

Latin America's entry in the global offshore services industry

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UNITED NATIONS



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 has been facilitated by nearshoring policies of MNCs and promotional policies by national governments
- Increasing trade with China causes re-primarization and re-concentration of Latin American exports

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

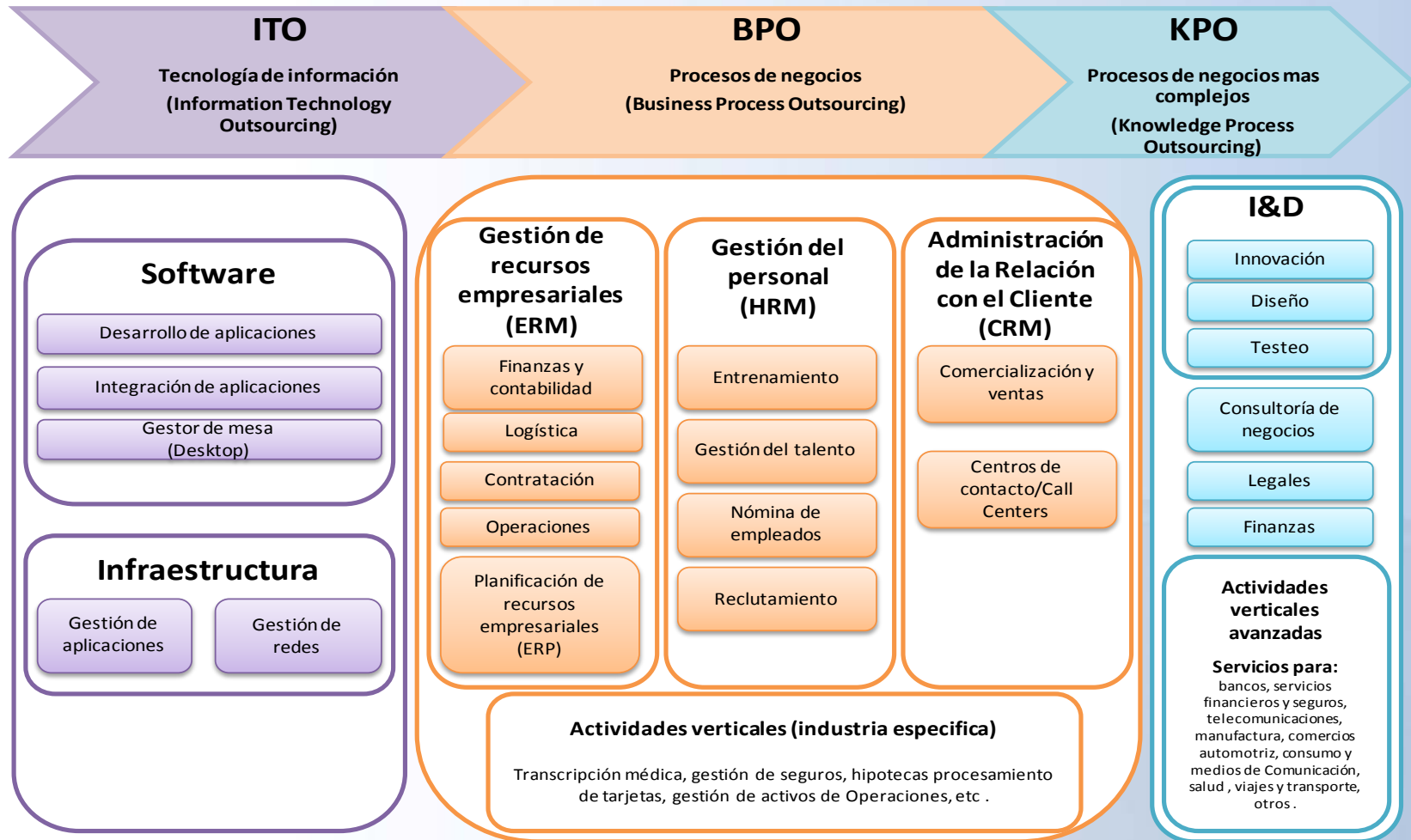
1. Concepts



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Global value chains in offshore services



