Development through the services paradigm

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Think of development, and mega industrial setups occupy one's mind. For countries like Pakistan agriculture and manufacturing have been long considered to be the main drivers of growth but lately, it has been the services sector.

The share of services has increased from 39 per cent of GDP in the 1960s to 62pc this year as can be seen in the graph. This persistent upsurge in services has been accommodating the employment and output share given up by agriculture.

In response to erratic GDP growth and the decline in agricultural productivity, traditional wisdom calls for the revival of agriculture and strengthening the industrial base. The potential of services is instead not given due attention despite the promising dividend and fast happening digital revolution in Pakistan.

Digital diversification

A recent World Bank report has shown that the global economy is witnessing shifts in the development paradigm. The huge industrial setups and the economies of scale which were considered standard since the industrial revolution are being replaced by small startups and e-commerce outlets.

Now it has become easier to become a part of the global value chain by producing goods and services from home as freelancers, digital creators, individual units and professionals.

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In the traditional pattern, manufacturing was at the centre of economic development but now digital technologies are taking the centre stage. The process of digital networking has enabled small firms to integrate into global value chains.

Instead of full-time contracts people now prefer activities in the gig economy. Fragmentation instead of clustering in production is the culmination of the digital revolution.

This feature has positive consequences for the informal economy which constitutes 72pc of total economic activity in Pakistan. It can lead to greater integration of the informal sector into the mainstream economy.

In the aftermath of Covid-19, it is much clearer that dispersed production as opposed to the patterns of the industrial revolution is possible. The integration of digital technologies into the services sector of Pakistan has resulted in a high-dividend combination.

With digitisation, services increasingly possess attributes conducive to productivity growth and development, linkages with other sectors of the economy, innovation and job creation.

Services trade is far easier than goods trade because it can be easily pushed across borders without any transportation costs involved and without the threat of trade protection from the input side.

Domestically also, digital services have caused a boom. Easily available apps such as online ride-hailing, grocery shopping and food delivery services already have become ubiquitous in cities.

Growth prospects

Pakistan is among those developing economies that have been trying to take advantage of exportable services. In Pakistan, we have 300,000 highly skilled IT professionals and more than 2,000 IT companies.

This is why the country's net exports of information and communication technology services hit a record high and grew by 62pc on a year-on-year basis in the first quarter of 2022. According to the World Bank, Pakistan is one of those economies where IT and professional services constitute more than half of all service exports. And almost half of all online freelancers are from India, Pakistan, and Bangladesh.

Although the services sector can replace industry, it also supplements manufacturing through highly professional skills and inputs like advanced technological knowledge, artificial intelligence and information systems.

Digital infrastructure is equally important for attracting foreign direct investment. However, it is to be noted that it is not the only sector which can ensure sustained development across economies.

It depends on comparative advantage. Evidence suggests that since the 1990s, labour productivity growth in services has equalled that of manufacturing in many low- and middle-income countries (LMIC), with South Asia and Sub-Saharan Africa performing relatively well.

The LMICs have outperformed high-income economies in terms of service productivity growth over the last three decades; this augurs well for the home region, especially for Pakistan.

Challenges to service-led development

The aforementioned suggests that services in Pakistan have great potential for structural transformation and overhaul of the development mix in the county. But this ambitious path to development is laden with challenges.

First, low-skilled workers constitute a major chunk of the services sector in the country. Half the challenge of restructuring services lies in utilising the digital revolution to improve the productivity of these workers.

Second, low digital literacy is a serious issue. Though the Punjab Information Technology Board (PITB) under the auspices of Digital Pakistan Policy 2021 is taking steps in this regard, all these efforts might result in a bootless errand unless the digital infrastructure in the country is sound and stable.

Instead of facilitating investments, the hefty taxation and over-pricing of the telecommunication services and cellular devices, based on their classification as luxuries, have maintained a deliberate exclusion of people in remote areas from the digital world.

Even in urban centres, cost-effective, high-speed and stable internet is still elusive. While local production of mobile phones is limited, the recent ban and impending plans to double the regulatory duties on the import of cellular devices and electronic gadgets are going to severe public interests further.

Thirdly, to export higher services, specific training is needed to produce competitive workers in e-commerce. Currently, there is a conspicuous lack of digital training institutes.

While some independent outlets such as Extreme Commerce, Digiskills, Enablers and PNY training among others, are offering expensive but quality digital skill learning programs, government, sponsored training centres are non-existent.

Pakistan can leverage the full potential of its services by investing in human and digital capital. Furthermore, integration of academia and the firms is needed to bridge the skill gap in educated youth.

The Pakistan Institute of Development Economics has recently offered professional certification in real estate economics in collaboration with Graana. This bundling of business and academia is one of a kind initiative which needs to be encouraged.

Additionally, a number of risk factors need mitigation to encourage and retain digital investors. The ban culture in Pakistan needs to be checked. Banning applications, social media etc discourages many potential innovators and digital creators.

The looming threat of the Financial Action Task Force, the absence of PayPal, procedural complications of doing business, regulatory barriers, and threats to intellectual property in the absence of sound legal frameworks perpetuate uncertainties and serve as hindrances to start-ups and entrepreneurs.

Last but not least, despite the launch of Raast by the State Bank of Pakistan, security risks still bar the people from making online transactions hence discouraging them from entering into online ventures.

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