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### Expanding Global Production Networks: The emergence, evolution and the developmental impact of the offshore service sector in the Philippines

Kleibert, J.M.

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# CHAPTER | 1

Introduction



*“The offshoring of services is becoming [...] possibly the critical international economic development issue”* (Dossani & Kenney, 2007: 778, emphasis in original)

## 1.1 Globalisation and services-based economic development

At three o'clock in the morning, the streets of Ortigas central business district in Metro Manila are crowded. Young people with company IDs dangling from their necks stand around in groups, laughing, smoking, drinking coffee and enjoying a break from their work in one of the surrounding office towers. Working night shifts, their task is to answer “1-800” calls from the United States (US), negotiate credit card repayments, troubleshoot the newest electronic gadget, book flights and hotel rooms around the globe, sell faster internet connections on the phone, schedule petroleum lorries in Great Britain, reformat pictures for an online international newspaper, help kids on the other side of the planet with their English homework, transcribe medical statements from a hospital in the US, administer the pay-checks of employees in a New York bank, or develop a new firm's website. All these services are exported to customers and firms in the Global North, far away from the Philippines' shores.

In 2013, the Philippines, heretofore recognised as one of Southeast Asia's economic laggards, achieved gross domestic product (GDP) growth of 7.2%, among the highest in the region (National Statistical Coordination Board [NSCB], 2015). The media celebrated the Philippines' transformation from “sick man of Asia” to “Asia's new strong man” (Fensom, 2013). The driver of this economic growth has been the strong services sector. The business process outsourcing (BPO) sector is currently the second-largest contributor to the Philippines' foreign-exchange earnings (after remittances) and was estimated to employ about 1 million full-time employees in 2014 (Santos, 2014). Advancements in information and communications technology (ICT) have been described as facilitating a more even playing field for developing countries to participate in global competition; arguably a ‘flat world’ (Friedman, 2006). The hopes attached to the offshoring of services are high. The former Philippine President, Gloria Macapagal-Arroyo is quoted to have said: “The Filipino nation should take advantage of the flatness of the world and move into the first world in 20 years” (quoted in Dumlao-Valisno, 2008: 1).

The offshore service sector has experienced high growth rates since its inception two decades ago, and scholars believe that its impact on the global economy will be larger than the earlier relocation of manufacturing activities (Dossani & Kenney, 2007). Indeed, this is seen as “a new chapter in human experience, never before witnessed in history” (Bunyaratavej, Doh, Hahn, Lewin & Massini, 2011: 71). Global production networks (GPNs) have become increasingly complex, due to unbundling and fragmentation. Codification, standardisation, and digitisation of information has enabled the production of services in one place, and consumption in another, allowing for transnational trade in services<sup>1</sup> (UNCTAD, 2004). A geographic extension of GPNs in service delivery to developing countries has ensued.

<sup>1</sup> This study deals with offshoring of service work, not offshore finance and tax havens (see e.g. Shaxson, 2012; Wojcik, 2013).

The so-called “next wave in globalisation” (Dossani & Kenney, 2007) has not been discussed extensively from an economic geography perspective, despite being an inherently spatial phenomenon. Most studies on the offshoring of services stem from the perspectives of management and international business studies; in addition, there is a plethora of ‘how to offshore’ practical guide books for managers. The Offshore Research Network, which was founded in 2004 by Duke University’s Fuqua Business School, conducts surveys among offshoring firms located in the Global North. The network is increasingly funded by the private sector, including both individual offshoring firms and business associations (Bunayrartavej et al., 2011; Couto et al., 2006; Lewin, Massini & Peeters, 2009; Massini & Miozzo, 2011). In the past two years, several books have been published about offshoring, primarily from an economics perspective. Examples include *The Oxford Handbook of Offshoring and Employment* (Bardhan et al., 2013), *Outsourcing Economics* (Milberg & Winkler, 2013), and *The Third Globalization* (Breznitz & Zysman, 2013), and from a sociology perspective, *Offshoring* (Urry, 2014). These books deal with different kinds of offshoring, are not focused on services offshoring, and are often concerned with the impact on advanced economies. For example, “Can Wealthy Nations Stay Rich in the Twenty-First Century?” is the subtitle of Breznitz and Zysman’s (2013) book.

The impact of offshoring on the service-delivering countries in the Global South is less clear since the literature on offshoring “tends to over-emphasize potential or actual negative impacts being experienced by developed market economies and to neglect impacts on foreign service providers” (Bryson, 2007: 41). An exception to this can be found in the literature on labour in call centres (e.g. Amante, 2010; Beerepoot & Hendriks, 2013; James & Vira, 2012; Ofreneo et al., 2007; Taylor & Bain, 2005). Paus argues that “there is virtually no debate in the existing literature about offshoring’s impact on developing countries. Analysts generally assume, implicitly or explicitly, that developing countries will benefit from offshoring, as a matter of course” (Paus, 2007: 12). Missing in these recent publications, is an empirical, locally-grounded account.

Optimistic accounts of the impact of offshore service sector growth on developing countries dominate the literature on the phenomenon. The offshoring of services is believed to present new opportunities for developing countries to leapfrog industrialisation and to become service-based economies (Dossani & Kenney, 2007; Gereffi & Fernandez-Stark, 2010a). The consensus and practice in development theory has shifted throughout the decades, from import-substitution industrialization (ISI), based on the infant-industry argument in the 1950s and 1960s, to export-oriented industrialization (EOI). Both of these models revolve around manufacturing production. The offshoring of services follows the earlier relocation of manufacturing industries to countries with lower-cost workforces, changing yet again the global division of labour (Fröbel, Heinrichs & Kreye, 1980).

Until now, most studies have focused on the single case of India’s IT and IT-enabled services exports since the 1980s<sup>2</sup>. In 2012, the offshore service sector contributed revenues of almost

<sup>2</sup> With the exception of studies on Eastern Europe, see the special issue *European Planning Studies* volume 19, issue 9, 2011.

\$100 billion to the Indian economy (NASSCOM, 2012). Ghani (2010: 3) writes that “the South Asian experience suggests that a services revolution – rapid growth and poverty reduction led by services – is possible. This can fundamentally change the pattern of development for many developing countries”. Much of the literature on India’s ‘success story’ is written by business practitioners and presents insider accounts of how the sector or a specific firm grew, often hagiographic in nature (Karnik, 2011; Ramadorai, 2011; Rastogi & Pradhan, 2011). India’s success presents a puzzle for development scholar. Does service-based economic development present a new model of development? Can countries leapfrog industrialisation through the use of export-oriented development in services? Can services replace manufacturing as a model of economic development? If the Indian case indeed epitomizes a new model of economic development, the question of replicability arises (Paus, 2007: 16). What kind of opportunities does an economic development strategy based on the offshore service sector present? And is it a fundamentally *new* strategy or a do we witness a replication of the earlier relocation of production, leading to short-term employment creation in a footloose industry?

This research traces the expansion to the Global South of GPNs in service delivery and focuses on the experience of the Philippines. Both the Philippines and India failed to achieve high growth rates and rapid industrialisation in previous decades, but are now exporting a large volume of services to the Global North. The question arises whether contemporary globalisation, and the changing international division of labour in the services sector, leads to economic development. Economic development, in this study, is conceptualised beyond economic growth to include sustainable economic transformation and improving social conditions.

Levy (2005: 685) asserts that offshoring “decouples the linkage between economic value creation and geographic location”. Therefore, the outcomes of globalisation in specific places require further analysis. Economists seem to have largely disengaged from discussing the distribution of benefits and profits, concede Milberg and Winkler (2013: 5); instead other disciplines have taken up this analysis. Economic geographers, for their part, have developed tools to assess regional economic development based on a particular place’s integration into global production networks (GPNs).

This research uses the GPN framework (Henderson, Dicken, Hess, Coe & Yeung, 2002; Coe, Hess, Yeung, Dicken & Henderson, 2004; Coe, Dicken & Hess, 2008) and adapts its concepts, which were previously mainly used for studying cross-firm and cross-border industrial organisation, to the more recent phenomenon of services offshoring. The GPN framework was developed to ‘globalise’ regional economic development (Coe et al., 2004). It allows researchers to trace the production of goods and services in a relational framework that links the Global North and the Global South and includes both inter-firm and intra-firm relations.

