

EVIDENCES OF THE EXPONENTIAL GROWTH OF SERVICE SECTOR IN AND THROUGHOUT ASIA PACIFIC REGION

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ABSTRACT

Service sector growth in the Asia Pacific Region Rim which comprises of the Four Asian Tigers (Hong Kong, S. Korea, Singapore & Taiwan) and The Tiger Cubs (Indonesia, Malaysia, Philippines and Thailand) have shown a progressive increase in service led growth but regional cooperation needs to prosper in the region. All of these countries are actively engaged in export of services, most of their services were exported to the West, but post the mid 1990,s crisis, the regional market is being explored and expanded.

This research paper investigates the service sector growth based on trade, employment value addition etc. The paper also analysis pattern of service trade and trade partners for the region's nations and also looks into macroeconomic impact and implications from the policy point of view.

KEY WORDS: Asia-Pacific Rim; Asian Tigers; Atlantic crisis, Global financial crisis; Growth in services; Tiger Cubs of Asia-Pacific; Service trade

1. INTRODUCTION

Service sector has been considered to be the tertiary sector in traditional economics and it has generated immense potential in terms of employment and value addition for developing economies. The service sector accounts for a significant proportion of GDP in most countries. Even in the developed world services have often accounted for two-thirds or three-quarters of all economic activity (Shepherd & Pasadilla, 2012). The transition from agriculture through manufacturing to a services economy has been an important feature of economic development for many countries. Service sector is the key input to most businesses. It comprises of infrastructure services like energy, telecommunication,

transport, financial services, health, education and legal, accountancy etc businesses, which are essential for a healthy economy.

The Asia Pacific Region has been part of the emerging economies for the last few decades. Singapore is above all the others, though Singapore, Taiwan and Hong Kong fall in the High-income economy group since 1987 according to the World Bank, and South Korea since 1995 is the new entrant in the GNI per capita bracket of High-income economies (\$12,746 or more) among the Asian Tigers. While among the Tiger cubs of the region Malaysia and Thailand belong to the Upper-middle-income economies (\$4,126 to \$12,745) while Indonesia and Philippines presently

belong to the Lower-middle-income economies (\$1,046 to \$4,125) group. (WB, 2015)

This research paper explores the service sector in the Asia Pacific Rim countries by progress path and if they have emerged successfully post the 2008-2009 global financial crisis or the Atlantic crises. This paper also examines the service led increase in employment and value addition in the region.

Finally the paper explores the possibility of regional cooperation for increasing growth through services and tries to find out which categories require special attention for developing the service sector in Asia Pacific Rim countries

2. REVIEWING THE IMPORTANCE OF THE SERVICE SECTOR THROUGH LITERATURE

Various services are not only key part of the investment climate, and have a wide impact on overall business performance and the level of investment, and hence growth and productivity in the economy (Cali, Ellis & Velde, 2008). Growth in the services sector is one of the foundations on which international goods production networks are built, it facilitates the movement of intermediate inputs across borders and undertakes complex coordination of production processes without efficient markets for services such as transport, telecommunications, and business processes. There is also convincing macroeconomic evidence that stronger services sector performance means faster economic growth and better logistics services have been shown to be strongly correlated with trade outcomes in goods sectors, and in particular parts and components for trade within international networks. Moreover services sectors that are more open to international competition tend to be more productive, and experience faster productivity growth (Miroudot et al. 2010). The backbone sectors such as finance, telecommunications, and transport make it possible for a wide range of firms to do

concentrating on growth of trade in services over post liberalisation and how it has progressed over the years and whether the Atlantic crises dealt a dent or a blow to their

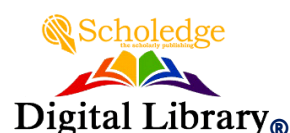
business, and to be competitive in international markets.

Liberalisation of trade in services has spillover effect for other parts of the economy especially manufacturing. Blyde and Sinyavskaya (2007) have found that on average, a 10% increase in services trade is associated with a 6% increase in goods trade. They find that the strongest gains for manufacturing exports come from improved efficiency in transport and communication services. Moreover, the GATS model of trade liberalization in services includes services foreign direct investment (FDI) within its ambit. Borchert and Mattoo (2009) show that trade in services tends to be more resilient to economic crises than trade in goods. Post Atlantic crisis of February 2009, the value of US goods imports had declined year-on-year by 33 percent and the value of goods exports by 21 percent; services imports and exports each had declined by less than 7 percent.

