Global Services Offshoring: Trends and Impact in Latin America and the Caribbean

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Inversión Extranjera en Servicios Corporativos
Offshore en América Latina

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Agenda

1. Globalization & Development
2. ITBS Offshoring Industry
3. Global Trends in ITBS Offshoring
4. India Case
5. Latin America & ITBS Offshoring
6. Lessons and Implications for Latin America & the Caribbean
The New Global Labor Market

- After 1989, 3 billion workers from China, India, Russia, and Eastern Europe – half of world’s population – joined the capitalist world economy.

- Technological changes associated with the Internet greatly expanded outsourcing & offshoring options, lowering the costs of doing business remotely and across borders.

- Transnational Corporation (TNC) business strategies have been unrelenting in their search for cost-based efficiencies, especially on labor side, but they also are looking for new knowledge workers.
Latin America and Information Technology-Based Services (ITBS)

- Latin America and the Caribbean countries are looking for new development strategies, beyond manufacturing and extractive industries.
- Global services offer an opportunity to take advantage of the more educated workforce in the region.
- Thus, countries in Latin America and the Caribbean have attracted a large number of offshore ITBS centers in recent years.
2. Information Technology-Based Services (ITBS) Offshoring Industry
## Size of Global ITBS Market

### Estimated Industry Evolution

<table>
<thead>
<tr>
<th>Year</th>
<th>Total, US billions</th>
<th>Information Technology Outsourcing (ITO)</th>
<th>Business Process Outsourcing (BPO) &amp; Knowledge Process Outsourcing (KPO)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>$47</td>
<td>41%</td>
<td>59%</td>
</tr>
<tr>
<td>2006</td>
<td>$65</td>
<td>35%</td>
<td>65%</td>
</tr>
<tr>
<td>2007</td>
<td>$92</td>
<td>29%</td>
<td>71%</td>
</tr>
<tr>
<td>2008</td>
<td>$132</td>
<td>24%</td>
<td>76%</td>
</tr>
<tr>
<td>2009</td>
<td>$192</td>
<td>19%</td>
<td>81%</td>
</tr>
<tr>
<td>2010</td>
<td>$281</td>
<td>15%</td>
<td>85%</td>
</tr>
</tbody>
</table>

Supply of ITBS Offshoring

- **India**: World leader in ITO, BPO & KPO sales (US$ 40 billion in 2007, NASSCOM)
- **China**: More than US$ 750 million invested in this industry (2005-2008)
- **Russia**: Strong presence in KPO activities. Large number of scientists
- **CEE**: Serving West Europe. Growing market
- **Latin America**: Serving mainly the US market and Spain
- **Philippines**: Third in BPO services (US$ 1.5b in 2003 and estimated US$13b in 2010). Large call centers
Global ITBS
Offshoring, 2005

Source: neoIT. Mapping Offshore Markets Update 2005
Global Demand for ITBS Offshoring by Region (BCG estimates)


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Global Demand for ITBS Offshoring by Activity (OECD estimates)

Foreign Investment in Business Services, 2007

Top Ranking Destination Countries by Estimated Jobs in Business Services- 2007

1. India
2. United Kingdom
3. Philippines
4. China
5. United States
6. Romania
7. Hungary
8. Bulgaria
9. France
10. Chile
11. Canada
12. Spain
13. Netherlands
14. Morocco
15. Vietnam
16. Germany
17. Australia
18. Poland
19. South Africa
20. Mexico


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# World’s Largest ITBS Companies

<table>
<thead>
<tr>
<th>Company Name</th>
<th>City, Country</th>
<th>Sales 2007 (USD Mil)</th>
<th>Employees</th>
<th>CAGR % (2004-2008)</th>
</tr>
</thead>
<tbody>
<tr>
<td>IBM (International Business Machine)</td>
<td>Armonk NY, United States</td>
<td>76,135</td>
<td>386,558</td>
<td>0.6</td>
</tr>
<tr>
<td>TCS (Tata Consultancy Services)</td>
<td>Mumbai, India</td>
<td>28,800</td>
<td>111,407</td>
<td>35.6</td>
</tr>
<tr>
<td>Accenture</td>
<td>New York NY, United States</td>
<td>25,313</td>
<td>170,000</td>
<td>14.4</td>
</tr>
<tr>
<td>EDS (Electronic Data System)</td>
<td>Plano TX, United States</td>
<td>22,134</td>
<td>139,500</td>
<td>5.8</td>
</tr>
<tr>
<td>Capgemini</td>
<td>Paris, France</td>
<td>11,497</td>
<td>86,487</td>
<td>N.A</td>
</tr>
<tr>
<td>ACS (Affiliated Computer Services)</td>
<td>Dallas TX, United States</td>
<td>6,161</td>
<td>65,000</td>
<td>10.7</td>
</tr>
<tr>
<td>Wipro</td>
<td>Bangalore, India</td>
<td>5,064</td>
<td>95,675</td>
<td>38.9</td>
</tr>
<tr>
<td>Infosys Technologies</td>
<td>Bangalore, India</td>
<td>4,144</td>
<td>100,306</td>
<td>40.7</td>
</tr>
<tr>
<td>Satyam</td>
<td>Secunderabad, India</td>
<td>2,170</td>
<td>51,643</td>
<td>39.4</td>
</tr>
<tr>
<td>HCL Technologies</td>
<td>Noida, India</td>
<td>1,879</td>
<td>50,741</td>
<td>34.9</td>
</tr>
</tbody>
</table>

3. Global Trends in ITBS Offshoring
**ITBS Offshoring Global Value Chain- Main Activities**

**ITO**
- IT maintenance
- Basic software operations
- Hosting
- Data entry & conversion

**BPO**
- Call centers
- Business processes (BPO when outsourced): *Horizontal business processes or back-office services*: purchases, logistics, marketing and sales, etc.
- *Vertical business processes*: claims and payments processing, insurance management, etc.

