

Serafica, Ramonette B.

**Working Paper**

## Formulating the Philippine Services Strategy for Inclusive Growth

PIDS Discussion Paper Series, No. 2014-22

**Provided in Cooperation with:**

Philippine Institute for Development Studies (PIDS), Philippines

*Suggested Citation:* Serafica, Ramonette B. (2014) : Formulating the Philippine Services Strategy for Inclusive Growth, PIDS Discussion Paper Series, No. 2014-22, Philippine Institute for Development Studies (PIDS), Makati City

This Version is available at:

<https://hdl.handle.net/10419/126981>

**Standard-Nutzungsbedingungen:**

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

**Terms of use:**

*Documents in EconStor may be saved and copied for your personal and scholarly purposes.*

*You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.*

*If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.*



Philippine Institute for Development Studies  
*Surian sa mga Pag-aaral Pangkaunlaran ng Pilipinas*

## Formulating the Philippine Services Strategy for Inclusive Growth

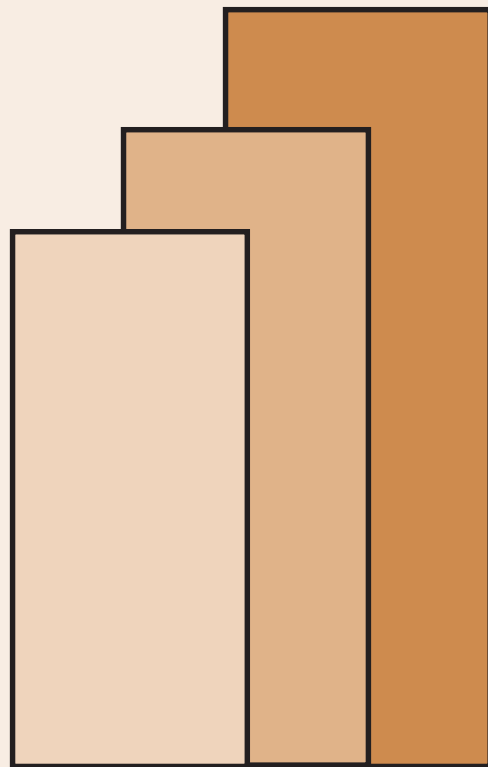
*Ramonette B. Serafica*

**DISCUSSION PAPER SERIES NO. 2014-22**

The *PIDS Discussion Paper Series* constitutes studies that are preliminary and subject to further revisions. They are being circulated in a limited number of copies only for purposes of soliciting comments and suggestions for further refinements. The studies under the *Series* are unedited and unreviewed.

The views and opinions expressed are those of the author(s) and do not necessarily reflect those of the Institute.

Not for quotation without permission from the author(s) and the Institute.



April 2014

For comments, suggestions or further inquiries please contact:

**The Research Information Staff**, Philippine Institute for Development Studies  
5th Floor, NEDA sa Makati Building, 106 Amorsolo Street, Legaspi Village, Makati City, Philippines  
Tel Nos: (63-2) 8942584 and 8935705; Fax No: (63-2) 8939589; E-mail: [publications@pids.gov.ph](mailto:publications@pids.gov.ph)  
Or visit our website at <http://www.pids.gov.ph>

# FORMULATING THE PHILIPPINE SERVICES STRATEGY FOR INCLUSIVE GROWTH

Ramonette B. Serafica  
Research Consultant  
Philippine Institute for Development Studies

The author is grateful for the constructive comments received from the following on an earlier draft: Aaditya Mattoo (The World Bank), Jesus C. Dumagan (PIDS), and participants in a brown bag seminar held at the PIDS in December 2013. She is also thankful to Philippa Dee (Australian National University) for sharing a copy of her study on services reform in ASEAN. The research assistance of Donald Yasay is likewise acknowledged.

The author is solely responsible for the analysis and conclusions in this paper including any errors.

## Abstract

The paper looks at the role of services in the economy and discusses why competitive services are necessary for achieving inclusive growth. An overview of Philippine services sectors is first presented highlighting their economic contribution as well as performance. This is followed by a discussion of the country's record in services trade particularly in exports. It suggests that a comprehensive and high profile services export initiative is needed to establish the Philippines as the heart of services trade in the Asia-Pacific region. Restrictions on the supply of services are then examined to have a better understanding of the general environment under which services are provided. Because regulatory and non-regulatory measures undermine the efficient supply of services, it is recommended that a trade-related audit of the laws and regulations affecting services be conducted with the view of removing those laws and regulations whose policy objective is no longer relevant or could be achieved by a less restrictive measure. In addition to improving the trade and investment environment, other policy areas are also important and these are suggested in the concluding section which presents the elements of a strategic framework to harness services for inclusive growth.

