



Digital Economy.... Emerging Opportunities with a Tough Road Ahead



Highlight

- Transforming Thailand into a “Digital Economy” is one of the government's top priorities to foster the economic and social prosperity of the country. During the past year this policy has progressed, with the establishment of a Ministry of Digital Economy and Society and the drawing up of a “Digital Thailand” plan. The government is also accelerating the roll out of a national broadband project. On 7th December 2016, the cabinet has recently assigned TOT to lay down the broadband internet for 24,700 villages, while the office of the National Broadcasting and Telecommunications Commission will handle the installation for the remaining 15,732 villages.
- EIC views the Digital Economy policy opening up new opportunities to a wide range of businesses, but at the same time introducing new challenges to traditional businesses. Meanwhile, workers that lack digital skills will need to adjust to future changes.

Governments around the world have shown interest in a “Digital Economy”, whilst many are using this type of policy to boost economic growth. More than 80% of OECD member countries or developed nations, including Australia, Japan, and France have established national strategies related to a digital economy. Meanwhile, neighboring Malaysia put together a development plan for their transition towards a digital economy called “Digital Malaysia” in 2012. As a part of their plan, a national broadband network has been developed together with related ecosystems such as the establishment of e-Government and Digital Entrepreneur programs. After only two years of implementation, the policy has given the Malaysian economy a significantly boost, with ICT industry incomes increasing by 10% per year or up to three times the growth rate seen over the past two years.

The Thai government has announced its “Digital Thailand” plan that lays out development plans for related digital infrastructure and personnel. This will give rise to new opportunities for businesses throughout the value chain in the ICT industry and unlock the path towards “Thailand 4.0”, or the innovation-driven economy age. Most projects under the plan are related to enhancing the quality of the digital infrastructure crucial to the development of new innovations. Some example projects are the national broadband network in 40,432 villages and submarine cable, which together account for 20 billion baht in investment. This cash injection, therefore, will likely benefit electronic equipment manufacturers, software firms, Internet service providers, and system integrators

Furthermore, the Digital Thailand plan will also create new opportunities for other types of businesses, including Startups and SMEs, which will get support from the establishment of incubation centers and e-commerce knowledge sharing programs. Moreover, business related to e-commerce platforms or logistics will stand to gain from the rise in demand for the delivery of goods that will result from a fast growing e-commerce market.

Digital Thailand will also induce new investment from the private sector. In the case of England and Canada, investment in broadband infrastructure has had a crowding in effect of up to 10 times. This kind of investment also has a multiplier impact, making their contribution to GDP up to 15 times the initial investment value. In view of such gains, Thailand's national broadband network, valued at 15 billion baht, has the potential to spur a total of 150 billion baht in investment from the private sector and increase Thailand's GDP by 225 billion baht, or 2%

The transition towards a Digital Economy, however, will introduce new challenges to traditional businesses. As technology revolutionizes the way business is conducted, those that do not adapt to such changes will have difficulty competing with new startups possessing superior technology expertise. A good example is Uber, which has become a direct threat to traditional taxi businesses. Nevertheless, the move to a digital era will take time. A survey conducted by IDC, a leading information technology research company, found that around 30% of all organizations will be able to completely digitalize given support from their management, careful planning, and the cooperation of all parties.

However, converting traditional businesses into digital organizations can cut costs from unnecessary workloads, and increase efficiency and productivity that raise profitability in turn. A study from MIT found that companies that have successfully integrated technology with their businesses are 26% more profitable than industry peers. Such returns makes ICT investments, which only account for 3-5% of annual revenue, well justified in the long run.

Changes to jobs and employment in the digital age also need to be closely watched. A case study of OECD countries found that although overall employment and employment in the ICT sector has remained stable, demand for ICT specialists has risen steadily. The study showed that the ratio of the employment of ICT specialists to total employment has increased from 3% to 4% over the course of only three years, whilst the role of unskilled labor will slowly recede. The OECD forecast that around 9% of current employment can be replaced by technology and machinery in the future.

Implication









EIC recommends that all business owners adapt to the digital age in order to maximize benefits from government measures. Businesses, for example, should understand new technology like the Internet of Things (IoT), big data analytics, or crowdsourcing, as well as develop new business models aligned with future technology. Businesses that lack technological expertise should seek partnerships with ICT businesses for a smooth digital transition.

The government should support the Thai labor force in facing new challenges. In the future the labor market will be exposed to greater competition from machinery as well as from foreign labor as a result from technology enabling more

borderless workplaces. The government can cooperate with the private sector to bring in experts that can enhance the skills of Thai workers related to technology or in other fields like languages, advanced problem-solving skills, and innovative thinking, all skills computers cannot replace.

