

The Role of Services Sector in the Economy of Pakistan

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Introduction

- Services sector is the largest and fastest growing sector in the world economy, accounting largest share in total output and employment in most developed countries.
- The share of services sector in total GDP is 47 percent in low income countries, 53 percent in middle income countries and 73 percent in high income countries.

- Clark (1941) Kuznets (1957) and Fuchs (1980) observe that there is shifting in population or structure changes from agriculture to manufacturing and from manufacturing to services in the course of economic development.
- Kongsamut et.al (2001) estimates for 123 countries from 1970-80 that with increase in services raises the per capita GDP of these economies.

- Rath et.al (2006) analyzes that higher growth in services sector cause Indian economic growth.
- In case of Pakistan, the shares of services are increasing in all sectors of economy over the period. In fact, the growth rate of services sector is higher than the growth rate of agriculture and industrial sector

Objective

- The objective of this paper is to analyze the importance of services sector in an economy and better understanding about Pakistan services sector.
- The study also explores the relative performance of services sector and its role in economic growth, trade and employment generation.

Classification of Services

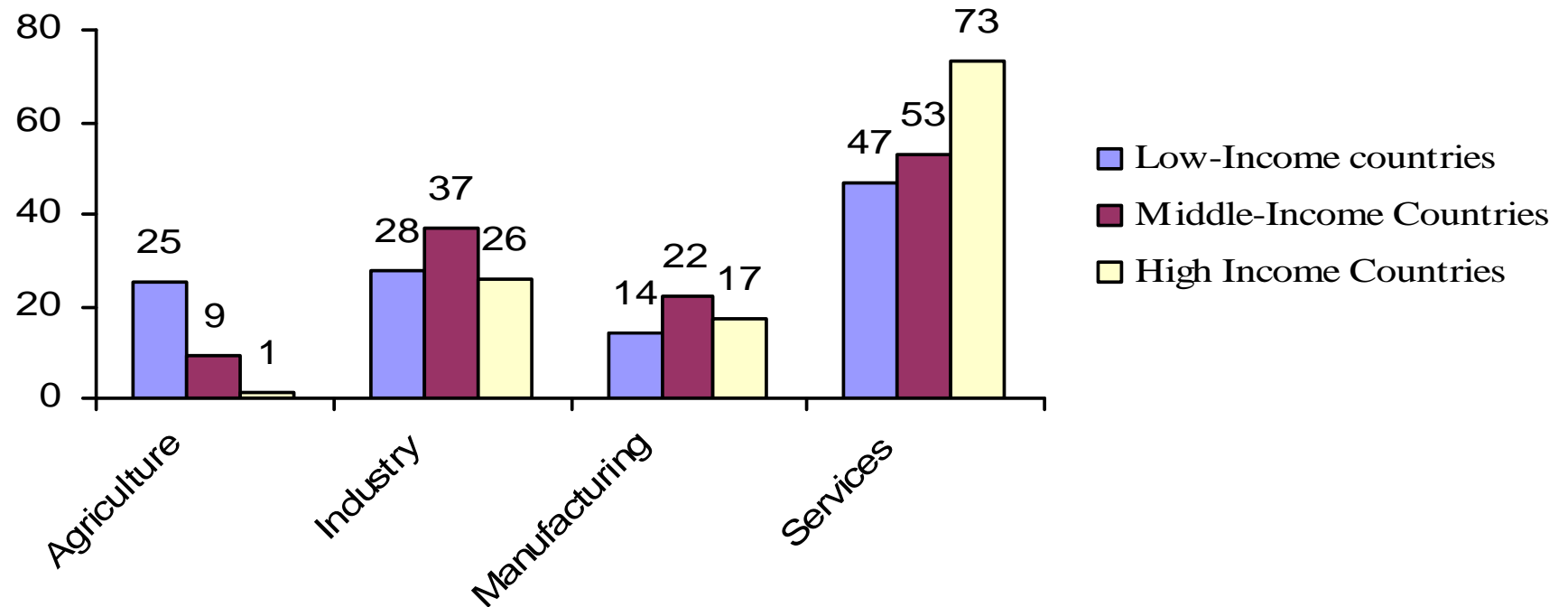
- Services sector consists of four major sectors in Pakistan that are:
 - Distributive Services
 - Producer Services
 - Personal Services
 - Social Services

Global perspective of Services

- Services represent the fastest growing sector of the global economy and account 69 percent of global output, 35 percent of global employment and nearly 20 percent of global trade.
- The value of services in world exports has increased by 41.7 percent whereas the value of goods has increased just by 35.5 percent

