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The Offshore Services
Industry: A New Opportunity
for Latin America

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Executive Summary

This report examines the evolution of the offshore services industry in order to identify opportunities for its development in Latin America. Offshore services emerged as a dynamic global sector in the past two decades. The information and communication technology (ICT) revolution that began in the early 1990s transformed the way companies do business by allowing for the separation of the production and consumption of services. In the search for efficiencies and economies of scale, firms outsourced a variety of corporate functions. What began with the outsourcing of basic information technology (IT) services to external firms now includes a wide array of activities known as business process outsourcing (BPO) and higher value services associated with knowledge-process outsourcing (KPO), such as research and development (R&D), which were previously considered core functions of the firm. Driven by the need to lower costs and access talent, firms looked beyond the boundaries of the developed world and a new global offshore services industry was created.

Due to cost arbitrage advantages, developing nations have become leaders in many of these global services. Services that were previously restricted to the developed world are now contracted from emerging nations. This provides these countries with a new opportunity to drive sustainable growth through the expansion of the knowledge economy and to reduce their traditional dependence on manufacturing and natural resource industries.

Service suppliers today need not choose between Asia, Europe or America for their offshore operations. Instead, they should decide how to balance operations across regions in order to develop a global package with multiple time zones, high levels of efficiency and a close proximity to clients. As a relative latecomer to the industry, Latin America now has the opportunity to complement the established offshore service centers around the world. Given the potential gains for sustainable economic growth through the establishment of this industry, Latin America can strategically position itself as the next hub for offshore services.

The main components of this strategy should be: first, to build a portfolio of diversified and complementary services between countries based on an up-to-date analysis of individual country strengths and successes in the industry; second, to define the value proposition and main benefits of offshore services for the region; and finally, to promote a collective regional action plan.

An examination of the best practices of India, Ireland and other success stories such as Eastern Europe makes it clear that governments play a key role in establishing the necessary conditions to promote the development of offshore services. These conditions include: a stable economic and political environment; an educated workforce with appropriate language skills; favorable trade, tax and legal policies; and a reliable and extensive telecommunications infrastructure. While certain attributes such as cultural affinity and geographic proximity to the client market cannot be altered by government policies, strategic positioning of these characteristics can increase the likelihood of selection.

In order to best identify growth strategies, the region is examined in four separate country categories, each of which offers distinct advantages for the offshore services industry. These are: a) the large internal market countries, Brazil and Mexico; b) Spanish-speaking South America; c) Central America and the Dominican Republic; and d) the English-speaking Caribbean. In addition, the industry is segmented by firm type: outsourcing firms from developing nations; Indian offshoring companies; indigenous firms; and captive centers. Understanding the growth potential and trajectories of each of these categories is important when designing incentive schemes for the development of the industry at both national and regional levels.

Most countries in Latin America have already adopted development programs focused on the offshore services industry. These include three main components: promotion and marketing activities; investor services and support; and economic incentives to positively influence investors' perceptions of costs and benefits. However, we identify three key policy gaps within these programs that should be addressed: (1) focus gaps – to date policies have considered the industry as a whole, without focusing on specific segments in which the countries have competitive advantages; (2) institutional gaps – in particular, the limited public-private sector interaction within the industry; and (3) incentive gaps – these characterize many of the plans being provided by Latin American governments to attract investment.

Both regional cooperation and action on the part of individual countries are required to overcome these gaps. In particular, the region would greatly benefit from a public-private coalition with multiple responsibilities, including: to coordinate promotional and marketing initiatives; to establish alliances with governments in the formulation of relevant policies; to promote the supply of specialized services between countries; to facilitate a more comprehensive regional regulatory framework; and to generate and disseminate relevant information pertinent to

the industry. This coalition could leverage and expand several existing initiatives: la Asociación Latinoamericana de Exportadores de Servicios (ALES); la Federación de Asociaciones de Latinoamérica, el Caribe y España de Entidades de Tecnologías de la Información (ALETI), which brings together the IT industries of 17 countries; investment promotion agencies that are coordinating activities under the advice of the World Association of Investment Promotion Agencies (WAIPA); and Red Iberoamericana de Organizaciones de Promoción del Comercio Exterior (REDIBERO), supported by the Inter-American Development Bank. This coalition would help small and medium-sized countries to face the challenge of identifying their unique attributes to successfully insert themselves into regional and global markets.

On a national level, countries should develop initiatives focused on human capital, promoting strategic alliances between companies in the sector, and improving the regulatory framework related to the needs of IT firms. Countries should facilitate the migration of professionals, increase the flexibility of foreign contracts, and streamline contract and visa processes. In education, efforts are needed to ensure that an adequate supply of skilled workers (in terms of both quantity and quality) exists for the global services industry. It is also crucial to strengthen national institutional capabilities, identify the deficiencies of students, and establish programs to modify curricular design. Given that one of the most substantial weaknesses is the lack of English proficiency, an intensive and well financed English-language program should be developed at the regional level, along with an international certification of capabilities.

I. Introduction

Historically, services were considered non-tradable and offshoring was confined to the manufacturing sector. However, the evolution and diffusion of information and communication technologies has increased the availability of offshore services in the global economy in recent years. Face-to face contact between the client and the provider in traditional trade is being replaced by remote service centers in the new knowledge era.

Companies striving to remain competitive in this challenging economic landscape have begun to search for new locations in the developing world where talent is relatively cheap and abundant. Nations such as India, Ireland and countries in Eastern Europe have emerged as industry leaders and are playing a significant role in providing business services to the advanced industrial nations. Thus, the offshore services industry has become an important source for employment and economic growth around the globe.

The industry has grown substantially over the past two decades and today encompasses a broad array of services from information technology outsourcing (ITO) to research and development (R&D) functions. A broad range of inputs is required to sustain this growth, including access to new pools of highly qualified human resources, closer cultural ties to client markets, and geographic proximity. The need for closer relationships between the client and the provider has opened a new window of opportunity for relative newcomers such as Latin America to provide services to the United States.

This paper looks at the main trends in offshore services as the sector continues to evolve. Specifically, we identify and examine best practices and new institutional arrangements that can be used to enhance Latin America's role as an offshore services hub for developed countries.

This paper is structured as follows. The first section provides a general characterization of the industry, with an overview of its main segments and different offshore business models. The second section describes the evolution of the global offshore services industry, highlighting key trends, the most dynamic segments and the best practices found in this industry. The paper then highlights opportunities for the offshore services industry in Latin America, and discusses policy recommendations that governments in the region could pursue in order to drive its growth.

II. General characterization of the offshore services industry and its main segments

A. Definition and importance of the offshore services industry

Prior to the turn of the 21st century, *offshoring* described the fragmentation and spread of production processes across many countries. Today, the offshoring phenomenon is no longer confined to the manufacturing sector. Fueled by the information and communication technologies (ICT) revolution, services have become increasingly tradable (Kenney & Dossani, 2006). The remarkable developments in ICT have significantly reduced the cost and time required to generate, process, store and transmit information from remote locations (Lopez et al., 2008), and thus enabled the separation of service production and consumption (Sako, 2005). The advent of these new technologies has resulted in remarkable year-on-year growth for the offshoring sector.¹ As the industry continues to expand based on cheap yet educated labor forces around the world, there is great potential for Latin America to emerge as an important player.

In the context of this paper, the offshore services industry specifically refers to trade of services *conducted* in one country and *consumed* in another. It encompasses firms' decisions to "perform functions or activities anywhere in the world" (McKinsey Global Institute, 2005, p. 454). These decisions are based on the need to improve efficiency levels (labor cost and supply), enter new markets, and gain access to "strategic assets" abroad (Lopez et al., 2008). Service functions are no longer limited to those in information technology, but now include human resources, finance and accounting, and knowledge functions such as R&D, among others.

During the 20th century, service activities were reserved for the developed world. Over the past decade, however, developing economies have emerged as strong competitors with increasingly complex service offerings. This shift has attracted firms to developing countries for their competitive advantages, such as low human resources costs, technological skills and language proficiency. India, China, the Philippines, Slovakia and other Eastern European nations have emerged as key service suppliers. This sector, characterized by a dynamism rarely seen in other economic activities, provides developing countries with the opportunity to reduce their traditional dependence on natural resources and manufacturing-based economies and move into the knowledge economy.

¹ Boston Consulting Group estimates suggest that the Compound Annual Growth Rate for the period 2005-2010 was as high as 43.2% (The Boston Consulting Group, 2007).

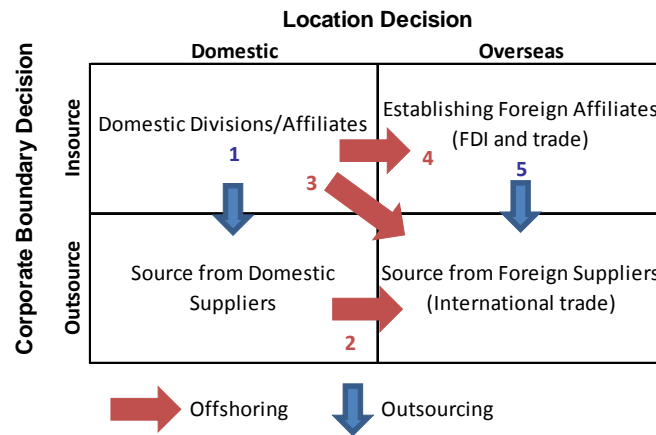
In addition to the diversification of economic activity, offshore services are important because of their enormous potential to generate employment. India, for example, which entered into the services industry in the 1990s by sending a handful of engineers to the United States to install software systems, is currently the leader in offshore services, and the industry employs some 2.2 million people (NASSCOM, 2009). The McKinsey Global Institute Labor Supply Report estimates that up to 161 million jobs can be performed remotely and that “any task that requires no physical or complex interaction between an employee and customers or colleagues, and requires little or no local knowledge, could be performed anywhere in the world by a suitably qualified person” (McKinsey Global Institute, 2009). In this new knowledge era, developing countries can play a significant role in the international division of labor if they can provide a cheaper, educated workforce to provide offshore services to customers in developed countries.

Other factors, such as geographical and cultural proximity to major markets, are becoming even more important (ECLAC, 2008). This has implications for Latin America’s opportunity to emerge as a leader in the offshore services industry. The region has competitive advantages in costs, cultural affinity, geographic proximity, and similar time zones to the United States, bilingual capabilities (English and Spanish), and a well-educated workforce (AT Kearney, 2007a; Mullan et al., 2008b). As countries such as the Czech Republic, Poland and Hungary are becoming *nearshoring* platforms for advanced European economies like Germany and Austria, Latin America has the potential to play a similar role for the United States, the world’s largest customer for offshore services (The Boston Consulting Group, 2007).

B. The offshoring business models

Global services can be classified based on the two dimensions of *outsourcing* and *offshoring*. These dimensions distinguish between control over the organization contracted to perform the tasks and locational decisions. The first dimension, *outsourcing*, is the act of contracting a special function or service from a legally separate unit (outside the boundaries of the company) rather than using the company’s own internal resources and capabilities (in-house provision). The second dimension, *offshoring*, is the provision of a function or service beyond national, rather than firm, boundaries. XFigure 1X shows several different business models or trajectories that may develop in the offshore services industry (Sako, 2005).

Figure 1: Business models in the outsourcing and offshore services industry



Source: (Sako, 2005).

The first scenario (Arrow 1) describes a firm’s decision to outsource services locally. For example, in November 2005, the Brazilian airplane manufacturer, Embraer, contracted the country’s leading IT outsourcing firm, CPM Braxis, to implement and provide on-going support of the SAP Netweaver application integration platform, the key for all IT processes within the company (CPM Braxis, 2007). This is called *outsourcing*.

Arrow 2 shows the firm’s decision to outsource a service to a foreign provider instead of a domestic supplier as in Arrow 1. This is called *offshoring*.

