



**BRICS and Knowledge-Intensive Business Services
(KIBS): A Pressing Theoretical and Empirical Agenda**

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Introduction

- Brazil, Russia, India and China (BRICs) - will overtake the G7 in size by 2050
- Debates about the rise of the BRICs economies have focused on the significance of manufacturing industries
- Limited attention of knowledge-intensive business services (KIBS) in these economies
- On simple assessment of 'knowledge economy', some Chinese cities have 75% of labour forces employed
- To what extent is this KIBS or low order services?

Aims of the paper

- We seek to both critically engage with and also move beyond these existing perspectives on the nature and significance of KIBS in BRICS (and indeed other emerging economies)
- Current conceptualizations of KIBS and their role in BRICS are empirically and theoretically limited, and that there is considerable diversity amongst BRICS in the pathways of KIBS development.
- We argue that current theories fail to appreciate the complexity of KIBS development in BRICS economies
- An urgent need for empirical research into a range of aspects of KIBS activity in BRICS and other emerging economies

KIBS in the global economy

- KIBS has been one of the single most rapidly developing sub-sectors.
- Eurostat reveals that the most advanced business services account for between 20-30 percent of non-financial business economy based on 2006 data within the EU27.
- The share of KIBS in private sectors output is growing; from \$4.5 trillion in 1986 to \$11.5 trillion in 2005 (Global Insight, 2007).
- Drivers include informationalization; corporate complexity; functional specialization

Factors driving growth of KIBS

| Type of service | Information and knowledge requirements | Geographic reference points | Locational motivation |
|-----------------------------|--|----------------------------------|--|
| Back offices | Routine information | No need for proximity to clients | Cost driven |
| Interpersonal services | Structured information exchange | Market based | Driven by access to clients and to skilled workers |
| Highly specialized services | Create and apply knowledge in novel situations | Skill and interaction based | Driven by access to skills and creativity base |

Source: Illeris, 1994; Harrington and Daniels, 2006

KIBS in emerging markets

- Many of the most successful NIEs have developed their industrial structure towards services.
- The combination of access to labor pools, advances in IT, increased pressure for outsourcing and liberalization of trade and IP regulation, influence the growth and development of KIBS in emerging markets (Javalgi et al 2011)
- In many of the emerging markets business groups controlling everything from the production of steel to advanced services are often common.
- KIBS from advanced industrial economies seeking to penetrate these markets but variable success

Limited theoretical development

- Little academic research has investigated the nature or current significance of knowledge-intensive business services in these economies (Daniels *et al* 2012)
- Baseline research has used measures of the presence of knowledge industries in urban and regional economies within BRICs economies (Yeh *et al* 2010)
- BUT this provide only limited in-depth understanding of role / development of KIBS
- Existing understandings and theoretical arguments about the KIBS in the BRICS economies are based on very weak foundations (partly data!)
- Variability very likely between BRICS economies (e.g. Brazil & China)
- Remainder of paper: focus on China / India (& other Asian emerging economies)

Existing theoretical arguments

- ‘low order’ service sector industries and the development of KIBS is both limited and reliant on foreign firms for the highest order
- BRICS as key emerging markets for leading western KIBS firms that are seeking to expand into these new markets on the basis that BRICs economies cannot supply these services
- KIBS firms in some sectors in BRICS economies are becoming increasingly competitive in offering services to both their own domestic markets and a global market place (Javalgi *et al* 2011).

KIBS and Asia: a theoretical and empirical Agenda

- Little empirical evidence & thin theoretical literature on these arguments.
- Theoretical approaches / issues:
 - Variety of Capitalism literature – inadequate?
 - Hybrid global firms?
 - Need for new forms of KIBS product in BRICS – e.g. management consultancy in China delivering Chinese mode of service to clients
 - Need to take industry and corporate cultures seriously; western firms may increasingly struggle to compete as domestic BRICs firms develop their own tailored products
 - Need to consider ‘hybrid practices’ in relation to firm competitiveness (e.g. management consultancy)
 - IB literature on service industry internationalization failing to grasp nature of KIBS development in emerging economies

Trends of KIBS in emerging markets

- Argue key empirical & theoretical focus looking forward needs to address:
 - Inward Investment
 - Domestic Capacity Building
 - Global competitiveness and innovation
 - Market development

Conclusion: new questions about KIBS in economic development

- Little detailed work on KIBS in BRICS or emerging economies
- Existing theoretical arguments could be misplaced, especially in the views that BRICS will not compete domestically with western economies in KIBS and / or will follow the same development path as western industries
- Key need to map nature of KIBS over wider knowledge economy in BRICS and other emerging economies
- This entails research that examines if KIBS in BRICS are differently delivered, require different modes of socially embodied working / national cultures / values etc
- Also whether or not western KIBS will remain competitive and can deliver tailored KIBS that fit culture of BRICS economies
- Need for significant work on domestic capacity of BRICS homegrown KIBS, and scope for these firms to develop in export markets (likely to be regional e.g. Asia, rather than global).
- Relate work in IB literature to the spatial dimension of emerging markets multinationals within KIBS and the possibility of 'born globals'.



Thank you!