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

2. Case studies

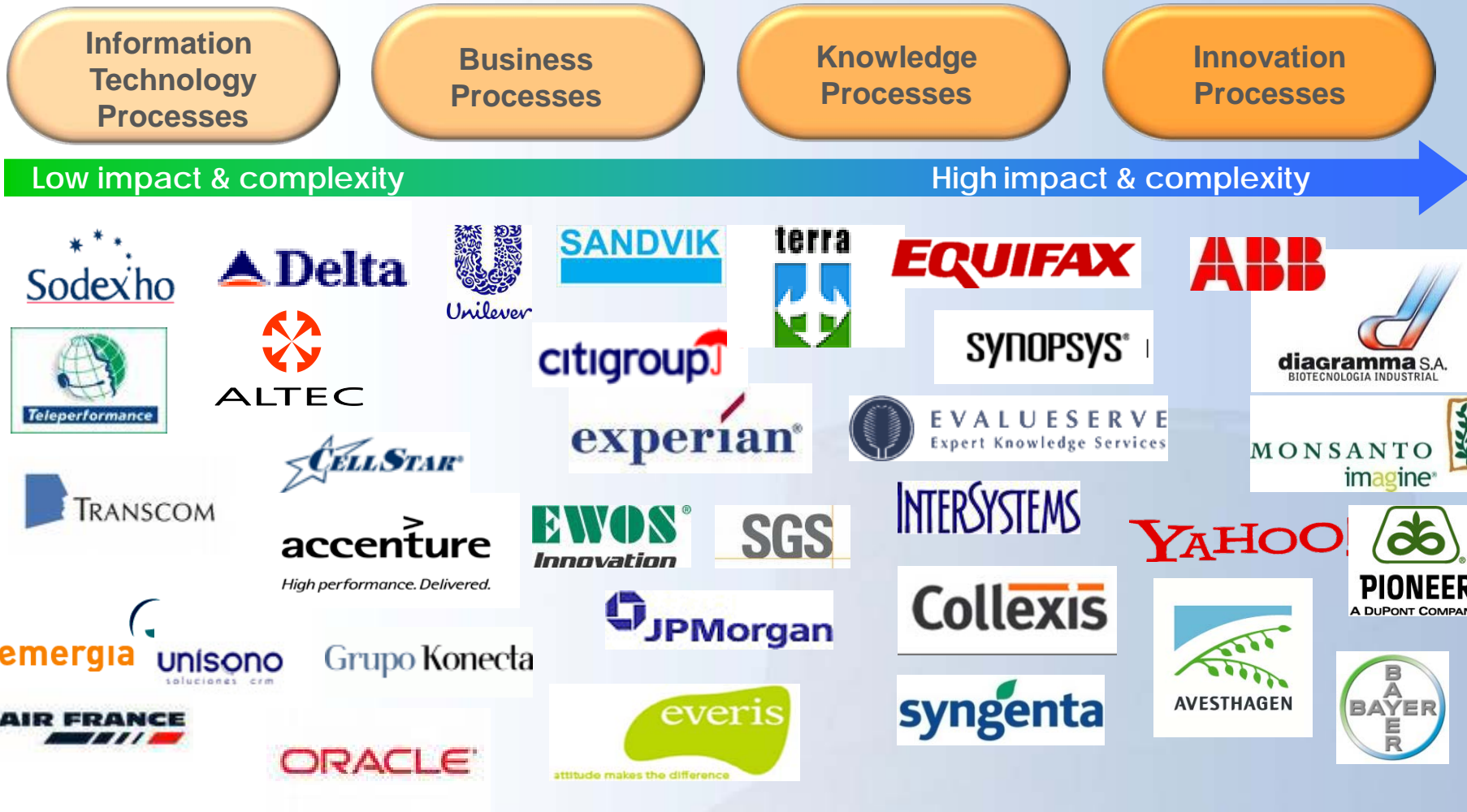


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Chile (1): Chapter by Rivera et al.