# Contents

Introduction: Why services matter for inclusive growth.....	1
Overview of Philippine Services Sector .....	3
Gross Value Added.....	3
Embodied Services.....	4
Employment.....	7
Labor Productivity .....	10
Other Indicators of Performance.....	14
Summary and Implication for Formulating the Strategy .....	15
The Philippines' Trade in Services Profile .....	18
Cross Border Trade.....	18
Sales by Foreign Affiliates.....	20
Services with Revealed Comparative Advantage.....	21
Examples of Trade in Services.....	27
Summary and Implication for Formulating the Strategy .....	34
Restrictions on the Supply of Services in the Philippines.....	37
Regulatory Measures Affecting the Supply of Services .....	37
Non-Regulatory Measures Affecting the Supply of Services .....	40
Measures of Restrictiveness and the Impact of Service Reform.....	42
Summary and Implication for Formulating the Strategy .....	47
Conclusion: Proposed Strategic Framework to Harness Services for Inclusive Growth.....	49
References.....	52
Technical Notes .....	54
Appendix A. Profile of Wholesale and Retail trade; Repair of motor vehicles and motorcycles.....	62
Appendix B. Profile of Transportation, Storage and Communication.....	66
Appendix C. Profile of Financial and Insurance Activities .....	72
Appendix D. Profile of Real Estate Activities, Renting and Business Services .....	77
Appendix E. Profile of Education .....	81
Appendix F. Profile of Hotels and Restaurants.....	84
Appendix G. Profile of Health and Social Work .....	87
Appendix H. Profile of Other community, social and personal service activities .....	90
Appendix I. Services as a Share of Intermediate Inputs .....	94
Appendix J. Breakdown of Services Embodied in Philippine Exports (2009) .....	99
Appendix K. Cross-border Trade by Sector.....	100

## BOX

Box 1. Services and economic performance .....	45
--	----

## FIGURES

Figure 1. GDP by Industrial Origin .....	3
Figure 2. Average Annual Growth Rate .....	4
Figure 3. Composition of Total Demand for Services (2006) .....	5
Figure 4. Structure of Philippine Exports in Gross Terms (2009) .....	6
Figure 5. Structure of Philippine Exports in Value Added Terms (2009) .....	7
Figure 6. Sectoral breakdown of total employment (2000) .....	8
Figure 7. Sectoral breakdown of total employment (2011) .....	8
Figure 8. Share of the Inefficient Services in Intermediate Cost of Agriculture .....	16
Figure 9. Share of the Inefficient Services in Intermediate Cost of Manufacturing .....	17
Figure 10. Services Trade of the Philippines (Balance of Payments basis) .....	18
Figure 11. Services Exports of the Philippines (2000) .....	19
Figure 12. Services Exports of the Philippines (2012) .....	19
Figure 13. Services Imports of the Philippines (2000) .....	20
Figure 14. Services Imports of the Philippines (2012) .....	20
Figure 15. Sales by foreign affiliates .....	21
Figure 16. Revealed Comparative Advantage - 1 (2000) .....	22
Figure 17. Revealed Comparative Advantage - 1 (2012) .....	22
Figure 18. Revealed Comparative Advantage - 2 (2000) .....	23
Figure 19. Revealed Comparative Advantage - 2 (2012) .....	23
Figure 20. IT-BPO exports and FDI .....	25
Figure 21. OCWs by Occupation .....	33
Figure 22. OCWs by Place of Work .....	34
Figure 23. Frequency Distribution of the Country-Level STRI .....	42
Figure 24. STRI by Sector and Region .....	43
Figure 25. Restrictiveness of Services Trade Policies by GDP per Capita, 2007 .....	44
Figure 26. Direct and indirect benefits of more liberal services policies .....	45
Figure 27. Proposed Strategic Framework to Harness Services for Inclusive Growth .....	51

## TABLES

Table 1. Share of Services in Intermediate Inputs (2006) .....	5
Table 2. Share of intermediate services in total inputs (2006) .....	6
Table 3. Services embodied in merchandise exports of the Philippines (2009) .....	7
Table 4. Employment in services (2008 to 2011 average, from largest to smallest) .....	9
Table 5. Annual employment growth (2008 to 2011), from highest to lowest .....	9
Table 6. Distribution of employment in services by occupation .....	10
Table 7. Labor productivity by service sector (2008-2011, constant 2000 prices), from highest to lowest .....	11
Table 8. Labor productivity growth by service sector (2008 - 2011), from highest to lowest .....	12

