Accountancy Business and the Public Interest, Vol. 9, 2010

The Service Sector - High Employment with Low Productivity Growth Prospect for Emerging Economies

Abstract

The purpose of this paper is to express the widely underestimated role of business services in driving the growth of the service sector, and the increasing specialization and productivity of the economies. In rich countries, service contributions are comparatively higher than that in poor countries. But service sector growth rates are higher in the poor countries in comparison to the rich counterparts. The service sector has an important role in improving production efficiency and promoting technical progress, in addition to directly satisfying consumer needs. Services play a central role in the economies of both developed and developing countries. They account for over half of the gross domestic product of all developed economies and constitute the single largest sector in most developing economies. Access to efficient services has become crucial for the productivity and competitiveness of the entire economy. This paper addresses this concern by first reviewing the international experience on service sector expansion, examining the current challenges and discussing the potential benefits of services trade.

Key words: *Economic Growth; Income Effect; Labor productivity; Employment; S*ervices liberalization

Introduction

In many economies, the principal barriers to the rule of market forces depends in services rather than manufacturing industries. One distinctive feature of services is that they serve as an essential input into an exceptionally wide range of activities, including manufacturing. Thus, removing regulatory barriers that curb competitive forces in services sectors could lead to noticeable gains not only in services sectors themselves but also in downstream manufacturing. Services sector play a central role in the economies of both developed and developing countries. They account for over half of the gross domestic product of all developed economies and constitute the single largest sector in most developing economies. Main reasons behind the growth of services include rapid urbanization, the expansion of the public sector and increased demand for intermediate and final consumer services. Access to efficient services has become crucial for the productivity and competitiveness of the entire economy.

In the present day world services sector is the fastest growing sector of the global economy and it accounts for two thirds of global output, 30 percent of global employment and 20 percent of global trade .Between 1990 and 2002, the growth in world services trade was 155 percent while those for manufacturing and agriculture were 97 percent and 40 percent respectively (Kumar, 2005). Services activities in low and middle-income countries have been expanding faster than GDP (gross domestic product) for the last two decades. An implication of this continuous shift toward services sector is that the overall growth of productivity in the economy is becoming increasingly determined by what is happening in the services sector (Sorsa, 1997).

The rise of service sector activities in Central America has profoundly affected social and economic relations in the region. A significant feature of the new political economy of Central America is the growth in tourism, both as a private sector activity and a policy-guided development strategy. In particular, tourism is being hailed as a facilitator for poverty reduction in the region, a key dimension of which is the provision of support and training to an emerging tourism-based micro-enterprise sector. This paper argues that the extent of support for the tourism micro-enterprise sector in the region is leading to an ‘entrepreneurial model of development’, in which development assistance consists primarily of the provision of business skills to the poor to enhance competitiveness in the global market.

This paper focuses specifically on the services sector because of the central importance of services to most developing economy’s current economic expansion. Whereas the East Asian economies’ success has largely been built on the development of export-oriented manufacturing, India’s recent growth has been led by the dynamism of its services sector – particularly high-end, knowledge-intensive services exports. Services have consistently grown in India at a faster pace than the economy as a whole since 1991, when the reform effort was kicked off in earnest. They now occupy some 60 per cent of India’s GDP, based on the WTO definition of services which includes construction. Manufacturing, by contrast, has maintained a stubbornly static share in the economy at around 20 per cent, while that of agriculture – still far and away the largest employer – has dwindled. Productivity growth in India, unlike virtually all other regions of the world, has been strongest in services (IMF 2006).

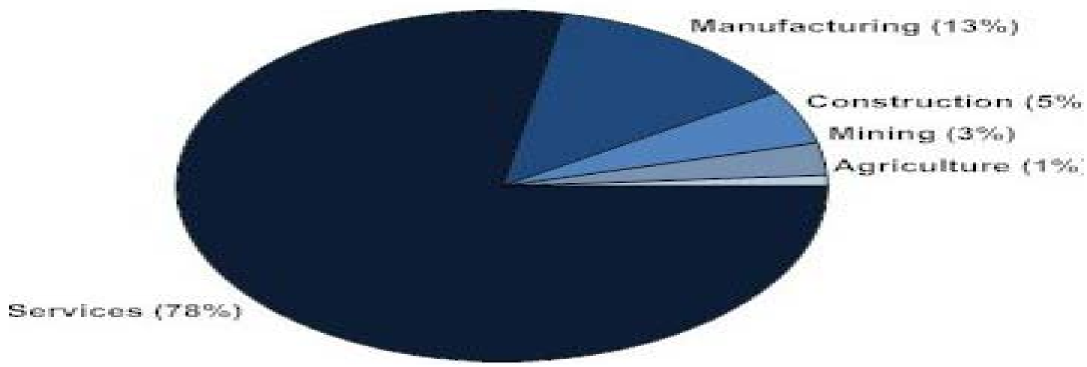
The service sector has an important role in improving production efficiency and promoting technical progress, in addition to directly satisfying consumer needs. More rapid development of producer service is associated with deepening division of labor and specialization, which are sources of productivity growth. Therefore, producer services can be considered an engine of growth. Elfring (1989) found out, in all OECD countries employment growth in producer services was about twice as high as the average for the entire service sector. Rapid development of the service sector benefits have widely shared in the society. The objective of this paper is to review international experiences, examine the factors behind the lagging service sector in developing countries, and build a CGE model which may facilitate the process of designing a strategy for services sector trade and development.

