Coalition Building in the Philippines: Who Does What When

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Outline

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   a. ITC view of export promotion in the digital age
   b. New framework for export strategy formulation

II. Coalition of services industries in the Philippines – where we are now
   a. Impact of telecommunications liberalization
   b. Rise of industry associations
   c. Private sector-driven export promotion

III. Coalition of services industries in the Philippines – where we are going
   a. Philippine Services Coalition Project
   b. Roles of Stakeholders
   c. Next Steps

What we learned from the ITC

The Executive Forum, since its inception in 1999, has been an important venue for:

- Sharing best practices
- Enabling effective export strategies in digital age
- Promoting conducive policy and business environments
- Creating awareness of competitive advantages
- Forging networks of partnerships

Past EF Themes –

National Networks (‘01)
Managing National Competitive Advantage (‘02)
Strategizing in a Changing Business Environment (‘03)
Competitiveness through Public-Private Partnerships (’04)

EF Theme for 2005 –

EXPORT OF SERVICES

Where we are now services-wise

In brief …

Public Sector –

- Philippine Export Development Plan (1999-2001)
- Telecommunications liberalization (Republic Act 7925)
- Western-style educational system

Private Sector –

- Industry associations in e-Services sub-sectors like Contact Center, Business Processing, Animation, Medical Transcription, Engineering Design, and Software Design
- Philippine Exporters Confederation (Philexport)

*… **predominant focus on ICT-enabled services and exporters of goods***

Telecommunications Infrastructure: Post-Liberalization

- Cost of leased line to the US: $3,000 from $15,000 in 1994
- No. of nationwide digital backbones: 2
- No. of phone subscribers
  - Fixed: more than 4,000,000
  - Mobile: more than 35,000,000
- No. of ICT-based and ICT-related employees
  - Approx 100,000
- Export Revenue of ICT and ICT-related services
  - Approx $ 1B

Trade in Services: Opportunities for the Philippines

IT and IT-enabled Services Sector – 2004 Performance

Exports Revenue: US$ 1.050 Billion

Investments: US$ 0.144 Billion

Employment Generated (incremental): 27,732

Employment (accumulated): 100,000

Breakdown:

Priority Sectors	Export Revenue (US$ Million)	Employment	No. of firms
Contact Center	700	67,000	70
Administrative/ F&A BPO	100	15,000	40
Software Development	186	10,000	300
Medical Transcription	40	4,000	30
Animation	14	3,000	30
Engineering Design	10	1,000	30
TOTAL	1,050*	100,000	500

*1,655 in other estimates; 68% AAGR past 4 years

Infrastructure is Superior at Competitive Costs

Specially for IT-enabled services …

- High quality, low cost bandwidth, expanding domestic network
    - Six platforms available: fixed line, cellular, cable TV, over the air TV & radio and VSAT system
- Redundant international connectivity: fiber optic cable and satellite
- Presence of dedicated IT parks (7 in Luzon, 2 in the Visayas)
- Production/services sites all over the archipelago
- Availability of IT-enabled floor area
- Bandwidth cost declined by 70% over the last 4 years

IT Parks in the Philippines

•SUBIC/CLARK ECONOMIC CORRIDOR

ASTWOOD

City Cyberpark

eloper : Megaworld Properties and Holdings, Inc.
ation: Bagumbayan, Quezon City, Metro Manila, ppines
d area: 13.3 hectares
ecom facilities: 53,000 installed lines; 277,777 available ne lines; leased lines, ISDN, fiber optic
(632) 634-0348 to 49

PBCom Tower

veloper : Filinvest Asia Corporation
cation: Ayala Avenue corner Herrera Street, Makati y, Metro Manila, Philippines
ilding floor area: 11.748 hectares
ecom facilities: 421,942 installed lines; 239,606 ailable phone lines; leased lines, ISDN, fiber optic

