Thai labor productivity lower than in other upper-middle-income countries, its dispersion is also higher. Comparative data for 2013 shows Thailand to be at the same level as ASEAN-5 average but considerably lower than Malaysia, Turkey and South Korea. The differences in labor productivity across the three sectors as well as across subsectors in manufacturing and services (Klyuev 2013, Dheera Arumpon, 2014) are higher than for many

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<tbody>
<tr>
<td>Cambodia</td>
<td>2.6 (34)</td>
<td>2.8 (42)</td>
<td>3.9 (41)</td>
<td>2.5 (34)</td>
</tr>
<tr>
<td>China</td>
<td>4.1 (43)</td>
<td>4.5 (45)</td>
<td>4.8 (45)</td>
<td>3.0 (37)</td>
</tr>
<tr>
<td>Lao PDR</td>
<td>1.5 (20)</td>
<td>2.3 (40)</td>
<td>0.6 (10)</td>
<td>2.0 (30)</td>
</tr>
<tr>
<td>Malaysia</td>
<td>1.6 (27)</td>
<td>2.3 (28)</td>
<td>2.3 (42)</td>
<td>1.7 (32)</td>
</tr>
<tr>
<td>Thailand</td>
<td>2.1 (40)</td>
<td>2.4 (31)</td>
<td>3.6 (69)</td>
<td>1.3 (43)</td>
</tr>
<tr>
<td>Vietnam</td>
<td>2.1 (31)</td>
<td>4.8 (53)</td>
<td>1.9 (10)</td>
<td>2.2 (38)</td>
</tr>
</tbody>
</table>

Note: *Observations for Cambodia, Lao PDR and Vietnam begin in 1992, 1991 and 1994, respectively. Asian and global financial crises years are omitted.

Source: WB staff estimates.
countries in the region, indicating significant potential for increasing aggregate productivity.

Services constitutes a major sector and accounts for approximately half of output but employs a substantial 40 percent of the labor force. Manufacturing, on the other hand, accounts for roughly 35 percent of output but utilizes almost 39 million strong labor force. Many services industries show low levels of healthy “churning” or creative destruction in which new productive firms enter, nonproductive firms exit and capital flows from less productive to more productive firms (Amarase et al, 2013). There are therefore still large productivity gains to be made from fostering continued structural change, raising services sector productivity. Increased productivity would also imply a larger service sector.

Thailand has not shown the sustained increase in the share of the service sector observed in peers and advanced economies, suggesting that it has yet to tap the full potential of services as an engine of growth. Advanced Economies have Prominent Service Sectors (Share of GDP)

### Table 2. Definitions of the Service Sector

<table>
<thead>
<tr>
<th>SERVICE SECTOR: NESDB CONCEPT</th>
<th>SCOPE OF SERVICES: GATS CONCEPT</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Electricity, gas, and water supply</td>
<td>Business services</td>
</tr>
<tr>
<td>2 Construction</td>
<td>Communication service</td>
</tr>
<tr>
<td>3 Wholesale and retail trade; repair of motor vehicles, motorcycles, and personal and household goods</td>
<td>Construction and related engineering services</td>
</tr>
<tr>
<td>4 Hotels and restaurants</td>
<td>Distribution services</td>
</tr>
<tr>
<td>5 Transport, storage and communications</td>
<td>Educational services</td>
</tr>
<tr>
<td>6 Financial intermediation</td>
<td>Environmental services</td>
</tr>
<tr>
<td>7 Real estate, renting and business activities</td>
<td>Financial services</td>
</tr>
<tr>
<td>8 Public administration and defense; compulsory social security</td>
<td>Health-related and social services</td>
</tr>
<tr>
<td>9 Education</td>
<td>Tourism and travel related services</td>
</tr>
<tr>
<td>10 Healthcare and social work</td>
<td>Recreational, cultural, and sporting services</td>
</tr>
<tr>
<td>11 Other community, social, and personal service activities</td>
<td>Transport services</td>
</tr>
<tr>
<td>12 Private households with employed persons</td>
<td>Other services not included elsewhere</td>
</tr>
</tbody>
</table>

Note: NESDB=National Economic and Social Development Board, GATS=General Agreement on Trade and Services.
facilities such as ports and telecommunications networks, can be seen as a “sin of omission” because without clear access, entry may not be feasible. Major sub-sectors covered include financial services (banking and insurance), telecommunications, retail, transportation and professional services (accounting, legal, architecture, engineering, and management consulting).

