



Service offshoring: patterns, determinants, and policy

implications for Latin America

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Outline of the presentation (with more time)

Outsourcing

- Business practice
- Risk transfer: less labour responsibilities
- Quality problems

Offshoring

- Location and control
- Low costs and high profits
- Distribution of gains: consumer and workers

Service Offshoring

- Industry and firm-specific factors
- Industry dynamics and static knowledge
- Distribution of gains

Latin America

- Concentration of service exports (Brazil)
- Micro and macro risks and benefits
- What about inclusive and sustainable development?

Service Outsourcing and Offshoring: the same rational

- Boundaries of the firm: market and hierarchies (make or buy it).
- Services and the externalisation process: independent services firms.
- “Roundaboutness” in the economic process: transfer of service functions from manufacturing to specialised service firms.
- Division of labour, complexity of the production process, coordination and transaction costs (property rights).
- Offshoring: make or buy, where to buy, and how to protect intangible assets.

Service offshoring: fragmentation & coordination

Services as intermediate inputs of goods

- Pervasive innovations in ICT.
- Reduction in the costs of international operations.
- Reduction in coordination costs (logistics) increased the extent and degree of production fragmentation (externalisation) in goods and services.
- Trade in tasks and offshoring of intermediate business services: reduction in costs of service inputs (service links)
- Transport, telecommunication, logistics, distribution, marketing, are enabler services that allow for the fragmentation of the manufacturing process.

Services offshoring: BPOs and consumer services

Services as intermediate inputs of services

- Any service can be broken down into tasks ranked from the most repetitive, using codified technology, low skilled content (*commoditised*) up to higher-end activities with tacit knowledge content where critical assets of the lead enterprise are located.
- Business services and specific services (data mining, legal process outsourcing industry, clinical trial data)
- KPO (knowledge process outsourcing) (market research, product design, engineering services, legal support, and content development for publications).

Location and control in the value chain

- Multinational corporations: from intra-firm transaction to non-equity modes (NEMs) of control.
- NEMs: contract manufacturing, services outsourcing, contract farming, franchising and licensing, as well as other types of contractual relationship” through which these corporations coordinate and control the activities of partner firms in host countries.
- Governance of GVCs: institutional mechanisms and non-market relations between enterprises through which leading enterprises can coordinate the activities in the GVC.
- Coordinating mechanisms employed by large multinational corporations to control transactions and the flow of knowledge in the chain.

Latin America: services exports and services offshoring

- Less attention to services. Manufacturing fetish?
- Small share of the region in overall business services exports.
- Latin America remains marginally integrated to global supply chains in services.
- Integration still restricted to segments of low or moderate technological complexity with limited spill-over to domestic economies.
- Importance of outflows of FDI in the internationalisation of service enterprises.

Limits to offshoring operations: re-location forces

- Offshoring services and manufacturing production has been associated with de-skilling jobs, unemployment and low labour conditions.
- For workers in industrial countries, offshoring is seen as a race to the bottom.
- Centripetal forces such as advanced manufacturing innovations, higher costs of fuel, competition for strategic inputs, uncertainties in the international economy, and concerns with climate change may outweigh centrifugal forces setting limits to outsourcing and likewise bringing productive activities back home.

Limits to offshoring operations: re-location forces

- The protracted economic crisis in Europe and the slow recovery in the United States and Japan are introducing strong social and political pressures for re-location of jobs while the growing importance of internal demand and higher wages in China may affect the orientation of its internal production.
- The spread of production processes over developing and industrial regions increased the complexity of the network in which firms interact and therefore increases the risks of potential problems due to inadequate mechanisms of coordination and poor quality management (increasing number of product recalls with high financial costs).



Thank you. Gracias. Muito
Obrigada.

Service-manufacturing enterprises: areas for research

- Baldwin (2007) proposed that “the second unbundling” (the end of the need to perform most manufacturing stages near each other spreading from factories to offices) will mean new opportunities for developing countries not just in terms of selling labour services at the lowest cost but also for high-end enterprises that get into manufacture through offshore operations.
- Experiences that have to be better investigated: EMBRAER among others (Kacinski).
- Increase local content of the service supply chains demanded by large Latin American corporations (oil, mining and agricultural products).