

# The Role of Services in the Economy

## *Reflections on TIPS Working Paper*

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WIDER Working Paper 2019/37

## **The contribution of services to trade and development in Southern Africa**

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## **Boosting international trade in services?**

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WORLD BANK RESEARCH REPORT  
23 March 2022

WIDER Working Paper 2020/94

## **Building malls or metros?**

South Africa's exports of tradable urban services to the rest of Africa

Ivan Turok and Justin Visagie\*

# Greater clarity on the role of services in the rest of the economy

- Are services merely a pathway to inclusion?
  - i.e. a necessary addition to industrial policy (because of the jobs) but little to do with structural transformation?
  - How is ‘inclusive industrialisation’ different to ‘inclusive economic development’?
- What is the direction and strength of the relationship between services and the rest of the economy?
  - “Services to support industrial policy” suggests ...
  - Subordinate to and dependent on manufacturing industry



*Services activities are extremely diverse: can't easily generalize*

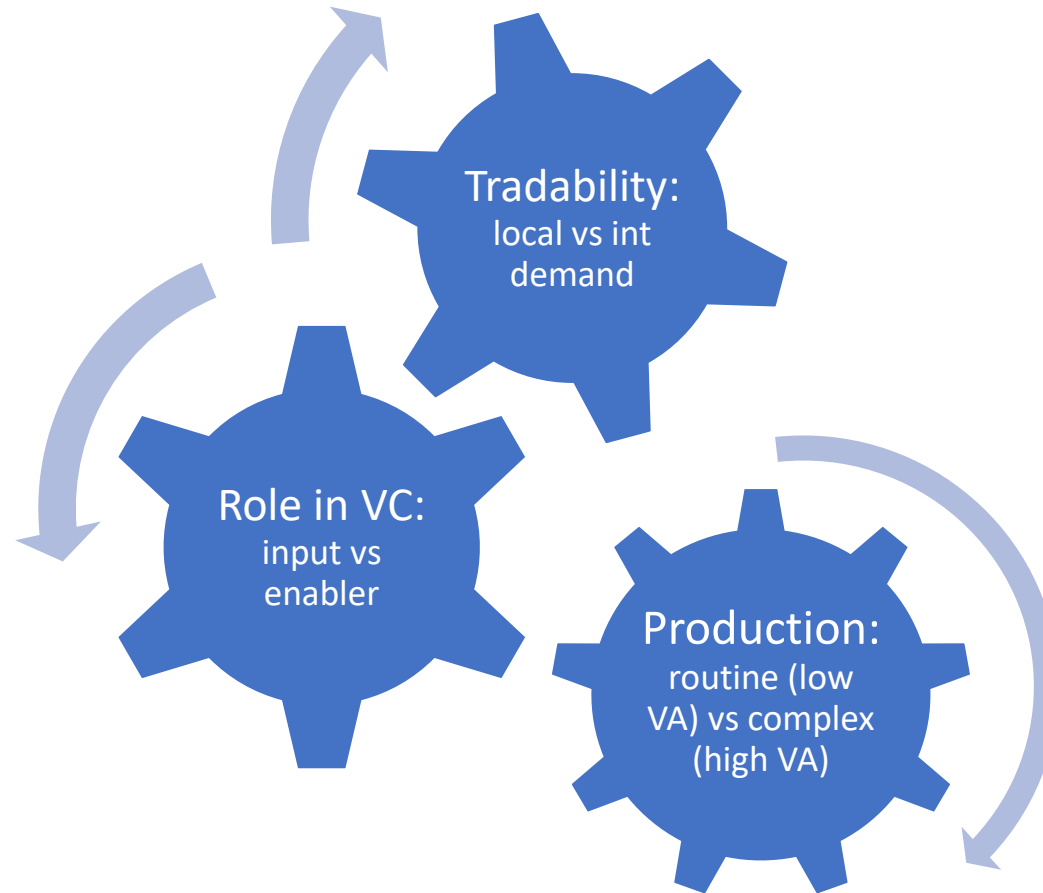
# Traditional 'narrow' view of services:

- 'Non-tradable': depend on local/domestic demand
- Consumed where & when produced (e.g. personal & business services)
- Complex, labour-intensive tasks: dexterity, adaptation, customization, two-way communication, experience (human touch)
- Hard to standardize, simplify, mechanise & scale-up (raise productivity)
- e.g. restaurant/catering services vs agro-processing

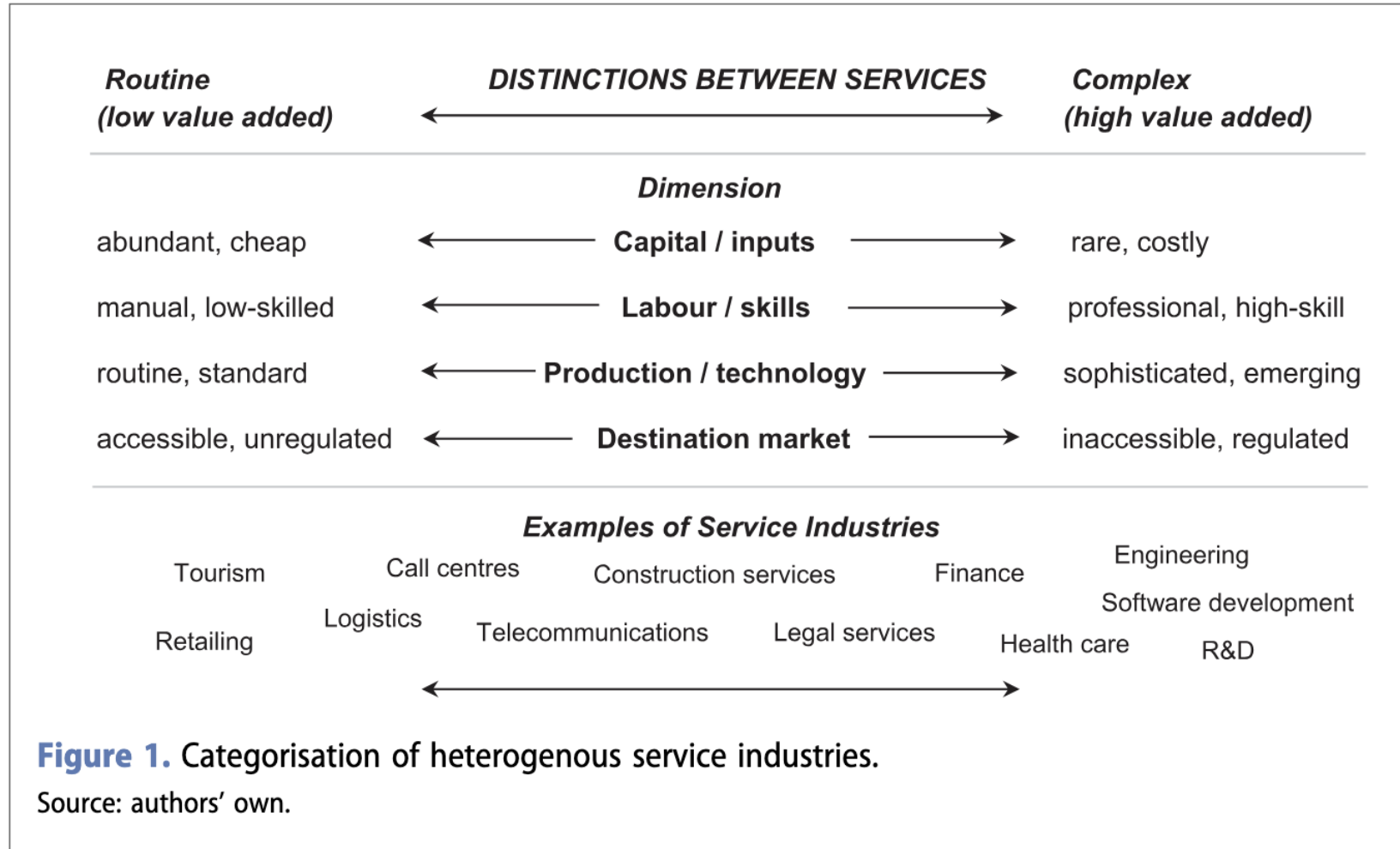
# Changing conditions for manu and services

