

Analysis of Argentina as an Offshore Services Location

Cassio Dreyfuss, Frances Karamouzis, Ian Marriott

This report analyzes Argentina's suitability for offshore outsourcing, based on 10 criteria: language, government support, labor pool, infrastructure, educational system, cost, political and economic environment, cultural compatibility, global and legal maturity, and data and intellectual property security and privacy. Sourcing managers can use this report to judge whether Argentina might be a good location for their organizations' captive or outsourced offshore IT and business process services.

Key Findings

- Argentina is convincingly recovering from an economic slump that took place five years ago, but it still has some ground to cover, especially in stabilizing the economy, reducing government intervention in the economy and investing more decisively in improving its infrastructure.
- The government has undertaken a few modest initiatives, but it must support the development of an IT services industry more decisively.
- Education has been showing the result of not enough government attention, but the country is still taking advantage of what was once the most well-educated population in Latin America.

Recommendations

- Consider Argentina for outsourcing engagements where high-level resources are required, as major global service providers are tapping on the country's labor pool. However, monitor resource availability and skills, as well as intellectual property protection issues.
- In the wake of presidential elections, closely monitor the economy and expect significant (but not revolutionary) shifts in policies, especially in the beginning of the new president's term in 2008.

ANALYSIS

Table 1 provides a summary of Gartner's rating of Argentina, based on our 10 criteria. Figure 1 shows Argentina's location and time-zone differences compared with selected cities.

Table 1. Argentina: Outsourcing Rating

Criterion	Rating
Language	Good
Government support	Fair
Labor pool	Fair
Infrastructure	Fair
Educational system	Good
Cost	Very good
Political and economic environment	Fair
Cultural compatibility	Good
Global and legal maturity	Good
Data and intellectual property security and privacy	Fair

Source: Gartner (September 2007)

Figure 1. Argentina: Location and Time-Zone Differences



Source: Gartner (November 2007)

Language

- Spanish is the official language.
- In all public schools, English is taught as a subject, and private schools and institutes teach English. Almost all middle- and upper-class students speak English with basic proficiency. A basic level of reading and comprehension of English is generally a requirement in colleges.
- About 15% of Argentinians have a high-level understanding of English, which is a high percentage compared with other Latin American locations.
- Argentina has always had an important English-speaking population. This is because of the large number of bilingual Spanish-English private schools, especially in metropolitan Buenos Aires, which, with 15 million people, constitutes 40% of the country's population. Argentina has been the target of companies setting up bilingual Spanish-English contact centers.

Analysis: About 40% of Argentinians claim to speak some English. Among professionals and technicians, 13% have a good knowledge of English and 17% have "average" proficiency. Proficiency is growing among those in a younger age bracket, which is the age target for outsourcing services.

Gartner rating: Good

Government Support

- A software industry promotion law introduced in 2004 gives companies big tax breaks and helped create high-tech clusters in four Argentinian cities. Large companies, such as Motorola, Disney, Microsoft, Peugeot and Repsol are seeking Web site and software developers here.
- According to the Argentinian software and IT services association (Cessi), the software and IT sector in Argentina is expected to export approximately \$350 million in 2007, a rise of more than 15% from 2006's \$300 million.

Analysis: The government seems to support a manufacturing economy, rather than a service economy. Nevertheless, to reap the benefits of offshoring, it has started to take steps to encourage it. Yet, the government has done little in the past decade to support the IT outsourcing industry, and these initiatives and developments are recent and not well-structured. It is difficult for the government to attract big investors away from Brazil, Chile and Mexico.

Gartner rating: Fair

Labor Pool

- The total labor force in Argentina is 15.34 million, out of a population of 39.93 million. About 12% of the labor force works in agriculture, 35% in industry and 53% in the service sector. In September 2006, Argentina had 1.14 million unemployed — and this number is decreasing.
- The technology industry in Argentina will require the creation of 80,000 new jobs to achieve the sector's goal of increasing exports fivefold to \$1 billion by 2014. Universities are producing only 3,000 IT graduates per year. Demand for IT professionals increased by 70% between 2003 and 2007. Outsourcing companies are hiring students halfway

through their schooling process, attracting them with immediate good salaries as programmers. This creates a short-term resource solution and a long-term resource problem.

- A currency devaluation in 2002 means salaries in Argentina tend to be lower than in other Latin American countries. This is not a sustainable situation, because inflation, price adjustments and salary rises are changing the salary structure, making it approach higher historical levels.
- Unions are very active and trying to gain influence over new outsourcing companies. Hiring, maintaining and laying off employees in Argentina are difficult and expensive (as is the norm in Latin America, except in Chile).