Raising the productivity is the essential approach to promote the development of economy and advance the society. Productivity is the exclusively significant concept, the crucial complication of national standard of living, the rootstock of national average revenue, and the foundation to maintain the vigor of economy. Furthermore, because of service industry being possessed of the high proportion in GDP, economists hold the prevalent perspective that its productivity is pivotal to attain the durative increase of economy in the future. With entering WTO, the service industry will be more open, and the competition will be more drastic. Therefore, we must reinforce the service productivity and competitiveness in order to develop healthily our service industry.

Despite the service sector's large share of the economy, services account for only 20% of global exports. Many services, such as dental care and automobile maintenance, are generally considered non-tradable, but information and communication technology (ICT) is enabling increased trade in knowledge-based services and creating tremendous export opportunities. Countries that invest in skilled human resources and develop strong service sectors can benefit by supplying services to meet growing worldwide demand, in addition to serving domestic customers. Opportunities exist for both developed and developing countries, but developed countries should be especially well positioned, given their advanced service sectors. The service sector includes a wide range of economic activities – from transportation to management consulting – that are essential for the efficient operation of an economy and a source of competitive advantage. Services constitute the vast majority of the global economy, covering two-thirds of world gross domestic product (GDP). In developed countries, services' share of the economy grew from 56% of GDP in 1971 to 72% in 2003, and services have been the source of most job growth over the last decade. Increasingly, services form intermediate inputs to the production process for goods and other services. For example, services now account for 25% of the value added in manufacturing (World Bank, 2005).

Services represent the overwhelming majority of U.S. economic output. In 2008, the service sector accounted for 78.3% of U.S. private sector GDP, or slightly over $9.7 trillion.

U.S. GDP by Sector, 2008 (Source GSS, 2009**)**



Developing countries too are seeing their service sector grow as a portion of their GDP. In middle income developing countries, services account for an average of 53% of GDP, and 45% in low income countries (GSS, 2009). The United States isn't unique in that respect; in developed countries, the service sector employs far more people and creates many more new jobs than the manufacturing sector. In the OECD, for example, an average of 70% of GDP and employment is generated by the service sector.

The successful growth of the primary and secondary activities in the economy, to a large extent, dependent on services offered by banking, insurance, trade, commerce, entertainment, maintenance of machinery and equipment and numerous other services categorized as tertiary activities. The emergence of India as one of the fastest growing economies in the world during the 1990s is attributable to a significant extent to the rapid growth of its services sector. During the last decade, the Indian service sector grew at an average annual rate of nine per cent, contributing to nearly sixty per cent of the overall growth rate of the economy (World Bank, 2004). Most of the growth in services has been in information technology (IT), business process outsourcing (BPO) services and knowledge based activities; other sectors like telecommunications, financial services, community services and hotels and restaurants, have also grown considerably. Access to external markets and domestic reforms have played an important role in creating a dynamic services sector in India.

Services play a major role in all modern economies. Indeed, it would be difficult for any economic activity to take place without services such as telecommunications, banking and freight logistics. Services trade accounts for 40-50% of GDP for developing countries and around 80% for developed countries. The service sector is by far the most important sector in industrialized economies. The International Labor Organization (ILO, 2006) estimates the service sectors share of total employment in the European Union (EU) and other developed economies to have totaled 71.4% in 2005, having grown from 66.1% in 1995. Although services account for more than two-thirds of employment and value added, economic analyses and policies continue to focus on industrial production.

Contribution to Employment

In all the South Asian countries though service sector employment has shown a rising trend but its contribution to total employment is much lower than its contribution to country’s GDP. In the case of Bangladesh, Raihan and Ahmed (2008) highlighted that because of liberalization in some key services sectors, such as telecommunications and financial services, the share of services sector in total employment had increased substantially over the last few years and reached around 35 percent of GDP by 2002-03.

In Sri Lanka the services sector accounted for 41.2 percent of employment in 2006, which was greater than the shares of industry and agriculture. The fact that 41.2 percent of the total employed yielded 54.6 percent of GDP is testimony to the earning potential and economic significance of the services sector (Deshal and Wijayasiri, 2008). The major sources of employment within the services sector are tourism and personal services. Financial services and telecommunications provide less employment but generate greater earnings.

