



City Research Online

City, University of London Institutional Repository

Citation: Strom, P., Alvstam, K. & Jones, A. (2016). Multilatinas and the growing service economy in Latin America: A Challenge for EU-Latin American business relations. *European Review of Service Economics and Management*, 1(1),

This is the accepted version of the paper.

This version of the publication may differ from the final published version.

Permanent repository link: <http://openaccess.city.ac.uk/15338/>

Link to published version:

Copyright and reuse: City Research Online aims to make research outputs of City, University of London available to a wider audience. Copyright and Moral Rights remain with the author(s) and/or copyright holders. URLs from City Research Online may be freely distributed and linked to.

City Research Online:

<http://openaccess.city.ac.uk/>

publications@city.ac.uk

Multilatinas and the growing service economy in Latin America: A Challenge for EU-Latin American business relations

Patrik Ström, Claes Alvstam*

University of Gothenburg

Andrew Jones**

City University London

Introduction

The service industry has for a long time been the biggest part of the most advanced economies in the world. This development is rapidly also transforming many of the world's emerging markets in Eastern Europe, Asia and Latin America. The value-added within global production chains is becoming to a larger degree determined by knowledge and service content (WIR, 2013). Services also play an important role for manufacturing firms, where a large part of the offer to customers today is a combination of goods and services. This paper studies the development of the growth of service industries in Latin America and their connection and integration with regional and global value chains, and the development of integration of service economies in Latin America. In the perspective of the ongoing or concluded negotiations of free trade agreements as well as trade and investment partnerships between the EU and separate Latin American countries, e.g. Mexico, Colombia and Chile, with ambitions to in the future also to comprise Mercosur. Also the initiated TTIP negotiations between EU and USA will have an indirect impact to Latin America in general and Mexico in particular, due to the NAFTA connection. Europe was in the early decades after WW II a key economic partner to Latin America, but has gradually lost this position to first North America, and thereafter to Pacific Asia. It is therefore a challenge for European business to, at least partly, recapture its previous role, although now as an equal partner rather than as a postcolonial master. Cooperation within the field of service industries may provide a better platform for mutual benefit than the old relation of exploitation of raw material resources and cheap industrial labour.

The regional economic characteristics and fundamentals play a vital role in the development of the service industry. For many emerging markets the growing service industry is also a way to reduce the risk of getting stuck in the so-called middle income trap, where the cost advantage is diminishing and the ability to compete with the advanced economies is limited.

Additionally, a growing service industry can facilitate the shift from informal to formal economic activities (ADB, 2012). In turn it enables a bigger tax base to be used for welfare creation. High levels of informal activity in the service industry can also be a factor that explains the low service productivity in Latin America (Pagés, 2010). The economic development in Asia has attracted much attention and there is also an increasing interest in the development of the regional service industries (ADB, 2012).

* Patrik Ström, Associate professor (corresponding author), Claes Alvstam, Professor ; Centre for International Business Studies, School of Business, Economics and Law, University of Gothenburg, Box 610, S-405 30 Gothenburg, Sweden ; patrik.strom@handels.gu.se ; claes.alvstam@handels.gu.se

** Professor, and Dean, School of Arts and Social Sciences and Centre for Professional Service Firms, Cass Business School, City University, London ; Andrew.Jones.3@city.ac.uk

The economic transformation has been driven by the establishment of complex regional production networks and the willingness among policy makers to create regional service or knowledge hubs in capital and metropolitan regions. Studies of the growing service industry in Latin America are less frequent particularly due to structural connection to global value-chains. The service industries will, however, be a similar positive force for future economic development among the emerging markets in the region. The challenge is connected with the issue of how to make use of regional economic integration, upgrading existing value-chains and develop the knowledge intensive service industry, which is a vital intermediary actor in terms of productivity, innovation and restructuring in advanced economies.

The underlying opportunities with mostly common language, similar cultural structures and trade collaboration such as Mercosur and the impact of a concluded trade and investment pact with the EU, can form a platform for further development. Examples of internationalization among firms in the region, so-called Multilatinas, are often found in relation to the service industry, such as banking and finance, insurance, retail, telecom and business services. The so-called Multilatinas stem from several different countries within the region and spans different industries (Santiso, 2014). The support and public ownership has varied over time, between firms countries. This has often been related to the industrial and economic geography of the respective markets. These firms can take advantage of the expansion possibilities that exist and rapidly expand beyond their closest geographical context. This conceptual challenge to traditional theories of internationalization has gained strength in studies of emerging market multinationals, where firms have come from markets with strong government influence in the development path (Mathews, 2009, Ström & Ernkvist, 2012, Williamson *et al.*, 2013). Forerunners in this development have been a number of Chilean and Brazilian companies expanding across the continent. These firms might also use their advantages to expand further out on the global market and become competitors to established multinational companies in the advanced economies in Europe and North America. Hence the aim of the paper is to discuss the role of Multilatinas within the Latin American service economy and relate to how this could affect EU-Latin American business relations.