Business Process Offshoring (BPO) is one type of services trade that is an increasingly important feature of the world economy and various regions have been having positive economic effects. (Miroudot et al. 2010)

3. OBJECTIVE OF THE STUDY

- To investigate the diversity of trend in trade in services among nations in the Asia Pacific region
- To estimate service led trend in employment and overall value addition in the Asia Pacific region.
- To find inter-nation variations in the pattern of service trade and trade partners in the Asia Pacific region
- To analyse the macroeconomic impact and implications for the Asia Pacific region



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4. METHODOLOGY FOR ANALYSIS OF THE SERVICE SECTOR FOR THE ASIA PACIFIC REGION

Analysis of secondary data sourced from official sites of the World Bank and UN country data, through trend analysis, representative graphs and earlier studies conducted.

5. ANALYSIS OF SERVICE SECTOR DEVELOPMENT IN THE ASIA PACIFIC REGION

The analysis for the Asia-Pacific Region deals with service sector growth in the region, as a comparison of the growth among the two groups of countries termed as the Tigers and the Cubs of the region. They comprise of the Four Asian Tigers that is Hong Kong, S. Korea, Singapore & Taiwan and the Tiger Cubs which

comprises of Indonesia, Malaysia, Philippines and Thailand.

Analysis of service sector development has been primarily based on service led exports, service led imports, trade in services as well as overall value addition as percentage of Gross Domestic Product (GDP) and employment in serves.

5.1 SERVICE SECTOR DEVELOPMENT FOR THE TIGERS AND CUBS OF THE ASIA PACIFIC REGION

Service sector development in the region includes details and analysis of trade in services, exports and imports of services, major trade partners for export and for imports, division of services, value addition as percentage of GDP, employment in the service sector etc.

5.1.1 Trade in services by the Tigers and Tiger Cubs of the Asia Pacific Region

Trade in services as a percentage of GDP had decreased for all the Tiger nations during 2009 but Korea was most affected and could not recover and move on to a healthier rate even in 2013

| | Trade in services as a percentage of GDP | | | |
|----------------------|--|--------|--------|--------|
| The Tigers | 2008 | 2009 | 2012 | 2013 |
| Hong Kong SAR, China | 64.99 % | 58.76% | 66.68% | 66.56% |
| Singapore | 94.08% | 86.26% | 87.13% | 87.07% |
| Korea, Rep. | 18.88% | 17.20% | 17.36% | 16.17% |
| The Tiger Cubs | | | | |
| Malaysia | 26.42% | 27.57% | 26.30% | 26.95% |
| Philippines | 13.90% | 13.82% | 13.87% | 14.28% |
| Indonesia | 8.90% | 6.97% | 6.60% | 6.67% |
| Thailand | 29.02% | 25.28% | 28.07% | 29.51% |

Table 1: Trade in services as a percentage of GDP for the Tigers and the Cubs

The Tiger Cubs were not much affected apart from Indonesia since the amount of trade in services they had with the outside countries was much less than that of the Tiger nations. Presently post crisis they all are back on a steady path of growth apart from Indonesia,

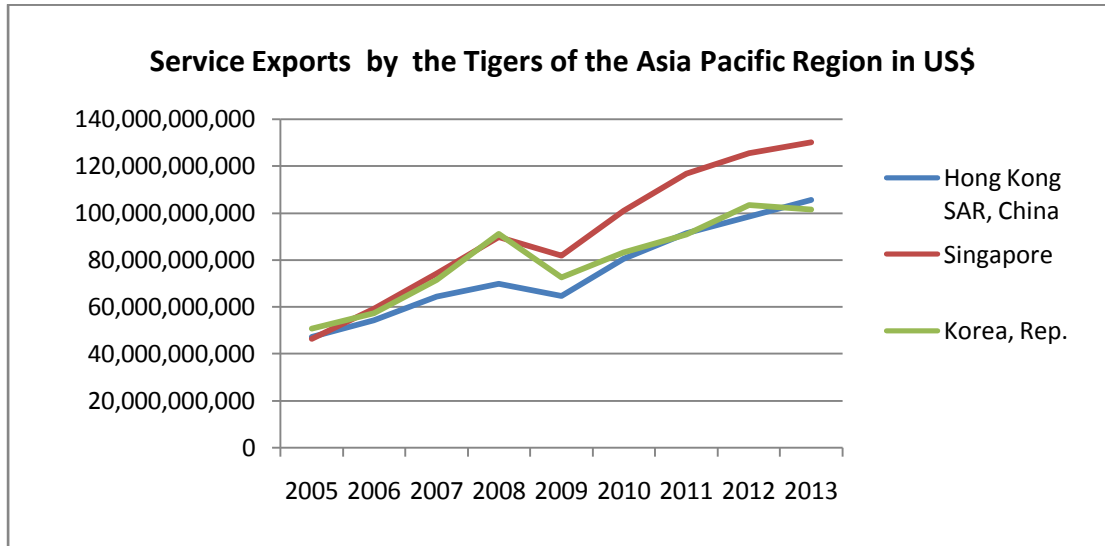
which was most affected by the global financial crisis or the Atlantic crisis of 2008.

