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

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Publication date

2015

Document Version

Final published version

[Link to publication](#)

Citation for published version (APA):

Kleibert, J. M. (2015). *Expanding Global Production Networks: The emergence, evolution and the developmental impact of the offshore service sector in the Philippines*.

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CHAPTER

2

Services-led economic development: Comparing the emergence of the offshore service sector in India and the Philippines

This chapter is forthcoming in
"The Local Impact of Globalization in South and Southeast Asia:
Offshore Business Process Outsourcing in Services Industries" (eds.)
N. Beerepoot, R. Kloosterman & B. Lambregts. Routledge.

2.1 Introduction

The offshoring of services has created opportunities for developing countries to generate revenue and employment by exporting services to the Global North (Dossani & Kenney, 2007; Ghani, 2010). Changes in information and communications technology have led to a “tradability revolution” (UNCTAD, 2004), allowing international trade in so-called modern services. This has enabled the spatial reorganization and expansion of value chains and GPNs in services. So far, most interest on the potential and actual threats of offshoring for developed economies has arisen from a Western perspective. The impact on receiving countries, however, has been less explored. Bryson (2007) claims that research on offshore services has focused on the effects for employment-sending countries in the Global North, rather than assessing the impacts on service-delivering countries. Arguably, the growth of exports of IT-enabled services has created new opportunities for developing countries to leapfrog industrialisation and to achieve services-led economic development (Dossani & Kenney, 2007; Gereffi & Fernandez-Stark, 2010a).

This chapter addresses a gap in current research to look deeper into the experiences of developing countries and the newly emerging division of labour in offshore service delivery. The similarities and differences of the emergence of the sector in India and the Philippines are analysed and the causal factors for divergent trajectories are distilled. So far, little comparative research on this topic has been done and “much of the emerging conventional wisdom is based on an extrapolation of the Indian experience as a potential development alternative available to other developing countries” (Majluf, 2007: 148). Milberg and Winkler argue that India’s IT sector may have “suffered from a selection bias of successful cases” (2013: 13). In particular, the increasing sophistication of work conducted out of India has received much scholarly attention (Dossani & Kenney, 2007; 2009: 99-100).

India is by far the largest provider of offshore services globally, holding a global market share of 58% (NASSCOM, 2012: 7). The Philippines has emerged more recently as a participant in the offshore service sector, but has overtaken India in one sub-sector, namely call-centre operations (IBM, 2010; The Economist, 2012). India and the Philippines are among the world’s largest providers of global offshore services and the top eight offshoring cities are located in either of the two countries (Tholons, 2013: 2). This chapter investigates the interplay of factors that gave rise to offshore service delivery from India and the Philippines and the role of diverse actors in the “strategic coupling” of regions with offshore service networks, as discussed in the GPN framework (Coe et al. 2004; Coe et al., 2008; Henderson et al., 2002).

The analyses of similarities and differences between India and the Philippines, both of which have been successful in integrating into GPNs and delivering services to developed countries, forms the first step in a critical discussion of services-led development strategies. The rise of the offshore service sector is a relatively recent and very dynamic phenomenon, owing to various factors, as Massini and Miozzo write:

It is clear that the evolution of offshoring cannot be understood as an isolated event, but [...] result[s] from the interplay and interaction of multilevel agenda and endogenous and exogenous factors, demand and supply or push and pull factors which interplay and affect one another to result in emerging dynamics (2012: 1238).

The relevance of this study lies in understanding the underlying mechanisms of current processes of globalisation, and the offshoring of services, in a comparative perspective. Using several variables, this comparative case study argues that key differences have led to diverging processes of integration into GPNs in India and the Philippines. Moreover, it explains *how* and *why* both countries have followed different trajectories, and discusses potential future pathways. For this research, 40 interviews were conducted with key stakeholders, including representatives of business associations; managers of shared services firms and call centres; special economic zone authorities; and sector experts in India (Mumbai) and the Philippines (Metro Manila). In addition, I reviewed secondary sources, including academic articles, business reports, (online) newspaper articles, and popular biographies (and hagiographies) of IT-firm founders. The majority of secondary sources available focused on the Indian case, as apart from non-academic business reports, publications on the emergence of the offshore service sector in the Philippines are still a scarce commodity.

