

**The Offshoring of Teleservices:  
Opportunities and Macroeconomic Effects in  
Developing Countries**

**R. H. Zielinski**



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## **EXECUTIVE SUMMARY**

### **CHAPTER I**

**COPPER VERSUS GLASS**

**COMMUNICATIONS MARKET STRUCTURE**

### **CHAPTER II**

**THE EMERGENCE OF CALL CENTERS**

**CHARACTERISTICS OF OFFSHORING**

- 1. WAGE AND ECONOMIC FORCES*
- 2. LINGUISTIC AND CULTURAL FORCES*
- 3. EDUCATIONAL LEVELS*
- 4. INFRASTRUCTURE*

### **CHAPTER III**

**THE CHANGING NATURE OF TELESERVICES**

**LOW-MEDIUM SKILLED WORK**

**MEDIUM TO HIGH SKILLED WORK**

**HIGH SKILLED WORK**

### **CHAPTER IV**

**ECONOMIC AND SOCIAL DEVELOPMENT**

- 1. EMPLOYMENT*
- 2. FOREIGN DIRECT INVESTMENT*
- 3. HUMAN CAPITAL*
- 4. IMMIGRATION*
- 5. SOCIAL COSTS*

## **CONCLUSION**

## **REFERENCES**

## **APPENDIX**

## **EXECUTIVE SUMMARY**

This essay reviews the revolutionary communications technology that has meant the ‘death of distance’ and explores what this implies for the export of teleservice jobs. Fiber optics is the present and future of telecommunications that is allowing users to converse with each other anywhere in the world for any length of time at little or no cost. The first chapter describes the dramatic fall in communications pricing and what it means for the global service trade. Chapter two discusses teleservices and the characteristics of the offshoring process. The outsourcing of service jobs, and especially call centers, is inciting passionate debates in the US and European countries and we will look at the macroeconomic effects on both Northern and Southern labor markets. Chapter three analyzes the new opportunities that this technology provides in terms of employment creation and show how this innovation offers new and unexpected ways to further integrate national economies. With a grounded understanding of communications technology and a realistic sense of the capabilities of LDCs, it is not hard to imagine new business models that could transform current employment structures. Chapter three also describes some of the interesting applications that are already being used by innovators in the North.

Chapter four concludes by looking at issues related to the impacts of this trade for the development of recipient countries, specifically with regard to issues of employment, immigration, human capital, and public policy. Today we see a number of factors converging to create fascinating changes in the global economy. This paper is designed as an attempt to understand and trace specific aspects of these changes in an eclectic and comprehensive way.

## **CHAPTER I**

### **COPPER VERSUS GLASS**

Since the invention of the telephone, voice communications have been transferred over copper wire. The PSTN (Public Switched Telephone Network) has covered the globe and is still a major force in voice communications. The modern telephone is a standard tool for daily life worldwide. The PSTN network is largely divided along national lines. Governments and private companies own and regulate the lines extracting rent for their use when connecting two parties in a conversation. When one makes an international call on this system, it is quite normal to pay fees in a number of countries or networks that your voice passes through. Although distance prices have dropped considerably in the past fifty years, they are still significant.

The copper wire channels voice traffic through a series of electric vibrations. Over distance these vibrations have a tendency to weaken and must be constantly amplified to maintain sound quality. For this reason, a call from a far away place can often lose strength and pick up background noise. The copper system is also limited by its carrying capacity. A copper wire can only carry 1.54 megabytes per second (mbps) at any given time whereas broadband internet access speeds can offer homes up to 100 mbps.

The PSTN system is vast and it has served us well for the past one-hundred and twenty years. However, its day has come and gone. New technologies have eclipsed its primary usefulness, and its death is imminent. The old business model for telecommunications companies, whereby distance charges were kept hugely over cost to subsidize domestic use, is doomed. For citizens everywhere, this is a very good thing.

The massive break through innovations in the 1960's and 70's by researchers at Corning Glass, Laser Diode and Bell labs saw the commercial innovation of a new medium for communicating over 'fiber optics.' Fiber optic cables are constructed out of a glass so pure that

if you made a sheet seventy miles thick out of it, the view at the other end would be no more distorted than your average window pane. A fiber optic cable the width of human hair has the capacity to carry three million conversations simultaneously (Cairncross, 2001: 30)! With this vast strength, fiber optics are the backbone of today's global communications network. Data is sent over fiber optic cables as a light signal, the signal is then digitally translated by a computer at the receiving end. This new network is more dynamic than the PSTN system, able to send enormous amounts of data, voice, and video files. This kind of flexibility is as exciting as it is useful.

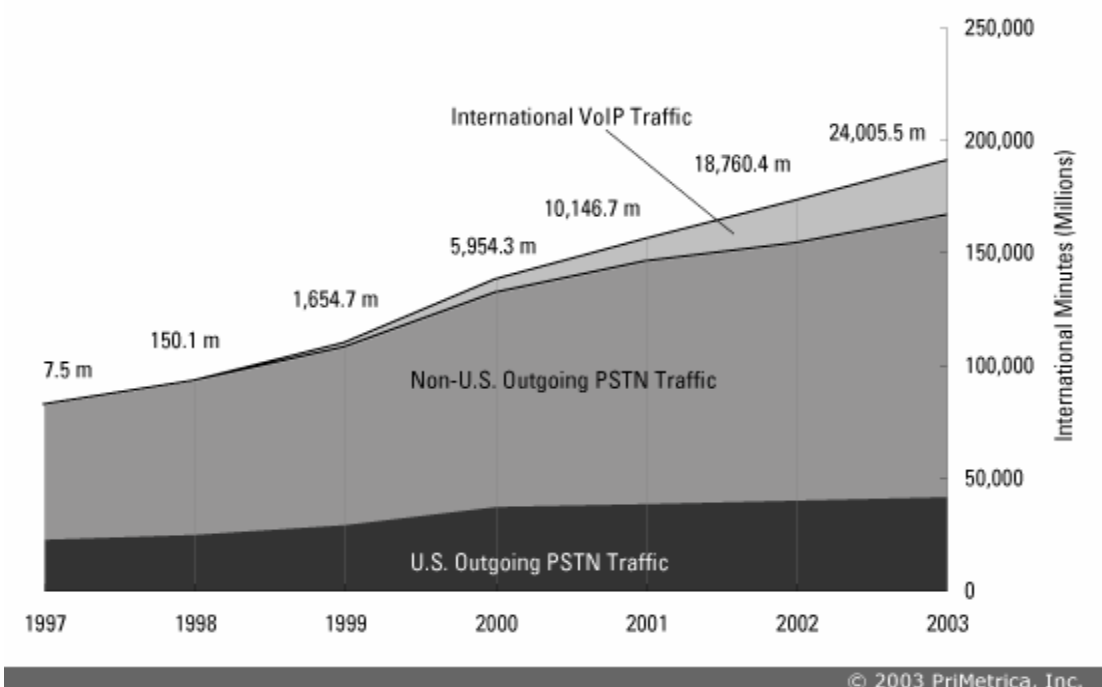
### **COMMUNICATIONS MARKET STRUCTURE**

The companies that own the fiber optic networks, such as Global Crossing, have been operating in a unique atmosphere of over capacity. The awesome carrying capacity of fiber optics creates enormous economies of scale, which has encouraged investment well ahead of demand. The dotcom boom of the late 1990s and the competition it created, spurred incentives to invest ahead of rivals to gain these economies of scale. The overinvestment in optics has created a network where today unused or 'dark fiber' accounts for almost 90 per cent of the world's capacity (Noam, 2004). This has created a situation where the profitability of global bandwidth is essentially 'running in place,' because even as global demand rises, the price of using the cable is continually falling (Telegeography, 2004). Data transfer prices for international use are today less than one per cent of what they were six years ago (Noam, 2004). The combination of structural overinvestment and capacity strength of fiber optics, has lowered communication costs opening the doors for intensive offshoring activity.

Consumers worldwide have embraced this new technology and the exodus from the PSTN system has already begun. Millions of households and businesses worldwide have

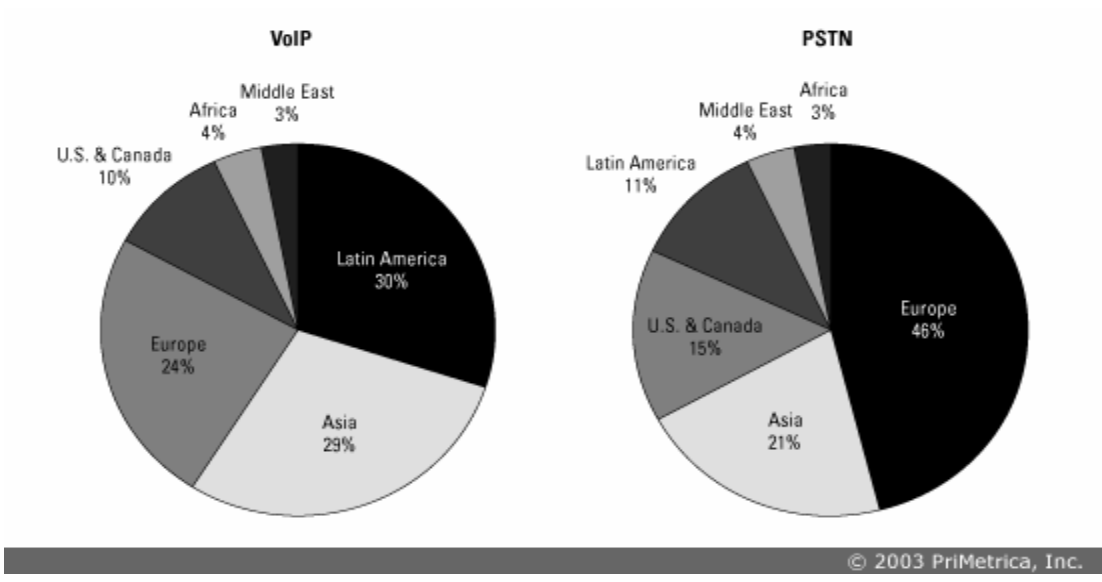
unsubscribed to their traditional phones and now make and receive all calls through their broadband connection. Most companies do not charge by the quantity of data used or distance carried but rather as a *carte blanche* plan with one flat monthly access fee. Whether you send one email to your neighbor or fifty to your friend in China, the price is free. So too with a VOIP telephone conversation, free for as many minutes or as far away as you want. VOIP services are now being 'bundled' for consumers who sign contracts for a pay-monthly broadband connection. The New Millennium Research Council Consumers worldwide estimates that by 2009, the Net will carry 40 per cent of the calls made in the U.S. and a great majority of multinational businesses now use VOIP for all internal communications (Millennium, 2004). Millions of people worldwide already keep in touch with friends and family using free instant messenger software from MSN, Yahoo, and AOL, using text, voice and video features. In the consciousness of today's youth, global communications is becoming seen as a basic human right rather than the costly privilege of the past. The first graph below shows the emergence of international VOIP traffic and its leveling effect on the growth of the PSTN network. Interestingly, it is in the developing world where VOIP growth seems to be strongest. The second set of graphs shows how VOIP is gaining in the developing world where its popularity is explained by the need to circumvent the high cost of distance charges.