ASEANA

ntelligent Technologies Plaza

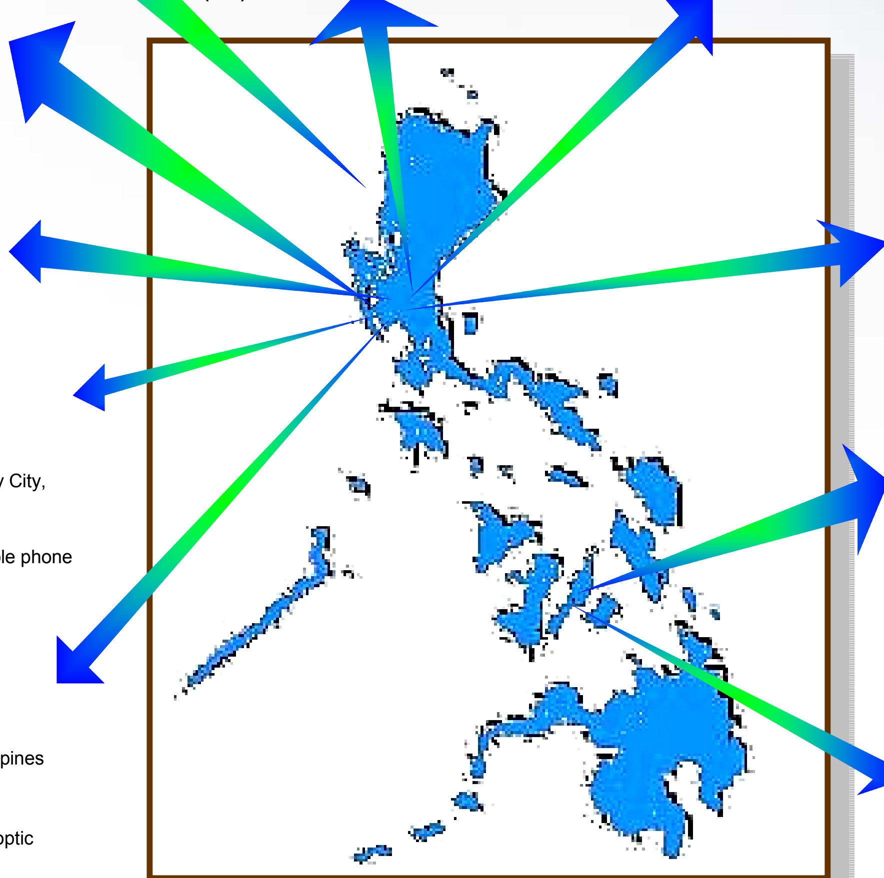
veloper : ASEAN IT Plaza Consortium
cation: Aseana Business Park, Boulevard 2000, Pasay City, tro Manila, Philippines
d area: 12.3 hectares
ecom facilities: 43,216 installed lines; 142,029 available phone s; leased lines, ISDN, fiber optic

lorthgate Cyber Zone

veloper : Filinvest Alabang, Inc.
cation: Alabang, Muntinlupa City, Metro Manila, Philippines
d area: 18.7 hectares
ecom facilities: 38,886 installed lines;
,543 available phone lines; leased lines, ISDN, fiber optic
(632) 809-5478

•RCBC Plaza IT Park

Developer: RCBC Realty Corporation
Location: Ayala Avenue corner Sen. Gil J. Puyat Avenue, Makati City, Metro Manila, Philippines
Building floor area: 15.04 hectares
Telecom facilities: 421,942 installed lines; 239,606 available phone lines; leased lines, ISDN, fiber optic
el: (632) 815-9636



•Fort Bonifacio E-Square IT Park

Developer: Fort Bonifacio Development Corporation
Location: Fort Bonifacio Global City, Taguig, Metro Manila, Philippines
Land area: 24.4 hectares
Telecom facilities: 187,414 installed lines;
53,882 available phone lines; leased lines, ISDN, fiber optic
Tel: (632) 867-3988

•Bonifacio Information Technology Zone

Developer: Bases Conversion Development Authority
Location: Fort Bonifacio, Taguig, Metro Manila, Philippines
Land area: 25.0 hectares
Telecom facilities: 187,414 installed lines; 53,882 available phone lines; leased lines, ISDN, fiber optic
Tel: (632) 867-3988