The trade scenario as percentage of GDP for the tigers is very high for Singapore at 87% and at 67% for Hong Kong while among the

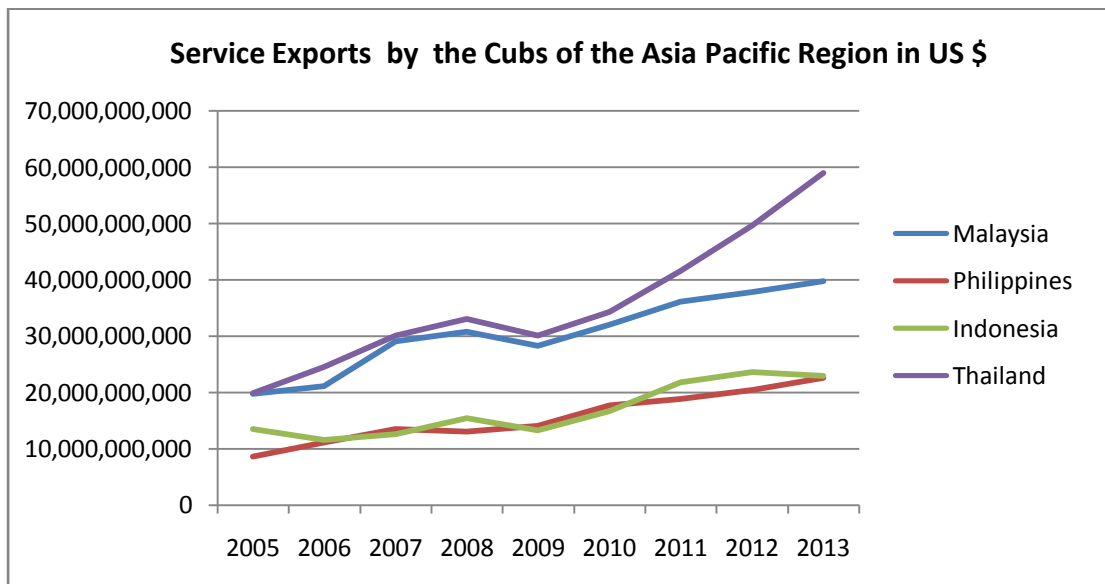
Tiger cubs Thailand accounts for the highest at 30% and Malaysia at 27%.

5.1.2 Service led exports and imports by the Tigers and Cubs of the Asia Pacific Region

Exports and imports have increased for the Tigers and Cubs as can be seen in the following graphs

