ECONOMIC AND SOCIAL UPGRAADING
in OFFSHORE SERVICES GLOBAL VALUE CHAINS
THE CASE OF URUGUAY

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**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)**

- Cost of services: 5.4
- Timeliness of response: 5.1
- Reacting to business unit requests: 3.8
- Providing routine services: 3.8

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?

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$)

- 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

*Estimations
EVOLUTION IN THE OFFSHORE SERVICES GVC
FROM LOCAL ITS EXPORTS TO SSC PREFERRED LOCATION

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

- F&A, 38%
- Broad Spectrum, 33%
- Pharma&Health, 8%
- KPS, 8%
- ITS, 10%
- Call-Centre, 5%

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)

2) FUNCTIONAL UPGRADING DRIVEN BY FDI

Changes in exports composition (%)

- Low-end BPS, 32%
- F&A, KPS, R&D, 14%
- Financial Services, 36%
- ITS, 18%

- Low-end BPS, 35%
- F&A, KPS, R&D 27%
- Financial Services, 28%
- ITS, 11%

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

- 2006-2007
- 2008-2009
- 2010-2011
- 2012-2013
- 2014-2015

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**?

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

Comparison of wages in FTZ (2014)

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

### GLOBAL SERVICES VS. ECONOMY
#### QUESTION 1 – QUALITATIVE FINDINGS

<table>
<thead>
<tr>
<th>COMPONENT</th>
<th>FINDINGS</th>
<th>REGULATORY FRAMEWORK</th>
</tr>
</thead>
<tbody>
<tr>
<td>LEASE OF SERVICES</td>
<td>Frequently, lease of services <strong>cover labor relationships.</strong> Captive centers hire <strong>permanent</strong> workers exclusively.</td>
<td>Principle of reality, except for KPS local firms (specific Law).</td>
</tr>
<tr>
<td>FLEXIBLE SCHEDULE</td>
<td>Workers see it as a <strong>benefit</strong>, but they agree on <strong>abuses</strong> from both parties.</td>
<td>Not allowed.</td>
</tr>
<tr>
<td>REMOTE WORK</td>
<td><strong>9.3%</strong> of workers in the industry work remotely. Percentage is higher in KPS (14%) and ITS (11%)</td>
<td>Legal vacuum</td>
</tr>
<tr>
<td>SKILLS DEVELOPMENT</td>
<td>In-house trainings are highly <strong>firm-specific.</strong> Soft-skills and languages remain within the individual.</td>
<td>Finishing Schools (70% subsidies on training costs)</td>
</tr>
</tbody>
</table>
HIGH-END SEGMENTS VS. LOW-END SEGMENTS

QUESTION 2

AVG WAGES
PERMANENT
(US$, 2015)

884
872
1,797
962
1,817
1,214

90%
42%
88%
33%
87%
24%

AVG WAGES
INDEPENDENT
(US$)

812
2,229
2,014
1,554
1,410
1,575

10%
58%
12%
67%
13%
76%

LOW-END
BPS
F&A
ITS
KPS
FINANCIAL
A&E
IS THERE SOCIAL UPGRADING?
QUESTION 3


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

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

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

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