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Assessment of Trade in Services

The following document has been received from the delegation of Thailand with the request that it be circulated to Members of the Council for Trade in Services.

This submission was prepared pursuant to Article XIX:3 which calls for an assessment of trade in services. It only aims to present some factual aspects of the state of services in the Thai economy as a contribution to the debate on assessment of trade in services under the Council for Trade in Services Special Session.

In no way does this paper prejudge positions of the Royal Thai Government on the negotiations on trade in services.

General statistical notes :

(1) Efforts were put to find data and/or statistics that are comparable to be used in this paper – particularly in Section II. Although this aim was not achieved perfectly, it is believed that the data presented in the attached study are adequate to convey salient points that each sub-sector purports to make. Most of the data used were obtained from the Bank of Thailand (BOT) - who also supplies statistics to the International Monetary Fund. Therefore, data from these two sources are in principle comparable. The BOT's methodology is along the same line of that employed by the World Bank, the IMF, and the ADB.

(2) Quite understandably, categorization of "service industries" differs among the numerous Thai authorities due to different purposes of the data collection. For example, the National Statistical Office scope of "services" is not the same as that defined by the BOT. But this should not create major data distortion in the relevant sections.

SERVICES AND THE THAI ECONOMY: A LOOK AT THE PAST, PRESENT AND SOME FUTURE

I. INTRODUCTION

1. The new round of services negotiations has been going on since 2000. During the period since the conclusion of the Uruguay Round in the late 1993 until now, so many developments in so many areas have taken place that have altered the state of play in international economic arena. Most member countries have experienced changes in their economies through economic, political and no less important, technological developments that have transformed the world from what it was ten years ago to what it is now.

2. Thailand is one of the countries that have seen drastic – sometimes even dramatic – developments in her economy. The Thai economy went from having eye-popping growth rates in the early 1990s to the jaw-dropping minus growth rates later in the decade. The economic and political landscapes in the country have markedly changed as a consequence of these roller coaster-like developments.

3. In preparation for the services negotiations, therefore, the Thai government felt it imperative to re-examine services liberalisation that the country has undertaken as well as conducting some preliminary assessment on the role of services in the economy. That is the main rationale underlying this study.

4. The paper is divided into 4 major sections. Part II examines statistical data relating to services to see where the Thai economy stands at this juncture. Part III provides the case study on retail trade liberalisation. Part IV is on the experiences on financial service liberalisation. Part V is the conclusion.

II. THE THAI ECONOMY

A. OVERVIEW

5. For over 700 hundred years, Thailand has been a trading nation that engaged actively in international trade. Early records showed that her international trade transactions began with the neighbouring countries including China and later expanded to other European nations such as Portugal, the Netherlands and Britain. Given her geographical factors and natural endowments, it is not surprising that to this day, Thailand remains an agrarian society. Even in modern time, agriculture plays a significant role in the Thai economy as well as acts as a binding force in rural areas.

6. The past few decades, however, have seen Thailand evolving into a more diversified economy. In the 1980, agriculture accounted for 23.2% of GDP while the industrial sector formed 28.7% with services filled up the rest, at 48.1%. In 2000, the respective percentages are 10.5%, 40.1% and 49.4%. (see Table 1)

7. Development efforts since the 1950's as spelt out in 8 successive National Economic and Social Development Plans coupled with better focused foreign direct investment (FDI) policies have transformed Thailand into a more manufacturing-based economy with lesser role for agriculture although agriculture remains the most important sector in terms of employment as about 60% of the country's total population are still engaged in agriculture.

Table 1 : Structure of the Thai Economy and Key Economic Ratios

	1980	1990	1999	2000
GDP (US$ billions)	32.8	85.3	122.1	121.9
Agriculture (% of GDP)	23.2	12.5	11.2	10.5
Industry (% of GDP) Manufacturing	28.7 21.5	37.2 27.2	39.3 31.1	40.1 31.9
Services (% of GDP)	48.1	50.3	49.5	49.4
Imports of goods and services (% of GDP)	30.4	41.7	45.8	58.1
Exports of goods and services / GDP	24.1	34.1	58.5	66.4
Gross domestic savings / GDP	22.9	33.8	32.6	30.6
Total debt / GDP	25.6	33.0	78.9	65.8

Source: The World Bank, World Development Indicators 2001

8. Between the 1980's to mid-1990, the Thai economy grew rapidly. Table 2 shows that growth rates during this period were rather impressive. A combination of various government policies combined with the country's natural setting in the hub of Southeast Asia as well as other economic and social factors propelled Thailand to be one of the "emerging economies" that the yens and the greenbacks - seeking higher returns than what they got in domestic markets – flew into.

Table 2: Thailand's Growth Rates of GDP and Major Sectors (Percentage)

	1980-90	1995	1996	1997	1998	1999	2000
GDP	7.6	9.3	5.9	-1.4	-10.8	4.2	4.4
Agriculture	3.9	3.6	3.8	-0.7	-3.1	2.6	-8.8
Industry	9.8	11.3	7.0	-1.9	-13.6	9.8	8.3
Services	7.3	9.0	5.3	-1.2	-10.0	-0.1	4.1

Source: The Asian Development Bank, Key Indicators 2001 (Table 12) Online edition
The World Bank, World Development Indicators 2001

9. From Table 2, it can be seen that most sectors grew at high rates except for agriculture which expanded at a less vigorous speed. Industry, in particular manufacturing, was the fastest growing sector in the Thai economy while services also developed at satisfactory rates as well. The positive trend continued until 1997 when the economy and its various key sectors took a sharp downturn because of the financial crisis. The economic conditions worsened greatly in 1998 with deep plunge in industrial and service sectors. The situation seemed to improve slightly in 1999 and 2000. At present (2002), the economic conditions are more or less stable but not yet completely out of the doldrums since the world economy is also going through a recession phase that have important repercussions on the Thai economy – being so dependent on exports.

B. SERVICES IN THE THAI ECONOMY

10. Services have always been an important component of the Thai economy. As can be seen from Table 1 above, share of services in GDP of Thailand has constantly been around 50% since 1980 until today.