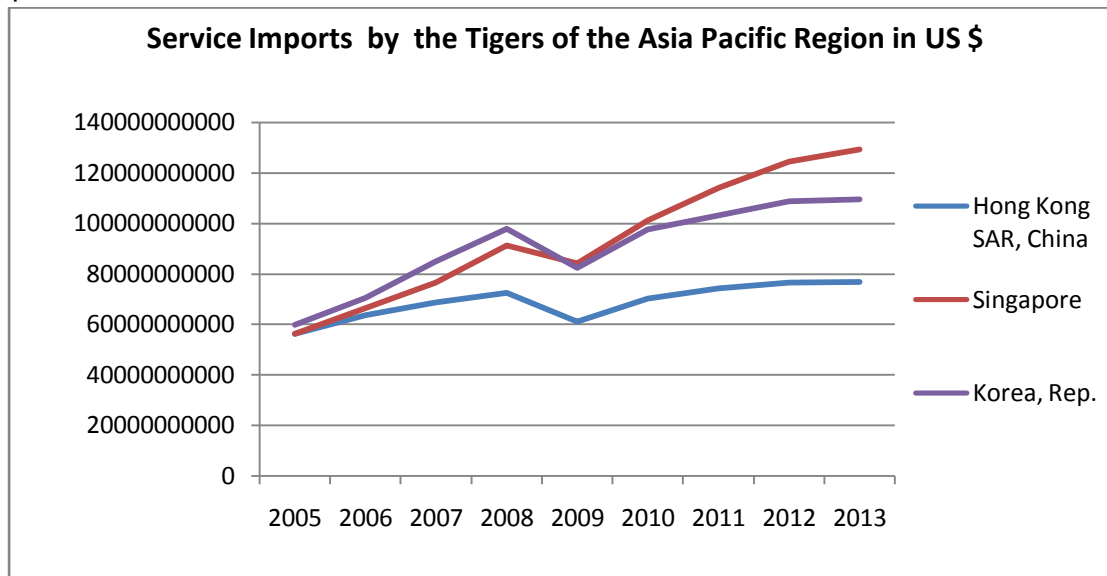


Graph 1: Service Exports by the Tigers of the Asia Pacific Region in US\$

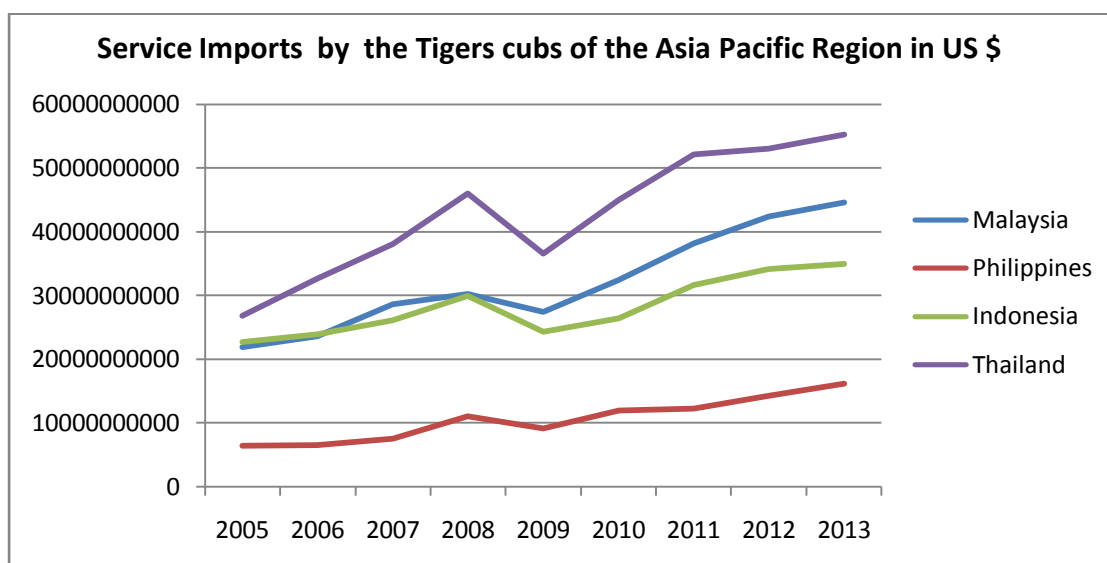


Graph 2: Service Exports by the Tigers cubs of the Asia Pacific Region in US\$

Exports faced a downturn during the 2008 crisis along with imports as visible in the Graph 1, 2, 3 and 4



Graph 3: Service imports by the Tigers of the Asia Pacific Region in US\$



Graph 4: Service imports by the Tiger cubs of the Asia Pacific Region in US\$

It is seen from the above graphs that the service sector was certainly affected with different severity in different countries due to the crisis of 2008, but all of them have recovered post Atlantic crisis and the service sector resilience has proved itself.

5.2 SERVICES LED EMPLOYMENT GENERATION FOR THE TIGERS AND CUBS IN THE ASIA PACIFIC REGION

Service led employment has increased in the region and employment percent in Agriculture has been reducing among these nations over the years though the overall production has been increasing, indicating the reduction in disguised unemployment especially for the Tiger cubs and employment in industries has remained stable for most or has increased by 1-2 % only. Among the Tiger nations percentage of labour force employed in agriculture for Singapore has been 1.1%, for Hong Kong it has reduced from 0.3% to 0.2%, Taiwan is less than 2% and for S. Korea 7.9% to almost 6%. The service sector has also been stable for these nations, since they already fall in the high income economies. But for the exception of South Korea where reduction in industrial employment from 26.8% to 17% between 2005 and 2010 and has increased employment in services but without much change in the reduction in unemployment.

