



# Services in industrial policy

Input to TIPS Development Dialogue

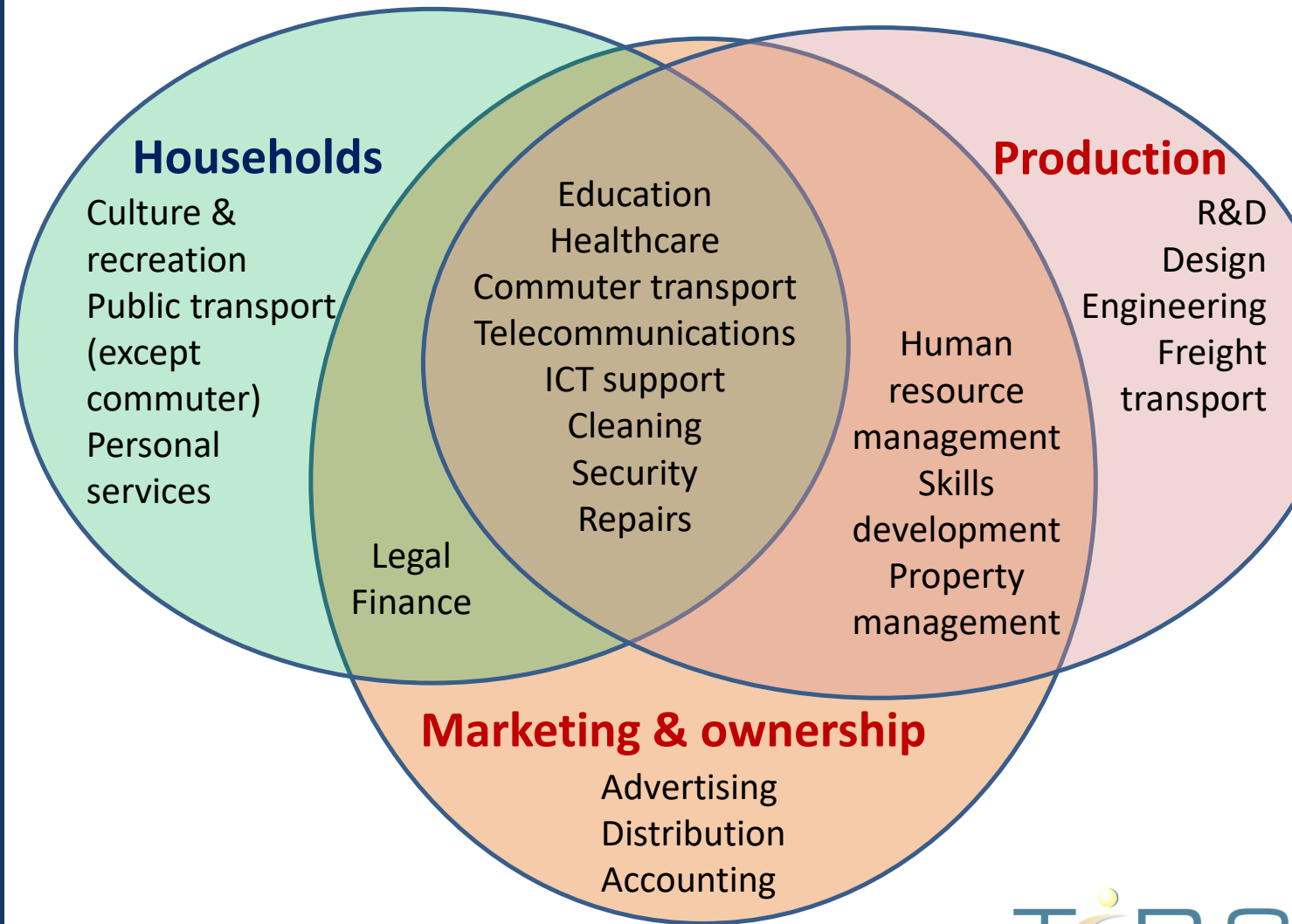
3 October 2023

V3

The full paper is available at: <https://www.tips.org.za/research-archive/trade-and-industry/item/4497-services-and-inclusive-industrialisation>

# Services in the modern economy

- Defined as producing intangible goods, e.g. skills, healthcare, design
- Always some link to goods production, but varied and evolving (e.g. music)
- Often public goods
- Here excluding retail



