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

Conformed more with expectations:
- drop in shares of agriculture and services
- increased share of industry

Services overtook industry
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

Stress on industrialization through protectionism; financed by foreign loans

Period of liberalization; Importance of OFWs
Reflection of OFW’s investment behavior?

Biggest sectors: trade, private services, transportation

% of total output of services

Trade, Trans & Comm, Private Services, Finance, Real Estate, Government

Years: 65, 70, 75, 80, 85, 90, 95, 00
Trade in services in surplus
Tourism and Other Services Category are Net Earners of Trade of Services

- Net balance from freight and insurance
- Net balance from travel
- Net balance from investment services
- Net balance from government
- Net balance from other 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

- Information revolution
  - Cheaper, faster, global transmission of info
- Cost differences in the delivery of services
  - Developing countries: Availability of labor
  - Developed countries: Shortages

Global outsourcing business
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

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

## IT-Enabled Services Global Outsourcing

<table>
<thead>
<tr>
<th>Service</th>
<th>2008 Projected Revenues*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Data Search, Integration, and Management</td>
<td>18.0</td>
</tr>
<tr>
<td>Remote Education</td>
<td>15.0</td>
</tr>
<tr>
<td>Network Consulting and Management</td>
<td>5.0</td>
</tr>
<tr>
<td>Website Services</td>
<td>3.0</td>
</tr>
<tr>
<td>Market Research</td>
<td>1.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 42 billion</strong></td>
</tr>
</tbody>
</table>

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

**Policy Objective**
- Promote Competition

**Policy Strategy**
- Deregulation

**Policy Impact**
- Increase number of players & their services
- Interconnection between service providers
## Economic impact of ITES

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

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

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<tr>
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</thead>
<tbody>
<tr>
<td>Contact Center</td>
<td>6.5</td>
<td>Australia - US$1-B (15%)</td>
<td>&gt;50</td>
</tr>
<tr>
<td></td>
<td></td>
<td>India - US$7-B (11%)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Phils - US$.06-B (1%)</td>
<td></td>
</tr>
<tr>
<td>Medical Trans.</td>
<td>0.3</td>
<td>India - US$.06-B (20%)</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Phils - US$.003-B (1%)</td>
<td></td>
</tr>
<tr>
<td>Animation</td>
<td>1.3</td>
<td>Phils - US$.07-B (5%)</td>
<td>9</td>
</tr>
<tr>
<td>Human Resource</td>
<td>NA</td>
<td>NA</td>
<td>&gt;9</td>
</tr>
<tr>
<td>Accounting</td>
<td>1.5</td>
<td>NA</td>
<td>1-2</td>
</tr>
<tr>
<td>R&amp;D</td>
<td>NA</td>
<td>NA</td>
<td>10</td>
</tr>
<tr>
<td>Technical Support</td>
<td>230</td>
<td>Phils.-US$2.50-B (.1%)</td>
<td>&gt;10</td>
</tr>
<tr>
<td></td>
<td></td>
<td>India - US$2.3-B (1%)</td>
<td></td>
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Opportunities for the Philippines

Strategic time differences
Similarity in accounting standards
Information revolution
Cost differences in the delivery of services
Growing acceptance as strategy
Global outsourcing business
MNC’s centralizing shared services
Rising costs of medical, legal insurance
Labor shortages, rising wages in developed countries
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
  - Global outsourcing business
  - Cost differences in the delivery of services
  - 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

Labor laws on night differentials

Deterioration in quality of education

Weak R&D culture

Weak links between academia/industry

Global outsourcing business

Poor image as a country
Framework for Policy Intervention

Telecoms Infrastructure

Information revolution

Cost differences in the delivery of services

Global outsourcing business

Development of pool of human resources

Marketing efforts
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:
      2. Build up momentum based on what was accomplished in first phase (2001 to 2005)
      3. 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

<table>
<thead>
<tr>
<th>Issues</th>
<th>Policy Response</th>
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<tbody>
<tr>
<td>• Outdated labor laws</td>
<td>• Revision of the labor code to accommodate 24X7 operations</td>
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<tr>
<td>• Lack of concerted industry promotion and development efforts</td>
<td>• Creation of a private sector led industry-wide organization</td>
</tr>
<tr>
<td>• Curriculum standards and accreditation</td>
<td>• Creation of an accreditation body recognized by the industry</td>
</tr>
<tr>
<td>Issues</td>
<td>Policy Response</td>
</tr>
<tr>
<td>------------------------------</td>
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<tr>
<td>Low value-added IT activities</td>
<td>Encouraging strategic tie-ups with highly advanced countries like India</td>
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