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The Rise of the Service Sector in the Global Economy and Sub-Saharan Africa

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This paper examines the implications of the rapid rise of the service sector in the global economy and sub-Saharan Africa. The first part of the paper focuses on the global economy. It discusses long-run developments in the structure of the global economy as well as sector productivity trends. The paper provides a review of the literature on the growing importance of the service sector and discusses key issues such as service sector productivity, the contribution of the service sector to aggregate growth and productivity and the potentially positive contributions of services to other sectors. The review touches upon key issues such as the Baumol hypothesis of a stagnant service sector, the role of dynamic sub-sectors of the service sector as engines of growth, mismeasurement of the share of services in GDP and the linkages between services and other sectors of the economy.

Aggregate global trends mask major differences between advanced and developing economies and between different regions. Thus, the share of services in GDP is far higher in advanced economies than in developing countries. In the second half of this paper, we choose to focus on tertiarisation trends in eighteen countries in sub-Saharan Africa, using data from the Expanded Africa Database (Mensah and Szirmai, 2018). We analyse the effects of the growth of the service sector on other sectors and on aggregate performance, applying a variety of techniques such as DEA, econometric analysis and input-output analysis. We find robust evidence of relationships between development in services and manufacturing performance. There is also substantial evidence of strong inter-industry linkages between the service sector and manufacturing, particularly for light manufacturing industries, and mining and construction industries. A lot of service activities take place in the informal sector and productivity leaves much to be desired. On average, improvement in services translates into significantly better manufacturing performance. There is, however, a great deal of heterogeneity at the country level. Countries differ in terms of which specific service sectors matter more for manufacturing performance. It is important for policymakers to take these trends into consideration in industrial policy design to achieve the optimal outcome from any such policy.