Analysis: After an economic downturn in 2001 and 2002, Argentina is entering a fourth year of continuous growth. Employment is growing, thanks to rising production in the manufacturing, construction and service sectors. As a result, skilled labor is becoming scarce, especially for manufacturing and service companies. The availability of specialized IT professionals in Argentina is becoming a major issue. It is estimated that the country will need 14,000 professionals in 2010. The consequences are the twin problems of salary increases and turnover, especially in key positions. Labor laws will prove very difficult to change because of a fear that the country will return to the high unemployment rates seen during the 2001 recession.

Gartner rating: Fair

Infrastructure

- At least 20% of homes have broadband Internet access, and about 60% of business and institutional Internet connections are at broadband speeds. Argentina has the world's second-highest number of Internet cafes, after China.
- In 2005, there were 8.5 million direct exchange lines, which is a penetration rate of about 22%. About half of the country's electricity is generated by thermal methods; 41% by hydroelectric sources and 8% by nuclear energy.
- Energy is the real infrastructure problem in Argentina. After the economic slump, the country has been growing at more than 8% a year for the past four years, but the government has failed to present a credible plan to sustain this growth and is relying on energy rationing to avoid uncontrolled blackouts.

Analysis: Argentina invested in its infrastructure during a period of privatization in the 1990s, so it has a good infrastructure in the areas of air travel, railways, roads, port facilities, electricity and telecommunications, at least in most urban areas. Mobile phone penetration passed 50% in 2005, and network operators have expanded their networks and adopted new technologies. During the first nine months of 2006, total electricity generation increased by 7% to 76,839 GWh, but the electricity generating system is operating at its limits. Total reserves are around 300 MWh, compared with an optimal level of 1,500 MWh. This has led to generating facilities becoming more reliant on gas oil and fuel oil.

Gartner rating: Fair

Educational System

- Education spending in Argentina represents only 4.3% of the gross domestic product (GDP), which is lower than other Latin American countries such as Colombia (5.4%),

Mexico (5.4%) and Chile (4.4%). The government has pledged to increase education spending to 6% of GDP by 2010.

- The government is reforming the education sector and plans to remove the military's role in education. There are nine military secondary boarding schools, which place a focus on discipline and physical education, including some military training.
- A study by the Argentinian education ministry revealed that two out of every three schools have computers. In a ministry survey of the 10 most-popular university degrees, only one was IT-related.
- In 2004, Argentina produced about 1,700 Master of Business Administration graduates.

Analysis: Argentina has 12 years of compulsory education and a literacy rate of 97%. Until recently, it had the best educational system in Latin America. Although the average educational level and the literacy rate are still high, the quality of public education has declined because of inadequate infrastructure and curriculum. The graduation rate is low — only about 20% in 2003 — although the proportion of the population enrolling as university students is the highest in Latin America. Nevertheless, Argentina has one the best college-educated populations in Latin America, and this has been tapped by large global players, especially for top-level resources.

Gartner rating: Good

Cost

- A typical monthly salary for a junior Java or .NET developer starts at \$1,000; for senior developers, it is \$1,600. The average monthly salary of a computer systems manager is \$2,700.
- The annual inflation rate was less than 10% in 2006, but it will probably almost double that in 2007. Salaries will rise at least 15% in local currency terms in 2008. That increase should be partly — but not completely — offset by a devaluation of the peso against international currencies. By the end of the decade, salaries in Argentina are expected to stabilize at a level slightly lower than those in other advanced countries in the region (for example, Brazil, Chile and Mexico).

Analysis: Salaries are rising but are still low compared with other countries in Latin America. Argentina offers a cost advantage of about 80% when compared with U.S. locations, and 30% to 50% when compared with locations such as Mexico and Costa Rica. However, in the next two years, salaries will stabilize at a slightly lower level than other Latin American destinations, but not at the very low level of recent years.

Gartner Rating: Very good

Political and Economic Environment

- Argentina's economy has sustained a robust recovery following the severe economic crisis, with four consecutive years of growth above 8% in real GDP. GDP reached \$213 billion in 2006, approximately \$5,460 per capita, with real investment up 18.7%. Economic expansion is creating jobs, with unemployment down from 20.4% in the first quarter of 2003 to 9.8% in the first quarter of 2007.
- The recovery required strong government intervention in the economy, which has been reduced but not eliminated. As a result, in an economic freedom ranking of 161 countries by Heritage Foundation (a conservative research organization), Argentina

slipped from 17th position in 2000 to 114th in 2005, and back to 107th in 2006 (first place indicates the greatest economic freedom).