Arrow 3 shows the trajectory for firms that make the decision to outsource services to a foreign supplier. An example is the 2008 deal between the French industrial group, Saint-Gobain, and IBM that in effect sends all of the French giant’s IT infrastructure services to IBM Brazil (Triangle Business Journal, 2008). This is called *offshore outsourcing*.²

Arrow 4 describes the firm’s decision to move its service provision to a foreign affiliate. This is often referred to as ‘*captive offshoring*’, F³F which means that the local firm is sourcing from an overseas location but maintains full control over the provision of the service. For example, in 2007, Telmex SA, the Mexican telecommunications company, set up a shared services center / captive center in Santiago, Chile in order to support its Latin American operations (Knowledge@Wharton, 2004).

² This term is frequently shortened to “offshoring”, as compared to “captive offshoring”.

³ “Captive Offshoring” is also referred to as “Shared Services Centers” in the literature.

The final scenario is mapped by Arrow 5. This shows the shift from service provision by a foreign affiliate to provision by a foreign supplier. This may occur with the sale of foreign affiliates, such as when Unilever decided to sell its shared financial services operations in Latin America to CapGemini in April 2008.⁴ In the process of changing from ‘*captive offshoring*’ to ‘*outsourced offshoring*’, “host economies are likely to benefit from greater beneficial spillovers in terms of technology and higher skilled jobs” (Sako, 2005, p. 6).

In sum, when firms decide to outsource or offshore, they need to define which business model they will adopt (XFigure 1X). A firm can outsource its services to a domestic or foreign firm or decide to outsource and offshore at the same time. Choosing a business model, that is, determining a firm’s geographic location and level of control, is not a simple decision and depends on several factors, such as the nature of the service, size of investment required, entrepreneurship, local knowledge of the firm, and internal experience, among others (The Boston Consulting Group, 2007).

C. *The principal segments of the offshore services industry*⁵

The offshore services industry is, in fact, a broad grouping of different services from a wide range of industries. This includes: a) IT services, such as network management and applications integration; b) Business Processing services, including finance, accounting, and human resource management (horizontal services), and medical transcript services and mortgage processing (vertical services); and c) Knowledge Process services, which refer to more complex activities that require highly educated workers

Horizontal services are demanded by most large companies, regardless of industry sector. In contrast, vertical services or industry-specific services are those that can be applied within a certain sector. Medical process outsourcing is one such example; the skills required to process medical transcripts have limited applicability outside of that industry. This distinction between horizontal and vertical services is important for identifying growth potential as an offshore platform in a particular country. Horizontal services also have economies of scale, since their market includes all firms, across all sectors. Vertical services, on the other hand, require reasonably deep knowledge of an industry and how it functions, and thus they tend to develop

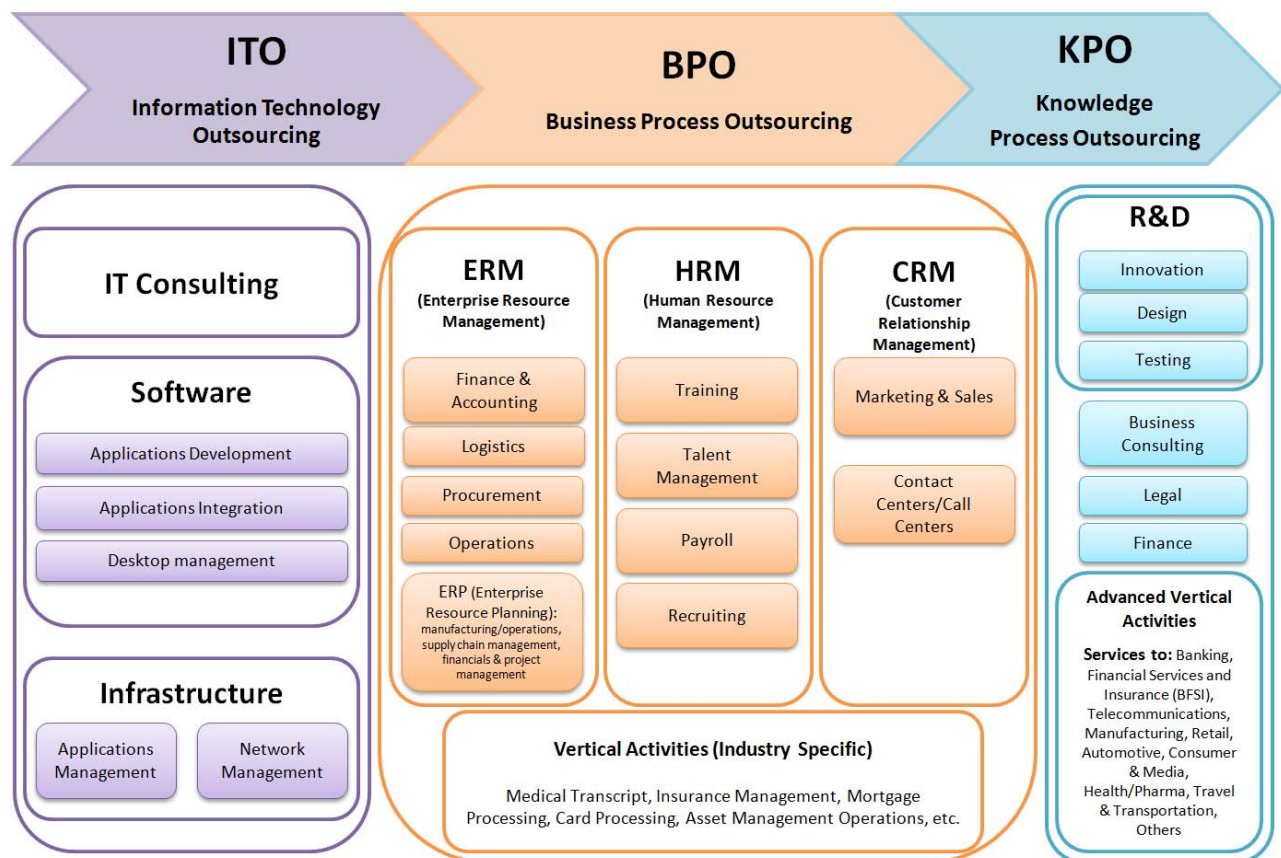
⁴ www.capgemini.com

⁵ For a more extensive analysis, see the CGGC report on global value chains in the offshore services industry (forthcoming).

where industry expertise already exists. The discussion below focuses principally on the main segments of Offshore Business Services.

This industry has evolved considerably within the past 15 years and it continues to evolve today. Currently, three key segments within the industry have been identified: Information Technology Outsourcing (ITO); Business Process Outsourcing (BPO); and Knowledge Process Outsourcing (KPO). XFigure 2X below illustrates the offshore services value chain. This value chain highlights the evolution of offshore services, particularly notable in the case of India.F⁶F The first services outsourced were related to information technology; when these services gained maturity, BPO services were demanded. Nowadays, KPO services are on the rise; companies are externalizing more advanced services such as R&D, engineering services, and complex financial activities.

Figure 2: Offshore Services Value Chain



Source: CGGC.

⁶ There is a section dedicated to the offshore services industry in India later in the paper.

Table 1X below provides a more detailed description of the different activities in each segment of the value chain. The ITO segment is formed by two main categories. The first category is software and includes activities such as applications development, applications integration and desktop management, while the infrastructure category is composed of applications management and network management. The BPO segment contains three main categories. The first category is Enterprise Resource Management (ERM) consisting of finance & accounting, logistics, procurement, operations and Enterprise Resource Planning (ERP). The second category is Human Resource Management (HRM) made up of training, talent management, payroll and recruiting. Customer Relationship Management (CRM) is the last category, being composed of marketing & sales, contact centers and call centers. Finally, the KPO segment includes finance, legal, business consulting, R&D (design, testing, innovation).

Table 1: Segments and Activities of the Offshore Services Industry⁷

SEGMENT	CATEGORY	SERVICES	ACTIVITIES
ITO	Software	Applications Development	Software development (design, write and install applications such as a program to be run in cell phones, a program for the manufacturing and services sectors. Additionally, provision of software testing, verification and validation
		Applications Integration	Development or adaptation of software packages to integrate or connect legacy applications with modern computers, platforms and software
		Desktop Management	Desktop Management Outsourcing covers activities such as installing-updating and maintaining software. The support is provided online through email support, chat, and voice (on-call) support
	Infrastructure	Applications Management	Network support to companies: keeping the network up and running efficiently, monitoring the network and correcting any possible or present threat for the system. Additionally network upgrading services
		Network Management	Application management: Activities such as administering networks, controlling security (managing firewalls against spam, viruses and spying), providing content management (managing, storage and retrieving information for clients), supplying application migration, deploying and managing software applications on a network.
BPO	ERM (Enterprise Resource Management)	Finance & Accounting	Delegation of finance and accounting activities to a third party contractor
		Logistics	Outsourcing of Supply Chain Management activities such as planning, controlling the flow from raw materials to final products
		Procurement	Achieve premium efficiency in the purchasing of goods and services
		Operations	Outsourcing firms implement software or subcontract some operational processes
		ERP (Enterprise Resource Planning)	manufacturing/operations, supply chain management, financials & project management
	HRM (Human Resource Management)	Training	Design training and development programs
		Talent Management	Outsourcing in performance, compensation, work atmosphere management, and create systems of promotion
		Payroll	Outsourcing of payroll activities such as data maintenance, pay calculation, payroll payment, deduction and taxes and payroll accounting
		Recruiting	Outsourcing of activities such as Sourcing resumes, screening, scheduling interviews, and selecting personnel
	CRM (Customer Relationship Management)	Marketing & Sales	Outsourcing design and development on marketing projects. Support on inbound and outbound sales, sales order process, customer monitoring – Product life cycle support
Contact Centers		Outsourcing voice (inbound and outbound) services on activities such as marketing activities, customer satisfaction inquiry, customer retention and customer acquisition among many others	
Call Centers		Outsourcing voice (inbound) services on customer support, business partners, or company associates	
KPO	Advanced Business Services	Finance	Investment research and private equity research, and risk management analysis, among a wide range of analytical services
		Legal	Outsourcing in intellectual property issues, legal research, legal corporate support among other services
		Business Consulting	Consultancy on business reengineering, benchmarking, process design and process transformation
	R&D	Innovation	Novel services and/or processes
		Design	Design of products, design of industrial processes, design of services
		Testing	Testing new products / services/processes to be applied into business functions

Source: CGGC.

⁷ This table does not include industry-specific services. The industries that most demand offshore services are: banking, financial services and insurance (BFSI), telecommunications, manufacturing, retail, automotive, consumer & media, health/pharma, travel & transportation, and others.

III. Brief description of the emergence and evolution of the global offshore services industry and identification of recent trends

A. *Emergence and evolution of the offshore services industry*

The ICT revolution was the catalyst that led to the emergence of the offshore industry in the 1980s. As new transportation technologies fueled the global spread of supply chains in manufacturing, new ICT technologies allowed companies to fragment their production processes in a more efficient way. Underlying this evolution of the offshore services industry are two fundamental factors: (1) the relatively lower costs of delegating auxiliary tasks to third parties in developing countries; and (2) the ability of service providers in developing countries to sell services that are different, superior in quality, or more specialized than those found at home by the purchasing companies (Mulder et al., 2007).

Chronologically, three phases in the evolution of the offshore services industry can be identified. The first phase was led by US firms setting up centers in India to provide services for both their US and global operations. The second phase was marked by the emergence of the first generation of Indian entrepreneurs who gradually made the offshore services industry global, and who today represent about 40% of global market share. The latest phase has been the aggressive growth of the offshore services industry in new regions, such as the Philippines, Central and Eastern Europe, and Central and South America and the Caribbean.

In a parallel process, the scope of offshore services has also evolved. In the early stages, offshoring was limited to IT services. However, as companies became more comfortable with offshoring and provider capabilities improved, the services offered soon included business processes as well. Today, they have expanded further to activities that involve high levels of human capital and knowledge-intensive services.

This has resulted in important changes in the economic geography of the offshoring sector. Where low-cost advantage was one of the major determinants for allocating offshore services in the past, the higher up the value chain a service is, the less relevant this cost arbitrage becomes. Attributes such as people skills, training, language and business environment⁸ take on a new significance (AT Kearney, 2007b). Advantages such as time-zone, cultural affinity and geographic proximity also become important factors for offshoring decisions. The new label of *nearshoring* has emerged to highlight the advantages of offshoring locations that are in closer

⁸ Business environment is a vector that includes country risk, quality of infrastructure, cultural adaptability and security of intellectual property (Mulder et al., 2007).

proximity to major clients, with similar time zones and cultural affinities. This is an important factor in promoting Latin America as an ideal destination for offshoring services, as well as the continent's potential to provide the final timezone for 24 hour service for firms with operations in Eastern Europe, Malaysia and India.