Several limitations and challenges need to be mentioned for this comparative study. First, the use of different, not clearly defined and overlapping terminologies exists in the field of offshore services. This limits the ability to compare data (Sass & Fifekova, 2011). Second, individual, country-specific data on the sector are estimates by business associations, which admit in interviews to not always having access to accurate data themselves. Recently, both the Indian business association NASSCOM and BPAP in the Philippines have changed the way they calculate data²⁰, which makes even tracking the development of a single case over time difficult. Other data comes from private consulting firms (e.g. McKinsey & Company, Everest, Boston Consulting Group, Evalueserve, Gartner), which often generate income from advising firms on offshoring part of their tasks and arguably hold a bias in favour of portraying the industry in a more positive light for marketing purposes.

Third, cross-country international trade figures available for offshore services are inherently flawed. One problem is that non-outsourced activities usually occur between a head office and cost-centres as intra-firm trade, creating possibilities for transfer pricing. Another problem is that trade data does not consider the level of value added (Milberg & Winkler, 2013: 41). Therefore, this chapter concentrates on the more qualitative aspects of the integration of India and the Philippines into GPNs.

In order to achieve its aims, this chapter first develops a theoretical understanding of the prerequisites for the local emergence of a (viable) offshore service sector (Section 2.2).

²⁰ Domestic services have been included in the calculation (though offshoring is usually export-oriented) and more recently even hardware production (both for domestic consumption and exports) has been added (e.g. NASSCOM, 2012) to augment total numbers.

Next, similarities and differences are identified between the development trajectories of the offshore service sectors in India and the Philippines (Sections 2.3 and 2.4). The differences are then explained in Section 2.5, after which Section 2.6 ponders the implications for the debate on service-led economic development and formulates suggestions for further research.

2.2 Prerequisites for integration into the GPNs of services

Several of the forces of globalisation have combined to lead to the creation and expansion of GPNs, namely economic liberalisation policies, increased global competition, and the spread and pervasive use of ICT (Henderson et al., 2002: 443). The same three processes have played a role in the offshoring of services. The establishment of service-provision centres in developing countries has taken place due to the increased competition among service providers and in order to reduce costs, as well as take advantage of potential economies of scale (due to centralised service provision), access to skilled labour and new markets. Though service production and consumption was believed to be spatially inseparable, reliable and cheap high-speed communication technologies can now allow back-office and call centre activities to be provided across large distances. In fact, all services can be offshored that do not require face-to-face interaction, can be transmitted via modern telecommunications infrastructure, have a considerable wage difference across space, and do not require extensive networking (UNCTAD, 2004).

The offshore service sector is a heterogeneous category, including various services and activities, located at different points of the value chain (Gereffi & Fernandez-Stark, 2010a). The acronym BPO encompasses customer services (voice-based services conducted in call centres; or non-voice-based services delivered via email and chat programmes), back-office services (e.g. data processing), engineering services, transcription services, and creative services (e.g. animation). These vary vastly in terms of routine, codability, and skill-level required, on a scale from simple to complex work. High-end services, such as legal services, financial analytics and engineering design require domain expertise and specific skills, whereas the lower-end functions found in call centres are scripted, routine functions.

The financial services sector has been a driver of offshore services. The majority of global financial corporations have relocated part of their activities to India or the Philippines. Increasingly, firms are opting for service delivery from both of these countries simultaneously (also in an effort to hedge country-specific risks), creating increasingly complex GPNs in services. The network metaphor employed by the GPN framework, instead of a linear conceptualisation of a value 'chain', is useful to illustrate the complex forms of organisation of contemporary service production. In contrast to earlier approaches (e.g. the global commodity chain), the GPN framework is more inclusive in terms of the types of actors, who are understood to shape and influence the networks. These include firms, labour, and institutions, which hold asymmetric powers and operate at various scales (Coe et al., 2008).

A main contribution of the GPN approach is its conceptualisation of regional development as the outcome of attracting investments and becoming integrated into GPNs

through a process of ‘strategic coupling’. This notion refers to the actions of regional actors to link, or couple, the strategic assets of a given region with the demands of a GPN (Coe et al., 2004). Existing regional assets are therefore crucial for the ability for developing countries to couple their regions with the offshore service sector.