# Services in industrial policy

- Typically seen as secondary or even opposed to manufacturing in driving industrialisation
- But outputs are critical for inclusive industrialisation
  - Crucial source of jobs and opportunities for small businesses
  - Providing direct inputs for other industries, primarily through the business professions; logistics and marketing; and cleaning and security.
  - Investing in human capital through education and healthcare.
  - Building social capital through social protection, hospitality and cultural work.
- Factors behind contestation
  - Theory and policy not keeping up with evolution of modern production systems
  - Statistical and modelling methods that underestimate multipliers from services
  - Perception that services generate mostly only low-level security, caring and cleaning, as opposed to decent work in manufacturing

# The evolution of services

- Externalisation of services from goods production over past 200 years
- Control of service industries critical to governance of global value chains
  - especially R&D, engineering, design
  - linked to control over production of capital goods and advanced intermediate inputs

Product/input	Pre-industrial	Fordist	Modern globalisation	
			Global North	Global South
Consumer goods	Internal	Internal	Largely external	Internal
Capital goods and technologically advanced inputs	Internal	Internal	Largely internal for capital goods	External
R&D, engineering, design	Internal	Internal	Largely internal	Largely external
Marketing and legal	Internal	Largely internal	Largely external	Largely external
Other semi-manufactured inputs	Largely internal	Largely internal	Largely external	Largely external
Production skills	Internal	Largely internal	Largely external	Largely external
Raw materials	Largely internal	Largely external	Largely external	Largely external
Worker education, healthcare and housing	Largely internal	Largely external	External	External
Energy	Internal	Largely external	Largely external	Largely external
Communications	Largely internal	Largely external	External	External
Transport of inputs and outputs	Largely external	External	External	External
Roads/rail, ports, water	Largely external	External	External	External

# Theoretical critiques

## Classical economists

- Context: conflict between emerging industrialists and land-owning aristocracy
- Services defined as personal and state services for aristocracy
- Consequently both trivial and parasitic
- Still influential despite fundamental evolution in service industries

## 1930s Stalinist and New Deal industrial policies

- Big industrial and infrastructure projects with big state investment and leadership
- Relatively simple, centralised technologies
- Jobs primarily for men in hard hats (not professionals, largely manual even if skilled)
- Assume public investment in human and social capital, but not conceptualised as integral to industrial policy

## Dependency theory and Asian industrialisation (1950s)

- Manufacturing as alternative to commodity production
- Services ignored, but not denigrated

## From 1960s:

- In academic growth model debates:
  - Manufacturing has larger multipliers and is associated with faster growth historically (How to use other countries historic experiences? How to define economic impacts?)
  - Personal services cannot increase productivity, so generate employment but not growth (based on anecdotes; refuted by evidence)
- Movement of manufacturing overseas exposes manufacturing workers to undercutting while services generate only worse jobs

