Outsourcing and E-commerce: Reality Check

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Outline

• Outsourcing: the issues
• Implications for developing countries
• Services and e-commerce: evolution or revolution
• Reality check
• Concluding remarks
Outsourcing: Background

• Definition: “the delegation of one or more IT-intensive business processes to an external provider that, in turn, owns, administrates, and manages the selected process based on defined and measurable performance metrics” (Gartner 2003).

• Going on for decades, but volume and level of complexity has been increasing fast over the last 10 years.

• Hierarchy (growing complexity): 1) data entry, transfer and conversion tasks; 2) rule-based processes (account opening…); 3) decision-making and problem-solving processes (screening credit cards applications); 4) client interface (telemarketing); and 5) complex business services.
IT-Enabled Services and Cross-Border Trade

(Source: Mattoo and Wunsch, 2004)

• **1. Information Technology Services (Computer and related services):**
  – Software Development and Implementation Services, Data processing and Database Services,
    IT Support Services, Application Development & Maintenance, Business Intelligence & Data
    Warehousing, Content Management, E-procurement and B2B Marketplaces, Enterprise
    Security, Package Implementation, System Integration, SCM, Enterprise Application
    Integration, Total Infrastructure Outsourcing, Web Services (Internet Content Preparation, etc.),
    Web-hosting and Application Service Providers (ASPs).

• **2. Business Process Outsourcing:**
  – *Customer Interaction Services*: Sales Support, Membership Management, Claims, Reservations
    for Airlines and Hotels, Subscription Renewal, Customer Services Helpline, Handling Credit
    and Billing Problems, etc. Telemarketing and Marketing Research Services.
  – *Back-office Operations*: Data entry and handling, Data processing and database Services,
    Medical Transcription, Payment Services, Financial Processing (financial information and data
    processing / handling), Human Resource Processing Services, Payroll Services, Warehousing,
    Logistics, Inventory, Supply Chain Services, Ticketing, Insurance Claims Adjudication,
    Mortgage Processing.
  – *More Independent Professional or Business Services*: Human Resource Services (Hiring,
    Benefit Planning and Payroll, etc.), Finance & Accounting Services (including Auditing,
    Bookkeeping, Taxation Services, etc.), Marketing Services, Product Design and Development.
Outsourcing: some questions

• Q: Is it just “a new way of doing international trade” (Gregory Mankiw)? A: “Yo” – Yes, technology has significantly increased the tradability of services; No, it requires a networked approach to business processes and, in this context, it is different from “ship-and-forget” trade.

• Q: Does it challenge comparative advantage? A: Nonsense, but it illustrates the potential for “leapfrogging” at nodes of the network.

• Q: Is this going to generate dramatic job displacement in U.S. and other industrialized countries? A: No, although job displacement in specific activities that are now contestable can be substantial.
Job Creation vs. Job Destruction
(The U.S. Story according to ITAA)

Figure 1: Cumulative Non-IT and IT Jobs Created Due to Increased Economic Activity vs. Cumulative IT Jobs Lost or Never Created Due to Offshore ITO

Source: Global Insight, Inc.
Implications for Developing Countries: Business Services Exports
(Source: Matoo and Wunsch, 2004)

Figure 1: Regional Distribution of Business Services Exports (billion US dollars)

<table>
<thead>
<tr>
<th>Country</th>
<th>Cost</th>
<th>Environment</th>
<th>People</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>3.72</td>
<td>1.31</td>
<td>2.09</td>
<td>7.12</td>
</tr>
<tr>
<td>China</td>
<td>3.32</td>
<td>.93</td>
<td>1.36</td>
<td>5.61</td>
</tr>
<tr>
<td>Malaysia</td>
<td>3.09</td>
<td>1.77</td>
<td>.73</td>
<td>5.59</td>
</tr>
<tr>
<td>Czech Rep.</td>
<td>2.64</td>
<td>2.02</td>
<td>.92</td>
<td>5.58</td>
</tr>
<tr>
<td>Singapore</td>
<td>1.47</td>
<td>2.63</td>
<td>1.36</td>
<td>5.46</td>
</tr>
<tr>
<td>Philippines</td>
<td>3.59</td>
<td>.92</td>
<td>.94</td>
<td>5.45</td>
</tr>
<tr>
<td>Brazil</td>
<td>3.17</td>
<td>1.41</td>
<td>.86</td>
<td>5.44</td>
</tr>
<tr>
<td>Canada</td>
<td>1.00</td>
<td>2.48</td>
<td>1.94</td>
<td>5.42</td>
</tr>
<tr>
<td>Chile</td>
<td>2.99</td>
<td>1.68</td>
<td>.70</td>
<td>5.37</td>
</tr>
<tr>
<td>Poland</td>
<td>2.88</td>
<td>1.57</td>
<td>.88</td>
<td>5.33</td>
</tr>
</tbody>
</table>
Evolution vs. Revolution: The Network Explosion