English-language skills are an important strategic asset and, in fact, a requirement for exporting services to the largest offshore service market, the US. Since labour arbitrage is the main rationale for sourcing tasks from developing countries, a key asset required for the participation in the offshore service sector is a low-cost, but sufficiently skilled, workforce. The skill level (and especially language abilities) of workers contrasts with the earlier relocation of manufacturing activities from the Global North to lower-cost destinations around the globe. By focusing on their skilled workers, countries, which have been unable to gain from this earlier offshoring of manufacturing due to uncompetitive business environments, are now able to participate in GPNs. The World Bank economists Goswami, Mattoo and Saez state that:

countries such as India and the Philippines are doing well in cross-border exports of skill-intensive services but are lagging in labor-intensive manufacturing exports, not because of their absolute advantage in services—they remain relatively abundant in unskilled labor—but because of their comparative disadvantage in manufacturing (2012: 8).

In contrast to manufacturing, offshore services generally require relatively little infrastructure investment, except for communications infrastructure. Reliable and cost-efficient internet connectivity to transfer large volumes of data is a key requirement for offshore service delivery. The liberalisation of the telecommunications sector has been pivotal to increase competition, reduce costs, and raise investment in the sector (Goswami et al., 2012). It is important to note, though, that only business hubs need to be equipped with telecommunications infrastructure; the overall share of households with internet connection is not decisive.

Both India and the Philippines are characterised by globally uncompetitive business environments and deficient physical infrastructure. In a ranking of ‘ease of doing business’, India and the Philippines occupy positions 132 and 138 respectively, out of a total of 183 countries (World Bank & International Finance Corporation, 2013: 3). In order to attract investments in an uncompetitive business environment, government policies and special incentives are required by national governments to facilitate the emergence of an offshore service sector. The three crucial factors for the attraction of offshore service investments can be summarised as (1) a relatively low-cost labour force with widespread English-language skills, (2) a liberalised telecommunications sector, and (3) government incentives for services exports.

2.3 Comparing the offshore service sector in India and the Philippines: similarities

All three requirements for offshore service sector development are fulfilled by India and the Philippines, which constitute the main similarities of both countries' integration into GPNs. First, and most importantly, both India and the Philippines have been under the rule of English-speaking colonisers and both are developing countries with skilled, but underutilised, workers.

Second, the telecommunications sector in both countries has been liberalised. Panagariya (2008) defines the Indian telecommunications sector reform as one of few successful policies introduced by the technocratic government in the mid-1990s. Despite generating the opportunity for companies operating in business hubs to link up to the internet, it is noteworthy that India's national internet penetration, as of 2008, was only 2% (Nilekani, 2008: 371). In the Philippines, the privatisation and liberalisation of the telecommunications sector under the Ramos presidency drastically reduced end-user rates. Introducing competition for long-distance communications in 1995 provided a further increase in competitiveness (Fink, Mattoo & Rathindran, 2001).

Third, the governments of both countries have facilitated the rise of the offshore service sector through a range of policies. In India, private sector representatives argued frequently during interviews that the offshore service sector grew 'despite the government' and did not receive any special attention or facilitation by the government. The sector in India, however, benefitted from an exception to government-enforced general restrictions to foreign investment, which initially led to more advantageous conditions for offshore service firms relative to other sectors (Karnik, 2012).

A closer look also reveals that in both India and the Philippines the offshore service sector has benefitted from a range of incentives and received substantial state support in forms of the creation of SEZs for offshore services. In India, the Software Technology Parks of India (STPI) were founded in 1991. The establishment of these parks has been a critical national state policy, offering tax incentives and subsidised infrastructure (Upadhyaya, 2011: 179). The STPI regime was terminated in 2011, and since then a new SEZ scheme has taken its place, which offers fairly similar incentives.

In the Philippines the offshore service sector was recognised as an investment priority sector, thereby qualifying for tax incentives and exemption from foreign ownership restrictions by the Board of Investments and the Philippines Economic Zone Authority (PEZA). The privatisation of PEZA in 1995 and the reduction of minimum space requirements for SEZs helped the offshore service sector, since individual floors of prime office buildings in central business districts became eligible for tax incentives. IT-Parks and Centres mushroomed from zero in 1999 to 168 in 2012, according to PEZA data (see Chapter seven).

