Latin America's entry in the global offshore services industry

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UNITED NATIONS

ECLAC

WTO Chairs Programme

world trade institute

Context

- In Latin America, services dominate economies and employment.
- In exports, services' share continues to be low and concentrated in transport and travel (tourism)
- IT revolution and services liberalization enhanced services cross border trade
- Main protagonists of services trade in the "South" are in Asia
- Entry of Latin America in offshoring GVCs was facilitated by nearshoring policies of MNCs and promotional policies by national governments

Book on position of LA in offshore GVCs

- Joint ECLAC-Un. of Chile-WTI-REDLAS Conference in October 2012 (Santiago), with support of German GIZ
- Over 30 papers presented
- REDLAS = Latin American Network for research in services (similar to RESER in Europe) (under construction)
- 12 Chapters deal with Concepts, Case studies and Policies
- Authors are from Latin America, United States and Europe
- Editors: Karina Fernandez-Stark (Duke Un.), René Hernandez, Dorotea Lopez, Nanno Mulder, Felipe Muñoz, Pierre Sauvé (WTI) and Gordana Stojkovic
- This presentation synthesizes the book’s main messages

Chapters of the book (I)

CONCEPTS:

1. International service tradability: understanding the service offshoring
2. In what way do national systems of innovation matter for learning, upgrading and innovation processes in services GVCs?
3. When SMEs Think About Delocalization: Theoretical Issues
4. Chains or global value networks? The dilemma of the innovation networks

CASE STUDIES:

5. Scientific-Technological Services for the Pharmaceutical Industry in Mexico

Chapters of the book (II)

CASE STUDIES (cont.)

6, IT services in Chile: A new export niche?

7. Linkages of services firms with the free trade zone of Costa Rica

8. The Colombian Outsourcing and Offshoring Industry: The Effects of Institutions and Agglomeration Economies

9. Winning Through Specialization: The Role of The Business Model for Value Creation

POLICIES

10. Promotion policies for services offshoring: Global analysis and lessons for Latin America

11. Global services in Chile: The birth of an Industry

1. Concepts

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Global value chains in offshore services

ITO
Tecnología de información
(Information Technology Outsourcing)

Software
- Desarrollo de aplicaciones
- Integración de aplicaciones
- Gestor de mesa (Desktop)

Infraestructura
- Gestión de aplicaciones
- Gestión de redes

BPO
Procesos de negocios
(Business Process Outsourcing)

Gestión de recursos empresariales (ERM)
- Finanzas y contabilidad
- Logística
- Contratación
- Operaciones
- Planificación de recursos empresariales (ERP)

Gestión del personal (HRM)
- Entrenamiento
- Gestión del talento
- Nómina de empleados
- Reclutamiento

Administración de la Relación con el Cliente (CRM)
- Comercialización y ventas
- Centros de contacto/Call Centers

Actividades verticales (industria especifica)
Transcripción médica, gestión de seguros, hipotecas procesamiento de tarjetas, gestión de activos de Operaciones, etc .

KPO
Procesos de negocios mas complejos
(Knowledge Process Outsourcing)

I&D
- Innovación
- Diseño
- Testeo

- Consultoría de negocios
- Legales
- Finanzas

Actividades verticales avanzadas
Servicios para:
bancos, servicios financieros y seguros, telecomunicaciones, manufactura, comercios automotriz, consumo y medios de Comunicación, salud , viajes y transporte, otros .

Source: Center on Globalization, Governance & Competitiveness, Duke University , December 2009 (Basado en Everest & Datamonitor)

2. Case studies

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Chile (1): Chapter by Rivera et al.

About US$1 billion in exports, more than 60 centers of global service providers, employing about 35,000 people.