1. Latin America and the world economy

There has during the long process of globalization of economic activities been a continuous scholarly debate within the fields of international business, economics and international political economy on why firms emanating from Latin American countries have not taken part in this dramatic transition to the extent one could expect, considering the economic size of the region, as well as its abundance of natural resources within almost all sectors of industry. Half a century ago, in 1963, the share of Latin America in world trade of goods amounted to roughly 7 per cent, compared to 6 per cent in 2013¹. Southeast Asia on the other hand², a region that in many respects can be compared to Latin America, when it comes to population size, resource endowment, and a history of political and economic dependence on superpowers in Europe and North America, accounted for 3 per cent of world trade in 1963 and 7 per cent in 2013. The EU trade relations with Latin America have stagnated during the last fifteen years at about 2-2.5 per cent of its total foreign trade in goods (or about 8-10 per cent of EU

¹ All statistical figures in this section are from IMF, Direction of Trade Statistics Database, visited March-April 2014, and UNCTAD, World Investment Report, various issues.

² Defined here as the ten members of ASEAN.

external trade). It is also a remarkable fact that the intraregional trade in Latin America has not grown during the past decades. Its share of total trade is still below 20 per cent, the same share as in the 1960s, despite numerous concluded free trade agreements, customs unions and common market treaties in various constellations. This figure can again be compared with Southeast Asia, where the intraregional trade within ASEAN (Association of Southeast Asian Nations) 10 has grown from about 15 per cent to 30 per cent since the mid 1960s.

Also in terms of foreign direct investment, the Latin American countries are underrepresented, even though there is a slow, but continuous increase of the shares of total FDI stocks and flows over time. This notion is particularly valid when it comes to the service industry. The share of IFDI (Inward Foreign Direct Investment) stock in manufacturing and service industries in 2012 amounted to a little less than 8 per cent of the world total, compared to 5 per cent in 1990, while the share of OFDI (Outward Foreign Direct Investment) stock was only about 2.6 per cent both in 1990 and 2012.³ The entire OFDI stock from Latin America – 608 bUSD in 2012 – can in this context be compared to the one of Sweden, which amounted to 408 bUSD in the same year.

Accordingly, outward FDI from Latin American companies can in the best of interpretations be seen to be in an initial stage of development, and that the potential for further growth is huge. The aggregate figure of 608 bUSD is furthermore concentrated to a few geographic origins, in which firms from three countries – Brazil, Mexico and Chile – account for over 80 per cent of the total OFDI stock. In addition, firms originating from Argentina and Colombia account for about 5 per cent each. Looking at the outflows from these five countries, the development has rather been stagnant or even negative in Brazil, Argentina and Colombia during the last years, with only about 3.5 per cent of the world total in 2012, so the only positive remaining examples of any significance were observed in Chile and Mexico, during 2011-2012, but this trend was interrupted by sharp declines in 2013 (UNCTAD, 2014:61ff).

It has been pointed out that the modest volumes of OFDI do not properly reflect the dynamism of Latin American transnational corporations' productive activity abroad as revealed by the increase of cross-border acquisitions (UNCTAD, 2013:59) where there was until 2012, a growing trend recently to acquire companies both in the developed economies in Europe and North America and in neighbouring countries. The largest single cases in 2012 within the service sector were the 3.4 bUSD acquisition of the Brazilian airlines *TAM* by *LAN Chile* and the Chilean retailer *Cencosud*, which acquired an affiliate of French *Carrefour* in Colombia for 2.6 bUSD, and the *Prezunic* grocery store in Brazil for 0.5 bUSD (*ibid*: 59 and 88). Another example was the Chilean bank *CorpBanca*, which acquired a stake in its Colombian unit from Spanish *Banco Santander* (*ibid.*). This trend has, however, not continued during the last two years [UNCTAD, *ibid.*].

2. Global networks of production of goods and services in the Latin American context

There are a number of crucial issues to take into account when assessing the emergence of new transnational companies with Latin American origin. In this context the focus will be on emerging service TNCs.

³ Latin America and the Caribbean, excluding the largest offshore financial centres, British Virgin Islands and Cayman Islands (UNCTAD, 2014).

- Upgrading in the global value chain within the framework of new industrial policy measures;
- Transformation of the economic structure in the domestic markets;
- Nearsourcing;
- The trade political context at the regional and global level.

2.1. *Upgrading in the global value chain*

The abundance of natural resources in a region can be seen as a rich opportunity to create economic growth and welfare also in advanced manufacturing and services, but has in many cases turned out to keep the resource-rich country in the ‘raw material trap’, where firms have not been able to move into higher value-added activities with increased productivity (McMillan *et al.*, 2014). The potential for upgrading to capital- and knowledge based elements in the global value chain, *i.e.* in the mineral-, energy-, forest- and agricultural industries, was during a long time admittedly held back by foreign (Multinational Enterprises) MNEs, wishing to benefit from more profitable value-adding activities elsewhere. But the extensive schemes of nationalization and domestic privatization of resource-based companies that have taken place in almost all Latin American countries during the last 3-4 decades contradict the widespread statements that foreign-inflicted resistance should still constitute a barrier towards domestic industrial and service-based upgrading. Rather, lack of capital, local access to technological knowledge and entrepreneurial tradition may be main hurdles to an emerging internationally competitive service industry, *e.g.* in industrial maintenance, research & development, technical consultancy, consumer product branding etc. Since services to an increasing extent are embedded in the competitive performance of the large manufacturing MNE, the absence of internationally successful manufacturing enterprises built on indigenous resources, may also constitute a setback for the rise of global service firms from Latin America.

