

Preface

The growth experience of India and other South Asian countries suggest that a Service Revolution—rapid income growth, job creation, gender equality, and poverty reduction led by services—is now possible. What is Service Revolution? Can service be as dynamic as manufacturing? Can late comers to development take advantage of globalization of service? Can service be a driver of sustained growth, job creation, and poverty reduction? What kind of policies and institutions do developing countries need to benefit from a service-led growth? This book answers these questions from three different spatial perspectives—within country, regionally, and globally. It compares and contrasts the roles of different sectors in growth and poverty reduction.

South Asia's growth pattern of jumping straight from agriculture to service, sidestepping manufacturing, and sustaining rapid growth over the last two decades, is remarkable. It contradicts a seemingly iron law of development that has held true for almost two hundred years since the start of the Industrial Revolution. This law—which is now conventional wisdom—says that industrialization is the only route to rapid economic development. This is no longer the case. In this book, we show that growth in South Asia has in fact been led by service, that labor productivity levels in service are above those in industry, and that productivity growth in service sectors in India match labor productivity growth in manufacturing sectors in China. Furthermore, services-led growth has been effective in reducing poverty.

So can a service led growth be sustained? A service led growth is sustainable because the globalization of service is just the tip of the iceberg. Service is the largest sector in the world, as it accounts for more than 70 percent of global output. The Service Revolution has altered the characteristics of services. Services can now be produced and exported at low cost. The old idea of services being non-transportable, non-tradable, and non-scalable no longer holds for a host of modern impersonal services. Developing countries can sustain a service led growth as there is a huge room for catch up and convergence.

Education, telecommunication, and connectivity are the keys to ignite and sustain a service led growth. The infrastructure needs of services differ from manufacturing. Services rely less on ports and roads and more on telecommunication and electricity. Maintaining and upgrading both the quantity and quality of its telecommunication infrastructure is crucial for ensuring the possibility of engaging in trade in services in the first place. Given that the skill requirements in services are higher than in manufacturing, investing in education is of paramount importance. Globalization of service has increased the demand for skilled workers and return to education, which in turn, has increased the demand for education. This can become a virtuous circle.

Is service led growth a panacea for South Asia? Services cannot substitute for industrial job creation. South Asia has a young population. More than 150 million new workers will join the labor force in the next decade. Many of them will indeed find jobs in services. But South Asia cannot afford to ignore the manufacturing sector. Neither should it blindly follow the East Asian model of manufacturing led growth.

South Asia's development experience offers hope to late comers to development. The marginalization of Africa during a period when China and other East Asian countries grew rapidly led some to wonder if late-comers to development like Africa and South Asia were doomed to failure. The process of globalization in the late 20th century led to a strong divergence of incomes between those who industrialized and broke into global markets and a "bottom billion" of people in some 60 countries where incomes stagnated for twenty years. It seemed as if the "bottom billion" would have to wait their turn for development, until the giant industrializers like China became rich and uncompetitive in labor-intensive manufacturing.

The promise of the Service Revolution is that countries do not need to wait to get started with rapid development. There is a new boat that development late-comers can take. The globalization of service provides alternative opportunities for developing countries to find niches, beyond manufacturing, where they can specialize, scale up and achieve explosive growth, just like the industrializers. The core of the argument in this volume is that as the number of goods and services produced and traded across the world expand with globalization, the possibilities for all countries to develop based on their comparative advantage expand. That comparative advantage can just as easily be in services as in manufacturing or indeed agriculture. We do not argue for services and against manufacturing or agriculture, but do argue against the long-held proposition that industrialization is the *only* route to economic development.

This volume has three sections. The first section examines role of services in development and how it contributes to growth, job creation, gender equality, and poverty reduction. The second section focuses on what drives service exports. South Asia stands out in both modern service exports that are transported digitally, and traditional service exports where service providers have to cross national boundaries. Service exports from India and other South Asian countries are growing much faster than goods exports from China and East Asia. Within service exports, modern service exports that are transported digitally are growing much faster than traditional service exports. The third section of the book explores what kind of infrastructure, policies, and institutions are necessary for a service led growth. It highlights the importance of education, telecommunication, and aviation to service led growth.

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