B. *The current state of the global offshore services industry*

The global offshore services industry is growing substantially. However, there is no consensus on how to collect data that corresponds to appropriate definitions of services in this industry (Sako, 2005). Measuring offshore services is not a simple task because official statistics do not provide accurate quantitative assessment (ECLAC, 2009; Sturgeon & Gereffi, forthcoming).

While the market estimates for this industry may vary because of the different methodologies adopted, there are a number of institutions that have published their estimates. XTable 2X gives a list of estimates from private consulting firms, business associations and international organizations. These figures vary significantly due to the lack of official data. Generally, countries do not have data for these types of service exports and there are no specific trade codes to track this information. Additionally, companies have little incentive to disclose this information.

Before assessing the estimates, two clarifications have to be made:

1. **Outsourcing versus offshoring:** Some organizations, such as Gartner, have measured the entire outsourcing industry; this refers to both domestic outsourcing and outsourcing internationally (offshoring). The numbers for outsourcing should generally be higher as it includes offshoring services. Another set of organizations such as the OECD, BCG, and NASSCOM-Everest have measured only the offshoring activities.
2. **Activities included:** This paper presents three types of industry segments: ITO, BPO and KPO. The estimates in the table may refer to one, two or all three segments. Some provide estimates for just the ITO and BPO segments (i.e., the McKinsey estimate), while other estimates include KPO activities under the BPO category. This is the case of the Gartner and BCG estimates. Generally, the KPO segment is the most difficult to quantify and it can be underrepresented since some of KPO activities may not be included.

This paper focuses specifically on offshore services; the estimates for this particular industry are from NASSCOM, Boston Consulting Group (BCG) and OECD, ranging from US\$ 101 to 157 billion in 2008.

Table 2: Global Offshore Services Market Size (Diverse Estimates)

Source		Revenues (US\$ Billions)						Comments	
		Year							
		2005	2006	2007	2008	2009	2010		
OECD (2008)	Global offshore services market	81.4	100.8	125.6	157.4	198.6	252.4	Includes ITO-BPO & KPO activities.	
NASSCOM (2009)	Global offshore services market	44.25	59	78.3	101	117.5		Includes ITO-BPO & KPO activities."Derived from a 40% share of market from India."*	
BCG (2007) Based on IDC data	Global offshore services market	ITO	19.2	22.7	26.9	31.9	37.3	43.2	BPO includes KPO.
		BPO	27.4	42.3	65.1	100.3	154.5	238.1	
		Total	46.6	65.0	92.0	132.2	191.8	281.3	
GARTNER (2009)	Global outsourcing and offshoring services market	ITO					268		BPO includes KPO.
		BPO					156		
		Total					424		
NASSCOM and EVEREST (2008)	Global offshoring BPO market				26-29				
McKinsey & Company (2006)	Global Offshoring ITO-BPO market	ITO	16.7-19.6						McKinsey calculates the offshoring market potential with a range. They state that the market has captured only 10% of its full potential. ITO: 147-178 (captured only 11%) BPO: 122-154 (captured only 8%) From these estimates we have calculated the likely market in 2005.
		BPO	9.8-12.3						
		Total	26.5-31.9						
A. T. Kearny (2009)	Global offshoring BPO market				30			22% of the Global BPO market is offshore	

Source: CGGC based on OECD 2008, NASSCOM 2009, Boston Consulting Group 2007, Gartner 2009, NASSCOM-Everest 2008, McKinsey & Company 2006, A.T. Kearney 2009.

*Based on the reports from Boston Consulting Group (2007) and the Nasscom-Everest study in 2009. BCG estimated that the Indian market share was 46% in 2007, while the Nasscom-Everest estimate lies between 41% and 46% (Nasscom, 2008)

According to OECD estimates, the global demand for offshore services will continue to expand, but growth will differ within each segment. It is estimated that the global demand for BPO services will grow at 25% between 2005 and 2010. ITO services are expected to increase at a similar pace (26%), but compared to BPO and KPO services, the relative contribution of ITO services is likely to fall to 15% in 2010 (OECD, 2008).

The KPO segment could reach \$31 billion by 2010. While still representing just 12% of total offshore services, this segment is clearly the most dynamic and current growth translates into a compound annual growth rate of 58% between 2005 and 2010 (OECD, 2008). Growth has been especially notable in innovation services (product development and R&D). During the 1980s, there were few companies providing innovation services, but since 1998 the number of service providers in this area has increased rapidly. By 2006, almost 40% of service firms provided some kind of innovation services, while in 1998 the percentage was 15%.⁹

KPO services are characterized by the lack of standard solutions to solve problems, and services are highly specialized according to the client's needs. This makes the KPO segment quite rigorous in terms of strong analytical and technical skills. In addition, it is vital to have in-depth knowledge and information about client firms. These clients operate in a highly competitive environment that requires increased adaptability and speed to move new products to market. Knowledge workers thus become the main source for creating value; the focus of business strategies is to gain access to this talented workforce (Sen & Shiel, 2006). The growth in KPO services can largely be attributed to the high levels of skills in the workforce as developing countries come on line (Gereffi & Fernandez-Stark, 2008).

Looking ahead, there are some clear trends indicating how companies may decide to offshore their business functions in the future.

- First, the growth in the offshoring of R&D services that began in recent years will continue to strengthen. Countries around the world are focusing attention on developing viable "national innovations systems" in order to attract investments in these areas and to ensure their roles as innovation leaders. Efforts include tax relief, promoting relationships with local universities, research grants, and state of the art infrastructure (Kao, 2009).

⁹ This information is based on a survey conducted by Offshoring Research Network (ORN) from Duke University where 800 companies from Australia, Belgium/France, Germany, Italy, Netherlands, Spain, U.S., U.K., and Scandinavia were interviewed.

- Second, smaller firms are emerging as the most important players in KPO services, while larger firms are focused on highly standardized or commoditized functions of ITO and BPO (Lewin & Cuoto, 2007).
- Third, there has been a trend toward “offshoring the offshorers”. Existing offshore providers, particularly the Indian firms, have begun to search for additional locations around the world. This is due in part to increasing wages in India, but also to the need to provide 24 hour a day service provision for their clients (Dolan, 2006).
- Fourth, captive centers are being sold to outsourcing companies. These include Citigroup’s sale of its Indian operation with 10,000 employees to Genpact (previously the ITO and BPO captive offshore center for General Electric) for \$700 million, and Unilever’s sale of its financial services operations in Latin America to Capgemini (Overby, 2008).
- Finally, more companies are adopting offshoring as part of their global strategy (Lewin & Heijmen, 2008). Successful offshoring companies “base their strategies on building a global delivery model rather than offshoring per se” (AT Kearney, 2007b, p. 12). In other words, when planning for the future, top companies make decisions based on their entire enterprise rather than simply choosing the next offshore destination. They determine which activities could be relocated during the next decade, and design a footprint today that takes into account the needs of tomorrow.

C. Best Practices from three leading offshore services countries: India, Ireland, and Central and Eastern Europe

1. India

India has emerged as the leading country in offshore services. The size of its offshore services industry is estimated to reach US \$47 billion in 2009 and total employment was more than 2.2 million in 2008, with indirect job creation of about 8 million (NASSCOM, 2009). Its success has been attributed to a number of factors, including: low labor costs, strong technical skills, English language affinity, vendor maturity and supporting government policies (AT Kearney, 2007b).

While India’s large, educated workforce underlies the country’s success in the industry (Dossani & Kenney, 2007), a series of government policies that began in the late 1980s enabled firms to tap into this resource. At the heart of these policies was a shift from protectionism to a more open economy between 1990 and 1995, with a focus on reducing both import and export

duties on software and hardware. In 1993, the government exempted software revenues from income tax (Athreye, 2005). These measures significantly improved conditions for foreign direct investment (Mullan et al., 2008b). In the early stages of the industry's development, the government also paid particular attention to the establishment of Software and Technology Parks and their supporting infrastructure. With a large educated workforce, infrastructure and IT-friendly economic policies, India thus became a very good place to base IT operations.

While the government focused on attracting foreign direct investment, significant attention was also given to the development of local capabilities, including quality certifications that helped to build the credibility of local firms (Athreye, 2005, p. 403). These firms benefitted from the business relationships of Indian expatriates that returned home after working abroad, which helped them to win contracts with foreign firms. In addition, as local firms came to be seen as attractive places to work, the country was able to capitalize on spillover effects generated by the foreign multinationals operating in the country (Dossani, 2005). They garnered a wide range of skills beyond programming, such as quality assurance and project scheduling (Parthasarathy & Aoyama, 2006). Among the most important firms that emerged during this period were Tata Consultancy Services, Infosys and Wipro.

The first mover advantage and the "learning by doing" trajectory followed by Indian companies positioned them well to offer BPO services after 2001, when the bursting of the Internet bubble highlighted the importance of diversification into new sectors. The subsequent growth in the BPO that followed was largely due to the actions of private firms. Despite the 2006 amendments to the Information Technology Act of 2000, which brought India's data protection closer to European Union and US standards, India's data protection system continues to receive negative press and it is often cited as a reason that BPO in India has still not reached its true potential.

More recently, multinational enterprises have begun to relocate R&D activities to India and the KPO segment is fast becoming an important source of employment (Mullan et al., 2008b). In 2005, India completed its ten-year transition period to bring all of its legislation and policies in line with the World Trade Organization's Trade Related Aspects of Intellectual

Property Rights (TRIPS) agreement. While this topic requires further research, this agreement probably was fundamental in promoting the growth of the KPO segment in India.¹⁰

2. Ireland

Ireland, like India, was one of the first countries to move into the service offshore services industry. Initially focused on IT offshoring, Ireland has now emerged as a leader in KPO services. Ireland owes its success to a number of factors, including: its strategic location as a platform for the European market; a multilingual, educated workforce; and, most importantly, foreign direct investment and corporate tax policies that made the country a particularly good place to do business.

In 1994, the Industrial Development Agency (IDA) began an aggressive drive to improve the foreign direct investment and telecommunications infrastructure within the country under the leadership of the newly formed IDA Ireland (Breznitz, 2007). This campaign, combined with the lowest corporate tax rates in Europe (12.5% compared to 15% in Bulgaria and 18% in Hungary), and low social security contributions (10.25%), quickly yielded results (ICT Ireland, 2007). By 1998, foreign direct investment (FDI) had reached close to \$10 billion, and by 2002, it was up to \$30 billion (UNCTAD, 2009) as US multinational corporations in the IT sector, such as IBM, Lotus, Microsoft and Oracle, used Ireland as a less expensive platform from which to access the European market.

Due to Ireland's relatively small population, the competitive cost advantage of labor-intensive IT services quickly eroded and the industry's growth peaked in 2000. As these services were shipped to Asian countries, IT firms began to take on more knowledge-intensive projects, moving up the value chain into R&D based services (Yavuz, 2007). As a member of the European Union, Irish intellectual property protection policies have been upgraded at the same rate as those of its client countries, thus providing Ireland with a competitive advantage in these higher value sectors. After a short-lived attempt to move into BPO services, Ireland has focused its attention on becoming a center for KPO, particularly in the IT and financial services sectors (Grimes & White, 2005).

The government currently offers R&D subsidies to foreign companies setting up new operations in Ireland. These subsidies include both feasibility and training funds in addition to a

¹⁰ This progress has been identified specifically for the evolution of the Indian pharmaceutical sector since 2005 (Linton & Corrado, 2007).

substantial proportion of the cost to develop R&D centers from startups to full-fledged operations (IDA Ireland, 2009). It also fosters close relationships between foreign companies and local universities, research centers and technology institutes.

