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Preface

The growth experience of India and other South Asian countries suggests 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 latecomers to development take advantage of the 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 labour productivity levels in service are above those in industry, and that productivity growth in service sectors in India match labour 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 per cent 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 services 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 labour 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 latecomers to development. The marginalization of Africa during a period when China and other East Asian countries grew rapidly led some to wonder if latecomers to development like Africa and South Asia were doomed to failure. The process of globalization in the late twentieth 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 labour-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 latecomers 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 against manufacturing or agriculture, but do argue against the long-held proposition that industrialization is the *only* route to economic development.

E G






The Service Revolution in South Asia

An Overview


Ejaz Ghani and Homi Kharas[#]



The story of Hyderabad—the capital of the Indian state of Andhra Pradesh—is truly inspiring for latecomers to development. Within two decades, Andhra Pradesh has been catapulted straight from a poor and largely agricultural economy into a major service centre. It has transformed itself from a lagging into a leading region. Fuelled by an increase in service exports of forty-five times between 1998 and 2008, the number of information technology (IT) companies in Hyderabad increased eight times, and employment increased twenty times.

Service-led growth has mushroomed in other parts of India and South Asia as well. Indeed, growth in the service sector has enabled South Asia to grow almost as fast as East Asia in this century, with growth of just under 7 per cent annually between 2000–7. Growth rates in South Asia and East Asia have converged (Ghani and Ahmed 2009). The two fastest growing regions in the world, however, have very different growth patterns. While East Asia is a story of growth led by manufacturing, South Asia has thrived on service-led growth.

[#]We are grateful to Lakshmi Iyer for her contribution to the overview, and to Saurabh Mishra for research support. We would also like to thank a number of colleagues for useful comments at the review meeting including S. Ahmed, R. Anand, P. Banerjee, D. Biller, C. Dahlman, S. Devarajan, P. Dongier, M. Engman, M. Haddad, M. Kawai, Justin Yifu Lin, E. May, A. Mattoo, I. Nabi, M. Pigato, J. Sebastian Saez, S. Yusuf, E. Lim, and G. Zannini. The views expressed here are not necessarily those of the World Bank. Any remaining errors are our responsibility.



The South Asian experience of growth in the twenty-first century is remarkable because it contradicts a seemingly iron law of development that has held true for almost 200 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. It goes further to say that as a result of globalization the pace of development can be explosive. But the potential for explosive growth has until now been distinctive to manufacturing (UNIDO 2009). This is no longer the case. The South Asian experience suggests that a services revolution—rapid growth and poverty reduction led by services—is now possible. This can fundamentally change the pattern of development for many developing countries.

What is this services revolution and what has led to it? Can services be a driver of growth, job creation, and poverty reduction? What are the location and spatial characteristics of services? Is there a role for exports in sustaining service-led growth over the long run? What kind of infrastructure, including education, do developing countries need to sustain service-led growth? This volume is all about answering these questions based on a fresh look at what has happened in South Asia over the last two decades.

The services revolution could upset three long-held tenets of economic development. First, services have long been thought to be driven by domestic demand. They could not by themselves drive growth, but instead followed growth. In the classical treatment of services, any attempt to expand the volume of services production beyond the limits of domestic demand would quickly lead to deterioration in the price of services, hence a reduction in profitability, and hence the impulse towards expanded production would be choked off.

Second, services in developing countries were considered to have lower productivity and lower productivity growth than industry. It is hard to improve the labour productivity of a symphony (or, as it turns out, of a government which increasingly dominates the service sector). As economies became more service oriented, their growth would slow. For rich countries, with high demand for various services, the slowdown in growth was an acceptable consequence of the higher welfare that could be achieved by a switch towards services. But for developing countries, such a trade-off was thought to be inappropriate.

Third, services jobs in developing countries were thought of as menial, and for the most part poorly paid, especially for low skilled workers. As such, service jobs could not be an effective pathway out of poverty.

