

# Service industry vs manufacturing industry in the uk

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The market in which organisations find themselves is continually changing. On the other hand, trade and investments are growing rapidly and overtaking the world output and there is increasing integration of the world economy. Multilateralism is constantly threatening and regionalism is stronger in Europe, Asia and America than ever before. This continuous structural change in world economies indicates the variations in the relative size of each sector which can be seen in terms of changes in output, employment and productivity. ECONOMY STRUCTURES

Economies can be divided into three categories: Primary, Secondary and Tertiary. The primary economy includes all activities related to the extraction of natural resources e. g. mining, farming etc. The secondary economy includes activities related to the production of goods and processing of materials which have manufacturing as its major component. It also includes the construction sector and utilities sector. The tertiary sector includes both the private and public services such financial industry, health, defence and other services related sectors. [http://tutor2u.net/business/gcse/external\\_environment\\_economic\\_sectors](http://tutor2u.net/business/gcse/external_environment_economic_sectors). tm accessed on 31st November 2009. MANUFACTURING INDUSTRY IN BRITAIN Industry is defined as a group of firms producing similar products with boundary of an industry determined by a gap in the chain of substitutes. All sectors of the economy can be referred to as an industry but emphasis lay with the secondary sector which is widely regarded as the manufacturing sector.

Roger Cox (2009) Concerns have been raised over the competitiveness and continued decline of Britain's manufacturing base. This de-industrialisation

has continually raised questions whether it can seriously damage the country's wealth.

The concerns about manufacturing have been reflected in trends in various statistical indicators especially the shift away from manufacturing towards services, the productivity gap between Britain and its major international competitors. Malcolm Sawyer (2009) clearly stated that the value of manufacturing output in Britain has continued to rise slowly in the last half century, but the share of manufacturing in the total output is what has declined not the absolute amount. DE-INDUSTRIALISATION IN BRITAIN The trade balance in manufactured goods moved into deficit in 1983 for the first time since the Industrial revolution of the early 90's.

This could be attributed to the gradual movement of the economy from manufacturing to more service-oriented economies. This experience is not unique to Britain alone, over the period 1970 to 1990, the share of manufacturing in the national output declined in all major industrial nations while that of services increased. By 1990, the share of manufacturing in the GDP among major economies had declined with Britain coming sixth behind Japan, Germany, USA, and France. Mark C. & Corri F. (1998) De-industrialisation can be viewed in a number of ways: ? The decline in employment, in both absolute and relative terms. The decline in the share of national output contributed by the sector. ? The decline in the country's share of world manufacturing output or exports. ?

The failure due to poor export performance or increased import penetration to generate sufficient export to finance a full employment level of imports. Office

for National Statistics ONS figures for the last quarter of 2008 shows a decline of 10.4% lower than the figures from the previous year with output decreasing in 12 out of 13 sub-sectors. Significant decreases were recorded in the metal industries, transport industries and in machinery and equipments industries 11.4%, 10.% and 9.8% respectively. <http://www.fundstrategy.co.uk/news/british-manufacturing-slumps/182454>. article accessed 25th of November 2009. In Britain, the fall in the demand for labour is associated with a reduction in output until 1987 and probably a rise in the wage level relative to the price of other factors. The decline in manufacturing employment means that its share of total employment has also declined over that period of time with employment in the service industry sector growing at a faster rate. A growth rate of over 7% was recorded in the 1980's in the service sector with manufacturing falling by over 20%.

Shares of world trade in manufactures and deindustrialisation. (%)  
 1950 1960 1970 1979 1990 1991  
 France 9.99 68.710.59.710  
 Germany 7.319.319.820.920.220  
 Japan 3.46.911.713.715.917  
 UK 25.516.510.89.18.69  
 USA 27.321.618.616.016.018  
 Office for National Statistics (1991), Monthly review of External Trade statistics. London Manufacturing's problems began with the misguided notion that Britain should become a "post-industrial" economy: that we would focus on services and the creation of ideas, with other nations taking on the less attractive task of making the finished product.

The results speak for themselves. Manufacturing now generates just 13% of GDP, compared with 32% in 1970. John Rose, [http://web.ebscohost.com/ehost/detail?vid=3&hid=11&\[email protected\]&bdata=JnNpdGU9ZWZWhvc3QtbGl2ZQ%3d%3d#db=bth&AN=35824528](http://web.ebscohost.com/ehost/detail?vid=3&hid=11&[email protected]&bdata=JnNpdGU9ZWZWhvc3QtbGl2ZQ%3d%3d#db=bth&AN=35824528) accessed on 22 November 2009. In the period 1980 to 2000, the manufacturing base in Britain was on a steady decline. Government argued that the reducing contribution made by the manufacturing towards GDP will be made up for by the service industry but further researches shows that the assumption was misjudged.