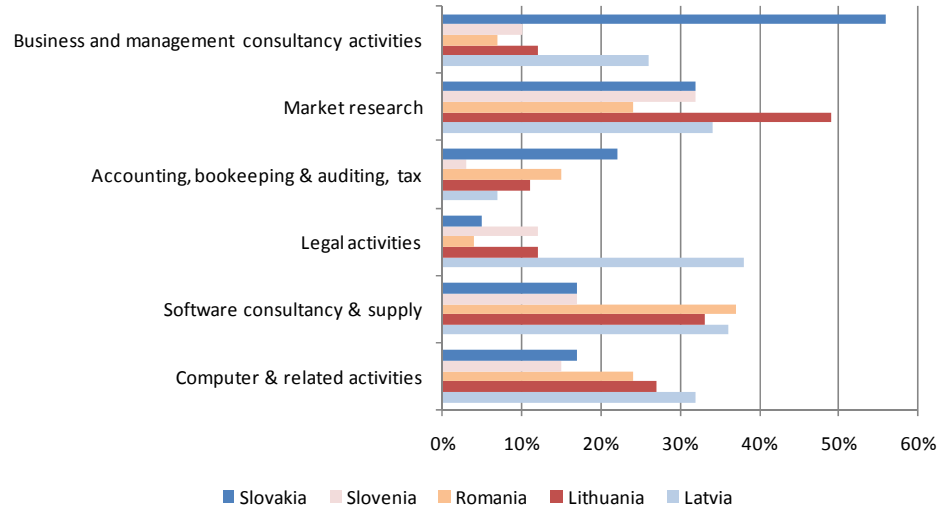
3. Eastern Europe

Eastern Europe¹¹ is also becoming an attractive destination for nearshoring BPO and KPO services for advanced European nations. A key factor in the emergence of Eastern Europe as an important offshoring destination was ascension to the European Union between 1991 and 2007. Not only did this result in a decline in costs of trade with principal trading partners, Germany and Austria (Meyer, 2006), but it also required significant institutional alignment with respect to legal systems, intellectual property rights, tax policies and contract enforcement. Progress in these segments, together with key factors such as cultural affinity, language similarities and lower labor costs, made it more attractive for firms in Europe to both invest in and source from Eastern Europe (Kaminski, 2001).

Of particular interest is the complementary nature of the offshore services industry in Eastern Europe. As can be seen in the figure below, different countries have focused on developing competitive advantages in distinct sectors. For example, Slovakia has specialized in business and management consultancy activities, Lithuania in market research and Latvia in legal activities (Alajääskö, 2007). According to the latest report of Global Services magazine (2009) on emerging European markets, specialization is key; financial processes are conducted mainly in cities such as Krakow, Bratislava or Budapest and implementation of complex applications is driven by Russia and Poland.

¹¹ The countries that make up this region are: Albania, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Republic of Macedonia, Moldova, Poland, Romania, Russia, Serbia, Montenegro, Slovakia, Slovenia and Ukraine.

**Figure 3: Selected Business Service Exports as Share of Turnover to the EU
2004**



Source: CGGC based on (Alajääskö, 2007).
Turnover: Total market sales of services supplied to third parties.

Although participation in the EU requires a higher level of cooperation in regional policy, these country specializations do not appear to be driven by a cooperative industrial policy. They are more likely the result of country readiness to capture the gains from foreign direct investment through sufficient human capital resources and socio-economic stability. Nonetheless, the result has been to provide a region within similar time zones that can provide a comprehensive range of high quality business services.

D. Challenges and opportunities of the offshore services industry amid the global economic crisis

It is perhaps too soon to evaluate the real impact of the economic crisis in this industry. Some countries or activities have shown a slowdown as companies freeze their investments, while others have seen greater demand for their services as buyers are looking to lower their costs in order to remain competitive.

According to the Duke University Offshoring Research Network (ORN) findings, despite the global economic crisis, companies are continuing to implement their plans for offshoring some of their functions and may even be accelerating such strategies (Lewin et al., 2009). Major drivers cited include: the increased importance of labor cost savings; greater efficiencies by

redefining business processes; and improved organizational capabilities for managing offshoring strategies. This particularly favors the ITO and BPO segments.

The ORN Survey also found that there has been a slight decline in the importance of qualified human resources. This reduced interest in offshore talent can be explained by increased unemployment in the advanced economies, fueled by the economic crisis, which has made it more feasible to find this talent domestically. This provides some challenges for KPO services, but the extent of the impact will depend on the market segment and whether the client's strategy favors increased speed in bringing new products to market (Andrews, 2008).

Gartner, a specialized consulting firm, has also analyzed the industry during this economic crisis. Their finding highlights an increased demand for ITO services. The report cautions that "driven by a business crisis, a number of outsourcing decisions will be made in haste and be too narrowly focused on cost to deliver real business advantage over the long term" (Tan et al., 2009, p. 5).

The most recent Everest (2009b) report on global offshoring shows signs of industry stabilization. This is mainly due to the boost in financial service transactions, which increased by 25% compared to the first quarter of 2009. The report also shows more activities in Latin America. During the second quarter of 2009, eight new delivery centers were established, compared to only four during the first quarter of 2009.

IV. Opportunities for Latin America and the Caribbean in the Offshore Services Industry

A. Latin America: emerging location with high potential for development

Latin America has been identified as one of the locations with the highest potential for development in the offshoring sector. According to the 2009 AT Kearney Global Services Location Index, eight Latin American countries, including Argentina, Brazil, Chile, Costa Rica and Mexico, are among the top 50 most competitive international locations for offshoring services (AT Kearney, 2009b). Other countries such as Colombia, Guatemala, Peru and Uruguay have been identified as important "countries to watch" (Gartner, 2009). This is the result of a combination of favorable factors, including: improved economic and political stability, cost structure, availability of qualified human resources, and government support (see XTable 3X).

Table 3: Factors of Attraction for Latin American Offshoring Locations

Factors/ Countries	Argentina	Brazil	Chile	Mexico	Colombia	Costa Rica
Cost						
Political and economic scenario						
Government incentives to support IT-related activities						
Cultural Compatibility						
Language						
Education system (availability of skilled labor force)						
Total attractiveness						
Key highlights	<p>Lowest wages for skilled in the region.</p> <p>Political and economic stability for a relatively short time compared to neighboring countries.</p>	<p>Significantly outnumbers country peers in call center and ITO industries, though it has a strong domestic focus.</p> <p>Limited number of English and Spanish speakers.</p>	<p>Remarkable stability of political and business environment</p> <p>Limited availability of professionals fluent in English.</p>	<p>Closest to the United States.</p> <p>Most developed market for BPO in the region, especially in finance and accounting.</p> <p>Key costs (salary, real estate) are higher than most peers.</p>	<p>Stable economy with available labor.</p> <p>Reputation impact: although crime rates in Bogota are lower than in Sao Paulo, the country's reputation reduces the inflow of investment.</p>	<p>Very good bilingual skills.</p> <p>Strong presence of large international (captive) service centers and vendors.</p> <p>Limited workforce availability given population size and potential saturation.</p>

Source: CGGC based on (AT Kearney, 2007a).

Notes:



During the past decade, Latin America's participation in the offshore services market has gradually increased. This growth has been driven by the increasing number of foreign direct investment projects established on the continent. Between 2003 and 2009, 5% of all global offshoring projects in BPO and KPO were set up in Latin America (OCO Global & fDi markets, 2009).

As noted previously, Eastern Europe has emerged as one of the most active regions for the offshore services industry in the last decade, attracting 10% of the FDI projects in the last seven years (OCO Global & fDi markets, 2009). However, the past two years have shown a slowdown in the number of new projects established there. Meanwhile, there has been an increase in activity in Latin America, which has doubled the number of projects in the same period (OCO Global & fDi markets, 2009). This upward trend has continued in 2009, despite the impact of the economic crisis (Everest Research Institute, 2009a). Since the Eastern Europe market may be close to maturity, this provides Latin America with an important opportunity to develop complementary global service offerings at a relatively low cost.

B. *Characterizing the offshore services industry in Latin America*

Latin America is a heterogeneous set of countries, each with competitive advantages in different areas. However, despite the region's diverse levels of development in the offshore services industry, the countries can be grouped into four broad categories: 1. countries with large internal markets, such as Brazil and Mexico; 2. South American Spanish-speaking countries; 3. Central American countries and the Dominican Republic; and 4. English-speaking Caribbean countries (ECLAC, 2009). A description of the range of offshore services and the identification of the main suppliers is discussed below for each of these categories.

1. Countries with large internal markets: Brazil and Mexico

The development of offshore services in Latin America began in Brazil and Mexico in the late 1990s in the IT sector. According to recent estimates, in 2007 the export of offshore services (ITO –BPO) from Mexico was valued at US\$ 1.3 billion (Business News America, 2009) and Brazil reached US\$ 800,000 in the same year (KPMG International, 2008). Between 2003 and 2009, approximately half of the BPO and KPO projects established in Latin America were set up in Brazil and Mexico, including the arrival of the leading Indian service firms TCS (2003), Infosys (2008) and Wipro (2006) (See XTable 5X). The rapid growth of the industry in these two Latin American giants can largely be attributed to three factors: the presence of

manufacturing and electronics production offshoring in the 1990s; their large domestic markets;^{F12}F and their geographic proximity to the United States (especially for Mexico).

At the end of the 1990s with the relocation of manufacturing industries to China, important hardware companies with a presence in Brazil and Mexico, such as IBM, HP and EDS (Mullan et al., 2008a), began to transform their manufacturing plants into service centers, taking advantage of the available infrastructure and qualified human resources. These companies significantly expanded their service operations during the last ten years and serve both the international and domestic markets from these centers.^{F13}F

This transition was accompanied by the arrival of large North American and European ITO and BPO suppliers that began to explore locations close to the U.S. market.^{F14}F They installed low value-added service centers, such as transaction processing and data entry facilities. This was followed in the current decade by the arrival of the Indian firms looking to take advantage of both nearshoring opportunities to serve their US clients as well as to tap into Brazil and Mexico's large internal markets. Today, the majority of the world's leading ITO and BPO suppliers own operations in these two countries (see XTable 4X and XTable 5X) (CGGC, forthcoming)

Brazil and Mexico have also developed large indigenous firms that grew up supplying the domestic markets. As foreign firms arrived, the increased competition led to a consolidation and capability upgrading of the surviving local suppliers (Veloso et al., 2004). In turn, this enabled them to begin to compete internationally as well.^{F15}F Four of the top five Latin American offshorers - CPM Braxis, Softek, Neoris and Politec - are Brazilian and Mexican (See XTable 6X). Other important firms include Hildebrando in Mexico and Ci&T, Tivit and Stefanini in Brazil.

2. The situation in South American Spanish-speaking countries^{F16}F

The offshore services industry in these countries began after the year 2000, and its development has been disparate and driven to a large extent by the arrival of foreign firms, rather than the

12 Together, these two countries account for over 50% of the population of Latin America.

13 IBM Brazil employees 9,000 people today (See Table 4). HP Brazil services many of the large multinational firms in Brazil, including Michelin, Unilever and Nestle, in addition to large Brazilian firms (Mullan et al., 2008b)

14 See Table 4 for further details about the specific installation dates and activities of firms establishing operations in Latin America. These firms include EDS, Teleperformance, Sitel, Convergys and CapGemini, amongst others.

15 For example, Softek began to export services in 1996, and Neoris in 2002. Information based on corporate websites.

¹⁶ This category includes the following countries: Argentina, Bolivia, Chile, Colombia, Ecuador, French Guinea, Guyana, Paraguay, Peru, Suriname, Uruguay and Venezuela.

growth of domestic champions. Of the 300 new offshoring centers registered as FDI in Latin America over the last six years, 35% have been set up in following countries: 39 in Argentina, 29 in Chile, 22 in Colombia, 9 in Uruguay and 5 in Peru. As these economies become increasingly open, new qualified human resources are entering the international market at competitive prices. Government programs further increase the region's attractiveness.