•Cebu Cybertown IT Park

Developer : First Centro, Inc.
Location: Lapu-Lapu City, Mactan, Cebu, Philippines
Land area: 11.5 hectares
Telecom facilities: 16,950 installed lines;
22,512 available phone lines; leased lines, ISDN, fiber optic
Tel: (032) 231-5301 to 09

•CCTC IT Park

Developer : Cebu Property Ventures & Development Corporation
Location: Barangay Lahug and Apas, Cebu City, Philippines
Land Area: 23.7 hectares
Telecom facilities: 30,967 installed lines;
119,777 available phone lines; leased lines, ISDN, fiber optic

Customer Contact Centers

- Growth Rate: over 100% per year
- No. of seats of outsource contact center players increased from <1000(Y2000) to>45,000 2004>60,000 now
- About 37 foreign and Filipino firms/players servicing known Fortune 500 companies
- Local Players: Sykes, InfoNXX, C-cube, PeopleSupport, eTelecare, Dell Inc.
- Competencies: basically all touch points (voice, email and web collaboration - chat/instant messaging)
- Capabilities: vertical and customer interaction (travel, financial, technical, online business, educational support, etc.)
- Technologies: IVR, CTI, Call Management systems, Automated Quality Monitoring and Recording systems
- Market: North America
- KSF: agent certification, development of alternative IT hubs

Business Process Outsourcing

- Industry players include: Mitsui, NYK, Alitalia, Caltex, Citibank, Cypress, Nokia, Procter & Gamble, U.N. office of migration
- Abundance of accountants and lawyers
- Familiarity with Asian and Western business procedures/process forms and contracts
- Among the best accountants in the world; GAAP of the USA; ranked 16/49 for “International Business Experience” by World Competitive Report 2001 (India 38)
- Technical capabilities: documentation/transcription, financial and accounting, human resources management services
- KSF: establish critical mass

Software Development

- 300 software development houses (ADTX, Canon Technologies, Fujitsu, NEC, Tsukiden Group, Headstrong, Great Plains)
- Services: systems integration, software/systems customization, wireless application development, software maintenance, testing and quality assurance, software project management, firmware and middleware
- Market: North America, Europe, Japan, and Asia Pacific
- Technical capabilities: operating system-MVS, Windows 95, NT, 2000, UNIX, competency in multiple languages and platforms - C, C++, JAVA, COBOL, PL1, SQL, POWERBUILDER, Visual Basic, ASSEMBLER, communication architecture – SNA, TCP/IP, WAP, GSM
- Clients: IBM Japan, Fujitsu Japan, Mazda Motors of America, Northwest Airlines, Morgan Stanley Dean Witters, etc.
- KSF: CMM certification

Computer Graphics Animation

- 23 animation studios (TOEI, FilCartoons, ImaginAsia, Top Peg, Holy Cow, Micronet)
- Local animation industry is a major supplier to major Japanese (Anime), US (Walt Disney), European and Australian animation companies
- Technical capabilities: 2D and 3D technology - able to render graphics in different platforms for gaming industry (Nintendo, Sega, Game Gear, Game Boy and Sony Playstation) as well as video game development
- Filipino artistry and creativity with experience in different cultures to internalize storylines and concepts
- KSF: co-production arrangements (strategic alliance, build local demand)

Engineering Design

- Large pool of engineers to support operations
- Presence of Japanese & US firms to support construction & manufacturing CAD/CAM requirements

  Japan: Denso, EDS (Yazaki), Hitatchi, JGC

  USA: Bechtel, Fluor Daniel, Parson
- Other services provided: research / product development, planning and procurement for construction, digitalization of legacy designs

Data Transcription

- 16 major players primarily in legal and medical, and publishing (E-data, SPI, Digitext, Transkripsyo, TRX Global)
- No. of MTs: 1,500
- No. of lines/day/MT: 800
- Services/capabilities: consultation reports, progress notes, history and physical reports, operative reports, clinical/emergency notes, psychiatric evaluation, etc.
- Priority market: USA, Europe
- Performance Level: 98-99%
- Medical and allied professionals: 30,000/annum
- KSF: mobilization of Filipino health/medical professionals abroad for market development and sales; training/certification of MTs; proficiency in English publications

