…"*The globalisation of services provides alternative opportunities for developing countries to find niches beyond manufacturing where they can specialise, scale up and achieve explosive growth*" – *Ejaz Ghani*

Services, Productivity and Economic Transformation in Nigeria

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In an era where globalisation, increasing customer sophistication, and advanced factor advantages are key determinants to attaining global competitive advantage, and consequently, Economic Transformation; it is becoming increasing necessary for countries to take a critical look at their developmental plans and assess how it helps them map out a path to Economic Development.

Economic transformation in Nigeria is hinged upon both the Nigerian Industrial Revolution Plan (NIRP) and the Economic Recovery and Growth Plan (ERGP), which identifies **competition** and the **manufacturing sector** as the key drivers of development in the country. These plans leveraged largely the manufacturing-centric economic transformation framework used by China and other developed economies in its quest for Nigeria to catch up and achieve economic convergence.

In Africa, the success of the manufacturing sector in driving improved competition has been gradual. A new realisation has begun to emerge that developing countries will need to keep reviewing and updating their development model, towards continuously reflecting emerging economic realities and opportunities.

Despite the long-established notion of and emphasis on industrialisation as the main driver for structural change in the economy, recent evidence suggests services sectors' ever-increasing role in economic transformation and development. Services currently account for more than 70% of yearly outputs in advanced economies and more than half in most developing countries.

Following the success of the service sector in driving Economic Transformation in India, discussions have begun to emerge as to whether countries within Africa can look to the services sector as a way to ramp up labour productivity and improve competition.

Ever since the industrial revolution, manufacturing has been the key driver of rapid economic transformation. The countries that caught up with and eventually surpassed Britain, such as Germany and the USA did so by building up their manufacturing industries. China, which has emerged as the archetype of this growth strategy since the 1970s, travelled a similar path.

But manufacturing today is not what it used to be. **It has become much more capital-intensive & skill-intensive, with greatly diminished potential to absorb large amounts of unskilled & semi-skilled labour**.

Consequently, this has affected job and productivity growth especially in developing countries. It has also led to these countries looking elsewhere on ways that they can drive job growth, reduce poverty and ensure economic transformation.

Recently, a case has been made for the service industry being a key driver of economic transformation in developing countries. Buoyed by the success of the industry playing a huge role in driving economic transformation in South Asian countries (e.g. India, Nepal), there is a developing argument that the adoption of a service-centric model may also be successful in Africa.

Given the current realities of the Nigerian environment, is there a role for the services sector to play in the Economic transformation narrative?

The services sector in Nigeria – which includes areas such as ICT, Trade, Financial Services etc. – has been tagged as the engine for future economic growth. It is the largest sector in the economy, with its contribution to Gross Domestic Product (GDP) hovering around 50% on average. According to research by PwC, the sector is also purported to account for the largest proportion of employment at 57.4%. These values however, only tell part of the story as a huge part of the sector's contribution to employment & GDP comes from less productive sub-sectors, such as transport and trade, rather than higher productive ones, such as financial services, real estate & professional services. Thus, while the sector has been a key contributor to Nigeria's growth, its influence in the development and transformation narrative has not been emphasized as much.

However, with obvious challenges attributed to the slow pace of economic transformation in the manufacturing sector, and an increasingly growing youth population that is more inclined to service provision rather than goods production, an argument can be made that the reality for Nigeria's transformation and development may lie/rest on an increased focus on services than what obtains today.

Given these current realities, there is an urgent need for collective action by all stakeholders of development in Nigeria – Government, developmental agencies (including the Bank of Industry) and the private sector – to enhance key enablers for the service sector to thrive. The development of high-quality and efficient services can support productivity growth and competitiveness in other sectors, while also having important direct effects on growth, job creation and revenue generation.