- **Dominance of China and its neighbours** in manufacturing, so hard for others to follow Asia's industrial model.
- **New technology & automation** (robots) reduce importance of labour costs, mean fewer manufacturing jobs globally and make it harder for newcomers to compete.
- Growth of **global/regional value chains** and just-in-time supply make other activities important (e.g. logistics and financial services)
- **New digital technologies** enable more services to be delivered remotely (Covid-19 as a catalyst – E-commerce, online learning etc)
- **Increasing variety of services** (internet; social media; digital platforms; entertainment; e-payment systems; smart-phone apps; data analytics ...)
- e.g. Uber tech & taxis; Takealot & retail; door-to-door courier & logistics

# Three key dimensions in conceptualising service activities



# 1. Sophistication in production:



Services activities/sectors can't be lumped together...

## 2. Degree of tradability

*Can services grow without the industrial base expanding?*

- ‘Locally traded’ or ‘non-tradable’: Largely dependent on domestic demand; protected so high job creation
  - e.g. restaurant or barber or health/edu
- ‘Intermediate’: Fairly tradable; relatively sheltered
  - e.g. transport services, financial services
- ‘Export services’: Completely tradable. Reach directly into foreign markets; more skill intensive / lower job multipliers.
  - e.g. digital software/IT services



# 3. Role in value chain: Enabler or Input

- **Enabling** or **network** activities: i.e. cross-cutting
  - key inputs to enable other industries to prosper and grow
  - e.g. efficient transport services - seamless connectivity is vital for competitive exports of commodities & manufactured goods (SA private road freight companies exporting SA goods to wider region)
  - Inefficient services are a serious liability (bottlenecks & extra costs)
- **Direct input** into value chain: i.e. embedded within manufactured products
  - Integral part of manufactured value chain: R&D, product development, process improvement, branding/marketing – service outsourcing in an era of fragmentation
  - E.g. **Lead service MNEs** with command and control over GVCs: prod shifted to South
  - Services as exports themselves.
  - **Digital** is clearest example (e.g. global business services – back office functions, contact centres etc; + entertainment – music, films, games etc; online learning)

# Combining these dimensions: three broad categories of services

- 1. Non-tradable domestic services (NTDS)** - conventional activities with limited potential for spurring development (skill-intensive social services vs low skill retail & administration services)
- 2. Long-established tradable services (LETS)** relatively low skill activities (for most) delivered remotely (transportation, warehousing and hospitality services); modest transformative potential.
- 3. Contemporary tradable services (CTS)** - highly traded; mostly skilled & knowledge-intensive (professional, scientific, technical, engineering and financial services); most transformative potential. Intensified by business clustering/agglomeration through knowledge spillovers & sharing ideas.

Tension between sectors that can raise productivity (CTS) and those that can create appropriate jobs to reduce poverty (NTDS)

# What about potential for service exports?

- Assessing the contribution from service 'exports' is complicated by **mode of delivery**

