Outsourcing gets closer to home with CAFTA

By Danna Harman
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MANAGUA, Nicaragua * Touting themselves as the "new Asia," pro-business and investment organizations across Latin America are talking about the benefits of "nearsourcing." It's the same thing as outsourcing * sending jobs to lower-cost locations outside the USA * but closer to home: It's south rather than east, near rather than far. And it's increasingly attractive to U.S. companies.

Latin American leaders are boosting nearsoucing as the region readies for the Jan. 1 start of the Central American Free Trade Agreement, which ends most tariffs on more than $33 billion in goods traded between the USA and six Central American and Caribbean countries. Those are Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and the Dominican Republic. U.S. Commerce Secretary Carlos Gutierrez toured Central America last month with executives of 20 leading U.S. companies to promote the pact.

Lured by the ease of working in the same time zone a mere three or four hours' flight from headquarters in the USA, such companies as Dell, Sykes, Sitel, IBM, Procter & Gamble, Western Union, Sara Lee/Hanes, Russell Athletic, VF Corp. and others have been moving business into the region. Workers here are doing everything from reading X-rays to sewing jeans.

According to the United Nations' Economic Commission for Latin America and the Caribbean (ECLAC), Central America received just over $2 billion in foreign investment last year, up from an average of $633 million annually the region attracted in the early 1990s.

The number of U.S. jobs * manufacturing and services alike * going to Central and South America is minuscule when compared with those being outsourced to Asia. Forrester Research, an independent technology and market research company, estimates the number of jobs currently outsourced to India ranges from 400,000 to 700,000. But the trend toward Central America is increasing, says Eric Jacobstein, a trade expert at the Inter-American Dialogue in Washington.

"The U.S. private sector will no doubt continue to look to China and India," Jacobstein says. "This is a phenomenon that cannot be stopped."
But, he adds, "Geography does matter," and combined with locked-in trade preferences via CAFTA, greater nearsourcing "is bound to occur.
This will certainly help these Latin American countries. It will not have a huge impact, but anything helps, especially when competing with such emerging global giants as China and India."

And, as India or the Philippines before them, Nicaragua, Panama, El Salvador and Costa Rica, along with South American countries Brazil and Chile, are embracing the trend with business-friendly policies and aggressive marketing.

Upgrading English skills

ProNicaragua, an agency working to attract foreign direct investment to Nicaragua, has, for example, put together a database of English speakers
* with more than 4,500 names so far * and is working with the government to establish programs to upgrade the English skills in the country. This, to fill what Juan Carlos Pereira, executive director of ProNicaragua, estimates will be about 4,000 new call-center jobs in the next three to four years.

"Over 400,000 of our people who fled the conflicts of the 1980s moved to the U.S. and Canada," Pereira says. "Many, including myself, have now returned to the country with good education and English skills."

The leader in Central America in terms of attracting new outsourcing service business is Costa Rica, where 24,500 call-center and information technology jobs have been created in the past few years, a number expected to double in the next two years, according to the non-profit Costa Rican Chamber of Information and Communication Technologies. In Latin America as a whole, the number of call-center workstations will hit 730,000 in 2008, up from 336,000 in 2004, according to market researcher Datamonitor.

While India still has a far larger pool of educated English speakers as well as a lower minimum wage base and often better infrastructure, Central Americans say they can still capture a growing share of the market, especially with the passage of CAFTA.
"There is a hunger here for having a job, and a highly motivated group of people," says Leonel Lacayo, a Nicaraguan who lived 23 years in the USA before returning to Managua and opening the Nicaragua Call Center. Lacayo has 70 English-speaking employees who make calls to collect debts for clients such as telecom companies, hospitals and credit card companies.

"It would be hard to find people in the U.S. who wanted this job because they have too many other options," he admits. "But here, the pay ($400 a month plus incentives) is triple minimum wage." By January, he says, he expects to expand to 100 operators.
Being English-Spanish bilingual also helps, says Claudia Solano, 25, one of the operators at the call center. Solano's parents fled during the civil war of the '80s and settled in Las Vegas. The family moved back to Managua to care for elderly grandparents three years ago.

Not everyone sees the growth in nearsourcing in a positive light. "We are sorry about this phenomenon," says Thea Lee, the AFL-CIO's deputy director for public policy. "We are sorry anytime we lose good jobs here in the U.S., and we are also sorry we did not succeed in yielding stronger protections for Central American workers in CAFTA."

The AFL-CIO lobbied against the trade agreement, which squeaked by with a two-vote margin in the House and a nine-vote margin in the Senate in the summer.