Tokyo Club for Global Studies

Developing the IT-enabled Services Sector in the Philippines: Prospects, Challenges and Policy Directions

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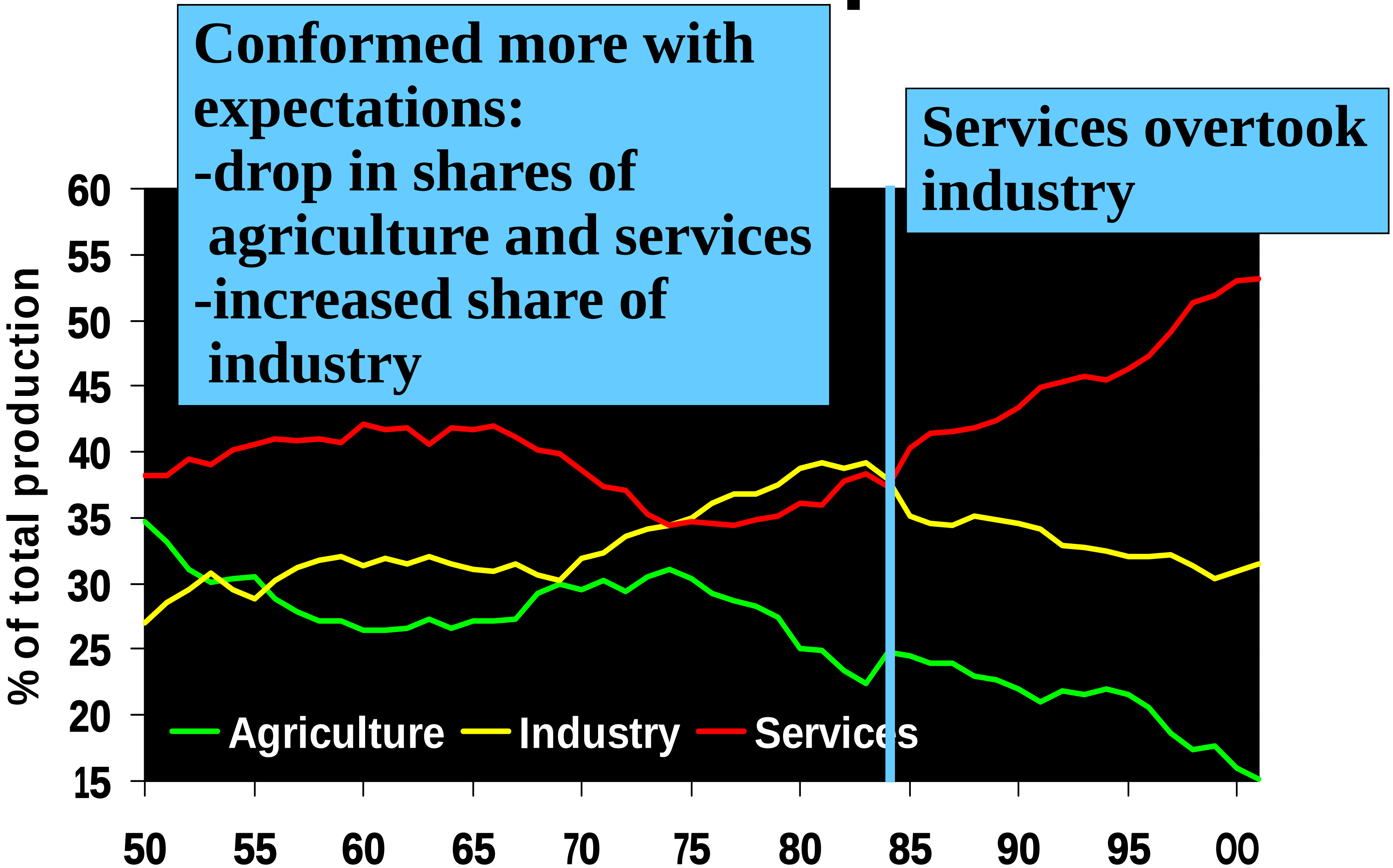
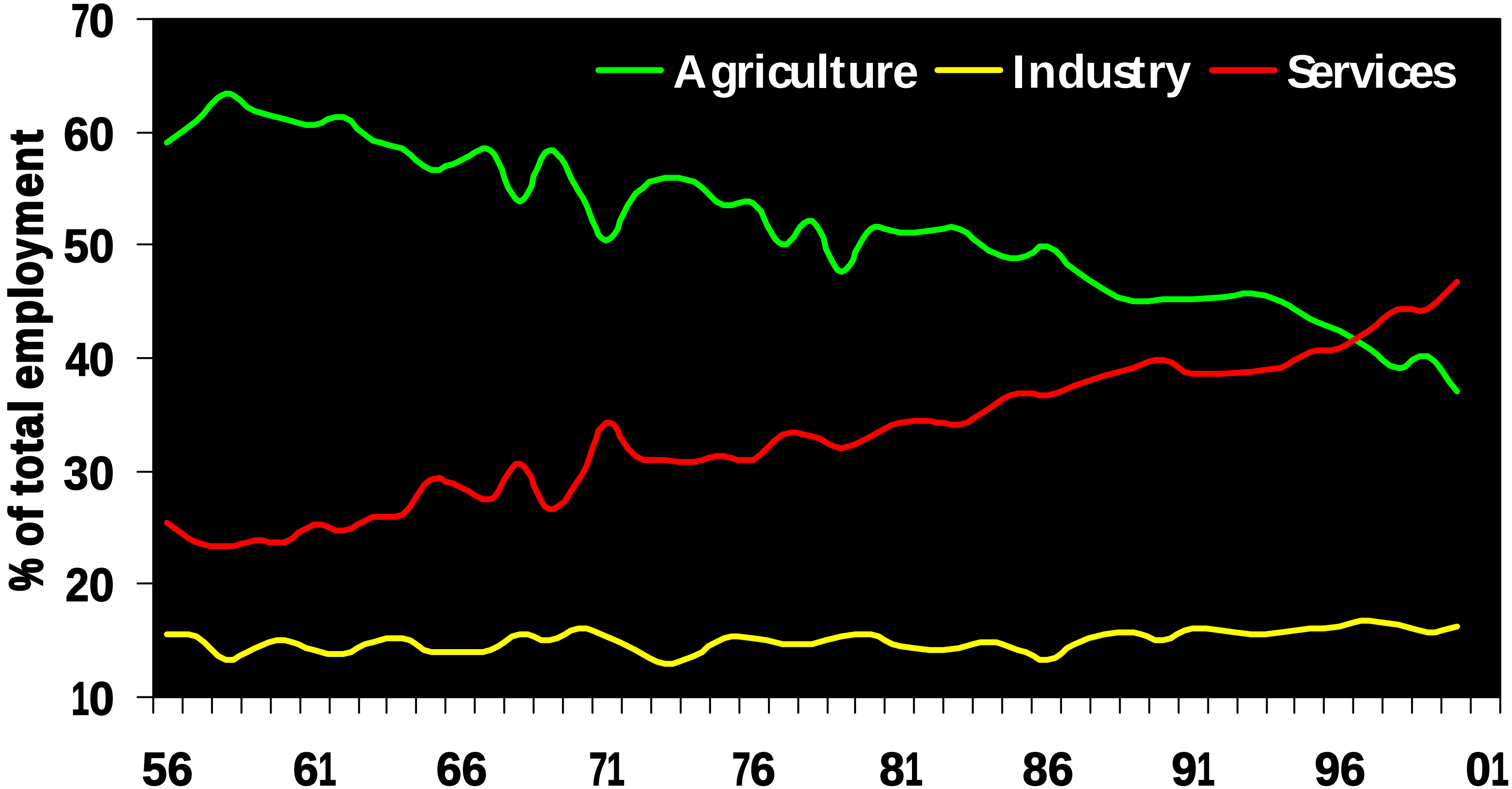
Outline

