ECONOMIC AND SOCIAL UPGRADING
in OFFSHORE SERVICES GLOBAL VALUE CHAINS

THE CASE OF URUGUAY

Vivian Couto
Center on Globalization, Governance and Competitiveness, Duke University
vivian.couto@duke.edu

SCOPE AND MOTIVATION

LINK IN OFFSHORE SERVICES GVC IS RATHER UNEXPLORED

Economic Upgrading

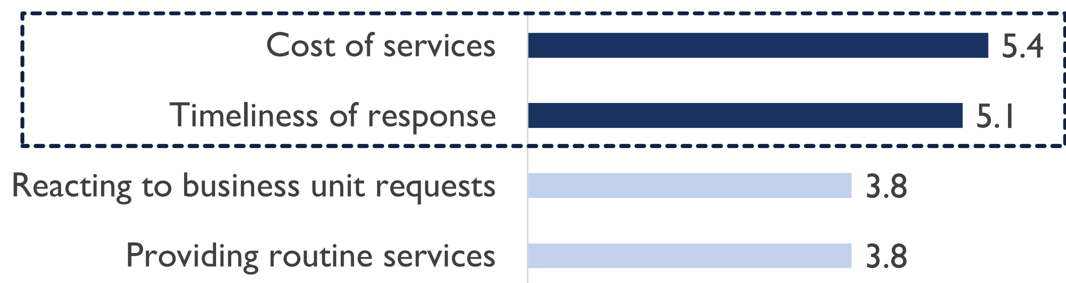
Increasing the value generated from a country's engagement in the GVC: **increasing TFP, specialization in higher-value segments or niche sectors.**

Social Upgrading

Increased access to: **more and better** jobs, improvements to **working conditions and labor rights**, and **skill development**.

Relationship is frequently positive, but not automatic. Might benefit one group of workers.

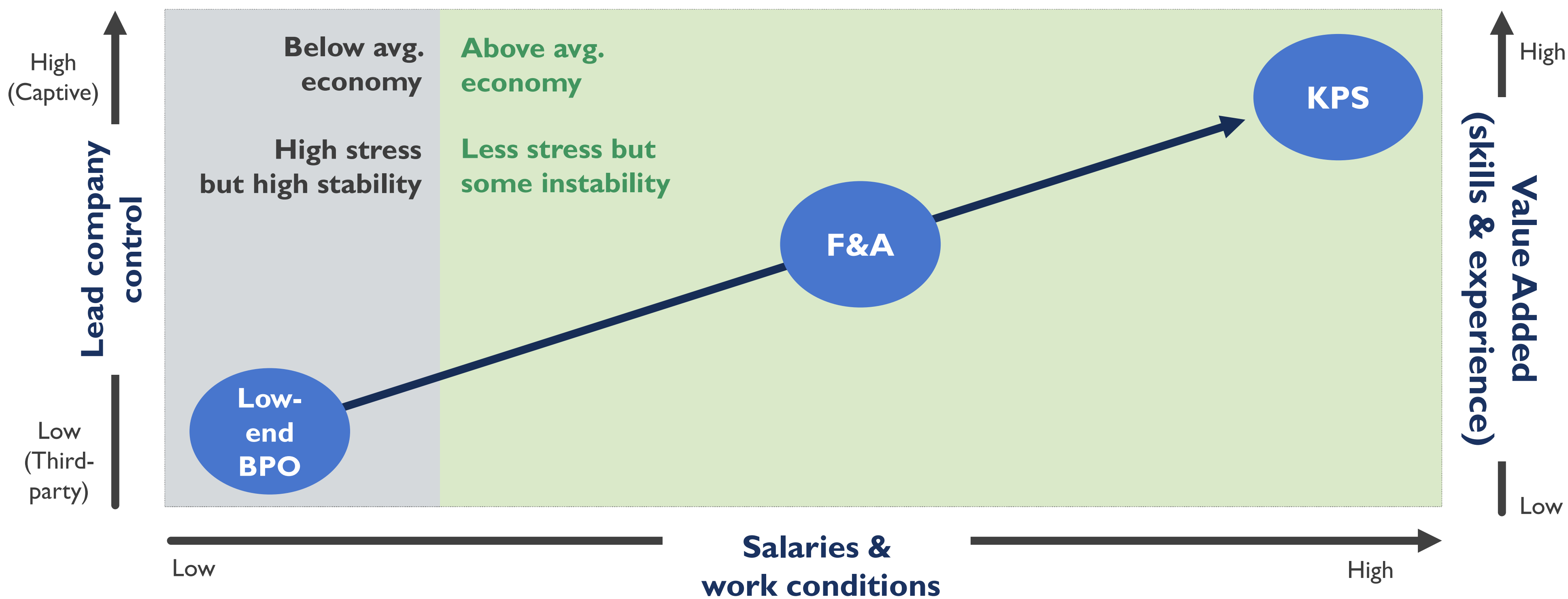
Leading priorities in the SSC strategy for customers, 1 to 8* (2017)



