Will Services be the New Engine of Economic Growth in Bangladesh?

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ABSTRACT

At present, development of a vibrant and competitive services sector is a key characteristic of modern economies in the world. In the developing world, services frequently account for two-thirds or three-quarters of all economic activity. The transition from agriculture through manufacturing to a service based economy has been the hallmark of economic development for many countries at present. In line with this trend, many emerging markets currently working hard to support and develop services industries and to put in place the regulatory structures required for more integrated international services markets. At present, the economy of Bangladesh is dominated by the services industry which contributes a significant portion to the Gross Domestic Product (GDP). This study focuses on sectoral contribution of services sector to the economy in comparison to other sectors and recognizes the services sector as a new engine of economic growth and development of Bangladesh economy. 300 services beneficiaries and 60 officials from different services firms have been exposed to collect the data regarding the services sector. It has been found that the economy of Bangladesh is shifting towards the services economy. Most of the investors are investing in services sector to generate more profit. So, it is essential to examine the role of services sector in Bangladesh Economy.

Keywords: *Bangladesh, economic growth, services, service economy, services marketing, etc.*

1. INTRODUCTION

It's a stylized fact of economic development that the share of services in Gross Domestic Product (GDP) and employment increases as per capita income increases. Today services occupy the biggest part of the developed OECD economies, around 70 to 75 percent of their national GDP. At the same time services are being considered as the major driver of overall productivity growth (Baumol, 1967). Today, services sector is the largest sector of the world. 63.5% of total global wealth comes from services sector. Services sector is the largest

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sector in 94 countries while 30 countries receive more than 80% of their GDP from services sector (Statistics Times, 2015). On the other hand, the maturing of the manufacturing sector in many Asian countries, combined with the relative backwardness of its services sector, has made services sector development as the top priority for developing Asia. The economy of Bangladesh is basically divided into three basic sectors i.e. service, agriculture and industry. The contribution of services sector to the GDP is more than 50% (Bangladesh Economic Review-2010). So, Services sector influence the development of national economy. Currently investors are highly encouraged to invest in this sector since it is less capital intensive. Services are associated with all manufactured goods in order to survive in the competitive and open market economy in the twenty first century. To specify the need of services for huge population of Bangladesh, such sectors are opened for private entrepreneurs with required control. The enormous contribution of services sector and an increasing trend therein have played an important role in the high growth of GDP. The analysis of last few years' data gives a clear idea on the phenomenon. The contribution of the industry sector to the economy of Bangladesh has been increasing day by day. Service sector has the growing potential as a driven factor towards sustainable economic growth and significant poverty alleviation in Bangladesh. In most countries of the world, the economy is dominated by the services sector compared to other sectors of these countries. However it is not recognized that service sector is the new engine for the economic growth and development of Bangladesh. Questions arise whether only growth of the services is sufficient for the development and growth of the economy of Bangladesh. Therefore, the researchers feel the necessity to conduct a study to find out the new engine that will help the economic growth in Bangladesh.

1.1 Objectives of the Study

The broad objective of this study was to find out the services sector as a new engine of economic growth and development of Bangladesh. The specific objectives of the study are;

- To analyse the sectoral contribution of services sector to Bangladesh economy;
- To find out the contribution of services sector and perform comparisons with other sectors in Bangladesh;
- To clarify whether the services sector act as a new engine for the growth of economy in Bangladesh;
- To offer some suggestions and recommendations for the development of services marketing thought etc.