Graph 1.1: Global Growth of Voice Traffic



Source: TeleGeography 2004 Executive Summary [http://www.telegeography.com/ee/free\\_resources/tg2004\\_exec\\_sum-01.php](http://www.telegeography.com/ee/free_resources/tg2004_exec_sum-01.php)  
PriMetrica, Inc

Graph 1.2: Share of VOIP/PSTN usage by region



Source: TeleGeography 2004 Executive Summary [http://www.telegeography.com/ee/free\\_resources/tg2004\\_exec\\_sum-01.php](http://www.telegeography.com/ee/free_resources/tg2004_exec_sum-01.php)  
PriMetrica, Inc

In terms of cost, quality and efficiency, this is certainly a telecommunications revolution. The empowering capabilities of advanced communication technologies will certainly be the pivotal force shaping economies and societies over the next fifty years. Telecom Analyst Jeff Kagan explains that,

**We are in the final 10 years of a 30-year transition. The traditional phone line is going to be replaced by fiber to the home and the office (Associated Press, 2004).**

The effects of this revolution will be felt in every sector from migration, investment, real estate, education, trading, governance, and law. Some economists argue that fiber optic penetration will be the driver of growth and productivity improvements and that it could add up to \$500 billion a year to the US economy creating 1.2 million jobs in the US alone (Borland, 2004). Developing regions stand to gain the most from these technological advances in productivity gains, infrastructure networks and economic integration. The South Korean government understands the importance of broadband penetration as the country leads the world with 71 per cent of all households subscribed. Telecommunications expert Marc DeFalco explains,

**“We see broadband as a key, key component for economic development . . . We look on broadband as a means of opening up rural areas to the same opportunities that people would have in urban areas” (Borland, 2004).**

In fact, there is emerging a panoply of wireless communication technologies (e.g. WiMax) that have the potential to offer high speed internet connections at a fraction of the cost of laying cable directly to the home. Speaking of these emerging technologies, Yahoo executive Geoff Ralston predicts, “What I think will happen with the Internet is it will disappear and become everywhere. It will no longer be a ‘thing.’ It will be a part of our lives, part of us, part of the fabric of most of the things we do” (Hu, 2004).

This paper shows the significance that this revolution will have for employment in the developing world. The effect of the internet on employment opportunities in some developing countries has already been significant. The ability to instantly share data files has opened up

countries to new opportunities for service employment, a trend that began twenty years ago. Today software engineers in China sell their products worldwide. Loan analysts in India pour over credit histories of US clients and email their findings back to US banks. Investment firms are moving \$90 000 a year research jobs from New York to India because there is no information in Manhattan that can't be instantly shared with New Delhi over a company intranet. Legal services, designing, computer programming, all these tasks and more have been outsourced to the benefit of both the sending and receiving countries. Between 1989 and 2000, services exports grew at 10.7 per cent per year, exceeding the growth rates of manufacturing exports (Dickens, 2003: 43). The level and scale of this phenomenon is only possible through the global fiber optic network.

In this essay however, we are less interested in data transferring service jobs and more focused on tasks that are performed in real time over the videophone. Until recently, services that were both produced and consumed at the same time were thought to be protected from outsourcing. Some, like haircuts are, but for other positions VOIP is rewriting that rule. Customer service call centers are our main focus. The videophone allows a more dynamic connection between users than just file sharing tasks. The employment skills needed for teleservice jobs are very different, calling for creativity, accuracy, politeness and charisma. For most Northern consumers, using outsourced call-center services will be their most intimate experience with the forces of globalization.

As VOIP is an emerging application, it has the potential to grow quickly, making it worthwhile for us to examine its mechanics and properties. As opposed to data transferring jobs, like writing software and computer programming, teleservice jobs are centered on education, mediation, personal counseling, health services, marketing, sales, customer service and the like, all jobs that will not likely be automated. Unlike data service jobs, the extent to which this work

can be outsourced depends on issues like culture, language, time-zones, and the tolerance of consumers. Social and cultural differences that take a back seat in other outsourcing projects are an integral part of the teleservice industry. There is a clear distinction between regular data service jobs that can be outsourced and teleservice jobs that rely almost completely on a tele/video connection and are performed in real-time in direct interaction with the consumer. This paper is concerned primarily with opportunities in teleservices.

By cutting communications cost to near-zero, fiber optics have broken down the economic barriers to trade in services worldwide. Combining the telephone with a computer also breaks down technological barriers. The addition of video to a telephone conversation will be instrumental to some jobs as will the ability to interact concurrently with data and multimedia tools. The traditional phone that we have used for so long has been limited by its interface, connected to a keyboard options for interaction multiply exponentially, adding video and other interactive options (Business Week, 2004).

Indeed exciting innovations in the telecommunications industry are moving us toward a cheap lightweight system that uses a combination of wireless high speed local connections that interface with fiber optics for distance communications. Developing countries will be able to keep up with rich nations because the cost of infrastructure will be relatively low. The prevalence of mobile phones will also play a key role in the kinds of services that can be created. Together these forces are leading us to one of the major emerging trends in communications infrastructure.

**Telecommunications pricing traditionally has aimed at gathering the maximum revenue from a basic connection. In a market where connection has ever-lowering costs and charges are such that even children have mobile phones, profits will be sought in higher-value services, and so the motivation for pricing changes to encourage maximum usage of such services. Thus connection becomes a very low-cost commodity, with flat charges sold on long-term contracts at world prices indexed to other global commodities (Forge, 1995 : 28).**

The value of a modern communications system will not be in the rents earned from the use of that system, but rather how citizens effectively use the new medium to add value to the economy. This point is significant for our study because by understanding current trends, we can better predict what is possible for the future. Indeed much of the technology that these jobs will be based on is in use today, and so we will now take a look at how VOIP technology is being used in the global teleservice industry.

## Chapter II

### **THE EMERGENCE OF CALL CENTERS**

In the 1980's businesses in the US and Western Europe began to realize the potential benefit that telecommunications could offer in terms of wider customer access and improved service care. A highly competitive business climate, falling telephony costs and high telephone penetration combined with consumer demand, helped to create a boom in teleservice employment. Most teleservice jobs take place in a *call center*. A call center is a large office where employees work in cubicles with a phone, computer or both to communicate directly with customers. The death of telephone distance charging first occurred on a national scale in the US when telecom companies offered 1-800 'toll-free' calls from any region within the country. The 'toll-free' network in the US and the 'intelligent networks' of Europe, had a dramatic impact on the growth and location of the emerging call-center industry. However, it was not until the mid 1990s that this growing sector caught the attention of local governments and development agencies (Richardson and Belt, 2001: 71).

The most common uses for call centers have been in the following areas:

- Sales
- Marketing
- Technical support
- Appointment setting
- Lead generation
- Brochure fulfillment
- Market research
- Reservations and order taking
- Customer enquiries
- Membership renewal
- Customer care (Richardson, 1999)

The sectors that have seen the greatest use of call-centers are:

- Travel and Transport
- Computing (hardware and software)
- Marketing
- Financial Services
- Distribution
- Hotels
- Telecommunications
- Retail
- Utilities
- Government Services (Richardson, 1999: 77)

Firms that use call centers have benefited through the reduction of property costs, unit capital costs and management costs. By creating economies of scale with more efficient uses of technology, call centers can greatly increase productivity levels. Firms can better standardize and manage their products and services as well as foster a corporate culture that encourages employee innovation (Richardson, 1999: 79). In the US, call centers expanded quietly in the 1980's, emerging mainly in the 1990's, and by 2001 employed close to 4 million Americans—out of 140 million jobs in total (Carinoss, 2001: 208). In the UK 790 806 (2.83 per cent of the working population) are employed in teleservices (CM Insight, 2004).

The rapid growth of call centers that occurred in the 1990s in the US had begun to level off after the year 2000. These leveling, and now decreasing numbers, can be explained in large part by foreign outsourcing of these same teleservice jobs. Although exact numbers are very difficult to come by, initial estimates are that 1 900 000 service jobs have been exported from the US since 1995. The Forrester Research Group estimates that 3.3 million service jobs will leave the country by 2015, numbers that are considered conservative by many analysts (McCarthy, 2004). However, economists from the University of California at Berkeley estimate that the total number of US jobs vulnerable to being outsourced is around 14.2 million (Kroll, 2004: 2).