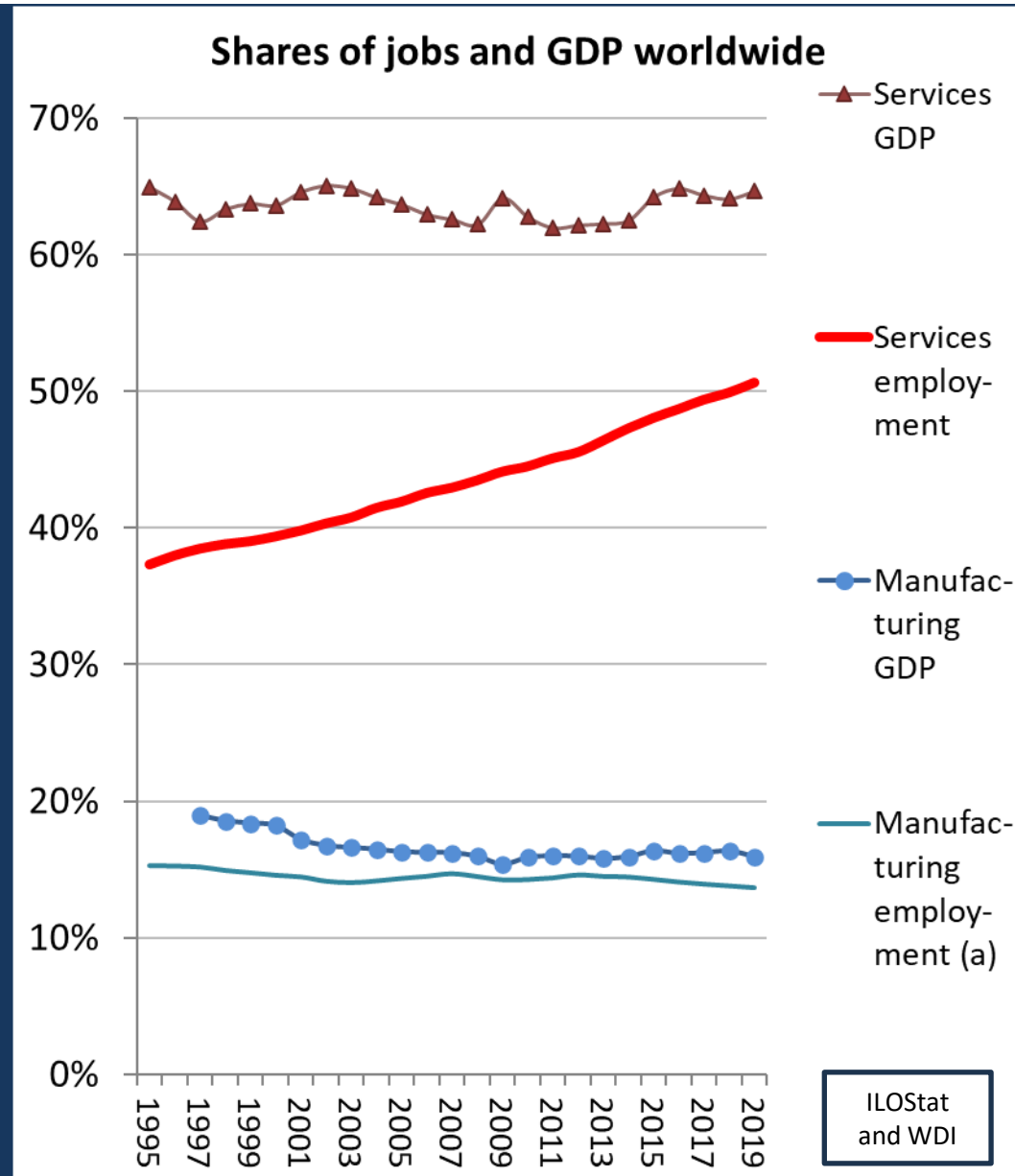
# Measurement and modelling systems

- Economic statistics originally mostly measured manufacturing
  - Reflected e.g. in SIC
  - Have gradually expanded to disaggregate services
- Still weak especially on value add and trade
  - Services often not sold at market value (notably education, basic research, healthcare, social security, cultural and solidarity activities), so value added equated to cost
  - Unable to measure transfers of services across border in line with statistical standards (e.g. transfers of knowledge; provision of services by expats)
- Modelling economic impacts
  - Value chain analyses (and consequently input-output models) focus explicitly on value added to goods and the implications for GDP, investment and employment
  - Not very useful in evaluating the multipliers of many services, especially where they improve human and social capital
  - The product of many services is more productive people and companies and/or stronger communities, which are all critical for industrial policy but hard to measure as value added in a value chain
  - Means that systematically undervalue the importance of education, healthcare, security and social solidarity for industrialisation