Source: Deloitte (2016) y KPMG (2017).

PREVIOUS FINDINGS

CASE STUDIES ON LOW-COST, HIGH SCALABILITY LOCATIONS (e.g. India, Philippines, Brazil)



Source: Author.
Note: Case studies on decent work in the global services industry.

CHANGING THE FOCUS

WHAT WOULD HAPPEN IN LOW-SCALABILITY COUNTRIES WITH GOOD INSTITUTIONS?

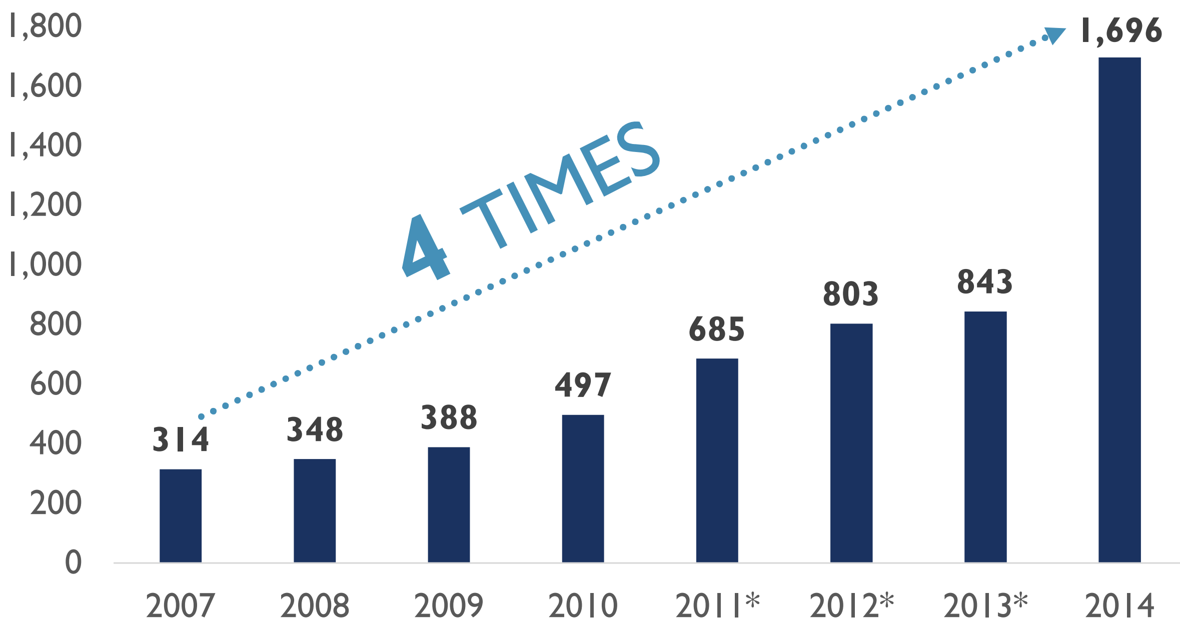
AT Kearney Global Services Ranking, developing countries from APAC and Latin America (2016)

Source: Author based on AT Kearney (2016).