Aside from tax incentives, the SEZs fulfil two important roles: first, they provide enclaves of good business environments, in terms of infrastructure and internet connectivity, in countries which generally lack these (Engman, 2010: 234). Second, the formation of one-stop-shop professional organisations for foreign investors cuts red tape and decreases

opportunities for corruption and bureaucratic delay (Yi, 2012: 141). The national and state governments have played a role in supporting the growth of the offshore service sector through these policies. In addition, the Philippine government has also provided more direct financial support to the sector through funding of its business association and educational programs, which are directed at increasing the supply of a suitable workforce for the sector.

2.4 Comparing the offshore service sector in India and the Philippines: differences

2.4.1 Sector composition

The offshore service sectors in India and in the Philippines differ in many ways, as **Table 2.1** shows. India's total offshore service sector is much larger than that of the Philippines, employing almost three times the number of employees and receiving close to five times more revenue for its exports. However, in relative terms, offshore services employ a larger share of the population in the Philippines than in India, since India's population is larger by a factor of 12. Labour productivity for offshore services (measured as revenue per employee), is almost double in India compared to the Philippines, demonstrating that higher value-added service provision is taking place in India. This also relates to the different revenue generating opportunities in different sub-sectors. Moreover, different types of foreign investors have invested in India and the Philippines, and the business associations have performed different roles, as explained in more detail below.

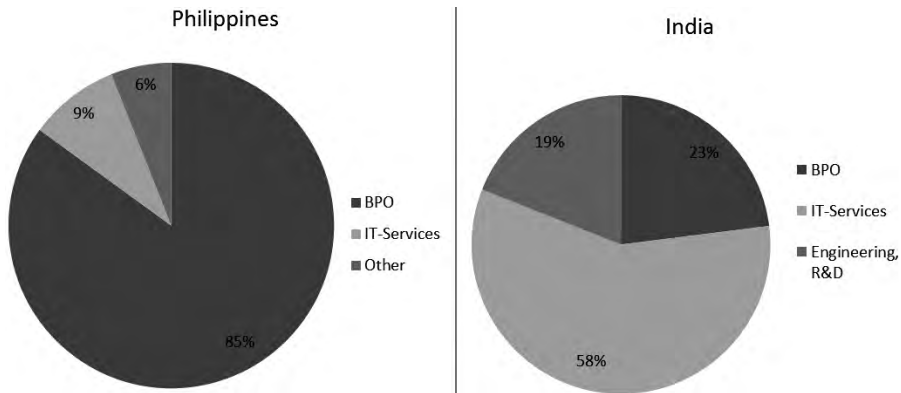
The composition of the offshore service sectors in India and the Philippines based on export revenue is depicted in **Figure 2.1**. In the Philippines, call centres (voice-based BPO) make up 66% of the total export revenue earned; voice- and non-voice-based BPO

Table 2.1: Offshore service delivery in India and the Philippines in 2012

| Year 2012 | India | Philippines |
|-----------------------------|---|---|
| Inhabitants (approx.) | 1,200 mio | 100 mio |
| Full-time employees (FTE) | 2,175,000 | 772,000 |
| Annual export revenue (\$) | 69 billion | 13 billion |
| Annual revenue per FTE (\$) | 31,700 | 16,800 |
| Rationale of companies | Cost and availability of IT-skills, benefits of scale | Cost and availability of English language, customer-service ability |
| Type of services | Predominantly IT-related, back-office, (decreasing) voice-based services | Mainly voice-based services, transcription, back office, animation and creative services |
| Foreign investors | Third-party providers and in-house shared service IT centres; changing interrelationships with domestic companies | Large third-party providers (primarily US-owned call centres), shared service back-offices on the rise for MNCs |
| Business associations | NASSCOM: strong body, independent funding, focus on the selling of services | BPAP: government-funded, focus on investment-attraction |

(Sources: NASSCOM; BPAP; author's analysis)

Figure 2.1: Comparison of export revenue by sub-sector



(Source: data from NASSCOM 2012; BPAP 2012)

sectors combined account for 85%. By contrast, less than 23% of revenue stems from BPO services in India; instead, IT services dominate with 58%. (The corresponding figure of the Philippines is only 9%). High value-added engineering and research and development (R&D) work contributes 19% in India. In the Philippines, health services (including medical transcription), engineering services, animation, and game development in total represent 6% of offshore service sector export revenues.