The outsourcing of these jobs and the prospect of future job losses has incited a great debate within the North America and Western Europe. In some US states, the reaction has been

to try and limit the phenomena through legislation. Oregon Governor Ted Kulongalski argues that “if you're spending taxpayer dollars, you should spend the money to create jobs here in Oregon,” and has even tried to back it up through legislation (Hunsberger, 2004). In Germany, Chancellor Gerhard Schroder has verbally attacked national companies as ‘unpatriotic’ for moving jobs abroad (Pechar, 2004). The entire offshoring process has been thrust into the political arena where its merits are being fiercely debated.

While the costs and benefits of outsourcing to the developed world are hotly debated, developing countries eagerly recruit these jobs. India, with its 25 million well-educated English speakers, has been a major beneficiary. The typical call center agent in India, is a young, recent university graduate working on a fulltime contract. An equal number of men and women are employed in this sector and when offered jobs, the overwhelming majority of applicants accept (Taylor and Bain, 2004). In many cases indigenous firms have sought to solicit contracts and manage the logistics of outsourcing themselves.

## CHARACTERISTICS OF OFFSHORING

### I. WAGE AND ECONOMIC FORCES:

The driving force of offshoring is the vast wage differences between countries. To get an appreciation of the scope of this wage gap, examine the box below:

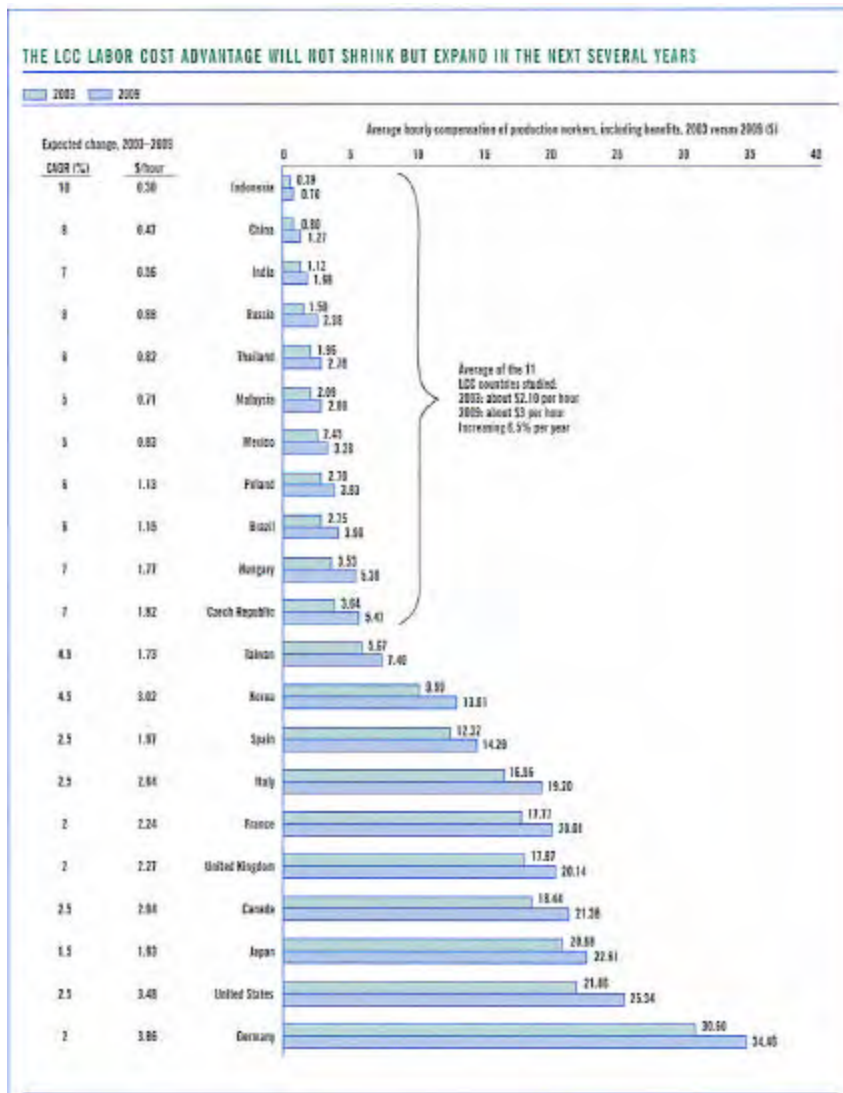
[Table 2.1: Hourly Wages for Selected Occupations: US and India, 2002/2003.](#)

Occupation	Hourly Wage, US	Hourly Wage, India
Telephone Operator	\$12.57	Under \$1.00
Health Record Technologists/ Medical Transcriptionists	\$13.17	\$1.50-\$2.00
Payroll Clerk	\$15.17	\$1.50-\$2.00
Legal Assistant/ Paralegal	\$17.86	\$6.00-\$8.00
Accountant	\$23.35	\$6.00-\$15.00
Financial Researcher/ Analyst	\$33.00-\$35.00	\$6.00-\$15.00

Source: Bardhan, A. and Kroll, C. (2003) *The New Wave of Outsourcing*. Berkley: University of California

In this context, it is easy to understand how a company can save money through outsourcing. Additionally, even though some developing countries wages are growing (on average) at higher annual percentage rates than wages in the developed world, the gap between overall wages is growing. This means that in the future Northern firms will have even more economic incentives to offshore whatever processes they can. Consider the following graph:

Graph 2.2: Cost Difference Chart Across Countries; 2003-2009



Boston Consulting Group, (2004) *Capturing Global Advantage*. Boston: BCG Inc.

One of the most widely studied aspects of the migration of jobs has been the impact on Northern and to a lesser extent Southern labor markets. The most influential economic models on this subject has been the Heckscher-Ohlin model based on the Stolper-Samuelson Theorem (Sen, 2004). The H-O model predicts that trade will take place mainly between countries with different factor endowments, for example, labor abundant countries trading with capital abundant countries. Indeed, this is what we are seeing in the movement of teleservice jobs, which by their nature, are labor intensive. It also predicts that increased trade will lead to increasing wage

inequality between skilled and unskilled workers in capital abundant countries but decreasing wage inequality in labor abundant countries. However, the H-O model has come under intense criticism for some of its extreme assumptions and in practice most FDI flows are between developed countries (85 per cent) and most countries are both importers and exporters of capital (Jenkins, 2004b: 1).

Adrian Wood, in his article *How Trade Hurts Unskilled Workers*, demonstrates that the deteriorating position of the unskilled worker in the developed world is directly linked to the opening of trade with southern countries (Wood, 1995: 57). Wood is refuting a position advanced by many mainstream economists who feel that trade has had a minor impact on the Northern work force and that most of the job losses can be linked to technological progress. But for Wood, trade and technology are intertwined and hence it is impossible to measure the two forces separately, as is often assumed (Wood, 1995: 62). In the North the increased competition brought on by trade, forces corporations to accelerate the process of invention (defensive innovation) causing further wage inequality. At the same time, the Southern firms are exposed to new and skill enhancing technologies. In both cases, the trade interactions lead to greater wage inequality. He adds hard data to the debate showing how most experts underestimate the effect trade has had on the North.

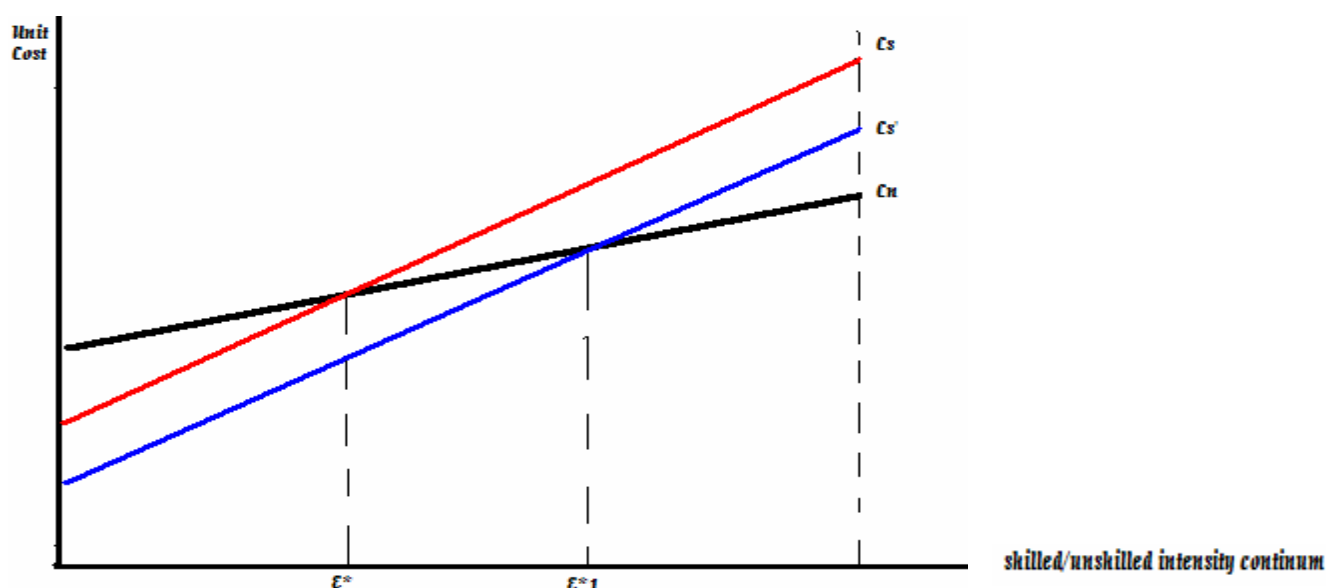
**... up to 1990 the changes in trade with the South had reduced the demand for unskilled relative to skilled labor in the North as a whole by something like 20 per cent ... Thus expansion of trade with the South was an important cause of the de-industrialization of employment in the North over the past few decades (Dickens, 2003: 541).**

Using his own calculations, Wood shows that the levels of factor content (amount of labor used to produce a country's output and imports) have fallen 21.5 per cent in the last 30 years. Others have missed this point because they assume that all import goods are of the same type and use the same skill intensity when, in fact, this is far from the truth.

