

Framework for Discussion

February 20, 2003

Seiichi Masuyama
Nomura Research Institute

Issues Concerning the Development of Services in Asia

- Why service sector promotion in Asia?
- Engines and brakes for the development of services in Asia?
- What kinds of services?
 - Interrelationships with the manufacturing sector.
- Will the pattern of development change?
- Country differences.
- Policy implications.

Why Service Sector Promotion in Asia?

- A high-growth sector particularly in more advanced economies.
 - Strategic business services are a high-growth sector in a knowledge-based economy.
- A significant employment generation effect particularly for more advanced economies.
- An efficient service sector is necessary for a competitive economy, including the manufacturing sector.
- Strong pressure for liberalization of the service sector.
- But Asian economies are generally laggards in the transformation to a service economy.
- Key to more autonomous development based on consumption and innovation.
- To mitigate a hollowing out of the manufacturing sector as a result of its shift to China

Factors for the Development of Services in Asia

- Economic growth
 - Consumer demand for more service content in manufactured products.
 - Higher productivity growth in manufacturing
- Information technology
 - IT-enabled services
- Outsourcing of services
 - New manufacturing
 - Value chain management
 - Global outsourcing (GPN)
- Deregulation
- Innovation

Innovation in Services

- Areas of innovation
 - Product innovation
 - Process innovation
 - Organizational innovation
- Different nature of innovation in services
 - High ICT spending
 - Dependent on protection by copyright and trademark.
 - Different from R&D-dependent innovation in manufacturing
- Engines of innovation in services
 - MNCs
 - Competition as a result of deregulation and liberalization

What Kinds of Services?

- Goods-related services industries
 - *Distribution services:*
 - Wholesale, retail, transport, and storage
 - *Knowledge-based / business services:*
 - Communications services, finance and insurance services, property and business services
- Service industries
 - *In-person services:*
 - Accommodation, cafes and restaurants, education services, health and community services, cultural and recreational services, personal and other services
 - *Government and defense:*
 - Government administration and defense

(John Houghton, Nick Pappas, and Peter Sheehan 1999)

Impediments

- Regulations
- Taxation
- Lack of human resources
 - Language

Differences by Country

- Development stages
 - Logistics services as a growth sector in China
- Leverage effects of deregulation and liberalization
- Comparative advantages
 - Labor-intensity vs. knowledge-intensity
 - Size of domestic market

Country Differences

Sectoral Share of GDP at Current Market Prices, 1980, 1990, 2000
(Percent)

	Agriculture			Industry						Services		
				All Industry			Manufacturing only					
	1980	1990	2000	1980	1990	2000	1980	1990	2000	1980	1990	2000
China	30.1	27.0	15.9	48.5	41.6	50.9	44.2	37.0	44.3	21.4	31.3	33.2
Hong Kong	0.8	0.3	0.1	31.7	25.3	14.6	23.7	17.6	5.8	67.5	74.5	85.3
Indonesia	24.8	19.4	16.9	43.4	39.1	47.3	11.6	20.7	26.0	31.8	41.5	35.8
Korea	14.9	8.5	4.6	41.3	43.1	42.7	29.7	28.8	31.5	43.7	48.4	52.7
Malaysia	...	15.2	8.6	...	42.2	51.7	...	24.2	34.3	...	42.6	39.7
Philippines	25.1	21.9	15.9	38.8	34.5	31.1	25.7	24.8	22.6	36.1	43.6	52.9
Singapore	1.3	0.4	0.1	38.1	34.4	34.3	29.1	27.1	26.5	60.6	65.3	65.6
Taiwan	7.7	4.2	2.1	45.7	41.2	32.4	36.0	33.3	26.3	46.6	54.6	65.6
Thailand	23.2	12.5	9.1	28.7	37.2	41.7	21.5	27.2	33.4	48.1	50.3	49.2
Japan		3.0	2.0		41.0	36.0		28.0	24.0		56.0	62.0

Source: ADB, Asian Development Outlook 2001. World Bank, World Development Indicators 2001.

Policy Implications

- Regulatory reform
- Productivity improvement
 - ICT infrastructure
 - Organizational restructuring
- Innovation policies
- Human resource development
- Link with SME policies
- Role of FDI