2.4.2 Foreign investors

Foreign investors have been a central driver of the offshore service sector. In India, domestic-industry protectionism under the *License Raj* led IBM in 1978 (then still largely a producer of computer hardware) to leave the country. IBM re-entered India only gradual liberalisation of the economy since 1991, this time through a joint-venture (Das, 2002). The softening of foreign ownership restrictions led to increased flows of FDI into India. Many foreign investors started offshoring services on a small scale through existing subsidiaries of MNCs, which were initially set up to cater to the local market. When firms discovered the opportunity for labour arbitrage in service provision, they started setting up separate shared service operations to deliver services to the Global North.

Many of these businesses operated ‘under the radar’ at first, as their cost-savings were considered an advantage over competitors, and therefore kept secret. Several early movers set up their dedicated in-house offices in India in the early 1990s. These included firms like General Electric, financial service providers, and outsourcing companies, such as IBM and Accenture. Some of these subsidiaries of foreign-owned companies for service delivery from India were later taken over by Indian-owned companies: General Electric’s in-house centre started servicing other clients and became an independent third-party supplier (Genpact); British Airways’ shared services centre, in a similar fashion, became WNS.

One of the earliest foreign investors to provide offshore services from the Philippines was the US communications company AOL, which started in 1997 to cater to US clients from Subic Freeport Zone. In the following years, mainly foreign-owned BPO companies such as Convergys and Sykes, mostly with previous offshoring experience in India, invested in additional offices in the Philippines. Later, MNCs started to relocate their back-office operations to Metro Manila. These originated primarily from the financial sector, but also included other industries such as manufacturing, logistics and publishing. Compared to India, an inverse process of changing ownership can be witnessed: foreign-owned companies bought out Filipino-owned companies, which could not compete with the larger, international, third-party suppliers. As a result, the Philippine offshore service sector is now primarily foreign-owned and foreign-equity participation in the sector stands at above 90% (Yi, 2012).

2.4.3 Business associations for offshore service delivery

Business associations can be important drivers to advance a sector. The Indian National Association of Software and Services Companies (NASSCOM) was founded in 1988, first operating out of a small apartment in Delhi. Since then, it has grown to a membership of about 1,350 companies. The professional organisation has become the lodestar for countries aiming at replicating India's IT sector success, which can also be seen in the names given to these associations (e.g. BRASSCOM in Brazil, GASSCOM in Ghana). NASSCOM is privately funded through membership fees and the majority of its members are Indian-owned companies.

In the Philippines, BPAP was founded in 2004 and is much smaller than its Indian counterpart. The majority of its members are foreign-owned companies but its board of directors consists exclusively of Filipinos. Of the five sub-organizations, the contact centre association (CCAP) is by far the most powerful one, representing the largest share of activities. Apart from membership fees, a considerable amount of funding is obtained from the government and from Filipino-owned support organizations profiting from the offshore service sector, such as telecommunication providers and commercial real-estate developers. Their role in supporting the sector is also apparent in the fact that they fill three board positions (of the non-industry board) in addition to the five-person industry board.

In terms of their core work, both agencies proactively follow relatively similar policies. The Philippines acknowledge replicating some of NASSCOM's strategies, especially in terms of organising the training and testing of the potential workforce for employment in the sector, engaging in government lobbying for incentives, and in terms of marketing and branding efforts. Due to the dominance of foreign-owned companies in the Philippines' BPO sector, the umbrella organisation has mainly engaged in foreign investment promotion through road shows and campaigns. A difference in power, size, and its forerunner position, means that NASSCOM has been forced to deal with a US backlash against the offshoring of services, lobbying the US government abroad, and representing the interests of Indian IT companies globally (Karnik, 2012). BPAP has had less reason to engage in this, since most companies delivering offshore work from the Philippines are US-owned MNCs, who are better positioned to lobby their own government rather than working through BPAP.