Why we are there

- Knowledge and technology-based advantage
- Foreign investments in the 90s
- Human resource competencies
- Superior infrastructure at competitive cost
- Telecom liberalization
- Incentives structure, trade facilitative environment, and dramatic promotions
- IPR protection
- Pro-active promotions

Where we are going

Call centers and BPOs, no matter how important, are not yet "it" …

- Various other potential services exports exist, e.g. medical tourism, logistics, more BPOs in engineering design and construction, in accountancy, franchising, education, HRD, publishing, ship-crewing and management, and other sectors with higher value added
- Many still largely untapped services sectors

… But we need to play our cards right!

Trade in Services: Opportunities for the Philippines

… in different sectors (not all sectors are fully identified), but following covered by GATS are most familiar to Filipinos …

- **Business and professional services**
- **Communication**
- **Construction and engineering**
- **Distribution services**
- **Education and training services**
- **Environmental services**
- **Financial, insurance and banking**
- **Health services**
- **Tourism and travel**
- **Recreational, cultural, sporting services**
- **Transport services**
- **Other Services**

Accountancy, Architectural services, Computer services, Computer software development, Data processing, Design services, Geographic information services, internet related services, Legal, Maintenance, Management consulting, Marketing, Oil and gas, Research and development, Security, logistics services, Surveying, Transcription, Translation, and Utilities management

THE PHILIPPINES IS COMPETENT IN MOST, IF NOT, ALL THESE SERVICES.

Competitive Advantages of the Philippines

- Skilled labor force of 29 million
- English proficiency
- Competent senior managers
- Literacy rate of 94%
- Western-patterned educational system
- Strong work ethic, customer-oriented mind set
- Easily trainable
- Low attrition rate
- Superior, competitive infrastructure
- Natural inclination for designs
- Strong government incentives for new ventures (tax holidays, PEZA, etc.)
- Adherence to global standards

Other Advantages

- Strategic location
- Critical entry point to over 500 million ASEAN market
- Gateway of international shipping and airlines (FEDEX, UPS, etc)
- Accessible by air within four hours from Asian capitals (Japan, Korea, Singapore, Taiwan)
- 7 to 15 hours time zone difference from major markets allows for optimal operating turnaround, max 12-24 hours

Trade in Services: Opportunities for the Philippines

Services sector has outpaced industry and agriculture in terms of growth and share to GDP …

Table. Share of Agriculture, Industry and Services in GDP

A. Share (%)	1990 - 1995	1996 - 1999	2000 - 2003
ASEAN 5 (average)			
Agriculture	13.14	11.08	10.92
Industry	37.83	39.52	39.43
Services	**49.03**	**49.40**	**49.65**
Philippines (average)			
Agriculture	22.44	20.36	19.97
Industry	34.96	35.33	34.17
Services	**42.61**	**44.31**	**45.87**

Trade in Services: Opportunities for the Philippines

Services is also a major employer: 47% of employment is in services …

B. Growth Rate (%)	1991 - 1995	1996 - 1999	2000 - 2003
ASEAN 5 (average)			
Agriculture	0.55	0.75	1.87
Industry	8.86	2.91	3.96
Services	**7.81**	**2.82**	**4.36**
Philippines (average)			
Agriculture	1.49	1.74	3.91
Industry	2.12	2.69	3.47
Services	**2.97**	**4.84**	**4.88**

The Approach: Philippine Services Coalition

What is it?	> A partnership of concerned stakeholders from the private sector, the government, and the academe linked to a loose global network
How was it formed?	> Through funding from the European Commission (EC) and technical assistance from the International Trade Center (ITC)
Membership?	➢DFA, DTI, NEDA, PCCI, Philexport, AIM, DLSU (AKI), PIDS, FSI and leaders of various professional sectors

The Approach: Philippine Services Coalition

A grouping of diverse interest groups that combine their human and material resources to effect a specific change the members are unable to being about independently …

Objectives? >To widen understanding and awareness of the importance of global trade in services

>To advocate for a conducive policy and infrastructural environment in the country

>To develop understanding of the opportunities and threats to Philippine service providers

>To facilitate access to knowledge and information worldwide

>To network opportunities and strategic partnerships with foreign service providers and consumers

>To roadmap and benchmark our development, especially in HRD

>To promote cooperation in the orderly expansion of services exports

The Approach: Philippine Services Coalition

Output?