Figures show deficits on goods moving from +? 1.3 billion to -? 30.4 billion creating a ? 31.7 billion deficit not covered by the service industry. This Industrial decline was accelerated by increased competition from cheaper imports and the outsourcing to low cost economies which saw a free fall in different high profile companies closing down, downsizing or relocating to low cost economies. [http://web.ebscohost.com/ehost/detail?vid=3&hid=11&\[email protected\]&bdata=JnNpdGU9ZWZWhvc3QtbGl2ZQ%3d%3d#db=bth&AN=35457939](http://web.ebscohost.com/ehost/detail?vid=3&hid=11&[email protected]&bdata=JnNpdGU9ZWZWhvc3QtbGl2ZQ%3d%3d#db=bth&AN=35457939) accessed on 26th November 2009.

John S & Mark S (2004) clearly states that the deindustrialisation in Britain has not been affecting the whole of the manufacturing sector, certain sectors mainly instruments and electrical engineering industries has witnessed a tremendous rise in production and they are among the fastest growing in the economy but industries like the metal industries have witnessed a substantial decline in their productivity. EMPLOYMENT FIGURES WITHIN THE INDUSTRIES This sector underwent a significant growth in the

early 80's in the EU during the post industrial phase of economic development.

The doubts about manufacturing sector have been shown in various indicators with the shift to more service-oriented sector taking prominence. It has been argued that the decline in Britain's manufacturing sector should not be a cause for concern but rather the offset of expansion of other sectors of the economy especially the Service industry. The service sector witnessed a rapid increase in employment with the financial sector gaining rapidly on the manufacturing sector. In 1971, the workforce in the manufacturing industry has shrunk by around 4 million with the service industry recording a growth of around 3. million. By 1994, while about 46 million people were employed in the manufacturing sector, about 55 million and 28 million people were employed in the private and public services sector respectively representing about 64% of the total employment figure within the EU. Andrew Taylor of financial times reported that over a century beginning from the first production in 1907 to 2007, the manufacturing sector employment figures has fallen from 7 million to 3 million while women not account to 23% compared to the 25% at the onset.

The mining sector used to account for about three-quarters of the employment with figures about 837, 000 but now employs around 10, 000 accounting for just around 1% of the employment figures. The aerospace industry, a section of the service industry which was non-existent at the beginning of the century now employs about 100, 000. Mark C. & Corri F.

(1998) [http://web.ebscohost.com/ehost/pdf?vid=5&hid=9&\[email protected\]](http://web.ebscohost.com/ehost/pdf?vid=5&hid=9&[email protected]) accessed 1st December 2009.

**SERVICE SECTOR GROWTH IN BRITAIN** In the post industrialisation era in EU, economies including the UK witness a boom in the service sector with significant growth in the financial services sector and the aerospace industries. Between 1979 and 1993, there was a rise from 7 to 13 percentages in service sector employment rate. In more recent surveys, the services industry across banking to airliners has shown growth rates in February that represent a five month high, as companies have raised their prices.

This is a positive sign that suggests that the predicted slowdown as espoused by the Bank of England has yet to materialize. The Chartered Institute of Purchasing and Supply revealed that index prices are up by 1.5 percent since September 2007 whilst the report also indicated that the economy has maintained its current momentum. <http://www.investmentmarkets.co.uk/20080305-1705.html> accessed on 23rd of November, 2009. The measurement of service industry depends on the way it is defined, either value or volume wise. Outsourcing has been a major component in promoting service sector.

Manufacturing companies outsource most of its functions like finances, design and other little services to focus on its core competencies and all this in turn increases activities within the service industry and the employment figures reducing its manufacturing counterpart in correspondence. The rise of services is due also to changing economies within the EU, limited

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competitiveness of traditional industrial production. Financial Times. (2009)  
AEROSPACE INDUSTRY IN BRITAIN The UK aerospace industry (UKAI) remains one of the most successful sectors of UK manufacturing.