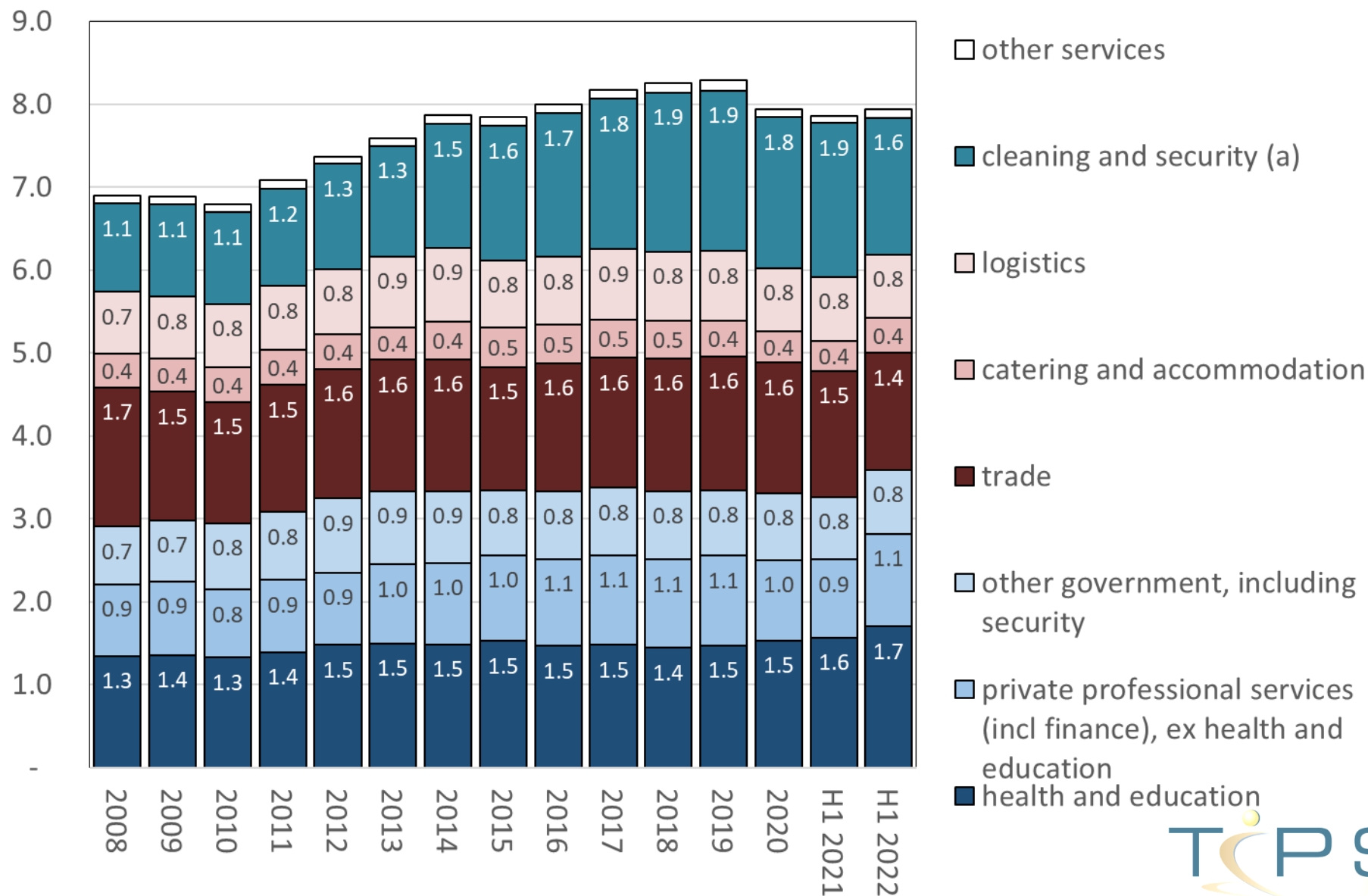
# Inclusion and industrialisation

- Internationally, services have generated virtually all net new employment since 1995
- In China:
  - Agricultural employment down from 60% in 1991 to 25% in 2019
  - Manufacturing up from 21% to 27%
  - Services from 19% to 47%
- In SA and globally, services
  - Provide pay and conditions on par with manufacturing
  - Are knowledge intensive
  - Are critical for building human and social capital and national competitiveness
  - Are especially important for women's careers (except for professional business services)

*How important are jobs vs productivity, and when can we prioritise jobs sustainably?*