> Twelve (12) sectoral studies (accountancy and BPO, engineering and BPO, franchising, medical, ship-crewing, animation, education) on the competitiveness of the Philippines

> Widen sectoral consultations

> Case studies on best practices and expert success stories in services

> Workshops for small and medium scale services exporters

> Website for services trade

Public-Private Sector Task Force (Executive Order 372)

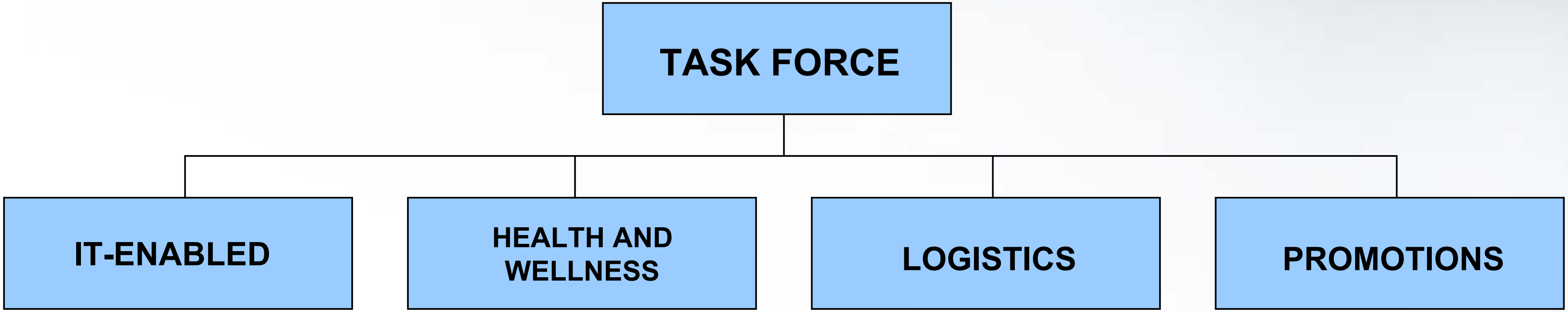
The P-P Task Force on Globally Competitive Services Industries, which came into effect in October 2004, was created to consolidate and enhance cooperation between government and the private sector to fully take advantage of the services sector as the fastest growing component of international trade and economic growth.

The Task Force's immediate functions include:

- identifying and formulating development plans for services industries that have the potential to be globally competitive, in this case –
  - **IT-ENABLED SERVICES**
  - **HEALTHCARE AND WELLNESS**
  - **LOGISTICS**
- mobilizing support for the effective and timely implementation of these development plans
- monitoring and evaluating the effectiveness of these development plans and likewise advising the President of the status of these initiatives

Public-Private Sector Task Force (Executive Order 372)

The Task Force is structured in the following manner, with each identified services sub-sector headed by a private sector champion …



Goals of the Task Force …

- **To develop medium- to long-term strategic objectives for each sector to achieve global scale positions**
- **To establish the parameters by which progress can be measured in each sector**
- **To identify primary target markets and services as well as priority clusters**

Public-Private Sector Task Force (Executive Order 372)

Task Force membership consists of …

Secretary of Trade and Industry (as Chair)
Secretary of Foreign Affairs (represented by Undersecretary Edsel T. Custodio)
Chairmen of the Clark Development Corporation and the Subic Bay Metropolitan Authority
Five Private Sector Representatives (one of whom acts as Co-Chair)

How does the Coalition's work fold-in with the Task Force?