I argue that the GPN framework provides a valuable lens to analyse contemporary global production processes and regional development. However, it needs to be complemented with insights from other literatures in order to operationalise its concepts and make the heuristic framework more applicable to explaining contemporary processes of service delivery. The title of this book reflects the aim of this research to, on the one hand, analyse the empirical phenomenon of GPNs expanding into services and geographically reaching

into new places in the Global South. On the other hand, this research aims to expand the GPN framework from its earlier focus on industrial-production processes to services. In order to achieve this, the GPN framework's three main analytical categories of power, embeddedness and value, are combined and refined using concepts and insights from other literatures. Applying and adapting the framework for offshore services in the Philippines can inform debates about a services-based model of economic development and help to answer the main research question:

**How and why did the offshore service sector in the Philippines emerge, evolve, and how does it impact economic development?**

The research question can be divided into several themes. First, I discuss the emergence of the offshore service sector in the Philippines through an analysis of investment attraction processes and how places become integrated into GPNs. Second, I map the position of corporate subsidiaries operating in the Philippines to understand what functions and powers they hold. Third, I focus on the evolution of the sector. Do firms become increasingly territorially embedded over time, or do they remain footloose? And are firms moving up the value chain into higher value-added services, or do they remain limited to delivering lower-end services? Finally, I address the question of where value is captured within the GPN, which is crucial for assessing the impact on economic development in the Global South.

This study is embedded in a larger research project, and is conducted on the meso-level of the firm and spatially on the city or region of production. Three other PhD projects investigate related aspects of the offshore service sector and its local outcomes in Mumbai (Sandhya Krishnan and Randhir Kumar) and Metro Manila (Leian Marasigan), especially focusing on labour trajectories in the BPO sector and the sector's low-end support activities.

On a policy level, the findings of this study are relevant to policy-makers dealing with the attraction of foreign direct investment (FDI) and the offshore service sector. It moreover provides an opportunity for policy-makers in other countries and places to learn about the experiences of offshore service delivery beyond the case of India. Many countries around the globe, from Ghana to South Africa, from Egypt to Kenya, from Malaysia to Chile, are trying to develop an offshore service sector and attract multinational firms (Ahmed, 2013; Beerepoot & Keijser, 2014; Benner, 2006; Brooker, 2011; Fernandez-Stark, Bamber & Gereffi, 2010; Graham & Mann, 2013). These countries can benefit from an empirically grounded study of the workings of the sector and its impact on economic development in another late-comer country in the sector.

This research is based on a qualitative case study of the offshore service sector in the Philippines. Extensive fieldwork was conducted in different cities across the Philippines between 2011 and 2013, yielding 106 in-depth open and semi-structured interviews, a survey among BPO firms, in addition to an analysis of secondary sources, and personal observations. In addition, several months of fieldwork were conducted in India, a first-mover country in offshore services, to better understand the workings of the sector better and place the Indian case in a broader perspective.

The introductory chapter of this book contains four parts. Following the current brief introduction, Section 1.2 presents the theoretical framework for the study. Section 1.3 explains the research methodology and Section 1.4 highlights the broader context; namely, economic development in the Philippines prior to the arrival of the offshore service sector. Chapters two to seven form the body of empirical research, followed by the concluding chapter.

## 1.2 Theoretical foundations: Offshore services, GPNs and economic development

This section defines the core concepts and gives an overview of the overall theoretical framework on which this research is based. It establishes the link between offshore services, GPNs and economic development to assess the new opportunities for economic development in a country like the Philippines.

### 1.2.1 Service-based economies

What exactly are services? Services are mainly defined as intangible or weightless commodities. Originally, services comprised the share of economic output that could not be attributed to agriculture or manufacturing in developed economies. Since then, services have become more important in the global economy, with industrialised countries seeing a surge in employment in the services sector since the 1980s (Daniels, 2004; Elfring, 1989). Services today make up the biggest share of GDP in developed economies and occupy the largest share of employment. The importance of services has also risen dramatically in urban areas in the Asia-Pacific region. Knowledge-intensive producer services are now considered vital for economic development in the region (Daniels & Harrington, 2007).

Meanwhile, the shift towards a tertiary-driven economy has led to increasing polarisation in developed economies. In US cities, for example, high-paid cognitive-cultural workers coexist with a low-paid underclass of service employees (Scott, 2012). Services, therefore, cover very different sectors and occupations within developed economies. Castells argued that the diversity in services is “in fact so extreme that it forbids considering services as a single, homogeneous sector of economic activity” (1989: 129). Moreover, the distinction between manufacturing and services as two distinct spheres is becoming increasingly blurred, as both are often linked in the production of goods (Daniels, 2004; Zysman, Feldman, Kushida, Murray & Nielsen, 2013).

The share of services in relation to agriculture and industry is usually higher in developed economies compared to developing countries. However, the attractiveness of a service-based economy as a lodestar to economic development has been debated. As the American economist Baumol (1985) pointed out, labour productivity in services is growing slower than in manufacturing<sup>3</sup>. Services alone were considered unable to drive economic growth;

<sup>3</sup> His famous examples include a Beethoven string-quartet, which requires the same number of people and the same time to play in the 19<sup>th</sup> century as today, showing no growth in labour productivity.

instead they can only follow it. In the export-oriented development strategies of previous decades, services were moreover omitted, since they were believed to be non-tradable, especially since they often require face-to-face contact. However, recent developments have shown that services can take the shape of virtual exports, travelling the world faster and with less transportation costs than associated with physical goods. It remains unclear how far developing countries can achieve economic development on the basis of a strong services sector. Indian economists Chandrasekhar and Gosh (2006) see services as an “exaggerated development opportunity” since they are unable to provide enough employment opportunities for unskilled workers. Rodrik (2014) argues in a recent blog post that the high contribution to GDP in developing countries from the services sector does not indicate economic development but rather results from “premature de-industrialisation”.

### 1.2.2 Offshoring and outsourcing services

The geography of production is continuously changing and characterised by complex function and spatial reconfigurations. A restructuring of GPNs has led to a more pronounced vertical disintegration of production, to a functional fragmentation and spatial dispersion of work processes. Meanwhile, developments in ICT have enabled the storing, exchange, manipulation and retrieval of information through digitisation, redrawing the geography of service delivery (United Nations Conference on Trade and Development [UNCTAD], 2004).

Generally, three forms of FDI can be differentiated, according to their rationale: market-seeking, asset-seeking, and efficiency-seeking. The latter is also called vertical FDI and is used for achieving cost savings, especially in labour. Reducing costs is a main driving force for firms to offshore services. As UNCTAD states:

Many of the forces that have driven the internationalization of manufacturing are increasingly at play for a growing number of service functions. However, as the offshoring phenomenon may unfold faster, and because it is likely to affect corporate strategies in all sectors, it is all the more important to study carefully its implications (2004: 153).

Milberg and Winkler (2013) note that offshoring is strongly related to companies’ desire to become more cost-efficient and reflects a shift from strategies aimed at retaining and investing profits, to downsizing and distributing profits, although the causal direction is unclear<sup>4</sup>. Global labour arbitrage through the offshoring of services has mainly been driven by US-headquartered multinational corporations (MNCs) under pressure to downsize and maximise shareholder value (Srivastava & Theodore, 2006). Management consultants present services offshoring as the next logical step in globalisation (ibid.). Accordingly, services offshoring follows the general patterns of the discourse on globalisation, namely as a new, but inevitable and levelling process (Sparke, 2012).

<sup>4</sup> For a discussion of the relationship between GPNs and financialisation, see Milberg (2008) and Coe, Lai and Wojcik (2014).

Despite having a long history as a business practice, considerable ambiguity surrounds the terminology that describes services offshoring and outsourcing, as well as the specific activities and sub-sectors that fall under it (see e.g.: Bunyaratavej et al., 2011; Gereffi & Fernandez-Stark, 2010a; Sass & Fifekova, 2011). The media often uses the term outsourcing when the actual process at hand is offshoring; for instance, in election debates about job losses in the US, or in humorous TV shows about cultural misunderstandings in an Indian call centre (such as *Outsourced*). Despite these terms being used erroneously or interchangeably by different actors, the main distinction between offshoring and outsourcing is a simple one (see **Table 1.1**).

**Table 1.1:** Forms of offshoring and outsourcing

	Home Country (Onshore)	Overseas Country (Offshore)
Full ownership	In-house, at home (status quo)	a) Intra-firm (captive) offshoring
Third-party ownership	Outsourcing to domestic third-party provider	Offshore outsourcing b) To locally-owned company c) To affiliate of a foreign third-party provider

Outsourcing refers to the decisions companies have to make concerning the boundaries of their firms, the ‘make-or-buy’ decisions, taking into consideration the transaction costs (Coase, 1937). Outsourcing occurs if a firm decides to buy the service on the market, which means that the ownership of a task is contracted out or outsourced to a third-party provider, independent of the territorial location of the service-delivering firm. Outsourcing can be defined as “the transfer of activities and processes previously conducted internally to an external party” (Hätönen & Eriksson, 2009: 142). The term offshoring, however, implies the movement of a service across national borders. It refers to a change in the location of tasks, independent of whether simultaneous outsourcing (the transfer of ownerships of the tasks) is occurring. Bunyaratavej et al. have defined offshoring as “the transnational relocation or dispersion of service related activities that had previously been performed in the home country” (2011: 71).