The Tiger Cubs have been traditionally agriculture dominated nations, but their profile has been changing towards developing economies trajectory as there is a marked decrease in agriculture employment. Indonesia has reduced the percentage of labour force employed in agriculture from 44% to 18% over 2005-2012 and Malaysia from 14.6% to 12.6%, Philippines from 36% to 32.2%, Thailand from 42.6% to 39.6% and this is the approximate amount by which the employment in the service sector has increases for these countries.

What is striking is that the percent of unemployed has reduced between 2005 and 2012 among the Tiger cubs indicating the surge in service led employment. Among the Tigers Singapore accounted for a reduction in unemployment from 2.8% to 1.8% of the labour force, S. Korea from 3.7% to 3.2% and Hong Kong from 5.5% to 3.3% Among the Tiger cubs the reduction in unemployment of the total labour force in Indonesia has been from 10.8% to 6.2%, in Malaysia 3.3% to 3%, Philippines 8% to 7% and Thailand it has reduced to 1.9% to 0.7%.

| The Tigers | Employment in services (as percentage total employment) | | | | | |
|----------------------|---|------|------|------|-------|-------|
| | 1991 | 2001 | 2008 | 2009 | 2010 | 2012 |
| Hong Kong SAR, China | 64.3 | 80.4 | 87 | 87.5 | 87.9 | 87.7 |
| Singapore | 64.6 | 73.3 | 76.2 | 77.1 | -- | -- |
| Korea, Rep. | 47.7 | 62.6 | 67.9 | 76.6 | 76.4 | -- |
| The Tiger Cubs | | | | | | |
| Malaysia | 43.7 | 51.8 | 51.8 | 53.1 | 59.2 | 59 |
| Philippines | 38.7 | 46.6 | 46.6 | 47.4 | 51.8 | 52.5 |
| Indonesia | 31.4 | 37.5 | 37.5 | 36.9 | 42.33 | 43.24 |
| Thailand | 24.2 | 35.1 | 35.1 | 34 | 41 | 39.4 |

Table 2: Employment in services (as percentage of total employment)

The Tiger nations are living on a service led economy for the last two decades but Korea has moved at a fast pace towards a service based economy and entered the high income group in 1995. While the Tiger cubs have been fast realigning towards increase in the service sector employment.

Service sector growth in terms of employment generation as seen in Table 1, did not get affected by the Atlantic crisis but Indonesia and Thailand did face a downturn in employment in services as percentage of total employment. The employment in other sectors

of the economy did not increase either. These troubles were short-lived for the two nations and by 2010 Indonesia and Thailand had

recovered and are now adding on to more employment in services.

5.3 Overall value addition as percentage of GDP of the Tigers and Cubs of the Asia Pacific Region

| The Tigers | Value addition (as percentage of GDP) | | | | | |
|-----------------------|---------------------------------------|--------|-------|-------|-------|-------|
| | 1991 | 2001 | 2008 | 2009 | 2012 | 2013 |
| Hong Kong SAR, China | 65.67 | 67.63 | 72.63 | 72.09 | 73.29 | 74.86 |
| Singapore | -- | 88.329 | 92.69 | 92.83 | 92.88 | 92.74 |
| Korea, Rep. | 53.46 | 59.05 | 61.21 | 60.73 | 59.47 | 59.11 |
| The Tiger Cubs | | | | | | |
| Malaysia | 43.54 | 45.79 | 44.93 | 49.81 | 49.16 | 50.18 |
| Philippines | 45.00 | 52.30 | 53.88 | 55.21 | 56.94 | 57.65 |
| Indonesia | 41.34 | 38.25 | 37.46 | 37.06 | 38.72 | 39.87 |
| Thailand | 48.69 | 48.72 | 44.39 | 45.20 | 44.17 | 45.47 |