Graph # 1

Sectoral Share in GDP of World Economies, 2008



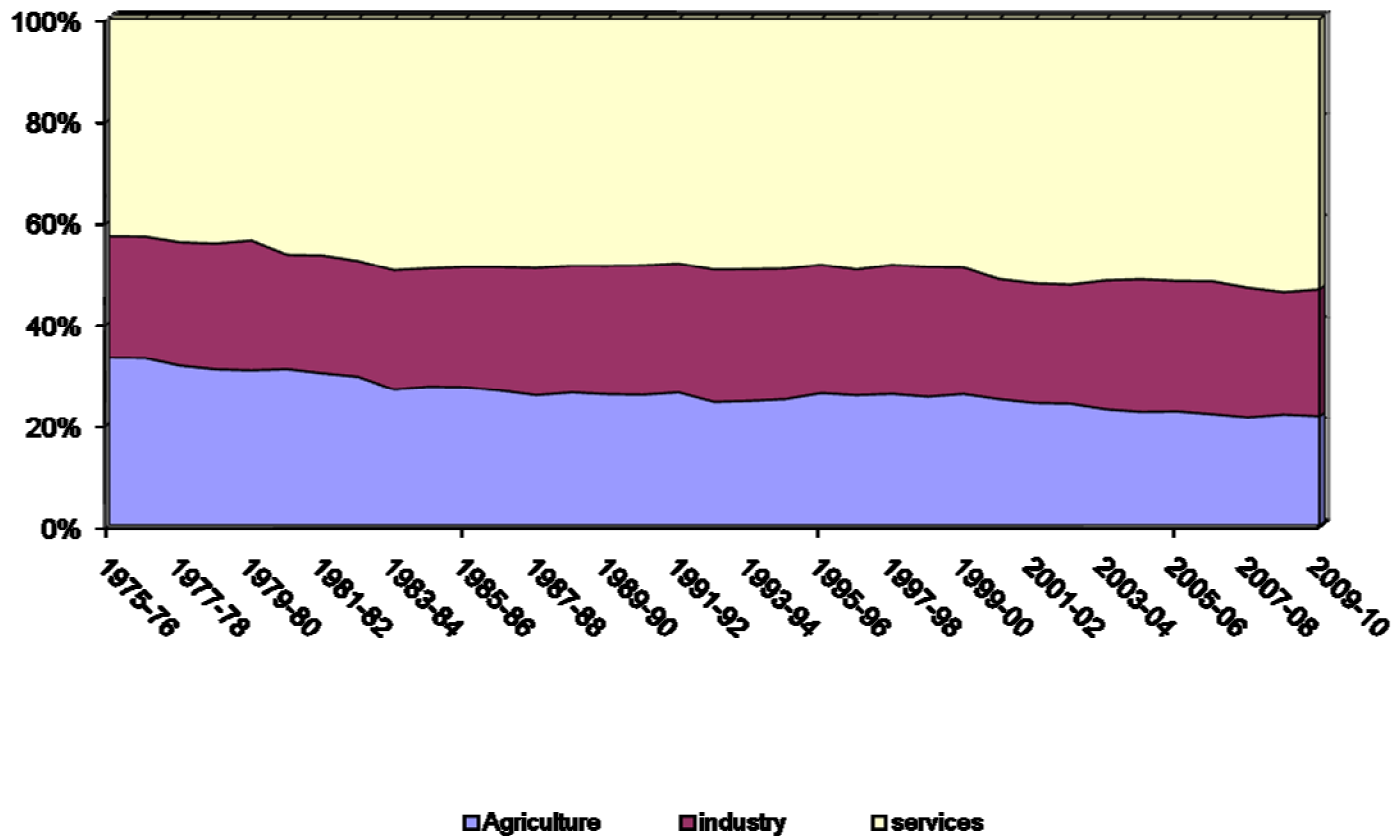
Source: WDI, 2010

Role of Services in Economic Growth

- Services sector play dominating role in the economic activity of Pakistan.
- Share of services sector has been raising gradually over time.

Graph # 2

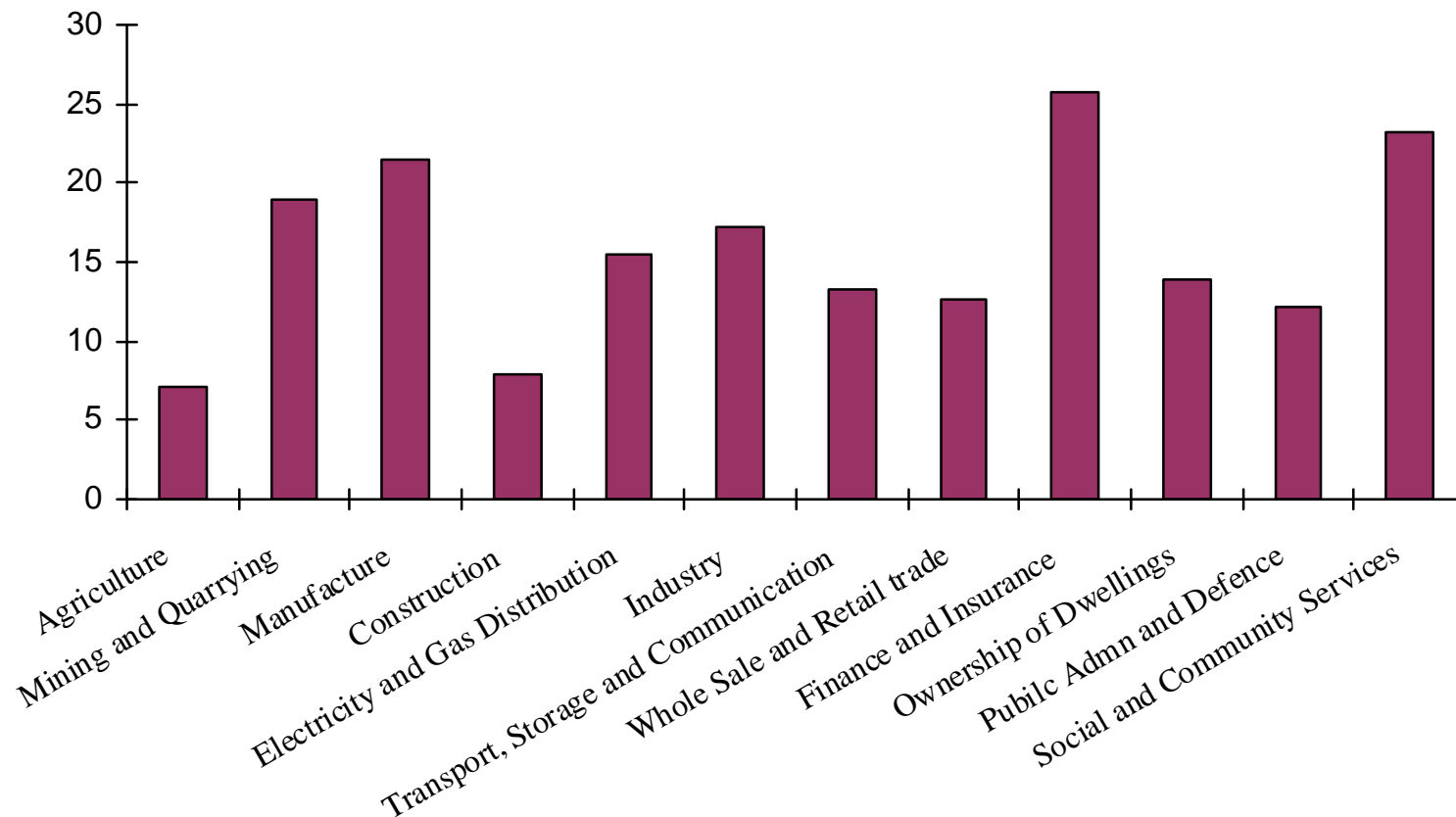
Sectoral Share of GDP, 1975-76 to 2009-10