GLOBAL SERVICES IN URUGUAY

ALIKE COSTA RICA, CAPTIVE OPERATIONS RULE

Uruguay Global Services Exports from Free Trade Zones (millions, US$)



Source: Author based on Lalanne & Vaillant (2014) & AZF-DGC (2016).
*Estimations

- **5%** OF GDP
- **1.4%** OF EMPLOYMENT
- **75%** = Captive or SSC

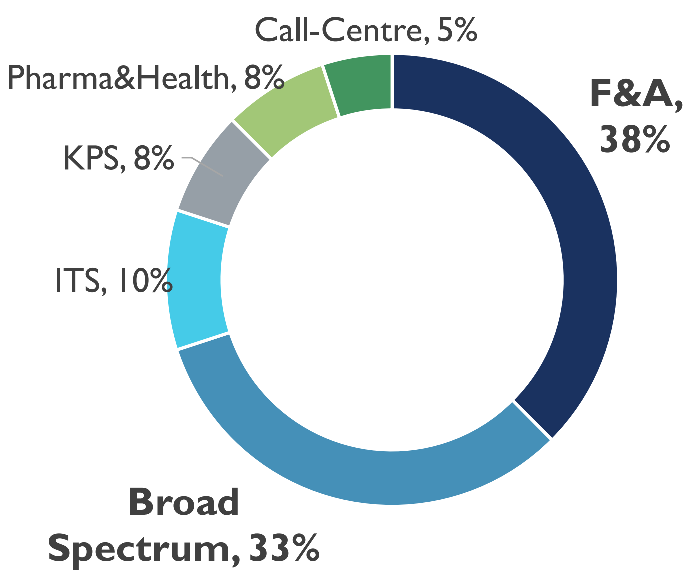
Costa Rica

- 4.5% OF GDP
- 1.3% OF EMPLOYMENT
- 80% = Captive or SSC