Information Technology Processes → Business Processes → Knowledge Processes → Innovation Processes

Low impact & complexity → High impact & complexity

Sodexho
Delta
Unilever
SANDVIK
terra
EQUIFAX
ABB
Teleperformance
ALTEC
citigroup
SYNOPSYS
diagramma S.A. BIOTECNOLOGIA INDUSTRIAL
experian
EVALUESERVE Expert Knowledge Services
MONSANTO imagine
CELLSTAR
TRANSCOM
INTERSYSTEMS
accenture High performance. Delivered.
EWOS Innovation
SGS
YAHOO!
PIONEER A DUPONT COMPANY
JPMorgan
Collexis
emergia
unisono soluciones crm
Grupo Konecta
AVESTHAGEN
AIR FRANCE
everis attitude makes the difference
syngenta
BAYER
ORACLE

Chile (2): Survey on IT firms

Goal: identify and analyze main characteristics of internationalization process of IT firms

Survey: both open and multiple-choice questions followed up by face-to-face interviews

Sample	Firms' characteristics	Population
24 Firms	• Exporters and non-exporters • (No) members of branch organization. • Different firm sizes.	80 Firms (ProChile database)

Chile (3): Main conclusions on Internationalization process

Non-traditional exports	Upgrading and competitiveness
Sophistication process	Technological upgrading, innovation, human capital, product differentiation
Labor quality	Increasing levels of skills, knowledge and specialization, reflected in higher wages
Incorporation of SMEs	Growing participation of SMEs (low fixed costs)
Seasonal influences	IT services are less dependent on cycles
Demand base for IT services	Increasing diversity in types of demand / growing outsourced IT demand of clients
Export market diversification	More diversified client base improves resistance to economic shocks

Source: Authors based on IT questionnaire

Costa Rica (1): Chapter by Flores

Two Aims:

1) Characterize services MNCs in FT zone
2) Study linkages to domestic economy of these MNCs

Costa Rica's characteristics

- 5th in LA ranking of Global Services Locations Index, 2011 (AT Kearney)
- San José is 5th in LA ranking of destinations for outsourcing (Top 100 Outsourcing Cities, 2010).
- 5th in FDI and technological transfers (WEF, 2012-2013)
- Services exports from FT zone were US$1.7 billon (1/3 total)

Costa Rica (2): Services exporters in free trade zones 1997-2010

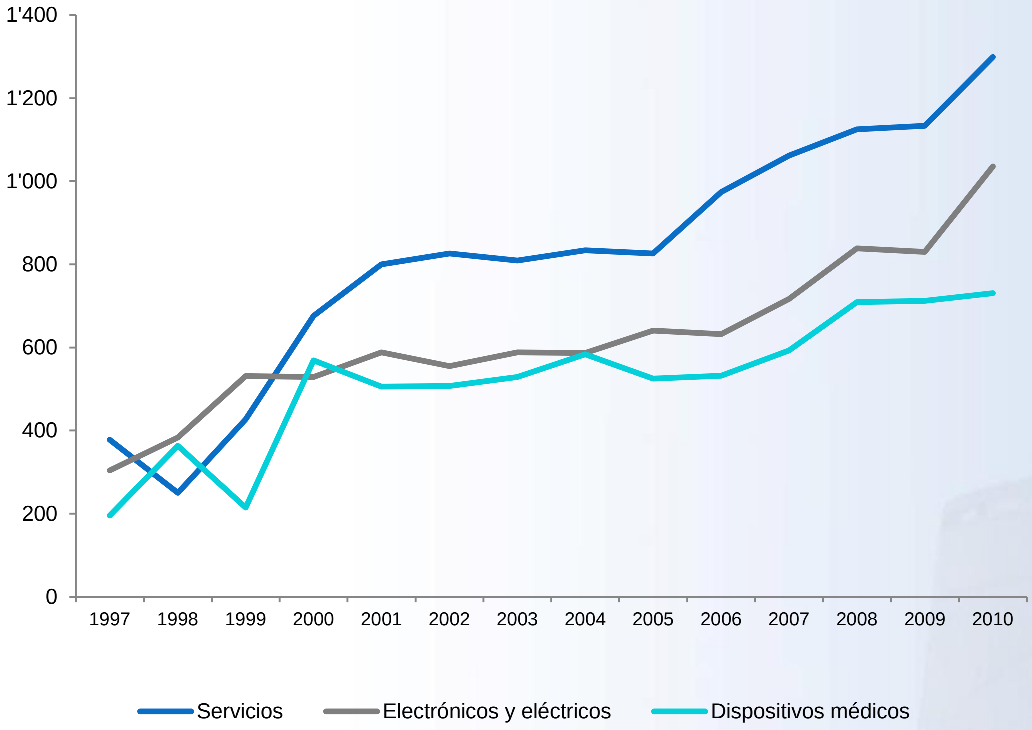
Sub Sectors	Amount of Companies	**Local Purchases** (Average, US$ Millions)	**Employment** (Average, thousands of persons)
Shared Services	15	4.9	258.0
Entertainment and Media	6	0.8	139.0
Software	5	0.2	36.0
Engineering	4	1.0	281.0
Contact Centers	17	1.3	265.0
Back Office	9	4.7	221.0
Total	**56**	**4.7**	**277.0**