11. Table 3 provides more details on service sectors in Thailand. The major sectors are trade (wholesale/retail), transportation and communication, energy supply (electricity, gas and water), banking/insurance/real estate, construction and other services. In the overall picture, the trade

sector is the second most important component of the Thai GDP – only manufacturing generates more value-added. [1]

Table 3: Shares of Some Service Sectors as Percentage of GDP (at constant 1988 price)

	1993	1994	1995	1996	1997	1998	1999	2000
Wholesale and Retail Trade	16.53	16.59	16.65	15.97	15.61	14.98	14.77	14.64
Transportation and Communication	7.75	7.92	8.13	8.58	9.11	9.25	9.40	9.68
Electricity, Gas and Water Supply	2.53	2.57	2.69	2.63	2.82	3.13	3.09	3.25
Banking, Insurance and Real Estate	7.41	7.82	7.61	7.44	6.66	5.19	3.34	3.02
Construction	6.10	6.39	6.24	6.31	4.76	3.28	2.93	2.54
Other Services	10.50	10.06	9.87	9.99	10.34	11.52	11.65	11.72
Education	2.37	2.22	2.24	2.20	2.38	2.93	2.82	2.78
Medical and health	1.09	1.04	1.05	1.05	1.15	1.36	1.38	1.38
Recreation and Entertainment	0.68	0.74	0.80	1.03	1.09	1.21	1.31	1.35
Hotels	0.82	0.80	0.80	0.81	0.84	1.01	1.09	1.17
Restaurants	3.18	2.97	2.79	2.69	2.60	2.64	2.62	2.61
Business Services	0.58	0.56	0.53	0.53	0.53	0.50	0.49	0.48
Others	1.78	1.72	1.67	1.68	1.76	1.86	1.93	1.94
% of GDP	**50.81**	**51.35**	**51.19**	**50.91**	**49.30**	**47.35**	**45.18**	**44.84**

Source : National Economic and Social Development Board and the Bank of Thailand

C. SERVICES EMPLOYMENT IN THE THAI ECONOMY

12. On employment front, about 40% of the country's employed persons are engaged in key service sectors: construction, energy-related services, trade, transport and communication and other services. [2]

13. Table 4 shows that the trade sector employs the highest number of people among these service sectors, accounting for about 16% of total employment in the economy. It is followed by other services group (including education, health-related, travel-related, etc.) which employs roughly the same number of workforce – at 15%. Construction is the next most significant employing sector with transport and communications sector the next one.

[1] While the estimated share of services in GDP in Table 1 and Table 3 are not much different - both point to the fact that services account for roughly half of GDP, - the actual percentage shown may differ due to different definition of "services". For example, the data in Table 3 do not include "Mining and Quarrying" and "Ownership of Dwellings" which could be considered a part of service industries.

[2] This percentage is derived from the Labour Force Surveys conducted by the National Statistical Office and does not reflect the actual number of workforce since it does not include unemployed people.

Table 4: Number of Employed Persons by Industry for Whole Kingdom (2000)

Sectors	% of Total Employed Persons in 2000
Construction	4.79%
Energy-related services	0.53%
Trade	15.62%
Transport & Communications	3.08%
Other services	15.37%
Total employment in these sectors	**39.39%**

Source : National Statistical Office

D. FOREIGN DIRECT INVESTMENT AND THE THAI ECONOMY

14. Foreign Direct Investment (FDI) plays a very important role in the Thai economy as it does in many other countries. Up until the late 1980's, FDI inflows were moderate and grew at steady pace. But from 1988 onwards, the **net** flows of FDI suddenly jumped up – from US$ 354 millions in 1987 to US$ 1.1 billion in 1988. Since then, it grew by leaps and bounds, reaching the highest level in 1998 at more than US$ 5 billions.[3] Interestingly, that was the year after the financial crisis struck Thailand in late 1997. The large increase in FDI in 1998 was attributable to foreign investments that came in to buy various assets - mostly financial institutions – that were put up on sales following the crisis.

15. Table 5 shows cumulative level of FDI in each sector between 1970-2000. The industrial sector (principally manufacturing) has been the main recipient of FDI, followed by trade (wholesale and retail) and real estate. Since the data shown do not include investment in banking sector, it left out one important sector where foreign presence is much visible especially after 1997.

Table 5: Net Flows of Foreign Direct Investment Classified by Sector (1970-2000)

Sectors	Cumulative total (%)
Industry	42.6
Financial institutions	6.3
Mining and quarrying	3.2
Agriculture	0.4
Trade	19.8
Construction	5.3
Services (other than those appeared in the table)	6.5
Investment and holding companies	2.7
Real estate	11.6
Others	1.7
Total	100.0

Source : The Board of Investment (from the Bank of Thailand database)

Note : (1) The figures cover investment in non-bank sector only
(2) From November 2000 onwards, data on direct investment through non-resident baht account are more complete due to the change in the foreign transaction reporting form.