2. LITERATURE REVIEW

Very few studies have been found regarding the services economy. Over the last decade there has been a growing interest in services within the field of sustainable development. Services are viewed as a dematerialized alternative to existing products, with reduced environmental impact (i.e. less material and less energy used to fulfill a certain need (Zwan, Frank van der; Bhamra, Tracy, 2003). There is convincing macroeconomic evidence that stronger services sector performance means faster economic growth (Hoekman and Eschenbach, 2005; and Mattoo et al., 2006). Moreover, backbone sectors such as finance, telecommunications, and transport make it possible for a wide range of firms to do business, and to be competitive in international markets (Arnold et al. 2008). More broadly, Arnold et al., (2010) find that improvements to services policies in India—covering banking, telecommunications, insurance, and transport—have been an important source of productivity gains in manufacturing sector. Levine (1997) identifies five major functions that financial systems perform in reducing transactions costs and improving the allocation of real resources: facilitating the trading of risk, allocating capital to productive uses, monitoring managers, mobilizing savings through the use of innovative financial instruments and easing the exchange of goods and services. Francois and Reinert (1996) have documented that the importance of services for export performance rises with per capita incomes – business, distribution, and communications services become the most important sectoral elements of overall exports in terms of inter-industry linkages. Today, service industries are the source of economic leadership. During the past 30 years, more than 44 million new jobs have been created in the services sector to absorb the influx of women into the workforce and to provide an alternative to the lack of job opportunities in manufacturing (UN, 1999). Above and beyond, the major employment opportunities in developed and developing countries are also largely contributed by services sector (Breen & Crawford, 2005). Globalization of services provides many opportunities for late-developing countries to find niches, beyond manufacturing, where they can be successful. Taking advantages of these opportunities requires a government to energetically take steps to accelerate services growth, through a variety of policies (Bhagwati, 2004). Services may provide the easiest and fastest route out of poverty for many poor countries. Growth in modern services is not tied to growth and development of the manufacturing sector.

From 500 firms globally, (Fortune's 1999), more than half (263) were primarily services firms (World Bank, 2000). Future globalization of the world economy will rely on the continuing growth of services sector (Keohance and Nye, 2000). The role of services has expanded in about 80% of the Asia and Pacific region since 2000 and now generates at least half of GDP in nearly two-thirds of the region's reporting economies (Chatterjee, S., 2005). Throughout the latter half of the twentieth century, the services sector has been both the largest and the fastest growing component of the U.S. economy. Fifty years ago, the services sector

accounted for about 60% of U.S. output and employment. Today, the services sector's share of the U.S. economy has risen to roughly 80% (Douglas B. Cleveland, 1999). Jensen (2011) points out that in the United States, in 1960 business services employed less than half as many workers compared to manufacturing, but by 2007, business services employment was double and more than employment in manufacturing.

Zhai (2003) and Sirilli and Evangelista (1998) also characterizes the service industries as labour intensive sector "Service-sector industries are characterized by a close interaction between production and consumption, high information content, the intangible nature of their output, and a heavy emphasis on labor capital in the delivery of their output". A positive correlation between the expansion of productivity gap between manufacturing and service industries and an increase in the proportion of the service sector has been supported empirically by many studies (Fuchs, 1980, Rowthorn and Ramaswamy, 1999). Chandrasekhar and Ghosh (1999) stated that a rise in the share of services in national income is viewed as being positively associated with both economic growth and quality of life. Services sector has become an extremely large part of the modern economy. Its contribution cannot be overlooked. Growth in service sectors is marked as an important aspect of economic development and strongly associated with income growth and economic modernization. Kanapathy (2003) stated that several domestic and international developments in the new millennium prompt policy makers to re-engineer the economy, focusing on the development of the services sector and services trade, and to chart a new sustainable growth path. It is evident that the services sector has the ability to create jobs progressively due to a significant number of sub-sectors in services sector are labor-intensive (Li, Wang and Zhai, 2003). Services industry also often caters to varying business activities, such that they are located in areas with dense and diverse business settings (Kolko, 2010). The evidence indicates that urban economies have larger service outputs and employment shares.

Bangladesh is trapped in the vicious circle of poverty which is characterized by large scale unemployment and underemployment, low level of income, low productivity, weak technological base, market imperfections and lack of skill (Hossain, 2006). According to Haveman and Schwabish (2000), economic growth and poverty rates showed a negative relationship until 1970s. However, starting from the late 1970s, this relationship between economic growth and the poverty rates became statistically unclear. While growth continues to occupy the centre stage in development literature, there have been studies, especially in recent years, arguing that although growth is necessary for poverty reduction, it is not sufficient. Some studies point out that the pattern of growth is important from the point of view of its effectiveness in reducing poverty (World Bank, 1990; Lipton and Ravallion, 1995; Squire, 1993; McKay, 1997; DFID, 1997; Goudie and Ladd, 1999). Moreover, Amartya Sen (1983, 1999), also advocates broadening the framework of development economics. According to, economic