Of course, job loss is a process that the North has experienced before, particularly in the 1970's with the movement of labor intensive manufacturing jobs to LDCs. For the most part, this previous shift was characterized by the loss of low skilled manufacturing jobs. Experience has demonstrated that low skilled workers in the north are being made redundant because they cannot compete with the low wage workers in the South. Indeed, data shows that over the past thirty years, the income gap of low skilled compared to that of skilled workers in the North has widened considerably. In his book titled, *Has Globalization Gone Too Far?*, Rodrick points out many possible avenues in which Southern industrialization hurts workers in the North. For Rodrick, it is evident that low skilled workers in the North are being made expendable and are easily substituted by foreign workers. Ultimately, the process of international trade makes the demand curve for low skilled labor more elastic (Rodrick, 1997: 22).

Feenstra and Hanson, challenging the wage equalization theory of export oriented FDI, show how jobs that are considered low skilled in the North are actually seen as high skilled jobs in the South. The overall effects of this exchange is to raise the skill premium in both the sending and receiving countries, with wages rising faster in the South (because of its higher skill premium). They argue that if skilled and unskilled labor is used on different levels along a product's value chain, outsourcing jobs from a host to a recipient country reduces the relative demand for unskilled labor while simultaneously raising the demand for skilled labor in both countries (Sen, 2004: 14). These dynamics then lead to an increase in wage inequalities in both the sending and receiving countries. In the graph below, goods to the left of  $E^*$  are produced in a low cost country (South) while those to the right are produced in a high cost country (North). If there is a decline in wages in the South ( $C_s$ ) relative to the North ( $C_n$ ),  $C_s$  shifts to  $C_s'$  and more goods will be produced in the South (Jenkins, 2004a: 3-4).

[Graph 2.3: Feenstra and Hanson Diagram](#)



Many economists have enthusiastically welcomed offshoring citing David Ricardo and showing how both countries gain. In their article titled “*De-industrialization: Causes and Implications*”, Rowthorn and Ramaswamy assert that:

**. . . contrary to popular perceptions, de-industrialization is not a negative phenomenon, but a natural consequence of the industrial dynamism of an already developed economy (Rowthorn, R. Ramaswamy, 1997: 4).**

For these writers North-South trade has very little to do with the process of de-industrialization. Only accounting for 20 per cent of total Northern trade, it cannot explain the widening gap of wage levels.

There is debate as to what new type of employment will replace the service jobs when they go overseas. Many assert that the new jobs will be of an even higher skill, calling especially for critical thinking and advanced education. New endeavors in innovative industries will be the future sources of employment. The US National Science Foundation estimates that nanotechnology will create two million US jobs in the next ten years alone (Career Voyages, 2004). Proponents of offshoring argue that firms will raise their profits, cut costs to the consumers and increase dividends to their shareholders. That money will in turn be spent back in the home country feeding the engine of employment creating industries (Washington Post, 2004: A16). All this, leads many economists and political scientists to conclude that service jobs sent abroad is a good thing for Northern countries. Indeed, these job shifts have happened before and the high tech economies have always created new jobs to replace the old ones. One of the most striking aspects of the current services shifting abroad is that there is a wider and higher range of skill levels that are currently being traded.

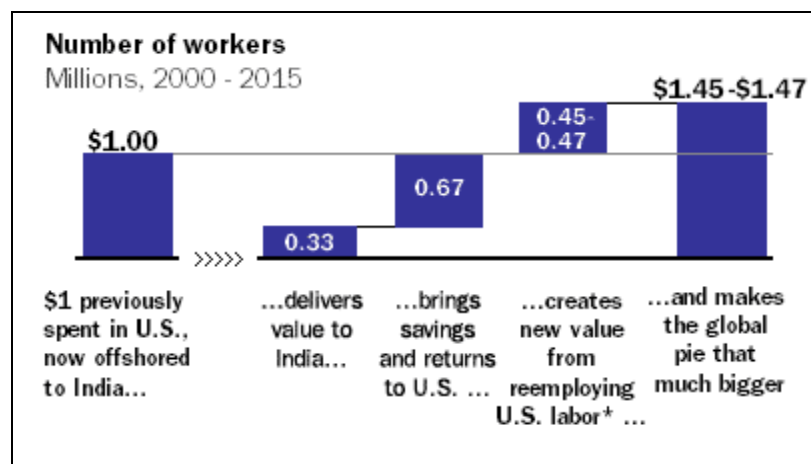
There is another aspect to this debate that is worth mentioning here. Kaplinsky in his article “*Is Globalization All it is Cracked up to be?*” demonstrates that countries like China and India, with their enormous and increasingly skilled populations, have the potential to overwhelm

the labor forces of Northern countries (Kaplinski, 2001). Indeed the emergence of China poses several different challenges to theories of international global development. At the same time however, many analysts point out that when a country like China industrializes, creating wealth within its borders, its economy will contribute in a positive way to world growth.

This new avenue of consumption could be a major force for export growth in Northern and Southern countries alike. In fact the North, with all of its advanced services industries (especially IT and banking), will be in a unique position to capitalize on China's growth. The emergence of developing countries' purchasing power, perhaps, is the most underestimated factor in the debate in global trade. There is no doubt that this kind of growth will have unforeseen effects on labor markets everywhere. However, if global wealth creation is not a zero-sum game then industrialization leading to service sector and long term growth in the developing world poses no real threat to economic growth in the North. In fact, this kind of growth offers the North unique opportunities unavailable to the South.

The potential benefits for Northern countries are calculated in this graph by McKinsey Research Group which estimates that as much as \$1.47 in new economic value is created for every dollar spent by American companies abroad. Counting the benefits such new business brings workers, firms, and governments, the study estimates that the US achieves a benefit of at least \$1.13 for every dollar spent (McKinsey, 2004).

Graph 2.4: Value Created for every dollar spent by an American company offshore.



Source: McKinsey Global Institute, (2004) [http://www.mckinsey.com/knowledge/mgi/exploding\\_myths/](http://www.mckinsey.com/knowledge/mgi/exploding_myths/)

Certainly, in the North, the wage gap between low skilled and high skilled workers will continue to widen. The wages and employment opportunities for educated and skilled workers will especially continue to rise. And this is the main point, the developed economies are *advancing*. For those Northern students who continue their studies and obtain specialist skills and degrees, there will be plenty of high paying jobs. The advanced economies will desperately need people to fill those positions. For those Northerners who don't, wages will be low and jobs will be scarce. Economists are predicting that in the coming years the US will need to import hundreds of thousands of skilled workers from abroad to fill many of the new advanced positions.

The laws of comparative advantage apply as much to service sector employment as they did to the manufacturing sector. Rather than trying to stop the offshoring trend, developed countries would be better served preparing for the benefits that it will bring; specifically, lots of high-skilled jobs with better pay. Ultimately, with the exception of Feenstra and Hanson, there is a real lack of research on the economic effects of FDI on local wages. In addition there is also a lack of robustness in the strength of many of the trade theories (H-O included) so that no single theory can certainly predict the employment and wage effects of increasing international trade in goods or services (Sen, 2004: 23).

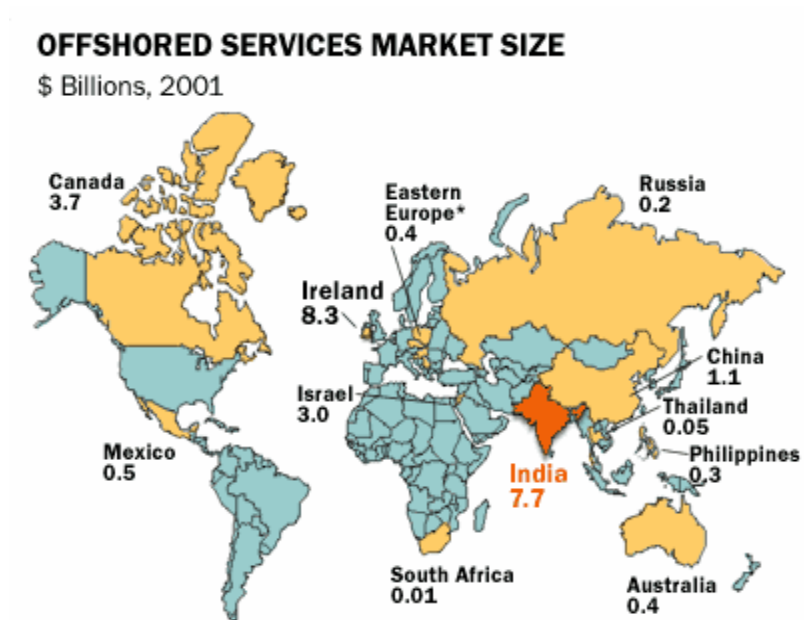
## ***2. LINGUISTIC AND CULTURAL FORCES:***

Another important factor in the trade of tele-services is language. Colonial history has played a major role as certain countries are better equipped to capture the English, French and Spanish markets. India dominates the English market as US companies account for eighty-five per cent of its foreign BPO industry (Taylor and Bain, 2004). Experience has shown that consumers demand agents speak their own language and have little patience for thick accents (Richardson, 1999: 90). Most call-center employees receive ‘accent neutralization’ courses to teach them how to talk more like their customers. The depth and complexity with which call center employees can engage with their customers is a key issue in this industry. Many firms consider accent training as the single most important aspect of employee development (Taylor and Bain, 2004).

