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Trade Liberalization and Service Sector Growth: A Case of Selected South Asian Countries

Khatiba Asmat Zahra [1], Naima Narmeen[2], Kashif Murtaza[3]

[1.] Lecturer, Department of Economics, GSC Women University, Bahawalpur; PhD Scholar, School of Economics, Bahauddin Zakariya University, Multan
[2.] PhD Scholar, School of Economics, Bahauddin Zakariya University, Multan.
[3.] M.Phil. Economics Institute of Southern Punjab, Multan.

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Corresponding Author's email:
khatiba.asmat@gscwu.edu.pk

ABSTRACT

The current study attempts to find how trade liberalization effects services sector growth of selected South Asian economies. Yearly panel data for 1990-2020 was utilized for four selected countries; Pakistan, India, Bangladesh, and Sri Lanka. Long run results of panel Autoregressive distributed Lag ARDL model indicates that trade openness and capital investment have positive and significant impact on services sector whereas government - household consumption expenditure, labor force, and inflation have inverse relation with service sector growth. In order to enhance the third largest sector of the economy and to boost its growth, study concludes with the empirical findings that governments of these countries require to reformulate their trade policies which should be less restrictive. Moreover, should put effort to design strategies on; creating free trade zone or south Asian economic union that will be a source of employment for less skilled workers as well, low-cost skill development schemes and restructuring regional labor markets.

1. Introduction

In former times, manufacturing-led development traditionally remained the main means of job creation and prosperity. In other words, manufacturing was believed to be the main source of economic growth for nations across the world. However, in many developing economies over the last three decades, the services sector has surpassed the manufacturing sector in size. In developing economies, the services sector generated an average of 55% of GDP and 45% of employment in 2019 (Gill, 2021). This services-driven economic transformation has become possible on account of new opportunities for scale, innovation, and spillover effects, which in the past were thought to make manufacturing more productive (Gill, 2021). Owing to its distinct nature, the services sector is commonly known as the tertiary sector of an economy. This sector includes all tasks performed by people who contribute their expertise and time in an effort to raise sustainability, performance, productivity, and potential. In recent years, the services sector has expanded very quickly and now accounts for a sizable portion of output, income, and employment in developing nations. In addition, productivity per worker in the services sector is rising relative to the agricultural and industrial sectors. Similarly, the services sector is now also becoming dominant in developed economies as well.

Higher levels of education, skills, and experience in human resources play a significant role in increasing economic growth (Jadoon, Rashid, & Azeem, 2015). In general, sustainable growth in any country requires productive resources and technological innovations. One of the main resources of any nation is labor, which can be expanded through faster population growth. In addition, growth

depends on the accumulation of physical capital, which can be raised with higher investment rates, and on the accumulation of human capital, which can likewise be increased through higher investment in education and training. Human capital further relates to both the size and the caliber of the labor force. Therefore, it is evident nowadays that high growth rates are enjoyed by those nations that successfully utilize their human capital (Jadoon et al., 2015).

Hence, the services sector is significant for the long-term growth prospects of any country, particularly in South Asia since the 1990s. The role of the services sector has become increasingly important due to its key contribution to enhancing trade and investment flows within the region, as it increases productivity and competitiveness and accounts for a major share of employment (Asghar, Yousuf, & Ali, 2014). Owing to its principally labor-intensive nature, this sector has helped in reducing poverty. In addition, remittance earnings from manpower exports have become an important source of foreign exchange earnings in the region (Ajmair, Gilal, & Hussain, 2016).