2.2. *Transformation of the economic structure*

Typical for the economic transformation process of the Latin American countries has been the relatively modest level of the secondary (manufacturing) sector. In the majority of advanced as well as of Southeast Asian emerging economies, the share of manufacturing related to the primary and tertiary sectors reached during the process of industrialization a peak at about 30-40 per cent of the total employment, after which it has declined, due to the continuous rise of the service sector. In Latin America, on the other hand, the peak of manufacturing reached seldom above the 30 per cent level. This structural phenomena can also be related to the difficulties seen in late industrializing countries, where the opportunities for high value-added industrialization have been limited (Rodrik, 2015). There was instead a direct transformation from the primary to the tertiary sector in Latin America, where today the share of total employment in most countries exceeds 60 per cent, with the highest level among the largest economies is recorded in Chile with more than 66 per cent of the working employment in the service sector (2010 figures)⁴. The direct shift from agriculture to services has to some extent led to a situation where a competitive edge in manufacturing has not been built up to the same extent as in *e.g.* Southeast Asia, and subsequently a relative lack of manufacturing-based service production activities.

⁴ World Bank, 2013, table 3, p. 352f.

2.3. Nearsourcing

It is usually argued in the scholarly debate around the emergence and development of global value chains that the phenomena of outsourcing and offshoring have played an instrumental role when it comes to further fragmentation and specialization of manufacturing production. Arguably, there is a ‘Janus face’ of outsourcing and offshoring, meaning that these activities can on one hand be seen in the perspective of exploiting differences in factor costs between centre and periphery, and in that respect also being an important explanation behind the origin of asymmetric dependencies between rich and poor countries; on the other hand may the hosting of outsourced and offshored activities be seen as a deliberate strategy among emerging economies to attract foreign capital and to subsequently build up indigenous capabilities to manage upgrading in the value chain and in that respect to support future growth of domestic consumer demand. The ‘dependency’ debate during the 1970s, which was particularly marked in Latin America, represented very much the first face, and may in the long run prevented the widespread use of outsourcing and offshoring activities that became a main tool of industrial transformation in emerging economies in East and Southeast Asia. However, the inbuilt dynamics of outsourcing and offshoring is, if successfully applied, their contribution to the levelling out of production costs or at least diminishing of the gaps between centre and periphery – *i.e.* the logic of outsourcing and offshoring is a high degree of geographical mobility. There is also the intricate balance between supply-chain costs and production costs, that has during a long time been kept by a continuous decrease of the share of total transport costs in the final consumer product. The trend of ‘nearsourcing’ – the recapturing of outsourced and offshored activities to the home market itself or to its vicinity - that has been seen recently is still a marginal phenomenon, but may play a larger role in the future when it comes to the reconfiguration of global value chains, and can result in a larger gap between production locations that will benefit from proximity to the large consumer markets, and those which could be even more peripherally located. In the Latin American context, Mexico and parts of the Caribbean region may belong to the first category, while the rest of the Western hemisphere could suffer from the ‘tyranny of distance’. Within the field of service industry the phenomenon of nearsourcing will still be closely related to manufacturing, particularly in the case of research & development, maintenance and distribution, but less likely in banking/finance and retailing.

2.4. The trade political framework

Trade in services are generally regulated at the multilateral level within the framework of the General Agreement of Trade in Services (GATS). In the absence of a completion of the multilateral Doha Development Agenda, within which the GATS and the ongoing Trade in Services talks, also is to be extended and revised, almost all member states have to different degrees made efforts to seek other routes to further liberalization of trade in both goods and services, particularly through regional preferential trade agreements. The main current endeavours in this respect under negotiation - the *Trans-Pacific Partnership* (TPP), and the *Transatlantic Trade and Investment Partnership* (TTIP) – will, in case of successful completion, have a large impact of MNEs in Latin America, both in terms of trade in goods and services, as regarding investment. The TPP talks involve directly three Latin American countries, Chile, Mexico and Peru, who, together with Colombia, also have taken steps to form an

own trade pact, The *Pacific Alliance*. Mexico is furthermore an integrated member of the *NAFTA* bloc. The Pacific Alliance can be seen as a main competitor to the other main trade bloc in the continent, *Mercosur*, consisting of Argentina, Brazil, Paraguay, Uruguay and Venezuela, which was created in the early 1990s, but which has so far failed to meet the early high expectations of successful implementation. Thus Latin America is at present rather disintegrating than integrating, and the aims to forge deeper trade and investment relations with other continents – Asia-Pacific, North America and Europe – are more articulated and active than the visions of a comprehensive *Community of Latin American and Caribbean States* (CELAC).