In some regions call centers will make foreign language skills a highly valued asset, much like a degree. By their very nature, outsourced call-centers are international and often need to be staffed by multilingual agents. There will be many opportunities for developing countries that have large available pools of labor that can speak European languages well. It is also conceivable that the high end of Asia’s grand market could be served by English speakers.

Language will present a formidable barrier to some regions with marginalized languages to capture teleservice jobs. The map below indicates how important English has been in determining which countries import US jobs.

[Map 2.5 : Amount of US jobs abroad by country.](#)



Source: Bardhan, A. and Kroll, C. (2003) *The New Wave of Outsourcing*. Berkley: University of California

Along with language comes the question of cultural differences. Specific to this kind of work is the importance of customer-employee relations. This can present a real barrier to the trade in teleservices depending on what kind of exchanges are necessary. For example, even within Europe we see differences in the way people use the phone with Germans being very business-like and to the point, while the Italians tend to be more relaxed and talkative. Differences in telephone manners might even be greater across continents (Richardson, 1999: 90).

In addition, it is still unclear as to how tolerant consumers in the North will be in regards to dealing with foreigners and to what extent they feel comfortable interacting and purchasing services. Already we have seen resistance to international call centers by consumers in France

and Asia (Richardson, 1999: 91). An opinion poll in the UK showed that forty-seven per cent of people questioned, had unfavorable views of companies that offshore (CM Insight, 2004). With time, consumers may warm up to the process and many cultural telephone nuances can be trained. In fact, some industries (computers, video games) have their own universal cultures that transcend national identities (Richardson, 1999: 91). However, differences in learning and teaching styles, for example, could pose a problem for the online education experience across regions. Differences in social norms could make it difficult to counsel patients in the mental health field. Miscommunication due to culture is an issue that any teleservice business is going to have to confront and surmount in order to survive.

### ***3. EDUCATION LEVELS***

A third important factor is education levels of the local population. This is especially important for call-centers which require articulate and critical thinkers to deal directly with any company's most valued asset, its customers. At the minimum, employers in Southern call centers are demanding university degrees from their applicants. Part of this is to screen out unreliable and unmotivated applicants but also it is because they need to train the employees in relatively complex tasks and problem solving skills. However, more often university graduates are over qualified for this type of employment. In the North, these same jobs are usually performed by high school graduates. Nevertheless, the educational levels of the population are strongly considered by firms looking to shift service elements abroad. Any country without a large university trained population will not benefit from the global trade in services.

As business process outsourcing expands, education will be a determining factor as to where teleservice jobs are located. Future teleservice positions will require advanced degrees in science, education, and medicine. There will be many opportunities for businesses that can

identify and provide specialists in areas where there is a shortage in Northern markets. Strategic education policies can enable certain regions to exploit markets that are globally underserved. This, of course, is as true for the developing world as it is for the developed world. In the global market for teleservices, as in the global market for all services, education is emerging as a determining factor for the location of new high skilled jobs.

#### ***4. INFRASTRUCTURE:***

Infrastructure is another key ingredient to the outsourcing equation. The boom in fiber optic cable that we are currently witnessing is breaking down many of the communications barriers that existed in the past. But in addition to an abundance of bandwidth, the teleservice industry needs what any other business needs in terms of mass transit, adequate and affordable office space, and quality of living standards to attract talented management. Unique to this industry is that it often needs all of these things twenty-four hours a day as they serve several time zones.

One major obstacle developing countries face in this regard is their heavily regulated telecommunication markets characterized by state owned firms and limited competition. The cost of access to bandwidth is of major concern to any company moving production abroad. In addition to telecommunications infrastructure, regulatory concerns may also limit other industries making it illegal to trade certain services across national borders. International rules and standards are emerging but it is unclear whether banks or insurance companies, for example, will legally be able to sell their services globally.

These are some of the main issues and barriers to outsourcing teleservices abroad. The rapid growth of this industry shows that many of these issues are being dealt with by companies and their employees. Competitive realities will force many industries to offshore and those companies who can creatively surmount these barriers will thrive. As the technology improves and customers worldwide become more comfortable consuming services online, there exist a whole host of policies that countries can do to position themselves so that they may capture and attract the teleservice industry.

## **Chapter III**

### **THE CHANGING NATURE OF TELESERVICES**

**The policy prescription you hear from people again and again as the response to the global competition of outsourcing is for Americans to move to high-end work. It's important to dispel the myth that high-end work is immune to offshore outsourcing.**

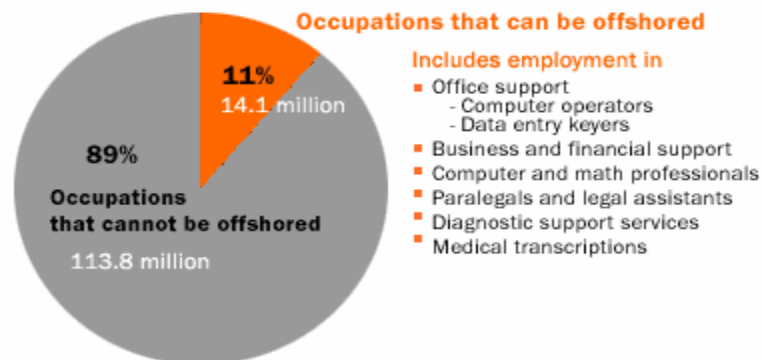
**-Ronil Hira, professor for public policy at the Rochester Institute of Technology (Lohr, 2004).**

In the services trade there is no question that high skilled tasks are being performed in developing countries. Engineering, litigation, design and investing services are all currently being imported from LDCs. Teleservices are different and the extent to which high skilled work can be performed along a wire is more limited. However, there are still many skilled positions that can be traded on-line. This chapter will discuss the nature of teleservices as well as offer specific examples of skilled teleservices jobs that could be traded across distances.

Before discussing further about what types of jobs could go abroad, it is worth mentioning which types of jobs cannot be outsourced. The absence of physical proximity is the major barrier to the export of most services. The barber needs to physically cut a customer's hair to be able to sell his service, the masseuse needs to touch the client, gardeners can only prune and mulch in the garden. Most service jobs are of this nature and cannot be mechanized or exported.

Graph 3.1: Percentage of US jobs that could potentially move offshore.

127.9 total employment in Millions, 2001



Source: Mckinsey Global Institute, (2004) [http://www.mckinsey.com/knowledge/mgi/exploding\\_myths/](http://www.mckinsey.com/knowledge/mgi/exploding_myths/)

Current technological advances in voice recognition are increasingly mechanizing many jobs in the teleservices industry. However, voice recognition systems are limited because consumers often just want to get a real person on the phone. As products become more and more standardized, customer service is becoming one of the greatest distinctions between products, making firms reluctant to mechanize their interactions with customers. Talking to a live person on the phone may become seen as a ‘luxury’ service that consumers will happily pay a premium for. Therefore the growing wage gap between countries and the high unemployment rates of certain LDCs will allow the teleservice sector to grow substantially despite emerging technologies that may otherwise undermine it.

A second point is that many service jobs will never be mechanized because by their very nature they need to be performed by a live person. Consider the telemarketer who is selling a product. We cannot teach a computer to be able to respond to every nuance and expression or to read a buyers mood, at least not yet. Most teleservice jobs require skills that computers do not have, such as etiquette, critical thinking, charisma and personality.

In the teleservices industry, jobs that can be standardized and are rule based are the easiest to transfer. Employees can be trained step-by-step on how to respond to the customer's demands and reactions and written manuals can lay out the processes for most situations. Customer service trouble-shooting is also a skill that can be trained, especially with the aid of advanced software programs. Even telemarketing is mostly script based and trainable. This type of employment is, of course, considered low to medium skill and has been the quickest to leave for low cost countries. The list of well known companies that use outsourced call centers includes Norwich Union, Citibank, Capital One, Pfizer and Intel just to name a few. These companies are effectively using call centers to save up to 60 per cent off original home-country costs (Boston, 2004: 7). These phenomenal savings are driving companies worldwide to continue this trend, constantly pushing its limits. As businesses and consumers warm up to this exciting (albeit controversial) development, we will continue to see everyday services transferred abroad. The limits of this phenomenon are restricted only by the imagination and the creative abilities of entrepreneurs worldwide. The economic forces and the technology enabling these practices is growing stronger and penetrating deeper into society every year. As this process unfolds, the capabilities and opportunities for employment growth in teleservices for LDCs will grow.

Stephen Running, head of business location at Glasgow Development Agency forecast to Scotland's National Employment Conference, that the focus of the teleservice sector is not only about attracting more jobs, but better quality ones. It is a striking speech for its foresight and understanding of technologies and trends in the services trade.