Chanda (2008), however, observes that official statistics on service sector employment in the developing countries when juxtaposed with the dynamic nature of sub-sectors such as trade and distribution services or construction services may also suggest that part of the employment growth in services has been informal in nature. Therefore, the official estimates of the service sectors' contribution to overall employment may, to some extent, understate the actual contribution of this sector to total employment due to their failure to capture informal employment.

In several South Asian countries, increased foreign direct investment (FDI) in the services sectors has been associated with increased liberalization in those sectors. Raihan and Ahmed (2008) point out that in the case of Bangladesh, since 2003-04 the services sector has been able to attract large inflow of FDI and as a result by 2005-06 the FDI inflow in the services sector accounted for 81 percent of total FDI inflows in the country. The services sub-sectors, which received highest shares of FDI in recent years, are telecommunication, energy and financial sectors. In 2005-06, the telecommunications sector alone received 36 percent of total FDI, followed by the banking sector (17 percent). Increased investment into such sectors is associated with deregulation of government monopoly. In 2006 major contribution of FDI to Pakistan appears to be the telecommunication and financial services – 37 percent and 18 percent respectively. Also, the wholesale and retail sectors are growing very rapidly, especially through investment in large multinational chain stores.

It is, however, important to note that a large number of developing countries have been facing difficulties in identifying the sectors of their specific interests. Also, registering any meaningful liberalization commitments in the negotiations has achieved little progress. There is a serious concern about the developing countries' lack of capacity to evaluate the requests received from other member countries and regarding the development of their own requests. A major challenge is regarding determination of their national policy objectives and the competitiveness of each sector or sub-sector **(**Selim Raihan, 2008). Before taking steps to liberalize services sector there is a need to identify current state of potentials, weaknesses and constraints, in single word preparedness, of the domestic services sector.

There is also the need to explore the linkages within various services sectors and those of services sectors with manufacturing and agricultural sectors in an economy. Prioritization of sectors for liberalization should be based on the basis of the sector's link to the poor – that is, by taking into account the impact of trade liberalization in a sector especially on poor people as producers, consumers and employees and their ability to take advantage of the opportunities from liberalization. This will provide guidance about critical services sector, where liberalization may have larger potential to contribute, in terms of technology transfer, human skills development and institutional improvement.

South Africa is emerging as an important destination for BPO. The service provider industry in South Africa has achieved credible scale in Business Process Outsourcing (BPO), currently employing ~30,000 people. Also, the industry has been growing rapidly at a rate of 33% per year. The program has achieved significant success to date. Several public and private sector initiatives have been put in place to attract more offshore BPO business to South Africa. South Africa's BPO program objectives include creating 100,000 direct and indirect offshore jobs by 2009 (Salela, Mfayela, Bardien, 2009). The program has achieved significant success to date. Several public and private sector initiatives have been put in place to attract more offshore BPO business to South Africa. This report presents a deep, fact-based view of South Africa's current BPO capabilities and potential for growth in the Financial Services sector. In doing so, the report highlights South Africa's key differentiators with respect to other offshore destinations and the key risks and tradeoffs that investors need to consider.

South African Financial Services majors are expanding operations rapidly into sub- Saharan Africa. This presents opportunities for service providers to use South Africa as a base to serve the sub-Saharan Africa operations of domestic majors. Although costs in South Africa are higher relative to other locations in the region (e.g. Kenya, Nigeria), South Africa is well positioned to serve as a near-shore scalable destination given its larger talent pool, more evolved BPO industry and better quality infrastructure (Salela, Mfayela, Bardien, 2009). Service providers (suppliers and offshore captives) in South Africa have established credible scale in Financial Services BPO, employing ~11,000 people. While this scale is smaller compared to traditional offshore destinations (e.g. India, Philippines), it is comparable to the emerging offshore destinations such as Romania, Malaysia and the Czech Republic. In addition to the service providers, there are multiple, large-scale domestic Financial Services captives in South Africa. These domestic Financial Services captives employ ~65,000-75,000 people.

Developing human resources competency

The ability to provide a high level of service quality and an effective productivity and knowledge management process require the involvement and commitment of employees at all levels in an organization. The success of an organization depends heavily on the quality and competency of its human resources. Excellent companies recognize that human resources are their number one asset. This is all the more true in the service industry. Therefore, employees must be adequately trained and retrained to ensure that their knowledge, skills, and competencies remain relevant and useful. Service quality is about understanding and meeting customer needs, requirements, and expectations. The strategy to achieve this is to develop and nurture a close relationship with them through periodic contacts and surveys. Any feedback received should be followed through and acted on. Service quality not only involves meeting service delivery targets. It also necessitates seeking opportunities to “delight” customers with value-added services that make them feel more satisfied.