It is these three beliefs that the services revolution that has started across South Asia challenges. In this volume we show that growth has in fact

been led by services, that labour productivity levels in services in South Asia are above those in industry, and that productivity growth in South Asia's service sector matches labour productivity growth in manufacturing in successful East Asian countries. Further, we suggest that services-led growth in South Asia has been effective in reducing poverty.

South Asia's experience offers hope that globalization can indeed be a force for development in many more countries. The marginalization of Africa during a period when China and other East Asian countries grew rapidly led some to wonder if latecomers to development were not doomed to failure. The process of globalization in the late twentieth century led to a divergence of incomes between those who industrialized and broke into global markets and a 'bottom billion' of people in some sixty countries where incomes stagnated for twenty years (Collier 2007). 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 labour-intensive manufacturing.

The promise of the services revolution is that countries do not need to wait to get started with rapid development. There is a new boat that development latecomers can take. The globalization of service exports 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 our argument is that as the number of goods and services produced and traded across the world expands 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.

Services have characteristics that differ significantly from goods. Goods are physical things that can be put in a box and traded. They can be made anywhere, at any time, and at any scale. More and more goods are produced each year as firms develop new products and as production processes are broken down into individual parts and components. With a growing number of goods, productivity can rise because of specialization (a finer division of labour) and scale (falling unit costs of production). Trade in goods allows even small countries to find a niche in global markets where

they can be competitive. The East Asian countries are exemplars of countries which have developed rapidly on the basis of this simple proposition.

Services are difficult to place in a box because they are bound by time and proximity. For example, eating in a restaurant, getting a haircut, having a medical check-up, or seeking a loan from a bank, all require face-to-face transactions (Baumol 1967). This makes it difficult to trade services. They are produced where and when demand is present.

However, technological changes (telephone and internet) and what Bhagwati (1984) has called splintering and disembodiment of services have made many services tradable, just like manufactured goods. These services, called modern impersonal progressive services (Baumol 1985), include communication, banking, insurance, and business-related services.

They are being created by three global forces—technology, transportability, and tradability—the 3Ts that are driving the services revolution.

Technology, especially information and communication technology (ICT), has given services a physical presence. They can be produced and stored as a series of ones and zeros in digital format. Banking and loan transactions can now be conducted online. A medical check-up may still require a meeting with a doctor, but the results of an X-ray may be reviewed by a radiologist in a different country, the details of the examination may be transcribed by a person working in a different time zone, and medical records may be stored and updated on a remote server.

Thanks to telephone lines and the internet, these modern services can also be easily transported today over long distances with little or no degradation in quality (Baumol 1986). This is the second T, transportability, which has meant that services are no longer restricted by time and space. One indicator of the cost of transporting services is the average cost of an international telephone call to the United States (Figure 1). For most developing countries, this has fallen by 80 per cent or more over the last decade, a decline in cost which is much more rapid than the fall in transport costs for goods. Even more significant is the decline in cost and increased access of broadband internet. Perhaps as important as cost is the speed, clarity, and reliability with which information can now be transported.

The third T, tradability, refers to the fact that many modern services, which are transported digitally, face few government barriers when they are moved from one country to another. There are no borders, customs, or tariffs on the international exchange of most modern impersonal services.¹

¹United States Schedule of Specific Commitments under the General Agreement on Trade in Services (GATS) shows that there are no 'tariff' barriers per se on trade in modern impersonal services. Pricing and tax related measures may apply, but there are

We have only witnessed the tip of the iceberg (Blinder 2006). The internet age will continue to transform more services into modern impersonal services. The range of business processes that can be globalized and digitized is constantly expanding: processing insurance claims; desktop publishing; the remote management and maintenance of IT networks; compiling audits; completing tax returns; transcribing medical records; and financial research and analysis. The list of possible activities is almost endless.