Table 9. Productivity and employment performance of various services, 2008 to 2011 .....	13
Table 10. ETI ranking and scores of ASEAN members (2012) .....	14
Table 11. Areas of competitive advantage of the Philippines.....	14
Table 12. Areas of competitive disadvantage of the Philippines .....	15
Table 13. IT-BPO Sales Revenue (USD million) .....	24
Table 14. Export to Revenue Ratio.....	24
Table 15. Foreign-to-Total Equity Capital Ratio (In Percent) .....	25
Table 16. A.T. Kearney's Global Services Location Attraction Index: Score and Industry Activity ...	26
Table 17. Trade in services by Philippine firms and nationals .....	27
Table 18. it-bpo services delivered from the Philippines.....	27
Table 19. Stock estimate of overseas Filipinos (as of December 2011) .....	36
Table 20. Services included in the 9th Regular Foreign Investment List .....	37
Table 21. Sectors Most Affected by Unfair Trade Practices (Survey Results).....	42
Table 22. STRI Scores of the Philippines (2008) .....	60

## INTRODUCTION: WHY SERVICES MATTER FOR INCLUSIVE GROWTH

Inclusive growth is defined in the Philippine Development Plan 2011-2016 as “growth that is rapid enough to matter, given the country’s large population geographical differences, and social complexity. It is sustained growth that creates jobs, draws the majority into the economic and social mainstream, and continuously reduces mass poverty.” (p18) The APEC Leaders’ Growth Strategy in 2010 frames inclusive growth within the broader context of globalization to “ensure that all our citizens have the opportunity to participate in, contribute to, and benefit from global economic growth.” (Yokohama, Japan, 14 Nov 2010) In terms of timeframe, the World Bank (2009) notes that “inclusive growth adopts a long term perspective and is concerned with sustained growth.” This implies that growth must be (1) broad-based requiring structural transformation for economic diversification and (2) inclusive of the large part of the country’s labor force, referring to equality of opportunity in terms of access to markets, resources and unbiased regulatory environment for businesses and individuals. Moreover, inclusive growth is concerned with productive employment thus focusing not only on employment growth but also on productivity growth.

The requirements to achieve inclusive growth imply a crucial role for services. They do not only contribute directly to the growth of the economy through job creation and export earnings but also facilitate its transformation through critical inter-sectoral linkages. If properly harnessed services can contribute to achieving inclusive growth with the qualities described above whereby small to large enterprises in all industries grow with the help of competitive services and individuals are able to access good quality jobs with labor productivity and skill enhancing services. Conversely, if services are inefficient, high cost, of poor quality or simply not available then inclusive growth would not be attainable.

Services are the result of a production activity that changes the conditions of the consuming units, or facilitates the exchange of products or financial assets (See Technical Note #1). Services are heterogeneous and cover a wide range of economic activities. Retail and wholesale trade link producers with consumers. Business services improve the efficiency of the firm and enhance product quality. Financial services enable the transformation of savings to investment. Telecommunications facilitate the dissemination of knowledge. Transport and logistics services move goods and people within and between countries. Education and health services enhance the productivity of the workforce.

According to Francois and Hoekman (2010, p. 45), the diversity of services “masks a fundamental function that many services perform in relation to overall economic growth and economic development: they are inputs into production.” Thus, services are determinants of the productivity of the fundamental factors of production – labor and capital – that generate knowledge, goods and other services. Studies cited by the authors illustrate the linkage between services and the economy. For example, based on estimates of labor and multifactor productivity for a range of service industries, Triplett and Bosworth (2004) conclude that productivity growth in distribution and financial services fueled much of the



post-1995 overall expansion in U.S. productivity. New concepts of retailing such as the “big box” store format, information technology and managerial innovations (e.g. outsourcing and specialization) helped to transform and accelerate productivity in these sectors. Another study based on seven OECD countries by Inklaar, Timmer, and van Ark (2007, 2008) show that differences in aggregate productivity levels and growth rates are largely attributable to service sectors. That is, productivity levels/growth rates in manufacturing are relatively similar across countries compared to intermediate services.

Francois and Hoekman (2010) add that the growth in national and international outsourcing by firms especially manufacturing firms has led to a commensurate growth in the demand for services as intermediate inputs in production. The combination of the division of production processes into tradable tasks and technological progress in information and communication technologies has allowed a rising share of intermediate services in total trade.

Until recently, the share of services in trade was underestimated. With the development of the Trade in Value Added (TiVA) database under a joint OECD-WTO initiative a better picture of the contribution of services in trade is now available. The purpose of the database is to better track global production networks and supply chains from OECD input-output tables linked together using Bilateral Trade Database in goods by industry and end-use category and estimates of bilateral trade flows in services. Based on 2008 data and using the traditional measure of trade (i.e. in gross terms), manufacturing accounts for the biggest portion of total world exports at 65 percent while the share of services is only 23 percent. However, when measured in terms of service industry value added, the share of services not only nearly doubles at 45 percent but surpasses manufacturing’s share of 37 percent (WTO 2013, p.82). The higher share of services in value added terms reflects services embodied in goods and services that are exported.