Service sector Linearization

There are a number of explanations for this growth. One reason is that as incomes rise, consumer demand for services increases even faster than income. This is evident in services related to health care, leisure, education and travel, all of which can improve quality of life and are consumed in increasing levels as discretionary income rises. In high-income countries, the share of employment in both manufacturing and agriculture has declined steadily over the last 50 years, as labor has increasingly shifted to services. The share of workers employed in services is now over 70% in most developed countries (ILO, 2006) In OECD countries, most employment growth over the last decade was due to services, and in particular, business services (OECD, 2005).

Some business services important to facilitating growth – such as legal and accountancy services – remain largely protected from foreign competition, as does the retail sector. As reform and growth continues in other areas, these sectors can also be expected to come under further pressure to deregulate and modernize. Already shopping malls are springing up all over emerging economies in the face of seemingly insatiable demand. The first hypermarkets and department stores are starting to emerge – again bringing with them requirements for skills and approaches which to date have been little required in developing countries, including modern distribution systems and integrated supply chains. While complete liberalization of foreign investment rules in these areas is fraught with political difficulty and likely to be some way off, pressure for change can only be expected to increase as people migrates overseas and experience international standards of service in these areas.

Among the major supply constraints that prevent the building of a competitive services sector in the South Asian countries are the lack of the following factors: human resources and technology to ensure that professional and quality standards are met; telecommunications infrastructure; a national strategy for export of services; government support to help service firms, especially small and medium enterprises; financial capacity of firms; presence in major markets; and the ability to offer a package of services (UNCTAD, 1998).

Globally, agriculture still employs the largest share of the workforce, but the service sector is close behind and is expected to surpass agriculture in total worldwide employment in the near future. Since 1995, the share of worldwide employment in agriculture has fallen from 44% to 40% in 2005, while services have increased from 35% to 39% of total employment. During the same period, worldwide employment in industry was relatively flat at about 21%. Industry employment in developed countries has fallen from 29% in 1995 to 25% in 2005, but this is still more than in the world as a whole (World Bank, 2005). Although employment historically has moved from agriculture, first to industry and then to services, as countries have climbed the development ladder, many workers are now moving directly from agriculture to services. In fact, since 1995, the share of employment in services has increased in all regions of the world except for the Middle East and North Africa (ILO, 2005).

Only about 10% of world services output enters the international trade stream, compared with over 50% of goods that find their way into international markets (UNCTAD, 2004). One explanation for the lower level of trade in services is that significant trade barriers exist across a range of service sectors in many countries. But a major reason for weaker trade in services is that many services, such as dental care and automobile maintenance, are generally considered non-tradable. However, for many knowledge-based services, this is changing, because information and communication technology (ICT) enables these services to be provided remotely from the client at minimal cost. Developed countries typically have a strong and diverse service sector, providing a significant boost to their overall economic performance and competitiveness. This is one reason why developed countries enjoy high productivity rates and correspondingly high standards of living. It is important, however, that developed countries not take for granted the relative strength of their service sectors.

Many countries, including developing countries, are recognizing the importance knowledge based services, and are seeking to improve this vital component of their economies. Increasing competition in services could lead to diminished comparative advantage for those developed countries that do not promote continual innovation and development in services. New clusters were emerged in cities like Bangalore and Hyderabad, were a vibrant Indian firm are being joined by well-known multinationals. One interesting example is General Electric (GE), which invested $100 million in Bangalore to build its larges R&D lab in the world, employing 2600 scientists, including more than 300 with Ph.D. degrees (Devesh Kapur and Ravi Ramamurti, 2001).

Innovation in services is vital to maintaining competitiveness and taking advantage of new opportunities. According to the OECD, “innovation” is a new or significantly improved product (good or service) introduced to the market or the introduction within the enterprise of a new or significantly improved process (OECD, 2005). Innovation across an economy leads to new jobs, new companies and even new industries. Since the service sector accounts for the vast majority of GDP and employment and is the main driver of productivity and economic growth, *innovation in services is a critical factor in increasing competitiveness and accelerating* *economic growth*. In a knowledge-based economy, services innovation depends on the ability to create, acquire and manage knowledge. Skilled human resources, a new approach to R&D, a well-developed ICT infrastructure, collaboration among business partners and customers, and facilitation of business creation are critical factors to enable innovation in services and to enhance competitiveness.

In the year 2004 United Kingdom (UK), Australia, France, Japan, United States of America (USA) accounted 72%, 71%, 73%, 68% and 75% service contribution in the economy respectively. Whereas, developing countries like China (35%), India (52%), Sri Lanka (58%) and Bangladesh (48%) were facing comparatively less service share in the economy. It is obvious; in general, service sector grows and expands by time. UK, Australia, France, Japan, USA, Singapore, Hong Kong, China, India and Sri Lanka all had relatively smaller service share in 1960 (53%, 51%, 52%, 42%, 58%, 78%, 62%, 20%, 30% and 48% respectively) in comparison to the service share of those countries in the year 2004. Growth in service sector is continued throughout the world in almost every developed and developing country **(**Shugan, 1993). Pattern of service sector growth rate exhibits that service sector grows relatively faster in those areas where service sector share is relatively low and the degree to which the country is developing. The features of service sector growth pattern and service sector share illustrate that service share and growth are linked with per capita income which create demand for services in the market. All advanced economies are moving toward service production (Riddle, 1986**)**.