The globalization of services will continue to be a strong force for two reasons. First, services account for more than 70 per cent of global GDP, more than double in size compared to the manufacturing sector. So, there is tremendous scope for the globalization of services. Second, the cost differential in the production of services across the world is enormous. In the past, the only option to narrowing such cost differentials was through migration, but migration has been heavily regulated and global international migration has remained steady at about 3 per cent for decades. Now that service providers can sell services without crossing national borders by making use of the internet (outsourcing), the scope for exploiting cost differentials is much higher. What is more, it is very hard for governments to regulate modern impersonal services, so prospects for rapid expansion in service exports are good.

Modern impersonal services have many features in common with manufacturing. Like manufacturing, they benefit from technological advances that generate productivity growth year after year. They exhibit similar tendencies for scale and agglomeration economies. Service producers can bring down unit costs by expanding operations. They benefit from being in close proximity to one another as that creates a pool of well-trained workers. They are labour intensive.

But there are also differences. Modern services are more skill intensive than other types of economic activity. They require excellence in telecommunications. While traded goods move by ship, air, and road, globally traded modern impersonal services are delivered using telephone lines or the internet.

What the services revolution has done is to open up many more niches for countries through which they can leverage the global economy. Each country should try its best to take advantage of these opportunities, whether in manufacturing or services, exploiting comparative advantages. What the South Asian experience shows is that the opportunities in modern services are sufficiently large to drive development of the whole economy.

As yet, modern impersonal services are only a small part of the total services. The sector is still dominated by traditional personal services which include trade, hotels, restaurants, beauty shops, barbers, transport, and public administration. The only way for these services to be traded is for the service providers themselves to move to where the demand is located. But migration faces many barriers. It is costly and subject to major government regulation. Yet South Asia benefits handsomely from its ability to send migrants abroad and receive remittances from them.

The modern service sector has become an important driver of growth in both developed and developing countries. Figure 2 compares what has happened in 134 countries between 2000 and 2005 in terms of real GDP growth, shown on the vertical axis, and service value-added growth, shown on the horizontal axis. Each point represents one country. The positive relationship between the two variables implies that countries with high growth in services also tend to have high overall

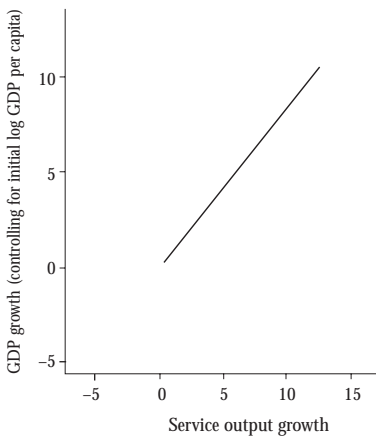


FIGURE 2 GDP Growth and Service Value-added Growth (2000–5)

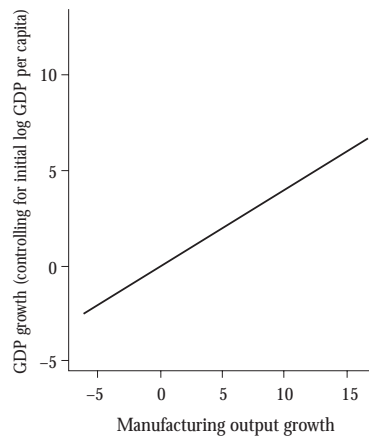


FIGURE 3 GDP Growth and Manufacturing Value-added Growth (2000–5)

Source: Chapter 1, this volume (author's calculation using data from the World Bank 2008).

Note: Each point in the chart corresponds to a five-year growth during 2000–5 for a specific country. GDP growth rates control for level of initial income per capita. All values are in constant US\$ 2000. Growth rates are compounded annual averages. The sample consists of 134 countries.

economic growth or conversely that countries with high overall economic growth have high services growth. One cannot identify causality from a regression like this. If services have a high income elasticity of domestic demand, then we would expect higher overall growth to be associated with higher service sector growth. But we will also show later that high service growth is also associated with high service export growth. This suggests that it is services that have been driving overall economic growth rather than vice versa.

