

THE ROLE OF THE SERVICE SECTOR IN ECONOMIC DEVELOPMENT

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Introduction. It is no secret that states are developing and implementing policies that will ultimately contribute to the welfare of their residents and the development of the economy. One of the most important indicators characterizing the economic development of the state is the indicator of economic growth or GDP growth rate. In fact, economic growth is the result of an increase in production volumes, an improvement in the welfare of the population, an increase in private individuals and government revenues.

In these conditions of the global crisis and in the context of wars intensifying every day, it becomes necessary to look at the economic growth and development of countries from a different point of view. Theories and models describing economic growth reveal various ways in which current activities can affect economic development. Theories of economic growth have changed over time depending on new and improved tools of statistical and mathematical analysis.

According to Smith's definition, one of the main characteristics of economic growth is the division of labor¹, and according to the definition of the World Bank, “economic growth is measured by changes in the volume of production or the actual incomes of residents.”²

For many years, the traditional model of economic development of countries has been the development of production, which contributed to the creation of jobs and welfare. Nevertheless, as G. Nayyar notes, over the past three decades, especially in developing countries, the service sector has grown more than the production. According to him, the service sector is increasingly becoming the driving force of economic transformation, even though the policy is focused on production. Most of the workers in low- and middle-income countries are currently employed in the service sector, and since the 1990s they have become more productive, which has increased income.

“This service-based economic transformation is possible thanks to new scaling opportunities, innovations and spin-offs that have made manufacturing more efficient in the past.” Delivery capabilities, as well as branching and franchising, increase the chances of service providers to enter larger markets. The use of digital technologies in business processes and the associated expansion of intangible capital can stimulate innovation by complementing the workforce. Services also benefit other sectors, for example by facilitating the development of production and complementing the

¹ Adam Smith's Theory of Growth, Marginal Revolution University,
<https://www.youtube.com/watch?v=DevD4b7HQ7U>

² <https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?view=chart>

production of manufactured goods.¹

The relevance of the article. The economic development of any country directly depends on the progress of three sectors of the economy, namely: the primary sector, the secondary sector and the tertiary sector. For quite a long time, the main direction ensuring the development of the economy was production and industry. Since the middle of the last century, the service sector has become more popular and the growth of which, as researchers have found, presumably suppresses economic development. Therefore, the main **purpose** of the article is to identify the impact of the service sector on the economic development of the country.

*To achieve that purpose following **objectives** are set in the scope of the article:*

- *To study the factors contributing to economic growth.*
- *To identify the role of service sector for country's development.*

The topic has been studied by foreign researchers, international organizations and Armenian authors. The current study is an attempt to show the role the service sector has in explaining population's welfare.

Literature review. States develop and put in use policies to contribute to progress of economy's 3 main sectors. The primary sector of the economy directly uses natural resources by participating in the production and extraction of raw materials from agriculture, fisheries, forestry, mining, dairy products, etc., the secondary sector, also known as the industrial sector, is associated with activities that involve the conversion of raw materials into useful product. The primary sector includes those areas of actual activity where there are more unemployed.

The tertiary sector, also known as the services sector, includes, for example, health and social security, tourism, leisure and entertainment, and retail. In recent years, the service sector has undergone a significant evolution, which, in turn, has given it an independent status of the country's manufacturing sector. In addition, this sector also has a significant impact on the currency and, thus, makes a significant contribution to the modern economic development of the country.²

The difference between services and goods begins with the difference in their nature: products have a physical nature, can be stored, whereas services disappear as soon as they are produced, goods continue to exist after production. Therefore, the service sector has often been singled out as a sector slowing economic growth. Smith also touched upon this issue. According to him, an increase in the cost of creating services necessarily implies a decrease in capital accumulation. Since the rate of economic growth, according to Smith's analysis, is positively related to the rate of capital accumulation, it follows that the expansion of the service sector leads to lower growth rates.³ In addition, Smith noted that production productivity is higher, while other

¹ At Your Service? The Promise of Services-Led Development,

<https://www.worldbank.org/en/topic/competitiveness/publication/promise-of-services-led-development>

² <https://www.geeksforgeeks.org/role-of-service-sector-in-modern-economic-development-of-india/>

³ Krishna Dutt, A., & Young Lee, K. (1993). The service sector and economic growth: some cross-section evidence. *International Review of Applied Economics*, 7(3), 311–329.

activities are inefficient, even if they contribute to the well-being of people, since they do not produce tangible and exported goods.¹

Prejudice against the service sector is deeply ingrained. Some consider it a useless sector supporting other sectors of the economy, such as agriculture and manufacturing.