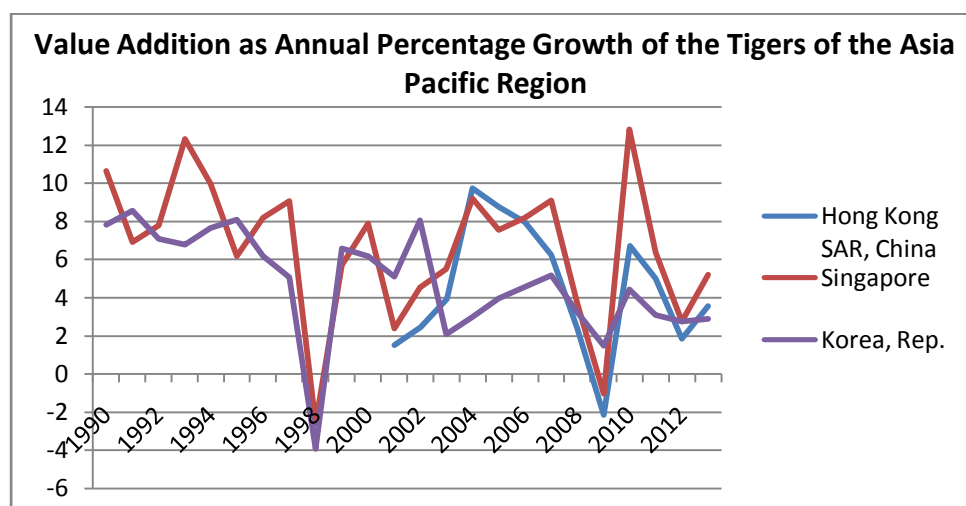
Table 3: Value Addition as percentage of GDP of the Tigers and Cubs of the Asia Pacific Region

Value added as percentage of GDP has shown a steady increase over the years and it seems that it has not been affected by the crisis of 2008, according to the data in Table 3 above only Indonesia and Thailand have been

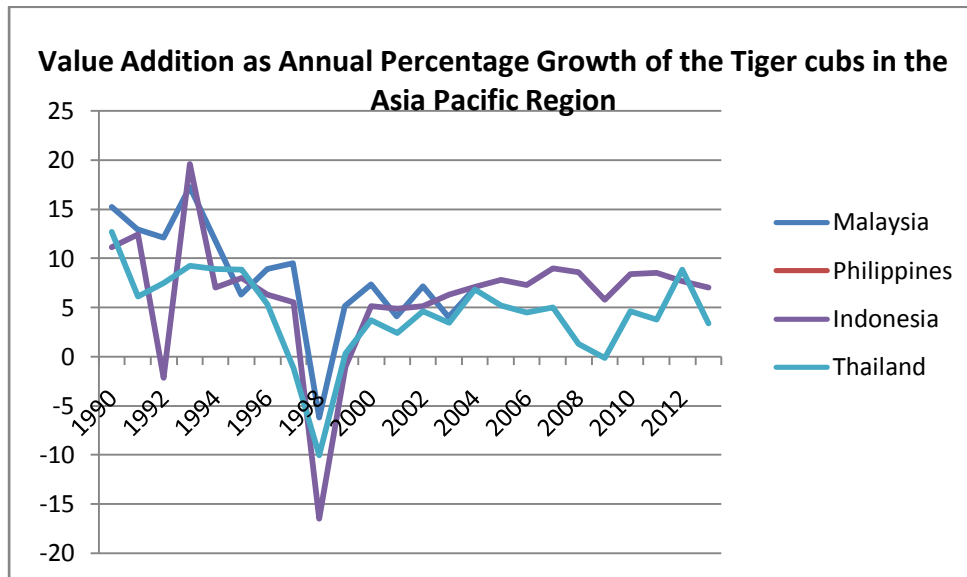
adversely affected, but have recovered from the Atlantic crisis.

But on further analysis based on annual percentage growth in value addition a different picture is observed.

5.3.1 Annual Percentage Growth in Value Addition among the Tigers and the Tiger Cubs



Graph 5: Value Addition as Annual Percentage Growth by the Tigers



Graph 6: Value Addition as Annual Percentage Growth by the Tigers cubs

The crisis of 2008 had affected the Tigers and Tiger Cubs, but the severity of the impact differed and can be observed from the Graph 5 and 6 above. The Tiger nations were less affected during the recession of 1990's than the Tiger Cubs yet Singapore faced a severe downturn since it was much more connected to the trading world. Again when there was a downturn in the Asian economies in 1995-1996 both the groups of nations faced a sharp downturn, going into negative value addition as annual percentage growth but the recovery was also sharp for these nations as macroeconomic policies helped them out of the recession. The Atlantic crisis of 2008 also dealt a blow to these nations the severity was greater for the Tigers than the Tiger Cubs of the Asia Pacific region and this can be easily observed from the graphs above. The World Bank statistical data for Philippines was not available for value addition annual percentage

growth but the country did face the brunt of the crisis of 2008 but strong policies brought it out of the crisis like in other nations.