Growth in the offshore services industry in **Argentina** began in the early 2000s, driven by the devaluation of the peso in 2002 and an aggressive government policy to develop the software industry that was implemented in 2004 (ECLAC, 2009; Mullan et al., 2008a). These two developments allowed multinationals to tap into the vast wealth of qualified human resources in Argentina at highly competitive prices. In particular, cities such as Buenos Aires, Cordoba and Rosario, with extensive networks of higher education institutions, were promoted as key locations for establishing offshoring centers through location-specific tax breaks (ECLAC, 2009). Motorola was the first major company to set up a captive IT center in Cordoba in 2000; Intel, Cisco, HP, Oracle, IBM and America Online followed suit (Smith, 2006). In addition, Argentina was the first Latin American country to receive recognition for adequate protection of personal data from the European Commission (European Union, 2003). This provided impetus for the strengthening of the country's position as a destination for call and contact center firms such as Teleperformance, Convergys, Atento, and TeleTech (ECLAC, 2009). In 2008, Argentina's IT services exports were estimated at around US\$422 million (CESSI, 2008).

Chile and Colombia represent two of the most dynamic countries in the development of offshore services in the past decade in Latin America. In both countries, this industry developed within the past five years. These experiences constitute successful cases, and show that countries with qualified human resources, competitive costs, and active government policies to attract investment in the service sector can become competitive within a short period of time.

Chile is an interesting case. It combines capacities in different segments of the offshore services value chain, with its competitive advantages found in its economic stability, quality of human resources and moderate costs. Statistics for 2008 show that Chile's exports of ITO, BPO and KPO services totaled an estimated US\$200 million, US\$170 million and US\$470 million, respectively (IDC Latin America, 2009). In the case of KPO, the most significant exports were in

engineering services and financial services. Chile has leveraged its expertise in the financial services industry in all segments of the value chain.

Among the country's leading ITO service exporters are Altec S.A. (for Banco Santander in Latin America), Citigroup, and J.P. Morgan, while TCS leveraged its 2005 purchase of Comicrom, Chile's largest BPO supplier in the financial services industry, to offer BPO services to banks across the region (CGGC, forthcoming). Since 2006, the country has attracted a number of leading BPO providers such as Teleperformance, Transcom, Capgemini and Sitel (ECLAC, 2009). Chile has been upgrading its activities in this industry, offering an expanded range of KPO services. One example is Evalueserve, a company that offers custom research, analytics and intellectual property and legal process services. Evalueserve opened the only delivery center¹⁷ in Latin America in the year 2006 and has more than 100 employees in Chile (Evalueserve, 2009; Srivastava & Ortiz, 2009). The most recent offshore arrival is UST Global, which announced it will set up a joint venture with General Electric in Chile to be operational by 2010 (El Mercurio, 2009).

Colombia is a new player in offshore services. Increased political stability and a dramatic drop in crime rates have helped to change the negative perception of the country in the past few years. To date, the outsourcing industry has focused on voice and data services for call and contact centers. Most of the 50,000 people employed in the offshoring sector work in these centers. Among the main global service providers are Convergys, Sitel, Atento, Digitex and EDS. In addition, captive centers such as that of Citigroup have been established to serve their Latin American operations. The government has created a new English training program ("Talk to the World") for 10,000 students in high school, and technical institutions to increase the size of the labor pool that can serve the industry (Everest Research Institute, 2009a).

Uruguay is a special case that began to develop software exports in the 1990s. At first, it developed a local software industry with a clear export focus supported by the government through the exemption of software and IT services from export taxes. Several important Uruguayan companies emerged, including Quanam, Urudata and Infocorp. The industry exported approximately \$200 million to destinations in Latin America, North America and Europe in 2007 and employed 10,000 people. Despite its small population, Uruguay successfully created favorable conditions for the attraction of international offshore services providers. These

¹⁷ A delivery center provides offshore services (ITO, BPO or KPO) to clients located in any part of world.

providers include TCS, which established operations in 2003 and today employs over 800 people, as well as IBM, which is establishing a BPO center to support a Spanish bank that will employ 200 people at peak capacity (Gonzalez, 2008).

Peru is considered a potential location for offshore services in Latin America as a result of its process of growth, economic openness, and the availability of qualified human resources at low costs. Although the level of offshoring services is currently limited, the country's low cost for the ITO and BPO industries suggests that it could develop over the next few years with the installation of new offshore services providers.

3. The situation in Central America and the Dominican Republic

Central America is becoming an increasingly attractive location for offshore services; with around 50 million inhabitants, it offers the same advantages as Mexico – proficiency in Spanish and proximity to the United States – but at lower cost. Between 2003 and April 2009, around 36 offshoring centers were set up: 25 centers in Costa Rica, six centers in Panama and five centers in El Salvador (OCO Global & fDi markets, 2009).

Costa Rica has the greatest level of development in offshore services among the Central American countries. This process began in the 1990s with the attraction of internationally important ITO and BPO centers. Foreign direct investment was actively courted and promoted by the Costa Rica development agency, CINDE. The most emblematic of these investments was the installation of the Intel plant in 1998 (MIGA, 2006). This was followed by the establishment of a shared service center by Procter & Gamble, Western Union, DHL, British American Tobacco and AstraZenaca (Gibson, 2008), as well as offshoring centers for companies such as HP and IBM (ECLAC, 2009). Currently, the offshore services industry employs around 23,500 workers (Gibson, 2008).

From 2001, other countries in **Central America and the Dominican Republic** began to implement diverse national strategies to develop the offshore services industry. These strategies took three main factors into account: first, the growing demand for nearshore services for clients in the United States; second, the displacement of manufacturing activities associated with duty-free systems to China; and third, greater availability of bilingual human resources, associated with educational efforts within countries and the return of people who had previously worked in the United States (ECLAC, 2009). In this context, the experiences of Panama, El Salvador and the Dominican Republic are of notable importance in an initial phase. Later developments made

by Guatemala, Nicaragua and Honduras have been significant as well. Much of this activity is focused on the lower end of the value chain with the installation of call centers.

- El Salvador has attracted companies such as Dell, Sykes, and Teleperformance to set up call centers.
- Sitel established operations in Nicaragua.
- HP and Caterpillar set up their contact centers in Panama, attracted by the tax-exemption provided by the government for those services.
- Guatemala has created MINEDUC/2008, a mandatory English program for all high school students, and it hosts Exxon Mobil, Capgemini, ACS and 24/7 Customer (Everest Research Institute, 2008).

4. The situation in English-speaking Caribbean countries

The growth of the offshore services industry has been important for the English-speaking Caribbean because it provides the region with an alternative income source to tourism, which is highly cyclical (ECLAC, 2009). The region began its offshoring activities in the 1980s, offering call centers and data entry for English-speaking markets (primarily the United States). Since 2005, the industry has been revived, especially in Jamaica where it employs around 10,000 workers. The country is now host to the only service center with over 1,000 employees in the Caribbean and it has plans for expansion. Other companies with operations in Jamaica include Teleperformance and ACS.¹⁸ The small island of Barbados has also taken on a new role in the offshore services industry, focusing on medical transcription (see the box below).

¹⁸ ACS is considered one of Jamaica's key success stories. Jamaica Trade and Invest, the island's development agency, details the evolution of the company's operations since 2001 at www.jamaicatradeandinvest.org.

Box 1. Barbados – a focus on medical transcription

Barbados has committed to developing a first-class medical transcription service industry. This traditional tourist destination, with only 285,000 inhabitants, has entered the offshoring market in higher value-added BPO activities. Many Caribbean countries have focused on promoting call centers, a low value-added BPO activity. The government of Barbados sought to differentiate the small island from neighboring countries and is offering a range of incentives, including low corporate rates, free training and cheap office accommodation for medical transcription activities.

The government finances a free medical transcription training program (industry standard) based on the Model Curriculum from the American Association for Medical Transcription (AAMT). This training lasts nine months, with six months (945 contact hours) devoted to tutoring sessions and a three-month mentorship program. This is being implemented by a training organization based in the United States and to date has a total of 178 graduates. In 2009 a Medical Transcription Training Centre (MTTC) opened in Barbados enrolling 250 students.

Source: [Hwww.investbrabados.com](http://www.investbrabados.com)H, [Hwww.caribbeannetnews.com](http://www.caribbeannetnews.com)H, personal communication with Adrian Sealy, Invest Barbados US.

C. Major Offshoring Firms in Latin America

In order to gain a deeper understanding of the current state of the offshore services industry in Latin America, the following section identifies the leading offshore service providers in the region. The firms are classified according to the framework developed by Mullan et al. (2008b). While their framework was limited to ITBS (information technology-based services) companies, here it has been extended across the entire offshore services industry. This framework is particularly useful in the formulation of public policy aimed at fostering the development of offshore services, since each category requires a distinct approach. The four categories presented are:

1. Developed nation outsourcing firms;
2. Indian offshoring services companies;
3. Indigenous firms; and
4. Captive centers.

1. Developed nation outsourcing firms

The first category refers to **developed nation outsourcing firms** that have established operations in Latin America. These companies have set up operations in specific countries of the region to export services for clients based around the globe. The table below illustrates the top firms in this category and includes information regarding the location of each firm's operations, activities,

number of workers and company revenues. The employment and revenue data reported are for the most recent year available, which is generally 2008.

Table 4: Major Developed Country Offshore Service Companies with Delivery Centers in Latin America

Company	Countries	Year	Activities	Segment	Number of employees Region	Number of employees Total	Revenues Total (USD Million)
IBM (United States)	Argentina	1923	In ITO the company provides from application support services to data center outsourcing. In BPO the company provide an ample variety of services such as human resources outsourcing, customer relation management outsourcing and supply chain management outsourcing.	ITO-BPO-KPO	2,600	398,455	\$103,630
	Bolivia						
	Brazil	1924			9,000		
	Chile	1924			900		
	Colombia				418		
	Ecuador				150		
	Mexico				2,000		
	Paraguay						
	Peru	1932			230		
	Uruguay	1929			250		
Venezuela	1938	400					
Accenture (United States)	Argentina	1968	Infrastructure and applications outsourcing, applications testing, finance and management, human resources, training, supply chain, contact customer, insurance industry, information management.	ITO-BPO-KPO	4500	186,000	\$25,313
	Bermuda						
	Brazil	1983			6000		
	Chile	1998			500		
	Colombia	1989			300		
	Mexico	1990					
Venezuela							
EDS (United States)	Argentina	1994	Shared services, call centers, contact centers, KPO, software/IT services.	ITO-BPO-KPO	2300	210,000	\$22,134
	Brazil	1985			10000		
	Chile	2000			350		
	Colombia				190		
	Mexico	1985			3000		
	Venezuela						
CapGemini (France)	Argentina	2000	Consulting and application management.	ITO-BPO-KPO	90	83,508	\$12,276
	Brazil	2000					
	Mexico						
	Guatemala						
ACS (Affiliated Computer Services) (United States)	Brazil	2004	Human resources and finance & accounting services.	BPO	300	74,000	\$6,161
	Guatemala	1998	Transaction processing, information technology and finance and accounting services.		650		
	Jamaica	2001	Transaction processing, human resources, call center support and finance & accounting services.		1500		
	Mexico	1995	Transaction processing, call center work, information technology support, finance & accounting and mail-room		5000		
	Dominican Republic	1987	Extensive BPO services such as billing, payroll process, human resources and call center services.		480		
Teleperformance (France)	Argentina	1998	Call centers.	BPO	3500	100,000	\$2,654
	Brazil	1998	Call centers.		6800		
	Chile	2006	Contact center.		500		
	Dominican Republic	2002	Contact center.		200		
	El Salvador	2004	Contact center.		1000		
	Jamaica	1998	Debt collection.		1000		
	Mexico	1996	Contact center.		10000		
Convergys (United States)	Argentina		Contact center, human resources management.	BPO		75,000	\$2,786
	Brazil						
	Colombia						
	Costa Rica						
Sitel (Canada)	Brazil	1999	Customer care, technical support, back office support, and e-mail handling	BPO	2500	66,000	\$1,700
	Chile						
	Colombia	1998	Front and back office, along with developing programs for database updating, marketing campaigns, and reference validation.				
	Mexico	1998	Contact center, back office processing.		1500		
	Nicaragua	2008	Contact center.		700		
	Panama		Contact center.				

Source: CGGC, based on information from diverse sources: online databases such as OneSource, Hoovers and DataMonitor; company annual reports; telephone interviews; media information; newspapers; and press releases.

Note: Revenues Total includes turnover coming from all company activities, not only for outsourcing services.