Source: Economic Survey of Pakistan

Graph # 3

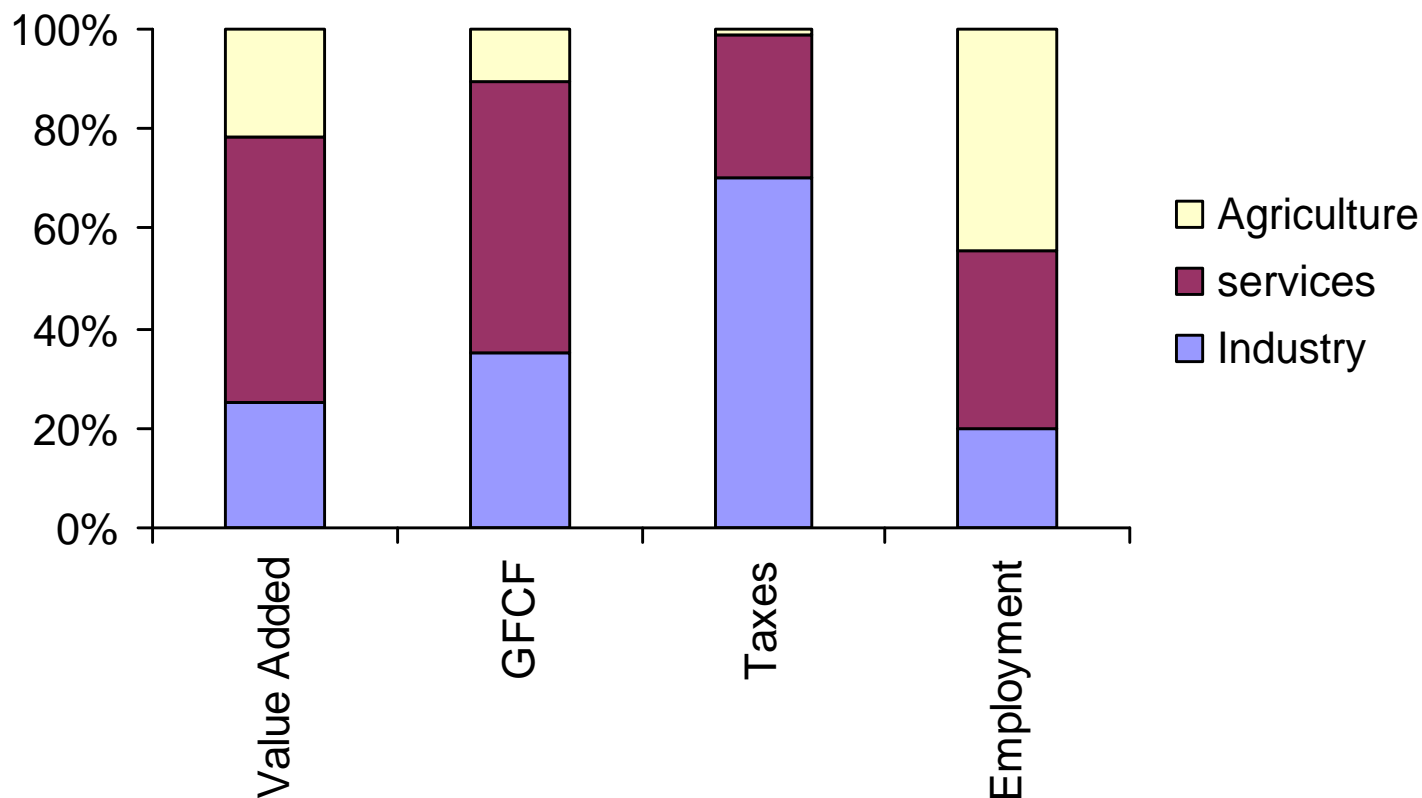
Annual Growth Rates of Pakistan's Sectors, 1975-76 to 2009-10



Source: Economic Survey of Pakistan (various issues).

