

ABSTRACT

The aim of this research project is to study the role of services in the structural transformation of Thai trade, in particular the linkages between service sector and manufacturing sector. The study is divided into two main sections. The first part studies the macro picture of service sector in Thailand, especially service exports that account for forward and backward linkages utilizing Trade in Value Added database from OECD and Export Value Added database of World Bank. The second part deals with the micro-level evidence of services' role in enhancing total factor productivity of Thai manufacturing firms as well as how it increases their chance of entering into foreign markets.

When considering the export share in value-added term, we document a significance increase in the share of export accounted by service sector, rising from 27.3% to 42.3% or almost a half of the total value of export, thereby making services the most important sector after all. The reason is because services have a high degree of forward linkage, and hence acting as intermediate inputs for other economic sectors. Hence, it is noteworthy to consider value-added term instead of gross when analyzing the importance of an economic sector, taking into account both the direct and indirect export so as to realize the full potential gains that the country is reaping from exporting.

The second part is an in-depth analysis of services market in Thailand. We explore three prominent firm-level database namely, Industrial Census 2011 and Service Census 2011 from the National Statistical Office of Thailand, and Financial Statement Database of all registered businesses in the Kingdom from the Department of Business Development, Ministry of Commerce. The empirical evidence shows that the level of competition in the upstream service sector directly affected the efficiency of downstream manufacturing firms using services as an input in the production process. Moreover, a higher degree of competition in service sector raises the probability of a firm becoming an exporter. Therefore, it is of utmost important to ensure the competitive environment in the service sector if the government wishes to promote export, as services are both embodied and embedded in manufacturing which is the main export goods of Thailand.