The majority of these firms have a long history in Latin America, attracted by the large internal market. Later, these firms modified their business models and began to use Latin America as a platform for exporting ITO and BPO services. These companies have delivery centers in numerous countries within the region, but many of them concentrate their operations in Mexico and Brazil.¹⁹

ACS (Affiliated Computer Services) exports mainly BPO services such as call centers, human resources management, and finance and accounting services. While its largest centers are based in Mexico, its ACS location in Jamaica currently hosts more than 1,500 employees and shows clear signs of expansion. The company is planning to acquire e-Services Group International, which will add 4,000 highly trained, English-speaking workers based in Jamaica and St Lucia.

Teleperformance, Convergys and Sitel provide BPO services such as call centers and contact centers. These companies have a strong presence across Latin America, especially in Central America. The French company, Teleperformance, has 23% of its total employees located in Latin America; they are distributed in Argentina, Brazil, Chile, Dominican Republic, El Salvador, Jamaica and Mexico.

2. Indian offshoring services companies

The second category includes top **Indian offshoring services companies** that have set up operations in Latin America. These Indian firms arrived after the U.S. and French companies mentioned above. Indian companies established delivery centers in the 2000s principally to serve the U.S. market. These firms selected the region because it has the same time zone and cultural affinity with the United States; additionally it offers skilled and cheap labor.

Brazil is the preferred location for the Indian companies. HCL Technologies stated on its website their principal reasons for favoring the country: Brazil is the strongest economy in Latin America, and the seventh largest economy in the world. The country has a vast IT pool and it is lucrative enough to become one of the top global players in the ITO and BPO fields (HCL Technologies, 2009). Tata Consulting Services also has a major presence in the region, with delivery centers in Argentina, Brazil, Chile, Colombia, Ecuador, Mexico and Uruguay, and a

¹⁹ IBM has 10,000 workers in Mexico and Brazil, but this represents a small fraction of IBM's total employees of nearly 400,000. EDS has 10,000 workers in Brazil and 3,000 in Mexico offering a range of services from call centers to software and IT services. See Table 4.

total of 7,000 employees in the region. Of TCS's US\$5.5 billion in revenues, 4.8% come from Latin America (See XTable 5X).

Table 5: Main Indian Offshore Service Vendors with Presence in Latin America

Company	Countries	Year	Activities	Segment	Number of employees Region	Number of employees Total	Revenues Total (USD Million)
Tata Consulting Services (TCS)	Argentina	2005	Strategic consulting in IT, services and solutions IT that includes SAP and in-house developed products, and outsourcing end-to-end solutions in IT.	ITO-BPO-KPO	7000	143,761	\$5,492
	Brazil	2003					
	Chile	2003					
	Colombia	2006					
	Ecuador	2007					
	Mexico	2003					
	Uruguay	2002					
Wipro	Brazil	2006	IT Services, finance & accounting services, human resources services, customer services and order management processes.	ITO-BPO-KPO		96,965	\$5,645
Infosys	Mexico	2008	Business consulting, infrastructure management and packaged solutions implementation.	ITO-BPO-KPO	87	103,905	\$4,717
Getronics	Brazil	1989	Customer relationship management, consulting, application integration, infrastructure planning, and systems deployment; outsourced business management and technology services and distributes third-party computer and networking products.	ITO	1500	23,754	\$3,427
	Colombia				366		
	Mexico				1000		
Satyam	Brazil	2007	Application services, content and process management, digital convergence, infrastructure services, product and application testing, supply relationship. management, supply chain management.	ITO		51,643	\$2,170
HCL Technologies	Brazil		Engineering and R&D services, hardware engineering, embedded engineering, mechanical engineering, software product engineering, enterprise transformation services, business transformation, technology transformation, business process outsourcing, custom application services, application development, application re-engineering & integration, application support & maintenance, enterprise application services, SAP, Oracle, Microsoft Dynamics, IT infrastructure management.	ITO-BPO-KPO		54,026	\$1,879

Source: CCGC, based on information from diverse sources: online databases such as OneSource, Hoovers and DataMonitor; company annual reports; telephone interviews; media information; newspapers; and press releases.

Note: Revenues Total includes turnover coming from all companies activities, not only for outsourcing services.

3. Indigenous firms

Indigenous firms refer to domestic Latin American companies. These providers initially offered IT services and later moved into BPO services within their countries. In the late 1990s and early 2000s, these firms began to export services not only to other countries in the region, but also to the entire world.

As can be seen in the table below, Sonda, headquartered in Chile, is the largest Latin American offshore service provider by far, with revenues of more than US\$670 million. Of this, 56.5% came from outside of Chile. This company has concentrated its operations within the region with offices in Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico, Peru and Uruguay. All the other companies in this table show revenues below US\$300 million. The two Brazilian firms, CPM Braxis and Politec, offer a variety of services ranging from ITO and BPO to KPO. CPM Braxis has offices in the Americas, Europe and Asia, while Politec has offices in the Americas and Asia. The other two companies listed are Softtek and Neoris from Mexico, which are actively pursuing business opportunities all over the world (see XTable 6X).

Table 6: Indigenous Offshore Services Companies in Latin America

Company Name	Country	Global Presence Latin America/Other locations	Activities	Employees	Revenues (USD mill) 2008 or latest year available
Sonda	Chile	Latin America: Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico, Peru and Uruguay. Other Locations: none.	ITO-BPO	4,500	\$671
CPM Braxis	Brazil	Latin America: Argentina, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Guatemala, Mexico, Panama and Venezuela. Other Locations: Denmark, France, Singapore, Switzerland, United Kingdom and United States.	ITO-BPO-KPO	5,400	\$277
Softtek	Mexico	Latin America: Argentina, Bolivia, Brazil, Chile, Colombia, Paraguay, Peru, Uruguay and Venezuela. Other Locations: China, Spain, United Kingdom, United States.	ITO-BPO	6,000	\$269
Neoris	Mexico	Latin America: Argentina, Brazil, Chile, Colombia and Mexico. Other Locations: Hungary, Spain, United Arab Emirates and United States	ITO-BPO-KPO	3,200	\$250
Politec	Brazil	Latin America: Argentina, Brazil and Chile. Other Locations: Japan and United States.	ITO-BPO-KPO	5,500	\$237

Source: CGGC, based on OneSource, Hoovers, DataMonitor and corporate websites: [Hwww.sonda.cl](http://www.sonda.cl)H; [Hwww.cpmbraxis.com](http://www.cpmbraxis.com)H; [Hwww.neoris.com](http://www.neoris.com)H; [Hwww.politec.com.br](http://www.politec.com.br)H; and [Hwww.softtek.com](http://www.softtek.com)H.

4. Captive Centers in Latin America

The fourth category consists of *captive centers* for shared services. Captive offshore service centers refer to multinational corporations relocating certain corporate activities to Latin American countries. These centers are concentrated in few countries, including Argentina,

Brazil, Chile, Costa Rica and Mexico. These five countries capture 50% to 75% of all captive centers operations in Latin America (Neves, 2009) (See XTable 7X).

Table 7: Captive Centers in Latin America

Country	Captive Centers-Company
Argentina	America Online, Cisco, Exxon, HP, IBM, Motorola, Microsoft, Oracle, palmOne, P&G, SAP and Walt Disney.
Brazil	IBM, Exxon Mobil, Motorola, DELL, Johnson & Johnson, HSBC, EDS, Citigroup, GM, BASF, Shell, Roche, JPMorgan, Ambev, Ford, Google, Rhodia, Avaya, Dupont, Bosch, Caterpillar, Philips, Alcatel, GE, Gerdau, Pirelli, Ford, C.E.S.A.R., L&G, Nestlé, Alcoa, Cargill and Goodyear
Colombia	Citibank, Motorola, SAP, HP and IBM.
Costa Rica	Astra Zeneca SS, Baxter Americas, British American Tobacco, Chiquita Brands, Citi Business Services, DHL, Dole SS, Hellmann Logistic, Intel SS, Lyon Resources (Publicis), Oracle and Procter & Gamble GBS.
Chile	ABB, Accenture, Air France, Citigroup, Collexis, Delta Airlines, Equifax, Everis, Intersystems, JP Morgan, Monsanto, Oracle, Pioneer, Sandvik, Shell, Syngenta, Synopsys, Wise Ocean Systems and Yahoo.
Mexico	Compucom, CSC, GE Aeroespacial, HP, HSBC, IBM, Infosys, Patni, Perot System, Pearson Evaluation Centers and Tsystems.

Source: CGGC, based on information provided by national agencies for the promotion of foreign investment, telephone interviews, and national promotion agency websites.

D. Opportunities for Latin America in the offshore services industry

Latin America has the potential to play an important role in the global offshore services industry. This requires the promotion of a set of advantages and capabilities that can complement other emerging and established offshore centers around the world, such as Eastern Europe, Ireland and India. Today service suppliers do not necessarily have to choose between Asia, Europe or America for their offshore operations. Instead, they must decide how to balance operations across three continents in order to develop a global package with capabilities in several time zones, high levels of efficiency and a close presence to clients.

This complementary ‘follow-the-sun’ model allows for a combination of *nearshore* and *offshore* service offerings that can guarantee access to language skills and relevant cultural affinities, while ensuring the reduction of operational risks via location diversification. The

model also takes advantage of time zone differences in order to accelerate the development of project cycles and provide 24 hour a day client support (Softek, 2008).

Although there is little doubt that India will continue to lead the offshore services industry, it is faced with a set of challenges that include growing geopolitical risk, high turnover of personnel, and permanent inflation of salaries. Terrorism, problems with corporate governance practices, and the appreciation of the Indian rupee are causing many suppliers located in India to accelerate their geographic diversification. Latin America and Eastern Europe offer two of the more promising alternatives.

During the 2000s decade, Eastern Europe became one of the most attractive alternatives to Ireland and India for European offshore services. The region benefited from its advantages in terms of time zone, geographic proximity, cultural affinity, and linguistic abilities in English, German and French. However, Eastern Europe is beginning to show signs of stagnation. It is predicted that the region will not be able to sustain its historic growth rates because of rising labor costs, the movement of its professionals to Western Europe, and a shrinking pool of human resources (AT Kearney, 2009b; The Boston Consulting Group, 2007) .

In this context, Latin America has a clear value proposition for those companies seeking to expand their offshore service operations: costs comparable with India and lower than Eastern Europe; availability of qualified human resources; and physical proximity and cultural affinity with the U.S. market and parts of Europe. The region has lower employee turnover, similar time zones, geographic proximity, and a stable business environment (Evalueserve, 2009; Srivastava & Ortiz, 2009; Wadhwa et al., 2008). In particular, the growing presence of Indian firms in Latin America indicates that a large number of companies have already identified this business opportunity.²⁰ XTable 8X provides a cost comparison between Latin America, India and Eastern Europe.

²⁰ The most recent arrival is that of UST Global that announced it will set up a joint venture with General Electric in Chile to be operational by 2010 (El Mercurio, 2009).

Table 8: Key Comparisons Between Latin America, India and Eastern Europe

	Latin America	India	Eastern Europe
Annual saving from the United States	25-40%	30-50%	10-20%
Time-zone difference with United States	2.5 hrs	13 hrs	7 hrs
Travel time from United States	8 hrs	21 hrs	10 hrs
Travel cost from United States	US\$ 2,750	US\$ 8,500	US\$ 5,400

Source:(AT Kearney, 2009a)

As can be seen above, although Latin America has higher labor costs than India, the region offers attractive cost savings compared to Eastern Europe. These range from 25-40% depending on the type of service. In the case of India the cost saving is in the range of 30-50%, while in Eastern Europe it is from 10-20%. For Latin America, the savings increase with respect to the United States, considering the costs associated with the time difference, overtime rates, travel expenses and travelling time.

Furthermore, according to estimates on the availability of professionals with skills suitable to the offshore services industry, Latin America has enormous human capital potential. Using information from the McKinsey Global Institute (2005), it is estimated that Latin America has the equivalent of 50% of India's graduates with skills for offshore services, and greater human resources than countries or regions such as China, Eastern Europe, Russia and the Philippines (see XTable 9X).