Exactly the same exercise is shown in Figure 3 for the relationship between manufacturing growth and overall economic growth. Again, there is a positive relationship which probably runs from manufacturing growth to overall growth. This is the relationship which has been reported to emphasize the importance of manufacturing for growth (UNIDO 2009). Comparing the two graphs, it is clear that the slope is steeper in Figure 2.

This suggests that the effect of services growth seems to be stronger than the effect of manufacturing growth on aggregate economic growth.

The service sector has become particularly important in South Asia, growing from less than 40 per cent of GDP in 1980 to more than 50 per cent of GDP in the region in 2005 (Figure 4). This is not limited to a specific country: the share of services in GDP was more than 50 per cent in India, Pakistan, Bangladesh, and Sri Lanka and 49 per cent in Nepal. The trend over time to a higher service sector share shows that

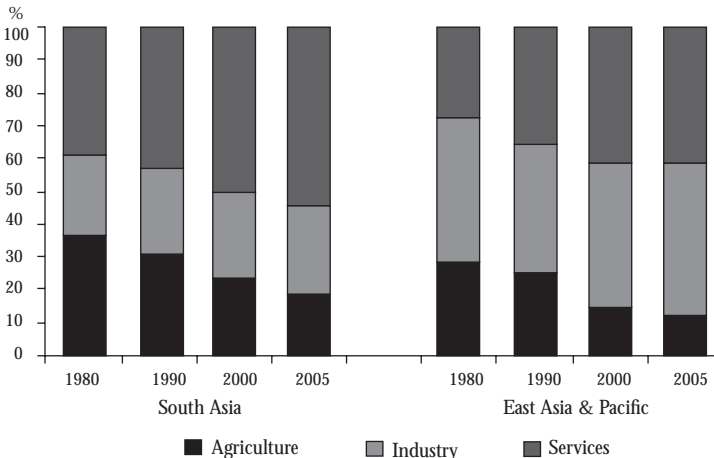


FIGURE 4 Share of Sectors in GDP in Asia

Source: Chapter 2, this volume.

higher real growth in services has not been offset by price declines. Figure 4 also shows that South Asia has a higher share of services and a more rapid service sector growth than East Asia, although the latter is richer and has grown faster over time. This suggests that services are not simply responding to domestic demand (which would be higher in East Asia), but also to export opportunities.

Not only does the service sector form the bulk of the economy, but services are the largest contributor to GDP growth as well. The service sector accounted for more than 50 per cent of GDP growth in all South Asian countries (Figure 5). Its contribution to GDP growth is nearly twice that of industry. Further, the contribution of services to overall GDP growth has increased over time in India, Pakistan, and Sri Lanka.

This is in sharp contrast to the East Asian countries shown in Figure 5 (China and Korea) where industry contributes between 40–50 per cent to GDP growth.

The differences and similarities in service-led growth in South Asia and manufacturing-led growth in East Asia are explored in Chapter 1 by Ejaz Ghani. He shows that while there is some evidence of convergence in growth patterns, there are also significant differences between the regions. In East Asia, services are also growing rapidly as a natural progression to improve the efficiency of inputs needed to sustain a dynamic manufacturing base. Finance, logistics, and trade services