**KPO**
- Research and Development
- Product development
- Analytics and data mining
- Advanced vertical functions (services to medical, legal, biotech, pharma industries)

In the past, KPO activities were kept inside the organization. Now with global availability of inexpensive talent, these high-end activities are going offshore.
Global Trends

- Commoditization of ITO & BPO activities
- KPO activities are going offshore as never before (higher levels of skills)
- Growing aggressively: India, Philippines & Central and Eastern Europe (CEE)
- Global expansion: Large providers
- Emerging regions: Latin America & the Caribbean
4. India Case
Indian Success

- **Jobs** → The number of IT-BPO professionals employed in India grew from less than 200,000 people in 1998 to over 1.6 million in 2007
  → Company training practices (e.g., Infosys’ new center can train 13,500)

- **Language** → Large English-speaking educated workforce

- **Companies** → Numerous indigenous companies

- **Incentives** → Government support in Tech Parks, NASSCOM lobby, involvement of universities and research institutions

- **Experience** → India has proven industry maturity
  → Industry upgrading (R&D services activities)
The KPO market in India is worth $2.5B to $3B a year, and is likely to grow to $10-12B by 2012.

Source: http://www.boston.com/news/world/asia/articles/2007/05/16/india_seeks_higher_value_outsourcing_work/
How? India has adopted the best practices of its Guru (the U.S.) and perfected these

50% of engineering graduates are not employable by TNCs. Country has weak infrastructure and weak education system

- **Workforce recruitment** → skills forecasting, campus recruitment, internship programs, referral programs and creative recruitment methods, use of technology

- **New employee training** → ‘Army boot camp’, 2-7 months training programs for ‘freshers’, specialized centers for training, extensive mentoring & on-the-job training

- **Ongoing skills development** → 40-150 hrs/year of formal training, online training, senior executives deliver training

- **Managerial development** → 3 years from ‘fresher’ to manager: managerial development in conjunction with top business schools, promotion from within, career progression

“How the Disciple Became the Guru”


Indian Labor Force ‘Saturation’?

Innovative training systems and expansion to Tier II-III Indian cities are the new strategies to solve these issues.

- Indian local governments are offering incentives to develop this industry.
- Tier II & III cities offer cheaper labor force.

Indian Lessons for Latin America and the Caribbean

- Indian training system → involve the private sector in ITBS education
- Tier II & III cities in India → deepen national investment
- Government incentives and strong industry associations
- Clear industry classification & collection of data
5. Latin America ITBS Offshoring
## Origin and Evolution of the ITBS Industry in Latin America

<table>
<thead>
<tr>
<th>Phase</th>
<th>Time Period</th>
<th>Description</th>
</tr>
</thead>
</table>
| First Phase | 1980s-1990s | • Large US companies started operations  
• IBM, Accenture, EDS, HP and Unisys in Mexico and Brazil, later in Chile and Argentina |
| Second Phase | 1990s | • Domestic companies developed products and services  
• Illustrative companies are Softtek (Mexico), Neoris (Mexico), CPM Braxis (Brazil), Politec (Brazil) and Sonda (Chile) |
| Third Phase | 2000s | • Entry of Indian firms to Latin America  
• The most relevant Indian companies are: Tata Consulting Services (TCS), Infosys, Wipro and Satyam among others |
| Fourth Phase | Mid 2000s | • Expansion of domestic firms from Mexico, Chile and Brazil to other countries in the region  
• US & India TBS Companies increase ITBS investments in smaller countries |

Large Foreign ITBS Companies in Latin America and the Caribbean

<table>
<thead>
<tr>
<th>Indian-based companies</th>
<th>US-based companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Genpact (GN)</td>
<td>Accenture (ACC)</td>
</tr>
<tr>
<td>Satyan (ST)</td>
<td>IBM (IBM)</td>
</tr>
<tr>
<td>TCS (TCS)</td>
<td>EDS (EDS)</td>
</tr>
<tr>
<td>Infosys (IN)</td>
<td>Microsoft (MC)</td>
</tr>
<tr>
<td>Wipro (WP)</td>
<td>Oracle (OR)</td>
</tr>
<tr>
<td></td>
<td>Sun Microsystems (SM)</td>
</tr>
<tr>
<td></td>
<td>Unisys (UN)</td>
</tr>
<tr>
<td></td>
<td>SAP (SAP)</td>
</tr>
</tbody>
</table>

More US-based providers in Latin America and the Caribbean than Indian base providers. India is waiting for industry maturity.
Major markets for Latin America and the Caribbean ITBS offshoring

Companies headquartered in Spain get 24% of their ITBS from Latin America and 24% from India.

Latin America ITBS Offshoring by Function

6. Lessons and Implications for Latin America & the Caribbean
Four Pillars of ITBS Offshoring

- Human Capital Development
- Competitive Cluster
- ITBS Offshoring Industry
- Infrastructure Investments
- Government Incentives
Implications for Latin America & the Caribbean

- Develop good statistics to track ITBS activities, employment & investments
- Specialize in appropriate niches
- Invest in ICT infrastructure
- Diversify the pool of foreign investment
- Create effective workforce development strategies (partnership between educational institutions & the private sector)
Thank you for your attention!

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