This research focuses on the impact of a change in the location of service production to developing countries. Therefore, only the right-hand column of firms in **Table 1.1** is studied; namely offshore services (which may, but do not need to be, simultaneously outsourced). In general, this book will differentiate between three types of firms: a) MNC captives, which are directly-owned subsidiaries of foreign firms, b) domestic-owned BPOs, which are local firms in developing countries providing outsourced services; and c) foreign-owned BPOs, which are subsidiaries of foreign-owned providers of outsourced services.

The vertical disintegration of value chains and the reorganisation, restructuring and extension of GPNs facilitates a global ‘trade in tasks’ (Grossman & Rossi-Hansberg, 2008). Fragmenting value chains into ever smaller functions and components allows for a complex functional and spatial division of labour. The sociologists Brown, Lauder and Ashton argue that we are witnessing the industrialisation of knowledge work in the form of “digital

Taylorism”. The knowledge work of professionals is captured, codified and digitised to be “transferred and manipulated by others regardless of location” (2011: 72). The dispersion and recombination of service activities has profound implications for the geographic location of service delivery – and its compensation. During earlier phases of relocating manufacturing production, work was distinguished between ‘offshorable’ (low-skilled) blue-collar work and ‘non-offshorable’ (high-skilled) white-collar work. The relocation of lower-skilled jobs led to the assumption that attaining higher skills would insulate US workers from global competition. With the ability to offshore modern services, also those that require a higher level of skills, this assumption is being challenged (Brown et al., 2011).

Gereffi and Fernandez-Stark (2010: 23-25) from the Center for Globalization, Governance and Competitiveness, have compiled different estimates of the size of the global offshore service sector, which range between \$252 million (OECD estimate) to \$281 million (Boston Consulting Group estimate) in 2010, of which India holds the largest share globally. Services offshoring is a relatively recent phenomenon and the exact nature of the services concerned remains something of a black box. Most offshore services are offered across different industries, so-called ‘horizontal activities’, and therefore belong to different value chains or GPNs of services (e.g. financial services, legal services, telecommunications, retail) or manufacturing (e.g. consumer electronics). These include, on the one hand, customer-facing activities, such as customer support through contact centres, and on the other hand, basic internal business functions, including IT, and business process outsourcing. Increasingly, also higher-end functions, sometimes considered to be part of the core functions of firms (e.g. research and development) can be offshored (Couto et al., 2007; Lewin et al., 2009). The offshoring of higher-end services is often called knowledge process outsourcing (KPO), though the differentiation from BPO is not clear-cut. In the Philippines, the term IT-BPO is typically used to denote the entire offshore service sector; in India, the term IT-enabled services (ITES) is most commonly used.

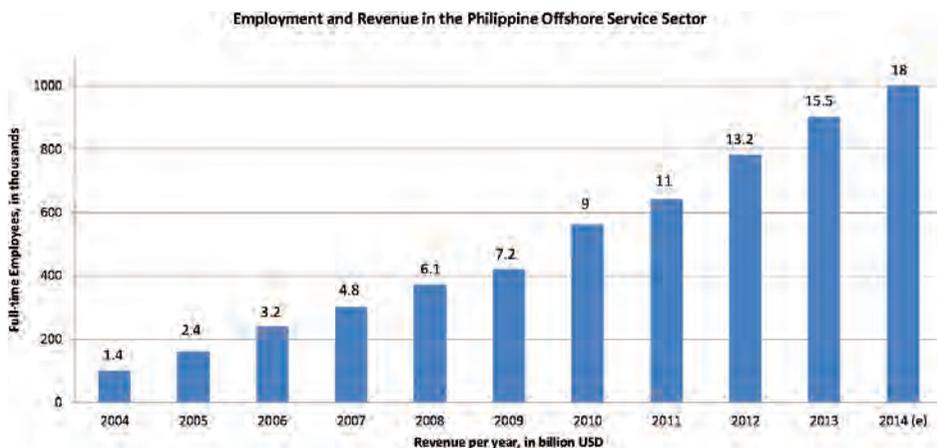
The main problem in dealing with terminology that is differently defined and used leads to inconsistencies in definitions and in data collection. Sass and Fifekova encountered this problem when conducting research on services offshoring in Eastern Europe, arguing that “[f]or example, professional services, knowledge services, knowledge-intensive services, knowledge-based services, business services, other business services, IT-related services, computer and business related services are often used inter-changeably” (2011: 1595). The focus of this book is on offshore services in the Philippines, the predominant share of which fall under the category of business process outsourcing. The term *BPO* is therefore employed throughout the book, and the term *offshore services* is used when referring to the entire sector. Other abbreviations are only employed when using secondary data classified under alternative abbreviations.

The Business Processing Association of the Philippines (BPAP)<sup>5</sup> refers to the sector as IT-BPO (although IT services comprise only a minor section of total services in the

<sup>5</sup> In late 2013, BPAP officially changed its name to Information Technology and Business Processing Association of the Philippines, abbreviated IBPAP, to signify a shift away from simple processing work. In this study, I refer to the old name BPAP throughout the text.

Philippines). The sector has grown very fast over the past decade. From a mere 100,000 employees in the Philippines in 2004 the sector grew ten-fold, employing close to one million workers in 2014 (see **Figure 1.1**). The largest share pertains to customer services, mainly conducted from call centres but also including non-voice-based services in the form of customer care delivered by email or web chat. Second in volume are back-office services, which include internal support services for large firms, such as finance and accounting, human resources, and other data processing. Medical and legal transcription, creative services including animation and game development, and engineering services account for a smaller share of overall BPO services.

**Figure 1.1:** The offshore service sector in the Philippines 2004-2014



(Source: BPAP, different years)

### 1.2.3 The GPN framework and economic development

Analysing the processes of contemporary globalisation and its relationship with economic development in specific places is not an easy task. As places become increasingly inter-connected, forming multi-layered webs of interactions, discerning the individual components and their impacts becomes difficult<sup>6</sup>. Globalisation is an intrinsically geographical phenomenon (Dicken, 2004), in which places should be conceptualised simultaneously “as both territorial sites of global economic change and nodes in a global space of flows” (Coe & Hess, 2013: 8).

Regional development in the ‘new regionalism’ literature has often been understood as based on endogenous factors<sup>7</sup>. Embedded in globalising networks of production, the fate

<sup>6</sup> Recent books on globalisation have focused on uncovering the inherently negative aspects of economic globalisation (Sassen, 2014; Urry, 2014).

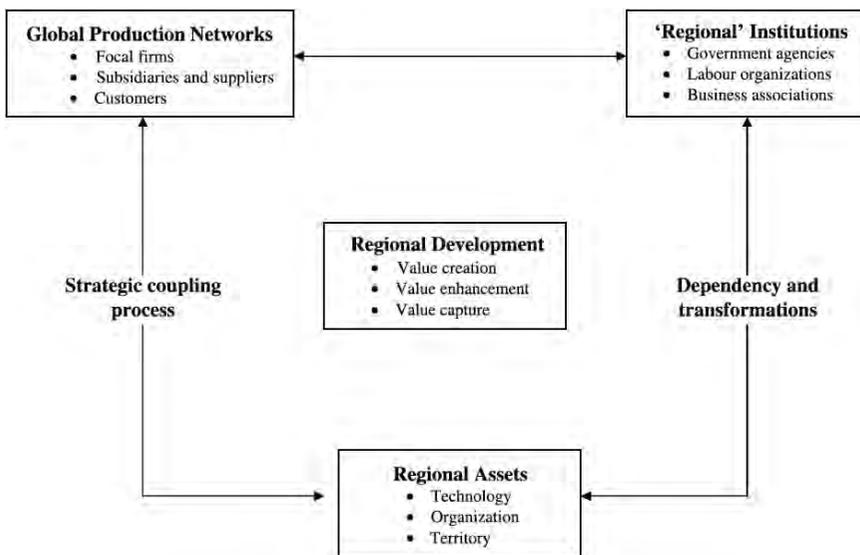
<sup>7</sup> For a critique see Coe and Hess (2012).

of regions and their opportunities to achieve economic development increasingly depends on global (or extra-local) actors and processes, in addition to endogenous factors. As a result, the GPN approach has been developed by the “Manchester School” of economic geographers (Coe et al., 2004; Coe et al., 2008; Henderson et al., 2002; Yeung, 2009a). The framework aims to conceptualise the connections between globalisation processes, occurring through the extension and expansion of GPNs, and the territorial development outcomes at regional level (Coe et al., 2004).

This study builds upon the comprehensive GPN framework, defined as a “nexus of interconnected functions, operations and transactions through which a specific product or service is produced, distributed and consumed” (Henderson, 2002: 445). The framework builds on the global commodity chain (GCC) and global value chain (GVC) approaches, which originally arose from world-systems theory (Henderson et al., 2002). It also reflects a relational view of the global economy (see also: Dicken, 2004; Dicken, Kelly, Olds & Yeung, 2001).