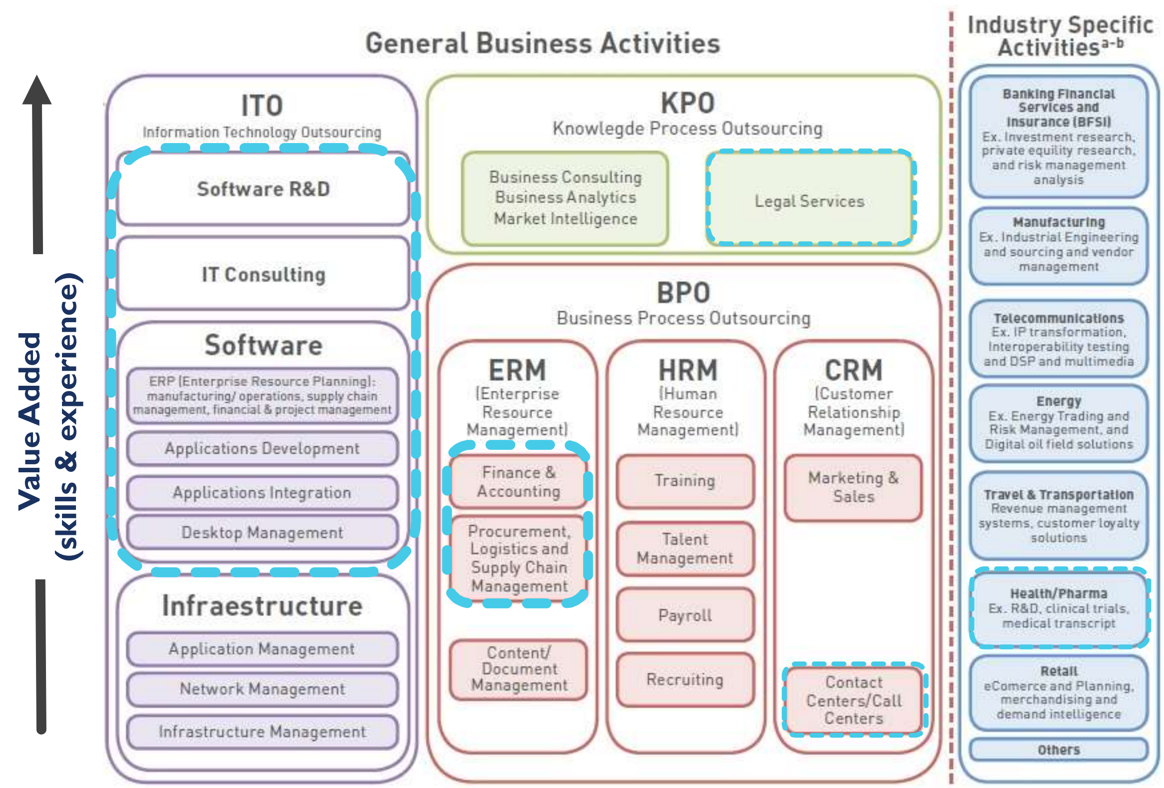
EVOLUTION IN THE OFFSHORE SERVICES GVC

FROM LOCAL ITS EXPORTS TO SSC PREFERRED LOCATION

Type of operation of CC and SSC, by segment (%)



Source: Author based on Uruguay XXI (2017)

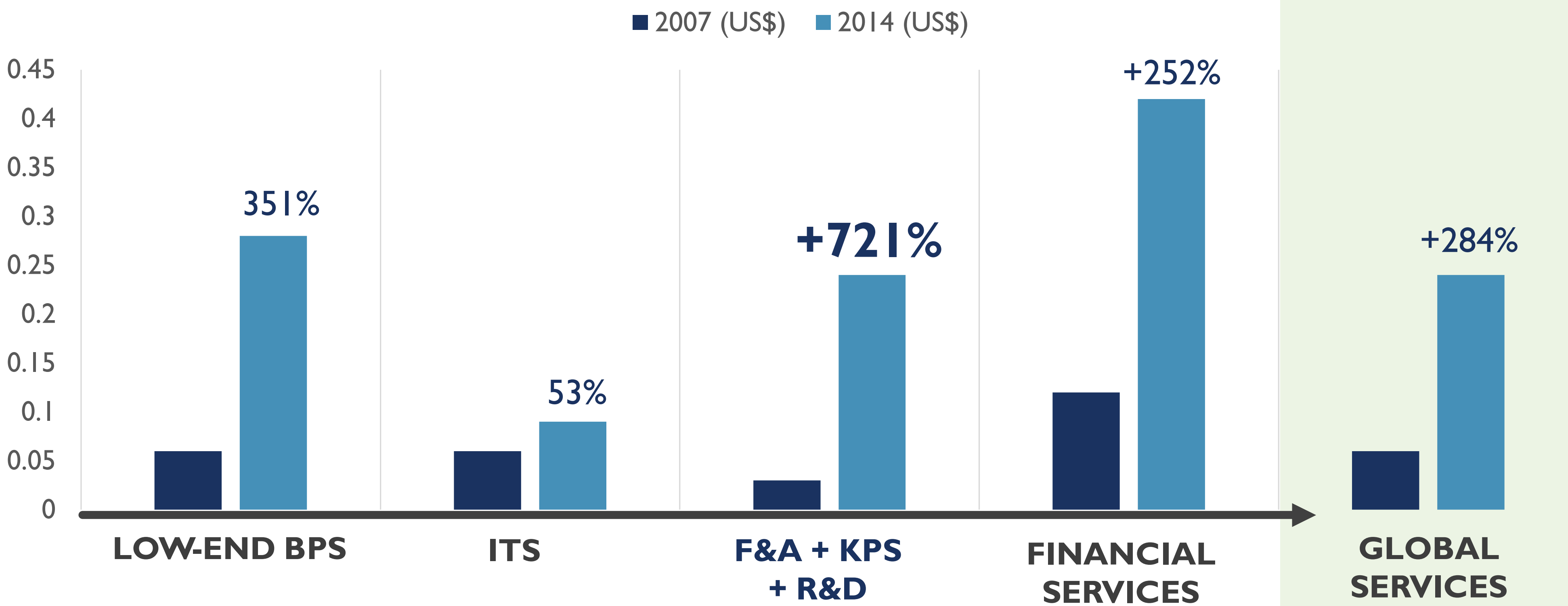


Source: Duke CGGC (2017)

ECONOMIC UPGRADING (2007 – 2014)

1) PROCESS UPGRADING

Changes in exports by employee, by segment (US$ and %)