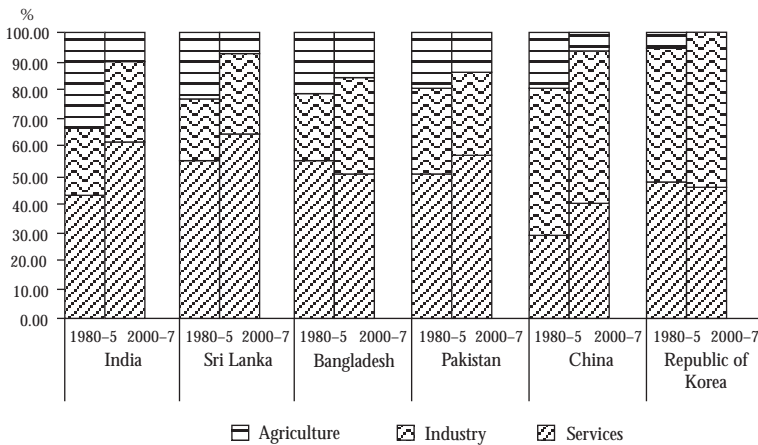


FIGURE 5 Contribution of Services to GDP Growth in South Asia (1980-5, 2000-7)

Source: Chapter 2, this volume.

linked to manufacturing exports have grown rapidly. But manufacturing demand has not been the driver of growth in services in South Asia. India has a small manufacturing base and an even smaller manufacturing export platform. Yet, its services have exploded. In fact, India's services growth has fuelled an expansion of manufacturing to satisfy the growing domestic demand for goods as incomes rise. As the difference between manufacturing growth and services growth in both East and South Asia has narrowed, but the drivers of growth remain distinct.

But how dynamic is the service sector in South Asia? Can services productivity be as high as manufacturing productivity? Chapter 2 by Barry Bosworth and Annemie Maertens documents in detail the contribution of the service sector to economic growth and employment generation in South Asia. Services were once thought of as stagnant and low productivity growth areas, without the dynamic externalities attributed to manufacturing. That was one reason why services were not thought of as a potential leading sector for development. In fact, the finding is that absolute levels of labour productivity are the highest in the service sector for South Asian countries (Figure 6). Labour productivity is higher in the service sector than in the manufacturing sector for India, Nepal, Pakistan, and Sri Lanka, in stark contrast to East Asian countries where the industrial sector has substantially higher productivity levels. Only Bangladesh and Bhutan in South Asia have higher labour productivity in industry than in services. Given that the process of development is one of transferring resources (largely labour) from low productivity areas to high productivity areas, it makes sense to interpret rapid South Asian growth as one of moving labour from low-productivity agriculture to high-productivity services.

Along with high levels of labour productivity in services, South Asia's growth experience shows that the service sector displays significant productivity growth. In the post-2000 period, labour productivity growth has been higher in the service sector than in the manufacturing sector for India, Pakistan, and Sri Lanka (Figure 7). This is an important finding, since there needs to be high and sustained productivity growth in order for services to be a transformational growth engine for the whole economy.

We should note that the relatively recent development of the 3Ts—technology, transportability, and tradability—of services means that the ability of services growth to drive overall economic growth is also a relatively new phenomenon. Tradability in particular means that there is a large global market available for services, and that prices will not

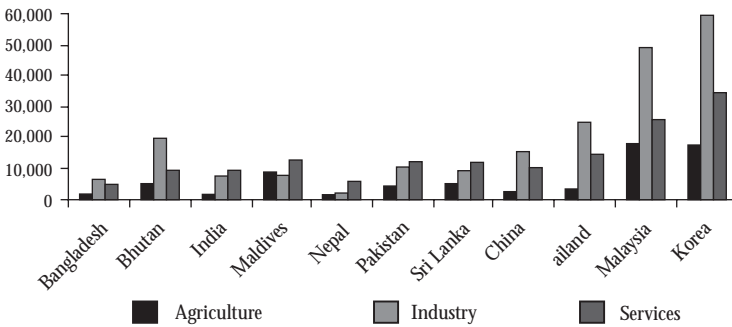


FIGURE 6 Labour Productivity Levels by Sector (2005)
(PPP international dollars per worker)

Source: World Bank (2008a).

Notes: Data for China is from 2004. The utilities industry in Malaysia is included in services rather than industry. Labour productivity = value added by sector/employment in that sector.