3. The European Union and Latin America⁵

The EU has, like all other advanced economies, initiated talks regarding free trade with different regions in the world. The largest effort directed to Latin America has been the EU-Mercosur talks with five South American economies, re-initiated 2010 after a six year pause. These negotiations aim at resulting in a comprehensive trade agreement, covering, apart from the usual trade in goods, also services, public procurement, intellectual property rights, trade facilitation schemes and technical barriers to trade. The results have been insignificant so far, and very little progress was made in 2013, among other explanations due to the political and economic situation in Venezuela and the suspension of Paraguay. From the Mercosur side, the EU is an important partner, comprising about 20 % of its external trade, and also a key investment partner, but only about 3 per cent of EU's total trade. Furthermore, EU has also closed various bilateral comprehensive free trade agreements with Latin American countries, comprising both goods and services, notably Mexico, Chile, Colombia and Peru, an Association Agreement with six Central American states, and Economic Partnership Agreements with fifteen Caribbean states (CARIFORUM). The combined result so far of all these efforts is rather a hub-and-spoke structure of trade and investment relations between EU on one hand and different constellations of Latin American states on the other, even though there has been an explicit ambition to forge separate agreements together to a comprehensive regional structure, or, at least, to work for converging separate agreements in order to pave the way for increased intra-regional cooperation at the firm level.

4. Literature review and theoretical framework

The service sector is large and growing extremely rapidly. It is also becoming much more complicated as radical technological solutions are developed to support the provision of many service functions. Services used to be considered to be local activities that were produced and consumed at the same time and in the same place (Hill, 1977). Technological developments have transformed services by challenging the relationship between place of production and consumption. Many business services involve the creation of high-value added customized services. Recent developments, however, have led to pressures coming from larger client companies to strip costs and profits from suppliers of advanced business services. Technology and especially the ability to create teams that draw upon experts located in low-cost production locations have led to an on-going commoditization of some business service functions. This is especially the case in relation to accountancy, consultancy and law. Technology

⁵ Main source: European Commission, Memo/13/1080, December 3, 2013.

including new knowledge management systems combined with intranets is transforming the production of these services.

A good can be sold without any direct relationship between the manufacturer and consumer. Many services can also be consumed in a similar way. Nevertheless, the importance of face-to-face contact involved in the simultaneous production and consumption of a range of services plays an important role in differentiating the new world of service work from that of manufacturing. At the centre of interactive service relationships are three important elements: the quality of the client interaction, an individual's of firm's reputation and embodied knowledge. The importance of reputation cannot be under-emphasized for the consumption of services.

Producing any product or service involves service expertise to be embedded in different parts of the production process. This may involve the design of a production process or of an actual product or service (Bryson and Rusten, 2011).

The dearth of empirical research on services and internationalization reflects the absence of official statistics on the service sector in general and on service trade in particular. Available datasets are limited by industry, geography and time series. Due to the difficulties of classification, conceptualization and measurement problems, research on service internationalization research is complicated. Traditional international trade theories such as the Heckscher-Ohlin have been used as a frame of reference for exploring service internationalization. But this analysis concluded that trade theory developed to explore trade in good does not help to explain trade in services (Daniels, 1993, Bryson *et al.*, 2004, Dicken, 2011). Government regulations, cultural differences and language differences are extremely important for service internationalization (Beyers, 2012). The debate about service sector FDI has become important since it is a preferred way for companies to move abroad and is specifically determined by locational factors (Rusten and Bryson, 2010).

Studies of internationalization and services have focused on more specific sub-sectors and have often explored internationalization strategies (*e.g.* Jones, 2002, Bryson, 2007, Schultz, 2005, Ström and Mattsson, 2006, Faulconbridge *et al.*, 2008). Firms located in major metropolitan areas, are more likely to be confronted with various internationalization opportunities. Firms in more peripheral areas also show an interest in working internationally, but activity is more limited.

There are major differences between trade in goods and trade in services (Daniels, 1993, Bryson *et al.*, 2004, Dicken, 2011). Firstly, even though information technology has helped to bring parts of the world closer together, much of the activities within the service industry must take place simultaneously and maybe even at the same location. It is often important to have direct contact between producer and buyer. Secondly, the service industry is still heavily regulated in many countries, which affects the possibilities to trade. In some counties the import of services from foreign providers has been prevented though regulation. Finally, there are many obstacles to trade with services such as non-tariff-barriers. These can be of a very different character, such as licenses for legal advisors, medical doctors, accountants, qualifications, language etc. These play an important role as barriers in preventing international service trade. Cultural problems are evident for any kind of international transaction, but in the case of service industries they may be an absolute barrier (Jones, 2002, 2005, Ström, 2005). These barriers have their greatest impact on verbal and media-based services, but standardized and highly technological services may be exceptions to this general rule.

Another important issue for the internationalization of service production is the complexity of value-added in relation to manufactured goods (Daniels, 2000, Daniels and Bryson, 2002). The question of value-added is both valid in relation to where this is

produced but also how the value added is traded in relation to the indirect contribution made by services in the exports of goods. In relation to the classification and conceptual difficulties associated with service trade, empirical findings show that the direct contribution of services to national exports is growing slowly and the pattern of trade is highly concentrated. Instead it might be useful to acknowledge and nurture the indirect contribution of services to overall national export activity. Service firms provide functions that support the export of many manufacturing sectors and this enhances total export competitiveness. Specialized services may become embodied in goods leading to the production of goods/service bundles for export (Daniels and Bryson, 2002). These bundles may provide firms with a source of inimitability – a source of competitiveness that provides differentiation in global markets (Bryson, 2009).