Indeed the emergence and growth of global value chains has raised the importance of services. In this environment where tasks and activities are distributed in different locations, a country’s ability to participate as well as move up the global value chain (i.e. undertake higher value activities along the chain which include for example design, R&D, logistics and after sale services) is dependent on competitive services. Global value chains are not limited to goods and the development of global services value chains (e.g. offshoring services) has provided countries with a new set of opportunities as well as challenges to participate in global trade and investment.

In the next chapter an overview of Philippine services sectors is presented highlighting their economic contribution as well as performance. This is followed by a discussion of the country’s record in trade in services particularly in exports. Restrictions on the supply of services are then examined to have a better understanding of the general environment under which services are provided. The findings from these chapters are used as the basis for the proposed strategic framework to harness services for inclusive growth which is presented last.

## OVERVIEW OF PHILIPPINE SERVICES SECTOR

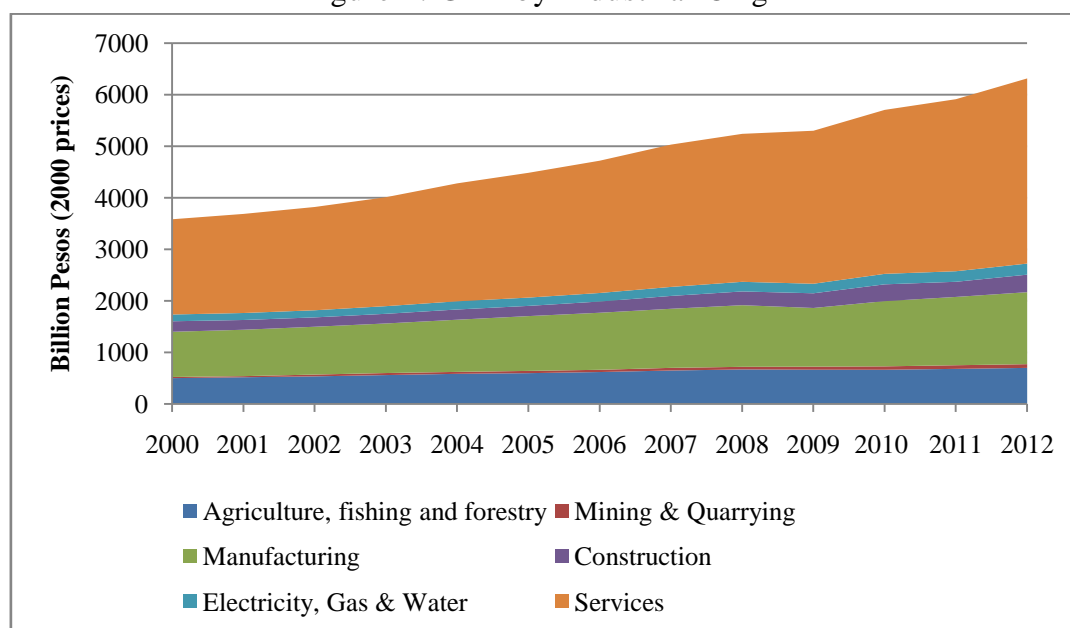
The contribution of services in the Philippine economy is well recognized. Two sectors are highlighted in the Philippine Development Plan 2011-2016. The Business Process Outsourcing (BPO) industry is “acknowledged as a driving force for economic growth and employment in the country” (p. 67) and Tourism, which is not a distinct economic sector but rather a grouping of related activities such as accommodation, passenger transport, recreational and retail trade as “a powerful driver for economic growth, infrastructure modernization, local area development and employment generation” (p. 86). As noted earlier however, there are many types of services which have different functions in the economy. It is therefore important to understand the various sectors and their performance.

In this paper the data presented follow the 1994 Philippine Standard Industrial Classification (PSIC), which in turn is based on ISIC, Rev. 3. Appendices A to H provide key indicators of the services sectors including gross value added, employment, and labor productivity. Employment and labor productivity presented are only up to 2011 because of the change to the 2009 PSIC which is based on ISIC Rev. 4 starting in the January 2012 Labor Force Survey (LFS). The top upstream and downstream sectors (excluding public administration) are also identified using the NSCB 2006 Input-Output Table of the Philippines - 70 sectors.

### GROSS VALUE ADDED

As shown in Figure 1 below, the contribution of services in gross value added has been increasing over time. Services now account for 57 percent of total gross value added.