Adam Smith, in his *Wealth of Nations*, questioned the social value provided by those engaged in the service sector “churchmen, lawyers, doctors, writers of all stripes, comedians, musicians, opera singers, dancers, etc.”²

Baumol also justified the overwhelming influence of the service sector on economic growth. One of the important statements is also that manufacturing activity is the engine of economic growth, since it causes technological changes that have a beneficial effect on the entire economy due to side effects. And the expansion of the service sector by reducing the share of the manufacturing industry reduces the efficiency of this engine.³ A number of researchers of the last century supported this argument.

In one of the studies conducted in 2006, Krishna and others studied the relationship between the service sector and economic growth, found out that the role of the service sector in economic growth depends on how this role is measured. Data from many countries for 1961-69, 1970-79 and 1988-89 were selected as the basis of the study, for describing the role of the service sector in determining the growth rate of real GDP in different countries, considering other factors determining growth, such as the level of investment emissions and population growth rates. As a result:

- The average growth rate of real GDP by country is negatively related to the average share of employment in the service sector by country in the 1960s and 1970s, but this effect is small.
- There are grounds to argue that, at least in normal periods, the Service sector has a negative impact on economic growth. Higher growth rates of the service sector suggest that all other things are constant, GDP is growing faster, this may be since the volume of services is a component of GDP.
- In the data of the 1980s, there was no negative relationship between the increase in employment in the service sector and the growth rate:⁴

In our opinion a negative attitude towards the service sector is not entirely justified. Currently, many professions in the service sector have their own useful and positive influence. But does the service sector contribute to the economic development of the country, improving the welfare of the population?

Currently, many countries ensure their growth through the growth of the service sector. Every day in the developing and modern stages of globalization, the role of the

¹ Shiva Ebneyamini, *Defining the Service Sector in the Global Economy*, Journal of Science and Technology Policy Letters (JSTPL), Vol 10, Issue 1, pp 5-16

² <https://www.imf.org/external/pubs/ft/fandd/2014/06/loungani.htm>

³ Herbert G. Grubel and Michael A. Walker, *Service Industry Growth Causes and Effects*, 1989 by The Fraser Institute, pp. 14, 120

⁴ Krishna Dutt, A., & Young Lee, K. (1993). The service sector and economic growth: some cross-section evidence. *International Review of Applied Economics*, 7(3), 311–329.

service sector is becoming more and more important. When developing their policies, states determine priority areas, develop policies to ensure the development and growth of these areas, and ensure economic development. In particular, one of the priority areas of development of many states in recent years is tourism, the development of information technologies, and on the path of knowledge-based development, the role of education, science, telecommunications, and healthcare cannot be ignored.

As a result, a certain group of countries with a "service economy" emerged, which laid the foundation for their growth in the development of the service sector. In particular, the development of the United States in recent decades has largely been shaped by the service sector. Already in 1940, the United States became the so-called "service economy", which means that more than half of their workforce is engaged in the production of intangible assets. In 1975, two-thirds of the workforce was part of the tertiary sector, which has become the number one driving force of the U.S. economy in recent decades¹.

Research methods. In the framework of this study, we have examined the works of different authors, the structure of GDP in Armenia, and the share of service sector in GDP: methods of systematic, descriptive analysis were applied. Data from the World Bank, Statistical Committee of the Republic of Armenia were used.