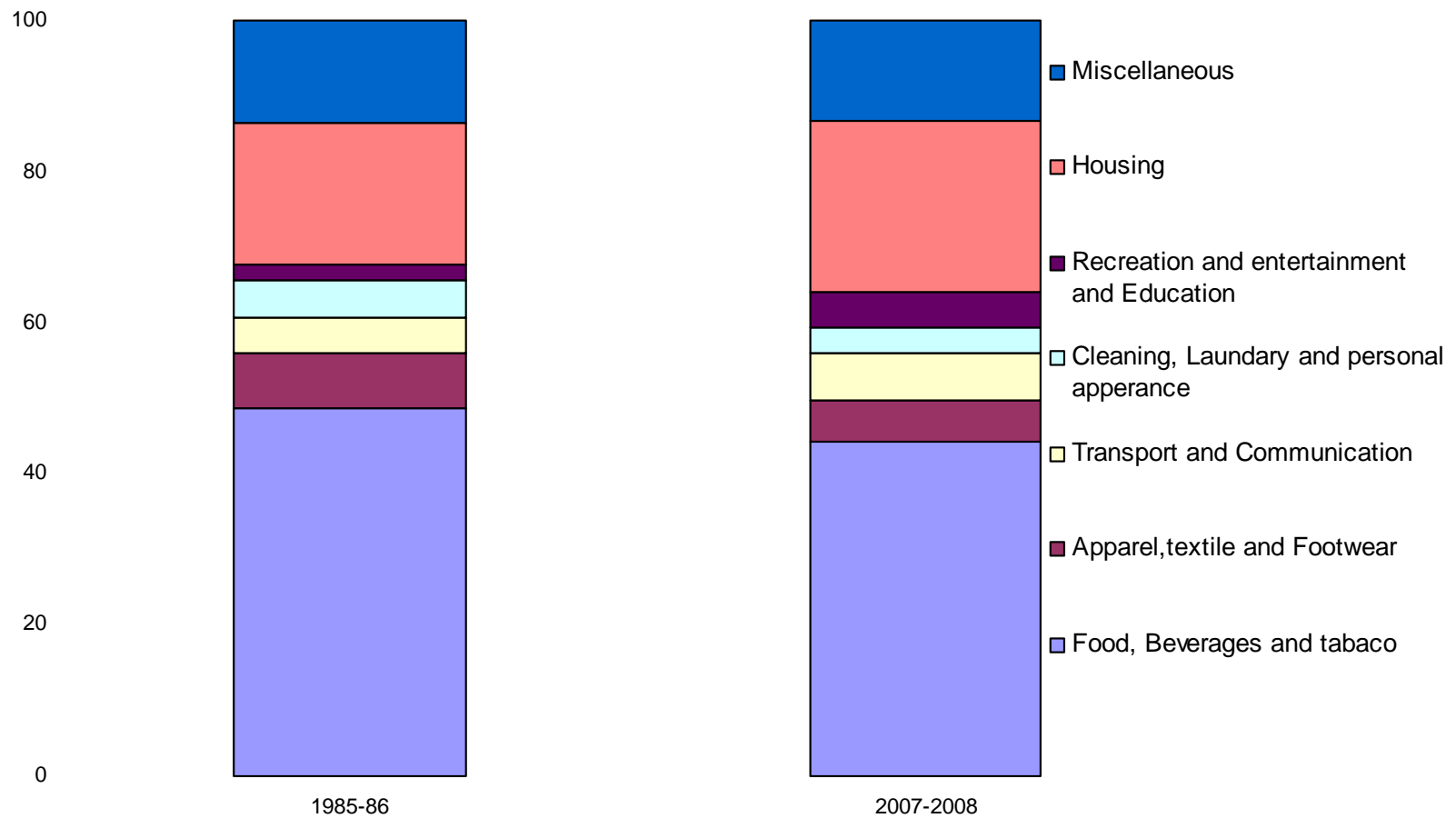
Graph # 4

Economy Activities of Pakistan by Sector Wise, 2009-2010.



Graph # 5

Household Final Consumption expenditure Share, 1985-2008.



Source: Household Integrand Economic Survey.

Pakistan's Service Trade

Trade in services has been defined in term of the following four modes covered in the GATS.

- Cross- border supply
- Consumption abroad
- Commercial presence
- Presence of Natural Persons

Table #1

Balance of payment

(\$Million)

Sectors	2008-09			2009-10		
	Exports	Imports	Balance	Exports	Imports	Balance
Goods	19121	31747	-12627	19636	31013	-11377
Transportation	1231	3633	-2402	1149	3456	-2307
Travel	314	1002	-688	341	879	-538
Communication services	196	144	52	246	159	87
Construction services	31	70	-39	16	29	-13
Insurance services	59	133	-74	42	146	-104
Financial services	63	166	-103	90	95	-5
Computer & information services	184	122	62	188	168	20
Royalties and license fees	11	93	-82	6	111	-105
Other business services	493	1648	-1155	537	1082	-545
Personal & cultural & recreational services	1	3	-2	4	19	-15
Government services	1523	473	1050	2528	662	1866
Services	4106	7487	-3381	5147	6805	-1658
Goods and Services	23227	39234	-16008	29930	44624	-14694

