# Servicification in Malawi

## "Everybody is Services"

**ISAAC B GOKAH, Hub & Spokes Programme National Trade Adviser, Malawi**

## Introduction

One of the core pillars of the Malawi National Export Strategy (NES) is the Manufacturing Cluster which aims at promoting agro-processing. This is further corroborated by the National Industrial Policy and Trade Policy, which among other things, aims at promoting Malawi's integration into Global/Regional Value Chains (G/RVCs). However, the wheel of G/RVCs is services – and how servicification plays its role in the manufacturing process is critical. To that effect, Malawi held a national workshop on 2nd September 2016 on Services and the emerging concept of "Servicification" with funding from the Hub and Spokes II Programme.

The workshop brought to light the importance of services in modern industrial development and the integration of Malawi's manufacturing sector into G/RVCs.

## The Concept

"Everybody is in Services" is undoubtedly an appropriate phrase for what is now popularly known as "**Servicification**". Servicification simply means the increase in use, produce and sale of services. The term mostly connotes the approach of reindustrialisation in the west. It is therefore an increased use and integration of services in the manufacturing process. Manufacturing and service activities are becoming increasingly entwined. Industries are therefore now buying, producing and selling more and more services. Increasingly, manufacturers are internalising all service components of their value chains, breaking down the manufacturing process into bits of services and trading it.

The ultimate goal of servicification is to promote economic development by creating more jobs in the economy which is expected to have spillover effects on all sectors of the economy. Additionally, servicification ensures the creation of extra wealth and income within industries as firms create and cater for the demand for new products in the form of services.

This concept has implications on trade policy formulation, negotiation and liberalisation. Trade policies may need to treat trade in services and trade in goods separately in order to increase their potency, even though it is important to ensure coherence between services policies and trade in goods policies.

## The Role of Servicification in Industrial Development

Services are key inputs in all economic processes including manufacturing. Energy, transportation, telecommunications, financial, construction, legal, accountancy and auditing services, among others, are essential for firms to be competitive. According to the OECD, as much as 30% of value added of the manufacturing sector's exports is accounted for by services inputs. Trade in manufactured goods is dependent on imports and exports of services.

Servicification plays a big role in industrial development. Services are a magnet for FDIs and private equity in Africa. A thriving services sector is essential for attracting investors as it allows them to source the support services they need locally.

Over the past decade, the movement of workers in Africa has been out of agriculture and into services. Services have a major role in Africa's growth not only by supporting local industries but by creating a large number of quality jobs.

**Motives of Servicification in Firms**

| | Servicification as a response/ effect | Servicification as a Strategy |
|---|---|---|
| **Use of Services (Inputs)** | Logistics and transport as a result of fragmented production (GVCs) | IT and management services in order to increase efficiency |
| **Offered Services (Output)** | Recycling services as a result of regulatory demands | Repairs, upgrades and surveillance services to prolong the relationship with the customer |

Karin Eckerdal (WTO)

## Key Lessons from the Workshop

The key lessons from the workshop include:

- Trade policy must facilitate services e.g. the movement of skilled workers;
- Sector regulation should promote healthy competition and build effective regulatory institutions;
- Reforms in the services sector should be pursued through regional and international engagements. Prioritise the design and implementation of regulatory frameworks in sectors that are subject to liberalisation in the regional setting. This should include common investment regimes, improvements in technical interoperability, mutual recognition and global standards conformity at the regional level;
- Trade policy must not overprotect the local services sector;
- Need to consider developing a national services sector policy and trade-in-services strategy. This will ensure visibility of the sector as the single largest contributor to GDP;
- Need to incorporate elements of servicification into industrial policy;
- Develop hubs of excellence in services, such as software and high-tech parks, that can facilitate the sector's development;
- Malawi needs to consider positioning itself by specialising in the production of intermediate products that it has a comparative advantage in, as an entry point of integrating into G/RVCs.

**4 reasons why manufacturing firms need services:**

1. Services may help firms to become more productive, e.g. through the use of services in logistics, management or engineering that save time, materials and improve coordination
2. In the presence of fiercer foreign competition, firms may differentiate their offers by adding services to products, bundling them with products, or offer them in connection with the sale of manufactures
3. Firms may use services to overcome barriers to foreign market entry and to sustain foreign market sales, e.g. distribution, interpretation and monitoring services
4. Firms need services to establish, join and manage international production networks and value chains, including head-quarter or business partner services such as data processing and R&D services. Services are enablers of such networks and value chains.