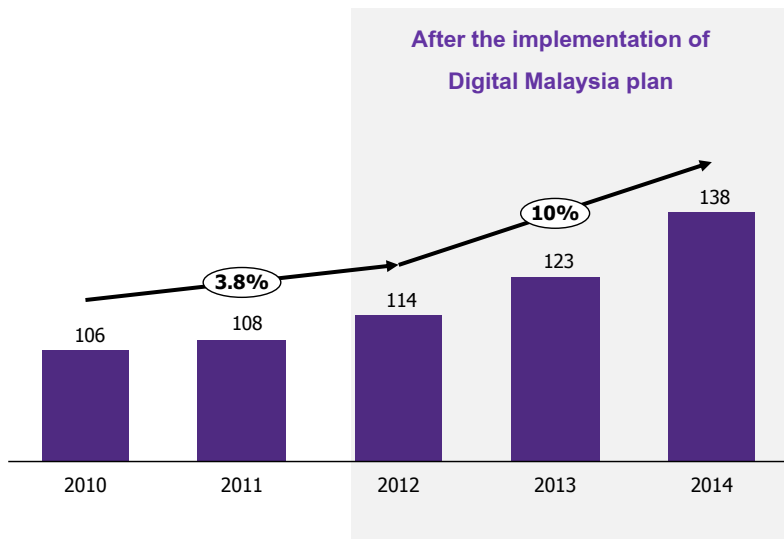
Furthermore, the government should encourage private sector investment in the production of telecommunication equipment in order to reduce imports. Thailand has relied heavily on telecommunication equipment imports that amounts to a total value of 120 billion baht each year and is growing by 15-20% every year. Furthermore, to support more technology transfers from increased foreign investment, the government needs to consider increasing tax benefits and reducing limits on foreign holdings in companies.

Figure 1: Comparison of Malaysia's and Thailand's Digital Economy policies

Digital Malaysia key initiatives	Digital Thailand key initiatives
 <p>Develop the infrastructure</p> <ul style="list-style-type: none"> - National broadband initiative 	 <p>Develop the infrastructure</p> <ul style="list-style-type: none"> - National broadband project
 <p>Build the ecosystem</p> <ul style="list-style-type: none"> - Digital Entrepreneur program - Innovation and creativity center - MSC Malaysia, a high-technology business district - Cyber laws 	 <p>Build the ecosystem</p> <ul style="list-style-type: none"> - Innovation Incubation center - Digital cluster - Digital economy promotion law, Cyber security law, and consumer protection law
 <p>Enhance digital government</p> <ul style="list-style-type: none"> - Digitalization of documents - Consolidation infra & cloud 	 <p>Enhance digital government</p> <ul style="list-style-type: none"> - Central data sharing platform
 <p>Restructure the organization</p> <ul style="list-style-type: none"> - Broaden the scope of Mdec to drive Malaysia towards digital economy 	 <p>Restructure the organization</p> <ul style="list-style-type: none"> - Establish the Ministry of Digital Economy and Society

Source: EIC analysis based on data from the Ministry of Digital Economy and Society and MDec Malaysia

Figure 2: Malaysia ICT industry revenue



Source: EIC analysis based on data from the Department of Statistics Malaysia

Figure 3: In the digital age, companies that successfully integrated technology have higher earnings than peers in the same industry

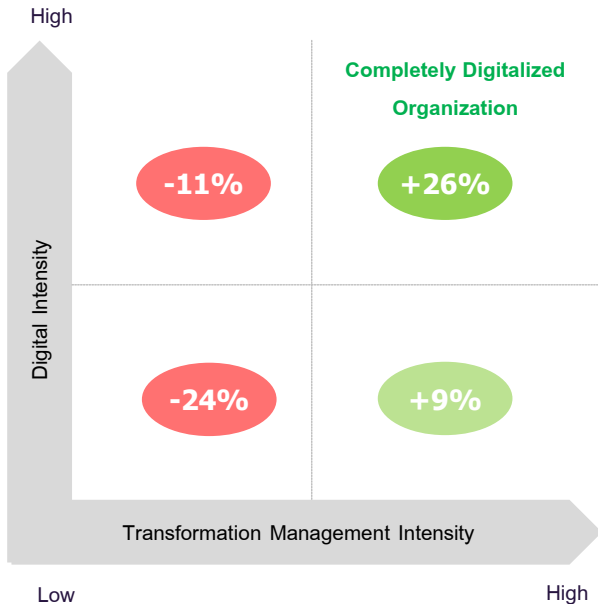
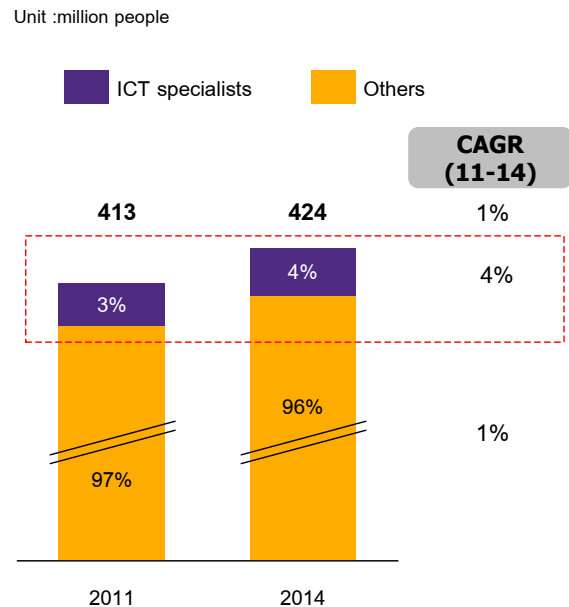


Figure 4: Skilled labor, such as ICT experts will have greater role in the digital age



Source: EIC analysis based on data from MIT (sample group of 391 companies) Source: EIC analysis based on data from the OECD

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