Framework for Discussion

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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


(Percent)

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Policy Implications

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