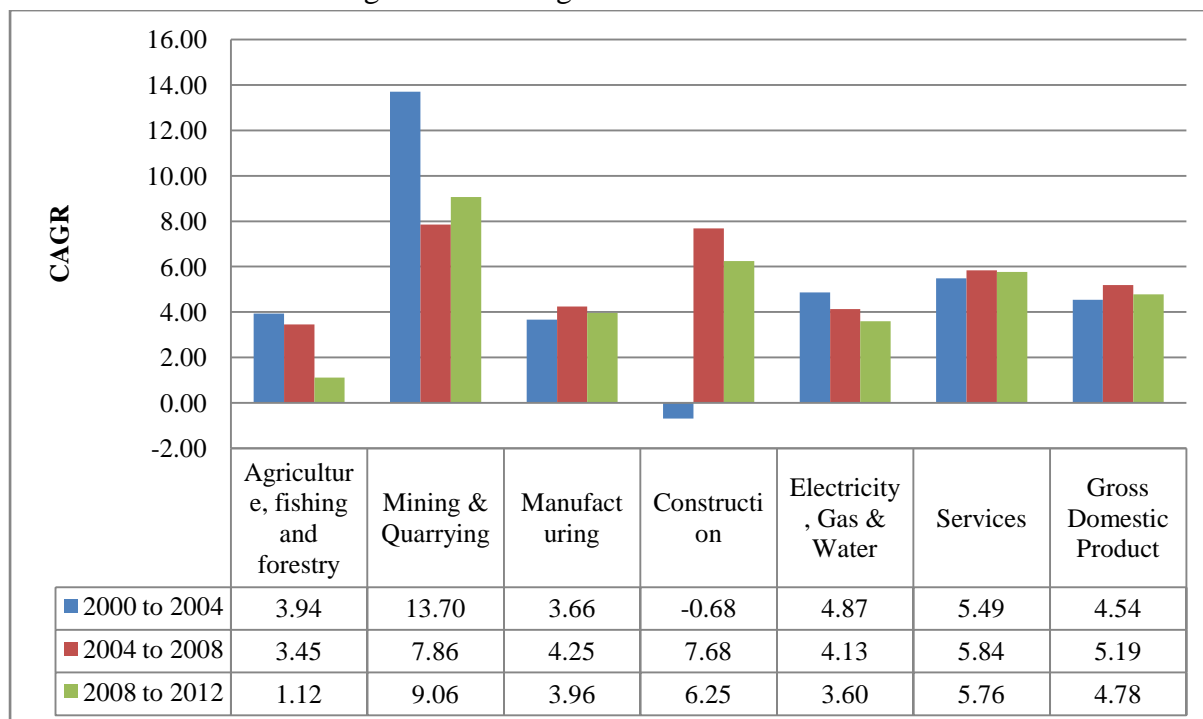
Figure 1. GDP by Industrial Origin



Author's estimates based on NSCB data

Although services as a whole grew faster than the economy (Figure 2), there is considerable difference in the growth rates of individual sectors. For example, between 2008 to 2012, the three sectors that grew at double digit rates were recreational, cultural and sporting activities; real estate; and renting and other business activities while wholesale trade contracted at an average annual rate of -.89%. Ownership of dwellings, land transport and water transport grew at an average annual rate of less than 3% during the same period.