How Tourism Impact Service Sector: Crucial for Economic Growth

Tourism is one of the world’s largest and fastest-growing industries and its importance for economic development is widely acknowledged. What makes tourism different from many other services is that the supplier stays where he is, and the tourist comes to the host country rather than the supplier taking his services to the consumer. Tourism can play a key role in poverty alleviation, bringing jobs for unskilled or semi-skilled workers in hotels, resorts and at cultural sites, as well as encouraging job creation in supply industries.

It is expected that Africa will have an additional 36 million visitors by 2010 and 57 million visitors by 2020. Tourism is the only service where there is a positive balance of trade flowing from the developed world to third world countries. Specifically, tourism's economic activities effectively improves the livelihoods of the people through income generation, employment creation, improved infrastructure, increased standard of living and increased government revenue. According to Christee and Crompton (2001), Africa receives just about four per cent of all international travelers and tourism receipts. The UNWTO has observed that Africa's tourism potential lies in its strength in the originality and authenticity of its products (Andebrhan, 2009).

The importance of the tourist sector is reflected in the relatively liberal environment currently in place in most countries. Nearly 130 World Trade Organization (WTO) members have made commitments to open up their tourist sector, more than for any other service sector, reflecting a desire to expand tourism and attract foreign direct investment. Tourism service may also represent a way to attract other types of consumers, not just holidaymakers. A growing phenomenon in recent years has been the movement of seniors or retirees from high-income to lower-income countries, not just for holidays but to escape harsh winters or to live permanently. As baby boomers, used to traveling abroad for vacation, begin to retire and as developing countries improve their services and infrastructure, these trends are likely to continue (OECD, 2007). As noted, even though Africa is relatively not known to the main generating markets in Europe, that is Spain, Germany, France, Holland, Sweden, Norway, U.S. etc., the UNWTO estimates that 36 million international tourists will visit African by the end of 2010.

But there is still a great deal of scope for developing countries to expand tourism and the opportunities it offers for socio-economic development. One factor restricting such growth is a lack of adequate services and infrastructure, such as transport, telecommunications, financial services, or electric power and sewage treatment facilities. Any country wanting to boost its tourism industry also needs to be able to build hotels, provide an adequately educated and trained workforce, and advertise for tourists. Broadly defined, tourism could be regarded as one of the world’s largest and fastest growing industries. Over the decade of the 1990s, Africa has experienced a rise in tourist arrivals from 8.4 million to 10.6 million and receipts growth from $2.3 billion to $3.7 billion. According to the World Tourism Organization (WTO, 2006), the tourism industry in Sub-Saharan Africa enjoyed a robust annual market share growth rate of 10 percent in 2006. In spite of this, there are only few empirical studies that investigate the contributions of tourism to economic growth and development for African economies. Using a panel data of 42 African countries for the years that span from 1995 to 2004, this study explores the potential contribution of tourism to economic growth and development within the conventional neoclassical framework. The results show that receipts from tourism industry significantly contribute both to the current level of gross domestic product and the economic growth of Sub-Saharan African countries as do investments in physical and human capital. Our findings imply that African economies could enhance their short-run economic growth by strategically strengthening their tourism service industries (Andebrhan, 2009).

According to the World Travel and Tourism Council (WTTC), an organization made up of executives from the travel and tourism industries, the contribution of travel and tourism to worldwide gross domestic product (GDP) will rise from 10.3% (USD 4,9 billion) to 10.9% (USD 9 billion) between 2006 and 2016. In construction services, 51 of the world's top 150 companies in 2004, measured in terms of the amount of revenue generated outside their home market, were from developing countries, including China, Turkey, South Korea, Brazil and Egypt (OECD, 2008). Achieving these objectives requires strong public sector management and support. Given the cross-sectoral nature of tourism, governments need to establish a comprehensive policy framework that improves the business environment and addresses the underlying economic relationships and social and physical constraints. Strong tourism agencies are needed that are capable of co-coordinating with other arms of government and other stakeholders such as local authorities, the private sector and NGOs.

Policies and strategic initiatives to prepare the services sector

In preparing the services industry to meet the challenges posed by the globalization and liberalization process under the WTO, the Malaysian government has developed and explored various strategies to enhance the competitiveness of the Malaysian services sector. Some sectors, such as tourism, private education, promoted manufacturing services, health and construction services, have been able to capitalize on greater market liberalization, while others may face problems adjusting to the evolving landscape. These strategic initiatives are aimed at preparing services suppliers domestically and assisting thriving services exporters. A 2002 empirical study published in the *ASEAN Economic Bulletin* shows that services sector growth has had a positive effect on per capita income in ASEAN. That's to be expected because the sector not only provides economic growth momentum in its own right, it is also essential for the smooth running of the economy. Specifically, it facilitates economic transactions by enabling the efficient production and delivery of goods and other services.