In general understanding, the term trade liberalization refers to trade openness, which has been regarded as a key component of development policy at the global level since the late 1970s. Traditional international trade theories predict that trade liberalization can add value to products (Heckscher, 1919; Ohlin, 1933). Moreover, trade leads to a static increase in the efficiency of production and resource allocation in the economy. Today, the world has become a global village, and the recent period in the history of nations is known as the era of globalization. Consequently, it is hardly possible for any economy to survive today without foreign trade. Countries are therefore concentrating on liberalizing their trade policies in order to capitalize on the opportunities of comparative advantage to the best of their ability. Recent evidence has also revealed that trade openness or liberalization is one of the most important tools for boosting economic growth (Jadoon et al., 2015). Similarly, trade in services makes it easier for producers and consumers to exchange the relevant services and the products related to them.

However, it is also believed that trade liberalization contributes significantly to growing global economic disparity. In particular, it is widely believed that trade liberalization brings negative impacts on employment and wages for low-skilled employees in industrialized nations. In addition, there are concerns that trade liberalization is making international labor standards worse (Shastri, Tripathi, & Singh, 2010; Yasmin, 2009). On the other hand, the traditional Stolper-Samuelson theorem predicts that trade liberalization will raise the price of the abundant factor (unskilled labor) in developing countries and, therefore, reduce the skilled wage premium and wage inequality (Stolper & Samuelson, 1941). This is the symmetric alternative to the theory that trade expansion is a significant cause of rising inequality in industrialized nations.

The purpose of the current study is to investigate the influence of trade openness on the services sector growth of South Asian economies. A review of the existing research literature shows that many earlier studies focused on finding these linkages within particular countries (Ajmair et al., 2016; Rathore, Shahid, Ali, & Saeed, 2019), or they categorized countries into groups such as developed, developing, low-income, or high-income nations (Jadoon et al., 2015). However, the present study aims to find the effect of trade openness on the services sector growth of a specific geographical region, namely South Asia, and more precisely Pakistan, India, Bangladesh, and Sri Lanka. Therefore, the study contributes to the regional literature by providing panel evidence for these four economies over the period 1990-2020.

The remainder of the paper is organized as follows. Section 2 reviews the relevant empirical literature, and Section 3 presents the theoretical framework. Section 4 explains the data sources and the model specification, whereas Section 5 discusses the empirical results. Finally, Section 6 provides concluding remarks and policy suggestions.

2 Literature Review

Focusing specifically on exports, Hossain and Alauddin (2005) investigated the trade liberalization process of Bangladesh and its effects on the development and structure of exports, imports, GDP, and

other pertinent macroeconomic indicators. Cointegration testing and distributed lag modelling were employed in the investigation. The findings demonstrated that both the reduction of anti-export bias and the import-GDP ratio, which serves as a proxy for capital imports, had a considerable long-term impact on exports.

Similarly, the relationship between trade liberalization and labor demand elasticities was examined by Akhter and Ali (2007). Their analysis employed firm-level data from Pakistan that covered the entire period of trade liberalization. The study examined whether trade liberalization increased the own-price labor demand elasticities of the industrial sector of Pakistan. Using fixed effect and random effect models, the findings suggested that the theoretically predicted link between greater trade liberalization and higher labor demand elasticities may not hold in practice. The labor demand elasticities of all eleven industries revealed a lack of response to trade liberalization under the fixed effect model; however, under the random effect model, the great majority of industries were found to respond when considered independently.

In addition, Yasmin (2009) investigated the role of human capital and job characteristics, or supply-side determinants, in wage setting during a period of trade liberalization. Using Labor Force Survey data for the years 1990-1991 and 2005-2006, she developed a model based on the Mincerian earnings function to estimate various wage determinants, calculate rates of return to different educational levels, and determine relative occupational wage shares. The findings of the study revealed a growing wage disparity between men and women, some degree of stability in the rate of return to most educational levels, an increased return to the highest level of education during the period of trade liberalization, and slightly shifting relative wage shares across occupations.

Shastri et al. (2010) examined how the employment situation in India changed after the adoption of trade liberalization policy and the potential consequences of further trade liberalization. According to economic theory, trade liberalization may increase labor productivity in developing economies; however, it also exerts a different influence on wages and employment. In most cases, greater trade has been linked to higher employment but lower wages. Therefore, the effect of trade liberalization on employment is particularly significant in this setting. The study recommended that policies and programs should be designed for unorganized sectors as well, especially those that are connected to export markets.