Table # 2

Pakistan Net Inflow of Foreign Direct Investment, 2008-10

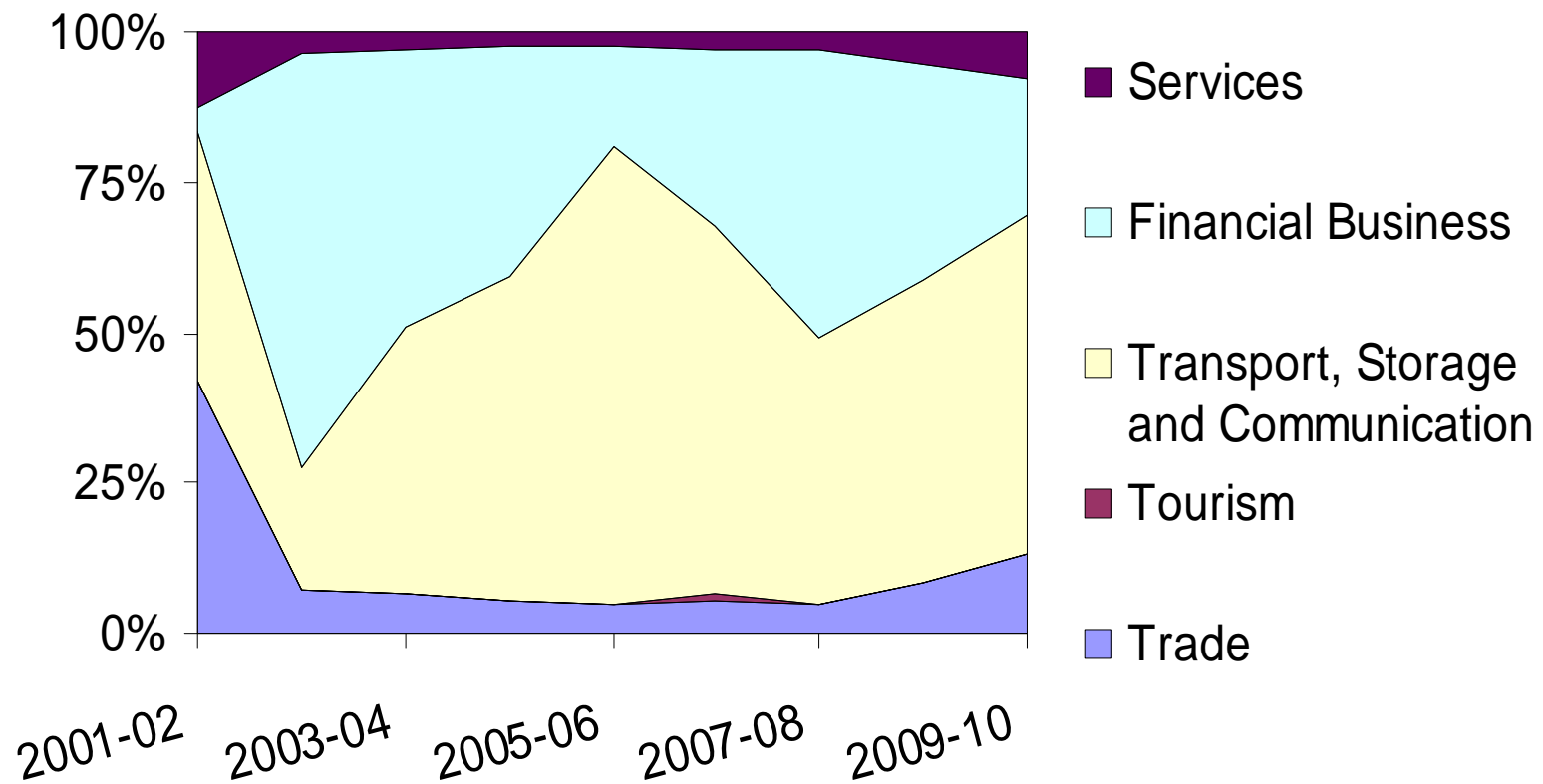
\$ Million

Sectors	2008-09	2009-10
Goods	1678.686	1305.8
Trade	166.6	117.1
Tourism	0.0	0.0
Transport	95.9	132.0
Storage Facilities	0.4	0.0
Communications	879.1	291.0
a) Telecommunications	814.9	373.7
b) Information Technology	62.7	-79.1
i) Software Development	19.1	9.2
ii) Hardware Development	1.5	2.6
iii) IT Services	42.1	-90.9
c) Postal and Courier Services	1.6	-3.5
Financial Business	707.5	163.0
Social Services	1.5	1.9
Personal Services	100.1	62.5
Services	1951.1	767.5
Total	3629.8	2073.3

Source: State Bank of Pakistan.