2.5. Causal factors for different trajectories of offshore service sector development in India and the Philippines

The main reasons why India and the Philippines differ in the positions they occupy within global offshore service networks are summarised in Table 2.2. They are discussed in detail below.

2.5.1 Timing of integration into the GPNs of services

Comparing India's service-led development with China's manufacturing success, Ghani argues that both were shaped by "their relative strength in education and infrastructure, and the timing of the globalization of services" (2010: 95). The point in time at which a country integrates into GPNs matters, as historic windows of opportunity can open or close. As a forerunner in the sector, India started providing services to the US under very different conditions from the Philippines, which entered the offshore sector almost 15 years later. Already during the 1980s, India engaged in the practice of short-term labour migration (or 'body shopping') of software programmers to clients' offices in the Global North (Parthasarathy, 2013: 380-381).

During that time, service delivery focused on IT services, since the telecommunication infrastructure was still too rudimentary for voice-based services. The dotcom bubble had a preferential impact on the development of offshore service delivery from India in two ways: during the boom, over-investment in optical fibre cables reduced connectivity costs globally, while the bust led to cost pressures for companies, and therefore, offshoring to India. The Y2K bug, in the run-up to the year 2000, was another decisive moment for Indian IT companies to prove their capabilities (Dossani, 2013; Dossani & Kenny, 2009: 81). Gaining a foothold early in the sector has been an important advantage for India, as Milberg and Winkler note that "GPNs have a cumulative and herd-like character [...] as one firm in an industry has success, others have tended to follow" (2013: 33).

The Philippines entered the offshore service sector on a large scale only after the year 2000. The Asian financial crisis led to lower commercial property prices in Metro Manila,

Table 2.2: Variables explaining differences in offshore service sector

| | India | Philippines |
|----------------------|--|---|
| Timing | Forerunner (1980s onwards), short-term labour migration ('body shopping'), dotcom bubble, Y2K | Later entrant (starting 2000s) after Asian financial crisis, liberalisation of telecommunication |
| Labour pool | Former British colony, education system with high technical and management training for small percentage of the population | Former American colony, 'cultural affinity' and English-language skills, high literacy levels but lower quality education in critical skillsets |
| Domestic-owned firms | Domestic-owned firms drove growth of sector; now large actors in the global industry | No active role by domestically owned firms in the development of the offshore sector; now mainly small, uncompetitive actors |
| Returnee migrants | Important 'brain circulation', established business contacts and networks | Less important role, large labour migration is mainly unskilled/non-BPO related |

which reduced the cost of office space for foreign investors in prime locations. By then, advances in communications technology allowed low-cost voice-based services, and exports in this field mushroomed. More recently, the rise of social media use and advanced mobile-phone technology has created opportunities for marketing and customer service via social-network sites, which is being delivered out of customer-service centres in the Philippines. Differences in timing can therefore partially explain a difference in orientation towards particular sub-sectors; however, the main explanatory variables are regional assets in the form of a large, skilled labour force.

2.5.2 Size and skillsets of the labour force

While both countries have a large number of English speakers, their respective educated labour pools differ. The difference of population size of the two countries should be kept in mind, since economies of scale are important in the offshore service sector. Early on, India developed high-standard technical education through the renowned Indian Institutes of Technology (IITs), elitist public schools, which were the result of Nehru's education policy in the 1950s. At 16%, India has a relatively low percentage of tertiary education enrolment (World Bank, 2013), but with 220,000 students at IITs and Indian Institutes of Management combined, the total number of highly-skilled individuals is still considerable (Brown et al., 2011: 33).

Due to the opening up of the education sector to private providers, who received subsidies from various states in India, a drastic increase in the supply of engineers in these states resulted, leading to a concentration of offshore service activities in the states of Andhra Pradesh, Karnataka, Maharashtra and Tamil Nadu (Dossani, 2013: 162-163; Nilekani, 2008: 346). With a focus on top tertiary education for the few, primary education has been neglected in India. This has led to low literacy rates, especially among women, almost half of whom remain illiterate (United Nations Educational, Scientific and Cultural Organisation [UNESCO], 2006).