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



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

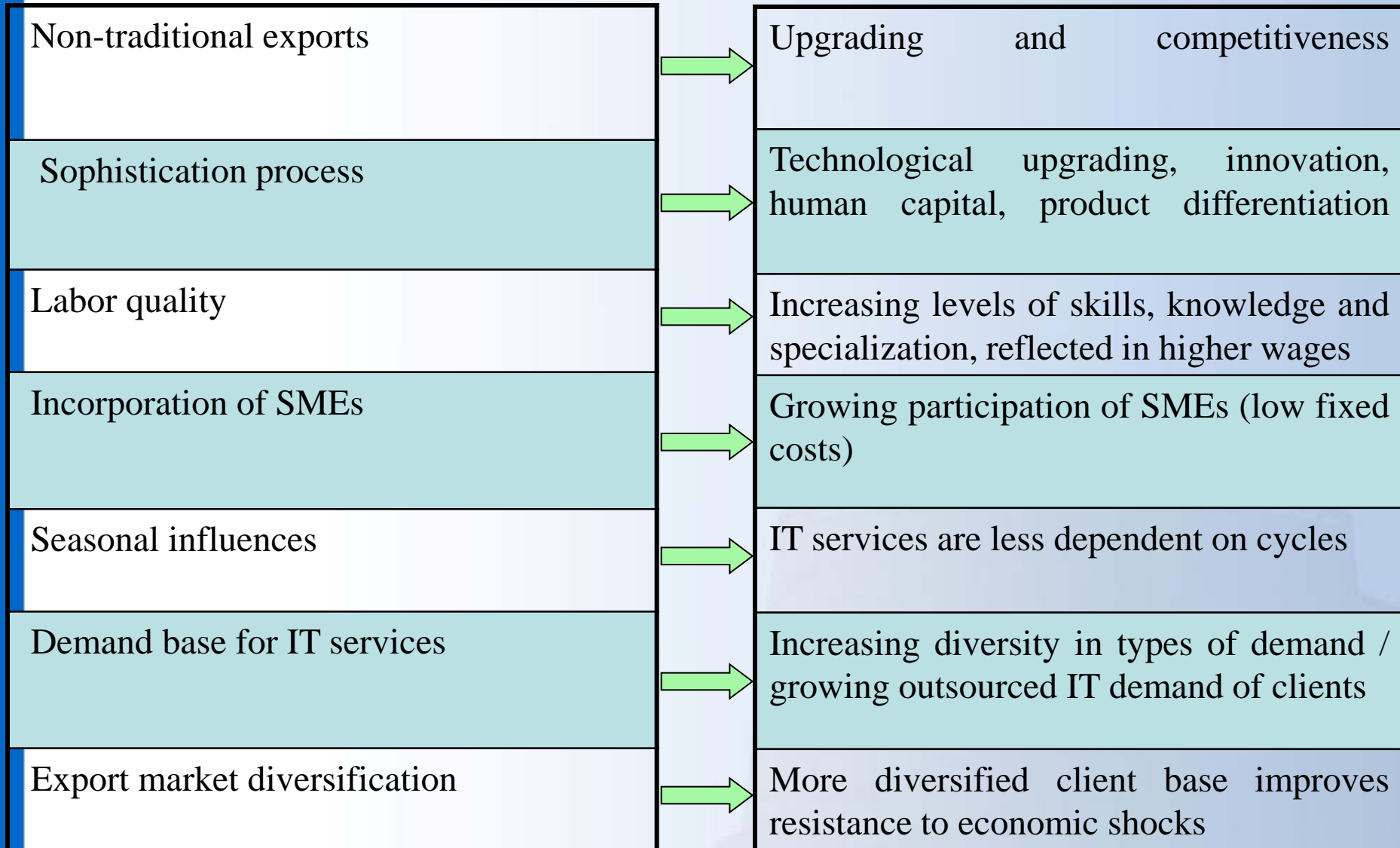
Firms' characteristics

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

Population

80 Firms (ProChile database)

Chile (3): Main conclusions on Internationalization process



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 billion (1/3 total)