6. MAJOR TRADE PARTNERS AND DIVISION OF SERVICES TRADE FOR THE ASIA PACIFIC REGION

Trade partners in service sector trade in the Table 4 clearly show that the trade in services has veered towards regional networking. Regional service trade is higher than trade with the western world for the Tigers and the Tiger Cub nations. All these countries do trade with western countries but major trade partners are Asian countries with the exception of South Korea. More reason why after the subprime crisis which originated in us, resulted in together time for South Korean economy.

| Countries | Major Services Exported | Major Services Imported | Major trade partners for | |
|-------------|---|--|---|---|
| | | | Exports (%) | Imports (%) |
| Singapore | Transportation (37.9 %) Other business (21.6 %) Travel (17.2%), Financial (13.2 %) | Transportation (29.9 %) Other business (25.1 %), Travel (19.0 %), Royalties & license fees (14.0 %) | Malaysia (12.3), Hong Kong SAR (11.0), China (10.8) | Malaysia (10.6), China (10.3), United States (10.2) |
| South Korea | Communications, Transport, Insurance and financial services | Communications, Transport, Insurance and financial services | China (24.5), United States (10.7), Japan (7.1) | China (15.5), Japan (12.4), United States (8.4) |
| Hong Kong | Other business (33.3 %) Transportation (26.7 %) Travel(23.9%), Financial (12.3 %) | Travel (33.8 %) Transportation (29.5 %) Other business (19.0 %) Financial (6.9 %) | Japan (15.9), China (11.4), Singapore (9.0) | China (15.3), Singapore (13.6), Japan (11.9) |
| Taiwan | Telecommunication and Information Technology | Telecommunication and Information Technology | -- | -- |
| Indonesia | Travel (36.0 %), Other business (33.5 %) Transportation (16.5 %) | Transportation (39.2 %) Travel (22.1 %), Other business (14.6 %) | Japan (15.9), China (11.4), Singapore (9.0) | China (15.3), Singapore (13.6), Japan (11.9) |
| Malaysia | Travel (52.0 %), Other business (21.3 %) Transportation (11.3 %) Computer & Information (5.6 %) | Transportation (31.5 %) Travel (28.4 %), Other business (19.8 %) | Singapore (13.6), China (12.6), Japan (11.9) | China (15.2), Singapore (13.2), Japan (10.3) |
| Philippines | Other business (53.3 %) Travel (22.2 %) Computer & Information (11.3 %) Transportation (8.7 %) | Travel (43.4 %) Transportation (34.0 %) Other business (10.7 %) | Japan (19.0), United States (14.2), China (11.8) | United States (11.6), China (10.9), Japan (10.7) |
| Thailand | Travel (68.1 %), Other business | Transportation (54.3 %) | China (11.7), Japan (10.2), | Japan (20.0), China (14.9), |



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| | | | | |
|--|--|--|------------------------|-------------------------------|
| | (15.2 %) Transportation (11.9 %) | Other business (18.9 %) Travel(11.7 %), Royalties & license. fees(6.8 %) Insurance (5.8 %) | United States (9.9) | United Arab Emirates (6.3) |
|--|--|--|------------------------|-------------------------------|

Table 4: Major trade partners and division of services trade for the Asia Pacific Rim region 2014 (compiled from UN Data),
(Other businesses includes Insurance and business management, telecommunications etc)

7. MACROECONOMIC IMPACT AND IMPLICATIONS IN THE ASIA PACIFIC RIM REGION DUE TO GLOBAL FINANCIAL CRISIS

The US subprime crisis escalated into a global financial crisis and eroded confidence in financial institutions and markets worldwide, causing intensified concerns over liquidity, as well as a plethora of bankruptcies, forced mergers and massive monetary intervention from financial authorities, thereby leading to a drastically reshaped financial landscape.