**We are seeing a greater number of supervisory posts being created within call center operations. Call centers are evolving and providing a great deal of variety in the type of job that is on offer. . . Upskilling will be vital. . . This should allow the human resource to focus more on complex tasks such as problem solving. If processing technology does not keep pace, companies will either lose customers or be forced to employ even greater numbers of staff to deal with the more straightforward tasks.**

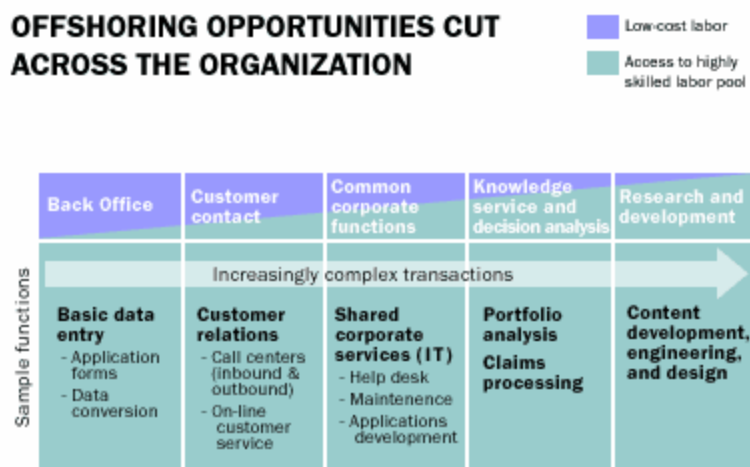
**When we consider employment opportunities over the next five to 10 years, it is against a backdrop of continuous change, in customer demands, adoption of technology, and global competitiveness. Won't the new technology mean a loss of jobs? In places like Scotland and Glasgow in particular, call centers will evolve and the agents will be required to revise their skills. Skills revision is a necessary symptom of continual change (Shennen, 1999).**

Already in the dynamic economies of North America and Western Europe, we see the performance and sale of high skill professions across great distances. For example, Universities like Harvard, Cambridge and Columbia have been able to translate their prestigious names into commercial success abroad. By setting up branches on-line in select countries, they have been able to offer paying students 'distance degrees.' Through the use of televideo, professors and students are able to interact in real time creating a 'classroom-like dynamic.' This is a very exciting concept and it illustrates quite clearly how high-skill service jobs can be traded online.

One fascinating industry that is coming of age is telemedicine which uses advanced technology such as real-time video, conferencing, imaging and much more to directly link specialists with patients regardless of geographical location. Telemedicine is already turning into big business for many specialists, including US radiologists who have started companies offering 24-hour consulting services (Hall, 2004: 1B). Currently telemedicine is being used within the US to serve areas where there are shortages of specialists, especially in rural areas. Early feedback shows that telemedicine is bringing higher-quality service to more patients and it is lowering health care costs by improving efficiency. More and more doctors are beginning to offer their expertise to the global market with new systems emerging for a wide range of medical services including, but not limited to; pathology, oncology, back-to-work therapy, diabetes, stroke, cancer and optometry (Hall, 2004: 1B). These examples demonstrate that even high-skill services can be performed as a teleservice. This is a significant development for LDCs as well because they are equipped to take on some of these higher skilled jobs and respond to global

demands. This next graph illustrates that mostly lower-skilled jobs are outsourced but that the range of higher-skilled jobs (far right) is widening all the time.

[Figure 3.2: Skill levels in relation to jobs outsourced.](#)



Source: McKinsey Global Institute, (2004) [http://www.mckinsey.com/knowledge/mgi/exploding\\_myths/](http://www.mckinsey.com/knowledge/mgi/exploding_myths/)

## LOW-MEDIUM SKILLED WORK

Fortune telling is big business in the US. For \$1.95 a minute millions of people pay to talk on the phone and have their stars read, fortunes told, and questions answered by trained psychics. The major US Psychic hotlines routinely post huge annual profits well into the millions of dollars. To work this job you need to speak English, understand psychology and have the intuition behind good fortune telling. It is, in fact, an art. It is also an interesting job that pays well and can be very fulfilling for its practitioners.

Fortune telling over the phone is a prime candidate to go overseas. It is a medium skilled craft that can be trained just as easily as the telemarketing jobs. In the end, most jobs that are entirely done over the phone will go abroad, even some national and state government jobs.

At the same time, some jobs that are not traditionally done over the phone will shift to becoming teleservice jobs. The internet has completely transformed the tasks of the travel agent. In pre-internet days they were essential coordinators but now many customers buy tickets and book reservations online themselves. The travel services industry has had to respond and restructure, resulting in a more focused and competitive trade. Even with the internet, sometimes customers need to discuss their options with knowledgeable agents. There isn't anything however, that a travel agent in far distant country can't do for a client that an agent down the street could do (other than shake his or her hand). They both will have access to the same information and both could specialize in niche markets. Astute companies will even have you speaking with travel agents in the region to which you are traveling.

What we see with these two examples is that service providers need to completely rethink how essential physical proximity is for them to deliver everyday services. In the case of the travel agent, physical proximity is not essential. Travel agents need to talk to their clients in real time, but the interaction is information based and completely exportable. If we look closely, many jobs are like this and the implications could be dramatic. The Boston Consulting Group, speaking generally about the service industry, estimates that anywhere from 30 to 40 per cent of service jobs could *potentially* be performed in LDCs (Boston, 2004: 27). Immediate growth in teleservices is expected mainly in the insurance and retail banking industries (Taylor and Bain, 2004). Indeed, many jobs that you might think could not be exported are in fact prime candidates.

### **MEDIUM-HIGH SKILLED WORK**

Teaching, for example, is not just an area where developed countries have sole comparative advantage. Language learning, for example, offers considerable opportunities for LDCs to service the global market. Language lessons are popular in most countries as many people hire private tutors or take classes to learn a language. Language learning is most effective in a conversational context, as opposed to subjects more easily learned out of a book. The best way to learn a new language is to engage with native speakers. For most people this is not an option either because private tutors are too expensive, native speakers do not live in their vicinity, or both. Personal sessions over the televideo would be an excellent substitute or practice tool for any language student. For the first time ever, the zero cost of distance voice and video communications makes this an economically viable business.

Rather than pay a personal tutor \$25 an hour to meet and practice Spanish, it would be easier for consumers to stay at home and pay \$5 hour learning from a teacher in Peru over a videophone. The entire process on line would be cheaper, more efficient, and almost as effective as the alternative. Companies could set up websites that allowed learners to schedule multiple appointments with the same tutor and the session could incorporate multimedia tools such as drawing, music, and text. As it is such a cheap option, it doesn't have to replace language classes, but rather supplement them offering expanded opportunities for one-to-one practice.

Personalized teaching is a labor intensive activity, and for that reason the current developments in distance education could be exciting in terms of employment growth for LDCs. Language learning shows us that there are areas where people in developing countries can teach citizens in the North. Learning is a dynamic process which is why there is often no substitute for person-to-person engagement. Tele-education offers us the chance to learn across borders in fun and interesting ways.

## **HIGH SKILLED WORK**

As we move up the skills set we can see how developing countries can contribute in distinctive ways to their own employment in teleservices. One of the most exciting areas where they can participate is in health services. We touched on the ways that telemedicine is transforming health care in the US, but now consider how doctors from the developing world can participate in telemedicine.

Counseling and psychiatric services are obvious candidates. This is a highly skilled profession where doctors listen to patients describe their problems and try to help them understand and solve those problems. It is a difficult and time consuming task that can take months and even takes years of work, to properly treat a patient. It is also a job that could be performed over a televideo connection. The prices of psychiatric services in the US are substantial, in large part due to the dearth of trained psychologists. With these hourly wages and high depression rates among the general population, many people suffer without ever having the luxury of professional treatment. This is an area where a country like India, with its large educated population, could fill a significant market niche.

Obviously telepsychiatry is not as ideal as sitting in a doctor's office and discussing your problems, but the alternative for most patients is to see no doctor at all. All the while, governments all across Europe and North America are struggling to support health regimes saddled with huge mental health bills. When we look at it in this light, the ability for this kind of trade to produce mutual benefits is obvious. Offering psychiatric services via televideo has actually been in use for years, originally practiced by the US prison system as a way to circumvent the high costs and risks associated with moving prisoners (as doctors often refuse to work inside the prison) (Long, 1997: 42). Australia has been a leader in this trade offering

telepsychiatry to its widely dispersed rural populations with surprising results. Jim Briggs, the director of the Telemedicine Information Service at the University of Portsmouth explained how, “Some psychiatrists have noted that the detachment produced by technical production helps patients to feel more comfortable in opening up” (Fricker, 2003: 11).

Nursing is also a profession that is starting to move online. Many hospitals are encouraging patients to take home with them monitoring equipment that they can then plug into the wall which sends their vital signs directly to the nurse’s computer so that the nurse can monitor them from afar. The nurse and the patient can then communicate in real time if they need to discuss the significance of the readings. This system saves rooms in the hospital, time for nurses, money for the patients and has been proven to be just as effective as the alternative. Offshoring these tasks would be an excellent solution to the vast shortage of nurses that the aging populations of Europe and the US currently face. Telemedicine is the most exciting area in the globalization of teleservices and its future will offer a range of opportunities for LDCs to participate.<sup>1</sup>

These are just a few of the possible roles that citizens in developing countries can fill. There are certainly many more options that are available now and in the future. It takes a deep understanding of cutting edge technologies and an imaginative mind to create new business ideas and to transform them into reality. Fortunately many people around the world are doing just that and it is this entrepreneurial spirit that has emerged as the engine of global economic growth.

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<sup>1</sup> Appendix I: Telemedicine Media Quotes

## **CHAPTER IV**

### **ECONOMIC AND SOCIAL DEVELOPMENT**

This chapter analyzes the impact that the trade in teleservices can have on the social and economic development of recipient countries. The interaction between foreign investment and the economy can be quite complex. There are certain costs and benefits that are associated with this kind of work. The relevant question for development experts is whether the positive aspects of this industry outweigh the negative ones and whether this type of growth good for the long term economic and social development of the country. These kinds of questions go to the heart of development studies. To analyze the costs and benefits of the teleservices trade, one must take into consideration a plethora of variables that encompass economic, societal and technical subjects. This chapter highlights some of the major factors associated with this type of integration.

