

Global Services Forum (Beijing, 28 and 29 May 2013)

High-Level Session 3:

Building supply and export capacities: the case for outsourcing services

Statement by Mr. Nanno Mulder,

Economic Commission for Latin America and the Caribbean, (ECLAC)

Topic: Policies used in Latin America to promote increased opportunities from participation in the global offshore industry)

I would express my gratitude for inviting the United Nations Economic Commission for Latin America and the Caribbean to this high-level forum on such an important topic. We highly appreciate the efforts of UNCTAD and our cooperation on trade and services, in particular to reinforce capacities of governments in countries in our region.

In my short intervention I will discuss the policies applied within Latin America to promote its participation in the global offshore services industry.

However, before that I would like to say a few words on the importance of this industry for economic development in this region. In the past decade, this continent has increased trade with China and the rest of Asia at a rapid pace. The booming exports of the region were mostly concentrated in few commodities, while the rapidly growing imports consisted mostly of manufactures. Both have led to a reprimarization and deindustrialization of the economies, with possible negative consequences for future growth as this sector is less intensive in innovation, productivity growth, employment, and the participation of small and medium sized enterprises.

In this context, Latin America is looking for new export niches with a high potential for innovation, productivity and employment. The global offshore services are an industry which offers such a potential. Through a combination of factors, the region succeeded penetrating this sector, with sales growing at double digit rates during the last decade reaching US\$8 billion in 2010 according to a 2011 study by Tucci. This compares to a sales value of US\$ 5 billion in Eastern Europe.

Nowadays the region has four types of producers of global offshore services. First, multinational firms have established captive or shared service centers in the region, starting with subsidiaries and later subcontracting to other firms. Second, third party providers from developed countries,

such as Teleperformance and Conversys, produce services in the region following the global demand services model. Third, third party providers from India such as Tata consulting services have established subsidiaries in the region. Finally, there are a growing number of domestic firms exporting offshore services, such as Sonda from Chile.

Exports of offshore services from the region started with simple call-centers, but various countries succeeded upgrading to more complex services related to ITO and BPO. Argentina, Brazil and Mexico were the frontrunners, where multinationals such as IBM and HP shifted from the manufacturing of electronics to producing IT services. Other countries such as Chile and Colombia started with call-centers, but rapidly upgraded to higher value added services. In addition to these countries, others such as Peru and Guatemala are also entering this business.

According to AT Kearney, eight countries in Latin America are nowadays part of the 50 most attractive countries in the world to locate global service providers. These countries are Mexico, Chile, Brazil, Costa Rica, Argentina, Panama, Uruguay and Colombia.

The emergence of Latin America in the global offshore industry can be attributed to basically two factors. First, multinational companies were interested to create service centers in the region, as part of their global delivery system to allow 24-hours service provision. Another strategy has been nearshoring meaning the establishment of production centers in the same time zone as the client.

The second factor has been the adoption of active policies to attract global players and promote domestic firms. To export services such as BPO and ITO it is necessary to participate in the respective global value chains. This requires the attraction of foreign direct investment (FDI) in these sectors, as transnational corporations run the majority of these GVCs. There is also some room to promote exports by local companies within specific market niches where these firms can generate differentiated capabilities.

The first set of instruments introduced by governments to attract multinational companies is tax incentives and exemptions at the both the national and local level. For example, Argentina, Brazil and Uruguay directed tax incentives to develop of the ITO segment, and offered tax relief for investments in R&D and IT. Colombia, Costa Rica, El Salvador and Uruguay established free trade zones with special incentives. Chile and El Salvador offered VAT tax exemptions for services exports.

Second, several governments provided infrastructure related benefits. For example, local states in Argentina, Brazil and Mexico offered subsidies to attract firms within their respective regions. Another example is Chile, where the national development agency CORFO co-financed long-term infrastructure leases, and office space in a state of the art technology park.

Third, governments invested in human resources through a broad range of training programs and subsidies across the region. Examples include English language training and certifications in

most countries. In Central America and Colombia, training focused on building skills specifically for the BPO industry. Chile offered very attractive training benefits for all segments of the value chain, although the most attractive benefits were those offered to firms in high-value segments of the chain. Another important example are the so-called “finishing schools”, which are short courses offered to students to learn the necessary skills to increase their “employability” in IT services firms.

Fourth, several countries have taken specific initiatives to improve the quality of the services of domestic suppliers through programs coordinated by the export promotion agencies. One important measure is the promotion of the diffusion of quality certificates. In the case of software and IT services, several countries have established support mechanisms (including information, support and financial contributions) to secure internationally recognized qualifications, such as the Capability Maturity Model (CMM) certificate or similar ones. An example is Chile’s CORFO, which has worked closely with industry associations and technology agencies in creating a quality certification program for the country’s ICT industry by offering subsidies to companies interested in obtaining internationally recognized certifications.

Moreover, several export promotion agencies in the region have adopted assistance programs to help SMEs, as they possess strong technical competences but often lack management and marketing capabilities and do not always know how to design business plans, etc.

Fifth, to promote trade some countries have made progress in services trade liberalization and signed international agreements on the subject in particular with the United States and the European Union. Also, some countries signed bilateral double taxation agreements and investment treaties.

Finally, some countries adopted policies to promote linkages between local firms and transnational corporations. For this purpose, they target investments with the potential to generate such linkages. Moreover, they try to increase the competitiveness of local firms to meet the demands of these companies assume central importance. Examples of such initiatives include the “*Costa Rica Provee*” and the “*Comisión Nacional de Encadenamientos*” in Costa Rica.

It is important to remember that the promotion of the offshore services industry should not be done solely by implementing isolated promotion mechanisms, but rather on the basis of a coherent and comprehensive development strategy with medium- to long-term horizons. This, in turn, demands a strong commitment and institutional sustainability. Unfortunately, in Latin America, this is often not the case such as the example of Chile has shown. In the country, the present government eliminated several incentives that were in place during the last two governments.

If several countries in the region maintain the industrial policy and commitment to workforce development, their offshore industry may succeed to upgrade into less vulnerable, higher value service segments. This will contribute to the region’s global role in the offshore services sector

and make advances towards transforming local economies into important service providers to the world.

These aforementioned issues were dealt with at a conference at ECLAC, Santiago in October. A book with a selection of the best papers will be published in the 2nd semester of this year.

Thank you for your attention.