![Graph of Internet Domain Survey Host Count from Jan 1994 to Jan 2004.](source: Internet Software Consortium (www.isc.org))
Worldwide E-Commerce Growth

<table>
<thead>
<tr>
<th>Total ($B)</th>
<th>2001</th>
<th>2003 (est)</th>
<th>% of worldwide e-commerce, 2003 (est)</th>
</tr>
</thead>
<tbody>
<tr>
<td>North America (US, Canada, Mexico)</td>
<td>908.6</td>
<td>2,239</td>
<td>50.90%</td>
</tr>
<tr>
<td>Asia Pacific</td>
<td>117.2</td>
<td>724.2</td>
<td>24.30%</td>
</tr>
<tr>
<td>Western Europe</td>
<td>194.8</td>
<td>853.5</td>
<td>22.60%</td>
</tr>
<tr>
<td>Latin America</td>
<td>6.8</td>
<td>31.8</td>
<td>1.20%</td>
</tr>
</tbody>
</table>

Forrester Research estimates that by end of 2003:

- US will have 47% of the worldwide e-commerce
- Japan will have 13% of the worldwide e-commerce
- Germany will have 5.7% of the worldwide e-commerce

Source: Forrester Research, Inc, 2003
Income Divide

User distribution, by income group, 2001

Population
- High Income
- Upper-mid Income
- Lower-mid Income
- Low Income

Telephone lines
- High Income
- Upper-mid Income
- Lower-mid Income
- Low Income

Mobile users
- High Income
- Upper-mid Income
- Lower-mid Income
- Low Income

Internet users
- High Income
- Upper-mid Income
- Lower-mid Income
- Low Income

Source: ITU World Telecommunication Indicators Database
Telecoms and Internet
the cost of being connected

Monthly internet access charge as a percent of monthly average income

Nepal: 278%
Bangladesh: 191%
Bhutan: 80%
Sri Lanka: 60%
United States: 1.20%
Denmark: 0.135%

Secure Servers and E-Commerce

Secure Servers, OECD and non OECD (October 2000)

OECD 95%
Non-OECD 5%

Share of Secure Servers in non OECD countries (October 2000)

Central and South America 34%
Africa 9%
Non-OECD Europe 14%
Non-OECD Asia 43%
Oceania 0.4%

Source: OECD, 2001
Can IT be of Any Help?
Facilitating trade in less efficient countries would bring significant gains

Reality Check for Developing Countries

- Infrastructure: rapid improvement but major gaps in coverage/affordability.
- Regulatory environment: progress + complexity.
- Digital literacy: institutional constraints.
- Globalization: B2C and B2B will continue to expand at a fast pace, but the distribution of their benefits will be uneven.
Concluding Remarks

• You have not seen anything yet… (no precise science: estimates of the potential for jobs to be “offshored” in the next 10 years vary from 3.3 to 14 million in the case of the US; but in theory any job involving “sitting at a desk, talking on the phone, and working on a computer” is contestable)

• Everything is relative: “drop-in-the-ocean” vis-à-vis overall job market conditions, but source of growing anxiety among white-collar workers

• Unintended consequences of technology: medical transcription and voice-recognition software; creation of new markets (declining transaction costs and review of billing discrepancies between airlines and travel agencies).
Concluding Remarks (cont.)

- More evolution than revolution, but potential for significant distribution impacts (within nations and internationally), particularly, as e-commerce practices spread.

- Cross-border disputes will also expand in the absence of regulatory convergence (no hope for advancing this agenda in the WTO in the near future).
References