The lack of service research in Asia and other emerging markets such as Eastern Europe and Latin America has attracted increased attention (O'Connor and Hutton, 1998, Ström and Yoshino, 2009, Harrington and Daniels, 2006, Daniels *et al.*, 2012, Di Meglio *et al.*, 2012, ADB, 2012). The interconnectedness of mature economics in Europe and emerging markets in East and Southeast Asia has created a complex economic network of production and knowledge networks where services are playing an increasingly important role. It resembles to some degree the economic geographical transformation in Europe where the new members states of the European union have been connected through market widening and increased FDI, but where the economic integration of the service economy has yet to materialize in Asia (Alvstam *et al.*, 2009, Ström and Yoshino, 2009, ADB, 2012). It is noteworthy that China is developing policies to enhance the effectiveness of Chinese business services and this might lead to the development of Chinese service competitors that may challenge European and American service providers.

Service offshoring takes place when firms shift production to foreign locations. The aim of this action may be to reduce costs, to service a foreign market, to reduce exposure to country risk, or to make use of specific labour. An additional factor influencing the location of offshore service centres is the requirement to provide a 24-hour service to customers or an extended service beyond normal working hours, and establish a 'follow-the-sun' geographical strategy. Country specific risk is reduced when a firm is able to change the delivery of a function between facilities located in different geographies.

Service offshoring is not easily analysed because service tasks can be traded in four ways (United Nations 2002: 1):

Mode 1: *cross-border supply* occurs when suppliers of services in one country supply services to consumers in another country without either supplier or consumer moving into the territory of the other.

Mode 2: *consumption abroad* refers to the process by which a consumer resident in one country moves to another country to obtain a service.

Mode 3: *commercial presence* occurs when enterprises in an economy supply services internationally through the activities of foreign affiliates.

Mode 4: *presence of natural persons* describes the process by which an individual moves to the consumer's country to provide a service, whether on his or her own behalf or on behalf of his or her employer.

Three of these modes are concerned primarily with service connections between residents and non-residents. Mode 1 involves services that require no direct interaction

with customers but procedures must be developed to overcome cultural and language hurdles that could exist between nations. Recently, there has been a particular interest in Mode 3, where firms supply services on the global market through the activities of foreign affiliates (Bryson *et al.*, 2004). The Mode 3 ‘method of serving foreign markets is particularly important because it is often the only method that permits the close and continuing contact between service providers and their customers necessary to compete effectively with indigenous firms’ (United Nations 2002: 54). Here the provision of services through foreign direct investment represents a form of *captive offshoring* or offshoring without outsourcing. Captive offshoring enables a firm to keep control over its various assets, intellectual property and core business processes (Bryson, 2007). But captive offshoring creates value for the home of the service provider, but not necessarily local employment. The implications for Europe would be that service FDI by European companies will create jobs in host economies.

Trade in services must address cultural differences between countries that restrict the ability of service providers to export standardized services. Modes 3 and 4 enable service providers to localize provision to take into consideration local cultures and client expectations. Modes 1, 3 and 4 involve what is commonly termed ‘service offshoring’ or more correctly ‘service global sourcing’. This is encapsulated by the concept of a ‘second global shift’ (Bryson (2007)). The first global shift involved the relocation of manufacturing jobs to low-cost production locations while the second involves services. There have been three distinct stages of the second global shift. Firstly, during the first part of the 1990s computer and software programming, testing and network support activities were outsourced and then globally sourced. Secondly, during the late 1990s global sourcing diversified into various low value added office jobs for different industries, such as call centres and back-office functions. Lastly, complete service centres materialized that provide an extensive range of administration, process, contact and support tasks (Bryson (2007)).

The development of service offshoring represents a new type of international division of labour, but with a difference. It is various forms of services, ranging from call-centre-based work to back-office administration that is being relocated to lower-cost production locations, rather than the production of goods or assembly functions. A number of factors influence the decision to send a specific service activity offshore. It must be capable of some degree of standardization that does not require face-to-face collaboration with consumers or clients. Additionally, the inputs and outputs needed to deliver the service must be capable of being distributed with the help of information and communication technology. Some service activities are not fixed in space and can be distributed either as a form of foreign trade or by the short-term relocation of a service worker to a client’s location, for example, various forms of consulting. Finally, specialist services can be provided from central locations with consumers travelling to utilize the service.

Outsourcing services to companies located in other countries comes with a number of risks related to language, culture and the quality of the delivered service. Different from the first ‘global shift’, the spatial dimension of the second global shift is determined by capabilities of service workers located in foreign locations that may, but not always, be lower-cost locations Bryson (2007).

5. Multinationals and the service industry

The Latin American service industry has seen steady increase during the last decades. Primarily the larger economies such as Mexico, Brazil, Argentina and Chile

have been at the core of this development. The manufacturing industry and the raw material based economy is however substantial in many regions. Mexico is one example of where inflows of FDIs are taking advantage of the NAFTA agreement and the proximity to the US market, along with a very favourable cost level. The positive economic development has also pushed for increased economic integration within the region through Mercosur, and other multilateral and bilateral initiatives. The industrial base has generated a number of companies working across the Latin American region, but also becoming increasingly active on the world market (Santosi, 2014). Several of the most important emerging market multinational originates from Latin America, such as Vale, Embraer and CEMEX, to mention a few. These firms have originated from economies where the government influence have been substantial for the development such as import substitution. However, other companies have pushed forward to take advantage of the economic possibilities on the more regional level. During the last decade, smaller countries (in economic terms) in the region have also seen growth being generated through the service economy (Stark *et al.*, 2014).