Chamarbagwala and Sharma (2011) analyzed the connections between trade liberalization, skill upgrading, and industrial de-licensing in Indian manufacturing plants throughout the 1980s and 1990s. The data for the study were drawn from three sources. To assess the degree of industrial de-licensing that a plant had experienced, regression discontinuity and difference-in-differences approaches were utilized. The study reached two significant conclusions. First, industrial de-licensing throughout the 1980s appears to have raised the relative demand for skilled personnel through capital-skill and output-skill complementarities, after adjusting for the size-based exemption rule that determined whether or not a plant faced licensing constraints. Second, since trade was liberalized in the early 1990s, capital-skill and output-skill complementarities have often been weaker, regardless of de-licensing. Therefore, the study concluded that trade liberalization might not have had a significant impact on increasing the relative demand for skilled workers in the early 1990s.

Asghar et al. (2014) studied the employment levels of the South Asian Association for Regional Cooperation (SAARC) countries. For the theoretical and literature-based examination, nations such as Pakistan, India, Bangladesh, and Sri Lanka were chosen. The study found that trade liberalization may have favorable effects in some nations; however, this outcome is not guaranteed, and it does not necessarily follow that trade liberalization is beneficial in every case. Therefore, the authors suggested that governments should provide economic agents with an institutional and legal framework within which to work.

Jadoon et al. (2015) used panel data analysis to investigate the impact of trade liberalization on economic growth and human capital in low- and high-income Asian economies, namely India,

Indonesia, Japan, Malaysia, Pakistan, South Korea, Singapore, and Sri Lanka. The Fixed Effect Model was used in this study for the assessment of explanatory variables within countries. The findings showed that trade openness has a positive impact on human capital in both developed and developing countries; however, the impact is more significant in developed countries due to their well-trained human capital. In addition, both groups of countries experienced trade-led growth during the selected time period. Therefore, the study argued that investment in human capital is a critical need for developing countries to reap the full benefits of trade openness.

Focusing on Pakistan, Ajmair et al. (2016) employed the Autoregressive Distributed Lag (ARDL) model to evaluate the factors affecting services sector output growth by using annual data for the years 1975 to 2014. The results of this study showed that foreign trade, government expenditure, market size, and population growth are the relevant long-run determinants of services sector output growth. In the short run, however, foreign trade and personal remittances affect services sector growth. Thus, the study suggested that, in order to achieve higher economic growth, the concerned authorities should implement policies that increase the services sector output of the country.

Ambreen, Hussain, Ahmad, and Ajmair (2017) used a time-varying parametric approach (Kalman filter) to identify the factors that contribute to the growth of the services industry in Pakistan. Their results indicated that inflation, domestic credit to the private sector, gross fixed capital formation, remittances received, and trade openness have negative effects on the growth of the services sector, whereas foreign direct investment and gross national expenditure have positive and large influences. Accordingly, the study suggested that, in order to achieve long-term growth in the services sector and to improve economic growth in the country as a whole, the relevant authorities should increase gross domestic expenditure and foreign direct investment.

Ajmair, Gilal, Hussain, and Iqbal (2018) assessed the impulse responses of agriculture, industrial, and services sector growth to shocks in the macroeconomic determinants of their growth, as well as to their own shocks. Their study carried out the analysis based on the AB model of Amisano and Giannini (1997) in a structural vector autoregression framework. The findings demonstrated that the growth response of the agriculture sector to both internal and external shocks to gross domestic expenditure was favorable. However, the expansion of the agriculture sector was significantly affected by inflation and remittance shocks, whilst the impact of the permanent cropland shock was mixed. Similarly, the results for the industrial sector demonstrated a mixed response of industrial growth and external debt to the other factors. In addition, shocks to external debt brought about increased manufacturing sector growth. The study, therefore, recommended maintaining the focus on measures intended to curb inflation in order to accelerate GDP growth in the three important sectors.

