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The ICEG European Center issues its monthly publication, which includes 2-4 brief analyses on macroeconomic and microeconomic issues. The publication focuses on two groups of countries: **Commonwealth of Independent States - CIS** (Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan) and the ten post-soviet New Member States of the European Union – **EU-10** (Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia).

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About us

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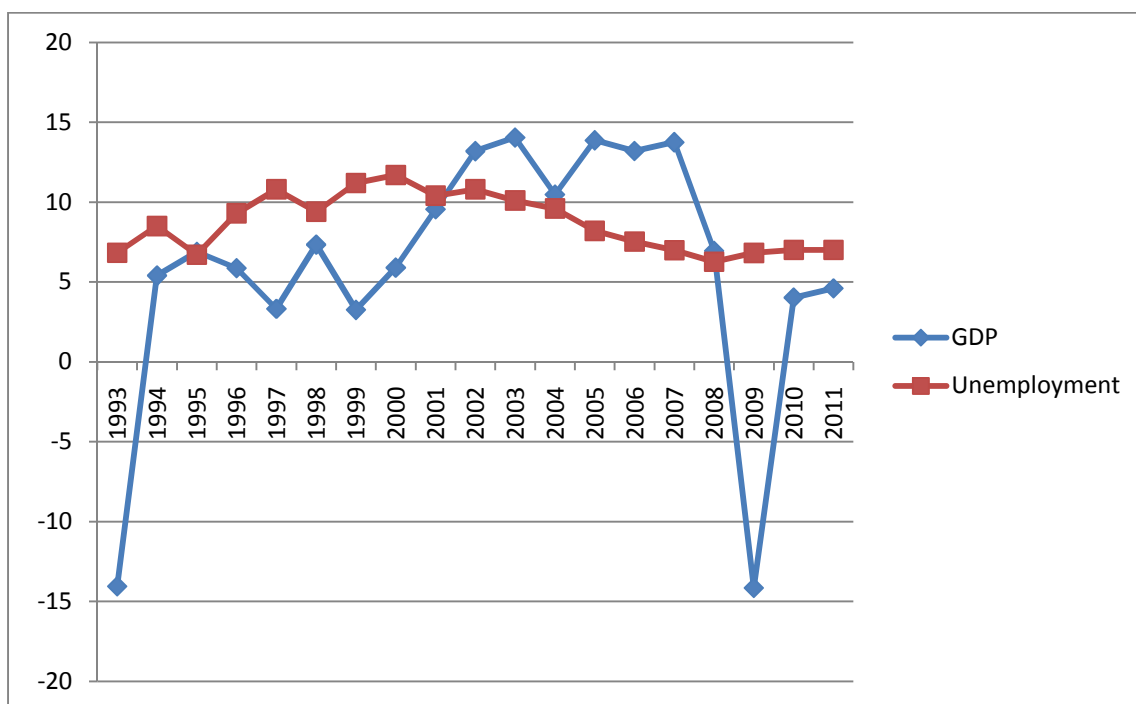
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Service economies and Armenia– win some, lose some?

Olivér Kovács

By now, most developed economies can be portrayed as service sector dominated ones. Although myriad of studies have been analysing the various aspects of a service sector driven economy, there is still a research-niche for asking whether developing countries performing substantially in terms of real GDP growth can be also seen as service-based economies. In this article, we briefly turn to the case of Armenia, which seems to confirm our argument that there are more and more developing countries where services sector either has or will certainly have a potential in fostering economic development.

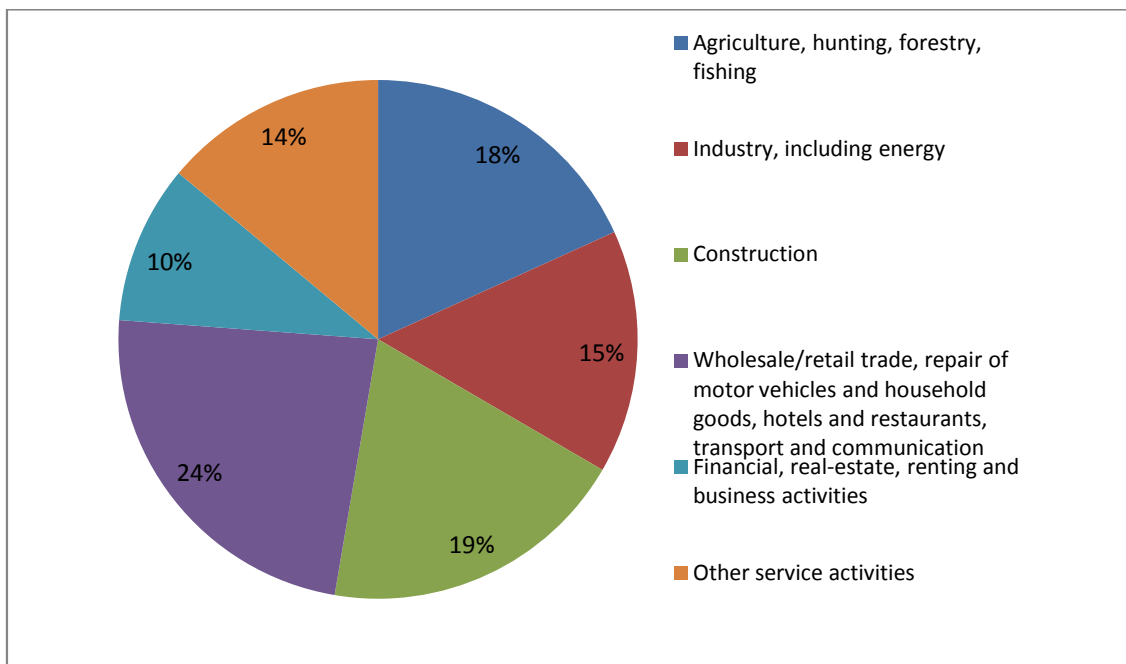
Chart 1. Real GDP growth and unemployment in Armenia