growth should be considered not merely in monetary terms, such as gross domestic product, aggregate income, or supply of goods and services, but also in perspectives that involve expanding the capabilities, entitlements, and freedoms of people. On the basis of literature review, it has been observed that only growth of the services sector is not sufficient for economic development of Bangladesh. It depends on the proper utilization of the resources. With this backdrop, it is essential to clarify the debate whether the services will be new engine of economic growth and development of Bangladesh economy.

3. METHODOLOGY

The study is descriptive in nature. For the purpose of the study, data were collected from both the primary and secondary sources. However, maximum focus was given on different secondary sources. In order to understand the roles and contributions of services sector in Bangladesh economy, the researchers explored the contents of the Bangladesh Bureau of Statistics, Bangladesh Economic Review, World Economic Indicators, World economic review, World Fact Books report regarding the services sector including relevant texts, articles, books, periodicals and websites etc. 300 services beneficiaries from different areas of Bangladesh and 60 officials of different private commercial services firms have been interviewed to analyze the opinions regarding the services industry and its contribution to the economy of Bangladesh. A well-structured questionnaire has been constructed to collect the primary data from the respondents. Data have been collected from the credible and reliable sources. Some statistical tools and techniques are used in analysing the collected data.

4. FINDINGS AND DISCUSSION

A comparative contributions from different south Asian countries including Bangladesh to GDP is given in table 1

Table 1: Percentage of SAARC Countries Gross Domestic Product by Industry

Sectors	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka
Year	2016	2016	2016	2016	2016	2016	2016
Agriculture	16	16.8	18.20	3.5	31.7	25.5	8.1
Industry	27.7	40.5	15.9	19.3	15.1	19	29
Service	56.3	42.7	57.93	77.2	53.2	55.5	62.8

Sources: CIA World Fact Book, 2016

All the SAARC countries have a colonial past and are not very stable politically, even though India is one of the largest democracies of the world. All these countries have economic problems like poverty, unemployment, income inequality, regional imbalances and all are dependent on external aids/assistances. These countries may be termed as underdeveloped or developing economies. Except Maldives, in all the SAARC economies more than 10% of the population lives on less than US$1.25 a day and have no access to improved sanitation (ADB, 2009). Most of these countries, accept Afghanistan, are moving towards a path to economic growth within the limits imposed by their social and political systems. Therefore, the growth process is bound to be accompanied by some structural changes in these economies.

Table 2: Selected some Asian countries (2013-2014)

Name of the countries	Agriculture	Industry	Services
China	10	43.90	46.10
India	17.4	25.8	56.9
Indonesia	14.3	46.6	39.1
Korean	2.6	39.2	58.2
Malaysia	11.2	40.6	48.10
Pakistan	25.3	2.6	53.1
Philippines	11.2	31.6	57.2
Sri-Lanka	10.6	32.4	57
Thailand	12.1	43.6	44.2
Bangladesh	17.2	28.9	53.9

Sources: http//www.google.com retrieved on 03.03.2015

4.1 Contribution of Agriculture, Industries and Services sector to GDP in Bangladesh from late 1950 to till now

The more developed a country the more services oriented its economy is. In the early days Bangladesh had an economy solely based on agriculture. Current sectorial contribution of the country is shown in figure 1;

From Figure 1, it is found that the dominance of the sectoral composition of Bangladesh economy is increasing by the services sector over the years.

From the data from Table 3 until Table 7, it has been found that in GDP maximum contribution comes from the services sector. Among the Asian countries, comparatively, most of the economy depends on services sector. Initially, Bangladesh economy depended on agricultural sectors, right now Bangladesh economy is shifting towards the services sector.