A bifurcated Thai economy reflects uneven liberalization in which many subsectors, particularly the service sector, are more protected from import and domestic competition. While Thailand has reaped the benefits of past liberalization in manufacturing, merchandise trade and imports of capital, liberalization failed to encompass the whole economy. Services, many state enterprises and domestically oriented industries remained relatively sheltered. The service sector is protected in two ways: (i) foreign entry/investment into many of the service sectors is restricted; and (ii) delivery of some services by foreign firms is also restricted. In terms of trade policy, average applied tariff rates have come down from around 40 percent in the 1980s to 9 percent in 2005-6, but the average may obscure high rates for certain products. In addition, the gap in productivity between small and large firms is significant. Small firms face high turnover rates and are concentrated in retail trade, a services industry. As a result, there exists two Thai economies: one in which large successful firms including multinationals that can invest and raise capital abroad while, in another, firms and SMEs in protected industries and services show poor performance.

Service sector reforms can increase productivity and support a new growth model based on higher productivity. Eichengreen and Gupta (2009) find that economies transitioning into high income experienced and benefited from two waves of services growth, first in low value-added and then in high value-added. Thailand, however, has yet to make the transition into a high value-added service economy. Improvement of service sector reforms can increase productivity and raise capital abroad while, in another, firms and SMEs in protected industries and services show poor performance.

The rise of global value chains (GVC) provides another opportunity for Thailand to reap the benefits of services growth in the context of globalization. Thailand and ASEAN have already gained significantly from participating in global value chains in manufacturing. Increasing competitiveness in services will provide these economies the scope to climb up the value chains in both upstream and downstream activities where services predominate. A major component of the trading tasks involved in the GVCs involve services, from the mundane such as cargo handling to the more skill-based ones such as financial advisory.

Efficiency-seeking investment is integral for integration with global value chains and exports. Thailand’s business environment will play an important role in driving the competitiveness of Thai SMEs that dominate the business sector. Compared to most middle-income countries, Thailand’s Ease of Doing Business is relatively good (46th in 2016). However, it has dropped from a ranking of 18 in 2013 indicating that Thailand’s competitors made more improvements to improve their business environment. The 2017 enterprise survey for Thailand shows that the top five business environment constraints include political stability, tax rates, transportation, labor regulations and electricity. Perception always varies by firm size as larger firms may have more options in managing obstacles but at the same time are more exposed to the failures of the business environment.

Successful services liberalization in ASEAN highlight the complementarity of private sector initiative and government support for success in services exports. For example, the strong trade performance of higher education in Malaysia, medical tourism in Thailand, and back-office processing in the Philippines have been based on private investment that were accompanied by enabling business and regulatory environment and an active role of the government in establishing and monitoring quality standards.

There is a series of opportunities for increasing competition in services. In telecommunications, for example, foreign-owned companies may only provide services on a resale basis. Education and health facilities must be held by nationals. Thailand could consider progressively lifting the restrictions of foreigners to perform professional services. Other measures could include lifting the minimum capital requirement of THB 100 million for foreign subsidiaries to operate in the retail sector, lifting the limits on foreign ownership in a “local bank”, and introducing clear and objective criteria for the granting of licenses to foreigners in automobile and life insurance.

Lack of adequate competitive pressures may be slowing or preventing intra-sector resource reallocation. Dynamism in firm entry when markets are open usually contributes to innovation, increases productivity, and crowds out inefficient firms. When firms with different levels of productivity survive and/or there is high dispersion of productivity across subsectors, within manufacturing or within services, competitive pressures are obviously not high. The regulatory and institutional framework that governs domestic market competition and market entry affect the ability of firms to reallocate resources to more productive uses, and the efficiency of their investments may depend on that ability.

According to the 2016 Doing Business report, Thailand ranked 46 out of 189 economies on ease of doing business. Businesses encounter barriers to their operations for many reasons: for example, due to cumbersome procedures for obtaining licenses or construction permits or due to lengthy, costly, and unreliable procedures involved in enforcing contracts or resolving commercial disputes. These can be seen as “generic” barriers to business operations, in addition to those mentioned above related to accessing credit, trading across borders, or entering a new market. Barriers to business operations usually result in a less-friendly environment, which may even encourage firms to move part of business operations to the informal economy. These barriers can inhibit access to credit, innovation, and productivity growth. It can thus be hypothesized that high barriers to business operations hamper productivity growth and discourage private investment.

Government can improve the business climate and intra-sectoral dynamism by implementing a series of regulatory reforms to improve the ease of doing business. Two important issues raised by the private sector include the time taken to secure construction permits (Thailand 103 days compared with 26 days in Singapore), enforcing contracts (Thailand 440 days compared with 150 days in Singapore). Thailand could benefit from reviewing and rationalizing multiple rules and regulations that have gradually built up. Currently the Government is considering a “Guillotine Approach” to deregulation whereby it is working with the private sector to eliminate 5,000 outdated rules and regulations that serve no purpose but to create inefficiencies, avenues for corruption, and bureaucratic red tape.