Notes: real GDP growth is measured in % of GDP, while the unemployment rate represents the % of the total active labour force. Data for 2010-2011 are just estimations.

Source: National Statistical Service of the Republic of Armenia

Armenia's economic growth shows a very impressive trajectory in 1999-2007 (*Chart 1*). Moreover, the structure of the gross domestic product conveys the message that the service sector has been playing more and more role in maintaining and, what is more, stimulating the surpassing growth level of the economy for years (*Chart 2*).

Chart 2. Structure of the Armenian GDP (% , 2009)

Source: National Statistical Service of the Republic of Armenia

As for the proportion of services within the breakdown of the GDP, services sector represents approximately more than 46%, while its employment-absorption hovers around 36% of the total employment. These data are completely in accordance with the empirical results of many studying the share of services from various dimensions (Glushko, 2008). Nevertheless, let us add immediately that the statistics on employment bear the stamp to a certain extent of a miscalculation by omitting out the informal employment as an important factor.¹ Services (e.g. telecommunication and postal) and construction as a whole have become an integral part of the economy acting as an engine for the above mentioned outstanding growth performance with double-digit rates.

Still, there is a growing body of evidence that the service-driven economic paradigm is spreading (let us think of India or Norway whose economies have been preferring services as essential contributors to the economy growth and development). In our INNO-Grips policy brief (Kovács, 2011) on policies in support of service innovation, we emphasised that although the service sector is growing, its performance cannot be isolated from the manufacturing industry.

¹ As the Asian Development Bank rightly pointed out that the informal employment is widely prevalent in the rural areas, at 82.1%. In urban areas, only a quarter 24.5%) of the jobs are informal. See: ADB (2010).

It is therefore necessary to be aware of the conditions of manufacturing sector that are of particular importance from the angle of service provisions and service innovations, because manufacturing sector is also tended to extend its product offerings with different types of service functions.

Bearing this in mind, the government in Armenia should be aware of the fact that service-based development would be by any means a fully new fangled enterprise, but it would presumably need a manufacturing sector having the necessary infrastructure. Importantly, “network” services (e.g. telecommunication, finance, electricity and transport) serve as an indispensable infrastructure for trade in goods. Accordingly, the intertwined relationship between services and goods is continuously strengthened. Still, in Armenia there is a growing demand in case of manufacturing industry for a state-of-the art infrastructure (e.g. routes) that could serve as a fertile ground for such new types of services (e.g. transportation, logistics etc.) that would be attractive from many aspects (e.g. since jobs in the field of services are equally accessible, service provision could entail much more women-employment comparing to the situation of nowadays).²

As a corollary, we call the attention to the synergies that could potentially emerge and could be utilised in a more vigorous way between product and service sectors rather than accentuating the importance of such an economic policy engineering that would put emphasis on services exclusively. It is hardly by chance that, on the one hand, the distribution of employment among sectors still shows a bias towards agriculture (2006: 46.2%), which alludes to the fact the manufacturing and service sectors are facing not highly skilled and creative human resources that are of paramount importance in today's new economy. On the other hand, Armenia's export is still heavily resource-dependent, i.e. the modern service export is still infinitesimally low in international terms despite its growing tendency.

True, “services expansion provides an alternative growth escalator for developing countries” (Ghani et al. 2011), but considering the fact that modern services are becoming more and more sophisticated within the export (Gable – Mishra, 2011) which requires an innovative milieu, policy should act on several fronts like for instance education, knowledge transfer, and infrastructure.

² See more on Armenian infrastructure from the perspective of rural development: World Bank (2004)

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The appreciating role of design from innovation policy aspect

Olivér Kovács

The apropos of this article is the fact that Estonian designers have won the 3rd Prize of the EESC Design Eleven – 2011 European Design Award for a Sustainable Present. Since the role of design as a complementary source of innovation has gained momentum at European policymaking level, in this short article we shall review the recent policy initiative in this regard.