Based on FTZ data and interviews:

- > 80% are headquartered in United States
- More than half of the firms arrived after crisis of 2008
- 86% of all cost of inputs is local (vs. 45% in medical devices)
- Degree of domestic linkages depends on year of establishment

Costa Rica (3): wages by sector in FTZs

Average wages per worker (US$)



- In 2010, the average wage of an employee in services was 1,400 US$
- Average national salary was between 500 and 700 US$

Source: Auhtor based on data by PROCOMER.

Colombia (1): Chapter by Kshetri et al.

Facilitators and inhibitors of BPO development

	Facilitators	Inhibitor
Institutions	• Colombians have a neutral accent that allows them to assimilate other Spanish accents and they are very good English speakers • Top reformer country in the region • Free trade zones for BPO • BPO as a priority area: Government investments and tax incentives • Trade associations playing important roles • Adoption of International Financial Reporting Standards	• Negative publicity about guerrilla, drug cartels and high crime rates has slowed investments by corporations.
Agglomeration economies	• Low cost • Externalities generated by well-developed textile fabrics, apparel and fashion industries	• Colombian clusters are characterized by a low degree of firm-level specialization and poorly-developed enterprise networks. (Pietrobelli and Barrera, 2002)

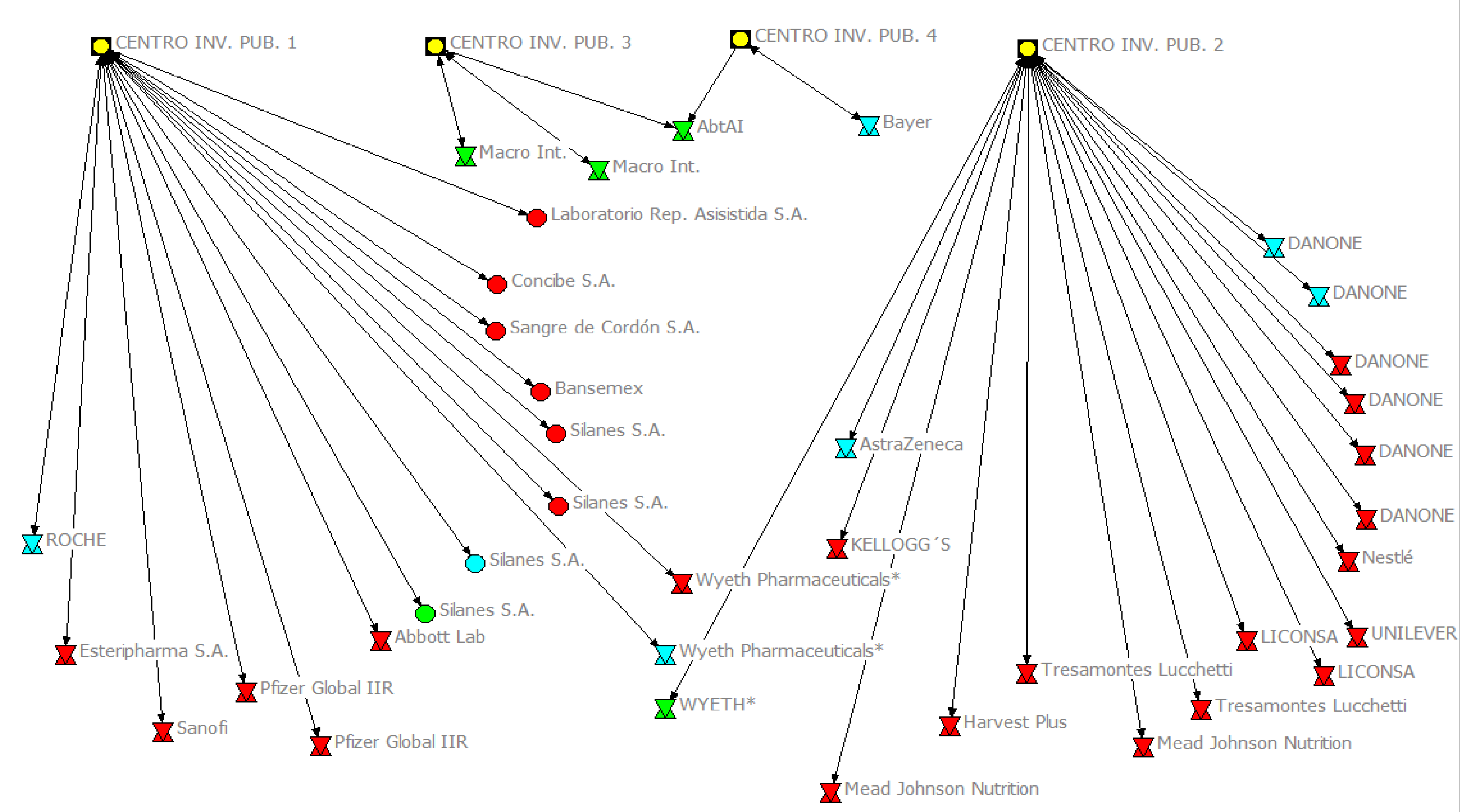
Colombia (2): Policies and outcomes of Medellin cluster