Figure 1: Sectoral Composition of the Bangladesh Economy
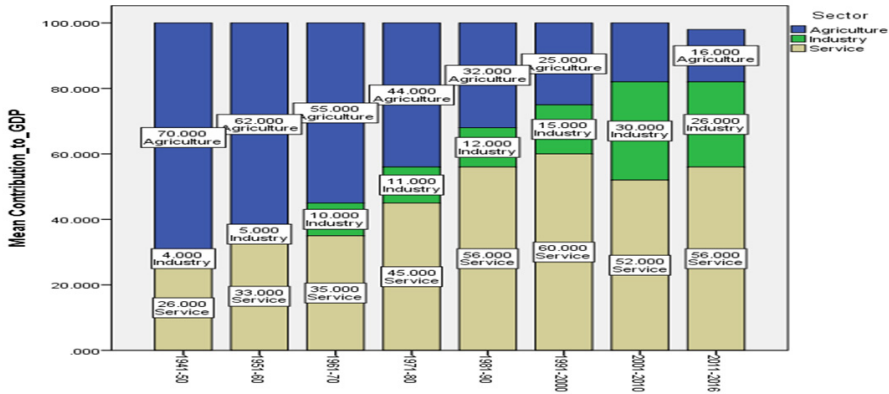
Table 3: Employment contributions (as % of Total Employment)

Year	1984	1985	1986	1989	1991	1996	2000	2003	2005	Avg	2015
Employment in Agriculture	58.8	57.7	57.1	64.9	66.4	63.2	62.1	51.7	48.1	58.89	45%
Employment in Industry	11	11.5	12.5	15.4	13	9.6	10.3	13.7	14.5	12.39	21%
Employment in Services	24.2	26	26.5	14.8	16.2	25	23.5	34.6	37.4	25.36	34%

Table 4: FDI inflows in the Services sector (Million Dollars)

Countries	2005	2010
Afghanistan	166	67.7
Bangladesh	623.8	660.9
India	2630	1090.4
Pakistan	1682.7	633.8
Sri Lanka	-	405.3

Table 5 : Share of Exports and Imports (%) for different service subsectors

Services	2005		2010	
Services	**Export**	**Import**	**Export**	**Import**
Transport	9.05	70	7.18	78.28
Travel	5.61	6.18	3.36	5.93
Communication	1.91	.93	11.48	.60
Construction	1.13	0.05	.29	1.03
Insurance	.40	6.83	.28	.40
Financial services	1.44	.60	1.69	.12
Computer & Information	1.50	.19	1.56	1.03
Royalties and Fee	0.02	.12	.02	.60
Other business services	16.81	6.24	24.07	.14
Personal, Cultural and Recreational services	0.09	0	0.08	0.46
Government services	62.03	8.85	49.99	6.08
Commercial services	37.97	91.15	50.01	93.92

Source: UNCTADSTAT

Table 6 : Share of Employed Labour Force (Above 15 years) by Sector

Sector	1995-96	1999-00	2002-03	2005-06	2010
Agriculture, forestry and fishery	48.85	50.77	51.69	48.10	47.33
Mining & quarrying	-	0.51	0.23	0.21	0.18
Manufacturing	10.06	9.49	9.71	10.97	12.34
Power, gas & water	0.29	0.26	0.23	0.21	0.18
Construction	2.87	2.82	3.39	3.16	4.79
Trade, hotel & restaurant	17.24	15.64	15.34	16.45	15.47
Transport, maintenance & communication	6.32	6.41	6.77	8.44	7.37
Finance, business & services	0.57	1.03	0.68	1.48	1.84
Commodities & personal services	13.79	13.08	5.64	5.49	6.26
Public administration and defense	-	-	6.32	5.49	4.24
Total	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

Note: According to Labour Force Survey 2002-03, 2005-06 & 2010, population above 15 years of age has been counted as labour force, but in the previous surveys the criterion for counting labour force was population above 10 years.

Source: Labour Force Survey (LFS), 1995-96,
1999-00, 2002-03, 2005-06 & 2010 BBS.