Companies are the central actors in any GPN and their actions must be understood to make sense of the resulting developmental outcomes in places. Firms continue to be key actors in economic development processes, but according to Henderson et al., insufficient empirical research “has probed the organizational dynamics of TNC [transnational corporations] subsidiaries as they *emerge, evolve and impact* on particular economies” (2002: 437, emphasis added). Tracing the actions and rationales of companies, their networks and their connectedness to certain places shall provide better insights into opportunities for regional development (see Figure 1.2).

Figure 1.2: A framework for analysing regional development in GPNs



(Source: Coe et al., 2004: 470. Figure reproduced with permission from John Wiley and Sons.)

One of the most important contributions of the GPN approach is the concept of strategic coupling (MacKinnon, 2012). The concept posits that economic development can occur through regional actors linking their regional assets with the needs of producers in GPNs. Regional development depends upon value creation, value enhancement, and value capture within the region; it is not limited to GDP growth (see **Figure 1.2**).

The GPN framework has several advantages over previous value chain or commodity chain approaches. First, offshore service production can be better envisioned as a *network* than as a linear *chain* structure (Henderson et al., 2002). Second, distributions of work within firms and intra-firm relations are given more attention; this is relevant for offshore services, because technically captive offshore service subsidiaries are intra-firm relations. Third, the framework is more inclusive of other actors beyond the immediate production process, including institutional actors, labour groups, consumers and civil society associations (Coe et al., 2008). By adding more layers of complexity, which previous approaches arguably lacked, the GPN has become a heuristic, all-encompassing framework. Lastly, the emphasis on strategic coupling between GPNs and regional assets is useful for analysing the bargaining between ‘regional’ actors and TNCs during initial and later rounds of investment (Yeung, 2009b).

### *GPNs: Stages and concepts*

The GPN approach is built around three main conceptual categories: power, value and embeddedness, which can be further divided into different concepts (see **Table 1.2**). How can these abstract concepts be used for an empirical study? In the following, the three interrelated categories, their different dimensions and their (selective) application to the research questions will be discussed.

**Table 1.2:** Three conceptual categories of the GPN framework

<b>Power</b>	<b>Embeddedness</b>	<b>Value</b>
Corporate power	Territorial embeddedness	Value creation
Institutional power	Network embeddedness	Value enhancement
Collective power		Value capture

(Based on: Henderson et al., 2002: 448-453)

GPN scholars acknowledge that power relations play an important role in determining the production process. Gereffi’s seminal work on governance relations in global commodity chains, places an emphasis on the corporate power relations within global value chains and production networks (Gereffi, 1994; Gereffi, Humphrey & Sturgeon, 2005). The GPN approach adds institutional power, held by regional actors, to this framework. Collective power, held by civil society actors and labour unions, is also thought to influence the organisation of production across geographies (Henderson et al., 2002: 450-451).

Production processes do not happen in a vacuum but are embedded in wider social and spatial relations. Territorial embeddedness denotes the ‘anchoring’ of firms in specific places, for example through the local linkages firms develop within a certain region. Network embeddedness traces connections developed within the production network, also beyond the locality of production (Henderson et al., 2002: 451-453).

Value lies at the core of determining the outcomes of production for localities and is also the core analytical category of the global value chain approach. The GPN approach introduces a more fine-grained understanding of value (understood as forms of economic profit). Value creation is the first step to achieving regional development, followed by value enhancement. However, ultimately value capture determines regional outcomes. As Coe et al. write:

A region may have an advantage in the quantity of labour, but much of the value created in the utilization of this abundant pool may be transferred out of the region through the repatriation of profits (realized value) and eventually the relocation of the production networks to other regions (2004: 474).

The opportunities for value capture are structured by factors such as government policy (e.g. on taxation and repatriation of profits) and the ownership of firms (Henderson et al., 2002: 448-449).

This relatively new approach, developed since 2002, offers great potential for analysing contemporary global phenomena, such as the rise of the offshore service sector in developing countries. The downside of an all-encompassing framework is the difficulty of conducting empirical studies, which the GPN framework creators acknowledge to “pose [...] considerable practical problems” (Coe et al., 2008: 280). Therefore, it is no surprise that while the number of publications involving theoretical discussions on GPNs is growing, empirical studies remain scarce. The success of a framework, however, depends on its ability generate new insights when applied to research.

In order to conduct empirical research using the GPN framework, researchers must make choices about which actors and processes to focus on. Instead of using the complex framework in its entirety all at once, I treat the GPN’s analytical concepts one by one, with an in-depth discussion, while also drawing on other concepts and bodies of literature (see **Table 1.3**). This approach allows me to address some of the recent, largely sympathetic criticisms of the GPN framework. Although lauded for its more nuanced understanding of power relations compared to earlier value-chain approaches (Dicken, 2004), scholars such as Dawley (2011) and MacKinnon (2012) have criticised it for underplaying power asymmetries between multinational firms and regions<sup>8</sup>. This study remains sensitive of such asymmetric powers, especially in terms of the role of large foreign investors.

With the GPN approach, it is difficult to operationalise the abstract concepts for an empirical study. In this research, I combine concepts that have been studied extensively in economic geography and link these discussions with the GPN framework to expand the approach and

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<sup>8</sup> The ‘dark side’ of GPNs is, however, explicitly mentioned in later publications (Coe & Hess, 2011).

gain deeper insights into the processes at hand. Economic geographer Dawley (2011) suggests combining GPN literature with earlier regional studies literature on foreign investment attraction, branch plants, and regional development, which I have taken up (especially in Chapters three, four and five). Other authors, concerned about the operationalization of corporate power and value enhancement, suggest an ‘eclectic’ use of concepts. Parrilli, Nadvi & Yeung (2013) recommend to combine the GPN literature with better-defined GVC ideas on value chain governance and upgrading. I follow their suggestion in Chapter six.

Finally, Kelly (2013) argues that by adopting a GPN approach, certain outcomes of globalisation are highlighted, whereas others remain hidden. In order to understand economic development in a specific place, different types of actors and processes beyond the GPN need to be incorporated into the analysis. I follow this suggestion to look beyond actors directly involved in the GPN in Chapter seven. In addition to value capture, I bring to the fore the spatialities of offshore service production and urban transformations resulting from expanding GPNs. Using the notion of local value capture, I assess the impact of the offshore service sector on economic development. Table 1.3 gives an overview of GPN concepts and their use in this study.

Table 1.3: Overview of GPN concepts per chapter

Stage of GPN	GPN concepts	Other concepts	Chapter(s)
Emergence of GPN	Strategic coupling	FDI attraction	2, 3
GPN Position	Corporate power	Branch plants	4
Evolution of GPN	Territorial embeddedness	Institutional capture	5
	Value enhancement	Upgrading	6
Beyond GPN	Value capture	Special economic zones	7

The empirical chapters are organised around different concepts. The chapters are ordered chronologically, based on their stage in the GPN. Chapters two and three deal with the emergence of the offshore service sector and strategic coupling; Chapter four maps the position of offshore firms in the Philippines in the network; Chapters five and six discuss the evolution of networks; and Chapter seven refocuses attention on urban changes as a result of the rise of the offshore service sector, linking back to questions concerning regional development. Each chapter addresses a specific sub-question.

### Sub-questions per chapter

Chapter two: Why did India and the Philippines become integrated into GPNs of service delivery and what are crucial differences and similarities?

Chapter three: What role have local institutional actors played in facilitating the strategic coupling of second-tier cities in the Philippines with offshore service sector investors?

Chapter four: What (power) position occupy firms in Metro Manila and second-tier cities in the Philippines in GPNs in services?

Chapter five: How do foreign investors in offshore services gain access to skilled labour, what kind of industry-academe linkages are formed, and what are their implications for economic development?

Chapter six: To what extent has upgrading to higher-end services in the offshore service sector been achieved in the Philippines and India?

Chapter seven: Which urban transformations occur as a result of offshore service sector attraction and who benefits locally from the rise of service-based special economic zones?

### 1.3 Research area, design and technique

As individually published research articles, the chapters of this book all include a short section on methodology addressing the specific data collected and analysed for each individual chapter. In this section, the larger methodological framework is expounded. I explain the rationale for a primarily qualitative research design, the choice of research sites and fieldwork periods. I then elaborate on and contextualise the processes of data collection in multi-site research, and reflect on its limitations.

#### 1.3.1 A qualitative approach

This study primarily follows a qualitative case study approach to gain an in-depth understanding of the workings of the offshore sector and the dynamics of interaction between GPNs and regional economic development through the examination of the offshore service sector in the Philippines. The case study method is preferable in situations when “how” or “why” questions are asked, when the investigator has little control over the events, when the focus is on a contemporary social phenomenon and when the researcher seeks to understand complex phenomena while retaining the holistic and meaningful characteristics of real-life events (Yin, 2009). This research is based on a multi-site case study, since it aims at understanding processes and interrelations. Secondary quantitative data in this study is only used to indicate the size of the offshore service sector and its sub-sectors, and calculate labour productivity.