Figure 2. Average Annual Growth Rate



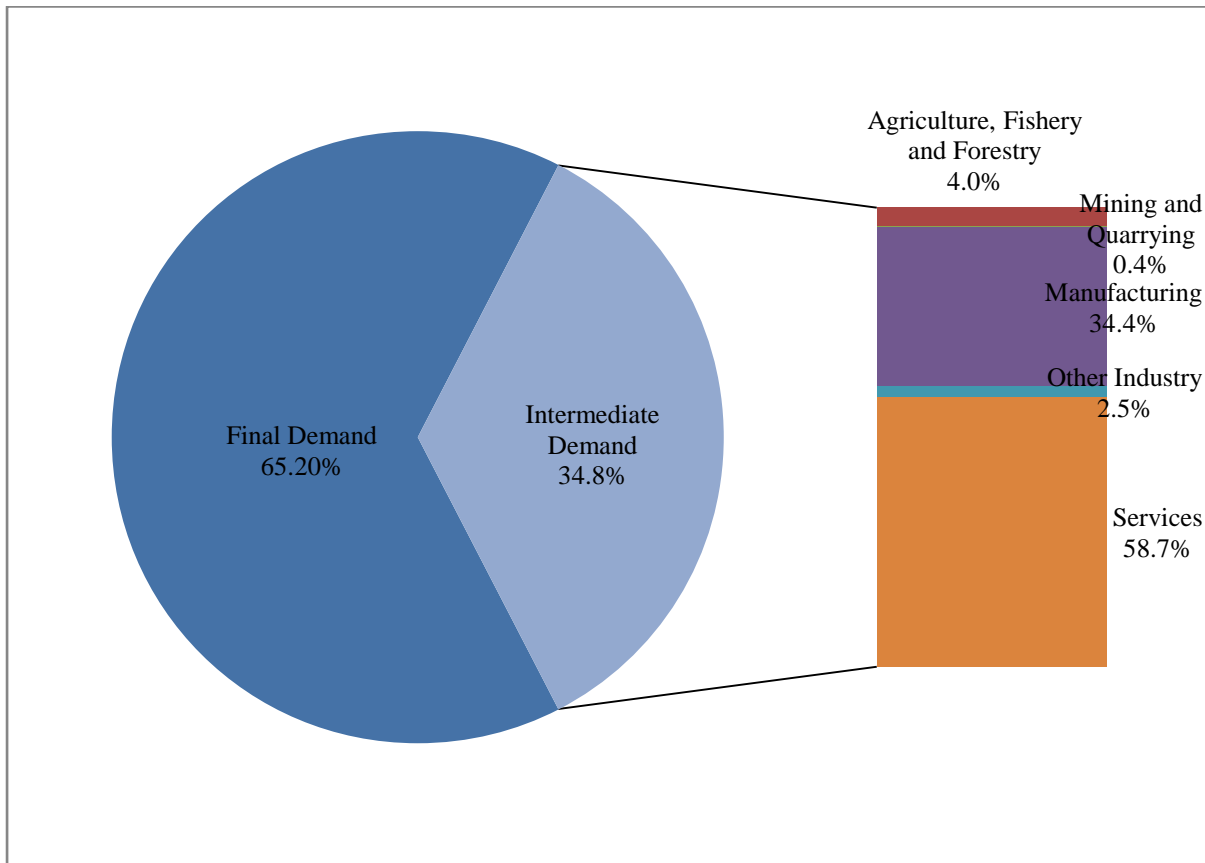
Author's estimates based on NSCB data

## EMBODIED SERVICES

As Figure 1 above shows, the share of services in GDP has been increasing over time. The demand for services as an intermediate input and for final consumption can help explain its rising share of value added in the economy. As incomes rise, the proportion that is spent on non-food items increase thus the demand for services, which are used both for intermediate and final consumption, increase as well.

Based on the 2006 Input-Output Table of the Philippines, 65 percent of the total demand for services is used for final consumption (no further transformation) while 35 percent is for intermediate consumption (used to produce goods and services). The service sector is the biggest user of services, accounting for almost 60 percent of intermediate demand. See Figure 3.

Figure 3. Composition of Total Demand for Services (2006)



Author's estimates based on the NSCB 2006 Input-Output Table of the Philippines - 70 sectors

As a share of intermediate inputs used in the production of all goods and services, services take up 30.89 percent (Table 1). The service sector itself is the most intensive user as services account for 62.15 percent of its intermediate inputs. Note that since some service activities are recorded in non-service industries (e.g. agricultural services would be part of agriculture, ship repair would be part of manufacturing), the share of services as an intermediate input in the production of goods is actually even higher.

Table 1. Share of Services in Intermediate Inputs (2006)

Agriculture, Fishing and Forestry	Mining & Quarrying	Manufacturing	Other Industry	Services	All Sectors
26.23%	22.36%	17.71%	13.70%	62.15%	30.89%

Author's estimates based on the NSCB 2006 Input-Output Table of the Philippines – 70 sectors

Appendix I shows the breakdown of intermediate services used in the production of different goods and services.

Services embodied in goods reflect the value added of service industries as measured by the share of intermediate services to total inputs (intermediate plus primary inputs) as shown in Table 2. The contribution of services would be higher if the services provided in-house by employees of the firm (considered primary inputs) are included.