In setting up the European Design Innovation Initiative (EDII), the European Commission explicitly expressed its intention that European design policy should not remain discreetly behind the policy-scenes as a kind of *éminence grise*, but should rather be in the foreground, as part of a well-organised structure, collecting and evaluating relevant information and experience so as to promote better innovation performance in Europe. However, design, as such, does not have a very strict or broadly used standard definition. Since the Oslo Manual considers design as “marketing innovation”, it might therefore be asked: what is the fundamental definition of “design” used by the EU Design Innovation Initiative (EDII) and what is the rationale behind EDII?

As the literature suggests, the term ‘design’ is a very elusive notion (i.e. it embraces not only industrial design, but also architecture, interior design, fashion design or engineering design etc.). EDII therefore considers design as a broad concept. One of the key leitmotifs of design is its ability to bring goods to the market by transforming them into user-friendly, appealing products and services. Consequently, design can be to a large extent portrayed as an essential tool for the economic realisation of innovation. It is hardly by chance that the Commission Staff Working Document on ‘Design as a driver of user-centred innovation’³ emphasized the importance of design in European innovation policymaking. This document also highlighted the rationale for making design an integral part of European innovation policy by reinforcing the link between design, innovation and competitiveness.

³ Commission Staff Working Document (2009): Design as a driver of user-centred innovation. Available at: http://ec.europa.eu/enterprise/policies/innovation/files/design_swd_sec501_en.pdf

The rationale was also confirmed by online consultation, the results of which suggested that design should be considered at the EU level in addition to Member State and regional level.

One might add that design is linked to innovation, and it could be interpreted as a complementary source of innovation separate from R&D. Related to this, we must not forget that most innovations start with the consumers and end with them as well. In this regard, design can be functionally interpreted as a linchpin between innovation and its economic realisation. Design is always the manifestation of human behaviour, motivations and preferences about how people use products and services. An innovative designer focuses on people's overall experiences when it comes to “dreaming” the design. Without that, the Guggenheim Museum, which adds a unique milieu to the cultural service, or the Apple iPod that incorporates people's needs when they are listening to music, could never have been created. Firms can build such knowledge of people's preferences only if they are open and undertake intensive interactions with the world beyond themselves. In this way, design-based competence differs significantly from those competences related to internal R&D activities. As a consequence, design can be interpreted as a complementary source of innovation above and beyond R&D.

According to recent studies, design is predominant in firms that have complex, outward-oriented innovation strategies. Let us add immediately, under this angle, a formulating design policy should pay dividends for firms that do not necessarily possess these characteristics. However, design policy engineering in itself does not spark innovation in the everyday life of Europeans. Since a lot is riding on whether an individual firm is able to put itself into a potential client's “shoes”, policy has to foster the development of the factors that stand behind innovations in other domains, such as education and entrepreneurship. Successful design needs a better understanding of human behaviour, and this highlights the relevance of increasing interdisciplinarity in European education, research and development. As a corollary, design policy should be horizontal, i.e. embedded into a broader innovation-related policy concept.

This is why EDII was created to be an open and flexible platform. It is more likely to support the outward-orientation of firms by bringing together authoritative stakeholders (e.g. innovation policy makers; institutions responsible for support such

as innovation agencies; innovation-oriented design support organisations; design promotion bodies and associations; national design centres, major design schools and research centres; regional design institutions with a focus on innovation; business support organisations, etc.).

What is more, EDII devotes attention to service design, since the era of service economies is here to stay. The Innovation Union, as part of the EU2020 Strategy's flagship flotilla, highlighted the need to promote all types of innovation. Focusing on innovation that is not only technological, but also non-technological, is a basic consideration in the case of EDII as well. As a consequence, EDII deals with the issue of service innovation in both the public and private sectors by addressing how to increase EU and national funding opportunities for design as an innovation driver, and non-technological development. EDII also addresses how to improve the evidence base, the measurement of design and non-technological innovation aspects.

As regards the first steps of EDII, one may conclude that promoting design-related knowledge has already gained momentum through opening a call for proposals in 2011 for the first Action Plan of the European Design Innovation Initiative. This call was closed in the middle of October 2011 and the scheduled start-up date for the action is January/February 2012 for a maximum of 3 million euro. Designium, as the EDII secretariat based at the Aalto University in Finland, will mainly be responsible for future awareness-raising activities by circulating experience and good practice, and by sharing and disseminating relevant knowledge to a wider audience, including policymakers, SMEs and non-participating stakeholders, in particular those interested in becoming active providers of design innovation support services. Since Finland was a frontrunner in introducing design policy between 2000 and 2005, Designium can serve as fertile ground for an EU-wide initiative such as EDII.