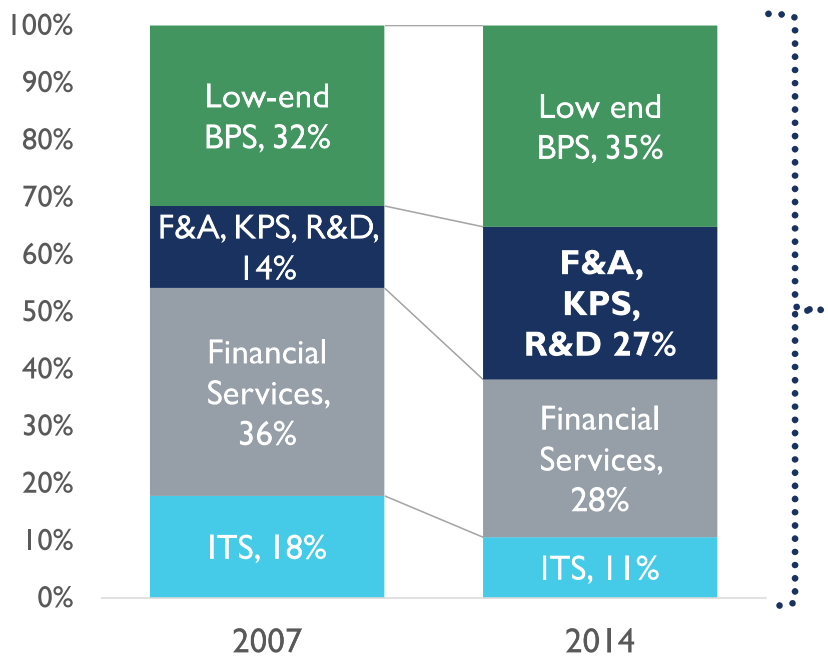


Source: Author based on Free Zone Agency (2016)

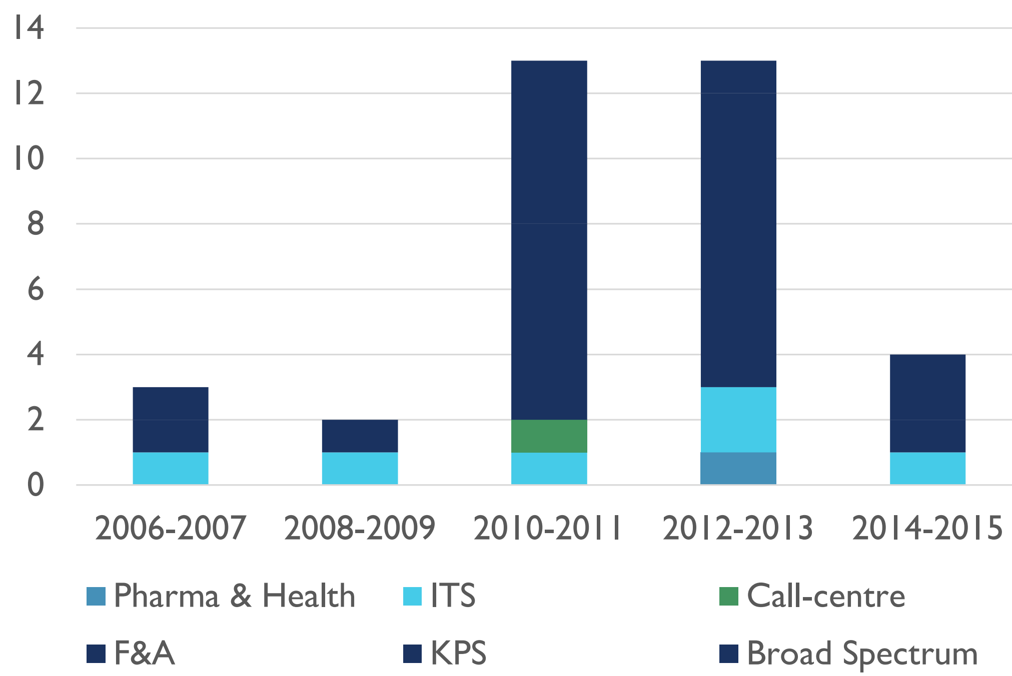
ECONOMIC UPGRADING (2007 – 2014)

2) FUNCTIONAL UPGRADING DRIVEN BY FDI

Changes in exports composition (%)



New captive and third-party operations, by segment (number)



Source: Author based on Free Zone Agency (2016)

SOCIAL DIMENSION
RESEARCH QUESTIONS

1. Does the **Global Services** industry creates better jobs than the rest of the economy?
2. Do **high value-added segments** create better jobs than low value-added segments (KPO vs. BPO)?
3. Did Uruguay experienced **social upgrading** during the economic upgrading phase (2007 – 2014)? Is that social upgrading experimented by **ALL workers**?