FIGURE 7 Labour Productivity Growth in the Service Sector (2000-6)

Source: Chapter 2, this volume.

decline even if volumes rise rapidly. In one of the most careful studies of total factor productivity (TFP) growth in China and India, Bosworth and Collins (2008) find that India managed to record a TFP growth of 2.4 per cent in services between 1980 and 2006—a level that could sustain rapid aggregate growth and twice the level of TFP growth in either agriculture or industry. By contrast, China, despite more rapid aggregate growth over

this period, managed a service sector TFP growth of only 2 per cent per year, slower than that in either agriculture or industry.

One reason for rapid productivity growth in services in South Asia is that these economies are starting from a low technological base compared to international best practices. There can thus be rapid catch-up just like in manufacturing. Beyond this, services also display potential for productivity gains from learning, networking, and knowledge spillovers. Modern impersonal services tend to cluster together to take advantage of scale economies and externalities.

It is easier for service firms to cluster than for manufacturing firms. Service firms take up less space, do not cause traffic jams when shipping their goods, and pollute less. This is not only true for developed countries, with notable tradable services hubs in New York, London, Silicon Valley, but also in developing countries, like in Hyderabad.

These issues are explored in Chapter 3 by Bosker and Garretsen.

They show that thick markets for services attract more service firms and workers. Service corridors arise, just like manufacturing clusters. These benefit from externalities such as knowledge spillovers between firms, workers, and universities. Productivity enhancing externalities are far more prominent in service corridors compared to goods clusters, as services tend to be 'non-rival' goods.

Despite concentrated locations, the benefits of service growth appear to be widely distributed. Globally, there is cross-country evidence from some fifty developing countries that poverty reduction is associated more strongly with growth in the service sector than with growth in manufacturing or agriculture.

Table 1 reports the cross-country regression results of change in poverty headcount regressed on growth in agriculture, manufacturing, and services output. Growth in services output is significantly associated with poverty reduction in developing countries, whereas growth in agriculture and growth in manufacturing is not significant. The regression controls for initial conditions. When countries are richer initially, the speed of poverty reduction is lower (row 1); when they have higher initial poverty, they make faster progress in poverty reduction (row 2). Controlling for all variables, South Asian countries like India and Sri Lanka have, however, had lower rates of poverty reduction than expected, based on other countries' experiences.

TABLE 1 Cross-country Results on Change in Poverty Headcount (1990–2005) (Regressed on Agriculture, Manufacturing, and Services Output Growth, for Fifty Developing Countries)

	(1)	(2)	(3)	(4)	Sectoral Output Growth Weighted by Initial Share of Sector in GDP	
					(5)	(6)
Log GDP per capita initial			9.99*** (3.07)	9.82*** (3.36)	14.59*** (3.84)	13.87*** (4.26)
Initial level of poverty	-0.17* (0.08)	-0.17* (0.09)				
Growth in agriculture output	0.55 (0.97)	0.58 (1.04)	0.51 (0.91)	0.55 (0.97)	0.02 (0.02)	0.02 (0.02)
Growth in manufacturing output	-0.06 (0.46)	0.08 (0.44)	-0.01 (0.54)	0.11 (0.53)	-0.03 (0.02)	0.001 (0.02)
Growth in services output	-2.30*** (0.86)	-2.11** (0.89)	-1.92** (0.88)	-1.74* (0.91)	-0.02** (0.01)	-0.04*** (0.01)
India indicator		9.44** (4.22)		8.83** (3.71)		10.63*** (3.64)
China indicator		-24.48*** (5.48)		-23.01*** (5.35)		-27.51*** (8.84)
Bangladesh indicator		-3.99 (4.19)		-4.24 (3.24)		-2.06 (3.72)
Sri Lanka indicator		4.51** (1.98)		7.76*** (2.35)		9.25*** (2.58)
Control for time period	Yes	Yes	Yes	Yes	Yes	Yes
Observations	50	50	50	50	50	50

Source: Chapter 1, this volume.