Table 9: Graduate with Skills Appropriate for the Offshore Services Industry (BPO/IT)

Countries or region	Supply of graduates (Thousands)
India	1,773
Latin America*	929
China	727
Eastern Europe*	663
Russia	654
Philippines	514

*Eastern Europe and Latin America derived via extrapolation²¹
 Source: McKinsey Global Institute (2005).

Previous analysis of the supply of qualified human capital available for the offshore services industry in Latin America has been limited to individual countries such as Argentina, Brazil, Chile, Costa Rica, Mexico and Panama. Positioning the region as a whole, while at the same time highlighting the depth of specific industry talent in each country, will enable Latin America to offer a powerful set of nearshore services based on human capital. For example, Brazil has the world’s second largest community of Java programmers after India, providing it with a strong base for software programming (Mullan et al., 2008b), while the KPO financial services firm, Evalueserve, specifically chose Chile for its Latin American office due to the high number of trained financial analysts in the country (Srivastava & Ortiz, 2009).

E. The role of public policy in promoting the offshore services industry in Latin America

1. Main policy focus

By 2000, countries in Latin America became increasingly aware that relying heavily on their traditional export sectors was not a sustainable alternative for long-term economic growth. A number of different initiatives were launched to promote the development of the technology services industry. The international experiences of countries such as Ireland and India had shown that the high technology sector was not restricted to just semiconductor and electronics. The offshore services industry, which resulted from the rapid growth of the IT sector, allowed for the

²¹ For Latin America, the number of graduates from Brazil and Mexico with skills for the offshoring industry (according to McKinsey Global Institute, 2005) was compared with the total country population to calculate a new rate. This new rate was used to extrapolate the total number of graduates with offshoring industry skills for Latin America. In the case of Eastern Europe, the same methodology was used to calculate number of graduates with offshoring industry skills for Croatia, Czech Republic, Hungary, Lithuania and Romania.

reconfiguration of business models via the externalization of business processes (outsourcing) and remote operations (offshore). This implied that many countries on the margins of the high technology industries could, in the near future, integrate themselves into the new offshore services networks. The benefits included new knowledge and technology, a skilled workforce, and export diversification.

In addition to these successful international cases, there are various examples in Latin America of early offshore services development, beginning in the 1990s in Mexico (Mexico City, Monterrey and Guadalajara), Brazil and Costa Rica. Countries understood that participation in the new offshore services industry would require strong government support to ensure a favorable business environment, adequate infrastructure, skilled human resources, a favorable tax regime, and an active strategy for attracting investment.

There is an important role for the state in enabling countries to achieve integration into the global economy's most dynamic sectors, such as offshore IT services. This has resulted in initiatives to improve or create institutions to promote investment in offshore services in most countries. According to ECLAC (2007), 30 of the 33 countries in Latin America had created investment agencies or equivalent institutions by 2006. Many of these were established or had undergone significant readjustment during the previous five years. The goal of these investment attraction programs was to promote the entry of foreign firms in offshore services, in addition to other priority sectors. These programs typically had three main components: promotion and marketing activities; investor services and support; and economic incentives to positively influence investors' perceptions of costs and benefits.

There are two main categories of economic incentives used in the region to promote foreign investment: tax incentives and training subsidies. Tax incentives have been the traditional instrument, mainly associated with free trade zones, duty exemption on equipment, and exemption from export taxes, income tax and value added tax. In addition, a new support scheme has emerged in several countries, associated with subsidies for workforce training. The aim is to finance initiatives that close gaps in human resource skills, such as work-training subsidies, training in technical skills, tuition financing for English language programs, and adaptations of higher education programs.

2. National programs

An overview of the programs that have been implemented in Latin America to promote the development of the offshore services industry is presented below.

The cases of Brazil and Mexico combine an international promotion program, a framework of national incentives, and a set of benefits offered at the level of local states. Promotion and international marketing are carried out by Apex-Brazil and BANCOMEXT-Mexico. Brazil's main national incentives deal with tax incentives for investment, R&D in the area of IT, and the development of technology parks (ApexBrasil, 2009). In both countries, the states operate with certain autonomy to promote investment via tax exemptions, special offers on land, provision of infrastructure and training subsidies. Among the most attractive locations are Sao Paulo and Campinas in Brazil, and Mexico City, Monterrey and Guadalajara in Mexico.

Box 2. Free trade zones: the case of Zonamerica-Uruguay

Free trade zones are designated areas in a country which provide fiscal benefits such as customs and tax exemptions. The incentives and benefits in free trade zones can be applied either to manufacturing or services.

Zonamerica is a free trade zone in Uruguay specifically designed for services. It was created in 1990 with the purpose of establishing a business and technology park. Since 1990, the zone has grown substantially. It started with just 30 employees and today the park has more than 1,100 workers.

The business platform in Zonamerica is composed of seven areas: i) shared centers; ii) logistics and distribution; iii) call centers; iv) biotechnology; v) financial services; vi) information technology; and vii) consulting and auditing (Zonamerica, 2009).

According to Abhinav Kumar, Head of Marketing at Tata Consultancy Services (TCS) Ibero America, "Zonamerica has proven to be a perfect business partner. Our center in Uruguay provides the highest quality levels in information technology services (CMMI Level 5) for more than 25 clients all over Latin America, Europe and United States."

This free trade zone has become a strategic location for international companies to centralize their business and administrative processes. Some of the companies operating in Zonamerica are: Merrill Lynch, RBC, Banco Itaú, Tata Consultancy Services (TCS), UY Software, IPcom, Deloitte, PriceWaterhouseCoopers, Investors Trust, Fining-CAT and Nanokem among many others (Zonamerica, 2009).

Source: [Hwww.zonaamerica.com](http://www.zonaamerica.com).

In the Spanish-speaking South American countries, there are different investment promotion agencies: ProsperAr in Argentina, the Foreign Investment Committee (CIE), ProChile and CORFO in Chile, Proexport Colombia, and Uruguay XXI in Uruguay. Similar to Brazil, Argentina has a framework of national incentives, which includes a tax incentive for the software

industry. At the provincial level, Argentina has different tax exemption programs, infrastructure subsidies, and public services. The cities that have achieved the most consolidation in the offshore services industry are Buenos Aires, Cordoba and Rosario.

While Chile has no tax exemptions, it has direct incentives for training, plus co-financing of technology infrastructure and the costs of long-term leases. English training programs for technicians and engineers complement these incentives, as does the strengthening of higher education institutions (CORFO, 2009).

In Colombia, industrial parks have been established that operate as free trade zones. This is complemented by tax exemptions for BPO companies established anywhere in the country and English-training programs for BPO professionals (ProExport Colombia, 2009). In Uruguay there are special income tax exemptions for the software industry and its imported investment assets. There is also a system of free trade zones (Uruguay XXI, 2009).

In Central America, agencies include CINDE in Costa Rica, PROESA in El Salvador, and CEI-RD in the Dominican Republic. Costa Rica has free trade zones that provide tax exemptions on equipment, exports and repatriation of profits. These are complemented by training programs to strengthen higher education, as well as training in English and other languages in the public education system (CINDE, 2009). El Salvador has a tax-exemption law that applies to any equipment or goods required for the activity of international services. It also applies to income tax and value-added tax (VAT) for companies classified as service centers (PROESA, 2009). The Dominican Republic has a free trade zone, and plans to strengthen higher education and English training programs (CEI - RD, 2009).

Box 3. Chile incentives for the high –tech investment projects

The Chilean Economic Development Agency (CORFO), through its program InvestChile, offers a set of incentives and services for investments in the offshore services industry. The incentives are summarized below.

The government agency is satisfied with the outcomes of the program for several reasons: 1) these incentives have allowed a high social return, translated in training, knowledge transfer and access to new markets; 2) these incentives give credibility to the country as risk on the investment is shared between the company and the government and they portrays a clear government commitment to develop this industry; and 3) the mix of these direct incentives has been well received by the business community.

According to CORFO, the most appreciated incentives are the ones related to training. As a result of this, the Chilean agency now offers two types of incentives in this area; ‘On the job training’ related to new employee training programs offering up to 50% of salary per person, the second incentive refers to specialized training and recruitment in which the government covers 50% on the training costs.

	Incentives	Financial Support	Maximum
Pre- Investment Phase	Pre-investment Studies or Prospecting Trips to Chile (HT1)	Feasibility studies for your investment project	Up to 60% of the pre-investment study cost Max=\$30,000 USD
	Project launch Assistance (HT2)	The execution of a working plan to assist in project implementation	Up to \$30,000 USD for start-up activities
Investment phase	On-the-job Training (HT3)	New employee training program	Up to 50% of annual salaries Max=\$25,000 USD per person
	Equipment and Infrastructure (HT4)	Acquisition of technological infrastructure and equipment	Up to 40% of the total investment in fixed assets Max=\$2,000,000 USD
	Long Term Property Leasing (HT5)	Long-term lease of property associated with the investment project	Up to 40% of total lease amount during the first five years. Max=\$500,000 USD
	Specialized Training & Recruitment (HT6)	Acquirement of specific knowledge or recruitment of experts	Up to 50% of specialized training or recruitment. Max = \$100,000 USD

Source: [Hwww.hightechchile.com](http://www.hightechchile.com)

3. Main gaps in public policy

While information regarding the contribution of the offshore services industry to employment and exports exists in many countries in the region, it is unclear how accurate these figures are. In addition, the extent to which public policies per se have contributed to development is not clear. The only evidence available is an international benchmarking study of the performance of investment promotion agencies regarding international best practices (MIGA, 2006).

The case studies of the industry's emergence in India, Ireland and Eastern Europe presented earlier in the paper provide an initial guide to the systematic evaluation of successful policy initiatives. Within Latin America, the policy initiatives can be divided into three different categories: (1) programs that focus on international marketing and promotion; (2) programs with incentives that were initially designed for manufacturing activities and have been adapted to other sectors; and (3) programs that address critical factors associated with the offshore services industry, primarily in the area of human capital.

In terms of public policy to develop the offshore services industry, there are three gaps to consider:

- a) Focus gaps: the definition of segments with the greatest potential for development
- b) Institutional gaps: the public-private institutional arrangements needed to address the challenges facing the industry
- c) Incentive gaps: the identification of the most effective set of incentives to attract offshore service centers.

V. Strategic Guidelines for Promoting the Offshore Services Industry

Public policy will play an important role in the rise of new knowledge-intensive services exports and the emergence of Latin America as an offshoring center. In countries such as India and regions like Eastern Europe, the development of this industry was supported in a decisive way by the government and the private sector. The following recommendations outline initiatives for public policies that could be adopted in a coordinated way by the different countries in Latin America and the Caribbean.

A. Cooperation in promoting Latin America as an offshoring hub

Latin America as a region should cooperate to strategically position itself as the next international hub for offshore services, available to both major service providers and industry

clients. The principal advantages of the region with respect to the offshore services industry should be highlighted. These include the significant supply of qualified human resources, competitive costs, low country risk, and geographic and cultural proximity to the main markets. The goal and the objectives of this regional cooperation are:

Goal

Positioning Latin America as a major hub for offshore services

Objectives

- Create a regional brand for Latin America in the offshore services industry
- Facilitate transfer of knowledge and best practices among the countries in the region
- Offer better market opportunities with a greater scale and a variety of specialized services

The main components of this strategy are: first, to build a portfolio of diversified and complementary services between countries based on an analysis of individual country strengths and successes in the industry to date; and second, to define the value proposition and main benefits; and finally, to promote a collective regional action plan.

Although several of the countries in Latin America may compete directly for different offshoring centers, the location selection process begins with an evaluation of the region as a whole. Today, a large segment of offshore service providers and potential clients still fail to identify Latin America as an attractive hub for offshoring. For these groups it is important to articulate a Latin American proposal that shows the region's experience, scale, competitiveness and specialization in different segments of the industry.

This level of multinational coordination requires a regional public-private coalition. This coalition, which could be led by REDIBERO, would incorporate key factors such as investment promotion agencies, offshore services industry associations, and educational institutions. It would be charged with defining and implementing a regional development strategy. There are several initiatives that are already in place that could be leveraged for this coalition: from the private sector, la Federación de Asociaciones de Latinoamérica, el Caribe y España de Entidades de Tecnologías de la Información (ALETI), which brings together the IT industries of 17 countries; and from the public sector, la Asociación Latinoamericana de Exportadores de Servicios (ALES), investment promotion agencies have begun coordinating activities under the advice of the World Association of Investment Promotion Agencies (WAIPA), and Red Iberoamericana de Organizaciones de Promoción del Comercio Exterior (REDIBERO),

supported by the Inter American Development Bank. REDIBERO was founded in 1999 and has 22 country promotion agency members.