- The services sector in the Philippine economy: Trends and Prospects
- IT-Enabled Services: Broad Perspectives
  - Driving Forces
  - Opportunities and Threats
  - Strengths and Weaknesses
  - Policy Framework

Dramatic shifts in output structure



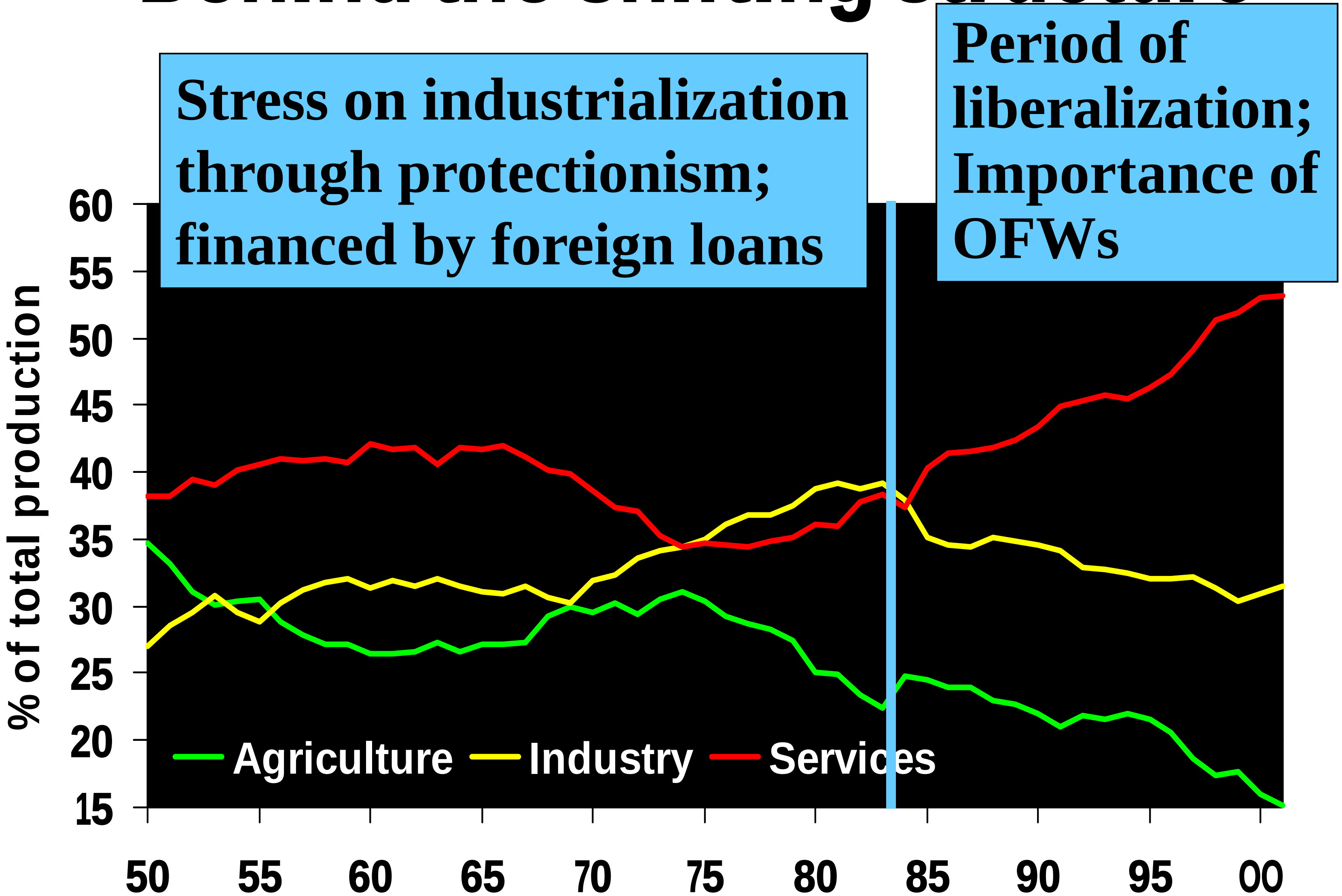
Shift in employment structure less dramatic: Services overtook agriculture as generator of jobs