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

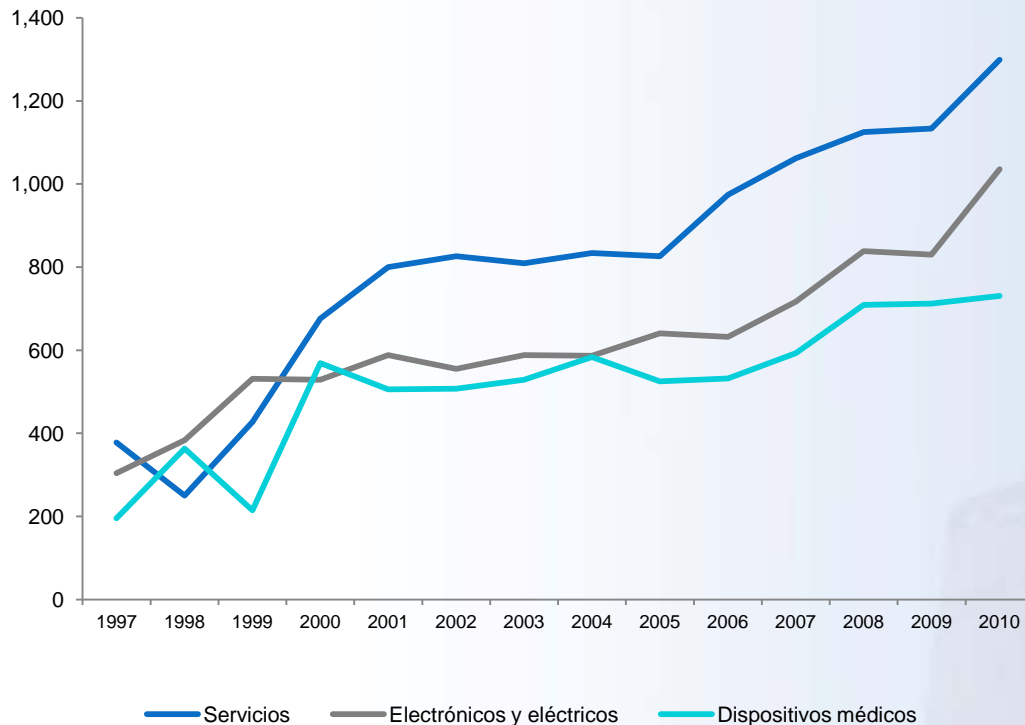
Sub Sectors	Amount of Companies	Local Purchases (Average, US\$ Millions)	Employment (Average, thousands of persons)
Shared Services	15	4.9	258.0
Entertainment and Media	6	0.8	139.0
Software	5	0.2	36.0
Engineering	4	1.0	281.0
Contact Centers	17	1.3	265.0
Back Office	9	4.7	221.0
Total	56	4.7	277.0

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\$

Colombia (1): Chapter by Kshetri et al.

Facilitators and inhibitors of BPO development

	Facilitators	Inhibitor
Institutions	<ul style="list-style-type: none">• 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	<ul style="list-style-type: none">• Negative publicity about guerrilla, drug cartels and high crime rates has slowed investments by corporations.
Agglomeration economies	<ul style="list-style-type: none">• Low cost• Externalities generated by well-developed textile fabrics, apparel and fashion industries	<ul style="list-style-type: none">• Colombian clusters are characterized by a low degree of firm-level specialization and poorly-developed enterprise networks. (Pietrobelli and Barrera, 2002)

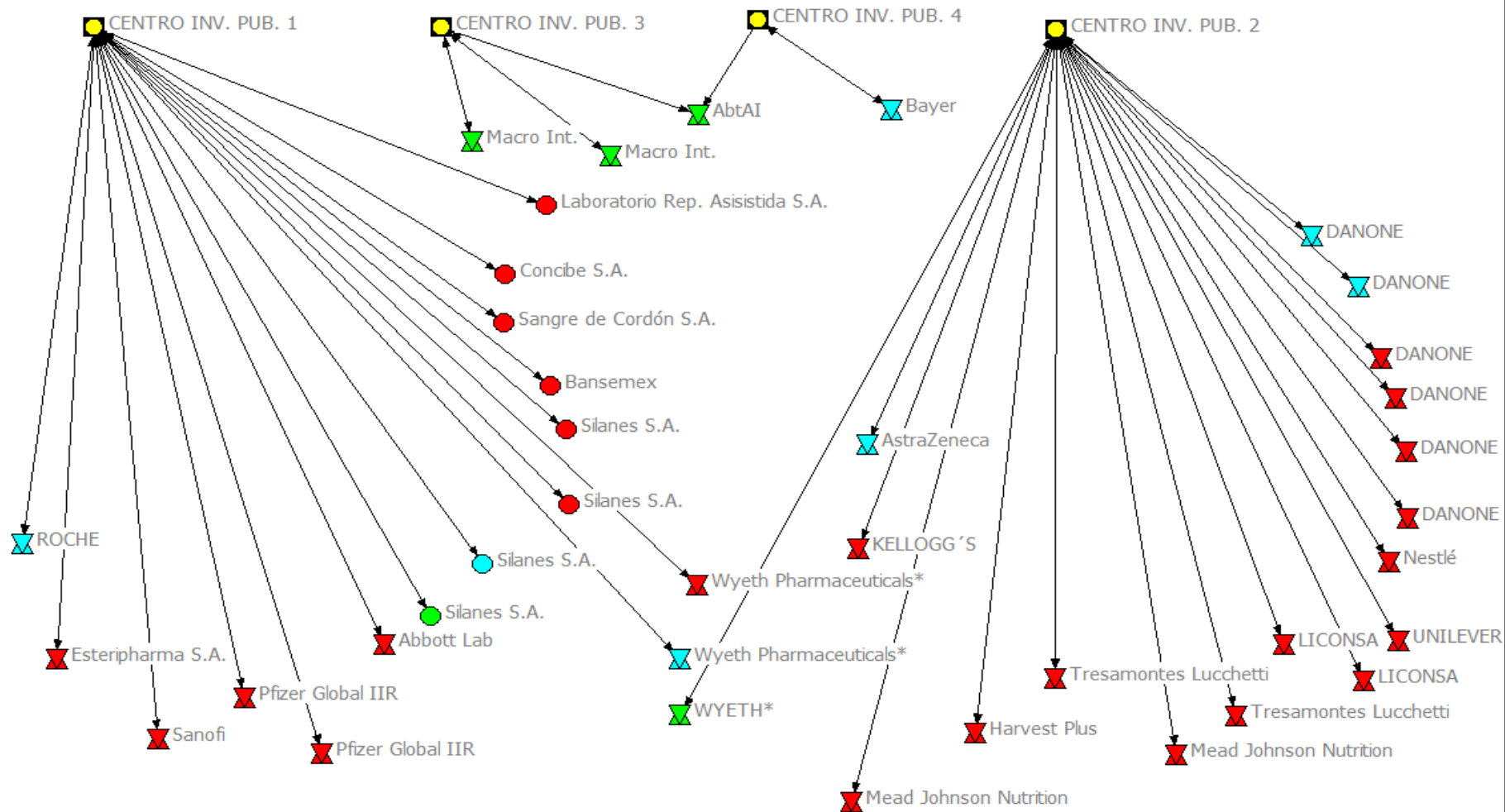
Colombia (2): Policies and outcomes of Medellin cluster