Table 7: Sectoral Growth Prospects for the Sixth Plan Five Year Plan

Sector	2008-09	FY11-15 Baseline	FY11-15 Mid Policy shift	FY11-15 High Policy shift
Agriculture	3.4	3.5	4.1	4.4
Industry	7.2	8.2	8.5	9.1
Services	6.1	7.0	7.4	7.9
GDP	5.9	6.7	7.2	7.8

Sources: Sixth Five Year Plan 2011-15

Figure 2: Trade Balance between Goods and Services
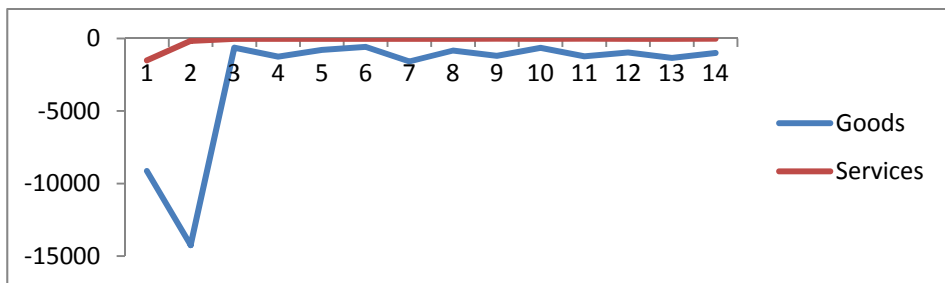
Sources: BBS, 2016

Trade deficit in services sectors are almost remain constant however there are lots of variations in the export and import of goods in this year (refer Table 5). Apart from that, in Table 8, it can be observed that the more developed the countries are, the more they contribute to GDP.

Table 8: Sectoral Contribution to GDP in Developed Countries

Sectors	USA	UK	Japan	Germany	Canada
Services	79.4	78.9	73.2	69	69.8
Industry	19.5	20.5	25.6	30.1	28.5
Agriculture	1.1	0.7	1.1	0.8	1.7

Source: CIA World Factbook, 2015

5. PRIMARY DATA ANALYSIS

By analysing the economic impact of services marketing plays the significant role in determining the contribution of services sector to the economy. In this study, respondents are asked to identify the main beneficiaries of services industry. The responses are shown in the following Table 9.

Table 9: Main Beneficiaries of Services Marketing

SL	Beneficiaries	No of Respondents	Percentages	Rank
1	Upper Upper Class people	50	16.66	2
2	Lower Upper class people	60	20.00	1
3	Middle class People	40	13.33	3
4	Lower class People	30	9.99	4
5	Local slum living people	20	6.66	5
6	Local poor resident	30	9.99	4
7	Local non poor resident	25	8.325	5
8	Local business	25	8.325	5
9	National government	10	3.33	6
10	Local authorities	5	1.665	7
11	Donor/Development Agencies	5	1.665	7

Sources: Field survey. Multiple responses are calculated.

Table 10: Economic Impact of Services Marketing

Variables	Variable Label	Mean	SD	Analysis N
Y1	Service sector brings important economic benefits to the residents of the community.	3.86	.845	300
Y2	Services marketing create employment opportunities for residents in the community.	3.76	.911	300
Y3	Services Marketing provide desirable jobs opportunities in the community.	3.78	1.014	300
Y4	Services marketing bring more investment to the community's economy.	3.78	2.012	300
Y5	Our standard of living has been increased due to the growth and development of the services sector.	4.01	3.134	300
Y6	Services sector helps improve the economic situation for many residents in Dhaka City.	3.76	1.077	300
Y7	Services sector brings important economic benefits to the residents of the community in Dhaka City.	3.76	1.015	300
Grand Mean		**3.815**	**1.429**	**300**

The above table shows the economic impact of services marketing in Dhaka City. It is found that the grand mean of the statement regarding the economic impact of services marketing is 3.815 indicating that the mean value is close to 4.0 which signify that services marketing play significant role in economic development of Dhaka City.

Analysis has been conducted to find out the coefficient of each statement to the economic impact of services marketing and result was included in Table 11. It is found that services marketing provides desirable job opportunities to the community has the highest coefficient (.739) and then services sector brings economic benefits to the residents of the community has the second highest coefficient (.689). On the basis of coefficient score, it has been observed that services sector provides desirable job opportunities in the community and creates employment opportunities for the residents in the community.