Mahfooz, Mahmood, and Noureen (2018) examined the effects of liberalizing the services regime of Pakistan on the growth of two important sectors, namely telecommunications and finance. The Fully Modified Ordinary Least Squares (FM-OLS) estimation technique was used in the study. The results of the estimated model demonstrated that liberalization has a beneficial effect on the growth of these particular sectors. Therefore, according to the findings of the study, the government must take deliberate action to create a climate that would encourage investment, notably in the robust services sub-sectors of banking and telecommunications.

Similarly, Rathore et al. (2019) examined the factors influencing the contribution of the services sector to the GDP of Pakistan. For data analysis, they used the Autoregressive Distributed Lag model. The empirical analysis demonstrated that trade in services and foreign direct investment have a strong beneficial impact on the contribution of the services sector to GDP, whereas population growth and employment in the services sector show adverse effects. In addition, the long-term effects of household consumption and government spending were found to be negligible. Therefore, the study suggested that the authorities need to address current concerns and make changes to existing laws that might boost the contribution of the services sector.

3 Theoretical Framework

Numerous economists have periodically studied sectoral growth, trade openness, and their implications for output. This section outlines some of these theories while keeping their significance in mind. Structural-change theory focuses on the process by which underdeveloped economies transform from a reliance on traditional subsistence agriculture to a more modern, urbanized, and industrially diverse manufacturing and services sector. This theory uses contemporary econometrics as well as techniques from neoclassical price theory and resource allocation to explain how this transformative process works. The "two-sector surplus labor" theoretical model of W. Arthur Lewis and the "pattern of development" empirical study of Hollis B. Chenery and his coauthors are well-known exemplary instances of the structural-change approach.

One of the most popular early theoretical models of development, developed in the mid-1950s by Nobel laureate W. Arthur Lewis and later refined, formalized, and extended by John Fei and Gustav Ranis, centered on the structural transformation of a largely subsistence economy. The Lewis two-sector model, which is still occasionally used, became the dominant theory of the development process in labor-surplus developing countries for the majority of the 1960s and early 1970s. Its relevance is still visible when looking at the recent growth of China and at labor markets in other developing countries. According to the Lewis model, the underdeveloped economy is divided into two sectors. The first is a traditional, overcrowded, rural subsistence sector with zero marginal labor productivity, which Lewis characterized as surplus labor because it could be withdrawn from the traditional agricultural sector without reducing output. The second is a high-productivity, modern, urban industrial sector into which labor from the subsistence sector is gradually transferred.

The concept of differences in relative factor endowments was first established by Heckscher (1919) and Ohlin (1933), and it eventually became the basis of international trade theory. They discussed a scenario in which two countries differ in their relative abundance of the factors of production. Suppose that there are two factors of production and two goods. If one commodity is labor-intensive and the other is capital-intensive, each country uses its abundant factor of production to produce and export the good that uses that factor intensively. Constant returns to scale and the factor price equalization theorem are the foundations of the Heckscher-Ohlin (H-O) model. In this framework, the labor-abundant nation specializes in labor-intensive goods. The other country, on the other hand, exports its capital-intensive products to labor-intensive nations at a lower cost.

The H-O model was further developed by Stolper and Samuelson (1941). As unskilled labor is a plentiful factor of production in developing nations, they described how international trade would lead to an increase in the wages of this workforce. In turn, this wage increase leads to a decrease in income disparity in the trading nation. In addition, according to some formulations of the theorem, trade liberalization would result in the wages of one factor (skilled or unskilled labor) being equalized across all nations.

4 Methodological Issues

The following section presents the data, the sources of data, and the methodology for the empirical estimation of the linkages between trade liberalization and services sector growth in the selected South Asian nations, namely Pakistan, India, Sri Lanka, and Bangladesh.