Notes: Robust standard errors are reported in parenthesis. *** represents significance at 1 per cent, ** at 5 per cent, and * at 10 per cent. Country size is measured by area in square kilometres. The dependent variable is percentage of population below US\$ 1 (PPP) per day.

Visually, we can plot the change in poverty between 1990 and 2005 against the growth of services (Figure 8).

These results are further confirmed when we examine the impact of sectoral growth patterns on poverty reduction within India, using a panel of Indian state data from 1994 to 2005. Our results show that the trend growth in the service sector among Indian states is associated with a decrease in the trend of the headcount poverty rate of almost 1.5 points

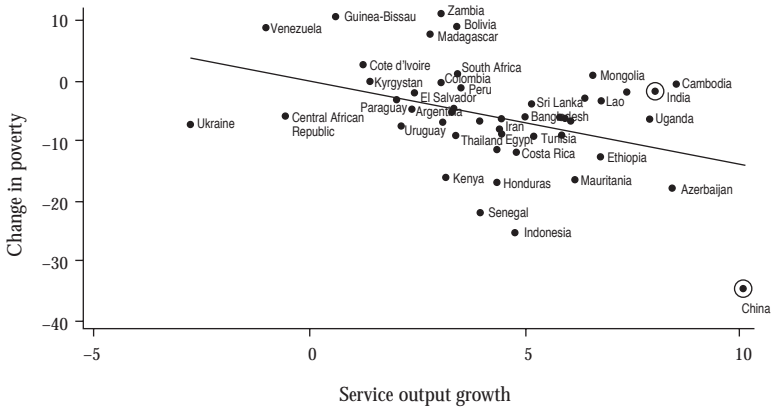


FIGURE 8 Change in Poverty and Growth in Service Outputs (1990–2005)

Source: Chapter 1, this volume.

Notes: Change in poverty (1991–2005) after controlling for initial level of poverty, and growth in agricultural output, manufacturing output, and service output. Poverty is defined as percentage of population below US\$ 1 (PPP) per day.

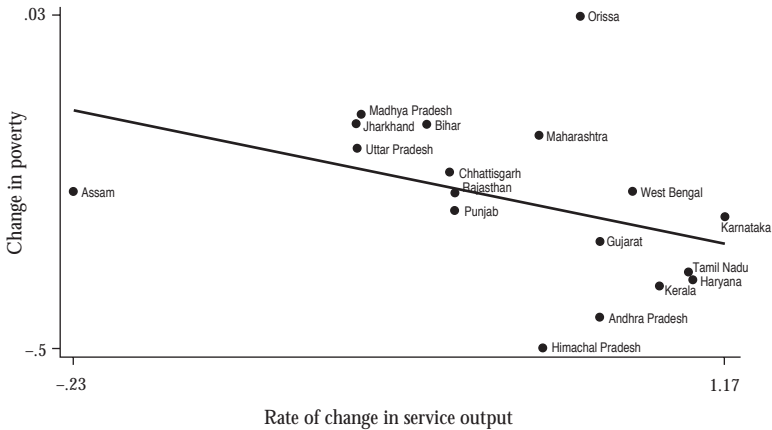


FIGURE 9 Change in Poverty and Service Outputs at the State Level in India (1994–2005)

Source: Chapter 1, this volume.

during the sample period. In fact, the service sector is the only sector showing a statistically significant association with poverty reduction. Similar results are found when differentiating into rural and urban poverty. Service sector growth is strongly associated with a reduction in both urban and rural poverty rates. Some states like Andhra Pradesh, Karnataka, and Tamil Nadu have experienced a significant decrease in urban poverty that is associated with an increase in their service sector share. In contrast, other states like Orissa that have experienced a weaker services growth have experienced a more disappointing record of poverty alleviation (Figure 9).