Negative developments in the global financial and macroeconomic environment spilled over to the region. This was primarily due to Asia's greater market integration with the rest of the world, which amplified the extent of the cross-country transmission of shocks. While financial markets in emerging Asia had relatively limited exposure to subprime-related instruments, increased global market integration meant that the deleveraging process in advanced economies led to a substantial liquidation of assets in emerging Asian markets and large capital outflows. (Guinigundo, 2010)

The Tigers and the Tiger Cubs were able to weather the crisis due to their conservative financial markets and strong monetary policies. Their financial system is much stronger than it was during the mid 1990 crisis. Banking system is far more resilient and stable, than it was a decade earlier which along with higher foreign exchange reserves could weather the downturn. Regional economic

integration over the last decade, and open global markets in Asia have also expanded production networks and export markets, all of which contributed to faster recovery than the 1990's (Guinigundo, 2010)

7.1 MEASURE FOR ADVANCEMENT OF THE SERVICE SECTOR IN THE FOR ASIA PACIFIC REGION

Services have strong linkages with the rest of the economy in this region. The changes which will further the big push in the region are 1. Measures aimed at reducing barriers to entry since they make markets less competitive. 2. Lowering the cost of doing business through policy regulations, 3. Favourable investment climate, 4. Skill enhancement training and education is increasing employment opportunities, 5. Service sector is part of the national agenda, 6. Strong transport, finance and telecommunication services. 7. Favourable trade related policies

If there are more Cross-Strait Agreements on Trade in Services in the region, the region will benefit. These countries can increase and bolster their trade relations among the Asian countries with FTA's like they have with the western countries.

Stable and resilient financial system and monetary and fiscal policies which favour growth and provide encouragement to expansion of the service sector and trade in services is required. The present system is conducive to a stable economy.

Service sector financing becomes important for the service sector for these economies, more so for the Tiger Cubs. Successful entrepreneurial activity is strongly associated with economic growth according to Global Entrepreneurship Monitor (GEM). The GEM Conceptual Model suggests that the social-cultural-political context within a country must foster certain General National Framework Conditions, which can generate not only the opportunities for entrepreneurship but also the capacity for entrepreneurship –in particular, the skills and motivation necessary to succeed. GEM highlighted as especially important the availability of financing for new entrepreneurs, the need for government policies which are supportive of entrepreneurial efforts, and the opportunities for education and training in entrepreneurship (Lal and Clement, 2005). Together, the entrepreneurship opportunities, on the one hand, and the skills and motivation, on the other, lead to business dynamics that yield creative destruction, a process in which new firms are created and older, less efficient firms are destroyed.

According to Anukoonwattaka, Mikic, & Scagliusi, (2015) distribution related services and business services are the major elements of service inputs to industrial exports from Asia and the Pacific. These services accounted for 9% and 7.5%, respectively, of industrial exports from the Asia -Pacific region in 2009. Liberalizing services trade would allow cheaper imports of services inputs and Facilitate cost-efficiencies in Asia-Pacific supporting industrial production through GVCs. Liberalization should not be restricted to regional South-South liberalization, as developed economies remain the dominant source of imported service inputs.

8. CONCLUSION

The Asian Tigers (Hong Kong, S. Korea, Singapore & Taiwan) are much ahead of the Tiger Cubs (Indonesia, Malaysia, Philippines and Thailand) of the Asia Pacific region in terms of trade in services, exports of services,

imports in services and consequently employment in services.

There is a disparity in the region among the Tigers and the Tiger cubs of the Asia Pacific region in their per capita income as well within the two groups. Incomes and economic structure vastly differ in the region, some are agriculture dependent while others are not. The possibility of a trading community in Asia where member countries would be willing to hand over a significant part of economic decision-making to a supra-national body is not likely for this region. Therefore regional cooperation like the EU is a remote possibility.

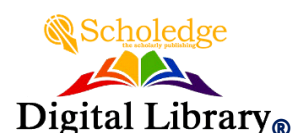
In terms of trade in services Hong Kong was much more affected by the Atlantic Crisis of 2008 than the Tiger nations of Singapore and Korea, this could have been due to its trade relation with the western countries which were themselves affected, than the regional countries which were less affected by the 2008 Atlantic countries.

Overall growth impact of shifting to a service economy depends significantly on the sectoral composition of services value added and employment. Shifting into activities that support innovation—such as engineering services, research services, and education services—can clearly help support the self-sustaining process.

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