Box 4. Chilean case: public & private coalition for the offshore services cluster

In 2007, the Chilean Committee of Ministries for Innovation created a public-private coalition for the offshore services cluster with the goal to increase the industry size by fivefold in four years. This group is composed of international companies with operations in Chile, industry associations, educational institutions, ministries and CORFO (the Chilean Economic Development Agency).

This group validates the action plan of the strategic agenda in three main areas: close the human capital gap; develop an international promotion strategy; and improve both infrastructure and the regulatory framework.

This coalition is directed by CORFO and financed by the Chilean Innovation and Competitiveness Fund that provided US\$23 million for 2008-2009.

Sources: [Hwww.hightechchile.com](http://www.hightechchile.com)H, (Castillo, 2008).

The objectives of a public-private coalition would be diverse: to promote the development of the offshore services industry within the region; to establish alliances with governments in the formulation of relevant policies; to promote the supply of specialized services between countries; to establish better regional regulatory frameworks; and to generate and disseminate relevant information pertinent to the industry.

This coalition would help small and medium-sized countries to face the challenge of identifying their unique attributes that will allow them to successfully insert themselves into regional and global markets. There are several specialized experiences of smaller countries that can be replicated, such as: Antigua and Barbados in medical information processing, Brazil in research and development centers, Chile in financial analysis and engineering services, Costa Rica in shared services, and Uruguay in software development. Larger countries such as Argentina, Brazil and Mexico participate in the majority of the segments, and they have also focused on higher value added services, like engineering and R&D centers.

There is also an important space for carrying out collaborative actions for promotion and marketing. Within the recommended activities are public relations campaigns with the communication media, advertising in specialized media, participating in promotional events, publications and digital media.

As mentioned throughout the paper, there is no consensus on how to collect the data that corresponds to appropriate definitions of services in this industry (Sako, 2005). Indeed, measuring offshore services is not a simple task, because official statistics do not provide accurate quantitative assessments (ECLAC, 2009; Sturgeon & Gereffi, forthcoming). This

coalition can play a lead role in harmonizing codes for the offshore services industry in Latin America. At the same time, they should also work with each country in order to standardize the critical information for investors to facilitate the marketing and promotion efforts.

Box 5. Regional investment strategy in the Western Balkans

OECD is encouraging a regional competitiveness initiative in South East Europe (Western Balkans) based on an industry prioritization strategy. This study includes a regional capability survey, a sectoral prioritization framework, development of a policy model, and primary and secondary research.

In the analysis, OECD identified ITO and BPO as strong sectors for development due to cheap labor costs (up to five times lower than in Eastern Europe); however, the region presents some gaps in human capital that need to be addressed. In analyzing where to compete, the study focused on the Western European market targeting clients that cannot afford the fees of larger global players.

This study classifies countries, explaining that certain nations like Croatia should provide higher value added activities, while others with lower labor skills, such as Albania, Bosnia and Herzegovina, should focus on lower-value added activities. They recommend specialization to increase productivity.

The OECD's suggested approach to this regional competitiveness initiative has three main areas: (1) Human Capital Development -- e.g., the involvement of the private sector with government incentives to address in the acute shortage of skilled labor; (2) Sector Policy Reforms -- removing barriers in order to sustain competitiveness; and (3) Competitive Clusters to channel innovation efforts.

Note: South East Europe or the Western Balkans includes: Albania, Bosnia and Herzegovina, Croatia, Macedonia, Serbia and UNMIK/Kosovo.

Source: OECD (2009) Sector Specific Sources of Competitiveness in the Western Balkans: Recommendation for a Regional Investment Strategy and OECD (2009). Regional Investment Strategy: Key Findings of the Sector Specific Study.

B. High impact regional initiatives for the promotion of the offshore services industry and alternatives for regional coordination

We recommend that three high impact courses of action to capture the opportunities in offshore services should be pursued in Latin America: 1) development of human capital; 2) promotion of strategic alliances among companies; and 3) improvement of the regulatory framework. In each of these courses of action, cooperative arrangements among countries are possible because these topics have high priority on national agendas within the region. In particular, there are many initiatives currently underway, making it possible to identify those that could have the most significant impact on the development of the offshore services industry.

1. Human Capital

The first initiative is to rapidly accelerate the integration of the labor markets in Latin America through improved mobility of the talent pool in order to establish technology platforms that function as a marketplace for offshore services throughout the region. For this purpose, it is necessary to consolidate the regional demand for offshoring professionals, improve the regulatory framework for the migration of professionals, increase the flexibility of foreign contracts, and facilitate the contract and visa process. It is important to create programs and policies for the attraction, retention and mobility of national talent pools within the region.

The second initiative for the development of human capital is to increase the number of graduates in disciplines most relevant to the offshore services industry. We propose that countries share their best educational practices to increase the acceptance and retention rates of students who have an interest in programs specific to offshore services. Campaigns should be fostered to present the opportunities in the offshore services industry, identify target groups, and the critical factors that influence career decision making. Additionally, there are retention strategies such as the offering of prerequisite courses, intermediate certification and credit lines guaranteed by the government.

The third initiative is to improve the supply of graduates prepared for careers in offshore services. For this purpose, educational and training institutions should better coordinate curriculums with the needs of companies. It will be vital to strengthen institutional capabilities, identify the deficiencies of the students, and establish programs to modify curricular design. Considering that one of the most substantial weaknesses is the lack of English proficiency, an intensive English language program should be developed at the regional level, providing financing and an international certification of capabilities.

2. Strategic Alliances among Companies

Many countries have implemented programs to encourage alliances among small and medium-sized companies as a way to improve their competitiveness. Regional and international best practices related to networking suppliers and companies in the offshore services industry should be identified. Within these programs that have regional scope, we would emphasize regional networks, associated programs for export services, technical assistance to promote international certification, joint ventures between small and medium sized companies, and a business platform for the international markets.

3. Improve the regulatory framework

In addition to the topic of migration previously mentioned, an agenda should be developed to improve the regulatory framework that meets the unique needs of offshore service companies. Improving the regulatory framework includes the facilitation of flexible work schedules, recognition of offshore services as an export activity, optimization of taxation practices, and fortification of legislation pertaining to data protection.

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Appendix

Acronyms:

AAMT	American Association for Medical Transcription
ACS	Affiliated Computer Services
ALETI	Federación de Asociaciones de Latinoamérica, el Caribe y España de entidades de IT
BPO	Business Process Outsourcing
CAGR	Compound Annual Growth Rate
CEI-RD	Centro de Exportación e Inversión de la República Dominicana (Dominican Republic Export and Investment Center)
CIE	Foreign Investment Committee
CINDE	Costa Rica Investment Promotion Agency
CORFO	Corporación de Fomento de la Producción (Chilean Economic Development Agency)
CRM	Customer Relation Management
ECLAC	Economic Commission for Latin America and the Caribbean
ERP	Enterprise Resource Planning
ERM	Enterprise Resource Management
EU	European Union
FDI	Foreign Direct Investment
FDISTAT	Foreign Direct Investment Statistics (UNCTAD)
GDP	Gross Domestic Product
GVC	Global Value Chains
HRM	Human Resources Management
IADB	Inter-American Development Bank
ICT	Information and Communication Technologies
IDA	Industrial Development Authority
IP	Intellectual Property
IT	Information Technology
ITO	Information Technology Outsourcing
KPO	Knowledge Process Outsourcing
MTTC	Medical Transcription Training Centre
NASSCOM	The National Association of Software and Services Companies (India)

OECD	Organization for Economic Co-operation and Development
ORN	Offshoring Research Network (Duke University)
PROESA	<u>HA</u> gencia de Promoción de Inversión de El Salvador <u>H</u> (El Salvador's Investment Promotion Agency)
R&D	Research and Development
REDIBERO	Red Iberoamericana de Organizaciones de Promoción de Comercio Exterior
S&E	Science and Engineering
TCS	Tata Consultancy Services
TRIPS	Trade-related aspects of intellectual property rights (WTO)
UK	United Kingdom
UNCTAD	United Nations Conference on Trade and Development
US	United States
VAT	Value-added tax
WAIPA	World Association of Investment Promotion Agencies
WTO	World Trade Organization

Glossary:

Concept	Definition
Business Process Outsourcing (BPO)	1. Enterprise Resource Management (ERM) : finance & accounting, logistics, procurement and operations. 2. Human Resource Management (HRM) : training, talent management, payroll and recruiting. 3. Customer Relationship Management (CRM) : marketing & sales, contact centers and call centers.
Captive offshoring or shared services	A company-owned offshore operation retaining full control. In other words, the activities are performed offshore, but they are not outsourced to another company.
Commoditization	Standardization. Transformation of goods and services into a commodity.
CRM (Customer Relationship Management)	Processes a company uses to track and manage its contacts with its customers (both current and prospective).
Custom software	Software designed according to the special needs of the client.
ERP (Enterprise Resources Planning)	Company-wide computer software packages used to manage all the resources, information, and functions of a business.
Free trade zones	Special areas in a country which provide fiscal incentives such as tax exemptions or tariff elimination, either to manufacturing or service companies.
Global Value Chains	The value chain describes the full range of activities that firms and workers do to bring a product from its conception to its end use and beyond. This includes activities such as design, production, marketing, distribution and support to the final consumer. The activities that comprise a value chain can be contained within a single firm or divided among different firms. Value chain activities can produce goods or services, and can be contained within a single geographical location or spread over wider areas. The GVC Initiative (www.globalvaluechains.org) is particularly interested in understanding value chains that are divided among multiple firms and spread across wide swaths of geographic space, hence the term "global value chain."
HRM (Human Resources Management)	Strategic approach to the management of an organization's employees.
Indigenous firms	Domestic or existing firms established in a country.
Information and Communication Technology (ICT)/ Information Technology (IT)	Includes but is not limited to: computers (such as desktops, laptops, PDAs), computer systems, storage devices (such as USB and flash memory devices, CDs, DVDs, floppy disks, iPods, MP3 players), cameras (such as video, digital, webcams), all types of mobile phones, video and audio players/receivers (such as portable CD and DVD players), telecommunication equipment, networks, databases and any other similar technologies as they come into use. ICT is the lifeline for IT services/ Global Services
IT Services/ Information Process Outsourcing (ITO)	1. Software including activities such as applications development, applications integration and desktop management. 2. Infrastructure composed of applications management and network management.
Knowledge-intensive activities	Services and business operations heavily reliant on professional knowledge related to the provision of knowledge-intensive support for the business processes of other organizations.
Knowledge Process Outsourcing (KPO)	Activities with a great level of complexity that require high level of education and judgment. Legal, financial, business consulting,

	R&D/Innovation, design and testing.
Nearshore	Proposition closely related to offshore but uses similarities to client location and convenience to compensate for relatively high cost.
Offshoring	Provision of a function or service beyond the national boundaries.
Outsourcing	Action of contracting a special function or service from a legally separate unit (outside the company) rather than using the company's own resources (in-house provision).
Research and development (R&D)	Creative work undertaken on a systematic basis in order to increase the stock of knowledge, including knowledge of man, culture and society, and the use of this stock of knowledge to devise new applications (2008).
Software products	Standard software that can be replicated for general use.
Software services	Same as "custom software".
Software and Technology Parks of India	Government agency in India that manages the Software Technology Park scheme. It is an export-oriented scheme for the development and export of computer software and professional services.
Soft skills	Term related to a person's cluster of personality traits, social graces, communication, language, personal habits, friendliness, and optimism.
Tax-exemption	Be excluded to pay all or certain taxes.
TRIPS	A WTO agreement, negotiated in the 1986-94 Uruguay Round which introduced intellectual property rules into the world trade system.
Upgrading	Making better products or services, make them more efficiently, or move into more skilled activities (Humphrey & Schmitz, 2002).