- Free trade zones: public investment and tax breaks
- Establishment of innovation centers
- 40% of the budget for education
- US$17 million a year to stimulate entrepreneurship.
- Organizations in the public and private sector. Ex.:
  - National Learning Service (SENA)
  - Foundation for the Recovery of Antioquia (ACTUAR)
- Results:
  - BPO revenues in 2008: US$185 million; (37% of total)
  - large multinationals (Owens Illinois, Sab Miller, Phillip Morris, Procter & Gamble, Renault Toyota, Teleperformace, Allus Global BPO, and Unisys)
  - > 6 IT services companies with CMMI certifications

Mexico: Chapter by M.A. Pozas on KPO pharmaceutical services

- Aims:
  1. analyze impact of pharmacogenetics (= study on how genes effect individual response to medicines) on global value chains.
  2. study the potential of Mexico to participate in these GVCs?
- Pharm. Industry moves from research centered on diseases to molucular pathways. This changes models for R&D and trials
- Role for developing countries can grow, if it has capabilities
- In Mexico, Spending on clinical studies grew 15% in the 2000s reached 106 millon USD in 2009
- > 2,000 researchers work involved; 80% in public labs
- Future potential of Mexico is held back due to inadequate regulation and insufficient collaboration among public & private sector

MEXICO: SERVICES RENDERED BY PUBLIC LABORATORIES 1999-2012



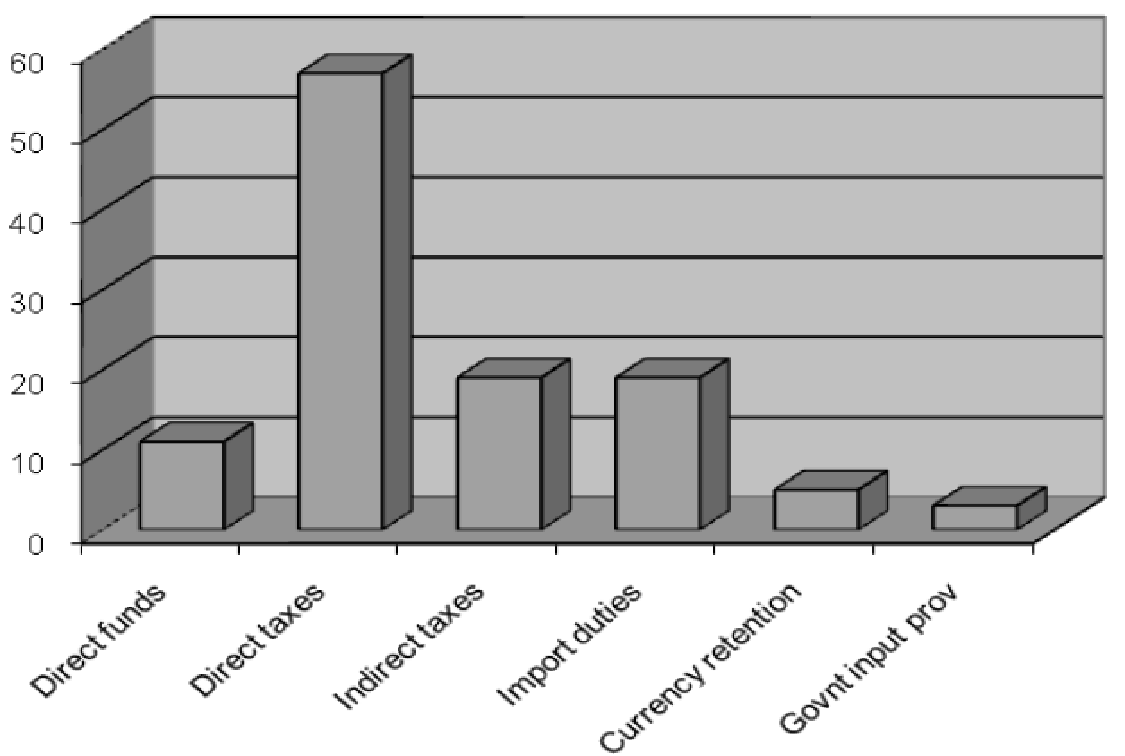
FUENTE: ELABORACIÓN PROPIA CON INFORMACIÓN DEL INSP

CENTROS PÚBLICOS DE INVESTIGACIÓN EMPRESAS EXTRANJERAS FARMACÉUTICAS Y DE ALIMENTOS EMPREAS NACIONALES FARMACÉUTICAS Y CLÍNICAS DE SALUD COLOR VERDE: SERVICIOS 2009-2004 COLOR AZUL SERVICIOS 2005-2008 COLOR ROJO: SERVICIOS 2009-2012

3. Policies

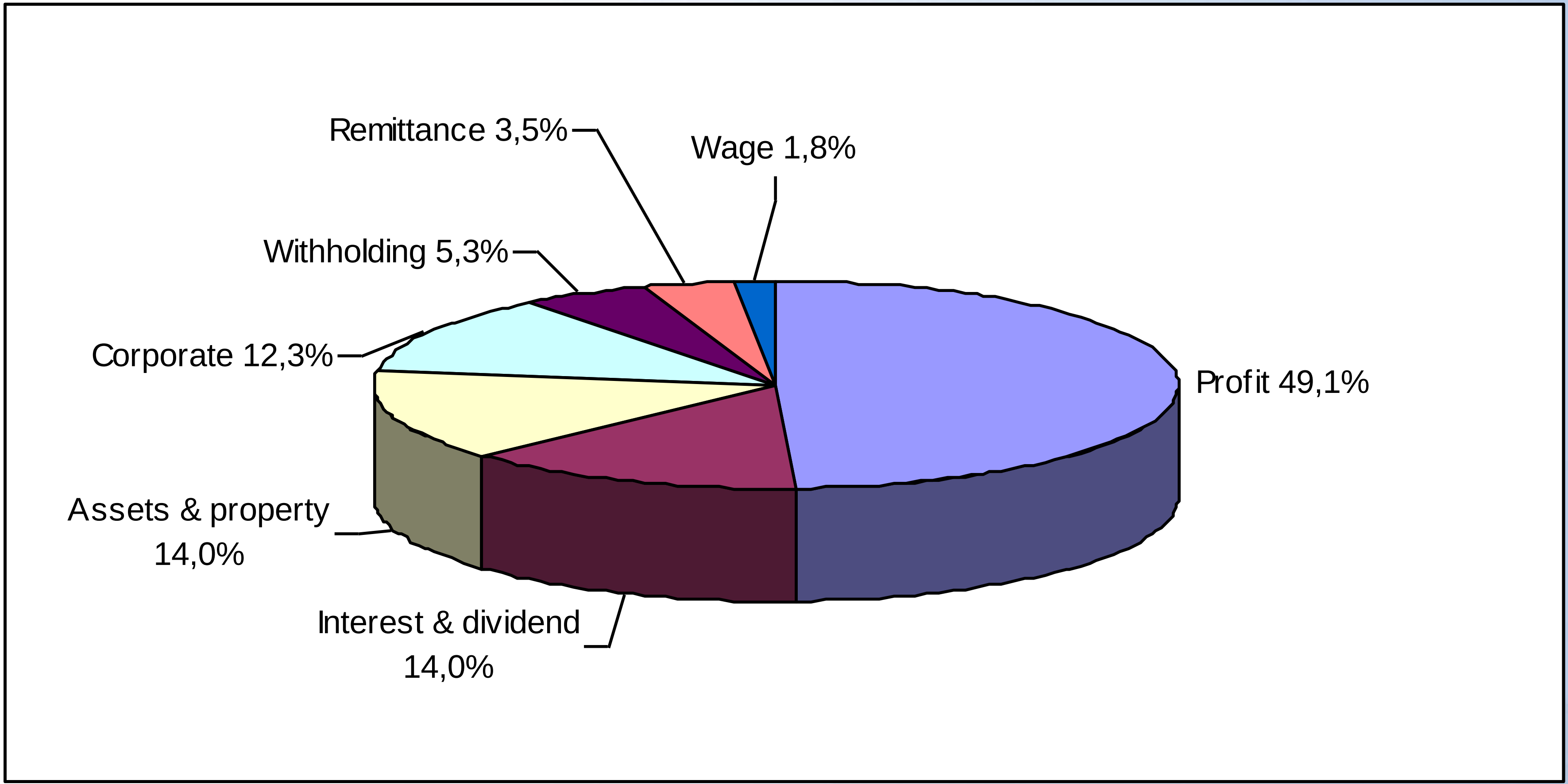
Promotion policies: Chapter by López et al.