- 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
 ● EMPRESAS NACIONALES FARMACÉUTICAS Y CLÍNICAS DE SALUD
 ▲ SERVICIOS 2009-2004
 ▲ SERVICIOS 2005-2008
 ▲ SERVICIOS 2009-2012

3. Policies



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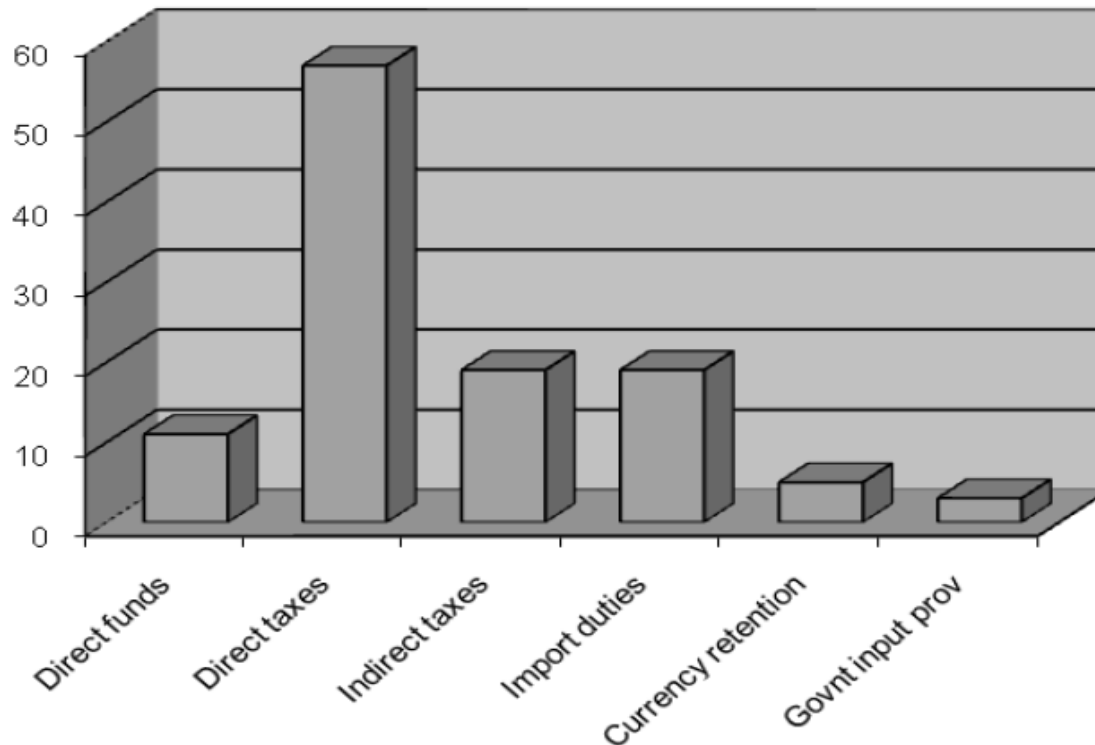
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Promotion policies: Chapter by López et al.