Apart from the growth in Latin America that has been driven by increased demand of raw material, the increasing consumption has also pushed growth ahead. Another important driver of the Latin American service economy is the increased outsourcing and offshoring of service activities that have taken place. The phenomenon has been driven out of demand from North American based firms, but increasingly from other part of the world where multinationals are looking for a location strategy that covers areas where they are active. According to Stark *et al.* (2014), the firms are mainly using four alterations to take advantage of different location advantages in the service value chain; (1) *product upgrading*, trying to achieve a higher value, (2) *process upgrading*, which refers to improvements in the efficiency of production systems, (3) *functional upgrading*, which refers to the movement to higher-value stages in the chain that require additional skills and lastly, (4) *chain or intersectoral upgrading*, which focuses on entry into a new value chain by leveraging the knowledge and skills. The different stages of the economies in the region have enabled service providers to take part in different stages of the value chain. This can be done through handling functions within larger multinational through off-shoring, but also through independent firms. According to a recent ECLAC study the service industry has successfully created thousands of jobs in countries like Chile, Costa Rica, the Dominican Republic, Colombia and Uruguay (*ibid.*). The development shows that it is not only the larger economies in the region that could benefit from increasing the share of the service economy. Countries in the Caribbean have also seen the importance of attracting service jobs, through tourism, but also in related business service industries (CNSC, 2014). The small open economy of Costa Rica has also attracted a substantial inflow of service FDI during the last decade, particularly due to a series of bilateral free trade agreements (FTAs) with key trading partners. FDI inflows increased significantly in the early 2000s, mainly in technologically intensive fields such as electronic components, medical devices and global services. The country has actively sought to attract FDI from companies in a diverse set of services such as contact centres, shared services, back office; entertainment and digital technologies, design and engineering, and software (Flores Sáenz, 2014).

Apart from sectors in the region that grows through service FDI and global value chains, there are also sectors that have taken advantage of the rise in income and economic and political stability throughout the region. This includes firms within retail, finance, insurance and business services. These firms are more of regional Multilatinas at this stage that are utilizing their regional knowledge to expand business. Studies also

show that the countries in the region work with different policies for attracting service FDI and developing the domestic industry. Chile has been one of the most active countries in this respect. All ready in 2000 a program was launched to attract investments in high-tech sectors and business services (López *et al.*, 2014). Similar schemes have also been introduced in smaller economies such as Colombia. Here infrastructural investments to support the usage of English, tax reduction for international experts and the implementation of international financial and accounting standards are all important measures to support the growing service economy. The main aim is to create a service industry in relation to outsourcing and offshoring that is globally competitive (Kshetri *et al.*, 2014).

The growth of the Chilean service economy has been driven by a set of factors. First, there is an increasing demand of services in a growing economy where productivity and competitiveness is on the increase. In relation the public sectors has also been in a need of digitalization. Second, the government has launched a number of incentive programs to support the IT industry, through education, facilitate international competition and public-private partnerships. Finally, the infrastructure through broadband has been expanded. All in all, these schemes have been introduced to strengthen the competitiveness and ability of Chilean firms domestically and abroad.

In a study by Hagen *et al.* (2014), the internationalization and intra-regional trade is evident for Chilean IT service providers. In the survey presented of these business services the Latin American market is very important, with countries such as Peru, Argentina, Colombia, Mexico, Costa Rica, apart from the US. But a number of vital export relations with Europe are evident including countries such as Spain, the Netherlands and Sweden.

The result from the same survey of the main barriers to further enhancing the export of these business services indicates the lack of access to networks to be the most important barrier apart from marketing and financing. The result indicates how important networks are within the service industry in order to facilitate growth and trade. Further economic integration in Latin America is dependent upon expanding business networks and financing possibilities. The combination of service FDI through offshoring and domestic development is vital for creating sustained growth on the service sector.

Companies from the retail sector have been utilizing the increased income in many countries in the region for expansion. This is an example of regionally expanding firms. These firms could be seen as regional Multilatinas. They use the potential of economic growth and the similarities that exist between countries, such as languages and culture. Companies from Chile, such as Cencosud, Falabella and Ripley have been particularly active in expanding their regional presence in Columbia, Peru, Brazil and Argentina (Barclays, 2013). According to analysts following the sector it shows signs of growth in many countries. This locational spread indicates that there are regional transformations that would help to increase the development of the service industry. In a recent deal Cencosud finalized the takeover of Carrefour's stores in the Colombia, whereas the competitors have chosen more of an organic growth. This part of the service economy is less driven by FDI from Europe and North America, but rather the domestic development in the respective country. In relation to the retail operation, these firms are also developing their financial service offers to customers, and further services of more advanced character could be added in later stages. In this sense the sectors is complementing the growth of business services through domestic growth and offshoring in IT and other sub-sectors.