#### **1. EMPLOYMENT**

One obvious benefit of teleservices for developing countries is the amount of employment that they bring. Richardson and Belt point out in their article "*Saved by the Bell*," that call centers in the North East and Highland regions of the UK have created a large number of jobs in a short period of time. In India, three cities, Delhi, Mumbai and Bangalore account for most of the country's call center employees (Taylor and Bain, 2004). India's BPO sector will provide the country with around \$60 billion dollars of exports by 2008 (Farrell and Zainulbhai, 2004). And since the customers of call centers live outside the region, these new jobs can be considered as net new employment because they do not displace other local jobs (Richardson, 2001: 86).

Salaries in Indian teleservices are slightly lower than those in the IT/software sector, but they are higher than average salaries for other white collar professions. Subsidized food and transportation are industry standards (Taylor and Bain, 2004). The twenty-four hour functioning of international call centers means that local vendors can stay open longer creating a booming ‘after hours’ sector among local businesses which further increases employment. In addition, these jobs are ‘new’ to the labor market and hence diversify the labor market so as to counteract the overdependence on a few industries.

Although the focus of this essay, India is not the only country that is attracting call center investment. A new report by Datamonitor describes how ‘nearshore’ countries in Eastern Europe are providing attractive opportunities for the Western European market. Eastern European countries in particular possess an educated labor pool, business friendly political regimes and relatively stable currencies.

- **The Czech Republic, Poland, and Hungary will be the destinations of choice higher-end care for German and English-speaking customers.**
- **Romania and Bulgaria will focus on routine customer care queries. Romania will focus on Italian and French clients, while Bulgaria will concentrate on customers from the UK and Germany.**
- **Croatia and Slovenia have an excellent opportunity to win business in Italian and German-speaking customer care.**
- **The Baltics (Estonia, Latvia and Lithuania) will remain the outsourcing location of choice for firms servicing Scandinavian customers.**
- **Morocco and Tunisia will remain focused on French customer care. However, Morocco is likely to diversify into Spanish and English speaking services (TelecomWeb, 2004).**

In another report, Datamonitor researchers analyze the Latin America and Caribbean market. They found that call center employment in that region is growing at 17 per cent from 336 000 in 2003 to an expected 730 000 in 2008. The primary destinations being both Mexico and Brazil, who together make up 86 per cent of the entire teleservice population (Datamonitor, 2004).

Francophone Africa has emerged as a destination for French companies, especially along the west coast which lies on the route of a high-quality fiber-optic link between Europe and Latin America (Gray, 2004). Left out of the picture for the most part is Central and Southern Africa as well as many smaller Asian countries. Language is the major factor blocking their entrance but many of these countries face other problems including; lack of telecommunications infrastructure, low education levels, hostile regulatory regimes as well as political and social instability. The competition for teleservice positions is intensifying and countries that do not initiate reforms will be shut out from this type of foreign investment.

As teleservice agents tend to be young educated urban dwellers, it is apparent that most citizens are excluded from the industry. Poor rural communities do not receive any direct benefits from the development of call centers. The concentration of call centers in big cities may serve to further drain rural communities of their brightest talent. However, call centers in the North have had success locating themselves in small towns and rural areas. And while moving into small towns in developing countries may never be an option like it is in Iowa and Scotland, in India companies are beginning to move to smaller cities to tap into newer and cheaper pools of labor as well as to qualify for state grants and incentives (Taylor and Bain, 2004). Meanwhile the dichotomy of rich high tech industries growing simultaneously against the backdrop of extreme levels of urban and rural poverty is surreal.

## **2. FOREIGN DIRECT INVESTMENT**

Economic theory gives us two approaches to understanding the impacts of FDI on recipient countries. The first approach is based on standard trade theory and is grounded in the writings of MacDougall (1960). This partial equilibrium comparative-static approach prioritizes and quantifies the distribution of investment capital. MacDougall

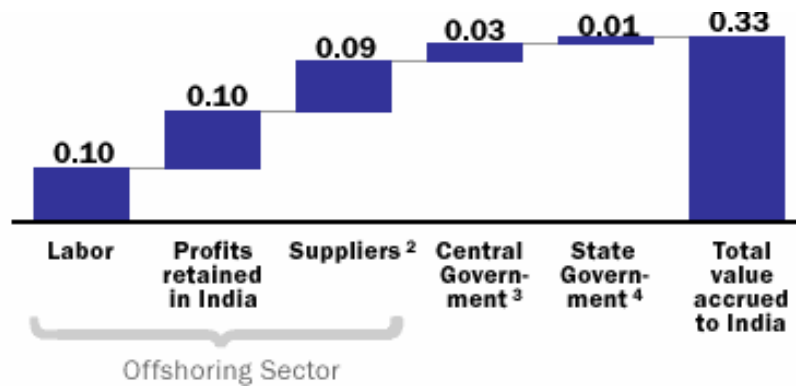
argues that foreign capital will raise the marginal product of labor and reduce the marginal product of capital in the receiving country (Blomstrom and Kokko, 1996: 1). These writers also emphasize other positive externalities associated with FDI such as tax revenue, economies of scale, technology transfer and competition induced efficiencies.

The second approach, established by Hymer (1960), relates to theories of industrial organization. This school of thought examines why firms move aspects of production abroad to produce the same goods that they produce at home. For them, FDI represents some market imperfection or interference that fractures markets. Hymer saw firms moving abroad for strategic reasons to either *a*) exploit specific advantages over foreign firms or *b*) to remove competition and eliminate conflict (Jenkins, 2004b: 3).

In reality, the relationship between multinational companies and developing economies varies between industries and countries. The specific characteristics of a receiving country's industry and legislative environment are crucial determinants for the benefits of FDI. The teleservices trade brings up many issues and offers examples of both positive and negative externalities.

Teleservices are both capital and labor intensive and depend on advanced technologies. Therefore, the amount and type of investment companies bring in can be a substantial source of capital for the receiving country. For example, evidence has shown that the extra call center traffic encourages governments to invest in communications infrastructure (Richardson, 2001: 86). McKinsey Global Institute calculates that a country like India is poised to capture \$0.33 (see graph 2.4) from every dollar that was previously spent on business processes in the US. This net benefit comes mainly through wages paid (\$0.10), local profits (\$0.10) and suppliers (\$0.09), but also includes central and state government taxes (\$0.04). These are significant numbers that any government seeking to attract services needs to take into account.

Graph 4.1: Value accrued from \$1 of US investment.



Source: Mckinsey Global Institute, (2004) [http://www.mckinsey.com/knowledge/mgi/exploding\\_myths/](http://www.mckinsey.com/knowledge/mgi/exploding_myths/)

The extent to which a country regulates its industries and FDI flows can have a major impact on its ability to foster investment. The rise of India as a destination for back office processing, coincides with its economic reforms of the early 1990s committed to liberalization, privatization, and globalization. Since liberalization began the country's GDP has doubled and poverty rates have fallen by nearly a third in both rural and urban areas. Business process outsourcing, along with IT and software, are the most open sectors in the country. The early success of British Airways and GE proved to the world that India was a credible option for outsourcing. The presence of foreign firms has made Indian companies reorganize, boost productivity, compete and expand globally (Farrell and Zainulbhai, 2004). The major government policies that directly impacted the call center industry are; the promotion of tax breaks and financial incentives, the deregulation of telecom markets, the establishment of Software Technology Parks and export processing zones, as well as labor market deregulation. In addition, the National Association of Software and Service Companies (Nasscom) has been instrumental in representing the interests of the industry before the government through its

research and lobbying efforts. Aimed at modernizing India's communications capacity, the central government in 1999 launched the National Telecom Policy (Taylor & Bain, 2004). This major initiative was aimed at deregulating the telecom industry, opening local and long distance services to competition and increasing investment in fiber optic cable. The initial effects have been positive, characterized by increased investment and falling per-minute usage rates.

### **3. HUMAN CAPITAL**

Another benefit that call centers can bring, regards the type and nature of the new jobs. Often the countries attracting this kind of employment do not have a history of service sector employment and so call center positions can stimulate the updating of skill sets (Richardson, 2001: 86). The list of just a few of the useful skills includes, computer knowledge, customer service, communication, team work, linguistic, critical thinking and problem solving skills, as well as the stimulation of educational demands. The teleservices industry can promote skills by training employees in these areas, but also by placing other skills in demand and influencing university enrollments. Fred Weiner, CEO of an outsourcing teleservice company focuses on training his employees and developing their skills:

**We really believe that sitting in the chair, at a desk, with a computer and talking on the phone is a "craft." We call it "Service as a Craft." Like crafts people, our staff members have to go through an apprenticeship first before they become skilled enough to move to the next level, such as a journeyman. This is a philosophy that helps train people well and retain them (Procter, 2002).**

Research shows that most international call centers have a higher than average commitment to training and progressive management that can positively influence overall business and work cultures (Richardson, 2001: 87). The trade in services can be a tool for the expansion of human capital. This occurs when the service jobs call for a deep understanding of a system or technical

expertise. This allows citizens to use their creative minds to succeed as opposed to depending on resource commodities to progress.

[Box 4.2: Opinion Article](#)

The following is an excerpt from an opinion piece written by New York Times columnist **Thomas Friedman** about a visit with Indian call center agents.