Table 11: Coefficient of Each Variable to the Economic Impact

Statement	Economic Impact
Service sector brings important economic benefits to the residents of the community.	.689
Services marketing create employment opportunities for residents in the community.	.696
Services Marketing provide desirable jobs opportunities in the community.	.739
Services marketing bring more investment to the community's economy.	.433
Our standard of living has been increased due to the growth and development of the services sector.	.401
Services sector helps improve the economic situation for many residents in Dhaka City.	.557
Services sector brings important economic benefits to the residents of the community in Dhaka City.	.635
Extraction Method: Principal Component Analysis.	
a. 1 components extracted.	

Table 12: Social Impact of Services Marketing

Statement	Mean	SD	n
Services sector is a major reason for the variety of entertainment in Dhaka City.	3.72	.960	300

Services marketing have resulted in unpleasantly overcrowded shopping places for local residents in Dhaka City.	3.63	.958	300
Because of services marketing, roads and other local services are well maintained.	3.33	1.103	300
Services sector creates social interactions between the clients and services providers.	3.71	.969	300
Increased services sector provide more recreational opportunities for local residents in Dhaka City.	3.63	1.017	300
Grand Mean	**3.604**	**1.001**	**n=300**

From Table 12, it is found that the grand mean of the statement regarding the social impact of services marketing is 3.604 and it is close to 4.0 which means that services marketing plays significant role in social development. Services providers are asked to identify the reasons for the growth and development of services sector in Bangladesh.

5.1   Factors Analysis

In table 13, the KMO test value for the set of variables is .635, which indicates that factor analysis is relevant with this data set. The significance (p-value= 0.000) of Barttlet's Sphericity test with chi-square value 989.680 is rejecting the hypothesis of identity correlation matrix that means the variables are not uncorrelated which is an important prerequisite for factor analysis. These two tests signify the relevance of factor analysis with this set of variables to identify the latent factors for the growth and development of services marketing.

Table 13: KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.635
Bartlett's Test of Sphericity	Approx. Chi-Square	989.680
	df	351
	Sig.	.000

One of the key concerns of factor analysis is to determine the number of factors to be extracted. Since the purpose is to explain the variations using the extracted factors, many factors will be required to ensure sufficient amount of variations can be explained. Those factors which have Eigen value greater than one are selected, therefore the first seven factors are chosen. Hence, explain the 71.466% variations of the growth and development of the services sector in Bangladesh. The scree plot is also a good device to choose the number of factors to be retained. From the following scree plot in Figure 3, it is seen that the Eigen values are more stable after the first seven factors, which also suggested that extracting seven factors is reasonable for the growth and development of services

sector. The rotated component Matrix presents the seven factors after rotation. To identify what these factors represent, it would be necessary to consider what items loaded on each of the seven factors. From Figure 3, it can be deducted that 25 variables are reduced into seven predominant factors.

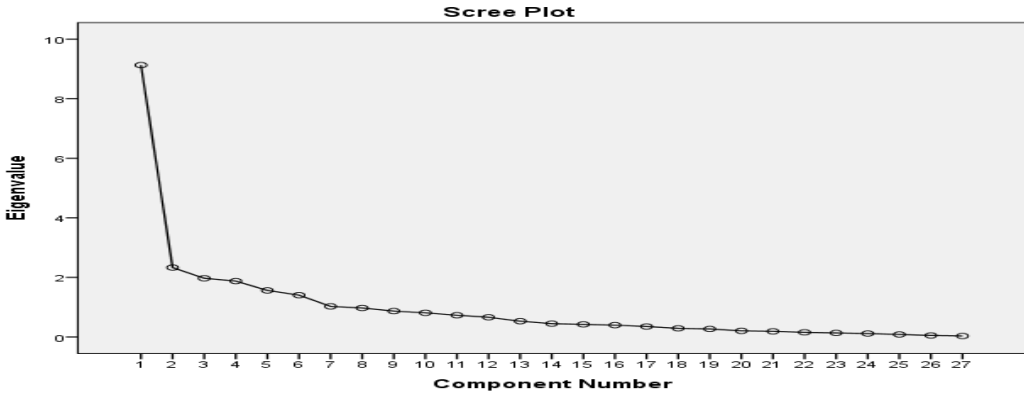Figure 3: Scree Plot for Determining the Number of Factors to be extracted