Extreme caution in quantitative results

- Datasets have a NATIONAL scope
- Datasets have a DIFFERENT level of disaggregation

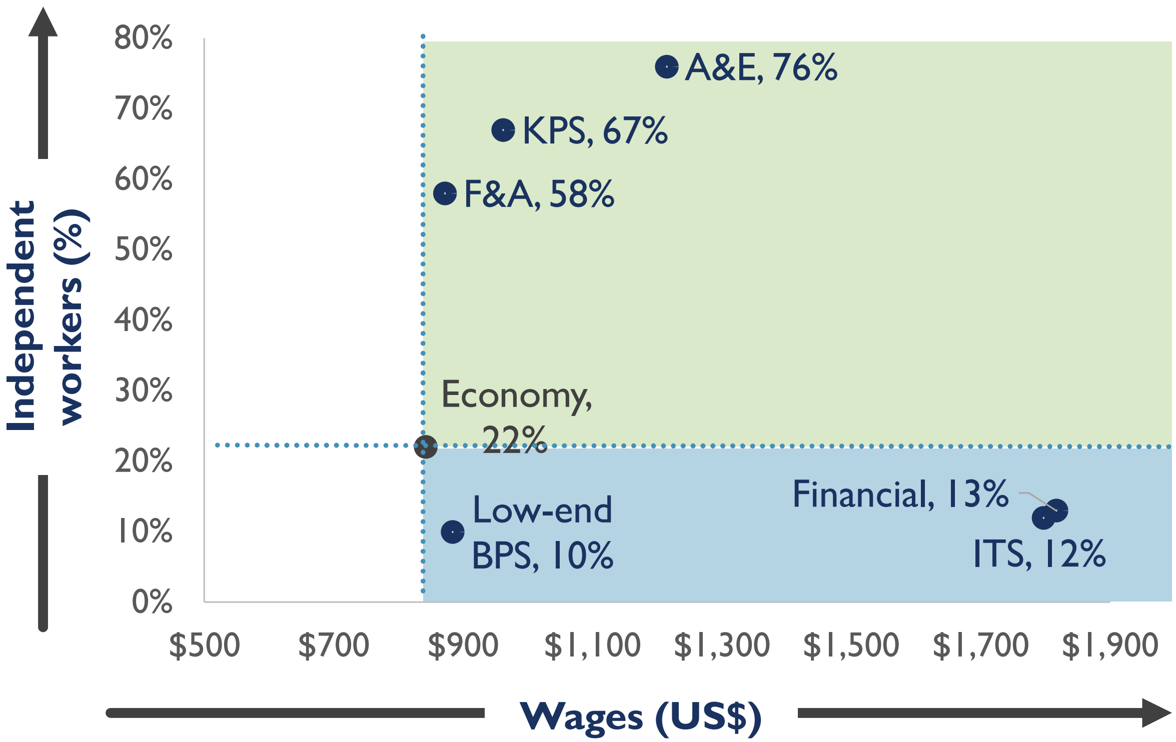
Risk mitigation

- Careful selection of ISIC
- 22 interviews and 6 focus groups

GLOBAL SERVICES VS. ECONOMY

QUESTION 1 – QUANTITATIVE FINDINGS

Comparison of wages and independent workers: economy vs. global services segments (2015)



Comparison of wages in FTZ (2014)

FTZ	Wages (US$)
UPM Fray Bentos	4,608
Zonamerica	**4,225**
WTC	**3,050**
Aguada Park	**2,815**
Parque de las Ciencias	**2,702**
Grupo Continental S.A.	2,551
Promedio	2,469
Nueva Palmira (Estatal)	2,006
Zona Franca Libertad	1,357