- Aims:
  1. discuss main policies applied world-wide to promote development offshore services.
  2. draw lessons and recommendations for Latin America
- Inventory of measures to promote services offshoring



Source: Geloso Grosso, M. (2008). "Analysis of Subsidies for Services: The Case of Export Subsidies". OECD Trade Policy Working Papers # 66.

Types of direct taxes with exemptions (%)



Source: Geloso Grosso, M. (2008). "Analysis of Subsidies for Services: The Case of Export Subsidies". OECD Trade Policy Working Papers # 66.

Promotion policies: Chapter by López et al.

- To enter GVCs (BPO/ITO), it is essential to promote FDI through comprehensive schemes
- But there is room for local firms in niche markets, where competitiveness is based on quality and innovation. Their promotion requires:
  - Obtaining certifications for firms & individuals
  - Assistance with management & marketing
  - Creating environment to promote knowledge transfer & innovation
  - Facilitating access to credit
  - Fostering links with MNCs
  - Stimulating human resource training and development: IT sciences, English.

The case of Chile: Chapter by Castillo et al.

- Recap of how Chile was turned into a regional export leader
- 1999-2000: investment promotion through int. benchmarks
- 2000-02: CORFO program favored HT investment:
  - 12 technological centers were attracted (GE, Citi, Delta, AFrance, ..)
- 2003-07: Positioning of Chile worldwide:
  - 400 millon exports, 50 centers, 6,700 employees
  - Chile was included in global rankings (AT Kearney, …)
- Concrete measures:
  - Cluster analysis to promote inter-firm cooperation
  - Building public private partnerships
  - Create national and international alliances
  - Promote human capital development (English, IT carreers)
  - Active promotion policies: alliances with global firms
  - Development of local firms (national brand, management, creativity)
  - In sum: combination of bottom-up and top down approaches
- After 2010, several measures were dismantled. Outcome???

4. Wrapping up …

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What are the main take-aways?

- Offshore services are rapidly growing despite the crisis
- Latin America is latecomer, but its integration is advancing thanks to MNC nearshoring and promotional policies
- There are wide range of offshore services GVCs, which require different assets.
- Few countries have relatively high participation (Brazil, Chile, Mexico, Uruguay), but there are several newcomers
- Main bottleneck for future development seems development of skills, as labor cost are rising
- Success depends critically on active policies to attract FDI and develop local suppliers

Thank you!

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