

1. Introduction

1.1 Approaching the Subject

The contribution of services to national GDP has traditionally been rather weak in most of Latin American countries¹. Especially in comparison to developed countries, Latin America's service sector appeared to play a rather subordinate role. In 1999, for instance, Brazil's service contribution to national GDP accounts for only 62% (CIA - The World Factbook, 2001), whereas services in Germany, for example, make up to 68.4% of the national GDP (CIA - The Worl Factbook, 2001). A similar situation is observable in Costa Rica, a country which is now widely known for its good education and its favorable conditions to provide services worldwide. In 1999, Costa Rica's contribution of services to national GDP amounts to only 56.8% (CIA - The World Factbook, 2001) which situates the Central American country far behind the benchmark of more developed countries.

Nevertheless, in the last decade, many Latin American countries have made a remarkable effort to strengthen this sector, especially the two previously named countries, Brazil and Costa Rica. In 2010, Brazilian services already make up to 67% of the country's GDP. In Costa Rica, the increase of this sector is even more significant. Accordingly, Costa Rican services represent 70.8% of the national GDP in 2009. Consequently, both nations are almost at eye level with Germany whose service proportion of GDP amounts to 71.3% in 2010 (CIA- The World Factbook, 2011).

But even the Latin American region as a whole has shown some significant progress in terms of services and proves its willingness to significantly strengthen this sector.

¹ According to businessdictionary.com, Latin America comprises "parts of North America (Mexico), Central America (except Belize), and South America (except French Guyana, Guyana, and Suriname) where mainly Spanish or Portuguese is spoken". (Business Dictionary)

This might pay off soon as with the new focus on services, new promising opportunities arise. One of them is to become recipient of international service outsourcing activities from the rest of the world!

Indeed, international outsourcing is not something which people usually relate to services. More commonly, we might think of some automotive companies, giving away part of their business to an outside manufacturer in order to cut costs. Often some of these outside manufacturers are not even located in the same country as the outsourcer. A situation which often provokes very emotional debates as it is strictly linked to the criticism of “exporting jobs”. This kind of outsourcing does usually refer to material outsourcing which can be seen as the counter part of service outsourcing. Many examples of material outsourcing, the rather classic form of outsourcing, might be known to all of us. Contrary to this, service outsourcing proves to be a rather maiden topic. “Although international outsourcing of material inputs is still far more quantitatively important than services for a typical industrialized economy” (Amiti & Wei, *Fear of Service Outsourcing: Is It Justified?*, 2004, p. 4), it is worth taking a closer look on the other side of the coin as well.

Along with the accelerated globalization and the worldwide availability of products, many companies throughout the world, but especially in the most industrialized countries, find themselves forced to cut prices in order to maintain their competitiveness on a global scale. An attractive way to achieve this goal and, consequently, to strengthen the company’s competitive position can be international outsourcing. Due to “the improvement in the communication technology such as internet, services can [suddenly] cross political borders via airwaves” (Amiti & Wei, *Fear of Service Outsourcing: Is It Justified?*, 2004, p. 4). In other words, what formerly was reduced to products can now equally be applied to services. Services worldwide are not anymore protected by the countries’ borders, but rather exposed to global competition. The technology development implicates that services of one company can now also be executed by another one. “This has

led to a rapid increase of offshore outsourcing² (...) in many service activities" (Rajan & Srivastava, Harvard Asia Pacific Review, 2007, p. 39).

For those countries that become recipients of service outsourcing activities, this trend represents a great opportunity to boost their respective economic development. Thus, outsourcing of services usually has a significant impact on both, the micro- and macroeconomic dimension of the outsourcing destination. Accordingly, from a microeconomic perspective, the chosen service provider will not only benefit from full order books. More than this, he might obtain critical know-how from its customers. This will help the supplier to move up the value chain and to offer more sophisticated services in the future. In view of the considerable growth of knowledge process outsourcing (KPO) in recent years, this is a quite realistic scenario (Lewin, Massini, & Peeters, Offshoring Research Network, 2008). However, in an aggregate model, the reception of service outsourcing is not less promising. Thus, substantial improvements in terms of GDP, trade growth and job creation can be expected. Moreover, the provision of higher value operations can significantly upgrade the recipient's competitive position as an investment location. Besides, also socio-economic aspects can be affected by international outsourcing. Hence, the service buyer's influence can often reach far into the foreign society, changing the local knowledge base, workplace standards and general business culture (World Bank Group, 2006).

All in all, these (positive) aspects have already led many countries to position themselves adequately and, as a consequence, to attract a growing number of international service outsourcing implementations. Latin America is evenly competing for those activities. Nevertheless, it is still playing a quite subordinate role in the global outsourcing scenery. To become an important and sizeable destination for international service outsourcing, this is the challenge but also the great opportunity for Latin America.

² Offshore outsourcing is a synonym of international outsourcing.

1.2 Problem Definition

International service outsourcing is a phenomenon which is likely to be observed more frequently in future times as the pressure to cut costs will surely augment due to an increasingly globalized competition. Besides, the constantly improving technology will make international service outsourcing more efficient. This might accelerate the outsourcing trend, too.

These facts could lead to the assumption that great times are waiting for those Latin American countries that can fulfill the most basic requirements for insourcing, e.g. provision of cheap and well-trained labor force. But this is not quite true as Latin America finds itself in a particularly tough competition for becoming a top outsourcing destination. Great parts of the Asian continent as well as the new EU-members in the East do not hesitate to emphasize their specific competitive advantage in order to serve the European or North American market as a reliable and adequate service provider.