Analysis. As we know, gross domestic product (GDP) is the standard measure of the value added created through the production of goods and services in a country during a certain period. As such, it also measures the income earned from that production, or the total amount spent on final goods and services (less imports).² For identifying various spheres' role in formation of GDP we observed the changes in the structure of GDP in the Republic of Armenia (Figure 1):

According to Figure 1, in the structure of Armenia's GDP, the largest share is in the sphere of trade and services, the share of which annually records stable growth, the other sector that recorded growth is industry at the expense of the manufacturing and mining industries. Agriculture and construction showed a noticeable decrease of 7.5% and 4.9%, respectively, in 2022 compared to 2012. Based on the Figure 1, it can be stated that Armenia's economic activity is provided by the sphere of trade and services in recent years.

The concept of tourism development adopted in 2008³ can play a role in explaining the growth of the service sector in Armenia, as a result of which the infrastructure of the service sector began to develop on a new scale, programs to stimulate tourism were developed.

¹ <https://www.grin.com/document/50089>

² <https://data.oecd.org/gdp/gross-domestic-product-gdp.htm>

³ <https://www.mineconomy.am/media/2081/1454.pdf>

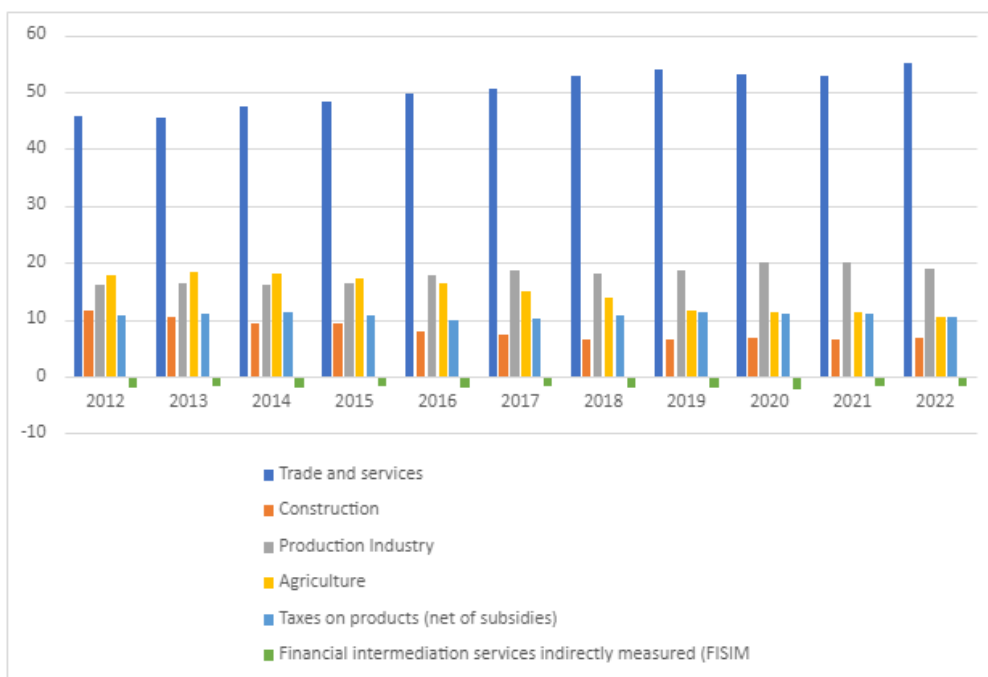


Figure 1: The structure of Armenia's GDP by spheres 2012-2022.¹

Table 1 can give a clearer idea of which subsectors contributed to the increase in the share of services in GDP, to what extent it contributed to the economic development of our country:

Table 1

The value of subsectors of the service sector in the structure of GDP production by year (%)²

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Wholesale and retail trade, repair of cars and motorcycles	12.1	12	11.8	10.9	9.8	11.1	11.5	11.7	10.8	11.3	11.8
Transport and warehousing	3.1	2.6	3	2.5	2.8	3	3.2	3.2	2.4	2.8	3.7
Organization of accommodation and public food	0.8	1	1.1	1.2	1.2	1.4	1.6	1.9	1.1	1.7	1.9
Information and communication	3.4	3.3	3.4	3.4	3.5	3.3	3.2	3.3	3.8	3.8	4.5
Financial and insurance activities	4	4	4.3	3.9	4.4	4.9	5.5	6	7	6	8
Real estate related activities	8.2	8.1	8.4	8.7	8.6	7.8	7.7	7.8	6.9	7.4	7.9
Professional, scientific and technical activities	1	1	1.1	1.2	1.2	1.1	1.2	1.2	1.1	1.1	1.1