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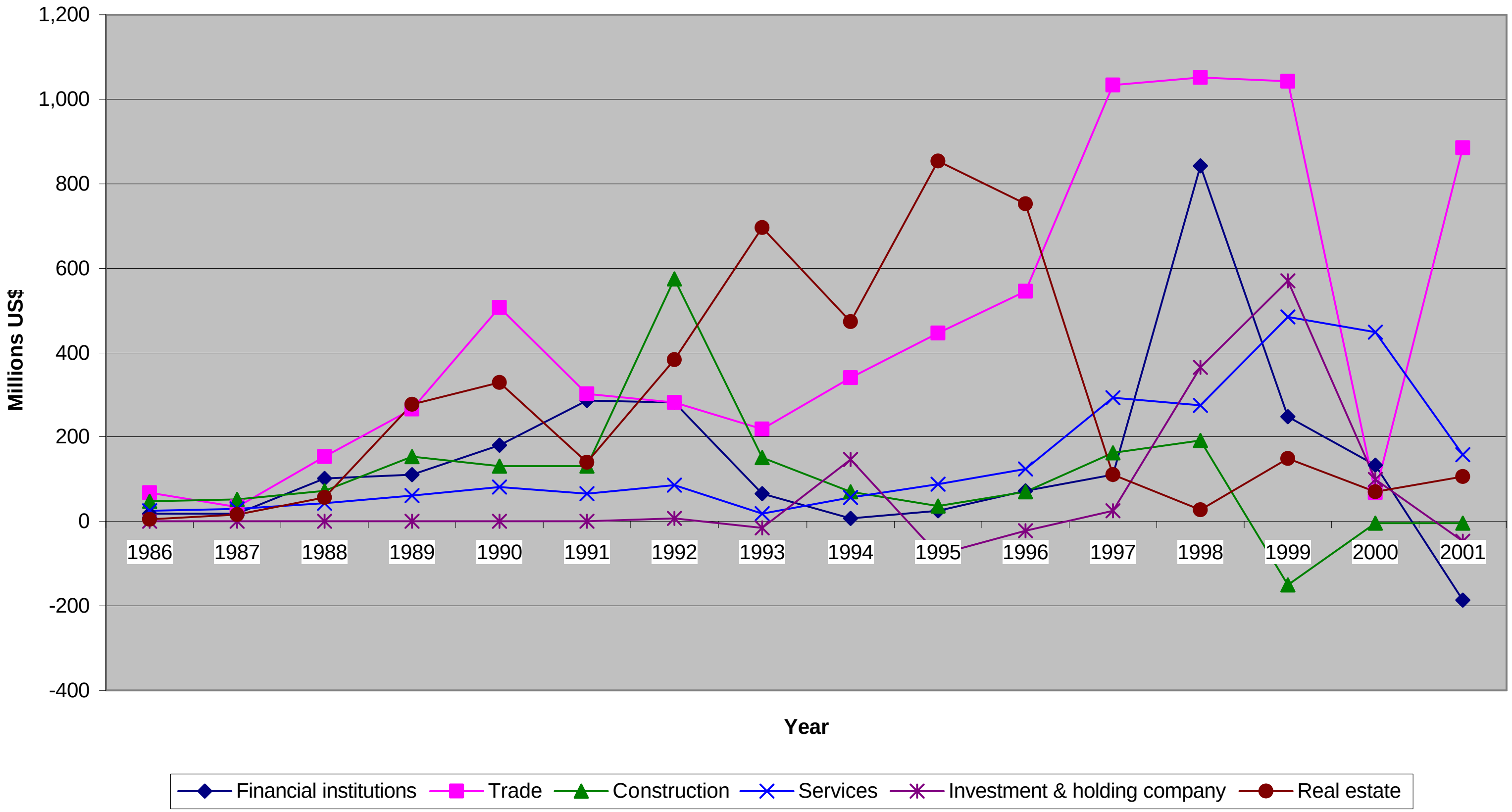
[3] Data compiled by the World Bank for the same period would show much higher level of FDI – possibly because those data are GROSS FDI as opposed to NET inflows as shown here.

Chart 1 : Net Flows of FDI in Some Service Sectors 1986-2001



Source : The Board of Investment (from the Bank of Thailand database)

E. FDI IN SERVICE SECTORS

16. Chart 1 shows level of FDI in some selected service sectors between 1986-2001. FDI in the trade sector has been the most dramatic – particularly between 1997-99 where it peaked and then took a deep dive in 2000. Investment in financial institutions has seen less volatile trend although a surge could be seen in 1998 when foreign capitals came in for equity acquisitions purpose. The construction sector experienced one "boom" time in 1992 – in line with the real estate bubble that engulfed many countries during that period. But after 1998, it has registered negative- or no-growth rate as capital left this sector and it has never fully recovered since. "Other services" group received considerable amount of FDI after 1998.

F. THAI SERVICES EXPORTS AND IMPORTS (FROM THE BOP STATISTICS)

17. While the data on FDI can be seen as Thailand's exposure to "mode 3" liberalisation, it should be also interesting to take a look at some data on balance of payments to have rough estimates of cross-border service transactions.

18. From the global perspective, Thailand is not a major player in international trade in services. According to the latest WTO statistics on services,[4] Thailand ranked 27th in world services exports and 26th in world services imports in the year 2001.

Table 6: Thailand's Exports and Imports of Commercial Services (Million dollars)

	1990	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**
Exports	6,292	7,132	9,162	10,877	11,425	14,652	16,704	15,619	13,074	14,542	12,839
% change		11.78%	22.16%	15.77%	4.80%	22.02%	12.28%	-6.95%	-19.47%	10.09%	-13.26%
Imports	6,160	7,854	10,254	12,307	15,231	18,601	19,313	17,144	11,874	13,464	14,713
% change		21.57%	23.41%	16.68%	19.20%	18.12%	3.69%	-12.65%	-44.38%	11.81%	8.49%
Balances	***132***	***-722***	***-1,092***	***-1,430***	***-3,806***	***-3,949***	***-2,609***	***-1,525***	***1,200***	***1,078***	***-1,874***

Source : WTO International Trade Statistics 2000 and 2001

19. As can be seen from Table 6 and Chart 2, Thailand has been registering deficits in services trade but for a few years. That could be attributed to the financial crisis that, for example, made the Thai people less keen to travel abroad and hence reduced tourist and travel-related payments.

20. Table 7 illustrates the key components of Thai services exports and imports. Travel services are the most important income source as well as being the sectors that channelled out the Thai people's money most. But on the balance, Thailand has net gains in travel-related services. On the other hand, "other services" group is the most important contribution to the Thai service deficits. Transportation can be easily seen as another important sector – both on the export and the import sides. Especially noticeable is its growing importance on both accounts during the period shown (1993-2001) – from 18% to 24% on the export part and from 13% to 18% on the import part.