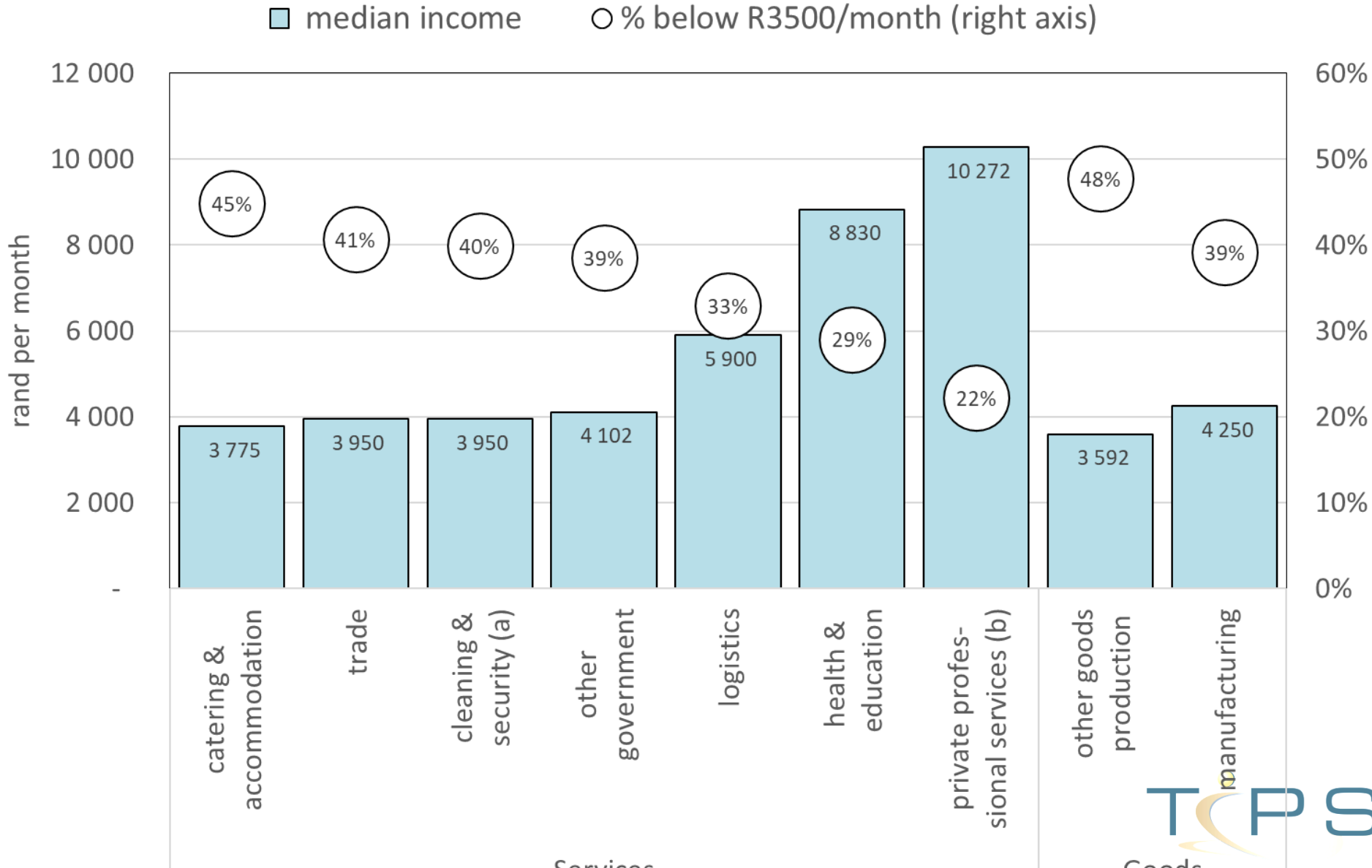


# Employment in SA services





# Incomes



# Implications for industrial policy

- Main source of employment creation and opportunities for small businesses
  - Gaps in services often a critical constraint on economic diversification
  - Crucial for equality and social solidarity, which in turn are bedrock for industrialisation
- Key service industries:
    - Professional business services (both technical and management support) – “value-adding services”
    - Human capital development – education and training; healthcare
    - Creative services and hospitality
    - Logistics and retail
    - Cleaning and security
  - SA has Master Plans for creative services and (in theory) BPS and tourism

# Prerequisites for success

- Sector strategies
  - Start with gap analysis (what more could key service industries do to promote inclusive industrialisation, realistically?)
  - Aim for targeted, realistic and efficient measures to address key constraints on achieving the desired aims
- Both public and private services
- Learn from Master Plans: Need clarity on government aims, then strong engagement with stakeholders to achieve them
- Requires fundamental re-think of aims and instruments for industrial policy
  - How to balance inclusivity (jobs, small business support) and growth?
  - How to ensure more flexibility in selecting industries to promote? Currently effectively reflect mostly existing structure of government institutions + business lobbying



**Re a leboha!**