4.1 Data Source

This study utilizes secondary panel data for the period 1990-2020. Data for the selected variables were collected from various sources, including the Pakistan Bureau of Statistics, different volumes of the Pakistan Economic Survey, and mainly the World Development Indicators (WDI) of the World Bank. The dependent and independent variables are measured in current US$, whereas the labor force is measured in total count. In addition, all variables except the trade openness index and inflation are further transformed into natural logarithms, as shown in equation (2).

4.2 Model Specification

The following operational model is used to evaluate the impact of trade liberalization on the services sector of South Asian countries. For the present analysis, the study has taken services value added as a proxy for services sector growth and the trade openness index as a proxy for trade liberalization. In addition, total labor force, gross fixed capital formation, gross national expenditure, and inflation, measured by the GDP deflator, are included as explanatory variables, following Ajmair et al. (2016) and Rathore et al. (2019). The general form of the model is specified as:

$SVA = f(TOI, GFCF, GNE, TLF, INF)$

The multiple regression equation of the above model is specified as follows:

$\alpha = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \text{---------} + \beta_n X_n + \mu_t$

$SVA = \beta_0 + \beta_1 TOI + \beta_2 GFCF + \beta_3 GNE + \beta_4 TLF + \beta_5 INF + \mu_{it}$ ..... (1)

$LSVA = \beta_0 + \beta_1 TOI + \beta 2\ LGFCF + \beta_3 LGNE + \beta_4 LTLF + \beta_5 INF + \mu_{it}$ ..... (2)

Table 1

Description of the Variables

Variable	Abbre.	Description
Services Value Added	SVA	Services fall under the International Standard Industrial Classification division of value added in, transportation, government financial, professional, and personal services like education, health care, and real estate services, as well as wholesale and retail trade (including hotels and restaurants). Import tariffs and imputed bank service fees are also included. The net output of a sector is the sum of all the sector's outputs minus any intermediate inputs.
Trade Openness Index	TOI	Trade openness explains how a nation's economy is structured in relation to global trade. The ratio of the sum of exports and imports to the aggregate GDP of the countries is used to calculate the degree of openness and is based on the actual size of registered imports and exports of an economy.
Gross Fixed Capital Formation	GFCF	After subtracting disposals, gross fixed capital formation is the sum of investments in fixed assets made by resident producers over a specific time period. It also includes specific increases in the value of non-produced assets realized by producers or institutional entities. It shows how much of the newly created economic value is invested as opposed to consumed.
Gross National Expenditure	GNE	Gross national expenditure is the total spending made by all members of the economy. Gross national expenditure is the sum of consumption plus investment plus government expenditures. GNE (formerly domestic absorption) is the sum of household final consumption expenditure, general government final consumption expenditure, domestic investment.
Total Labor Force	TLF	The labour force consists of people over the age of 15 who provide labour for the production of goods and services for a set period of time. It includes both those who are currently employed and those who are looking for work, as well as first-time job seekers. However, not every worker is included. Students, low-wage workers, and family members are frequently overlooked. The number of employees fluctuates throughout the year as seasonal workers arrive and depart.
Inflation	INF	Inflation is the rate at which prices rise over a given time period. Inflation is typically defined as a broad measure, such as the overall

	increase in prices or the cost of living in a country. We take GDP deflator as a proxy of inflation

Source: World Development Indicators

5 Data Analysis, Results and Discussion

An authentic data source and an appropriate selection of variables play a crucial role in effective empirical research. This section deals with the quantitative analysis by employing panel data comprising four countries, namely Pakistan, India, Bangladesh, and Sri Lanka, for the period 1990-2020. The data were taken from the database of the World Development Indicators, and the statistical software EViews was used for the estimation of the variables.