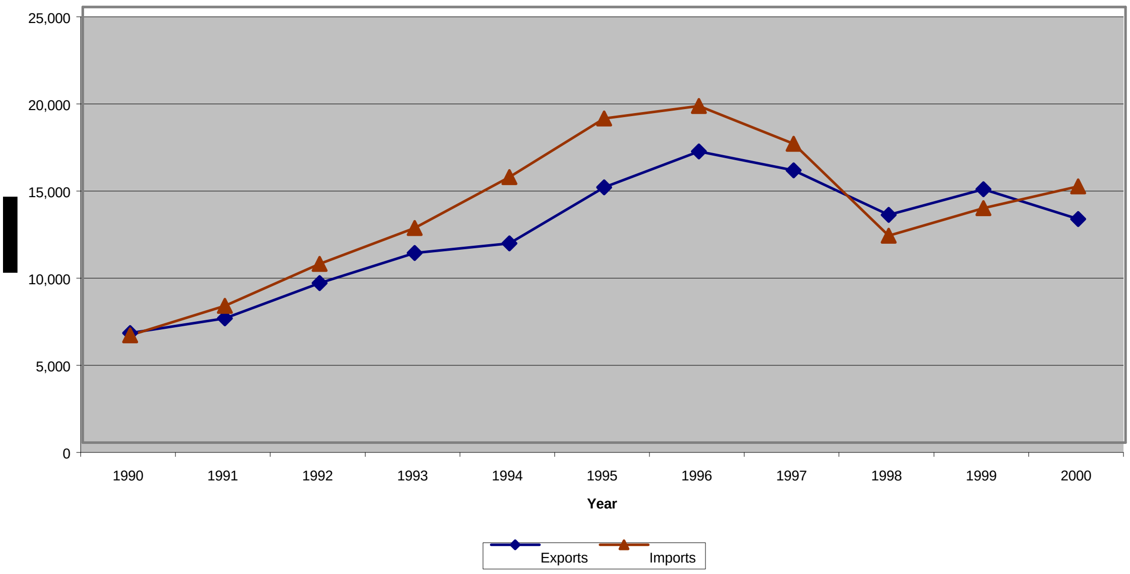
[4] WTO Annual Report 2002

Table 7: Shares of Some Service Sectors in Exports and Imports (BOP) (% of the total value of these sectors combined)

	Services Receipts (Exports)		Services Payments (Imports)	
	1993	**2001**	**1993**	**2001**
Transportation	18.05%	23.67%	13.36%	18.12%
Travel	51.85%	54.76%	40.57%	38.49%
Communication services	1.83%	0.84%	1.80%	1.92%
Construction services	0.07%	2.28%	2.31%	1.46%
Insurance services *	0.38%	0.67%	2.16%	2.61%
Others	27.82%	17.77%	39.80% **	37.40% **

Source : Bank of Thailand
Note : * Insurance services include insurance in goods
** Service payments in other services include compensation of employees

Chart 2 : Thai Services Exports and Imports (1990-2000) (BOP)



Source : WTO, International Trade Statistics

G. CONCLUSIONS : THE TELL-TALE DATA

21. The above data have clearly shown that services are an important part of the Thai economy. They are a key contributor to GDP and a major employer of the Thai workforce. A large proportion of foreign direct investments that have flown into Thailand went to service sectors – mainly finance and trade sector (particularly retail trade).

22. As for international trade in services, although Thailand has always been among the top-30 service exporters and importers, she has never really been a major player - accounting for only 0.9% of world service exports and 1.1% of world service imports in 2001. Moreover, throughout the past decades, Thailand has had continuous deficits in trade in services except for a few years – due to the special circumstances of that period.

23. Looking from a sectoral perspective, trade sector is the most important service sector on the domestic front – not only because of its contribution to GDP but also because of the employment it generates. On the international transactions front, travel-related services are the key sectors.

24. All the above information also point to the fact that the financial crisis of 1997 had profound impacts on the economy. It led to surge of investment in some sectors; it even brought Thailand to have services trade surpluses! There are many other developments following the crisis that are worth exploring. That is why the next sections will provide more detailed studies on two major sectors – the trade and financial sectors – that have experienced liberalisation earlier in the 1990s and then were greatly affected by the financial crisis.

III. CASE STUDY 1: RETAIL TRADE LIBERALISATION

A. OVERVIEW

25. As pointed out above, trade sector – comprising wholesale and retail trade – is the second most important sector of the Thai economy. It accounted for about 16% of GDP in 2001, second only to manufacturing activities. On the employment front, around 15% of the total workforce are engaged in the trade sector, roughly the same share of those in manufacturing.

Table 8 Total Retail Sales (in real-term; at constant price)

	1998	**1999**	**2000**	**2001**
Value (million US$)	12.76	16.62	20.17	22.23
Growth (%)	-36.1%	30.2%	21.4%	10.2%

Source : Bank of Thailand

Note : Values include only sales of large- and medium-sized retailers; sales of small/traditional retailers are not included

26. Table 8 shows estimated sales (ie., size) of the retail sector. But since the numbers do not include small retailers due to difficulties in collecting data on this vast and dispersed group of retailers, it does not present the total size of retail trade in Thailand. Nevertheless, Table 8 does show that retail sales have been growing healthily during the past few years, reflecting a growing market.

B. STRUCTURE OF THE RETAIL SERVICE IN THAILAND

27. Like many countries, retail service in Thailand is composed of two large groups of retailers – the "traditional" and "modern" ones. The first group is what is normally called "corner shops" or "mom-and-pop shops." Most of them are small shops that can be found in small communities, requiring little investment to establish. They are usually managed through basic managerial and marketing plans such as simple inventory system, little marketing efforts and small budget. The majority of their customers are those that live nearby in the area.

28. On the other hand, the so-called "modern retailers" are well-managed, employing various marketing techniques, having low inventory level and often look similar in their store outlays because of their systematic and orderly shelf space allocation. This modern retailer group can be sub-divided into a number of categories. Those categories that operate in Thailand are shown in Table 9.

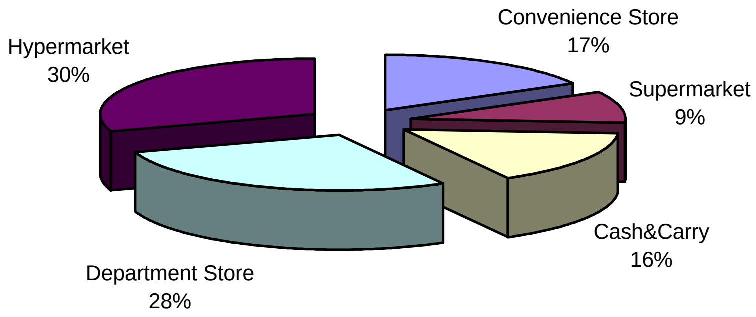
29. Table 9 also shows that modern retailers are mostly foreign retailer groups such as Carrefour, Tesco, SHV Holdings and Royal Ahold. The sectors where foreign retailers are major players are hypermarket, supermarket and Cash&Carry. Together, these three groups have 55% share of the modern retail markets in Thailand (see Chart 3).

