Latin America’s entry in the global offshore services industry

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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
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
Global value chains in offshore services

**ITO**
Tecnología de información (Information Technology Outsourcing)

**BPO**
Procesos de negocios (Business Process Outsourcing)

**KPO**
Procesos de negocios más complejos (Knowledge Process Outsourcing)

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

**Infraestructura**
- Gestión de aplicaciones
- Gestión de redes

**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 específica)**
- Transcripción médica, gestión de seguros, hipotecas procesamiento de tarjetas, gestión de activos de Operaciones, etc.

**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
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.
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**
- 24 Firms

**Firms’ characteristics**
- Exporters and non-exporters
- (No) members of branch organization.
- Different firm sizes.

**Population**
- 80 Firms (ProChile database)
Chile (3): Main conclusions on Internationalization process

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

Source: Authors based on IT questionnaire
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 billion (1/3 total)
Costa Rica (2): Services exporters in free trade zones 1997-2010

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

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: Author based on data by PROCOMER.
## Colombia (1): Chapter by Kshetri et al.

### Facilitators and inhibitors of BPO development

<table>
<thead>
<tr>
<th>Category</th>
<th>Facilitators</th>
<th>Inhibitor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Institutions</td>
<td>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.</td>
<td>Negative publicity about guerrilla, drug cartels and high crime rates has slowed investments by corporations.</td>
</tr>
<tr>
<td>Agglomeration economies</td>
<td>Low cost. Externalities generated by well-developed textile fabrics, apparel and fashion industries.</td>
<td>Colombian clusters are characterized by a low degree of firm-level specialization and poorly-developed enterprise networks. (Pietrobelli and Barrera, 2002)</td>
</tr>
</tbody>
</table>
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, Teleperformance, 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 milion 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
MÉXICO: SERVICES RENDERED BY PUBLIC LABORATORIES 1999-2012

FUENTE: ELABORACIÓN PROPIA CON INFORMACIÓN DEL INSP
CENTROS PÚBLICOS DE INVESTIGACIÓN  - EMPRESAS EXTRANJERAS FARMACÉUTICAS Y DE ALIMENTOS - EMPRESAS 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**

Types of direct taxes with exemptions (%)

- Profit 49.1%
- Interest & dividend 14.0%
- Assets & property 14.0%
- Wage 1.8%
- Withholding 5.3%
- Corporate 12.3%
- Remittance 3.5%

• 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 million 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 careers)
  - 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 ...
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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