#### 1.3.2 Case study and research site selection

The two largest exporters of offshore services are India and the Philippines; both countries together occupy the top eight positions on Tholons’ list of ‘top offshore service destinations’ (see Table 1.4). On the basis of other management consultancy reports, India and the Philippines are defined as the only two “mature offshoring locations”, each hosting more than 50 offshore service firms (Gereffi & Fernandez-Stark, 2010a: 31). Offshore services are an urban phenomenon, locating mainly in large cities with educated labour pools. Most interviews for the purposes

**Table 1.4:** Top 100 outsourcing destinations 2013, fieldwork destinations in bold

Rank 2013	Country	City
1	India	Bangalore
2	<b>India</b>	<b>Mumbai</b>
3	<b>Philippines</b>	<b>Manila (NCR)</b>
4	India	Delhi (NCR)
5	India	Chennai
6	India	Hyderabad
7	<b>India</b>	<b>Pune</b>
8	Philippines	Cebu City
...		
69	<b>Philippines</b>	<b>Davao</b>
94	<b>Philippines</b>	<b>Bacolod</b>
99	<b>Philippines</b>	<b>Baguio</b>

(Tholons, 2013)

of this research were conducted in the primary cities of Mumbai and Metro Manila<sup>9</sup>. Mumbai, the financial nerve centre of the Indian economy, was chosen as a case study location to focus on business process outsourcing (especially by financial service providers), rather than IT-dominated Bangalore. Within the Philippines, Metro Manila<sup>10</sup> hosted 80% of all offshore service sector employment in 2007 (BPAP, 2009), making it the obvious case study choice.

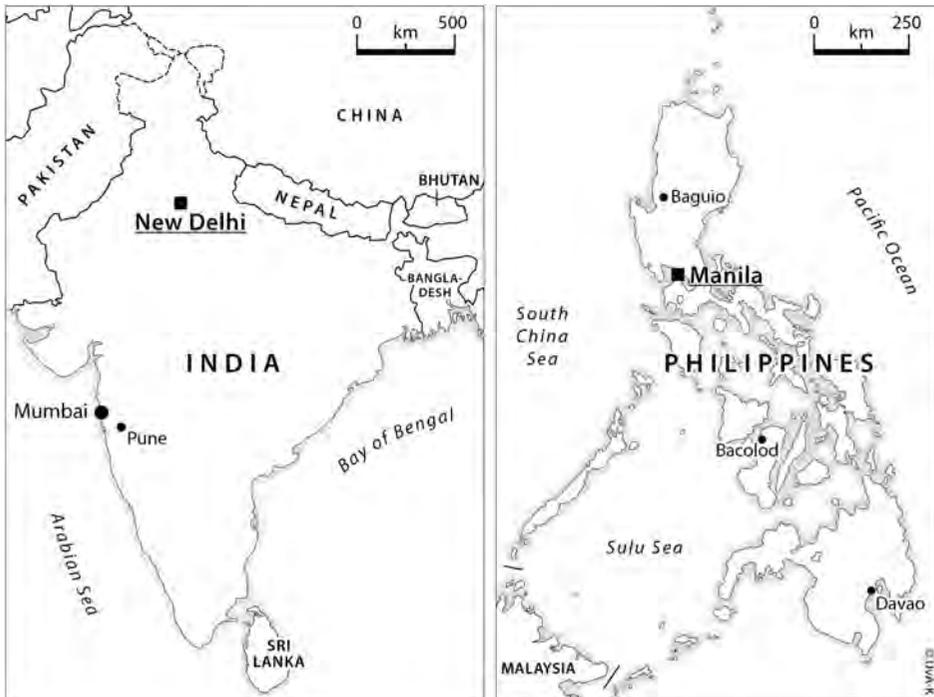
In order to trace the emergence of the offshore service sector and its extension and expansion beyond metropolitan centres, I selected several secondary cities as additional sites for interviews. Regional economic differences in the Philippines are considerable. I therefore selected second-tier cities from the three island groups: Baguio, in the North of Luzon, Bacolod in the Visayas, and Davao in Mindanao. In India, Pune was chosen as a second, smaller city in close proximity to Mumbai. All of these also feature in the top 100 of Tholons' ranking and are indicated on the map in **Figure 1.3**.

Initially, I started the research project with the ambition of completing a comparative case study of the offshore service sector in Mumbai and Manila. For pragmatic reasons, I shifted the focus to the Philippine case study after an initial field visit to both Mumbai (formerly Bombay) and Metro Manila in July and August of 2011. A cross-cultural research by a single researcher can be difficult due to limitations in time, resources and access (Bryman, 2008). The Indian case presented particular problems of access to respondents and difficulty of data collection, which has also been noted in previous studies (Van Riemsdijk, 2013; Wissink,

<sup>9</sup> Mumbai was ranked second and Metro Manila third in 2013; in 2014 this was reversed, and Metro Manila moved ahead of Mumbai (Tholons, 2014).

<sup>10</sup> Metropolitan Manila consists of 17 municipalities, which together form the national capital region (NCR); both terms are used synonymously throughout this study.

Figure 1.3: Map of research locations



2013). These difficulties can be particularly challenging for female researchers due to the problems women can encounter in Indian society. Research on Indian call centres presents additional problems and barriers to entry, even when conducted by male middle-class Indian researchers. Vira and James report from the challenges of their study: “the typical Indian call centre workplace was a relatively inaccessible fortress, surrounded by high fences and gated entry, security guards who carefully controlled movement” (2011: 12).

Western firms that are offshoring services, and thereby relocating well-paid jobs of middle-class professionals, have been increasingly subject to negative press (most importantly during US election campaigns) and prefer to operate in relative secrecy. In one case, a global bank in India tried to hide the fact from the general public and the (Western) media that it employed several thousand employees in their shared service centre by prohibiting their own employees from mentioning their employer’s name to anyone. Instead of telling their families and friends that they worked for ‘Bank of America’ they were asked to say they worked for the ‘back office of a global financial service provider’. In such a context, Western scholars face severe difficulties to organise official interviews, access resource persons, or gain information on a company’s operations.

Interestingly, in the Philippines, access to information was much easier to realise. The reasons for the difference in access to information depend on a multitude of factors, including culture, but also because the definition of what was ‘confidential information’ appeared to be

set much higher. The fact that India has been confronted with stronger negative publicity than the ‘latecomer’ Philippines will have played a role in the respective attitudes towards sharing information. Moreover, previous studies conducted on the Indian offshore service sector have led to research fatigue by elite interviewees and stakeholders. The Indian business association could not be enlisted for a joint survey initiative, which was achieved in the Philippines.

Case study expert Yin (2009) argues that generally, multiple-case studies are to be preferred over single-case studies; however, the benefit of a single-case study design is the ability to focus on the specific context rather than on the ways in which both cases can be contrasted. The latter is especially difficult in cross-cultural case studies (Bryman, 2008). Since I was able to secure rich empirical material from the hitherto largely unexplored case of the Philippines, I decided to limit the Indian case study to a reference case, rather than a fully comparative case. Only Chapters 2 and 6 use my empirical data on India to compare the sector with the Philippines. In addition to primary interview data, I used secondary data from research reports by international management consulting offices, publications by the industry body, and existing academic research published on India.

The often-studied case of India seems to present a unique or extreme case. World Bank economist Engman, in a chapter titled ‘Following in India’s Footsteps’, argues that although a number of countries deliver back-office services and engage in customer support, India remains “the only developing country that has created a sizeable, export-oriented IT service sector” (2010: 222). In this sense, India is a unique or extreme case, whereas the Philippines may represent a more ‘exemplifying’ (Bryman, 2008) or ‘typical’ (Yin, 2009) case from which other countries can draw lessons.

### 1.3.4 Fieldwork periods, methods and data sources

Instead of opting for one long consecutive fieldwork stay, I chose several shorter periods (see Table 1.5). Visiting the Philippines more than once had the advantage that I could trace the evolution of the sector over several years, given that, since the beginning of this research, the sector has grown from 560,000 to 1,000,000 employees in the Philippines. Moreover, the multiple visits enabled me to analyse and discuss data at my home university before entering the next fieldwork period, allowing for more reflection during the data-collection process. I also based this decision on pragmatic considerations to avoid the monsoon season in both countries (July-August) and the typhoon season in the Philippines (August to November).