Graph # 6

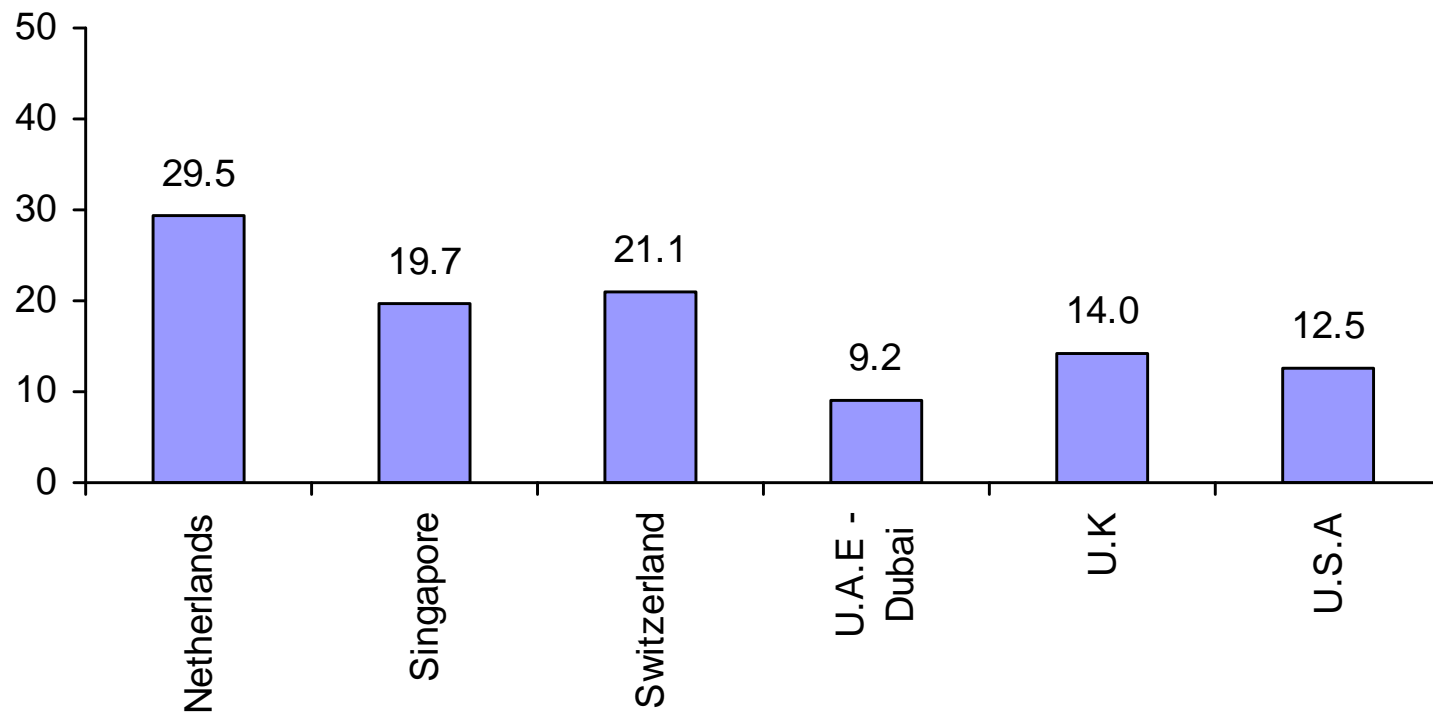
Industry Contribution of Services in FDI, 2001-02 to 2009-10



Source: State Bank of Pakistan

Graph # 7

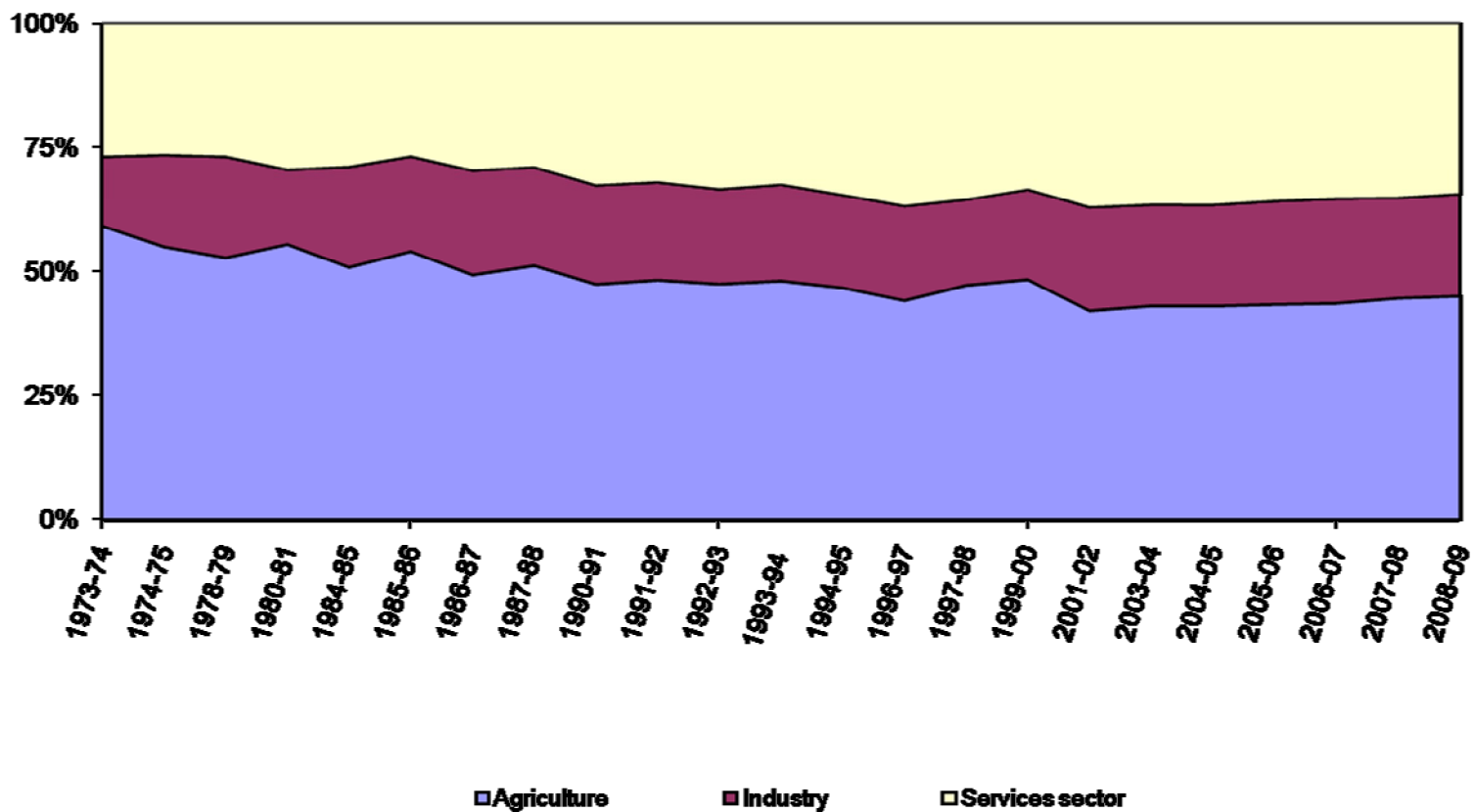
Top 6 Countries Contributing in Pakistan Services Sector 2009-10