*e.g. Web developer delivers their service digitally*

*e.g. Health care tourism*

1 Cross-border supply

2 Consumption abroad

4 modes of supply of services  
recognised by WTO

3 Commercial presence

4 Movement of natural  
persons

## **Mode 3**

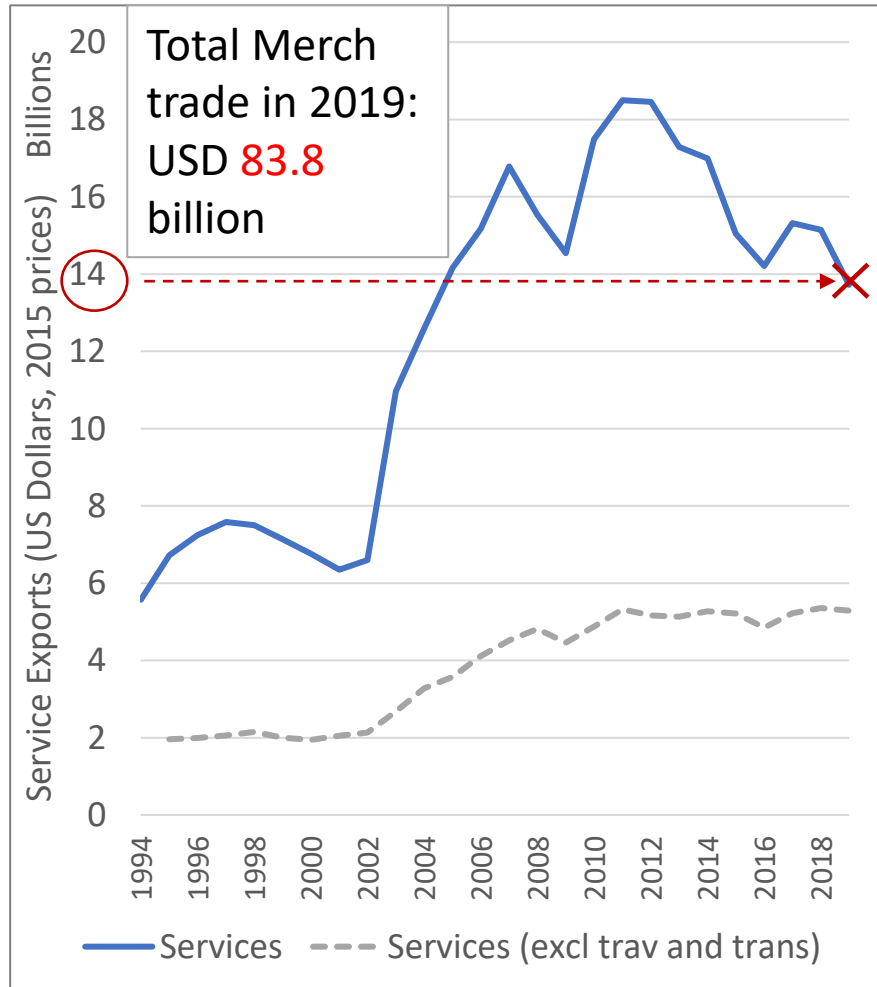
- Most NB share (OECD 50%+)**
- NOT recorded in BoP!**

*e.g. construction firm establishes (or acquires) a foreign branch (affiliate)*

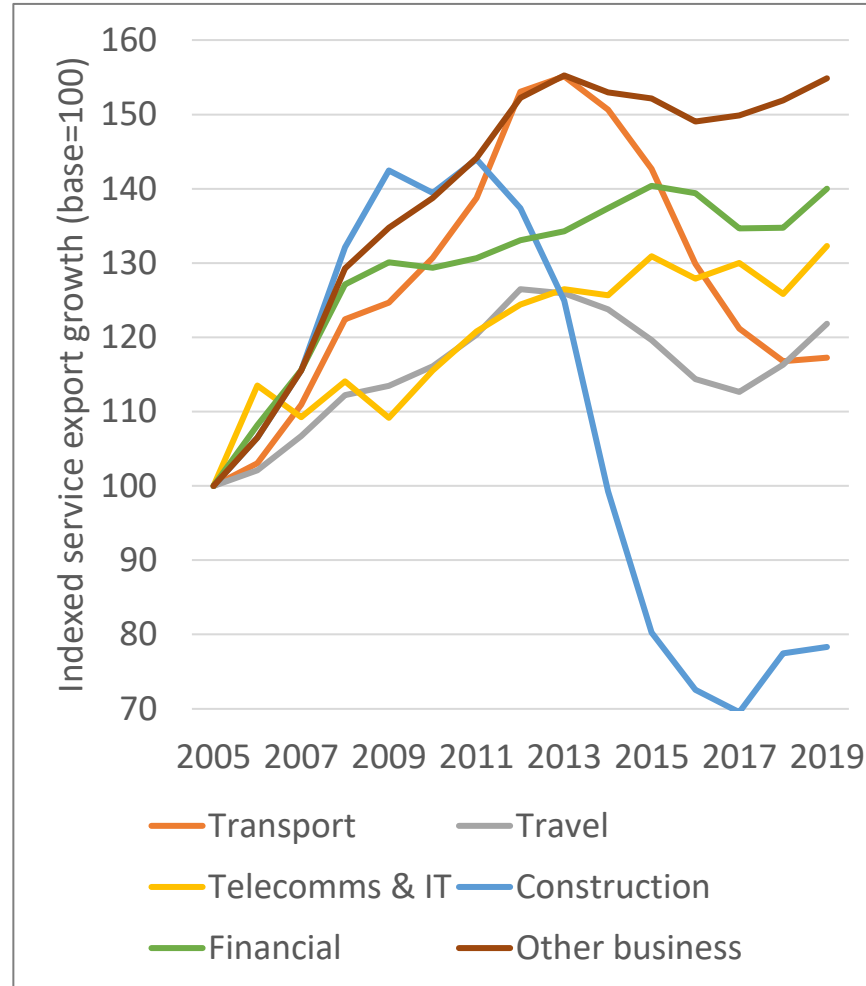
*e.g. a computer specialist is sent abroad by their employer to supply an IT service*