Table 1.5: Overview of fieldwork periods

Date	Location	Data Collection
22 June-26 August 2011	Manila, Mumbai	Establish contacts, background interviews
15 January-25 March 2012	Mumbai, Pune	Interviews, secondary materials
15 April-25 June 2012	Manila, Baguio, Bacolod	Interviews
4 February-24 April 2013	Manila, Davao	Interviews and survey set-up

I used the first field trip to India and the Philippines, in 2011, to familiarise myself with the two foreign research areas, to make initial contacts with the business sector and business organisations, and to lay contacts at partner institutions. Geographer Olds argues that establishing relations with an academic institution “is an absolutely critical factor in conducting multi-locale field work” (2001: 253). Thanks to my position in a collaborative research project<sup>11</sup>, the University of the Philippines’ School of Labour and Industrial Relations at the Diliman Campus in Quezon City (Metro Manila) and Mumbai University’s Faculty of Economics welcomed me during my fieldwork periods. These relations were very helpful in negotiating access to interviewees and resolving the practical (and bureaucratic) issues of conducting fieldwork in foreign environments. In the Indian case, my colleagues accompanied me on several interviews and on a longer research trip to Pune<sup>12</sup>.

When researching investment attraction and the emergence of the BPO sector in second-tier cities, many interviewees in Metro Manila urged me to visit Davao City and to include it in my study. However, due to a negative travel advisory for the entire Mindanao region, I had to delay my visit to Davao. When the security situation had temporarily improved, I was able to conduct a brief fieldwork visit and interviews in Davao in 2013<sup>13</sup>, a year after my research in Baguio and Bacolod.

### *Interviews*

The main data for this research are 127 open and semi-structured interviews, held between 2011 and 2013. Of these, I conducted 106 in the Philippines and 21 in India (see **Table 1.6**; for a detailed list of all interviews, see **Appendix**). Yeung identified interviews with business managers as the “one of the best and most suitable methods in international business research in an Asian urban context” (1995: 314). Interviews offer the opportunity to get in-depth information and can increase the validity of findings (Schoenberger, 1991).

In an environment of scant information on existing firms and limited access, sampling was primarily driven by pragmatic concerns. However, attention was paid to include different types of firms, based on ownership (i.e. captive and outsourced, foreign- and domestic-owned). Access was gained through gatekeepers, especially in the business associations and foreign business chambers, and snowballing. Gaining trust was important for eliciting information, which was only possible through personal interactions. Offshore service firms are often highly secured with metal detectors and large security apparatuses. Thousands of employees are registered and controlled every time they enter or leave the building, and due to the sensitivity of information and data, employees and visitors are not

<sup>11</sup> NWO-WOTRO project “Understanding Globalisation”, grant number: W01.65.329.00.

<sup>12</sup> Fortunately, I was given the opportunity to return the hospitality, when my colleagues spent several months as researchers at the University of Amsterdam.

<sup>13</sup> After repeated terrorist attacks and hostage takings by separatists in the region, the US government in 2014 once again advises against travel to the entire region; the Dutch government advises against all non-essential travel to Davao.

Table 1.6: Overview of interviews per location and respondent type

Interviews per Location		Interviews per Respondent Type	
Manila	73	Offshore service firms	39
Bacolod	11	Government, organisations, experts	38
Baguio	13	Suppliers (telecommunications, real-estate, etc.)	16
Davao	9	Academe/training providers	13
<b>Total Philippines</b>			<b>106</b>
Mumbai	17	Offshore service firms	19
Pune	4	Government and organisations	2
<b>Total India</b>			<b>21</b>

allowed to bring in mobile phones, USB sticks or laptops. In many cases, employees are not allowed to even bring their own pen and paper to their work station. Voice recording of interviews under these circumstances was often impossible, but interestingly, the handling of this client-determined policy turned out to vary from firm to firm. Voice recording was possible in 62% of interviews in India, and in 74% of cases in the Philippines.

I mainly conducted interviews with high-level managers of offshore service firms (domestic-owned as well as foreign-owned), and representatives of government bodies, industry associations, and support sectors. I targeted the highest-ranking manager in each firm at the specific location to get an overview of the firm's operations; their strategies relating to types of tasks and location choice; their relations with the firm's headquarters; with other firms in the network and with clients; and the overall evolution of their firm and the sector in general. In several instances, more than one representative of the same firm was interviewed, usually one from the operations side and one dealing with human resources, helping to gain an overview of the firm from different perspectives. These interviews occurred either simultaneously or one after the other. Most interviewees had had at least one previous offshore service sector-related job (especially in the Indian context, where interviewees were slightly older). Respondents could therefore reflect from the position of more than one firm, and more than one function<sup>14</sup>. Interviews in the Philippines continued to a point where little new information was discovered and a saturation point was reached.

Data collection was a strenuous process of long commutes through metropolises with largely dysfunctional public transport systems. The metropolitan region of Manila spans 640 km<sup>2</sup>, Mumbai 603 km<sup>2</sup>, and the commute to interview locations often took up to several hours in a day. Most interviews were conducted during daytime, especially with governmental and non-governmental organisations. By contrast, the working hours of most call centres in

<sup>14</sup> I interviewed, for example, a managing director of a captive MNC in the financial sector, who had previously worked for the firm's captive subsidiary in the Philippines, had then been transferred to manage the Indian office of the same firm, and was subsequently head-hunted by a competing firm for a similar position in India.

the Philippines are during the 'graveyard shift', meaning that several interviews were held in the late evening, early morning, or at night. While challenging to the body rhythm, the interviews provided the opportunity to observe the industry in its busiest setting.

### *Survey*

In 2013, I organised an online survey in cooperation with BPAP among its 623 members. My survey questions focused on the evolution of the BPO sector in the Philippines, especially on industry-academe linkages (Chapter five) and upgrading into higher value-added services (Chapter six). Without the cooperation of the Philippine business association it would have been impossible to conduct the survey, since contact details and firm names are not openly available. The non-representative survey yielded 111 responses from BPO firms, an overall response rate of 18%. These survey findings were used to complement qualitative findings by adding information on a larger number of firms and to triangulate certain research findings.

### *Secondary sources*

In addition to the survey, the quantitative data used in this project come from secondary sources. Basic productivity calculations, for instance, are made on the basis of data released by the business associations. An analysis of the spatial distribution of the offshore service sector throughout the Philippines is based upon a database of the Philippine Economic Zone Authority (PEZA) and correlated locational data of consumption outlets from a coffee store company's website.

Moreover, as background information, I accessed reports from the business associations NASSCOM (India) and BPAP (Philippines). These publications, in several cases outsourced to management consultancies such as McKinsey, are sold for several hundred US dollars per copy. They contain a wealth of quantitative information and industry forecasts, often without a clear description of methods or data sources used. I was able to get hold of hard copies of materials on the Philippines, and managed to negotiate access to the archive of NASSCOM in Mumbai, where I was able to read through and take notes on these publications. Finally, locally published sources, such as books and English-language newspapers were used to provide further background information on the sector.

### *Personal observations*

Finally, personal observations form the backdrop to this research. Apart from taking notes on my impressions of firms and their workers during interview visits, I attended several high-level industry events. These included Chief Executive Officer (CEO) briefings, general membership meetings of BPAP, Arangkada Philippines (a joint event organised by the foreign business chambers), and the fringes of the NASSCOM Indian Leadership Summit in Mumbai. These provided the opportunity for networking and accessing further resource persons, and simultaneously revealed the actors most engaged in the offshore service industry, their presentations, and internal discussions. The frequently organised job fairs, often in shopping malls, also provided a good overview of firms and their activities.

Moreover, I was able to observe the rapid growth of the offshore service sector and rapid urban transformation as a temporary inhabitant of Metro Manila. In the Philippines, over the last few years, the offshore service sector has become an important economic driver and employer of a very visible, young, educated, English-speaking workforce. I took field notes on my interactions with workers and my informal discussions with various people in the industry during my field stays. Upon hearing about my research topic, most people I met, ranging from academics to parents, taxi drivers, and of course workers, would offer their own opinions and observations.

### 1.3.5 Data analysis and limitations of the study

My interview notes and field notes were digitised or transcribed and grouped according to themes, with the help of a qualitative data software programme (Atlas.ti). For each chapter, I used a part of the data as described in each separate methodology section. Some interviews were relevant to more than one chapter. The data was combined per theme and place and subsequently interpreted. I triangulated my findings across different interview sources, industry expert interviews and secondary sources, including business and media reports.

The research is based on a single-case study with India as a reference case. It is therefore context-specific and does not allow for generalisation of findings beyond the Philippines. The study addresses the emergence and evolution of the offshore service sector from the perspective of business leaders, industry stakeholders, and the government to analyse the impact on local economic development. These actors are grounded in the Philippines, and as this research will show, are often located far away from places where decisions are taken on the offshoring of services. Most studies on offshoring have analysed decision-makers, often using surveys, in the Global North. In comparison, my Global South approach gave me a stronger understanding of the implications and outcomes of these decisions. However, this approach also has its limitations, as I did not interview buyers of offshore services and the key decision-makers in GPNs. Lastly, analysing an ongoing process, such as the emerging offshore service sector in the Philippines, makes for an exciting and contemporary topic; however, there are limitations to analysing ongoing processes and understanding not only their emergence but also their evolution, while it is still in the process of evolving.