In view of this global competition, the relative attractiveness of outsourcing destinations can drastically and rapidly change. Accordingly, the chances of obtaining a bigger share of global outsourcing implementations change fast, too.

In order to maintain or to strengthen their position, outsourcing destinations have to face the difficult task of screening their own business environment for particular strengths and weaknesses as well as for respective opportunities. Then, based on this evaluation, they have to take the necessary actions. If these steps are missed out, outsourcing destinations are likely to become less important in the future. This is also true for Latin America.

1.3 Objectives

1.3.1 General Objectives

On the basis of an extensive study of technical literature, this paper is aimed to give a well-founded overview on the current situation of global service outsourcing.

Moreover, a special focus on Latin America is supposed to give the reader an idea of how the region is currently positioned within this vast landscape of international outsourcing. Thereupon, taking into consideration the region's current situation as well as the latest trends in international outsourcing, a discussion is aimed to make clear Latin America's future perspectives.

Finally, based on the previous steps, it is intended to present a list of modifications and adjustments that will help Latin America to considerably improve its attractiveness as a global service outsourcing destination.

1.3.2 Specific Objectives

In this section, the specific objectives are listed.

- One objective of this work is the identification of the biggest outsourcers of services³ in the world. This will help to understand where the great centers of outsourcing currently are and whether or not this is a phenomenon which can almost exclusively be observed in industrialized countries.
- To identify the most important reasons for international service outsourcing is another crucial objective of this work. This information will contain many hints about how insourcing countries need to position in order to increase their attractiveness accordingly.
- Subsequently, the biggest insourcers of services in the world will be identified.

³ In this context, outsourcer of services does solely refer to a country.

- Then, an analysis of the past development of FDIs is intended to give hints about the future growth of international outsourcing.
- Moreover, an analysis of three important outsourcing rankings is supposed to set apart the most attractive destinations for service outsourcing.
- Closely linked to the previous point, another objective is the localization of Latin American countries within the consulted rankings. It is also intended to derive part of Latin America's strengths and weaknesses from these evaluations.
- More research will be aimed at the identification of the different types of services being outsourced as well as at the recognition of upcoming outsourcing trends.

1.4 Limitations

As it is reflected in the general and specific objectives, this paper examines and discusses the topic of outsourcing from a rather macroeconomic perspective. Consequently, many microeconomic aspects have to be left out. For instance, this work does not contrast the pros with the cons of international outsourcing. Although this might be of particularly interest for many companies and might help them with their internal decision process, it does not contribute to the final goal attainment of this paper. For the same reason, the identification of the biggest outsourcing and insourcing companies is not included.

Besides, this paper does not analyze whether or not big job losses arise from international service outsourcing. Indeed, this is a particularly exciting question that also provokes a large interest among the population. Moreover, it is a clear macroeconomic aspect. Nevertheless, this question is definitely a topic of its own and requires to be treated separately from the here presented general objectives. Consequently, it is beyond the scope of this work to include this aspect. However, an extensive study concerning this question is already presented by Amiti and Wei

(2004). But of course, none of the presented information is related to Latin America.

In order to keep this academic paper short and concise, the history and evolution of outsourcing is not included, either.

A limitation concerning the application of this work might represent the fact that the final discussion as well as the suggested modifications and adjustments are exclusively addressed to the Latin American region. Consequently, other outsourcing destinations might not benefit a lot from this part of the paper.

1.5 Justification

This work deals with a phenomenon of global importance. Just as offshoring, international service outsourcing has the potential to radically change the world of business. These changes will always have strong impacts on all of the involved economies. But despite its constantly growing significance, only little literature is available concerning this business option. Indeed, international service outsourcing has scarcely been analyzed yet. If so, analyses most commonly refer to the biggest or most popular outsourcing destinations, basically situated in Asia. Contrary to this, scientific research on the Latin American outsourcing scenery is rare and often not sufficiently profound.

This work closes the apparent gap in technical literature and analyses the latest articles, journals and papers in order to depict Latin America's current situation in terms of international service outsourcing.

Moreover, this paper appears to be the first academic work to suggest concrete modifications and adjustments in order to boost Latin America's standing within the international service outsourcing sector. Consequently, the here presented will be of particular interest to Latin American governments. But also for business people, the lecture of this paper can be very valuable as it comprises the widely dispersed information about this topic and presents a unique overview of the international

service outsourcing landscape. Companies thinking about service outsourcing will be interested in this work, too. Important findings in the literature review will help them to find the adequate destination for their services handling.

1.6 Organization of the Thesis

This paper is divided into six major chapters as follow:

The first chapter of the dissertation includes an introduction to the topic as well as a brief definition of the problem. Then, the objectives of the thesis will be presented. They will be divided into general and more specific ones. Moreover, a justification will illustrate the importance of the thesis.

The second chapter will deal with the methodology of this study. Here, important remarks about the retrieved information will be made.

The third chapter will consist of an extensive literature review, as international outsourcing has scarcely been scientifically analyzed yet.

The fourth chapter will be presented as a discussion. In this part, Latin America's strengths will be opposed with its respective weaknesses. Moreover, opportunities for the Latin American region in terms of service outsourcing will be identified.

The fifth chapter will be dedicated to present a list of modifications and adjustments Latin America has to realize in order to increase its attractiveness and competitiveness as international service outsourcing destination.

The last chapter will be dedicated to present the recommendations for further in-depth studies.