Table 9: The Modern Retailers

Type	Some Characteristics	Major Retailes in Thailand (Major Shareholders)	No./Branches (in 2000)
Hyper-market	Discount stores; often occupy large space; usually sell "mass" consumer products that are mostly of medium quality; emphasise sales of food products – around 60%; usually have distribution centers to keep inventory efficient	- Tesco Lotus (UK) - Carrefour (France) - Big C (Casino Group from France)	24 11 20
Supermarket	Retailers that focus on consumer and food products; often sell fresh food products similar to those found in old-fashioned wet markets; inventory is often short – fast turnover to keep the products fresh; most are located in shopping centers to allow for total "one-stop-shopping"	- Topps (Royal Ahold from the Netherlands) - Foodland (Thailand)	41 7
Convenience stores (Minimart)	Small retailers that combine grocery stores with supermarket function in a small area; usually sell consumer products and some fast-food; emphasise convenience and therefore usually open 24 hours; target customers are those in the surrounding areas; location is a very important factor; most stores are under franchise system	- 7-11 (US franchise/Thailand) - AM-PM (franchise/Thailand) - Family Mart (Thailand)	1,500 250 36
Cash-and-Carry	Discount stores that focus on selling to smaller retail shops and individual consumers that like to buy in large quantity to save money; often offer medium quality products that are mostly non-food; customers usually are self-serviced; also have distribution centers	- Makro (the Netherlands)	18
Specialty Stores	Retailers that sell only limited range of products such as cosmetics, medical products or sport goods; mostly in higher price range	- Boots (UK) - Watson's (Thailand/HKC) - Marks and Spencer (Thailand/UK)	43 63 8
Category Killer	Similar to Specialty stores but mostly sell cheaper products; usually do not carry large inventory so customers may have to leave order and pick up the goods later	- Power Buy (Thailand) - Super Sports (Thailand) - Office Depot (??/Thailand)	32 35 2
Department Stores	One-stop shopping; sell high quality and mid-priced to expensive products; emphasise high quality service to consumers; sales areas are divided into different departments, etc.	- Central (Thailand) - Robinson (Thailand) - The Mall (Thailand) - Siam Jusco (Japan) - Pata (Thailand) - Tang Hua Seng (Thailand)	14 19 7 10 2 2

Source : Summarised from a study undertaken by the Bank of Thailand staff

Chart 3 : Modern Retail Trade in Thailand (2000)



Source: Merrill Lynch Phatra – as quoted in a study by the Bank of Thailand
Note : This chart does not include Category Killer and Specialty Stores

C. LIBERALISATION OF RETAIL TRADE IN THAILAND

30. Retail trade in Thailand has gradually been liberalized since the late 1980's. As a major part of the trade sector, liberalisation of retail trade/service took place within the broader policy framework of the government in welcoming FDI.

31. Foreign investment in the trade sector had been growing steadily since the late 1980s, bringing with it greater foreign participation in the retail trade sector in particular. Statistics on FDI in the previous section have shown that the trade sector was a key sector that FDI had poured into during the past decades. According to the Board of Investment and the Bank of Thailand, 19.8% of FDI that have been invested in Thailand between 1970-2001 went to the trade sector. Only electrical machinery and appliances have received more FDI - at 29%. (see Table 5)

32. As the Thai economy was booming and hence growing affluence of the people, foreign retailers found the Thai market quite attractive. The era of high economic growths gradually changed lifestyle of the Thai people. They began to spend more free time strolling in department stores, do their shopping in malls or shopping complex and prefer to buy their foodstuffs and consumer products in modern supermarkets rather than from the old-fashioned wet markets and neighbourhood shops. Opportunities for modern retailing were indeed substantial.

33. The government believed that liberalisation in retail trade would benefit consumers greatly and most directly through lower prices and more choices. In addition, as a part of distribution services, retail trade was an important infrastructural service that would create forward and backward linkages throughout the economy, generating more efficiency in the system and help reduce cost of

production in many manufacturing activities. With these potential benefits in mind, the government let retail trade to operate in a relatively unregulated environment so its growth would not be disrupted.

34. It was not until 1997 that investment level in retail service in particular shot up so remarkably following the financial crisis. The principal reason was that many Thai entrepreneurs were faced with financial difficulties and high foreign debts and therefore some were forced to sell their enterprises or had to find new partners. Now more foreign retailers than before flocked to Thailand. Those that came to establish themselves during this period found their businesses became successful within a short period. As shown in Table 9, most of these modern retailers are European. Some of these foreign retailers that emphasize selling cheaper products such as hypermarkets and cash-and-carry proved to be very popular with the suddenly-less-affluent Thai population. The bigger-and-better supermarkets were also big hits as they gave consumers vastly more choices. According to the AC Nielsen (Thailand) Retail Index, sales of these two groups of retailers have been growing at the rate of 15% every year since 1999.

35. Convenience stores that sprang up at every corner were another fast-growing segment in retail trade. The same AC Nielsen Index shows that sales of convenience stores have been expanding at around 28% since 1999 (though recently it has slowed down). This segment is dominated by two Thai majority-owned companies which operate under franchises from the US chains.

D. THE "GAINS" AND THE "PAINS"

36. The benefits accrued to consumers following the successive liberalisation steps in retail trade are undeniable. Indeed, it is recognized among the Thai people – especially those in Bangkok and major rural cities – that greater foreign presence in retail service has made their lives easier. They are able to buy cheaper products, can choose from more varieties. The efficient distribution networks and better inventory control mean that customers are often guaranteed of product availability.

37. In addition to all these, there are benefits beyond the general consumers. FDI that came into the retail sector was considerably high, generating more employment in the economy. The new inventory system and its technology, modern managerial and marketing techniques and even the shelf space allocation and presentation/design have become important know-hows for the Thai entrepreneurs. Lastly, local producers of some domestic products have been able to export their products to other countries through these multinational giant retailers.

38. However, there are also some unforeseen developments that have led to acute political outcry against retail service liberalisation in Thailand.

(i) Impacts on traditional retailers

39. The consequences from furious expansion of the modern retailers on the small traditional retail shops are no less visible that the benefits for consumers. This is the major contentious issue in retail liberalisation in Thailand and a very hot potato for the current administration.

40. Convenience stores are one of the two main groups that have encroached upon the traditional retail shops. The 7-11 chain's fast expansion has significant and direct impact on the traditional retailers since their target customers are the same. But sales of mom-and-pop shops, particularly those in metropolitan areas, are also markedly reduced by the emergence of hypermarkets and cash-and-carry. Bangkok consumers flocked to these outlets to purchase their goods in bulk at discounted prices. Even small retail shop owners frequent these stores as well, bypassing their traditional middlemen.