- Recent presidential elections led to the election of the wife of the current president to be the next president. Although this seems to indicate political continuity, the need to control rising inflation rates may bring significant economic policy changes.

Analysis: The government has a populist attitude toward foreign investors, creditors and the International Monetary Fund (although this seems to be more rhetoric than attitude). In recent years, the government has tried to control inflation by adopting short-term policies, such as price restrictions and controls on a number of products and other ad hoc initiatives. Significant (but not radical) economic policy changes can be expected in 2008. Although progress can be seen in many sectors, government intervention in the economy reduces the ability to make effective business plans.

Gartner rating: Fair

Cultural Compatibility

- The population of Argentina is predominantly of Spanish origin. There were waves of migration in the 19th century from Western Europe (mostly Spain, but also Italy and other countries). The country has a large Jewish community. The population is 97% of Western European origin.
- Argentina has approximately 1,500 licensed radio stations and five major TV networks. Provincial capitals and other large cities have at least one local station. Argentina has a well-established independent media industry and more than 150 daily newspapers.

Analysis: Argentina has a Western European culture. It has strong cultural and trading relations with neighboring countries. It has been involved in cultural exchanges with countries in other regions, importing and exporting music, theater, literature, movies and TV. Together with the Sydney Opera, the Teatro Colon in Buenos Aires is the only respected opera house in the Southern Hemisphere. Business ties with the U.S. have been growing.

Gartner rating: Good

Global and Legal Maturity

- Major trading partners are Brazil, the U.S., Chile and China. The U.S. and Spain are the two largest sources of foreign investment.
- Foreign and domestic investors have free and equal rights to establish and own businesses, or to acquire and dispose of interests in businesses without discrimination. The government has established a number of investment promotion programs, such as value-added tax refunds and accelerated depreciation of capital goods for investors; it also offers tariff incentives for local production of capital goods.
- Argentina is a signatory to major international treaties and protocols that regulate international trade, investment and business relations, such as the International Center for the Settlement of Investment Disputes, the United Nations Commission on International Trade Law and the World Bank's Multilateral Investment Guarantee Agency.

Analysis: Foreign investment has declined in the past two years as a result of continuing uncertainties about creditor, contract and property rights. For the settlement of disputes, the

government accepts the principles of international arbitration. It has also established free trade zones and special foreign trade areas.

Gartner rating: Good

Data and Intellectual Property Security and Privacy

- The government adheres to most treaties and international agreements on intellectual property and belongs to the World Intellectual Property Organization and the World Trade Organization. The National Intellectual Property Institute started to grant pharmaceutical patents only in October 2000, when a new patent law came into effect.
- The economic crisis of 2002 led to greater use of unlicensed software and media, but the legal framework to protect intellectual property has improved since then. Enforcement is irregular and pirated products are still available.
- In 2004, the government became more proactive about piracy and passed laws to allow authorities to mount undercover operations for the first time, to electronically flag suspect shipments and to facilitate the seizure of suspect merchandise.

Analysis: Protection of intellectual property has improved in recent years, but adoption and application have been irregular. Argentina's lack of adequate patent protection has been a long-standing barrier to bilateral trade relationships. Patent law is weak, leaving a large hole in data security.

Gartner rating: Fair

Analytical Source: Edgardo Juri

This research is part of a set of related research pieces. See "Gartner's 30 Leading Locations for Offshore Services" for an overview.

REGIONAL HEADQUARTERS

Corporate Headquarters

56 Top Gallant Road
Stamford, CT 06902-7700
U.S.A.
+1 203 964 0096

European Headquarters

Tamesis
The Glanty
Egham
Surrey, TW20 9AW
UNITED KINGDOM
+44 1784 431611

Asia/Pacific Headquarters

Gartner Australasia Pty. Ltd.
Level 9, 141 Walker Street
North Sydney
New South Wales 2060
AUSTRALIA
+61 2 9459 4600

Japan Headquarters

Gartner Japan Ltd.
Aobadai Hills, 6F
7-7, Aobadai, 4-chome
Meguro-ku, Tokyo 153-0042
JAPAN
+81 3 3481 3670

Latin America Headquarters

Gartner do Brazil
Av. das Nações Unidas, 12551
9º andar—World Trade Center
04578-903—São Paulo SP
BRAZIL
+55 11 3443 1509