At the services of development: Service types, development pathways and linkage opportunities

by

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At the service of development
Service types, development pathways and linkage opportunities

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Background

- Production transformation is a complex process as it involves interdependent changes across multiple domains and structures of the economy.

- Since the first industrial revolution, the relationship between services and productive capacity has changed in time and space, as a result of changes in technologies and ways of organizing production (outsourcing, global value chain networks, servicification).

  ➢ Services have become increasingly heterogenous, in terms of their VA potential, technology content and opportunities for linkages development across the economy.

  ➢ While the service industry is becoming dominant as share of GDP across all countries (including LDCs), the service industry has emerged from different development processes and, thus, acquired different features.
In service of development

How services can contribute in enhancing productive capacity, especially across developing countries?

➢ What type of services?
➢ How services add value in GVCs?
➢ Where services come from? And how inter-sectoral symbiotic relationship develop?
➢ How services can contribute to local production system (LPS) development
➢ What service policies for production transformation?
What type of services? (1)

• There is no agreed definition of what comprises services.

• Generally speaking, services include all economic activities other than agriculture, mining, manufacturing, construction and public utilities (electricity, gas and water), although the last item is often included as part of services in some studies.

• In terms of the International Standard Industrial Classification (ISIC), services comprise trade and finance, transport and communication, public administration and defense, and other services.

• From a GVC perspective, different types of services contribute to the execution of different productive, technological and organisational functions.
What type of services? (2)

1. Marketed services
   (a) Producer services
      (i) finance, banking, credit, insurance, real estate
      (ii) professional services: engineering, architectural, legal
      (iii) other services: cleaning, maintenance, security
   (b) Distributive services
      (i) transport and storage
      (ii) communications
      (iii) wholesale and retail trade
   (c) Personnel services
      (i) domestic services: laundry, barbershops, etc.
      (ii) hotel, restaurant and catering, etc.
      (iii) repairs
      (iv) entertainment and recreation

2. Nonmarketed services
   (a) Social services
      (i) health, medicine, hospitals
      (ii) education
      (iii) welfare
      (iv) public administration, legal, military services

Gershuny & Miles (1983), cited in Park & Chang (1989); see Andreoni and Lopez, 2012
# A Taxonomy for Services

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### TECHNOLOGICAL

- **Computer programming, consultancy and related activities**
  - Code: 36201
  - Description: Computer programming activities
  - Code: 36202
  - Description: Computer consultancy and computer facilities management activities
  - Code: 36209
  - Description: Other information technology and computer service activities

- **Engineering and scientific services**
  - Code: M71
  - Description: Architectural and engineering activities; technical testing and analysis
  - Code: M721
  - Description: Research and experimental development on natural sciences and engineering

- **Market research**
  - Code: M732
  - Description: Market research and public opinion polling (for informing product design)

- **Design services**
  - Code: M741
  - Description: Specialised design activities

- **Other professional, scientific and technical activities**
  - Code: M749
  - Description: Other professional, scientific and technical activities n.e.c.

### OPERATIONAL

- **Telecommunications**
  - Code: M62
  - Description: Telecommunications activities

- **Management services**
  - Code: M70
  - Description: Activities of head offices; management consultancy activities

- **Employment activities**
  - Code: M78
  - Description: Employment activities

- **Business support activities**
  - Code: N82
  - Description: Office administrative, office support and other business support activities

### LEGAL AND ACCOUNTING SERVICES

- Code: M69
  - Description: Legal and accounting services

### RENTING AND LEASING ACTIVITIES

- Code: N771
  - Description: Rental and leasing of motor vehicles

- Code: N773
  - Description: Renting and leasing of other machinery, equipment and tangible goods

### OTHER

- **Security services**
  - Code: N80
  - Description: Security services

- **Information service activities**
  - Code: JG31
  - Description: Data processing, hosting and related activities; web portals

## KNOWLEDGE INTENSITY

- Low (L)
- Medium (M)
- High (H)

**Notes:**
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Based on ISIC Rev.4
Where services come from?

• Among developed economies and fast industrialisers with a broad production base, the producer services industry and KIBS companies emerged from:

➢ outsourcing services from manufacturing

➢ demand pull from agriculture industrialisation

➢ demand pull from high tech manufacturing industries

➢ technology push from high tech manufacturing industries

And resulted in symbiotic co-value creation processes of production transformation and capabilities development

Babalola and Andreoni, 2019
Where producer services come from?

• High tech manufacturing industries like aerospace but also…

• Highly industrialised countries like the Netherlands, Spain and Italy specialising in the food industry and export have developed production technologies with integrated producer services for freshness, logistics, etc.
Where services come from? 
Mining equipment VC in South Africa: Production services are critical and symbiotic to manufacturing (& other sectors) development

Torreggiani and Andreoni, 2019
Where services come from?

• Among developing economies with a limited production base, the producer services industry is mainly driven by:

- demand pull from financial sector
- demand and technology pull from trading activities and infrastructures
- technology push from SMEs of diaspora entrepreneurs

The impact on productive transformation and linkages remain more limited and in many cases de-linked from value creation (more value extraction along value chain)

Babalola and Andreoni, 2019
The Nigeria ICT case

INDUSTRY (19%)

Manufacturing 50%

Construction 16%

Oil & gas 33%

Solid Minerals 1%

SERVICES (56%)

Trade 33%

ICT 18%

Real estate 16%

Others 12%

Professional etc. 8%

Financial services 6%

Public Admin 4%

Education 4%

AGRICULTURE (25%)

Crop Production (90%)

Livestock (7%)

Forestry (1%)

Fishing (2%)

Babalola and Andreoni, 2019
The Nigeria ICT case: linkage opportunities and challenges

- Premature de-industrialisation > limited demand pull and opportunities for scaling up KIBS SMEs
- Technology transfer and absorption capabilities
Missing manufacturing BK linkages in EAC

Data source: EVAD; See EAC Industrial Competitiveness Report 2017
Missing manufacturing FW linkages in EAC

Data source: EVAD; See EAC Industrial Competitiveness Report 2017
How producers services can contribute to productive capabilities development? A LPS approach
How producers services can contribute to productive capabilities development? A LPS approach

- Offering opportunities for linkages development
- Providing technology and organisational services to improve firm level micro-efficiency, quality standards, organisational processes
- Reducing rent-chains associated with concentration of information and access to markets
- Supporting SME companies in scaling-up and using products as vectors of services
- Offering opportunities for strategic repositioning along the value chain in the face of fierce international competition
By increasing opportunities for production linkages development and technological linkages

By increasing value distribution/creation opportunities (reduced rents chains)
What service policies for production transformation?

• Service policies must start from acknowledging service heterogeneity and the importance of **selective support of knowledge intensive producer services** for broader production transformation across sectors (e.g. opportunities in agro-industries, mining, light mfg)

• Service policies must realise that the organic processes of producer services development in developing countries are limited by their thin production base (limited demand pull and technology push) – thus **need to support producer services development pathways**
What service policies for production transformation?

• Service policies should be integrated in broader industrial policies to exploit complementarities in sectors development (e.g. supporting mining equipment industry, while supporting software service development for sensors actuators, data and digital mining)

• Service policies should support context-specific technological and innovations capabilities developed around service industries (for example logistic services, MRO services and reverse engineering for design and customisation)