# Evidence for service exports limited

Service exports in BoP, 1994 – 2019



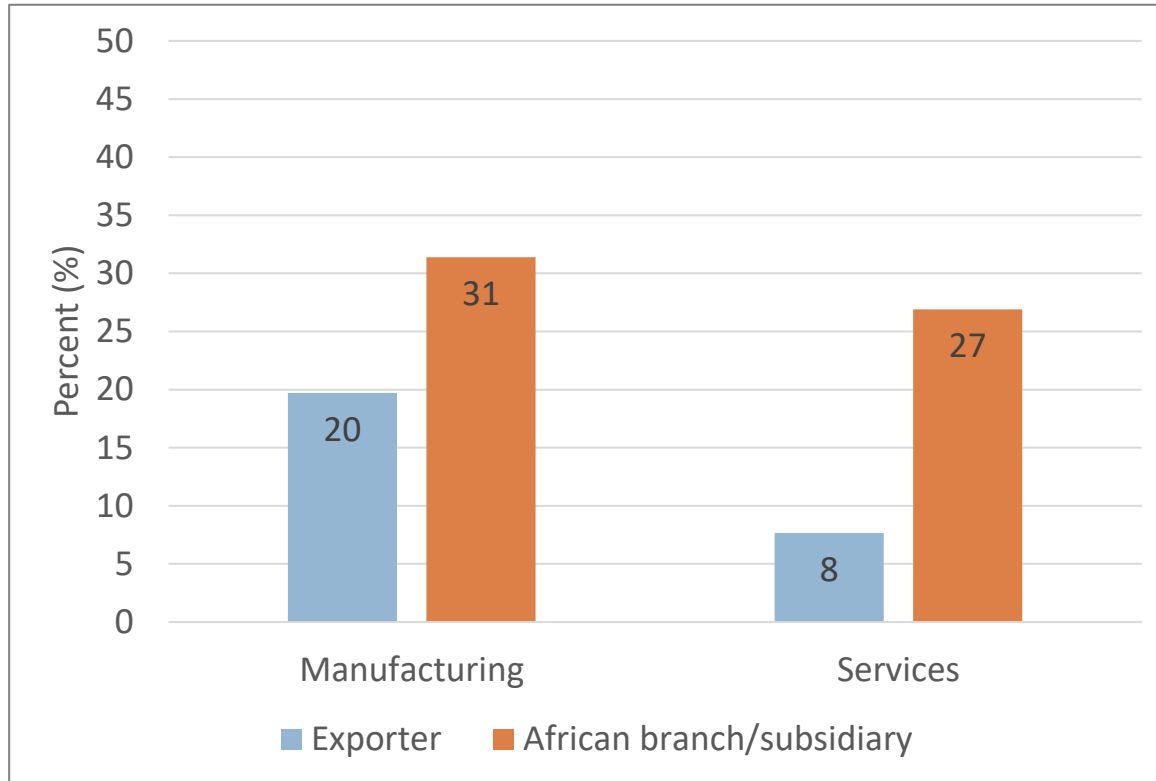
Performance by service sector, 05 -19



- Incomplete: no mode 3!
- Services exports in BoP comparatively small: only 16.4% of merchandise trade
- Significance of travel/tourism
- Higher value (CTS) service sectors strongest performers (but off low base)

# Existing linkages for SA services on continent could well be underestimated

Percentage of firms with an international presence



- While only 1 in 13 service firms in WB ES 2020 exported their services abroad, 1 in 4 service firms had an international presence through a branch or subsidiary in sub-Saharan Africa.