## 1.4 Setting the scene: Globalisation and economic development in the Philippines

With a population of more than 100 million, the Philippines is the 12<sup>th</sup> most populated country in the world. The Philippines presents a curious case of maldevelopment in Asia. In earlier phases of global restructuring of production networks, the country only managed to achieve modest industrialisation on the basis of exporting textiles and the assembly of electronics. The lack of economic growth and employment opportunities in the country have led to a large overseas migration of workers, often at high emotional costs to individuals and

families. So are the Philippines now at a ‘turning point’ for economic development (Bird & Hill, 2009)? This section provides a concise introduction to previous economic development in the Philippines over the past decades to provide the context for the ensuing interpretation of changes due to the arrival of the offshore service sector on the country’s shores.

### 1.4.1 A development puzzle

The Philippines have long time been recognised as an outlier in the region when it comes to economic development. Scholars have puzzled over the failure of the Philippines to successfully industrialise and generate economic growth, especially when compared to the development trajectories of its neighbouring countries (Balisacan & Hill, 2003; King, 2007). The editors of the book ‘The Philippine Economy’ assert that “[the Philippines’] development outcomes have been disappointing by any yardstick” (Balisacan & Hill, 2003: 4). Real per-capita GDP in 2000 was on the same level as in 1980, and since the 1950s, the Philippines’ per capita income has been overtaken by Korea, Taiwan, Thailand, Indonesia and China (ibid.). At \$3,270 per-capita gross national income in 2013, the Philippines remains a lower-middle income country in Southeast Asia (World Bank, 2015).

The Philippines seems to have particularly underperformed compared to the rapid industrialisation of other East Asian countries (Maca & Morris, 2013; Medella et al., 1995; Studwell, 2014). But also within the Association of Southeast Asian Nations (ASEAN), and the group of countries called the ASEAN-5 (Philippines, Indonesia, Malaysia, Thailand, and Singapore), average GDP growth of the Philippines has, for a long time, been lagging (see Table 1.7). In particular, the 1980s were a decade of dismal growth in the Philippines.

Table 1.7: Average growth of GDP in ASEAN-5 countries 1960 – 2000 (in %, per annum)

Country/Year	1960-70	1970-80	1980-90	1990-2000
Indonesia	3.9	7.6	6.1	4.2
Malaysia	6.5	7.8	5.3	7.0
Philippines	5.1	6.3	1.0	3.2
Singapore	8.8	8.5	6.6	7.8
Thailand	8.4	7.2	7.6	4.2

(Source: Balisacan & Hill, 2003: 7, Table 1.1)

The Philippines “missed out almost completely on the Asian boom from the late 1970s to the mid-1990s” (Balisacan & Hill, 2003) when a large-scale relocation of labour-intensive activities to the region occurred (see Table 1.8). Foreign investments stemming from Japan skipped the Philippines (Bello, 2009: 19-20).

When the Philippines, in later decades, managed to attract FDI and develop an export-oriented manufacturing sector, its competitiveness was largely based on cheap labour. This led to footloose production in branch plants, which could easily relocate to cheaper productions,

Table 1.8: FDI inflow to ASEAN-5, 1976-2000, in USD (millions)

Country/Year	1976-80	1981-85	1986-90	1991-95	1996-2000
Indonesia	1,807	1,180	2,993	11,894	4,379
Malaysia	2,794	5,415	5,910	25,318	24,017
Philippines	586	925	2,689	5,620	8,010
Singapore	2,894	6,245	16,663	32,270	67,461
Thailand	485	1,405	6,134	9,446	23,228

(Source: UNCTAD, 2014)

following the ‘flying geese model’ (Kojima, 2000). As a result, only temporary employment in the garments sector (commonly referred to as a ‘sunset industry’ in the Philippines) and in low-end electronics manufacturing was created (Beerepoot & Hernández-Agramonte, 2009; Kelly, 2002; McKay, 2006). Other export-oriented industries, such as furniture manufacturing, equally struggled to compete globally and declined (Beerepoot, 2005).

During its decades of economic stagnation, the Philippines failed to upgrade into higher value-added production and develop a competitive export-oriented manufacturing sector driven by technology and innovation gains (King, 2007). Unable to compete with countries offering lower-cost workforces, especially with large labour forces, such as China, the Philippines had limited opportunities to attract export-oriented manufacturing as a springboard for economic development.<sup>15</sup> This difficulty to develop a robust manufacturing sector led to two processes: large-scale overseas labour migration and a rising services sector (see Section 1.4.3).

### 1.4.2 Causes of maldevelopment

Why was the Philippines not able to achieve rapid economic development, at par with its neighbours? Scholars have brought forward various explanations for the country’s economic underperformance, ranging from colonial legacies, faulty economic policies, foreign debt accumulation via global financial institutions, and the role of elites in the political economy. Many of these explanations are interrelated and their popularity has changed over time, often depending on ideological convictions. Historians have focused on the implications of colonial relations, economists on the Philippine’s macroeconomic policies, and political scientists on the role of elites in the political economy.

#### *Colonial legacies*

Colonisation led to the uneven integration of many countries in the Global South into the global economy as resource exporters, plundered for economic gains by colonial leaders. The Philippines was a Spanish colony between 1565 and 1898. At the end of the Spanish-

<sup>15</sup> China’s rapid rise and its manufacturing prowess, in general, arguably block other countries’ economic development through export-oriented industrialisation (Jaques, 2012).

American war, the Philippines was transferred to the US, which ruled from 1898 to 1946 (with increasing autonomy from 1935 onwards). Following the stated aim of colonial ‘exceptionalism’ and ‘benevolent assimilation’, the US created political institutions and an education system modelled on its own, in order to prepare the Philippines for self-governance and education (Diokno, 2011; Hedman & Sidel, 2000). These colonial relations impacted the political economy of the Philippines in several ways. Bello, a Filipino academic, politician and activist argues (2003) that the US model of government, forced upon the Philippines in the wake of independence, has harmed the formation of a ‘developmental state’ as seen in East Asia<sup>16</sup> and instead lead to the rise of an ‘anti-developmental state’:

The American pattern of a weak central authority coexisting with a powerful upper-class social organization [...] was reproduced in the Philippines, creating a weak state that was constantly captured by upper-class interests and preventing the emergence of the activist ‘developmental’ state that disciplined the private sector in other societies in postwar Asia (Bello, 2009: 4).

The American influence has therefore had important repercussions for the political economy of the Philippines. The absence of a strong state in the Philippines coupled with strong elite interests has influenced the economic development in the Philippines.

### *Import-substitution policies, the Marcos dictatorship and debt accumulation*

Domestic economic policies in the 1950s and 1960s followed import-substitution policies. As the protectionist policies were unable to kick-start economic growth, the Philippines embarked on economic liberalisation from the 1980s onwards, as demanded by international financial institutions. During the Marcos presidency (1965-1986), some economic growth occurred, based largely on foreign loans from the World Bank and the IMF. In return for these loans the government was forced to implement ‘structural adjustment’ policies demanding liberalisation, deregulation and privatisation. However, the borrowed money was not used for economic development purposes, but was instead redistributed among the personal networks of oligarchs and cronies of Ferdinand Marcos, who instituted martial law in 1972. His dictatorship, sometimes characterised as a ‘kleptocracy’, plundered the economy and left the country highly indebted<sup>17</sup> (Aquino, 1987; Chaikin & Sharman, 2009).

Over the next decades, paying off loans initiated by the Marcos regime became a major burden on the economy (Bello, 2009; Bello, Kinley & Elinson, 1982). Abinales and Amoroso argue that a lack of state resources seriously impedes economic development programmes today: “The government faces a huge deficit caused largely by the servicing of massive domestic and foreign debt accumulated since the 1970s. The other major cause is the state’s inability to collect taxes from well-connected corporations and wealthy families” (2005: 16). The role of these elite families in preventing land reform and undermining efforts at economic development to protect personal gains are elaborated upon in the next section.

<sup>16</sup> For a discussion of developmental states and GPNs in East Asia, see Yeung (2014).

<sup>17</sup> *Transparency International*, a non-governmental organisation, lists Ferdinand Marcos as one of the most notorious cases of global political corruption (Transparency International, 2004: 13).

### *Crony capitalism and the rentier economy*

Although the Marcos dictatorship exposed a virulent form of corruption and plunder, political scientist Hutchcroft (1991) argues that the Marcos era did not represent an exception in the country's economic history, instead contending that patrimonial plunder has been *continuous*, embedded in long-standing neo-patrimonial state structures. For example, a long tradition of powerful land-owning elites has effectively blocked land reform (Krinks, 2002). Studwell, who sees land reform as a crucial first step towards economic development, notes that "the Philippines is probably the most extreme example of land-policy dysfunction in Southeast Asia" (2014: 39). Ferdinand Marcos broke traditional structures and upset the established political order by introducing a new set of cronies (McCoy, 1994). After his dictatorship, the People Power Revolution brought back the old oligarchy with Cory Aquino at its helm (born Cojuangco), stemming from one of the most powerful families in the Philippines, assuming the presidency (Anderson, 1988). Her son, Benigno 'Noynoy' Aquino III, became President of the Philippines in June 2010.