5.1 Unit Root Test

Table 2

Results of Panel Unit Root Tests

Variables	Intercept	Intercept & Trend	None	
	LLC Test	**LLC Test**	**LLC Test**	**Conclusion**
SVA	1.3021	3.650	-1.26	I(1)
	(0.903)	(0.99)	(0.10)	
IM	-3.022			I(1)
	(0.001)	___	___	
EX	0.434			I(1)
	(0.66)	___	___	
GDP	1.042	3.322	-1.37	I(1)
	(0.851)	(0.99)	(0.08)	
TOI	-8.506			I(1)
	(0.00)	___	___	
GFCF	0.764	3.421	-2.55	I(1)
	(0.777)	(0.99)	(0.00)	
GNE	0.233	1.654	-1.78	I(1)
	(0.592)	(0.95)	(0.03)	
TLF	3.582	3.561		I(1)
	(0.999)	(0.99)	___	
INF	-2.209	-0.86	-3.01	I(0)
	(0.013)	(0.19)	(0.00)	

Note: Fisher tests are computed using an asymptotic Chi-Square distribution. All other tests assume asymptotic normality.

The panel unit root test results for the dependent and independent variables are shown in Table 2, based on the Levin, Lin and Chu (LLC) test, the Im, Pesaran and Shin W-statistic, the ADF-Fisher Chi-square, and the PP-Fisher Chi-square statistics. The stationarity results reveal a mixed order of integration, as inflation is stationary at level, I(0), whereas the remaining variables are integrated of order one, I(1). Therefore, since none of the variables is integrated of order two, the Panel Autoregressive Distributed Lag (ARDL) model can be used for further empirical analysis.

5.2 Short Run and Long Run Estimates of Panel ARDL

Table 3

Panel ARDL Results

	Long Run Coefficients			
Variables	**Coefficient Value**	**Standard Error**	**t-Statistic**	**Prob.**
TOI	1.310	0.6507	2.013	0.05
LGFCF	3.042	1.5173	2.005	0.05
LGNE	-1.451	1.2409	-1.169	0.25
LTLF	-5.298	2.9011	-1.826	0.07
INF	-0.008	0.0045	-1.950	0.06
	Short Run Coefficients			
D(TOI)	-0.140	0.1428	-0.980	0.33
D(LGFCF)	0.344	0.3772	0.913	0.36
D(LGNE)	0.418	0.3028	1.380	0.17
D(LTLF)	-0.328	0.4633	-0.708	0.48
D(INF)	0.006	0.0017	0.402	0.69

Table 3 presents the estimated results of equation (2), indicating the effects of trade liberalization on the services sector growth of the selected economies of the South Asian region. This empirical study employed services value added (SVA) as a proxy for services sector growth and as the dependent variable, with the trade openness index, gross fixed capital formation, gross national expenditure, total labor force, and the GDP deflator (as a proxy for inflation) as the explanatory variables. The selected method is panel ARDL, using the Akaike Information Criterion for lag selection; the estimated model has a log likelihood of 449.76 and a standard deviation of 0.072.

The long-run estimates show that trade openness has a positive and significant impact on the services sector at the 5 percent level, with a coefficient value of 1.31. Since the trade openness index enters the model in level form, this coefficient implies that a one percentage point increase in trade openness is associated with an approximately 1.31 percent rise in the services value added of the region. This finding is also evident in the studies of Asghar et al. (2014), Mahfooz et al. (2018), and Rathore et al. (2019). Similarly, Jadoon et al. (2015) also reported this finding, particularly in developed countries. This result is also in line with the H-O theory (Heckscher, 1919; Ohlin, 1933); however, it is contradicted by the findings of Ambreen et al. (2017) for Pakistan. Thus, fewer trade barriers, such as tariffs and non-tariff barriers including quotas, will spur more income-generating opportunities, expansion in total output, enhancement in technical knowledge, and mobilization of human resources across the region.