In 2003, the UKAI accounted for 0.6 percent of UK gross value added (GVA) and four percent of value added by the UK's manufacturing industry as a whole. The UKAI is also one of the UK's major export sectors, generating a trade surplus of just over ? 2.5 billion in 2003, compared with manufacturing overall, which had a trade deficit. The UKAI provides direct and indirect employment in the UK for around 255,000 people. Although productivity levels in the UKAI are generally higher than the UK average, they remain disappointing when compared to the industry's main international competitors.

However, there are signs that UKAI productivity growth is beginning to outpace these competitors. There are also evidences to suggest that there will be a further challenge for The UKAI as competition from emerging economies is growing. The growth of the United Kingdom aerospace industry illustrates the changing trends in globalisation, industrialisation and service delivery. From a virtually non-existent sector around a century ago, the UKAI has grown so much in the last twenty years and captured about 10% of the world market in aerospace and accounted for just over 4% of UK manufactured output and directly contributed just over ? 5.5 billion to UK gross value added (GVA)<sup>1</sup> in 2002. In 2003, the UKAI directly employed just fewer than 122,000 people, 0.4% of total UK employment and 3% of total



manufacturing employment. An additional 150, 000 people have been estimated to be indirectly employed by the industry.

UKAI productivity was ? 54, 000 per head in 2001, 50% higher than the UK average and 35 percent higher than for manufacturing as a whole.

<http://www.>

[publications.](#)

[parliament.](#)

[uk/pa/cm200405/cmselect/cmtrdind/151/151](http://www.uk/pa/cm200405/cmselect/cmtrdind/151/151). df accessed 27th November

2009. ANALYSIS OF THE MANUFACTURING AND SERVICE SECTORS A steady

growth rate has been recorded in the service industry while the contribution

to the overall GDP from the manufacturing industry has witnessed a steady

decline in the last few decades. This has been well documented from various

researches carried out but a serious questions still arises from the

performance of the service sector and its long term sustainability and effect

on the economy.

David Liston asked “ what will the services industry be servicing if there is no

hardware? The first priority should be to stop treating manufacturing as a

relic of the industrial revolution. High-value-added manufacturing brings

huge benefits. It penetrates the economy of the entire country, not just

London and the south-east. It pays well but avoids bewildering distortions of

income. It drives and enables a broad range of skills and stimulates the

growth of services. In short, it creates wealth. Curmen P et. al (1997) The UK

manufacturing sector continues to decline and the subsequent loss of

exports has not been replaced by revenue from the service sector as the

government had originally thought.

At the same time, the ownership of UK companies by foreigners is increasing and UK companies are continuing to relocate some of their labour intensive operations to low cost economies. The cost of compensating employees who are made redundant when a company in the UK closes is one of the lowest in the European Union. So for multi-national companies with surplus capacity, the UK factories may be selected for closure. There is also a tendency for companies to consolidate research and development in their home country with the consequence that it is lost from the UK.

This decline in manufacturing was triggered by some factors: ? Changes in manufacturing and materialstechnologyand consumption patterns which affected a lot of steel, coal ship-building and power generation industries. ? Obsolete and redundant plants and inadequate investment and financial assistance to replace them. ? Diverse and intense competition from low wage nations and newly industrialised economies. ? Resistance to change at all levels of production from management to trade unions. Adverse effect of Government policies both fiscal and monetary on industries. Particularly in high interest rates and fluctuating exchange rates. With David Liston's question in mind and the fact that service industry has not been able to replace manufacturing industries effectively producing a cushioning effect for the drop in its GDP contribution slump which is evident by the facts below: ?

The interdependence on manufacturing industry as shown in the case of the aerospace, further reduction in manufacturing output will adversely affect services output also. Technical progress in manufacturing offers greater

prospects of high-wage jobs able to raise standards compared to part-time low wage in the services industry. ? For each 1% decline in export of Britain's manufacture, an excess of 2.5% rise in export is required in services to complement the effect. Some policies which cut across all concerned parties from Government to private market solutions have been formulated to help halt the decline in manufacturing. Some of which include: ? Britain's macroeconomic and industrial policy Improved management in the industrial sector ? A reform of Britain's institutions ? Greater accumulation of both human and physical capital ? Improved innovation to accommodate mechanisation [http://web.ebscohost.com/ehost/pdf?vid=5&hid=9&\[email protected\]](http://web.ebscohost.com/ehost/pdf?vid=5&hid=9&[email protected]) accessed on 1st of December 2009. CONCLUSION Divergent analysis from various stakeholders shows the variable effect of manufacturing and service delivery on the national income of Britain. A steady decline in manufacturing was evident and it coincided with the boom