Services have emerged as a key driver of poverty reduction in South Asia. Historical evidence in India from the 1970s to the early 1990s shows agricultural growth to be a major factor in reducing poverty. Indeed for decades, poverty reduction in India was synonymous with rural and, in particular, agricultural growth. But since the 1990s agriculture has lagged other sectors, shrinking in its contribution to GDP, while the contribution of services to overall GDP growth has exploded. That poverty reduction has continued despite a slowdown in agriculture points to the emergence of new drivers of poverty reduction.

Services are contributing to poverty reduction via two channels. Directly, they provide the largest source of new job growth. Indirectly, they provide the income that, when spent, drives further demand for goods and services and jobs to produce these. Figure 10 shows that the service sector in India and Pakistan has had the fastest growth in the number of jobs created in recent years, while for Bangladesh and Sri Lanka job creation in services is somewhat slower than in manufacturing. A recent World Bank study on India also reported faster changes in employment away from agriculture and into construction and trade, hotels and restaurants, and transport and communications (World Bank 2008b): by 2006, 26 per cent of all jobs in India were in the service sector. Chapter 2 provides further details on the job creation trends in all South Asian countries.

In addition to direct job creation, some estimates suggest that the indirect effect of a growing service sector can be larger than the direct effect. For instance, India's IT industry association NASSCOM estimates that for every job created in the IT sector, four additional jobs are created in the rest of the economy due to high levels of consumption spending by professionals employed in this sector (NASSCOM and CRISIL 2007).

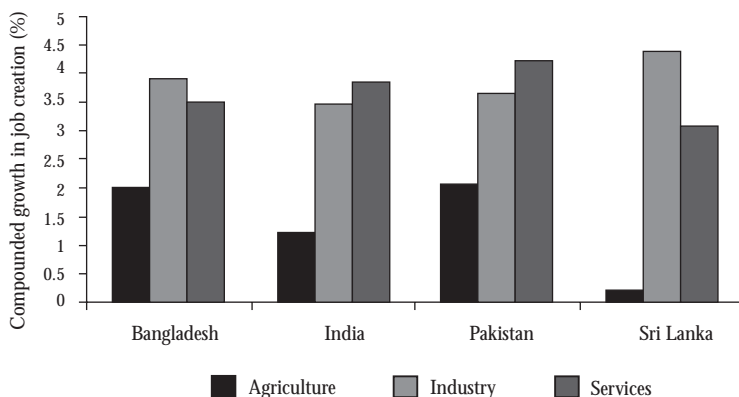


FIGURE 10 Job Creation Rates in Agriculture, Industry, and Service Sectors (1990–2006)

Sources: Bangladesh—Labour Force Surveys, in *Key Findings of Labour Force Survey and Statistical Yearbook*, various editions. India—Sivasubramanian, *The Sources of Economic Growth in India: 1950–1 to 1999–2000*, for earlier years, and Bosworth et al. (2007) for the more recent period. Pakistan—LABORSTAT, ILO (2008) and *Handbook of Statistics on Pakistan Economy*. Sri Lanka—KILM, ILO (2008) for data up to 1989; from 1990 onwards *Labour Survey Reports*, various editions.

Service jobs are good jobs. Wage growth has been higher in the service sector than in manufacturing and agriculture in recent years in India (Figure 11). While manufacturing wages fell in the early 2000s in both rural and urban areas despite rapid economic growth, service sector wages in utilities, trade, transport, and even rural finance improved. In fact, in many sectors rural wages may have increased faster than in urban areas, possibly reflecting the rising rural–urban migration over time that is taking place in India.

It is this internal rural–urban migration and links between rural and urban labour markets that allow the modern impersonal service sector in India to contribute to overall poverty reduction, even though modern services are concentrated in urban areas.

Currently South Asia suffers from one of the lowest female labour force participation rates in the world. Only around one-third of all women of working age in India, Pakistan, and Sri Lanka are actually working or looking for work. Internationally, countries with high employment in services tend to have the highest participation of women in the labour market (Figure 12). The development of service industries, therefore,