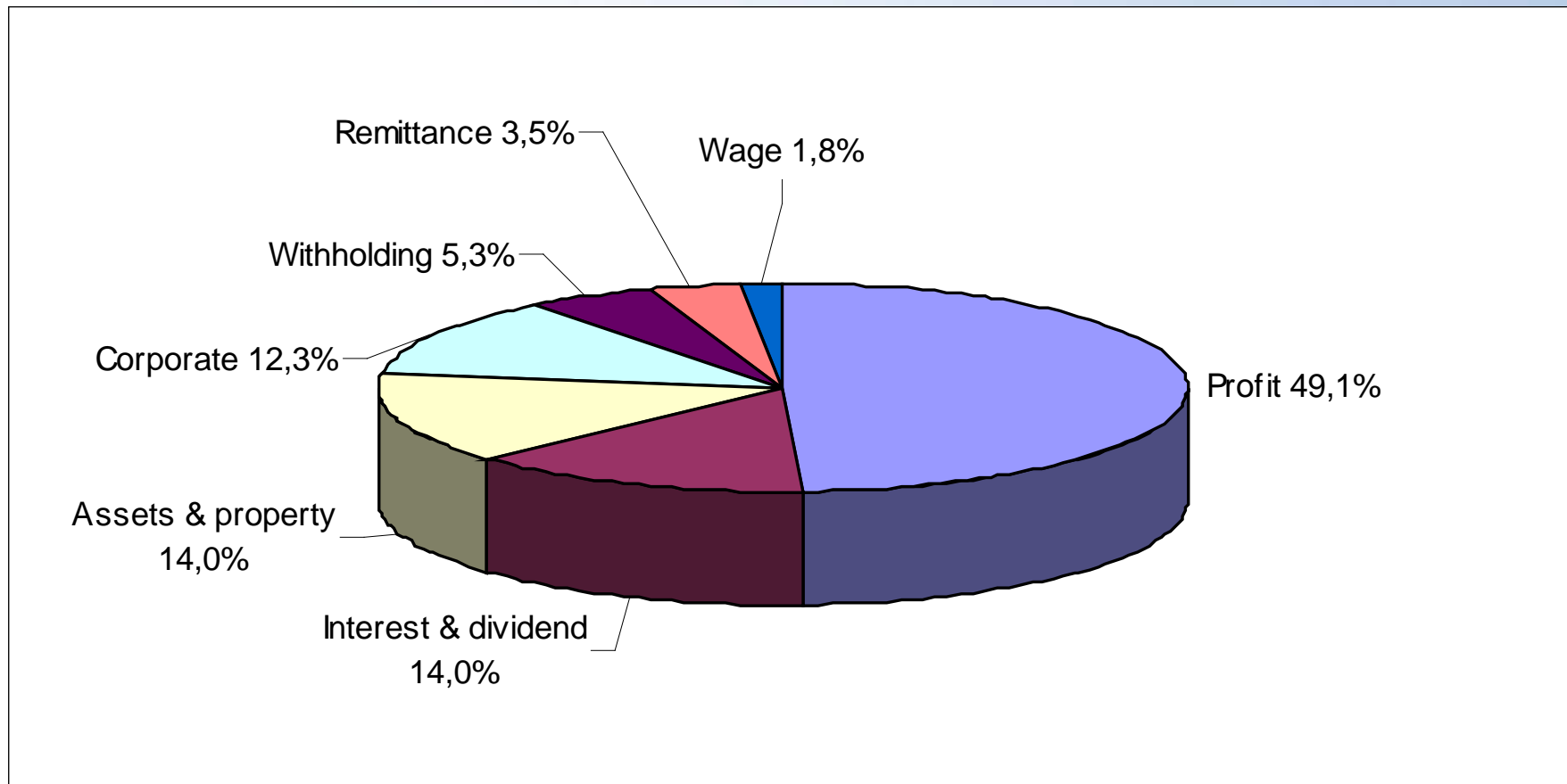
- **Aims:**

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 (%)



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 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 ...



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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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