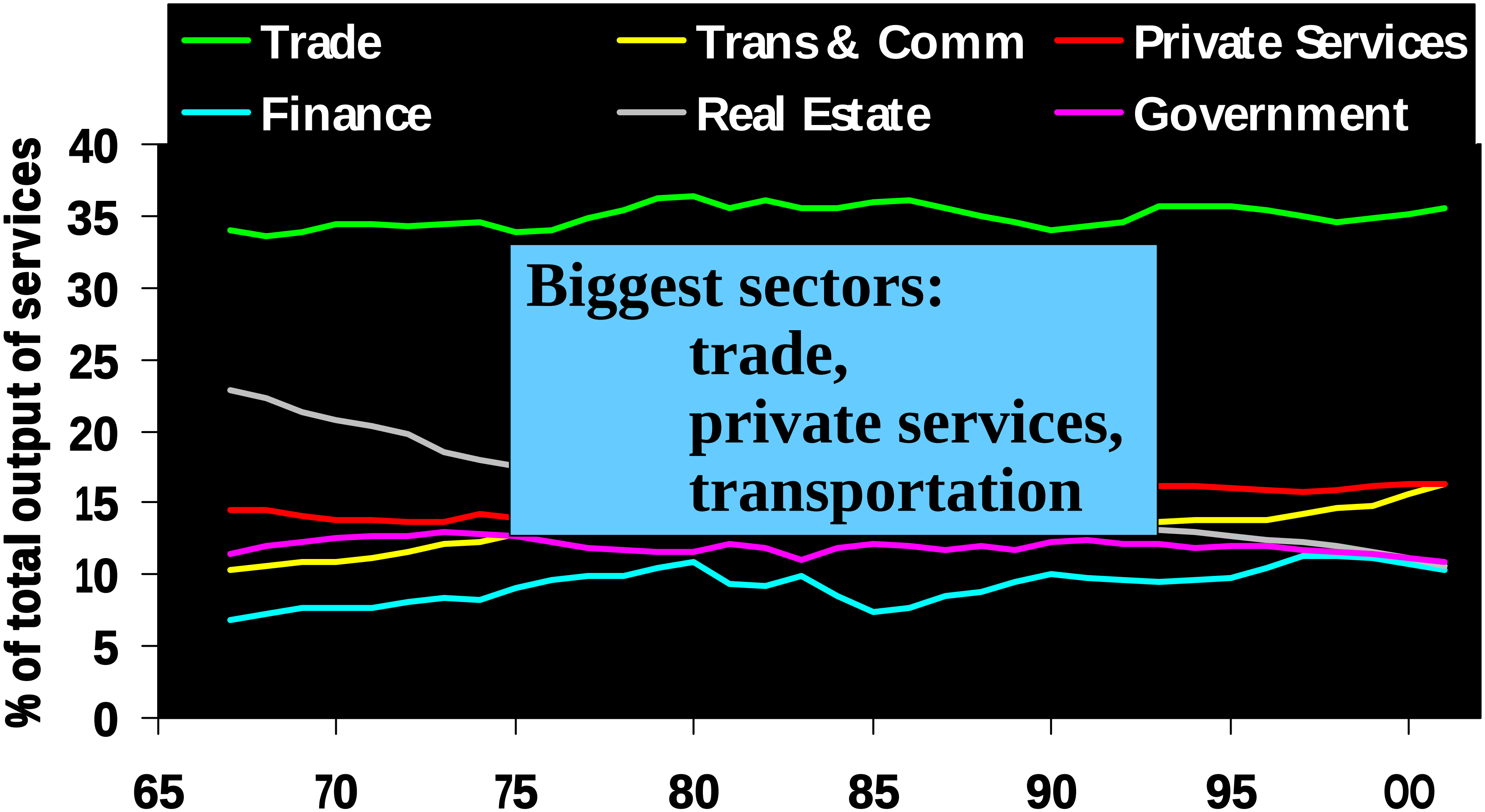
Observations and questions

- Present trend contrasts with the expected pattern of development .
- De-industrializing? ‘Hollowing’ out?
- Reflection of the Philippines’ comparative advantage, i.e., availability of highly trainable manpower?
- Consequence of the reliance on the inflows of remittances from foreign workers as a source of growth?