Table 10: Estimated Market Share in Retail Trade

	1997	**2001**
Traditional	74%	60%
Modern	26%	40%

Source : AC Nielsen (Thailand) from surveys conducted periodically

41. The result was the closing down of many small traditional shops, running to several thousands a year. Table 10 shows changes in market shares of the two main groups of retailers in 1997 and 2001. In 1997, the traditional retail shops had share of around 74% while the modern retailers held about 26%. Four years later, share of the traditional retailers dropped to 60%. The decline still continues in 2002. The problem is further aggravated by the fact that consumers have been spending considerably less after the financial crisis which means that the total size of retail industry is shrinking at the same time.

42. As shown in Table 9, the majority of the modern retailers are mostly foreign companies. Even the 7-11 chain which is 51% owned by a Thai company is perceived as a foreign entity because of its name. Many owners of the small, traditional retail shops together petitioned the government for action to halt the expansion of all the modern retail outlets. They received rather broad-based support from the public which in recent years have become quite alarmed by rapid establishments of foreign interests in the Thai economy (in many sectors, not only retail). This has led to government consideration to regulate the retail sector tighter than before.

(ii) Fears of monopoly

43. On the government part, the increasing trend that the retail service is developing into an oligopolistic structure where a handful of players can dictate prices have led to two concerns. One is on possible price collusion. This is because the market shares that some modern retailers such as hypermarkets and discount stores command are quite considerable. The Ministry of Commerce is currently examining this problem and is devising measures to prevent price-fixing practices on some consumer products. Another issue is the control on distribution networks. Although so far the larger modern retailers have not shown any inclination to exploit their advantages on distribution channels, still there is certain caution especially if the country is hit by some natural disasters.

(iii) Impacts on traditional wholesalers and middlemen

44. Another change that has occurred in the Thai economy as a result of retail trade liberalisation is the decreasing role of traditional wholesalers and middlemen. Given the present economic climate, even small retail shops have to save costs by purchasing their products from the discounted stores to resale in their shops. In a sense, these big retail outlets have assumed the role of wholesalers and middlemen as well. This has eroded not only revenues of traditional wholesalers and middlemen but also their bargaining powers as their distribution networks are bypassed.

45. In addition to all these issues, there are other minor ones such as traffic congestion and the acute air pollution that accompanies such congestion that builds up around the areas where large retail stores appear. Apparently, this has made their neighbours very unhappy.

E. CONCLUSION : WHERE TO NEXT ON RETAIL?

46. Despite all these problems and the public negative sentiment against foreign presence in the retail sector, it is not likely that the government would opt for a complete halt of liberalisation in the sector to alleviate the problems. This is because benefits that have trickled down to consumers are considerable and also because the government wants to prevent retail trade from becoming an

oligopoly. It is more likely that the government will seek to promote greater but fair competition. There are other considerations as well such as the retail sector's role on employment and its contribution to the country's GDP and growth.

47. However, since so far liberalisation in the retail service has taken place within a moderately free-wheeling environment that resulted in some uncalled for consequences, the government felt it imperative to introduce appropriate regulations in order to prevent further ramifications especially on the small, traditional retailers. At present, the Thai government is studying regulations and/or measures on retail trade/services that are employed by many countries including Japan, France, Taiwan, the Netherlands, Spain and Austria. So far, measures under consideration would tentatively be applied on a non-discriminatory basis.

48. At the same time, various measures to increase competitiveness of the domestic small retailers such as training on modern managerial skills and marketing techniques, building community networks among the small retailers for joint purchase and transport, etc. are being implemented. It is hoped that this group will be better prepared in the future in the face of more competition and further liberalisation.

49. The final word is on regulation and liberalisation. At least for Thailand, the experiences that occurred in the retail trade have given rise to serious thoughts on having appropriate and sound regulatory framework set before liberalisation is unleashed in a fast and uncontrolled manner. Since that may be hard to come by in realistic term, it is felt that liberalisation, while desirable, should take place at a pace commensurate to the economic (and perhaps, social) readiness of a country. This is completely congruent with the principles of progressive liberalisation and the right to regulate – the two cornerstones of the GATS.

IV. CASE STUDY 2: FINANCIAL SERVICES IN THAILAND

A. OVERVIEW

50. Financial sector is a very important sector of any economy. It is one of the key infrastructural services that act as arteries that keep the economy alive and well. For the Thai economy, financial services are an important component of GDP, although its share in total GDP has declined significantly and noticeably after 1997. As shown in Table 3, share of banking, insurance and real estate combined was 7.41% in 1993. By 2000, it has decreased to 3.02%. On the investment front, the accumulative FDI inflows between 1970-2000 on financial institutions, real estate, investment and holding companies and other services amounted to 27.1% (from Table 5). This figure does not include investment in the banking sector.

B. STRUCTURE OF THE FINANCIAL SECTOR IN THAILAND: THE PRE-CRISIS ERA

51. According to the IMF, as of December 1996, the financial system in Thailand consisted of 15 domestic commercial banks, 14 branches of foreign banks, 19 foreign banks established under the Bangkok International Banking Facilities, 91 finance and securities companies, 7 specialised state-owned banks, some 4,000 savings and agricultural cooperatives, 15 insurance companies, approximately 880 private provident funds, and 8 mutual fund management companies. Total assets of the whole system in June 1997 was around US$ 163 billion, or 190% of GDP, of which the commercial banks alone accounted for 64%, finance companies 20% and specialized state banks 10%. One large commercial bank and two finance companies were majority state-owned. [5]

[5] Lindgren, et.al. (1999), page 93 (An IMF publication)

C. LIBERALISATION OF THE FINANCIAL SECTOR

52. Liberalisation of financial sector in Thailand began in early 1990s. The primary aim was to integrate Thailand further into the international economic and financial system through liberal financial regime. It was believed that greater financial liberalisation would usher in more investment, making Thailand more attractive as investment and financial haven. Further, increased efficiency in the economic system was another objective as it was thought that more liberal financial regime would make Thailand more efficient in domestic production and thus increase exports competitiveness.

53. The Thai government set out to achieve those objectives by adopting the "big bang" approach that was in vogue in the 1980s and 1990s following advocacy by the financial liberalisation school. One of the first measures towards attaining those goals was the adoption of the IMF's Article 8 in the early 1990s – an obligation with which came commitments to maintain fairly liberal financial regime particularly on capital flows. That was followed by successive liberalisation in three areas: liberalisation of interest rates, relaxation on control of financial institutions and deregulation of movements of capital. Measures introduced included relaxation of commercial banks' asset management and liberalisation of foreign exchange transactions. Other measures that aim to complement general FDI promotion efforts such as easier transfer of funds and less control on business remittances were also implemented.