Source: State Bank of Pakistan

Graph # 8

Share of Industry in Total Employment of Pakistan 1973-74 to 2008-09.



Source: Labor Force Survey

Level of Skill Shifts to Services Sector

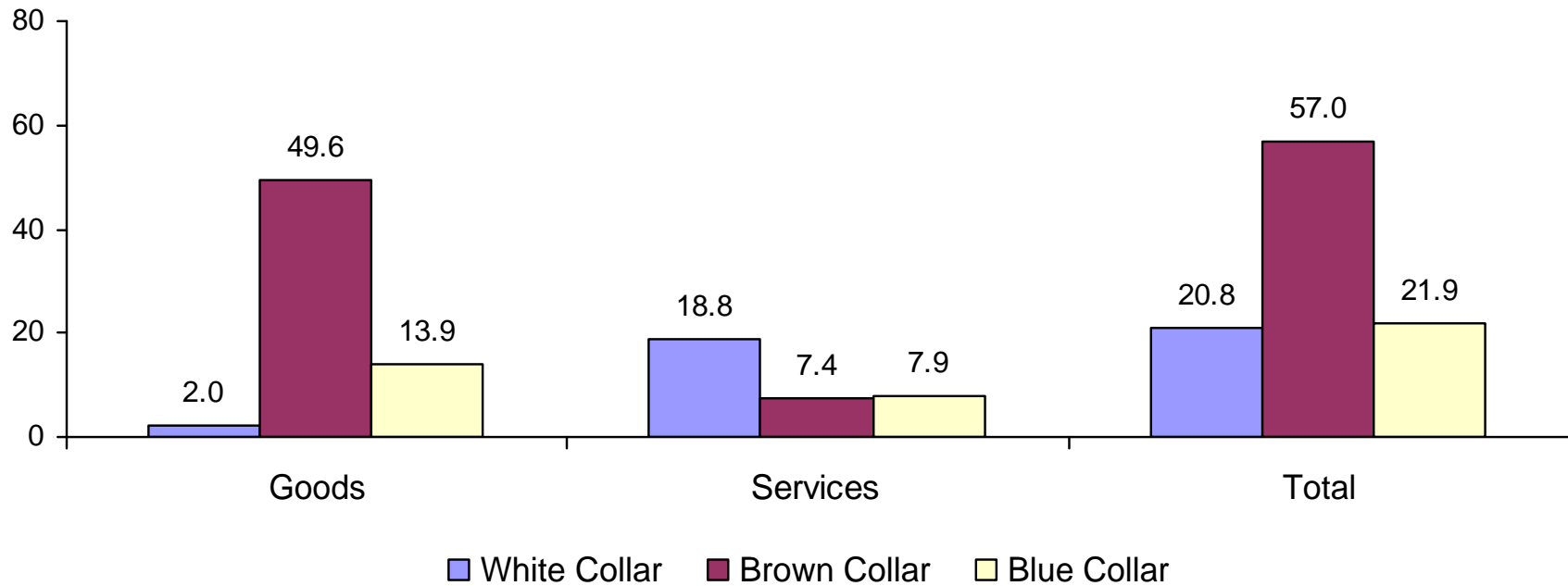
Occupation gives us more information about skill level of job, for that purpose occupation status has been categorized into three groups.

- White Collar
- Brown Collar
- Blue Collar

Source: Time Use Survey (2007)

