

Service Sector Performance, Industry and Growth in Nigeria

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ABSTRACT

This article extends previous empirical studies on service-industrial sector interactions and their impact on growth. It provides evidence from quarterly time series data using OLS, from 2010 to 2016 to account for new subsectors introduced from 2010 following the rebasing of the Nigerian economy. The article employs a disaggregated model to capture the individual productivities of subsectors. Series stationarity was determined with the ADF and PP test, thereafter Johansen technique was applied. The results indicate that while both services and the industrial sector contributed significantly to the economic growth (GDP) of Nigeria, some subsectors i.e. public administration, professional, scientific and technical services, transport (road, rail, pipeline, air, water), utilities (electricity, gas, and water supply, sewage, waste management) were found to be deficient. Finally, this article draws some policy implications to further strengthen the service and industrial sectors so as to maximise the potentials therein through the prescription of sector-specific policies.

KEYWORDS

ADF Test, Industry, Sector and Gross Domestic Product, Service

1. INTRODUCTION

The service sector is currently witnessing an impressive expansion while contributing positively to the Gross Domestic Product (GDP) of several countries. One way in which the service sector drives growth in the fastest growing economies of the world is through its impact on the industrial sector. This growth trajectory has been termed “services-led” industrialisation, or even a “services revolution” (Gordon and Gupta, 2004). This rapid growth of the service economy has generated a lot of interest in the study of service. These service-related economic activities for the developed countries account for over 75% of their gross domestic product, as service orientation also becoming increasingly evident in developing economies as well Masud et al (2018).

The sector's share of GDP amounted to 40% in Uganda, 50% in Zambia, over 60% in Korea and Brazil and 80% in the US in the mid-1990s (WTO, 1997). Evidence from India shows that the dynamism of the service sector, particularly information technology (IT) and IT enabled services (ITES), has resulted in an unprecedented and rapid growth (averaging over 6 per cent since 1992), but also a high contribution with over 60 per cent from services (Hansda, 2001).

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Since the rebasing of GDP in 2014, the Nigerian economy became the largest economy in Africa, with a GDP of N80.2 trillion (NBS, 2015).¹ As a result of the exercise, certain sectors, of the economy which had been previously underestimated, turned out with impressive contributions. For instance, contribution from telecommunications increased from 0.89% to 8.69%, services increased from 29.04% to 51.59% and manufacturing increased from 1.9% to 6.83%, similarly, services sector contributed the largest share of real GDP in the first quarter of 2014. The share amounted to N8, 181,239.94 million or 52.99% (NBS, 2015). These increases in GDP stem from the increase in the list of economic activities from 32 to 42. This increase was occasioned by the inclusion of new sectors such as art, entertainment and recreation especially music and the “Nollywood” film industry², food, beverage and tobacco, electrical and electronic sector, motor vehicle and assembly, etc.

Consequently, the nation is looking towards revamping the services, industrial, entertainment and other sectors, which has emerged in the recent times as a sector with huge potentials for GDP growth and employment generation. The strategies to achieve the above objective have been clearly spelt out in the Economic Recovery and Growth Plan (ERGP), 2017. In the light of the above backdrop, the paper seeks to investigate the interactions that exist between the services and industrial sectors. In the course of the analysis the following questions will be addressed:

1. How have the services and industrial sectors in Nigeria performed?
2. What is the direction of causality between services sector in Nigeria and the industrial sector?
3. What impact does the services and industrial subsectors have on growth?

The study is structured into six sections. Following this introduction, section two presents a robust survey and review of the literature on the role of service sector in the drive for industrialisation and economic growth. Section three dwells on the theoretical framework, and section four will be concerned with the methodology for the study. Estimation and empirical analysis are the focus of section five, while section six provides summary conclusion and recommendation for the paper.

2. LITERATURE REVIEW

There is a growing empirical literature, which suggests that services drives industrial growth and globalisation, through reduced transport cost, propelled by the dynamic nature of information and communication technology. This window of opportunity provided by modern services and its linkages with the industrial sector has been identified as a driver for growth in developing countries (Jensen et al. 2005; Ghani and Kharas 2009; Ghani and Connell, 2014; Aimirapu and Subramanian, 2015; Yusuf, 2015; Khanna et al., 2016).

However, other authors have leaned on theoretical models, in their discussion of the interaction between the service and industrial sectors. These authors have embraced the traditional development paradigm of “agriculture to manufacturing (industrial) to services” (Kuznets 1959; Kaldor, 1966; pack and Westphal, 1986). They consider manufacturing as central to modernity and also necessary for sustained productivity growth (Singh, 2008).

Observably, two major views can be gleaned from the literature. The theoretical literature, places emphasis on the manufacturing sector to induce the “take off” of the service sector, while the empirical literature is of the position that the service sector is the engine that impacts on the industrial sector. In a nutshell, while, several studies agree that both the service and industrial sectors, are important for economic transformation, a consensus is yet to emerge as to the direction of causation.

2.1. Theoretical Review

During the last five decades, various theories have evolved to explain the growth of economies. These include the Ramsey’s growth theory in 1928, the Harrod and Domar saving and investment growth

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