This contrasts with a literacy rate above 95% for both genders in the Philippines (UNESCO, 2008). Moreover, tertiary education enrolment is relatively high at 28% in 2009 (World Bank, 2013) as a result of an implementation of a US-style college system. The quality of tertiary education however, suffers from the fact that 90% of all higher education institutes are privately-owned (and largely non-accredited), and less than 10% of academic staff hold PhDs (Welch, 2011). Overall, research capabilities are limited, and some universities and colleges offer low-quality degrees (Tullao, 2003).

Only ten school years are required for students entering university, two years less than in most countries. As a result, an often-mentioned problem by offshore service companies located in the Philippines are the limited generalist skills of graduates (including English-language skills), leading to hiring rates of less than 10% in voice-based services. This problem has been recognised by the government and current reform efforts in the Philippines include the introduction of a 12-year curriculum (K+12) to increase the competitiveness of Filipino graduates.

Although English is widely spoken in India and the Philippines as a result of colonisation, there are differences between both countries as a result of their colonial histories. US colonisation of the Philippines (1898-1946) introduced institutions according to the American model and the interaction led to what is often labelled a “cultural affinity” of the Philippines with the US (Rodolfo, 2005: 35). Work that involves direct customer interaction with American clients over the phone values the ‘neutral’ accent of Filipinos.

In both countries, the offshoring of services has been driven by companies wanting to reduce costs, leading to “efficiency-seeking vertical investments” (Hardy, Sass & Fifekova, 2011b), but the difference in existing labour pools in both countries means that the sourcing strategies of foreign investors have differed. In the case of India, technical, and to a lesser extent, managerial skills have been sought. The Philippines’ strongest asset has been its English-language skills. This, in combination with a cultural affinity with its main offshore market – the US – has led global firms to source voice-based services from the Philippines.

2.5.3 Domestic-owned companies and the role of domestic entrepreneurs

The most striking difference between the sector in India and the Philippines is the role of domestic-owned companies. While in India, a considerable amount of home-grown companies have acquired the status of MNCs today (notably Tata Consultancy Services [TCS], Infosys, and Wipro), there are few sizable Filipino-owned offshore service firms. Also in absolute numbers, the offshore service sector in the Philippines is dominated by foreign-owned firms, whereas in India, the majority of firms are domestic-owned. The reasons for this divergence have yet to be better understood.

Interviewees in both countries use cultural arguments to attribute an ‘entrepreneurial mind-set’ to Indians and an ‘employee mind-set’ to Filipinos. However, a strong entrepreneurial spirit among Filipinos can be seen when it comes to small companies and self-employment; for instance, organised through international job websites such as *oDesk*, where a significant percentage of all completed tasks and assignments is conducted from the Philippines (Beerepoot & Lambregts, forthcoming). It is also noteworthy that some successful Filipino-grown companies were acquired by foreign companies when they entered the market, leading to a decreasing number of Filipino-owned companies.

In India, the offshore service sector has grown due to domestic entrepreneurs and the availability of engineering and managerial talent. Oftentimes, companies emanated from old conglomerates, such as Tata Steel in the case of TCS. The six largest Indian IT firms were founded between 1968 and 1986 (Dossani, 2013: 157). The early founders of offshore service companies and today’s IT tycoons are admired individuals and their stories have been well documented (e.g. Ramadorai, 2011). Several of them underwent engineering training at universities in the US before returning to India and setting up their firms (Dossani, 2013). Indian entrepreneurs have also played a central role in upgrading into higher-end services due to their accumulation of technical expertise (Parthasarathy & Aoyama, 2006).

In the Philippines, existing conglomerates with enough financial wherewithal and manpower to set up offshore service firms have been reluctant to do so. Diversification from

real estate and retailing business has mainly been directed at the telecommunications and utilities sectors (Gutierrez & Rodriguez, 2013). These can be considered more traditional rent-seeking activities. The only conglomerate to experiment with voice-based service delivery to foreign clients has been Ayala Corporation, which created the BPO-investment arm LiveIT Investments and acquired the US-based contact centre, Stream.