¹ Source: RA Statistical Committee, System of National Accounts, 2012-2021

² Source: RA Statistical Committee, Trade and Other Services 2012-2022

Administrative and support services	1	0.8	0.9	0.8	0.9	0.9	0.9	0.9	0.6	0.7	0.7
Public administration and defense, compulsory social insurance	3.7	4	4.3	4.9	4.9	4.7	4.4	4.5	5.6	5	4.6
Education	2.9	2.9	2.8	3	3	2.7	2.6	2.5	2.8	2.7	2.4
Public health and social services	3.5	3.8	3.8	3.9	4.1	4.2	4.3	4.6	5.4	6.7	5.3
Culture, entertainment and recreation	1.3	1.3	1.8	3.2	4.6	4.6	5.6	5.6	4.9	3.1	2.7
Other services	0.7	0.6	0.6	0.6	0.7	0.9	0.9	0.7	0.7	0.6	0.6

According to the Statistical Committee of the Republic of Armenia, trade has the largest share in the service sector, followed by the subsectors of real estate, finance, health and social services. Studying the dynamics of growth, we notice that the mentioned subsectors mostly maintain the same growth rates, but in particular, the culture, entertainment and recreation subsector has almost doubled since 2015, and the growth in the financial and insurance activities subsector is also quite noticeable. Culture, entertainment and recreation the growth of the subsector is the fastest compared to others, even mining, agriculture do not register such dynamic growth.

A deeper study of the circumstances contributing to the growth of this subsector will help to get the clearer view of the situation. We have considered the change in the constituent sections of the culture, entertainment and recreation subsector for 2017-2021 (Table 2). In particular, in 2017, 19.6% of the growth of the service sector was provided by this subsector, 22.32% in 2018-23.7% in 2019, 19.9% in 2020 and 12.5% in 2021.

Table 2

Changes in the constituent sections of the “culture, entertainment and recreation” subsector for 2017-2021 compared to the previous period (%)¹

	2017	2018	2019	2020	2021
creative. activities of artistic and ceremonial performances, libraries, archives, museums and other cultural organizations	107.7	123.3	145.5	41.3	165.9
activities related to the organization of games with winnings, including	122.5	137.1	122.1	81.6	66
casino activities	95.1	111.7	109.1	16.1	32.6
slot machines with lottery cash winnings.	101.7	7.7	49.7	38.9	-
organization of gaming terminals, virtual games and betting activities.	134.9	145.5	125.3	95	67.2
Tourism, Travel, Recreation	122.6	120.8	122.1	54	189.4

¹ Source: RA Statistical Committee, Trade and Other Services 2017-2021

As the data of the table shows, in this subsector, a fairly high growth is provided, in particular, by activities related to the organization of gambling, where lotteries, bookmaking and betting activities occupy a large place.

Even though the numbers show decrease in the share of winning games and the state adopted various legislative acts against gambling activities the study in microlevel shows that the number of users of betting games grow day by day. This casts doubt on the role of the service sector in ensuring economic development, since it turns out that the growth of orts is provided by gambling, which in itself does not create any value.

Scientific novelty. Through a comprehensive analysis of relevant literature and statistical data, our study has identified the sectors that exert a significant impact on the Gross Domestic Product (GDP) growth. Our findings have demonstrated that economic growth cannot be solely attributed to general economic development, but rather it is crucial to delve deeper into the underlying factors driving such changes. Specifically, our research has revealed a strong correlation between the growth of the service sector and the expansion of the gaming and betting industries within the Republic of Armenia. This phenomenon has led to a distinct growth pattern, creating a perceived sense of advancement within the country.