The traditional role of government is to formulate policy for the tourism sector. Today the focus has changed because of changing priorities occasioned by development in the international tourism scene. The challenge for national governments is to formulate tourism sector policies that best reflect the new thinking. Some important areas needing policy re-orientation or refocusing are consultation with local communities in the planning process; forging partnership with the private sector; liberal immigration regulations to facilitate free tourist movement; tourism infrastructure development policy to facilitate tourism development, for the benefit not just for tourism but the wider society.

A well-functioning services sector is thus critically important to economic performance (MIERSCAN, 2009). The Third Industrial Master Plan (2006-2020), it had become clear that the growing weight of the services sector in the Malaysian economy meant that it became strategically important to build a stronger and more dynamic services sector. This change in policy focus towards the services sector is not an unreasonable strategy shift considering that Malaysia will have trouble maintaining its growth momentum, going forward, if it were to continue relying on an export-led growth strategy that is primarily dependent on manufacturing. The strategy is after all already well past its sell-by date for Malaysia. This is because rising competition from the regional powerhouses, China and India, countries that have significant competitive advantages in manufacturing, will see to that.

As Malaysia begins to position itself strategically in the knowledge-based economy, the services sector has been earmarked as its next engine of growth. This idea, in its rudimentary form at least, has been bounced around the discussion circles of policy-makers, policy scholars and various other intellectuals involved in influencing national policy for more than a decade now. Indeed, the importance of the services sector to further Malaysia's economic growth has been increasingly highlighted in the country's various development plans. In order to enjoy greater business opportunities arising from the global liberalization of services, Malaysian services industries will have to adapt to a more open market environment. In preparing the services industry to meet the challenges posed by the globalization and liberalization process under the WTO, the Malaysian government has developed and explored various strategies to enhance the competitiveness of the Malaysian services sector. Some sectors, such as tourism, private education, promoted manufacturing services, health and construction services, have been able to capitalize on greater market liberalization, while others may face problems adjusting to the evolving landscape. These strategic initiatives are aimed at preparing services suppliers domestically and assisting thriving services exporters.

Services in the Global Economy

When we think of services – if we even think about them at all – we may not appreciate the breadth of economic activity that they encompass: the engineer's network design, the barber's haircut, the doctor's diagnosis, the waitress's service, the architect's building plans, the carpenter's craftsmanship and the consultant's business strategy. However, the contribution to the world economy of these and many other services is large and growing. As growth continues, other services sectors also have a crucial role to play. A modern economy demands both an efficient telecommunications infrastructure to facilitate rapid information exchange and communication between economic units, and a financial sector which is able to provide sophisticated intermediation between capital providers and capital users so that resources are allocated efficiently within the economy. It also requires increasing sophistication in areas such as transport and power infrastructure to prevent disruptions to production and enable goods to be moved efficiently around the country; and in education and training to ensure that there is sufficient skilled labor to allow the economy to modernize.

Services are essential for the efficient operation of an economy, facilitating commercial transactions and enabling the production and delivery of goods and other services. In developed countries, the service sector employs far more people and creates many more new jobs than the manufacturing sector. Services are a crucial component of innovation and production in a host of manufacturing industries and agriculture. They can build infrastructure, hone competitiveness, ignite technological development, increase productivity and expand trade capacity. Research has shown that economies with more efficient service sectors enjoy higher productivity and growth (Catherine Mann, 2003). A country with an open, dynamic and efficient service sector enjoys a competitive advantage in the production of both goods and services As a critical component of the economy, it is therefore essential that government leaders focus on the service sector when devising plans to foster innovation, promote economic growth and create jobs.

Other developing countries like India and China have boosted up their economy through service sector (besides manufacturing sector). The countries, which have higher per capita income, contain larger share of service sector and which have low per capita income contain smaller share of service sector in the economy. China and India together account for about 37.5 per cent of world population and 6.4 per cent of the value of world output and income at current prices and exchange rates. As the two countries play an increasingly weighty role in the world economy, their expansion has a noticeable impact on global growth, through a number of channels, with trade being, arguably, the strongest and most direct (World Bank, 2007).