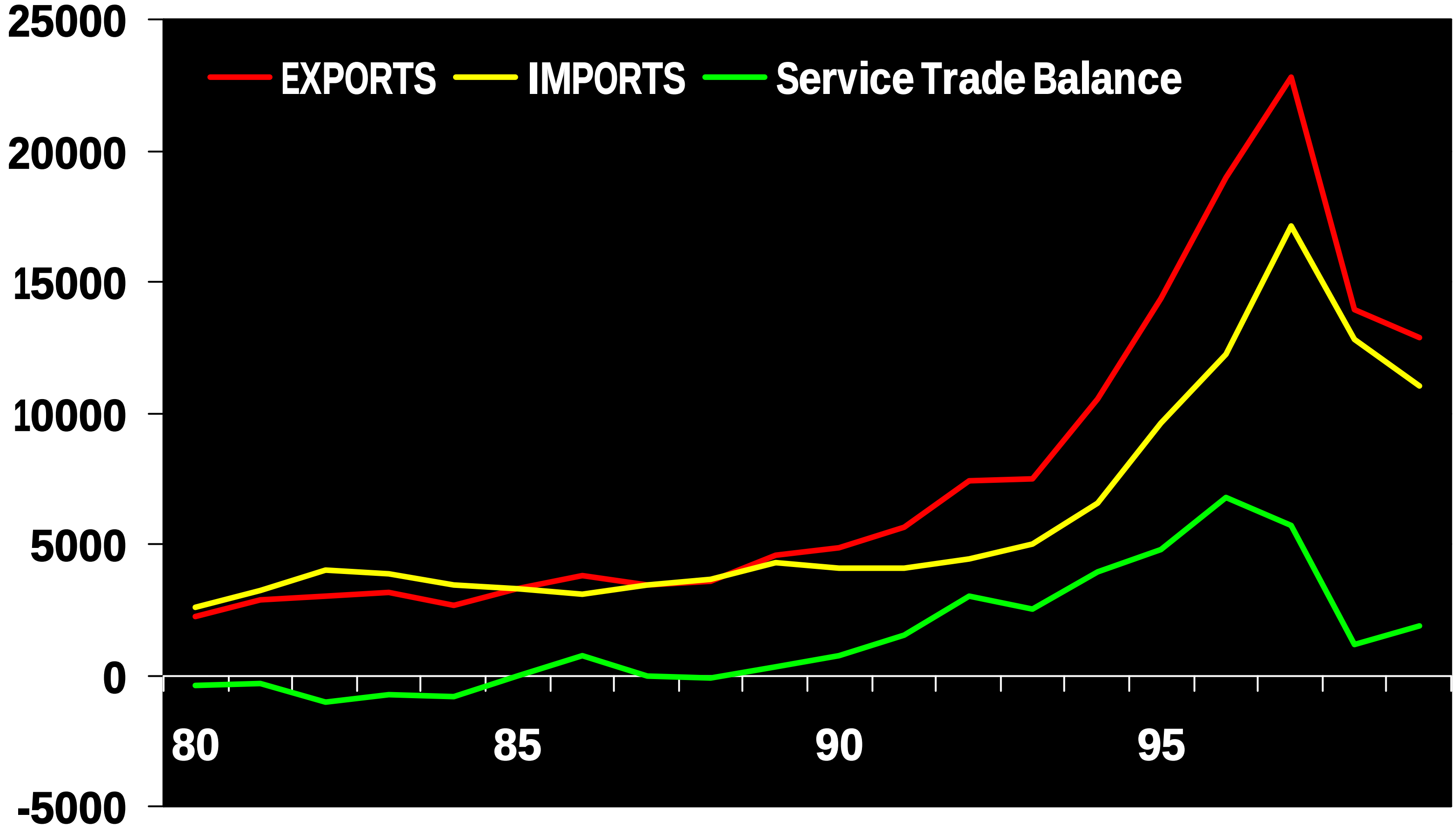
Behind the shifting structure



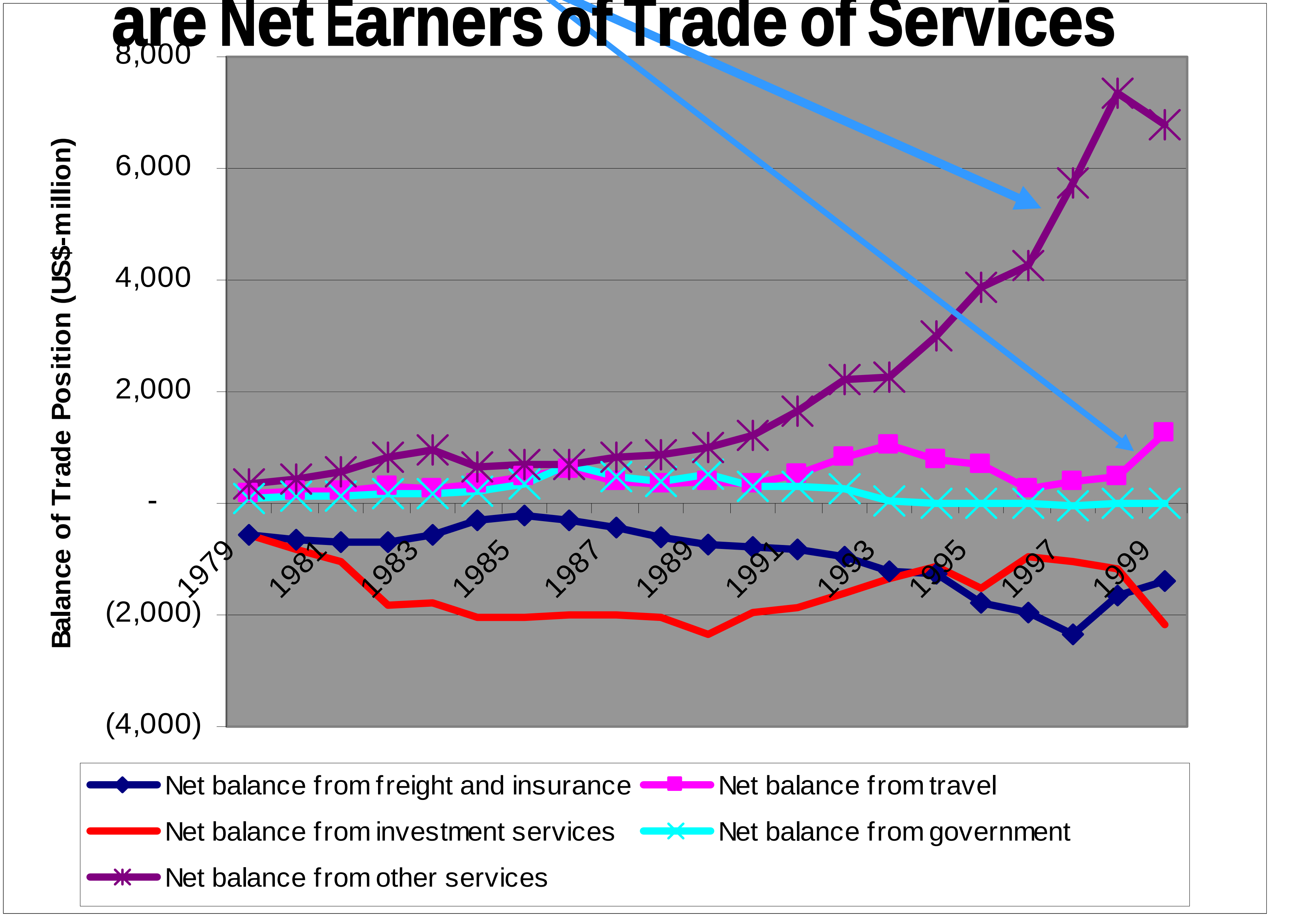
Reflection of OFW's investment behavior?



Trade in services in surplus



Tourism and Other Services Category are Net Earners of Trade of Services



Summary of trends

- Trend towards increasing importance of services.
- Trend is more likely to be reinforced than reversed
- Factors to consider:
  - Liberalization continues
  - Continuing surpluses in trade in services
    - Remittances of workers
    - Tourism
    - Other exports of services

IT- Enabled Services: Driving Forces

Cheaper, faster, global transmission of info

Information revolution

Cost differences in the delivery of services

Global outsourcing business

Developing countries: Availability of labor
Developed countries: Shortages

IT-enabled businesses

- Backroom operations
  - Contact centers – Customer Relations Management
  - Medical transcription
  - Human Resource Management
  - Financial Management
  - Animation
  - Architectural and engineering design
  - IT-support systems

IT-Enabled Services Global Outsourcing

Service	1998 Revenues *	2008 Revenues *	Cumulative Annual Growth
Call Centers	6.5	33.0	18%
Finance and Accounting	1.5	15.0	26%
Animation	1.3	2.0	4%
Engineering and Design	0.4	5.0	21%
Transcription, Translation, and Localization	0.3	1.2	29%
Other Services**	0.2	44.0	71%
Total	**10.0**	**100.2**	