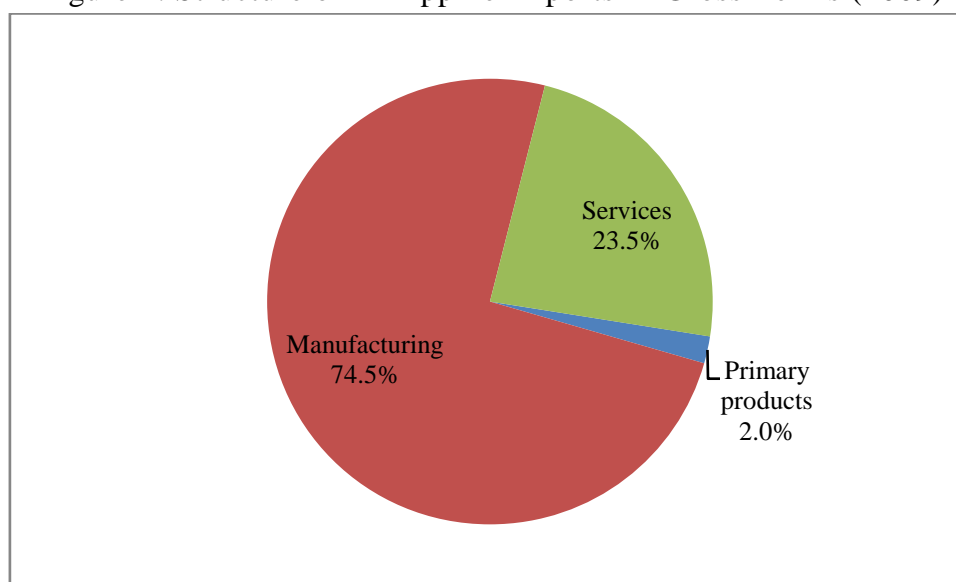
Table 2. Share of intermediate services in total inputs (2006)

Agriculture, Fishing and Forestry	Mining & Quarrying	Manufacturing
7.37%	7.19%	12.79%

Author's estimates based on the NSCB 2006 Input-Output Table of the Philippines – 70 sectors

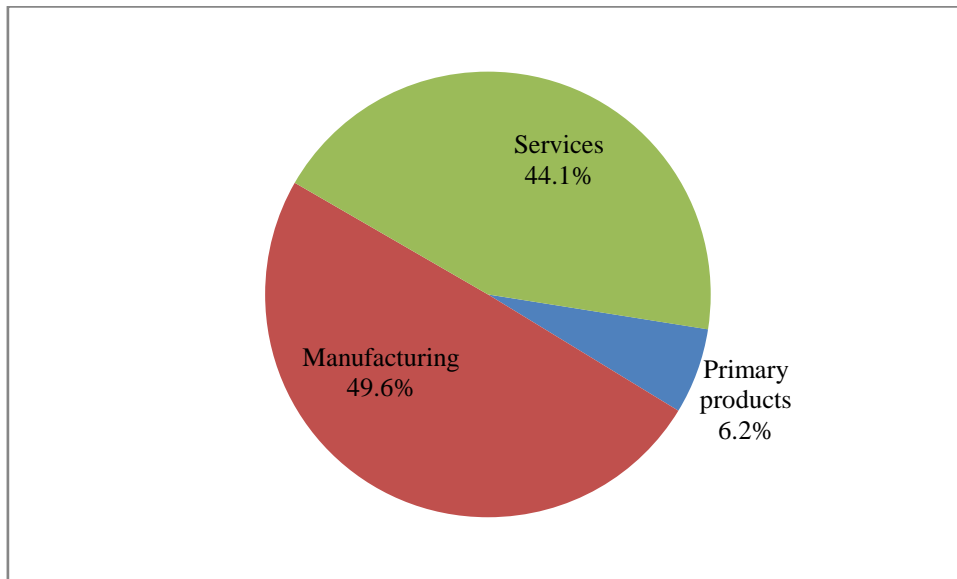
As mentioned earlier, with the OECD-WTO Trade in Value Added (TiVA) database the importance of services in trade could be better measured. As Figure 4 shows, in gross terms the share of service industries is just 23.53 percent of exports. However, in terms of service industry valued added embodied in gross exports, the actual contribution of services is 44.15 percent of total gross exports. With the contribution of services to Philippine exports almost doubling when measured in value added terms, the share of manufacturing is reduced from 75 percent to 50 percent (Figure 5). See Appendix J for the breakdown.

Figure 4. Structure of Philippine Exports in Gross Terms (2009)



Author's estimates based on the OECD-WTO Trade in Value Added (TiVA) - May 2013 database

Figure 5. Structure of Philippine Exports in Value Added Terms (2009)



Author's estimates based on the OECD-WTO Trade in Value Added (TiVA) - May 2013 database

The total value of services embodied in Philippine exports of goods was about USD 12.6 billion in 2009 (Table 3). Note that the respective shares of services embodied in merchandise exports whether in agriculture, mining, or manufacturing are higher than the figures in Table 2 above indicating that merchandise exports of the country have a higher services content.