*. . . Watching these incredibly enthusiastic young Indians preparing for their call center jobs — earnestly trying to soften their t's and roll their r's — is an uplifting experience, especially when you hear from their friends already working these jobs how they have transformed their lives. Most of them still live at home and turn over part of their salaries to their parents, so the whole family benefits. Many have credit cards and have become real consumers, including of U.S. goods, for the first time. All of them seem to have gained self-confidence and self-worth.*

*A lot of these Indian young men and women have college degrees, but would never get a local job that starts at \$200 to \$300 a month were it not for the call centers. Some do "outbound" calls, selling things from credit cards to phone services to Americans and Europeans. Others deal with "inbound" calls — everything from tracing lost luggage for U.S. airline passengers to solving computer problems for U.S. customers. The calls are transferred here by satellite or fiber optic cable.*

*I was most taken by a young Indian engineer doing tech support for a U.S. software giant, who spoke with pride about how cool it is to tell his friends that he just spent the day helping Americans navigate their software. A majority of these call center workers are young women, who not only have been liberated by earning a decent local wage (and therefore have more choice in whom they marry), but are using the job to get M.B.A.'s and other degrees on the side.*

*I gathered a group together, and here's what they sound like: M. Dinesh, who does tech support, says his day is made when some American calls in with a problem and is actually happy to hear an Indian voice: "They say you people are really good at what you do. I am glad I reached an Indian." Kiran Menon, when asked who his role model was, shot back: "Bill Gates — [I dream of] starting my own company and making it that big." I asked C. M. Meghna what she got most out of the work: "Self-confidence," she said, "a lot of self-confidence, when people come to you with a problem and you can solve it — and having a lot of independence." Because the call center teams work through India's night — which corresponds to America's day — "your biological clock goes haywire," she added. "Besides that, it's great."*

*There is nothing more positive than the self-confidence, dignity and optimism that comes from a society knowing it is producing wealth by tapping its own brains — men's and women's — as opposed to one just tapping its own oil, let alone one that is so lost it can find dignity only through suicide and "martyrdom."*

Friedman, T. (2004) *30 Little Turtles*, New York Times Editorial. February 29, 2004

Call centers studied in the North have experienced criticism for the lack of opportunities for promotion and their flat hierarchies. This limiting structure may be partially responsible for the high attrition rates associated with teleservices. A 2002 study of British call centers found that most employees never move off the ‘bottom rung’ of the career ladder and that younger and educated workers are easily frustrated in this industry (Belt, 2002). As one agent explained:

**“I think once you get on the ladder it can probably go quite quickly. Its just getting on the first rung of the ladder, which is quite competitive because you’ve got 600 agents and about 50 senior agents and only 40 team leaders” (Belt, 2002).**

In her essay, *A New Women’s Ghetto? Women’s careers in call centres*, Vicki Belt identifies two main career paths that agents can take. The first path involves promotion within the call center itself, while the second path views the call center as a ‘foot in the door’ to the parent company. In an industry where women make up 70 per cent of UK agents, Belt concludes that women most often take the first route and that men are more likely to choose the second.

The study found that the rapid growth of this sector combined with high attrition rates, was creating opportunities for the promotion of women that do not exist in more established industries. One significant factor is that most call centers offer flexible work schedules which favor women with families. In fact, their extensive interviews revealed that call centers were widely regarded as ‘female friendly’ organizations.

**. . . the case study organizations were also praised by many women for their emphasis on the possession of skills and competencies appropriate to the work itself rather than on formal qualifications. This focus was seen to benefit women in particular because the emphasis was placed largely on social and interpersonal abilities, which women were generally perceived to possess in abundance (Belt, 2002).**

However, the study also concluded that women in UK call centers were having trouble advancing into higher positions beyond middle management. This ‘glass ceiling’

effect may be due to the lack of management opportunities, the absence of training and the incongruous roles played by team leaders and managers. In addition, the researchers found that women have been generally excluded from making the jump to power positions within the parent company.

It is unclear how these findings are relevant to the developing world in such a country specific issue as gender. The fact that women are well represented in most call centers means that more research needs to be done on the impacts of teleservices and gender in developing countries.

#### **4. IMMIGRATION**

A fourth potential benefit of international teleservices is in the reduction of migration for young and skilled workers. Call centers are attracting younger educated workers, the exact demographic group that many regions have trouble keeping. The new and dynamic teleservice industry could help to motivate some of them to stay, offering them better work at home than they could find through migration. This potential benefit is hard to understate because the loss of young talent is a major hurdle to countries worldwide. Making jobs come to them, rather than uprooting citizens to find jobs, is ultimately more efficient and effective for poverty alleviation and development.

One of the glaring ironies of the global labor market is the number of high-skilled well educated immigrants working in menial and low-skilled positions throughout North America and Europe. It is not uncommon to find African and Asian doctors driving taxis in Washington, D.C. As we see the services trade grow, and the skill premium rise in LDC's, the infamous 'brain drain' could begin to decline. In fact we are already seeing signs of this reversal in the trade of financial and legislative services. Communications technology will allow specialists to practice

their trade where they live rather than where the market dictates. The positive externalities associated with this change have the potential to be significant. Students would be motivated to study subjects that are now in local demand and entrepreneurs will be able to use their creative talents at home with a stable market of paid professionals. For LDCs, keeping their best and brightest minds close to home could become a reality rather than a frustrating failure.

## **5. SOCIAL COSTS**

There are social costs ascribed to teleservices that must be considered in any analysis of the sector. Universally, call center work has been recognized as stressful, intensive and tedious. The combination of repetitive tasks performed in a high pressure environment have led to annual attrition rates of 25 to 35 per cent in India. This high turnover rate is considered by many to be the most significant challenge to the BPO industry (Taylor and Bain, 2004). In addition, much of the work needs to be performed at night on shifts that can last between eight and ten hours, up to six days a week. This can have negative effects on an agent's health as well as their social and family life. Not surprising then are the reported problems of exhaustion, withdrawal and burnout by agents in India (Talyor and Bain, 2004). What we see here is a very different industry than the one that exists in the North where many call center agents work just part-time during the day. The physical and psychological costs of intensive call center work, seems to be higher in the developing world.

## CONCLUSION

There are many limitations on the teleservice industry including, promotional ceilings, mobility of jobs, intensive work, consumer backlash, newer technologies, etc. However, unemployment is so great in the developing world that it supercedes whatever negative externalities are associated with the teleservice trade. India alone has 40 million officially unemployed citizens with another 35 million people joining their workforce over the next three years (McKinsey, 2004). It is imperative that governments and public policy analysts understand the significance of the relationship between public policy and employment growth. Issues of infrastructure, subsidized property, education and training are vital to attracting inward investment. And while promoting inward investment is crucial, policy experts must also focus on fostering a business climate that encourages endogenous growth in teleservices.

The economic benefits will be compounded if the companies that perform the services are indigenously owned and run. To guard against the mobility of foreign owned, low skilled teleservice jobs, development strategies need to build off the initial inward investment by expanding their capabilities, filling new and higher-skilled service positions and keeping up with the evolution of the industry. Two good examples of this would be the Indian companies TATA and Wipro. Wipro especially has been an early pioneer of the offshore servicing sector as well as one of the industry's top earners. Throughout their history, this particular company has successfully responded to global demands for its services. Even today Wipro is at the cutting edge of service outsourcing initiating new programs and looking to engage their clients in new and better ways. It is important that indigenous firms take the lead because in the end, countries

cannot develop through outsourced work, they must become initiators, breeders of new ideas that add value to the economy.

Communications technologies are poised to change forever the services industry. Today we see amazing examples of people providing high-skilled services over fiber optic cables. Growing wage differentials between regions are driving these phenomena well into the foreseeable future. Ultimately it is up to the citizens and entrepreneurs of developing countries to decide to what extent and to what level they can service the global market. Teleservices are just a part of the trade in services that is taking off, and unemployment rates in developing countries are staggering. However, teleservices have the potential to be both a positive and significant tool for social and economic development.

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## Appendix I: Media Telemedicine Quotes.

### Media Telemedicine quotes

*-“Most telemedicine is face-to-face talking to people, whereas this system allows us to collect measurements from our patients in real time . . . This could increase access to treatment in rural and remote areas, but it is also a way that hospitals could free up beds and cut treatment costs”* Dr. Trevor Russel, physiotherapist speaking about a new image recognition system and the potential benefits of Telemedicine, as reported in *The Australian*, June 29, 2004: 31.

*-“The important thing to note that technology is only a means, and that the patients are the biggest beneficiary as healthcare centers incorporate teleconsultation into their patient management processes . . . Our findings suggest that even in the early cases of implementation, teleconsultation has led to savings, a more efficient allocation of resources, enhanced diagnostic options and better health outcomes.”* WorldCare director Prof. Khairuddin Yusof speaking about his experiences with telemedicine in Malaysia, as reported in *New Strait Times (Malaysia)* July 2, 2003: 10.

*-“They basically told me I had a choice of driving all these hours in my beat-up car that might die during the trip, or driving 20 minutes to this other doctor who would sit me down in front of a TV to talk to the endocrine guy. I am so used to being treated as a second-class citizen as far as getting doctors to even look at me. This TV medicine is really something.”* Patient Rushell Peasnall on her experience with telemedicine, as reported in the *Sacramento Bee* February 28<sup>th</sup> 2003.

*-“We see telemedicine as a possible field to explore since Malaysia and Australasia are in the same time zone. If telemedicine is successful, we can then proceed to the next level – robotics – whereby surgeons can carry out operations from a distant location using advanced computer technology.”* Australian Trade and Industry Minister Rory McEwen on current and future opportunities in the region, as reported in the *Business Times (Malaysia)* October 11. 2003: 4.

*-“We’ve see rural patients get better access to care and get treated and diagnosed sooner. We’ve also seen rural doctors learn how to better manage care through encounters with specialists at urban teaching hospitals.”* Manager of telemedicine for Blue Cross Bridget Cole, as reported in the *Sacramento Bee* February 28<sup>th</sup> 2003.

*-“This is the future of medicine for rural health not just in California but nationally.”* President and CEO of the California Endowment, as reported in the *Sacramento Bee* February 28<sup>th</sup> 2003.