At the beginning of the process of development, most of the countries start shifting their factors toward manufacturing sector from agricultural sector. Growth rates of those countries are favored by manufacturing growth at the very first dates of their development process. Finally, after a particular period countries go through the deindustrialization process. Deindustrialization is the tendency for the industrial sector to account for a decreasing proportion of GDP and employment. Developed countries (Australia, France, Germany, Japan, USA, UK, etc.) started gathering their remaining potentials into service sector when deindustrialization was in progress (WDI, 2007). This supply side explanation can not accord all reasons behind establishment of large service sector. Service demand increases with the increase in per capita GDP and per capita consumption. There are many developing nations which are (i.e. Bangladesh, China, India etc.) boosting their economy in the early ages of development through service sector growth. There are several examples (Barbados, Djibouti, Dominica, Jamaica, Vanuatu etc.) of small countries whose economies are building on the base of service sector growth and service export. Generally, this sector establishes as the third (agriculture, industry then service) sector in the economy. For this reason this sector is also labeled as 'the tertiary sector of industry'.

Results and Findings

Service providers benefit their clients by developing capabilities of managing assets and competencies. From the perspective of the property rights theory, service-contracts help companies to economize costs of ownership. As an organizing principle, companies should design service contracts in such a way that assets and human competencies are managed by the company that is in the best position to maximize their value.

The emirate's economy grew by 16 per cent in 2005 and 2006, according to the Department of Economic Development, fuelled by the services sector, especially tourism. The Dubai economy has also been growing faster than the emerging economies of China and India and the developed economies of Ireland, Singapore and the US. The services sector has been the key driver of economic growth with an annual growth rate of 21 per cent since 2000, constituting $27.6 billion or 74 per cent of Dubai's GDP in 2005, making it a very competitive economy. Shaikh Mohammad laid strong emphasis on the economic diversification and reduced dependence on the oil sector, which declined to three per cent of the emirate's GDP (Saifur Rahman 2009).

India's service sector will play a key role in the growth of the economy, and small-scale entrepreneurs could step up the need of the people, and come out with more services with the growth in income levels and changes in lifestyles (Kaandampully, 2009). Some vital factors for entrepreneurship were focus on the customer, as also reliability and consistency of services.

The service sector was likely to provide more employment than the manufacturing sector. Breakdown by economic sector Hong Kong shows that the recent gain in overall labor productivity was driven by the strong growth in output per labor in financial- and trade-related service sectors. Reflecting this, per-employee compensation registered the largest increment in the financial and insurance sectors (Leung, Han and Chow, 2009). One of the apparent factors is the transformation from a manufacturing-based to a service-oriented economy, which has added significant value to labor services in Hong Kong.

Transport services enable the efficient distribution of goods and business services such as accounting and legal services that are essential in reducing transaction costs. Software development is the foundation of the modern information based-economy and education and health services are essential for developing human capital (McGuire, Greg. 2002). For instance, the imports of commercial services increased from approximately $10 billion USD in 1980 to about $62 billion USD in 2005. These imports allow the Canadian economy to access services it is not capable of producing at a competitive level and creates a competitive environment driving innovation and knowledge creation.

Tourism is the only service where there is a positive balance of trade flowing from the developed world to third world countries. Specifically, tourism's economic activities effectively improves the livelihoods of the people through income generation, employment creation, improved infrastructure, increased standard of living and increased government revenue.

Before taking steps to liberalize services sector there is a need to identify current state of potentials, weaknesses and constraints, in single word preparedness, of the domestic services sector. There is also the need to explore the linkages within various services sectors and those of services sectors with manufacturing and agricultural sectors in an economy. Prioritization of sectors for liberalization should be based on the basis of the sector’s link to the poor – that is, by taking into account the impact of trade liberalization in a sector especially on poor people as producers, consumers and employees and their ability to take advantage of the opportunities from liberalization. This will provide guidance about critical services sector, where liberalization may have larger potential to contribute, in terms of technology transfer, human skills development and institutional improvement.

Conclusion

The service sector is a driver of economic growth. While international trade and investment in services have grown substantially in recent years, there is great potential for even more growth, given a supportive international trade environment. As the sector accounting for the majority of employment and economic output, services will play a key role in achieving economic recovery and long-term sustainable growth both in the U.S. and in the global economy. While it is acknowledged that making the various structural adjustments necessary to realize its goal of creating a service-oriented economy will undoubtedly be a painful process, it is, ultimately, necessary. Therefore human resources development must be an integral part of any services sector development plan. The central wealth-creating activities will be neither the allocation of capital to productive uses, nor labor, rather value is now being created by productivity and innovation, both applications of knowledge to work. Services are no longer considered as peripheral activities supporting the manufacturing sector, but the backbone of its economic performance.

Author: Dr. Ghirmai T. Kefela, Ph.D. International Business, The material presented by the author does not necessarily represent the viewpoint of editors and the management, and as well as the authors' institute. Dr. Ghirmai Kefela - Operations Manager, DTAG Inc. 2300 Airport Blvd. San Jose, CA 95110, USA 95110, USA. Gtesfai@hotmail.com, Gkefela@yahoo.com- 510 793 9732, 408 422 2248

Acknowledgements: Author would like to thank the editor and anonymous referees for their comments and insights in improving the draft copy of this article. Author further would like to declare that this manuscript is **Original** and has not previously been published and that it is not currently on offer to another publisher; and transfers copy rights to the publisher of this journal after the paper is accepted.

