8 Policy implications

The best economic policy towards the ABS industry should be actually no specific policy. The needs of the industry are the same as those requisite for the development of an economy: quality and abundance of talents, stable legal and political framework, and good infrastructure. Unfortunately the size of the industry, international competition for FDI, and multiple externalities do not allow for applying such a pure free market approach.

One of the key externalities is concentration of ABS firms in very few and most attractive locations within particular economies. The main idea to solve this issue is to attract this type of activities to smaller cities and towns. However, such locations are frequently not highly attractive for investors, as there is no critical mass of talents, limited educational infrastructure, few business opportunities, and insufficient attractiveness to mobile workforce. The key element attracting talents to top locations is the abundance of employers. In tier two locations, even if some jobs have been created, there is quite a limited room for manoeuvre for potential employees, who in turn may avoid settling there for a longer period of time. Furthermore, the technology does not provide much support to secondary locations to mitigate the distance. In spite of developments in communication technology, there is still a high propensity towards more concentration in primary destinations and agglomeration economies play a very important role in the decision regarding location of ABS units.

The situation of tier two locations is also not encouraging due to the changes in the technological sophistication of services. Two elements should be underlined here. First, the technology intensity in services means that there is a rising need for larger scale of operations and deploying advanced technology requires a vast investment and large number of users. The emergence of new technologies, for example, robotic process automation, increases the need for concentration. It is easier to be achieved in tier one locations. Moreover, the level of competences required to be combined with the newest technology is rising. It means they are easiest accessible in primary locations. On top of that we should put the slowdown in the number of jobs created by ABS firms in V4 economies in recent years. It means that if tier two locations will not become significant destinations for ABS firms soon, their chances of doing so in a coming future are quite slim. It may be also considered that the time to employ technology to spread the services geographically within particular economies may be elapsing.

Consequently, technology provides also an important challenge for the policy towards this type of FDI. For many years investors have been praised for bringing many new jobs to host economies. In V4 economies we can notice cooling sentiment towards more very large projects. Actually, new investments in ABS have not been focused on the number of employees, but rather on the complexity of operations.

Automation also requires a new approach to policies regarding attracting FDI and development of competences. For many years, key elements of incentives programmes

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towards foreign investors in ABS were lower labour costs and abundance of talents. Automation should be seen here as an opportunity.

First of all, across many industrialised economies the number of workers is falling due to demographic changes. On the other hand, many jobs do not fit the aspirations of new generations. Therefore it seems natural that such jobs should disappear and workers should focus on more meaningful occupations. So the most important is to build requisite capabilities. This may profoundly change flows of FDI in ABS. There will be no necessity to locate ABS units in a spot with a large pool of employees. Rather it will be about the highly skilled specialists, so to gain an advantage is to build requisite capabilities. Indeed, an introduction of AI requires a vast pool of talents and according to Gerbert, Mohr, and Spira (2019, p. 5): "Many companies are finding it challenging to hire the talent to feed their ambitions. Systems engineers are especially hard to find." Thus the next wave of FDI projects in advanced business services will be focused on locations providing requisite talents.

The issue of automation is also important from the perspective of national policies in CEE towards FDI in services. Positive element of automation might be the shift of talents from large MNEs, into small and medium-sized domestic firms. The crowding-out effect by foreign-owned firms has been frequently pronounced in the analysis of impact of FDI for host economies. Especially recently, when the large wave of foreign-owned firms started their operations in CEE and employ hundreds of thousands of highly educated workers, frequently to do some routine tasks. Thanks to automation, these talents may be freed and their qualifications may be utilised in activities of higher productivity: their own businesses or doing more meaningful tasks.

In spite of some attempts and many declarations, the ABS industry does not support the equal regional development. The expected equality may be considered somehow idealistic, however there is even no moderate increase in the number of companies and employment in tier two regions in the selected V4 economies. Naturally, there is a high level of saturation in the most prosperous regions, what should force firms to search for locations providing lower costs and a certain pool of available talents. Due to gained experience and economies of scale, it would be expected that satellite offices of already existing ABS firms are to be created in other locations in the same economy. However, this is happening only rarely. A more profound trend is searching for tier-one location in economies outside V4. It means that Lithuania, Bulgaria, Bosnia and Herzegovina, and many others are attracting a higher number of investors from abroad. The competition for this type of investment is dense and dynamic. It is also easy from the strategies of corporations, as costs of such an investment are not high, so even riskier locations may be selected for offshoring of services.

The policies towards ABS should have been altered depending on the complexity of the projects, not only the number of jobs offered. The time for a new policy approach is high as the ABS industry in V4 economies is already mature. The growth of new jobs has flattened. On the other hand, there are economies, like India or the Philippines,

that have much lower costs of labour, thus V4 countries should avoid the competition for projects with a massive employment. Moreover, the barriers of entry by countries to the group of providers of services are not high, especially for the repetitive services. Therefore, we can expect that the competition for new projects may increase in near future. To withstand the tense competition it is necessary to specialise and offer better business conditions.

There is an issue of how to avoid the middle income trap when it comes to ABS in the macroscale. Indeed, the focus on ABS some years ago was motivated by an attempt to define new advantages of V4 economies. Today, it would be very premature to declare that it has been achieved. The investments in ABS can be understood as an evolutionary step in development of the economies. For many years CEE has been perceived as an attractive location for manufacturing goods for the Western Europe. Since a few years, this has become the location of services for the Western Europe and other international recipients. The investments in ABS require completely new optics, comparing to the manufacturing operations. The policy towards them should be very dynamic and incorporating a high level of a micro approach. Therefore, the focus of the book was to merge the two perspective. Without them it is not possible to design, deploy and assess policies. From the policy perspective, it is impossible and unjustified to select and support only narrowly defined processes within the ABS industry. Due to the dynamism in the sector, the processes executed in ABS units are changing profoundly. Fortunately the trend is upward, what means that more value added and processes of higher knowledge intensity are executed.

There is a need for national strategies in V4 that will support the most important developments in the ABS industry. There should be a clear strategy towards data science, machine learning, robotics, and artificial intelligence. However, the issue is that there is already a high level of competition in this industry. Some years ago the Indian ABS industry has already started approaching these technologies, and have sufficient resources and scale to embrace them. However, the technologies are not developing linearly and the scale cannot be the only determinant. It is rather about agility and competences in applying the solutions. Indeed, the new competences is the area, where authorities have great role to play. Importantly, the competences for the future are not only technical ones, but rather soft ones, like communication skills and abstract thinking.

The discussion regarding a policy towards the ABS industry is hindered by classifications and statistics. A low-cost solution to understand the phenomenon of advanced business services is to update the structure of statistical data. At the moment it is impossible to access internationally comparable (even within European Union) statistics regarding ABS. There are many drawbacks of the current approach to the ABS industry, as it has been treated as a subsector or industry within a broader category of services. Because of that it was difficult to comprehend this activities as highly-knowledge intensive and design policy towards them.