- primary deliverables of the Coalition appropriately lie tangent with what the Task Force aims to achieve
- through the Coalition's services sectoral studies, the Task Force will have recourse to expanding its scope to a wider range of services sectors (i.e. including, but not limited to IT-enabled, healthcare and wellness, and logistics services)

Coalition Key Focus Area: SMEs

A recent OECD study found that SMEs predominate in services related to computer software and information processing, research and development, marketing, business organization, and human resource development. Furthermore, SME market share in these sectors has been growing due to the global growth in outsourcing and the advent of new technologies. Advances in technology will continue to increase. Philippine SME stands to benefit from this development.

SME Contributions to the Economy

Number and percentage of establishments …

- In 2002, Micro- Small- and Medium Enterprises (MSMEs) accounted for 99.67% of a total of 809,271 business establishments, of which 8% were SMEs
- Comprise 54% of all business establishments engaged in manufacturing and 44% of all business establishments engaged in wholesale and retail trade
- Main SME sectors contributing to manufacturing outputs are: food processing, textile and garments, electronics and metal parts (54%)
- Wholesale and retail trade SME establishments rank next higher in numbers to manufacturing (44% of SMEs). Franchising is a robust business strategy model

Employment …

- In 2002, SME contributed 5,397,521 or 30% of total Philippine employment
- SMEs accounted for nearly 56% of employment in the manufacturing sector and 40% of employment in the wholesale and retail trade sector

Where we are going

- Since Services is labor-intensive, our ample human resource supply is a big asset. A lucrative market is the aging population in developed economies

- But we need to educate and nurture human resources properly and match necessary skills with business requirements, especially in basic math, the sciences and languages (i.e. English), not to mention IT

- In view of the intense competition in services trade, we must also look at the threats and opportunities for the Philippines and track our development to higher value added work

Key HRD Thrusts

Human Resource Competencies Enhancement given the problem of low budget expenditure for education considering the tasks that need to be done, e.g. …

I. Revamp educational system

I.a Pre-school exposure to math, English, and the arts (Philippine leadership in design)

I.b Formal education curriculum from elementary to high school

- address the 2 year gap
- high on math, sciences and communication / character / leadership development

I.c Life-long education approach to be supplemented by training for professional graduates should allow for adaptability and cross disciplinary shifts

I.d Give entrepreneurs in services trade greater flexibility

I.e Enhance ICT skills

Key Thrusts within the International Trade Policy Context

- Use WTO and other international trade negotiations, to achieve recognitions and remove entry barriers
- Need for initiatives on building negotiating capacity to cope with the regulatory intensity of services trade
- Presently, for BPOs, it is not a question of market access problems. But we need a pre-emptive strategy in anticipation of protectionist backlash in the future
- For other services sectors, there is a need to understand the type of barriers we face so we can negotiate appropriately

Key Thrusts within the International Trade Policy Context

- The government needs private sector inputs on these types of information (i.e. trade barriers in other economies)
- The private sector can also help in determining exactly the type of educational curriculum and training required for the IT sectors
- Possibility of government providing human resources training incentives to private companies through tax deductions
- Identification of possible safeguard measures for protecting the interests of domestic players as well as liberalization offers for negotiation

Future Strategies for Growth

- Consolidate HR competencies in basic functional skills, i.e. math, sciences, and English language proficiencies
- MOVE UP the value scale, i.e. R&D and higher level competencies in a broader range of professional sectors through high level formal education and lifelong learning
- 3rd generation telecom infrastructure at competitive cost
- Promote entrepreneurship and business incubation for identified niches and SMEs support base

Future Strategies for Growth

- Integrate into the regional production, market and logistics hub, i.e. Greater China and Asia Pacific
- Enhance competitiveness in RTAs/FTAs and MLT negotiations
- Join international accords and standards on e-business and professional competencies
- Pro-active alliances and networking particularly in the services sector
- Enhance incentives and financing support for new businesses
- Develop domestic market side by side with exports through wider e-competencies and applications

Thank you