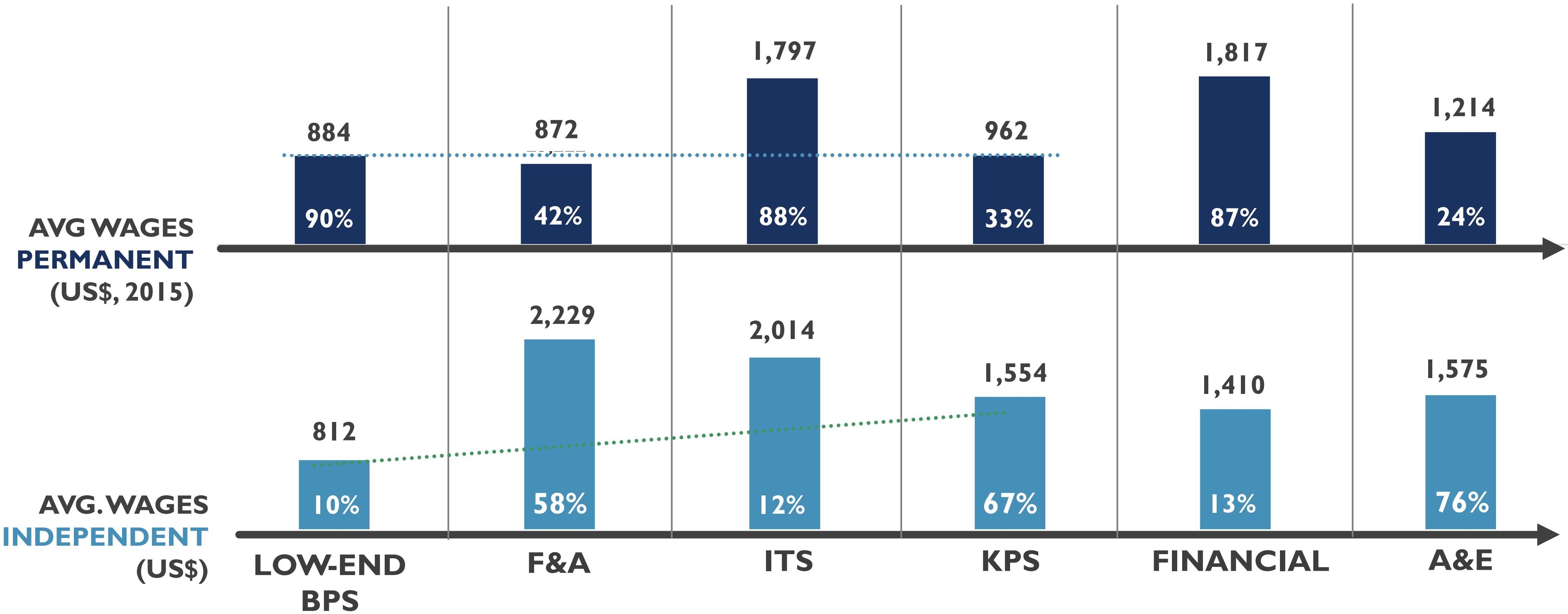
Source: Author based on Free Zone Agency (2016) & ECH (2015)