In addition, the results show that gross fixed capital formation has a positive coefficient value of 3.04 with a statistically significant effect on the services sector at the 5 percent level. Thus, a 1% increase in gross fixed capital formation leads to a 3.04% increase in services value added. This finding is supported by Jadoon et al. (2015). The result suggests that capital investment stimulates the growth of the services sector and has been crucial in promoting competition in domestic and international markets.

However, gross national expenditure has a negative coefficient of -1.45 and is statistically insignificant in the long run ($p = 0.25$), whereas it has a positive but insignificant coefficient of 0.41 in the short run ($p = 0.17$). The negative sign indicates that a 1% rise in gross national expenditure is associated with a 1.45% reduction in services value added; however, owing to its insignificance, this result should be interpreted with caution. These results contradict the findings of Ambreen et al. (2017) and Ajmair et al. (2018), who reported a positive effect of gross expenditure on sectoral growth.

The present study further indicates that, in the long run, there is a negative contribution of the labor force to services sector growth, as the coefficient value is -5.29 and is significant at the 10 percent level. This means that a 1% rise in the total labor force causes services value added to decline by 5.29%. This result is consistent with the findings of Rathore et al. (2019), whose evaluation indicated a negative effect of population growth and services sector employment on the services sector in the case of Pakistan. Similarly, the study of Akhter and Ali (2007) depicts an empirically weak link, or unresponsiveness, of labor demand to trade liberalization. This negative impact arises because, in the selected countries, the ratio of unskilled workers is very high due to a lack of technical and professional education and training. In addition, there is a greater degree of wage inequality among different sectors of the economy (Yasmin, 2009).

Similarly, the GDP deflator has a negative coefficient of -0.008, which is significant at the 10 percent level in the current study. Since inflation enters the model in level form, a one percentage point increase in inflation reduces services value added by approximately 0.8 percent. These results show that numerous services subsectors are sensitive to changes in price levels. This finding aligns with Ambreen et al. (2017), who also reported a negative effect of inflation on services sector growth in Pakistan. Normally, employment in these subsectors tends to be less formal and generally has a high price elasticity.

6 Concluding Remarks and Suggestions

Trade openness is considered a major determinant of growth in both developing and developed nations. Proponents of the impact of trade openness on sectoral growth advocate several main channels, i.e., capital accumulation, factor price equalization, skill development, advancement in knowledge, and transfer of technology (Jadoon et al., 2015; Stolper & Samuelson, 1941). Greater trade openness brings greater benefits to economies; however, these benefits can be achieved only by developing an efficient services sector, the third-largest sector of the economy. Therefore, it is evident from the studies that the competitiveness of the services sector, along with a well-functioning regulatory system, is essential for ensuring gains to the services sector from trade liberalization in South Asian economies (Asghar et al., 2014; Mahfooz et al., 2018).

The results obtained in the present study suggest that trade openness and capital investment are pivotal for services sector growth. Therefore, it is essential for the governments and authorities of South Asian countries to reformulate their trade policies in a way that enables a less restrictive flow of services sector output and, in addition, attracts remittance inflows. Strategies focusing on the creation of a free trade zone or an economic union within the region, building on the existing South Asian Free Trade Area (SAFTA) framework, will help domestic service-providing firms and individuals to progress and will serve as a source of employment for the masses, with or without the requisite skills. Since the labor force has a negative effect on services sector growth, the governments of these nations must take the necessary measures to redirect their consumption expenditure towards health and education facilities, so that these facilities are easily accessible to low-income groups. Similarly, the inverse relationship between gross national expenditure and services growth is most likely due to the limited supply of services caused by the high ratio of unskilled and untrained workers. To benefit from the consumption side, it is necessary to establish more technical and professional institutes at the grassroots level that aim to deliver skills rather than to generate revenue. Moreover, public policies may play a favorable role in youth development; in addition, these policies must aim to design low-cost skill development schemes and to restructure regional labor markets.

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