The WB Enterprise Survey asks “does this establishment have foreign affiliates, such as subsidiaries or branches in: SADC member countries or other sub-Saharan African countries”

# ...but there are significant barriers and risks in reaching foreign markets

Digital services  
case study

- Firms sometimes avoid Africa altogether:
  - exchange rate volatility, late payments, political/policy instability and stringent requirements on local shareholding and/or content
  - underestimate need for market research
  - missed opportunities for SA tech sector for lower market segments?
- Servicing foreign markets, even when using digital tools and channels, usually requires **feet on the ground**
  - Technical 'production' undertaken remotely – sales and customer care localised (partnerships, brand ambassadors, local sales office)

## Can MTN survive its troubles in its biggest market?

By Bukola Adebayo, for CNN

Updated 1837 GMT (0237 HKT) September 6, 2018

## Group Five's struggles deepen as Kpone delays in Ghana bite

The full-year loss has deepened and veteran CFO Cristina Teixeira has resigned

BL PREMIUM

02 OCTOBER 2018 · 10:10 by ANDRIES MAHLANGU

DIANNA GAMES, 10 SEPTEMBER 2021

## Opinion: South African retailers retreat from East and West Africa



## Barclays makes early African exit with \$2.8 billion share sale

# Geography is crucial but neglected

- Relationship between services & rest of economy is rooted in place and extremely uneven in SA
  - Education, training, work experience, healthcare and human capital
  - Social & recreational amenities, cultural facilities and social capital
  - Provision of sensitive information, tacit knowledge and responsiveness for high level economic functions & decision-making
- Economic dynamism depends on intense human and business interactions within cities ('clustering'/'ecosystems') - access to specialised skills, technology, service providers, infrastructure etc but also intangibles of confidence, trust and predictability
- Cities also create obstacles to interaction, integration and inclusion that government can help to address (e.g. transport and planning)

# Globalisation and technology are changing some of these dynamics

- E.g. Growth of 'big four' in professional services – consultancy, engineering, accounting, legal services - and other sectors - leading to takeovers of domestic firms
- But governments impose constraints in regulating many services (protecting safety, security, standards, strategic interests ...) although liberalisation, deregulation and globalisation is having an impact
- Protect professional associations – doctors, lawyers, etc
- Strategic interests & national prestige - airport slots and flagship carriers
- Economies of scale and network effects - statutory state-owned monopolies – railways and ports. Result is often joint ventures, partnerships etc
- Digital services seem to be the exception, despite disruption (Facebook, Google, Amazon, AirBnB, Netflix, Uber) but Europe, China



# Implications for industrial policy

- Needs a spatial as well as sectoral/value chain perspective
  - Coordination between knowledge, infrastructure, training and business agendas
  - Place-based to make crucial connections for functional systems (labour, housing, property markets) – between land, infrastructure, finance, skills and intangibles
- Needs strong local institutions to complement sectoral organisations
  - For joined up decision-making
  - Planning for the future - growth of cities
  - E.g. Transnet as a service provider for major mineral exporters vs a more holistic and embedded role

# Summing up ...

- The contribution of services to the economy is extremely diverse/heterogeneous so can't generalize
  - Direct contribution to jobs, enterprise ('inclusion')
  - Indirect contribution through productivity, technology, innovation ('growth')
- Tradable/non-tradable distinction is crucial to growth potential
  - Tradable services could make a bigger contribution to SA economy
  - They can grow in their own right **without** domestic growth/industrialization
- Routine enablers of growth vs dynamic inputs to other sectors
- Need a spatial/place-based as well as sectoral/value chain approach
  - To understand the variable contribution of services
  - For effective policy action – coordination, responsiveness & mobilisation

**Siyabonga  
Enkosi  
Ke a leboha  
Ndza nkhensa  
Dankie!**



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