The immensely negative impact of elites and oligarchs on the Philippines is reflected in the number of publications devoted to them, and the multitude of concepts developed to describe their rule over the political-economy of the country, variously called 'crony capitalism', 'cacique democracy', 'booty capitalism', or 'bossism' (Anderson, 1988; McCoy, 1994; Hutchcroft, 1998; Sidel, 1999). The oligarchy derives its income from rent-seeking behaviour<sup>18</sup>. Studwell writes that in the Philippines "the political class has been the most selfish and culpable among all the major states in east Asia" (2014: 88).

However, corruption and crony capitalism is not unique to the Philippines, and was also prevalent in 'Tiger' economies like South Korea (Kang, 2002). Development outcomes, therefore, do not depend on the individual ambitions of elites but on the institutional settings in which they are embedded. The existence of extractive institutions instead of inclusive institutions in the Philippines, is essentially what Acemoglu and Robinson (2012) identify as the cause of 'why nations fail'. Elite interests have persistently been able to dominate the political economy in the country (Raquiza, 2012; Van Helvoirt, 2009).

#### 1.4.3 The rise of service sector employment in the Philippines

In 2012, the services sector contributed the largest share to Philippine GDP at 57%, agriculture at 11% and industry at only 32% of GDP (NSCB, 2015). Employment is also strongly based in the services sector, which employs 18.6 million people – more than agriculture (11.9 million) and industry (5.4 million) combined (NSCB data, in Mitra, 2013). The rise of the service sector in the Philippines is not a very recent phenomenon, as the share of services in GDP has exceeded manufacturing since the mid-1980s (Mitra, 2013). The share of agriculture has been steadily declining and failed land reform has led to

<sup>18</sup> "Rent-seeking refers to the propensity of entrepreneurs to concentrate their efforts on obtaining protection and subsidies (rents) from the state without delivering the technological progress and competitiveness that economic development requires" (Studwell, 2014: 61).

the creation of a highly uneven agricultural sector. On the one hand, a few large haciendas produce crops for export (rice, coconut, and exotic fruits); on the other hand, subsistence agriculture with low production for domestic consumption accounts for considerable employment (Studwell, 2014). When the share of agriculture to GDP started to decline, the share of manufacturing did not increase but marginally *decreased*; and the percentage of services as a share of GDP grew by a staggering 50% since 1980 (Balisacan & Hill, 2003: 13).

The services sector has not only supported the domestic economy but been important in attracting foreign exchange, for example through the tourism sector. The most important contribution to the Philippine economy for many decades has been the export of (service) workers<sup>19</sup>, whose remittances accounted for \$22.4 billion (8.5% of GDP) in 2012, according to the Philippines' Central Bank (BSP) (Magtulis, 2013). Such labour migration is managed by the state, which acts as a broker for overseas contract migration (Rodriguez, 2010). Finally, the real estate sector's strong growth also contributes to high growth rates in the services sector.

The focus of this book is on the rapidly expanding BPO sector (see **Figure 1.1**), which is lauded as an 'endless sunshine industry' (Estopace, 2013) to differentiate it from earlier short-term boom phases which were followed by economic recessions. Will the BPO sector continue to grow, or relocate and turn into an early sunset, similar to earlier sunrise industries? Media and analysts are eager see a rising Philippines as the 'next Asian miracle' (Sharma, 2012) on a path to economic growth. Economic development, however, requires more than mere GDP growth, and depends on the spatial and social distribution of gains made from integration into the global economy.

## 1.5 Structure of the dissertation

The majority of empirical chapters of this book have been published, or are forthcoming, in international peer-reviewed academic journals (as indicated at the beginning of each chapter). For the reader, a collection of stand-alone articles, each providing a brief introduction to the subject, theory and methodology, can make for tedious reading. The best way to approach the structure of this book, therefore, is as an edited volume of a single scholar, devoted to the study of a specific subject, involving multiple angles of approach. This study follows a clear line in terms of the topic, research question, and the overarching theoretical framework. The GPN framework extends through all chapters, each focusing on a specific concept of the capacious framework, as elaborated in Section 1.3. The structure of the remainder of this book is as follows.

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<sup>19</sup> Most migrants are employed in service professions abroad; the main professions are "household service workers; waiters, cleaners and related workers; charworkers, cleaners and related workers; nurses; professionals; caregivers and caretakers" (Rodriguez, 2010: xii).

**Chapter two:** Services-led economic development: Comparing the emergence of the offshore service sector in India and the Philippines [accepted for publication as a book chapter in the forthcoming the Routledge-edited volume “The Local Impact of Globalization in South and Southeast Asia: Offshore Business Process Outsourcing in Services Industries”]

India and the Philippines are the two largest offshore service providers globally. Chapter two examines the crucial similarities and differences in the rise of the offshore service sector in India and the Philippines. Findings, based on interviews and secondary literature, show that the sector, in both countries, was initially driven by foreign MNCs and an initially indifferent government response to the growth of the sector. Differences in scale and institutional set-up, especially in the education system, have led Indian entrepreneurs to focus on IT services and form large national companies, in contrast to the Philippines.

**Chapter three:** Strategic coupling in ‘next-wave cities’: Local institutional actors and the offshore service sector in the Philippines [published in *Singapore Journal of Tropical Geography*, 2014, awarded Best Graduate Student Publication 2014 by SJTG]

Chapter three looks at the scope for agency of local institutional actors in the investment attraction of BPO companies. Drawing on empirical work from the Philippines, I analyse the process of GPNs expanding towards lower-tier cities and the integration of new places into these networks. Specifically, the role of local institutional actors as facilitators of FDI attraction and their role in strategically coupling local assets with the needs of foreign investors in offshore services is discussed. Two contrasting cases, the second-tier cities of Baguio and Bacolod, show that considerable scope for intervention rests with local institutional actors.

**Chapter four:** Global production networks, offshore services and the branch-plant syndrome [accepted for publication in *Regional Studies*]

The offshoring of service activities has created opportunities for developing countries to become integrated into GPNs of service delivery. Assessing the resulting opportunities for economic development, the branch-plant economy literature is revisited, combined with ideas of the GPN approach and applied to the case of offshore services in the Philippines. Based on empirical research in Metro Manila and three second-tier cities in the Philippines, it is argued that the branch-plant literature continues to provide important insights for analysing the impact of FDI in services. In particular, second-tier cities are characterised by a dependent position in the international division of labour.

**Chapter five:** Industry-academe linkages in the Philippines: Embedding foreign investors, capturing institutions? [published in *Geoforum*, 2015, awarded Best Graduate Student Conference Paper in Economic Geography by the Association of American Geographers]

The global sourcing of services from developing countries has made human capital a key factor for attracting FDI. This chapter analyses how companies get access to ‘talent’, how individual companies engage in linkages and collaborations with universities, and how the education sector responds to the knowledge economy’s new demands. A case study of industry-academe linkages in the growing offshore service sector in the Philippines shows that companies have been able

to collaborate with institutions and introduce changes in the education system to supply mainly lower-end skills, potentially transforming the country into a dependent-market economy.

**Chapter six:** Upgrading in business process outsourcing in the Philippines and India: Emerging South-South divisions of labour

The chapter investigates upgrading trajectories in the Philippines, a rising provider of BPO services, and compares it to India's successful upgrading trajectory. It posits a distinction of upgrading into more knowledge-intensive and higher-revenue generating parts of global production networks of service delivery, with varying opportunities of value capture. Moreover, it assesses the different opportunities for upgrading for different types of BPO firms (domestic- or foreign-owned firms; outsourced or in-house operations). The findings reveal that limited upgrading is driven by MNCs' captive operations in the Philippines. An emerging specialisation and Indian-Philippine division of labour in offshore service delivery is unfolding.

**Chapter seven:** Islands of globalisation: Offshore services and the changing spatial division of labour [accepted for publication in *Environment and Planning A*, awarded Best Graduate Student Paper in Development Geography by the Association of American Geographers]

Where do offshore service firms invest in the Philippines? Which spatial transformations occur as a result, and why? This chapter maps the location of offshore service investments on a national and regional level and traces the genesis of service-based special economic zones (SEZs) in the central business districts of Metro Manila. These zones form 'islands of globalisation' within the metropolis and combine global production with consumption features. Existing powerful real estate developers are revealed not only as enablers, but also as primary local beneficiaries, of this feature of contemporary globalisation.

**Chapter eight:** Conclusions

The final chapter reflects on what the combination of these findings mean for the case at hand and for the study of the globalisation of services and economic development. Finally, remaining questions and suggestions further research are presented.