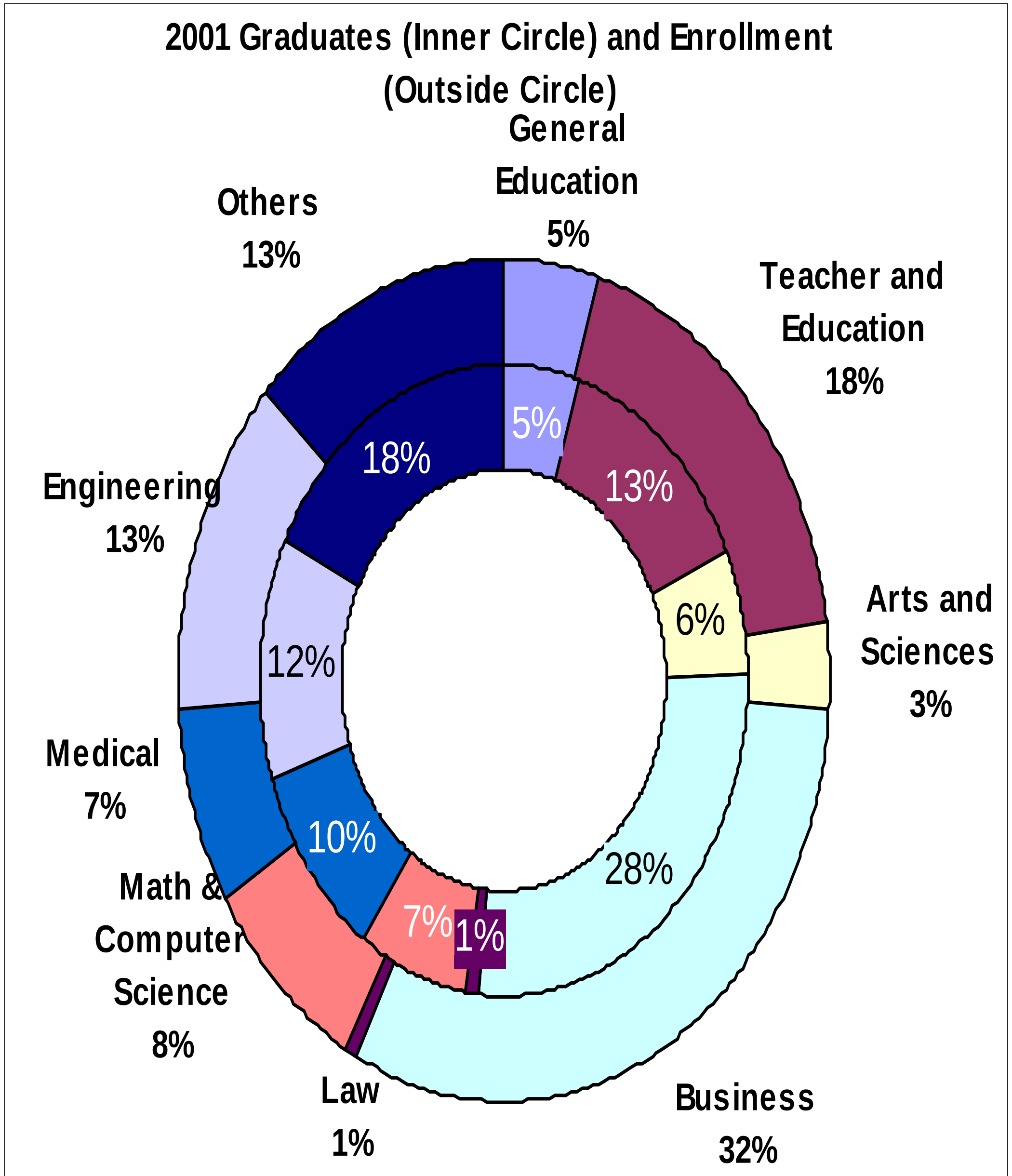
***Figures in $ billions.** Adapted from: *The Indian IT Strategy*, NASSCOM-McKinsey, 1999.

IT-Enabled Services Global Outsourcing

Service	2008 Projected Revenues*
Data Search, Integration, and Management	18.0
Remote Education	15.0
Network Consulting and Management	5.0
Website Services	3.0
Market Research	1.0
Total	$ 42 billion

***Figures in $ billions.** Adapted from: *The Indian IT Strategy*, NASSCOM-McKinsey, 1999.

Philippine realities



Human Resource Pool

- 1,378 colleges and universities
- 400,000 graduates annually
- 1.6 million college students
- 38 million labor force
- 11% unemployment rate
- Rated one of the most competitive in the world

Declining costs of telecom services

- Declining costs of E-1 line to the US from less than US$10,000

Impact of deregulation on the telecommunication industry

<u>Policy Objective</u>	**<u>Policy Strategy</u>**	**<u>Policy Impact</u>**
Promote Competition	**Deregulation** + **Interconnection**	• **Increase number of players & their services** • **Interconnection between service providers**

Economic impact of ITES

	Electronics	IT-Enabled
Exports (US$-million)	18,388	113
Imports (US$-million)	11,388	17
Surplus (US$-million)	6,999	95
Surplus/Exports (In Percent)	38%	85%
Employment	314,584	7,038
Job Creation (US$-million per Person)	2.26	.28
Average Annual Salary per Head	119,016	166,065