Conclusions

The paper shows the complexity of the service industry development in Latin America. There are several connections to the global market through various forms of offshoring activities of services operations. This has helped to enhance the competitiveness and economic growth in several of the countries in the region. There are numerous examples of how governments have actively worked with developing incentive structures for both attracting inward FDI, but also for supporting the domestic growth of services. The paper also shows the differences that exist among countries in term of service industry development. In several countries the manufacturing and raw material based economy have created hurdles for further expansion into services. The volatility on the world market for raw materials has also created a situation where the macroeconomic structures have been changing rapidly, making it more difficult to create sustainable structures for the service industry. The service development can broadly be classified into two different areas. One is driven by the connection to the world market through offshoring and back-office functions. The other area is the regional market where Multilatinas are operating in business services and the retail sectors. These firms try to take advantage of the regional economic growth, but with limited prospects in the short run to venture outside the Latin American continent. In this respect the intra-regional Multilatinas will be interesting to follow in the future. The main question is whether these firms can establish enough competitive advantage for long term competitiveness.

The social and economic disparities generate a complex development for the service industry. There are parts of the population that has seen their purchasing power increase and thus generated a base for service industry development. However, due to problematic political circumstances and social unrest, there are also examples of the reverse. This development is also intertwined with the difficulties of getting trade structures working better in the region. Mercosur has not been at all as successful as was hoped from the beginning. This connects to the problems of Latin America in the world economy, where the share has shrunk compared to the situation about half a century ago. Regional political differences and external relations to the EU have not helped to reverse this trend. External influence in the form of Chinese investment is also a highly important aspect in relation to the economic development in the region. With increased trade and investment focus across the Pacific and with the creation of new trading schemes such as the TPP, the role of the EU might be diminishing despite, historical, cultural and language relations. The EU exhibits itself many different priorities among its member states when it comes to perform the common external trade and investment policy according to the stipulations in the Lisbon Treaty. Even though the supranational authority to carry out a coherent and persistent 'one-voice' policy is strong in theory, the reality looks different. The coordination procedure is shared between the Council within its Trade Policy Committee, and the European Parliament, mainly within its Committee on International Trade (INTA). In addition, the preparation as well as the implementation of policies rest within the DG Trade in the Commission. The difference in geographical priorities regarding EU's external trade relations is unsurprisingly closely correlated with the geography of member states, where the Southern-Southwestern MS have been more likely to push for deeper relations with Latin America, and less enthusiastic regarding e.g. the Eastern Partnership or Asia. The aim of ours is to follow up the identification of a number of promising future areas of cooperation within the field of service industries, in order to contribute to a more solid

and sustainable platform at mutual benefit between the EU multinational enterprises and the emerging Latin American firms than hitherto has been the case.

References

- ADB, *Outlook 2012 Update: Services and Asia's Future Growth*, Manila, ADB, 2012.
- ALVSTAM, C., STRÖM, P. and YOSHINO, N., "On the economic interdependence between China and Japan— challenges and possibilities", *Asia Pacific Viewpoint*, 50(2), 2009, p. 198-214.
- BARCLAYS, *Barclays Equity Research*, 6 June 2013.
- BEYERS, W. B., "The service industry research imperative", *The Service Industries Journal*, 32(3-4), 2012, p. 657-682.
- BRYSON, J.R., *Hybrid Manufacturing Systems and Hybrid Products: Services, Production and Industrialisation*, University of Aachen, Aachen, 2009.
- BRYSON, J.R., "A 'Second' Global Shift? The Offshoring or Global Sourcing of Corporate Services and the Rise of Distanced Emotional Labour", *Geografiska Annaler* 89B, (S1), 2007, p. 31-43.
- BRYSON, J.R., DANIELS, P.W. and WARF, B., *Service Worlds: People, Organizations, Technologies*, Routledge, London, 2004.
- BRYSON, J.R. & RUSTEN, G., *Design Economies and the Changing World Economy: Innovation, Production and Competitiveness*, Routledge, London, 2011.
- CARIBBEAN NETWORK OF SERVICE COALITIONS (CNCS), *Services Scoop, the Caribbean trade in Services Magazine*, Annual publication, GIZ, Barbados, 2014.
- DANIELS, P.W., *Service Industries in the World Economy*, Blackwell, Oxford, 1993.
- DANIELS, P.W., "Export of services or servicing exports?", *Geografiska Annaler*, 82 B(1), 2000, p. 1-15.
- DANIELS, P.W. and BRYSON, J.R., "Manufacturing Services and Servicing Manufacturing: changing forms of production in advanced capitalist economies", *Urban Studies*, 39, n° 5-6, 2002, p. 977-991.
- DANIELS, P.W., HO, K. C. and HUTTON, T.A., *New Economic Spaces in Asian Cities From Industrial Restructuring to the Cultural Turn*, London, Routledge, 2012.
- DICKEN, P., *Global Shift, Mapping the Changing Contours of the World Economy*, New York, Guilford Press, 2011.
- DI MEGLIO, G., STARE, M. and JAKLIČ, A., "Explanation for public and private service growth in the enlarged EU", *The Service Industries Journal*, n° 32(3-4), 2012, p. 503-514.
- FAULCONBRIDE, J.R., HALL, S.J.E. and BEAVERSTOCK, J.V., "New insight into the internationalization of producer services: organizational strategies and spatial economies for global headhunting firms", *Environment and Planning A*, n° 40, 2008, p. 210-234.
- FLORES SÁENZ, J.J., "Service multinationals in Costa Rica's free trade zone and their linkages to local suppliers", in HERNÁNDEZ R.A *et al.* (eds), *Latin America's emergence in global services A new driver of structural change in the region?*, Economic Commission for Latin America and the Caribbean (ECLAC) Santiago, Chile, March, 2014, p. 157-176.
- HARRINGTON, J.W and DANIELS, P.W., *Knowledge-based services, internationalization and regional development*, Aldershot, Ashgate, 2006.
- HAGEN, F.R.V., MARINAO, O. and MULDER, N., "Information technology enabled services in Chile: A new export niche?", in HERNÁNDEZ, R.A *et al.* (eds), *Latin America's emergence in global services A new driver of structural change in the*