GLOBAL SERVICES VS. ECONOMY

QUESTION 1 – QUALITATIVE FINDINGS

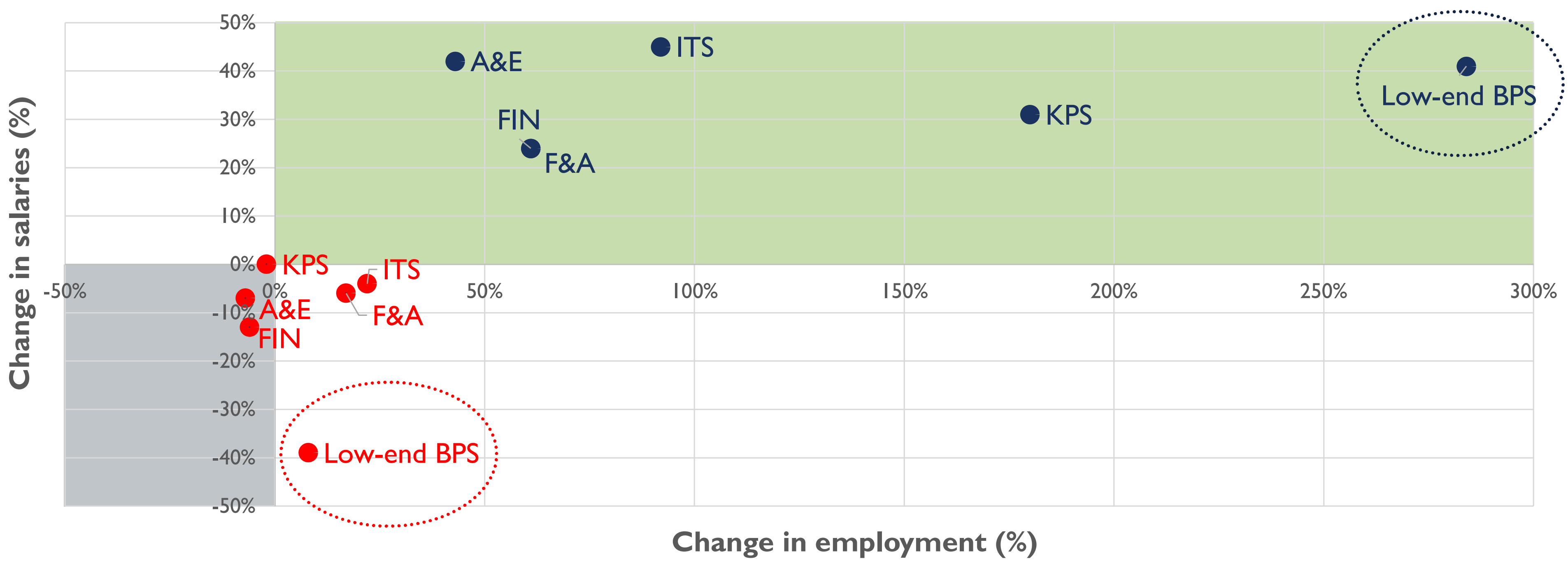
	COMPONENT	FINDINGS	REGULATORY FRAMEWORK
CHALLENGES	**LEASE OF SERVICES**	Frequently, lease of services **cover labor relationships**. **Captive** centers hire **permanent** workers exclusively**.**	**Principle of reality**, except for KPS local firms (specific Law).
	FLEXIBLE SCHEDULE	Workers see it as a **benefit**, but they agree on **abuses** from both parties.	**Not allowed**.
	REMOTE WORK	**9,3%** of workers in the industry work remotely. Percentage is higher in **KPS** (14%) and **ITS** (11%)	**Legal vacuum**
GP	**SKILLS DEVELOPMENT**	In-house trainings are highly **firm-specific**. Soft-skills and languages remain within the individual.	**Finishing Schools** (70% subsidies on training costs)

HIGH-END SEGMENTS VS. LOW-END SEGMENTS
QUESTION 2



IS THERE SOCIAL UPGRADING?
QUESTION 3

Social upgading by segment | 2007 – 2015 permanent | 2011 – 2015 independent



Source: Author based on data provided by Banco de Previsión Social (2017)

KEY FINDINGS

- **The global services industry creates better jobs than the average economy, including higher salaries and no informality. However, there is evidence of covert labor, particularly in third-party KPS firms.**
- **Economic and social upgrading intervened by critical binding factors:**

Binding Factor	Key findings
Type of Contract	Permanent and **independent** workers experience opposite impacts
Governance	Captive centers only hire **permanent** workers, regardless of the segment
Labor Institutions	These promote **reciprocity** between both phenomena (Salaries Council)
Public Policies	Support for **Finishing Schools**

While the data does not provide the level of disaggregation needed to implement a methodology that asserts that both phenomena are directly related, **economic upgrading and social upgrading are likely to be positively correlated**, **albeit exclusively for permanent workers.**

THANK YOU

QUESTIONS AND SUGGESTIONS WELCOME

Vivian Couto
Center on Globalization, Governance and Competitiveness, Duke University
vivian.couto@duke.edu