****

References

Andebrhan ,2009 – “Africa and the tourism industry”, http://www.shaebia.org/artman/publish/article_5905.shtml

Chanda, R. (2008), “Trade in Services and South Asia: An Aggressive Agenda”, in south Asian Yearbook of Trade and Development, Centad, New Delhi

IAIN T. **CHRISTIE, 2001** Tourism **in Africa -** Consultant, Private Sector and Finance, Africa Region, The World Bank Ichristie@worldbank.org - Doreen **E. Crompton,** Consultant, Tourism and Environment cromptonde@aol.com

Devesh Kapur and Ravi Ramamurti, 2001).- “India’s emerging competitive advantage in services”. Academy of Management Executive, 2001, Vol 15, No. 2 http://www.iupui.edu/~anthkb/a104/india/india's%20advantage%20in%20service.pdf

Deshal, de Mel and Wijayasiri, J. (2008), “Domestic Preparedness of Sri Lanka with respect to Services Trade Liberalisation: Case Study of the Telecom Sector”, Paper Prepared as part of the *WTO Doha Round & South Asia: Linking Civil Society with Trade Negotiations* Phase 2 Project, CUTS, Jaipur

Elfring, Tom(1989), “New Evidence on the Expansion of Service Employment in Advanced Economies”, Review of Income and Wealth, Series 35, Number 4, December 1989

Frank **Leung,** Gaofeng Han and Kevin Chow, 2009 -Working Paper 14/2009 FINANCIAL SERVICES SECTOR AS A DRIVER OF PRODUCTIVITY GROWTH IN HONG KONG Research Department

Kumar, P. (2005), “Services Negotiations in Doha Round: Concerns of South Asia.” CUTS, Jaipur

International Labor Organization, 2005 - *Global Employment Trends*, p. 8.

ILO, 2006 -*Global Employment Trends*, January 2006, p. 12 0

IMF. 2006. “Asia rising: Patterns of Economic Development and Growth,” Chapter 3 of *World Economic Outlook* (September): 1-30.

Jay **Kandampully**, 2009 -Professor of Services Management at Ohio State University, USA.

MIERSCAN, 2009 *The writer is a research fellow at the Malaysian Institute of Economic Research*

Mann, Catherine. 2003. *Globalization of IT Services and White Collar Jobs: The Next Wave of*

Productivity Growth. International Economic Policy Briefs. Institute for International Economics. December.

OECD (2007), Services Trade Liberalisation and Tourism Development, available at www.oecd.org/ech, under "Working Papers".

OECD (2008), Tourism in OECD Countries 2008: Trends and Policies, ISBN 978-92-64-03967-4, € 80, 260 pages (forthcoming).

Raihan, S. and Ahmed, M. (2008), "Domestic Preparedness for Services Trade Liberalization in Bangladesh", Paper Prepared as part of the *WTO Doha Round & South Asia: Linking Civil Society with Trade Negotiations* Phase 2 Project, CUTS, Jaipur

Riddle, Dorothy I., (1986), Service-led Growth: *The Role of the Service Sector in World Development*. Praeger Publishers, Westport, Connecticut**.**

Selim Raihan, 2008 "Domestic Preparedness for Services Trade Liberalisation" – Working Paper ***No. 3/2008***

Sorsa, P. (1997), 'The GATS agreement on Financial Services: A Modest Start to Multilateral Liberalization." Working Paper No 97/55, International Monetary Fund, Washington DC, USA

Shugan, S.M., (1993), *Marketing and Managing Services: A Context Specific Approach*, Richard D. Irwin, Inc., Homewood, Illinois, forthcoming.

Saifur Rahman, Business News Editor, GulfNews -2009

Pumela **Salela,** Mfanu Mfayela, Fatgiyah Bardien, 2009). " READY TO COMPETE" SOUTH AFRICA'S BPO CAPABILITIES IN THE FINANCIAL SERVICES SECTOR

UNCTAD, (1998), "Liberalizing Trade in Services: A Handbook." Geneva, Switzerland

UNCTAD, *World Investment Report 2004: The Shift towards Services,* p. 97. Organization for Economic Cooperation and Development

OECD). 2005. *Promoting Innovation in Services*. Working Party on Innovation and Technology Policy., p. 11.

WTO, 2006 - Africa sees highest growth in tourism industry http://www.afrol.com/articles/17950

World Bank. 2005. *World Development Indicators: Online Database*.

World Bank and Institute of Policy Studies (2007)

World Bank,2005 -*World Development Indicators*.

World Bank(2004)Statistical Abstract of Punjab, Various Issues. Economic and Statistical Organisation, Punjab. World Bank(2004): Resuming Punjab's Prosperity: The Opportunities and Challenges Ahead, New Delhi.

WDI (2007), *World Development Indicators*, World Bank, Washington DC, USA