- region?*, Economic Commission for Latin America and the Caribbean (ECLAC) Santiago, Chile, March 2014, p. 177-195.
- HILL, T.P., "On goods and services", *Review of Income and Wealth*, n° 23, 1977, p. 315-338.
- IMF, *Direction of Trade Statistics Database*, Washington D.C., International Monetary Fund, 2014.
- JONES, A., "The 'global city' misconceived: the myth of 'global management' in transnational service-firms", *Geoforum*, n° 33, 2002, p. 335-350.
- JONES, A., "Truly global corporations? Theorizing 'organizational globalization' in advanced business-services", *Journal of Economic Geography*, n° 5(2), 2005, p. 177-200.
- KSHETRI, N., CARDONA, M., DÍAZ, H. and CASTIBLANCO, S., "The Colombian outsourcing and offshoring industry: The effects of institutions and agglomeration economies", in HERNÁNDEZ, R.A *et al.* (eds), *Latin America's emergence in global services A new driver of structural change in the region?*, Economic Commission for Latin America and the Caribbean (ECLAC) Santiago, Chile, March 2014, p. 137-155.
- LÓPEZ, A., NIEMBRO, A. and RAMOS, D., "Promotion policies for services offshoring: Global analysis and lessons for Latin America", in HERNÁNDEZ, R.A *et al.* (eds), *Latin America's emergence in global services A new driver of structural change in the region?*, Economic Commission for Latin America and the Caribbean (ECLAC) Santiago, Chile, March 2014, p. 107-135.
- MATHEWS, J.A., "China, India and Brazil: tiger technologies, dragon multinationals and the building of national systems of economic learning", *Asian Business & Management*, vol. 8, n° 1, 2009, p. 5-32.
- O'CONNOR, K. and HUTTON, A. T., "Producer services in the Asia Pacific region: an overview of research issues", *Asia Pacific Viewpoint*, n° 39(2), 1998, p. 139-143.
- PAGÉS, C., *The age of productivity, transforming economies from the bottom up*, Washington D.C., IADB, 2010.
- RODRIK, D., *Premature Deindustrialization*, NBER Working Paper No. 20935, 2015.
- RUSTEN, G. and BRYSON, J.R., "Placing and Spacing Services: Towards a Balanced Economic Geography of Firms, Clusters, Social Networks, Contracts and the Geographies of Enterprise", *Tidschrift voor Economische en Sociale Geografie*, 101, n° 3, 2010, p. 248-261.
- SANTISO, J., *The Decade of the Multilatinas*, Cambridge, CUP, 2014.
- SCHULZ, C., "Foreign Environments: The Internationalisation of Environmental Producer Services", *The Service Industries Journal*, n° 25(3), 2005, p. 337-354.
- STARK, K., HERNÁNDEZ, R.A., MULDER, N. and SAUVÉ, P., "Introduction", in HERNÁNDEZ, R.A *et al.* (eds), *Latin America's emergence in global services A new driver of structural change in the region?*, Economic Commission for Latin America and the Caribbean (ECLAC) Santiago, Chile, March 2014.
- STRÖM, P., "The Japanese Service Industry: An International Comparison", *Social Science Japan Journal*, n° 8(2), 2005, p. 253-266.
- STRÖM, P. and MATTSSON, J., "Internationalisation of Japanese Professional Business Service Firms: Client Relations and Business Performance in the UK", *The Service Industries Journal*, n° 26(3), 2006, p. 249-265.
- STRÖM, P. and YOSHINO, N., "Japanese financial service firms in East and Southeast Asia: Location pattern and strategic response in changing economic conditions", *Asian Business and Management*, n° 8(1), 2009, p. 33-58.

STRÖM, P. and ERNKVIST, M., “Internationalisation of the Korean online gameindustry: exemplified through the case of NCsoft”, *International Journal of Technology and Globalisation*, vol. 6, n° 4, 2012, p. 312-334.

UNITED NATIONS, *Manual on Statistics on International Trade in Services*, New York, United Nations, 2002.

UNCTAD, *World investment report*, Geneva, United Nations Conference on Trade and Development, 2013.

UNCTAD, *World investment report*, Geneva, United Nations Conference on Trade and Development, 2014.

WILLIAMSON, P.J., RAMAMURTI, R., FLEURY, A. and FLEURY, M.T.L., *The competitive advantage of emerging market multinationals*, Cambridge, CUP, 2013.

WORLD BANK, *World Development Report 2014*, Washington D.C., World Bank, 2013.