## Regional Dialogue on Promoting Services Development and Trade in Latin America and the Caribbean

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### Offshore Services in Latin America

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#### OFFSHORE SERVICES IN LATIN AMERICA

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Regional Dialogue on "Promoting
Services Development and Trade in Latin America and the Caribbean"

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## Offshore Services in Latin America

- The offshore services industry refers to trade of services carried out in one country and consumed in another
- 21<sup>st</sup> century → Globalization of industries and fragmentation of production and services. Before companies were doing all activities and services in-house. Now they concentrate in core activities and outsource the rest.
- Latin American countries have the opportunity to participate in the knowledge economy and diversify they economy.
- Competitiveness:
  - Low Costs → low-cost services due to abundant labor with low wages
  - Industry expertise 

    focus on exporting higher-value services in specific niche sectors based on expertise and innovation potential
- LAC has experienced an influx of investment in the offshore services industry...How to sustain this trend???

Local Providers from Developing Countries

Local firms in developing countries exporting services

Local firms crowded out. Serve local market or niche sectors in which have developed expertise.

Large Third-Party Providers from India

Indian third party providers start gaining dominance internationally.

Firms establish operations in other developing countries. "Global Delivery Centers" established worldwide.

Providers acquire smaller players. Offer more sophisticated services.

Third-Party Providers from Developed World

Established operations in developing countries using them as platform to export services. First wave in India, second wave in Central and Eastern Europe and the Philippines, Third wave: Latin America.

MNCs

MNCs established captive centers in India and other developing countries.

Many captive centers are sold due to underutilized capacity and/or some operations moved to third party providers.

**Timeline** 

Type of Firms

## Key Offshore Services Indicators

	India	Philippines	Chile	Costa Rica	Dominican Republic	Uruguay	Mexico
<b>Gross Domestic</b>							
Product (GDP) (US\$ billions)	1,223	174	180	30	46	30	1,101
GDP per capita (at PPP)	2,914	3,636	15,274	10,701	8,007	12,326	14,446
Offshore services revenue (US\$ billions)	47 <sup>e</sup>	6	0.9	1.4 <sup>d</sup>	NA	$0.8^{\rm c}$	5
Offshore services % of GDP	3.8	3.6	0.5	4.6	NA	2.6	0.5
Total labor force (millions)	475.6	38.8	7.1	2.1	4.4	1.6	49.1
Labor force in offshore services (thousands)	2,237	475 <sup>b</sup>	20	33 <sup>d</sup>	22	20°	na
Offshore services labor force as a % of total labor force	0.5	1.2	0.3	1.3	0.5	1.3	na

## Offshore Services Global Value Chain

#### **Horizontal Activities**

HIGH

ITO

Information Technology Outsourcing

Software R&D

IT Consulting

#### Software

ERP (Enterprise Resource Planning):
manufacturing/operations, supply chain
management, financials & project management

**Applications Development** 

**Applications Integration** 

Desktop management

#### Infrastructure

**Applications Management** 

Network Management

Infrastructure Management

**KPO** 

**Knowledge Process Outsourcing** 

Business Consulting Business Analytics Market Intelligence

Legal Services

**BPO** 

**Business Process Outsourcing** 

#### **ERM**

(Enterprise Resource Management)

Finance & Accounting

Procurement, Logistics and Supply Chain Management

Content/
Document
Management

#### **HRM**

(Human Resource Management)

Training

Talent Management

**Payroll** 

Recruiting

#### **CRM**

(Customer Relationship Management)

Marketing & Sales

Contact
Centers/Call
Centers

Vertical Activities <sup>a</sup> Industry specific <sup>b</sup>

Banking, Financial Services and Insurance (BFSI)

Ex. Investment research, private equity research, and risk management analysis

#### Manufacturing

Ex. Industrial Engineering and sourcing and vendor management

#### **Telecommunications**

Ex. IP transformation, Interoperability testing and DSP and multimedia

#### Energy

Ex. Energy Trading and Risk Management , and Digital oil field solutions

#### Travel & Transportation

Revenue management systems, customer loyalty solutions

#### Health/Pharma

Ex. R&D, clinical trials, medical transcript

#### Retail

eComerce and Planning, merchandising and demand intelligence

**Others** 

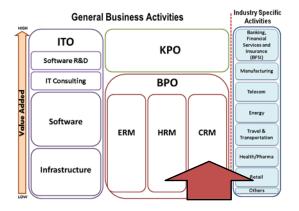
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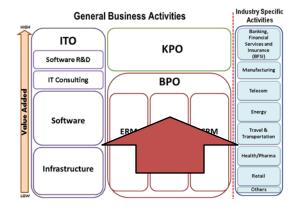
Value

## Examples of Upgrading Trajectories

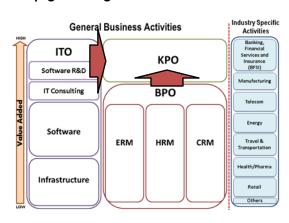
#### Entry into the value chain



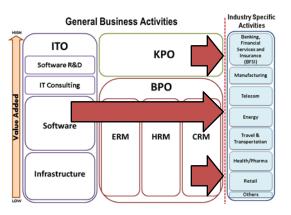
## Upgrading within the BPO segment



#### Upgrading to KPO Activities

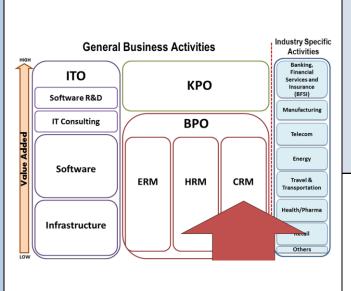


#### **Industry Specialization**



## Upgrading Trajectory: Entry into the Value Chain

# Entry into the Value Chain



Call centers hire people with high school diplomas or Bachelor's degrees.

Further skills training is provided by the company or private training institutions.

Skills
Preparation
Short technical training

#### **Institutions**

Private sector Government

## **Human Capital**

- Offshore services is a labor intensive activity and human capital is the main industry input
- One of the most important factors MNCs take into consideration when relocating services operations is to ensure the labor market has cost competitive, qualified workers
- Latin American countries are facing rising labor costs, and shortages of workers with technical qualifications; these have limited the capacity of firms and countries to move up the offshore services value chain
- To continue to compete, it is necessary to upgrade the industry labor force 

   Invest in workers skills

## THANK YOU FOR YOUR ATTENTION!



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