Table 14: Extracted Factors and their Factor Loadings with Observed Variables

	Component						
	1	2	3	4	5	6	7
Z16	.804						
Z26	.682						
Z27	.662						
Z17	.609						
Z21		.786					
Z20		.698					
Z22		.663					
Z25		.640					
Z24		.625					
Z4			.878				
Z5			.822				
Z2			.530				
Z13				.869			
Z14				.616			
Z3				.594			
Z15	.533			.550			
Z1					.816		
Z18					.594		
Z19					.544		
Z23					.512		
Z6						.757	
Z7						.680	
Z8						.603	

Z11	.805
Z9	.654
Z12	.567
Z10	.535

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 12 iterations.

Four items loaded on Factor 1. An inspection of these items clearly shows that the majority of these items reflect services product for peaceful life. Factor 2 contains five items that reflect the changing lifestyle and removal of manufacturing sector from City areas. Factor 3 contains three items that changing the behaviour of passing the leisure time and the affluence of the life. Factor 4 contains three items that reflect the technological advancement and use of technology. Factor 5 contains four items that reflect more expenditure on services due to affluence of life in City areas. Factor 6 contains three items that reflect the life expectancy of the city dwellers. Factor 7 contains four items that reflect the ecological concerns of the city dweller. These seven factor model represents the combination of the seven original factors, and appears to reflect adequately the underlying factor structure of the 27-items for the growth and development of services marketing.

6. RECOMMENDATIONS

From the above findings, some improvements are required to well-equipped the services sector of Bangladesh. The status of services marketing should be increased in Bangladesh by recognizing this sector in the society. Government should cooperate with the services oriented firms which will ultimately increase economic and social development of the country.

Development of Tourism

Bangladesh is a country of natural beauty that has lots of tourist attraction spot. These places are of different interest such as beaches, historical places, archaeological sites, religious palaces, forest and jungle etc.

Development of Software and ICT

The current size of Bangladesh Information Technology (IT) Industry and software/ITES industry is still smaller compared to the overall economy and the number of population (over 150 million). Over the last few years, the industry has grown considerably and is expected to grow at that rate for some time. Therefore, government should invest more in this sector.

Monitoring and supervision of Services Sector

It is essential to monitor and supervise the technology imported by the services providers. The increase in the technological deployment will reduce labour involvement in the services sector. Government should impose the restriction on the importation of modern equipment so that labour can participate in this sector.

Improvement in Transportation

Road transport in Bangladesh is a private sector affair operating predominantly in domestic routes. The fare rates in Bangladesh are among the cheapest in the world. In addition, express and nonstop services also available.

Quality Financial Services

Quality financial services should be given on services affairs business activities in Bangladesh as such small and medium service enterprise can expand their business activities across the country.

Development of Education sector

The increasing of people and literacy rate leads to the increasing demand for higher education. The technical institution, business education, and health education create the demand to the people. The development of government and private universities is the indicator of the growing demand in education sector.

Trade Liberalization of Services Sector

Government should liberalize the trade of services so that service providers can export the services to other country around the world.

Geographical expansion of Services

Cities are the hub of all services sectors in Bangladesh i.e. Dhaka City is the hub of all services sector. It should be spread across the across the country. All are equally benefited by the services businesses.

7. CONCLUSION

This study shows that the services sector already play a major role in Bangladesh economy as it served as source of growth, development and jobs. That role is likely to become more important over the mid-term, as countries move through the common transition from agriculture to manufacturing to services-based economies. The services sector provides the support for the development industry

sector and agriculture sector. For the improvement of the GDP sector, it has to give special emphasize on services sector. There is lot of scope of development of services sector. The trade liberalization on services will cause the opportunity for services export. So, the initiatives for development of services sector have to be taken. This paper has analysed the comparative contribution of services sector, the growth of services sector, services export and the employment in services sector. Further research needs to be conducted regarding the method to develop the services sector.

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