Deeper trade integration, implementation of AEC commitments and preparing for future FTAs will be critical for fostering competition and facilitating innovation and technology spillovers. New mega trade agreements such as the AEC or the new mega agreements currently being introduced in Asia (such as EU-FTAs, Trans Pacific Partnership, Regional Comprehensive Economic Partnership (RCEP), and the Free Trade Area of the Asia Pacific) come with deeper commitments and open up new opportunities. These

Figure 3. Services Trade Restrictiveness Indices by Industry for ASEAN

0 20 40 60 80 100

INO PHL THA LAO MYN VNM MMR KHM SEP

Financial Telecom Waste Kirin Transportation Professional

Comparison of the Services Trade Restrictiveness Indices by Industry for ASEAN

requirement of THB 100 million for foreign subsidiaries to operate in the retail sector, lifting the limits on foreign ownership in a "local bank," and introducing clear and objective criteria for the granting of licenses to foreigners in automobile and life insurance.

Lack of adequate competitive pressures may be slowing or preventing intra-sector resource reallocation. Dynamism in firm entry when markets are open usually contributes to innovation, increases productivity, and crowds out inefficient firms. When firms with different levels of productivity survive and/or there is high dispersion of productivity across subsectors, within manufacturing or within services, competitive pressures are obviously not high. The regulatory and institutional framework that governs domestic market competition and market entry affect the ability of firms to reallocate resources to more productive uses, and the efficiency of their investments may depend on that ability.

According to the 2016 Doing Business report, Thailand ranked 46 out of 189 economies on ease of doing business. Businesses encounter barriers to their operations for many reasons: for example, due to cumbersome procedures for obtaining licenses or construction permits or due to lengthy, costly, and unreliable procedures involved in enforcing contracts or resolving commercial disputes. These can be seen as "generic" barriers to business operations, in addition to those mentioned above related to accessing credit, trading across borders, or entering a new market. Barriers to business operations usually result in a less-friendly environment, which may even encourage firms to move part of business operations to the informal economy. These barriers can inhibit access to credit, innovation, and productivity growth. It can thus be hypothesized that high barriers to business operations hamper productivity growth and discourage private investment.

Government can improve the business climate and intra-sectoral dynamism by implementing a series of regulatory reforms to improve the ease of doing business. Two important issues raised by the private sector include the time taken to secure construction permits (Thailand 103 days compared with 26 days in Singapore), enforcing contracts (Thailand 440 days compared with 150 days in Singapore). Thailand could benefit from reviewing and rationalizing multiple rules and regulations that have gradually built up. Currently the Government is considering a “Guillotine Approach” to deregulation whereby it is working with the private sector to eliminate 5,000 outdated rules and regulations that serve no purpose but to create inefficiencies, avenues for corruption, and bureaucratic red tape.

Deeper trade integration, implementation of AEC commitments and preparing for future FTAs will be critical for fostering competition and facilitating innovation and technology spillovers. New mega trade agreements such as the AEC or the new mega agreements currently being introduced in Asia (such as EU-FTAs, Trans Pacific Partnership, Regional Comprehensive Economic Partnership (RCEP), and the Free Trade Area of the Asia Pacific) come with deeper commitments and open up new opportunities. These
Figure 2. Ease of Doing Business (score, 100=best) 

Deeper commitments include areas such as competition policy, government procurement, investment policies and investors’ protection, intellectual property rights, and labor and environmental standards. Thailand can also improve competitiveness by implementing Mutual Recognition Agreements agreed under the ASEAN Economic Community 2015 on free flow of skilled professionals.

Integration in services can be deepened considerably by implementing the commitments laid with the AEC framework on services. The regional economic integration of AEC, large potential market of 620 million people offers opportunities for using services and services trade to generate growth in productivity and income. While services contribute between 40 and 70 percent of the GNI of ASEAN, ASEAN’s trade in services represents only 5 percent of world trade in commercial services. Thailand is a signatory to AFAS commitment to liberalize services but has not resulted in significant additional liberalization on the ground. ASEAN has a roadmap to pursue implementation of service sector reforms.

Digital technologies could increase the productivity of service firms and create opportunities for reform in line with the digital economy plan. As services become more reliant on data and digital-intense, traditionally protected sectors like retail and wholesale trade, finance, transport, telecommunications, public utilities or professional services, can increase productivity more than other sectors by adopting digital technology. Technology changes the way service users interact with service providers and can enable professional services to be embedded in products and services on a commoditized basis.

Digital and analogue reforms need to go hand in hand. However, greater digital adoption will not be enough. To get the most out of the digital revolution, countries also need to work on the “analog complements” —by strengthening regulations that ensure competition among businesses, by adapting workers’ skills to the demands of the new economy, and by ensuring that institutions are accountable. International experience shows that higher product market regulation in services is associated with less ICT usage and lower firm growth (see World Development Report 2016: Digital Dividends).