

## STRUCTURAL CHANGE: DO SERVICES REPLACE OR COMPLEMENT INDUSTRY?

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### **Abstract:**

This study analyses the tertiarisation process (the increasing share of services) in the world economy. The economies in the world evolved towards services-weighted structure over a half century which resulted in a decreasing share of industry although industrial production continuously increased. There has been an increasing gap between the shares of these two sectors in the world economy. We asked whether there is a substitution or complementarity relationship between these two sectors. We also investigated whether the tertiarisation process is an inevitable outcome of economic growth and development. We used a dataset covering 1970-2018 period for 173 countries to investigate the above questions by employing the vector of autoregression analysis and co-integration. The empirical results show that there is a two-way complementarity between industry and service sectors, but services complement industry more. Income increases lead to a structural change in the form of increased in service share.

**Keywords:** Economic Development, Structural Change, Services and Industry Relationship, Clark Hypothesis

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