Conclusion. Growth in tourism, travel and recreation is conditioned by the state support aimed at tourism sector development. This subsectors' activity contributes to growth of employment in the sector, it creates a value chain which promotes not only the activity of service sector but also activities of farmers, creation of infrastructure and etc.. The growth of service sector thanks to tourism has not only positive effect by creating workplaces, growing income of population and real sector, but also contributes to development of our country's image, makes our culture recognizable to wider world population. Especially during COVID-19 pandemic and after that domestic tourism flourished.

Even though service sector doesn't produce tangible assets, goods that can be restored and used, it highly contrributes to the country's development through the creation of workplaces, growth of income thus creating a base for ensuring population's welfare.

Therefore, it will be difficult to say unequivocally that the service sector has a negative impact on the development of the economy, since as a result of one of the globalization's positive effects - services are consumed not only in the domestic market, but also in the foreign ones and the borders in the case of services have disappeared, many services have a technological orientation and provide high incomes. Our country can take examples of such developed countries as USA, UK, China, Germany, service sector of which have more than 50% share of GDP.

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Մարիամ Վարդանի Պողոսյան

Համառոտագիր: Պետության տնտեսական զարգացումը բնորոշող ամենակարևոր ցուցանիշներից մեկը տնտեսական աճի ցուցանիշն է, որն էլ արդյունք է արտադրության ծավալների ավելացման, բնակչության բարեկեցության մակարդակի բարելավման, անհատների և պետական եկամուտների ավելացման:

Հոդվածի արդիականությունը. բավականին երկար ժամանակ տնտեսության զարգացումն ապահովող հիմնական ուղղությունը արտադրությունն ու արդյունաբերությունն էր: Անցյալ դարի կեսերից ավելի ու ավելի տարածված է դարձել ծառայությունների ոլորտը, որի աճը, ըստ հետազոտողների, ենթադրաբար ճնշում է տնտեսական զարգացումը: *Հետևաբար, հոդվածի հիմնական նպատակն է բացահայտել ծառայությունների ոլորտի ազդեցությունը երկրի տնտեսական զարգացման վրա:*

Այս նպատակին հասնելու համար սահմանվում են հետևյալ խնդիրները:

- Ուսումնասիրել տնտեսական աճին նպաստող գործոնները:
- Բնորոշել ծառայությունների ոլորտի դերը երկրի զարգացման համար:

Գիտական նորույթը: Համապատասխան գրականության և վիճակագրական տվյալների համապարփակ վերլուծության միջոցով մեր ուսումնասիրությունը բացահայտեց այն ոլորտները, որոնք էական ազդեցություն ունեն համախառն ներքին արդյունքի (ՀՆԱ) աճի վրա: Մեր արդյունքները ցույց տվեցին, որ տնտեսական աճը չի կարելի վերագրել բացառապես ընդհանուր տնտեսական զարգացմանը, ավելի շուտ կարևոր է խորանալ հիմնարար գործոնների մեջ, որոնք հանգեցնում են նման փոփոխությունների: Մասնավորապես, մեր հետազոտությունը բացահայտել է ուժեղ փոխկապակցվածություն ծառայությունների ոլորտի աճի և Հայաստանի Հանրապետությունում մոլախաղերի և խաղաղորույթներով խաղերի գործունեության ընդլայնման միջև: Այս երևույթը հանգեցրել է աճի հստակ մոդելի, որը երկրի ներսում առաջընթացի զգացում է ստեղծում:

Եզրակացություն: Դժվար կլինի միանշանակ ասել, որ ծառայությունների ոլորտը բացասական ազդեցություն է ունենում տնտեսության զարգացման վրա, առավել ևս, որ ծառայությունները սպառվում են ոչ միայն ներքին շուկայում, ծառայությունների դեպքում սահմաններն անհետացել են, շատ ծառայություններ ունեն տեխնոլոգիական ուղղվածություն, ապահովում են բարձր եկամուտներ: Մեր երկիրը կարող է կիրառել այնպիսի զարգացած երկրների օրինակներ, ինչպիսիք են ԱՄՆ-ը, Մեծ Բրիտանիան, Չինաստանը և Գերմանիան, որոնց ծառայությունների ոլորտը կազմում է ՀՆԱ-ի ավելի քան 50%-ը:

Բանալի բառեր. տնտեսական աճ, ծառայությունների ոլորտ, զարգացում, զբոսաշրջություն, ծառայություն, արտադրություն, գլոբալիզացիա, աճ

РОЛЬ СФЕРЫ УСЛУГ В РАЗВИТИИ ЭКОНОМИКИ

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Аннотация. Один из самых важных индикаторов, характерных для экономического развития государства является индикатор экономического роста или ВВП роста. В самом деле, экономический рост является результатом увеличения объемов производства, улучшения благосостояния населения, и увеличения доходов населения и правительства.

Актуальность статьи. Довольно долгое время основным направлением, обеспечивающим развитие экономики, было производство и промышленность. С середины прошлого века все более популярным стал сектор услуг, рост которого, как выяснили исследователи, предположительно подавляет экономическое развитие. **Поэтому основной целью статьи является выявление влияния сектора услуг на экономическое развитие страны.**

Для достижения этой цели ставятся следующие задачи:

- Изучить факторы, способствующие экономическому росту.
- Определить роль сектора услуг в развитии страны.

Научная новизна статьи. Благодаря всестороннему анализу соответствующей литературы и статистических данных наше исследование выявило секторы, которые оказывают значительное влияние на рост валового внутреннего продукта (ВВП). Наши результаты показали, что экономический рост нельзя отнести исключительно к общему экономическому развитию, скорее, крайне важно глубже вникнуть в основополагающие факторы, приводящие к таким изменениям. В частности, наше исследование выявило сильную корреляцию между ростом сектора услуг и расширением индустрии азартных игр и ставок в Республике Армения. Это явление привело к отчетливой модели роста, создающей ощущение прогресса внутри страны.

Выводы. Сложно будет однозначно сказать, что сфера услуг оказывает негативное влияние на развитие экономики, тем более что услуги потребляются не только на внутреннем рынке. Границы в случае с услугами исчезли, многие услуги имеют технологическую направленность, обеспечивают высокие доходы. Наша страна может привести примеры таких развитых стран, как США, Великобритания, Китай и Германия, на долю сектора услуг которых приходится более 50% ВВП.

Ключевые слова: экономический рост, сфера услуг, развитие, туризм, услуги, производство, глобализация, рост

THE ROLE OF THE SERVICE SECTOR IN ECONOMIC DEVELOPMENT

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Abstract. One of the most important indicators characterizing the economic development of the state is the indicator of economic growth or GDP growth rate. In fact, economic growth is the result of an increase in production volumes, an improvement in the welfare of the population, an increase in private and government revenues.

The relevance of the article. For quite a long time, the main direction ensuring the development of the economy was production and industry. Since the middle of the last century, the service sector has become more popular and the growth of which, as researchers have found, presumably suppresses economic development. **Therefore, the main aim of the article is to identify the impact of the service sector on the economic development of the country.**

To achieve that purpose following objectives are set in the scope of the article:

- To study the factors contributing to economic growth,
- To identify the role of the service sector in country's development.

Scientific novelty. Through a comprehensive analysis of relevant literature and statistical data, our study has identified the sectors that exert a significant impact on the Gross Domestic Product (GDP) growth. Our findings have demonstrated that economic

growth cannot be solely attributed to general economic development, but rather it is crucial to delve deeper into the underlying factors driving such changes. Specifically, our research has revealed a strong correlation between the growth of the service sector and the expansion of the gaming and betting industries within the Republic of Armenia. This phenomenon has led to a distinct growth pattern, creating a perceived sense of advancement within the country.

Conclusion. It will be difficult to say unequivocally that the service sector has a negative impact on the development of the economy, since services are not consumed only in the domestic market, borders in the case of services have disappeared, many services have a technological orientation, provide high incomes. Our country can take examples of such developed countries as the USA, the UK, China, and Germany, service sector which have more than 50% share of GDP.

Keywords: economic growth, service sector, development, tourism, services, production, globalization, growth