54. In 1993, the government established the Bangkok International Banking Facilities (BIBF) to formalize offshore banking business in Thailand. Operations of the BIBF mainly involved borrowing in foreign currencies from abroad and on-lending the funds locally and conducting international trade financing. The government supported this initiative through granting a number of tax exemptions. From the IMF information, by the end of 1996, 45 financial institutions held licenses to operate offshore banking businesses, of which 15 were Thai commercial banks, 11 foreign bank branches already operating in Thailand, and 19 other foreign banks. In hindsight, the BIBF was one of the major channels through which foreign capitals rapidly flew into Thailand and ironically, should be judged a successful venture.

55. As the early 1990s were the period where capitals were leaving the US and Japan to find better returns elsewhere, many so-called "emerging markets" were prime recipients of these cheap credits and indeed Thailand was one of them. By mid-1990s, private sector debts in the Thai economy exploded from US$ 11 billions in 1990 to US$ 109 billions in 1996. Most of these debts were borrowed in foreign currencies – most unhedged – and on a short-term basis ie., expensive interests. During the same period, current account deficits started to climb up quickly, from around 5% of GDP in 1994 to about 8% of GDP both in 1995 and 1996. By the end of 1996, Thailand had cumulative current account deficits of 36% of its 1996 GDP. Clearly, the situation was fast approaching unsustainable level.

56. As the export sector sharply slowed down in line with the global economy and eventually grinded to a standstill at 0% growth rate in 1996, alarms were ringing throughout the Thai economy. But perhaps it was already too late. In early 1997, the policy of pegging the Baht with a basket of other currencies (denominated in US dollars) that had been in use since the end of the World War II started to unravel because of speculation. The country's international reserves were vastly depleted to near bankruptcy in an attempt to fend off such attacks – unsuccessfully. By the end of 1997, it was inevitable that the government had to abandon the fixed exchange rate system in favour of the floating regime. In a matter of weeks, the Baht was devalued from 27 Baht per dollar to 45 and at one stage almost reached 60 Baht per dollar. Needless to say, those unhedged private debts became like iron wedges that befell the whole economy – and at double their previous size!!

57. It should be noted here that financial liberalisation in Thailand did not take place without any attempts on the government part to introduce proper regulation and control. Earlier in the 1980s, the

Thai authorities initiated reform aiming to restructure, develop and provide financial support to financial institutions by establishing the Financial Institutions Development Fund, a separate legal entity within the Bank of Thailand (BOT). This was begun mainly in response to the banking sector weaknesses that the BOT had recognized early on. Following this, various complementary measures were devised and implemented.

58. But the rapidly growing banking system and the influx of short-term foreign capitals proved to be too much and too fast for the authorities to catch-up on regulatory front. The problems were further aggravated by new technologies that enabled transfer of capital to be as easy as "a click away." New financial and debt instruments were created that made surveillance and devising appropriate regulation almost impossible. The result was that a lot of short-term capitals that came to Thailand ended up in sectors like construction and real estate developments, contributing very little in real term. And in the end, they became the major source of non-performing loans that are currently besetting the whole banking system. Perhaps the regulatory, supervisory and prudential regimes were somewhat lax but they were never intended to be so.

D. THE CURRENT STATE OF THE FINANCIAL SECTOR: THE AFTERMATH

59. Following the financial crisis, Thailand went through successive steps of reform measures recommended by the IMF. These involved the closing down of many financial institutions, the government interventions to temporarily prop up some banks and finance companies and eventually privatized them, the selling off of a few banks, securities and finance companies to foreign banks, the forced mergers, etc. After the dust settled, a major consolidation has taken place in the Thai financial sector. But this is a long-term exercise and thus still continues even to date.

Table 11: Consolidation of the Thai Financial System

Thailand: Consolidation of the Financial Sector *				
	Finance companies		**Commercial banks**	
	Number	Share of assets	Number	Share of assets
JUNE 1997	91	24	15	76
Total asset of $163 billion	State share negligible		State share: 10% of total assets Foreign-owned: 0% of total assets	
Closures	56	14	1	2
Intervention/Mergers	13	4	6	14
DECEMBER 2000 **	23	4	13	96
Total asset of $133 billion	State share negligible		State share: 28% of assets Foreign-owned: 6% of assets ***	

Source: IMF Country Report, Thailand: Selected Issues, 2001

Note : * Excludes foreign bank branches and specialised financial institutions. Dollar figures are at constant exchange rates of 44 Baht per dollar.

** Figures exclude $23 billion of finance company assets taken over by the Financial Sector Restructuring Authority (FRA)

*** Further, the three largest private banks, with over 40% of total assets, have high foreign ownership (30-49%)

Table 12: Progress in Financial Sector Restructuring

	End of 1996		July 1999	
	Number	**Share of Assets**	**Number**	**Share of Assets**
Public finance companies	1	0%	1	1%
Private finance companies	90	20%	22	5%
Private domestic commercial banks	14	59%	7 *	39%
Branches of foreign banks	14	6%	14	12%
Majority state-owned commercial banks	1	8%	6	28%
State-owned specialized banks	7	7%	7	15%

Source : Lindgren, et.al. (1999), Financial Sector Crisis and Restructuring : Lessons from Asia
Note: * Two of these have greater than 50% foreign ownership

60. Tables 11 and 12 provide details on the present state of the Thai financial sector. Only 1 bank has been closed although the number of domestic commercial banks has declined as a result of mergers. The most significant change is on the finance companies – 56 of them were closed and a further 13 were merged leading to the present number of 23 (of which one is a public company).

61. Quite apparently from the two Tables, now foreign banks as well as the government banks have assumed a greater role in the Thai financial system – their shares in total assets increased substantially. Some foreign capitals were invested in commercial banks and finance companies. The foreign branches of banks already established in Thailand doubled their market shares from 6% to 12% while foreign investors now hold minority shares in many of the finance companies and banks. Two banks are now foreign majority-owned - by ABN Amro of the Netherlands and the Development Bank of Singapore (holding about 48% in conjunction with some other foreign banks). Societal Generale of France acquired 36% in a finance company while Standard Chartered of the United Kingdom also boosted their domestic profile in the Thai financial sector through various share acquisitions. At the same time, the government had to absorb a large proportion of the NPL through interventions and is currently trying to manage or sell off the collaterals and other assets to reduce debt burdens on the economy.