Graph # 9

Distribution of Employee by Occupation Group and Industry, 2008-09



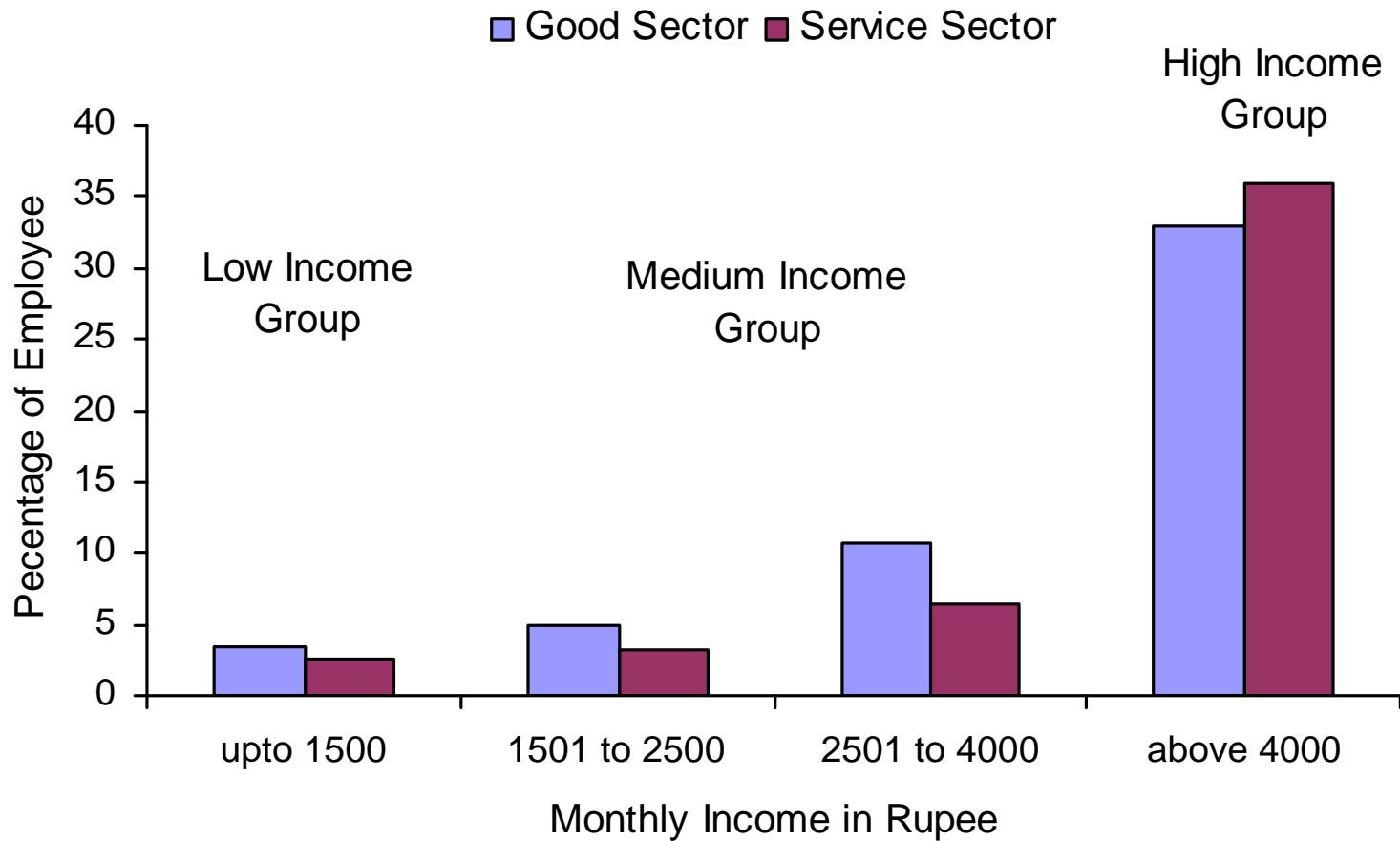
Source: Labor Force Survey

Table # 3
Comparison of Average Monthly Income by Major Industry, 2008-09.

Sectors	Average Monthly Income in Rs.	% of National Income
Agriculture, Hunting and Forestry	4349.23	2.82
Fishing	6853.74	4.45
Mining and Quarrying	7661.07	4.97
Manufacturing	6768.63	4.39
Electricity, Gas and Water Supply	12383.25	8.04
Construction	6510.68	4.22
Goods Sector	44526.6	28.89
Wholesale and Retail Trade, Repair of Motor Vehicles, Motorcycles and Personal and Household Goods	5619.49	3.65
Hotels and Restaurants	6209.35	4.03
Transport, Storage and Communication	8068.94	5.24
Financial Intermediation	20279.95	13.16
Real Estate Renting and Business Activities	11752.16	7.63
Public Administration and Defense, Compulsory Social Security	11207.64	7.27
Education	10424.15	6.76
Health and Social Work	9889.06	6.42
Other Community Social and Personal Services Activity	6254.62	4.06
Activities of Private Household as Employers and Undifferentiated Production	3680.78	2.39
Extraterritorial Organizations and Bodies	16200.48	10.51
Services Sector	109586.62	71.11
Total Economy	154113.22	100.00

Graph # 10

Percentage of Employee in Good and Service Sector by Income Group, 2008-09



Source: Labor Force Survey

Conclusion and Recommendations

- The higher growth of service sector gives a new dimension of stability to Pakistan's growth process.
- The analysis shows that other commodity-producing sector growth rate in employment is stagnant or declining, while the services sector provides more opportunities in employment generation.

- The study suggested the measure and strategy for removing bottleneck in the growth of the services sector and to provide a package of policy reform so that the services sector emerges as a key sector for growth, employment, and poverty reduction.
- There is a dire need to pay attention towards improving advance technical skill and education to the workers to cope with global requirements and more absorption of labor in sophisticated industries, financial institutions, trade, transport and communication services.

- There is also a pressing need to find new avenues of services sector.
- In order to improve research and development (R&D), technology up gradation and human resource development (HRD), particularly management improvement and reformed policy environment will have to be formulated.

THANKS