2.5.4 Diaspora networks, returnee migrants, and brain-circulation

Development studies' scholars and practitioners have long discussed the negative implications of a "brain drain" from developing countries towards the Global North. More recently, the idea of a "brain circulation" has taken hold, in which highly-educated professionals return to their home countries bringing crucial experience and networks with them (Saxenian, 2002; Majluf, 2007). Both India and the Philippines exhibit a large pattern of outward labour migration. Close to ten million overseas Filipino workers (OFWs) are employed as contract workers abroad, contributing more than \$21 billion (in 2012) in remittances to the Philippine economy (National Statistics Office, 2013). The majority of their work is in unskilled or low-skilled service jobs, or unrelated to (potential) offshore services. Only 1% of OFWs occupy administrative/managerial or technical professions in the US (Yi, 2012: 130). So far, the impact of returnee migrants on the Filipino offshore service sector has therefore been low.

Although India has seen much low-skilled labour migration as well, a considerable number of highly skilled professionals and researchers have migrated to the US. These diaspora networks have been crucial to the rise of India's IT sector (Engman, 2010: 225). The US is the most attractive destination for Indian PhD students and Indians encompass the largest group of foreign students in engineering and sciences in the US – about 68,000 students in 2009 (Van Riemsdijk, 2013).

Recently, many US-educated and trained professionals have returned to India as a result of increased economic opportunities in their home country, as well as due to personal, cultural and lifestyle reasons (Wadhwa, Jain, Saxenian, Gereffi & Wang, 2011). Several of these Returned Non-Resident Indians set up their own successful offshore service businesses in India with the help of their experience and networks from abroad (Chacko, 2007). Brain circulation has been an important component of India's integration into the global economy and it remains to be seen if the Philippines is able to benefit from returning outward migration in the future.

2.6 Conclusions: different trajectories in offshore services

This chapter has shown how varied the integration into GPNs in India and the Philippines has been. Although foreign investors and clients started to source services from both countries based on the idea of labour arbitrage, strategic coupling took place on the basis of different regional assets. In the Indian case, this was based on the technical and management capabilities of the Indian elite, whereas in the Philippines, the English-language advantages of the Filipino labour force were the main regional asset. This constitutes the single most important difference

in regional assets and has important implications for the types of services produced. The differences in human capital, not limited to the local workforce, but also in the existence of successful entrepreneurs and technically skilled returnee migrants with crucial networks in the service-receiving home markets, distinguishes the Indian case markedly from the Philippines.

These findings provide a first starting point for further discussions of a services-led model of economic development, since they show how diverse the trajectories of both countries' integration into GPNs has been, and how the strategic coupling of regions with the offshore sector has taken place in very different ways. Though the different entry points into the offshore service sector play a role, they do not fully explain the differences in the type and quality of services provided, which depends on the availability of regional assets. With the maturing of the offshore service sector, these differences have become more pronounced over time; for example, due to the relocation of voice-based activities from India to the Philippines. Both countries have not been acting independent of each other, but their offshore delivery networks have become increasingly connected. MNCs hedge their investment by opting for advanced models of offshore service delivery, including offshore service centres operating out of several countries simultaneously.

More recently, Indian companies have started to invest in the Philippines, mainly establishing subsidiaries offering voice-based services to clients in the Global North. This increasing specialisation in call-centre work is considered to be at the lower-end of the value chain. At the same time, both countries are pursuing strategies to move up the services value-chain, and opportunities may exist for the Philippines to upgrade into higher-value-added, non-voice-based services. If upgrading strategies in the Philippines prove successful, more-direct competition for similar types of services between both countries might arise. Additional research is required on the emerging specialisations of India and the Philippines in different sub-sectors of offshore service delivery.

To what extent the relatively low-end service provision from the Philippines will be beneficial for the country's economic development in the long run remains to be seen. This chapter has focused on the emergence of the sector, discussing strategic coupling on the state level in the two countries. Future research could continue the enquiry on a different scale: How does the process of strategic coupling occur in specific cities and regions, and which (local) actors are involved in enabling and facilitating investment attraction and offshore service delivery? Also, more research is needed on the evolution of GPNs in offshore services. To what extent is upgrading into higher-value-added services occurring and how can this be facilitated in both India and the Philippines? Finally, more research on local outcomes of services-led economic development is required for understanding the opportunities and implications arising from this form of contemporary globalisation for local economic development.