E. CONCLUSION: A NEW BEGINNING?

62. Thailand was not the first and only country that has faced a financial crisis nor will it be the last. Looking back, financial liberalisation was not a total disaster. At the very least, it did benefit the Thai people and the economy to a certain extent.

63. But what could be said today is that liberalisation should have been planned as a process and implemented in steps rather than being set out as an objective to be achieved through incoherent policy measures. Further, financial liberalisation should be commensurate with that country's level of development (although present technology might have made this easier said than done) and, regrettably, the "fast and furious" liberalisation approach seemed not to have worked well – at least for Thailand. Given the current speed of technological developments and the pace at which the world evolves – globalisation and all those buzzwords - it is close to impossible to insulate a country from the outside world completely. Perhaps another challenge is how to adapt the external fast developments to suit a country's need and readiness.

64. Another important point is that financial reform and strengthening of the financial system is of paramount importance. They should be devised and implemented on a continuous basis and not

only when an acute need or extraordinary circumstances force the country to undertake drastic reforms.

V. CONCLUSIONS

65. So what are the lessons that Thailand has learned from our experiences in services liberalisation? The two case studies presented in this paper were of somewhat different nature. Liberalisation on retail trade was largely on commercial presence while that of the financial sector was more or less related to cross-border transactions. But the impacts on the economy and the people were both highly visible. A few afterthoughts arising from our liberalization experiences are offered below.

(a) No matter what, liberalisation remains the way forward

66. Services are clearly an important part of the Thai economy as it is for others. The significant role that services play on employment, their contribution to GDP, their being a major investment attraction source as well as benefits for consumers derived from their liberalisation are, without any doubt, the reasons why services liberalisation will continue to be the way forward for Thailand.

(b) But progressive liberalisation is the preferred path

67. But liberalisation is an end that can be achieved through various means. The unique situations of a specific country will dictate the pace and the path of liberalisation most suitable to its circumstances. There is no "one size fits all" solution or a magic formula ready-made for a country in undertaking its liberalisation – successfully. Factors influencing the proper route for liberalisation for a country have become so numerous. Now, in addition to domestic considerations and endowments, one must also take into account the ever-changing global factors. The external influences, be they technological, economical or political, have the tendency to destabilize even the most sound and careful liberalisation process. Yet, they cannot and should not be avoided but must be embraced and integrated. That means liberalisation should occur slowly, progressively but continuously.

(c) Fast changes make flexibility imperative

68. Both case studies point to the need for an adequate framework for a country to resort to in solving their problems in times of need. But how much, how far, and just a simple "how to do it" will depend very much on that country's circumstances surrounding the problems. Liberalisation – whether on a "tangible" basis such as that on commercial presence or the more elusive "virtual" one like that on cross-border – could lead to many unforeseen developments especially given rapid developments that we are witnessing. On certain occasions, governments would need to have certain flexibility in redressing the problems that they had not anticipated when undertaking liberalisation commitments. Since Thailand has no commitment on retail service, she was free to introduce any measures to solve her problems – including those that might be considered as disinvestments measures. But that never happened. Other considerations far outweighed the temptation to curtail foreign presence even with great political pressure. The same is true for the financial sector. Only measures that would strengthen the whole system in preparation for present and future liberalisation were introduced.

(d) Forging competitive environment

69. The experiences from the retail trade case in particular pointed to the need of preparing domestic entrepreneurs and/or service suppliers to meet greater competition that comes with liberalisation. These domestic capacity-building objectives should be given high priority by any government and measures to implement them on a long-term and continuous basis are necessary.

More competition is not always something fearful. Indeed, a little dose of competition here and there can be quite healthy. It keeps domestic entrepreneurs on alert and on edge, always on the look out for new ideas and concepts, constantly trying to do better. Thus, in addition to government policy and measures on domestic capacity-building, there may be a need as well to institute sound competition policy that would on the one hand, ensure that consumers will benefit from enhanced competition and on the other hand, taking care of concerns of domestic entrepreneurs in a way that would allow them to flourish even in the face of greater competition and further liberalisation.

(e) Increase public support through greater awareness

70. The two cases revealed the Thai public's deep ambivalence of benefits of liberalisation. Such apprehension is not confined only to services liberalisation but also can be found in many other areas, most notably agriculture. Often, the WTO became a scapegoat, a target of nationalist rhetorical attacks. Foreign companies are perceived as alien interests trying to take over the country rather than as rescuing heroes on white horses or as some outsiders who are nevertheless sincerely committed to share the same fate that the country must endure.

71. These misapprehensions and distrusts must not be overlooked; they should be recognized and addressed properly. Otherwise, political outcries and backlashes will make it difficult to undertake further liberalisation. The government should put efforts to ensure that the general public, consumers and even some producers in other areas receive the benefits from greater competition through liberalisation that they deserve. Unless and until they realise and are aware of direct benefits to them, liberalisation will continue to be seen as the source of all things unpleasant that ever happen to their economy.

(f) Regulation and liberalisation : the chicken and the egg

72. Lastly, the two case studies reaffirm our belief that regulation is of key importance. The evolving global economic environment coupled with new technological developments has greater tendency to unravel many economies than before. The need to introduce proper regulatory, supervisory and surveillance regimes is thus imperative for Thailand. But the challenge is how to devise regulatory framework that will work well given such fast changes – how regulation can catch up with globalisation. If that is too difficult to achieve, then perhaps the pace of liberalisation that a country plans to implement may have to be adjusted so that its supervisory and regulatory capability will not be compromised.

73. On this issue, the experiences of Thailand have shown that creating sound regulatory regime in this age and time is like undertaking "The Twelve Labours of Hercules" at one time. This problem, however, is not unique only to Thailand. Many developing countries are also facing this uphill task of building surveillance and control system as well as a flexible yet adequately strong supervisory regime that would allow liberalisation to proceed smoothly while ensuring that benefits reach all parties concerned. This task – if recent developments in the business sector are any indications – is difficult even for developed countries to achieve. As such, developing countries should be given ample time in putting up good system that answers directly to their needs and tailored to meet their distinct situation while undertaking liberalization.

74. Of course, the ideal situation remains that nicely-paced liberalisation is taking place within a strong and accountable regulatory framework. Hopefully, seeing the two go hand-in-hand would not be too much of a Utopian dream to realize.

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