Source: Extrapolated from PEZA Statistics

More value added from operations
Low investment cost for job creation
Higher salaries
High value added services

Major ITES in the Philippines

IT-Enabled Services	Outsourcing Market in 1998 in US$-billion	Estimated Global Market Share	Number of Local Phil. Cos.
Contact Center	6.5	Australia - US$1-B (15%) India - US$.7-B (11%) Phils - US$.06-B (1%)	>50
Medical Trans.	0.3	India - US$.06-B (20%) Phils - US$.003-B (1%)	10
Animation	1.3	Phils - US$.07-B (5%)	9
Human Resource		NA	>9
Accounting	1.5	NA	1-2
R&D	NA	NA	10
Technical Support	230	Phils.-US$.250-B (.1%) India - US$2.3-B (1%)	>10

Source: NASSCOM-McKinsey, IDC, NSCB, SEC, UA&P Estimates

Opportunities for the Philippines

Strategic time differences

Similarity in accounting standards

Growing acceptance as strategy

Information revolution

Global outsourcing business

Cost differences in the delivery of services

MNC's centralizing shared services

Labor shortages, rising wages in developed countries

Rising costs of medical, legal insurance

Threats to the Philippines

Information revolution

Global outsourcing business

Cost differences in the delivery of services

India's dominance

Emergence of China

Strong government support

Low exit barriers

Exodus of local talents

Changes in GAAP principles in US

Lack of int'l. standards for financial services

Strengths

Modernized telecoms infra

Information revolution

Cost differences in the delivery of services

→ Global outsourcing business

Large pool of graduates

Competitive value for money of wages

Familiarity with western culture

Strong government support

Weaknesses

Information revolution

Cost differences in the delivery of services

Global outsourcing business

Poor image as a country

Labor laws on night differentials

Deterioration in quality of education

Weak R& D culture

Weak links between academe/industry

Framework for Policy Intervention

Telecoms Infrastructure

Information revolution

Global outsourcing business

Cost differences in the delivery of services

Marketing efforts

Development of pool of human resources

Policy Initiatives

- Formation of the Information Technology and Electronic Commerce Council (ITECC)
- National Information Technology Plan for 21st Century (IT21)
- Internet Strategy of the Philippines (ISP.com)
- Passage of E-Commerce Act of 2000
- Review of the Intellectual Property Code

Policy Initiatives

- Existing Policy Framework
  - National Information Technology Plan for the 21st Century (NITP or IT21) formed in 1998
    - Objectives

    (a) create the necessary policy environment

    (b) develop Info-structure

    (c) develop IT manpower base

    (d) pump-prime development of IT

    (e) organizational strategy

    (f) information dissemination and promotion

Policy Initiatives

- Existing Policy Framework
  - National Information Technology Plan for the 21st Century (NITP or IT21) formed in 1998
    - Contains strategy for promoting and developing IT industry.
    - IT 21 Agenda is divided into three strategic phases:

    (a) Consolidation period and providing impetus for further development (1998 to 2000)

    (b) Build up momentum based of what was accomplished in first phase (2001 to 2005)

    (c) Transformation period into a Knowledge Center of Asia

Policy Initiatives

- **Existing Policy Framework**
  - **Information Technology and Electronic Commerce Council (ITECC) formed in mid-2000**
    - **Headed by the President of RP**
    - **Places under one umbrella all government agencies**
    - **Created committees to oversee developments of business, human resource, information infrastructure and the legal and e-government issues**

Policy Initiatives

- ISP.Com
  - Emphasizes the promotion and development of the ITES
  - Re-aligned to the IT21 Action Agenda
    - Info-structure development and access
    - Human resource
    - Legal
    - Business development and financials

Other Initiatives

- Passage of the E-Commerce Act
- Review of the Intellectual Property Code
- Passage of the Foreign Investment Act, Special Economic Zone Act, Export Development Act, Regional Headquarters Act
- Liberalization of the insurance, banking and retail trade sectors
- Deregulation of telecommunications and shipping industries

Policy Issues

Issues

- Outdated labor laws
- Lack of concerted industry promotion and development efforts
- Curriculum standards and accreditation

Policy Response

- Revision of the labor code to accommodate 24X7 operations
- Creation of a private sector led industry-wide organization
- Creation of an accreditation body recognized by the industry

Policy Issues

Issues

- Low value-added IT activities

Policy Response

- Encouraging strategic tie-ups with highly advanced countries like India