Table 3. Services embodied in merchandise exports of the Philippines (2009)

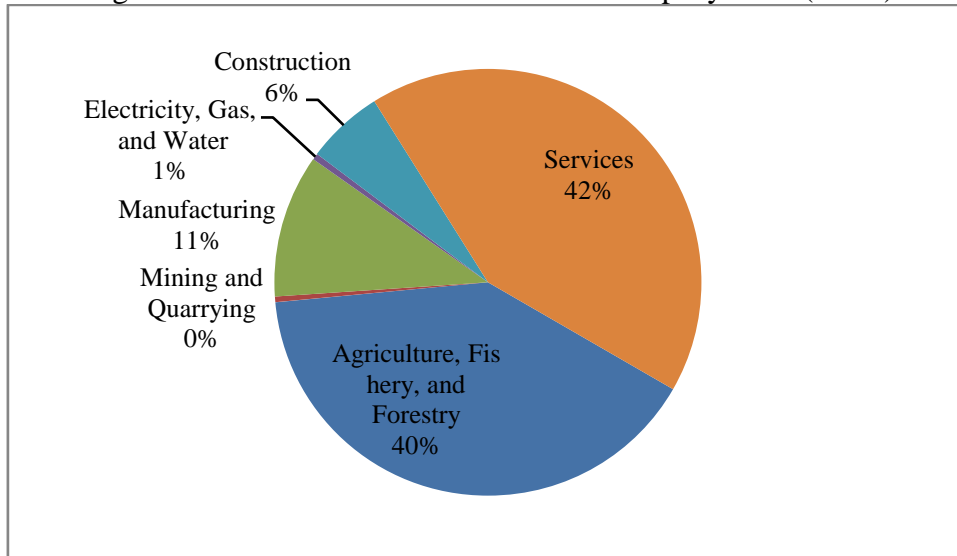
Sector	Services industry value added embodied in gross exports (USD million)	Services industry value added embodied in gross exports (%)
Agriculture, hunting, forestry and fishing	87.7	16.14%
Mining and Quarrying	115.6	24.19%
Manufacturing	12444.7	32.22%
All Merchandise	12648.0	31.90%

Author's estimates based on the OECD-WTO Trade in Value Added (TiVA) - May 2013 database

## EMPLOYMENT

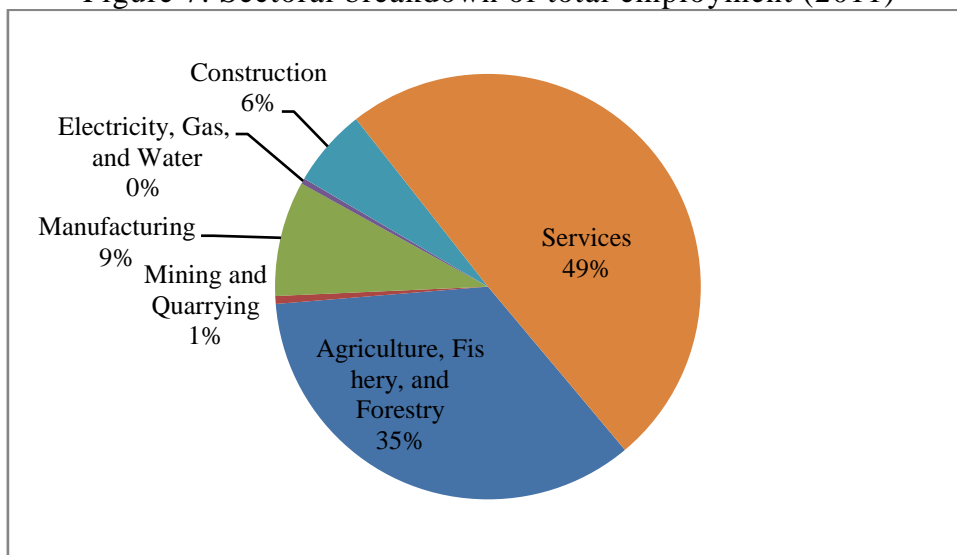
The services sector is a major source of employment accounting for almost 50 percent in 2011. The shares of agriculture and manufacturing have decreased since 2000 in favor of services. See Figures 6 and 7.

Figure 6. Sectoral breakdown of total employment (2000)



Note: Extra-territorial organizations & bodies and Private households with employed persons not included  
Author's estimates based on the Labor Force Survey, NSO

Figure 7. Sectoral breakdown of total employment (2011)



Note: Extra-territorial organizations & bodies and Private households with employed persons not included  
Author's estimates based on the Labor Force Survey, NSO

As Table 4 shows, among services the retail sector is the biggest employer accounting for about 42 percent of total employment in services.

Table 4. Employment in services (2008 to 2011 average, from largest to smallest)

Sector	Thousands	Share
Retail Trade	6,023.0	41.58%
Land Transport; Transport Via Pipelines	2,224.0	15.37%
Education Services	1,146.0	7.92%
Hotels and Restaurants	1,036.3	7.15%
Renting of machinery & equipment and other Business Activities	953.5	6.57%
Wholesale Trade	496.3	3.43%
Health and Social Work	428.8	2.96%
Other Service Activities	424.3	2.93%
Maintenance and Repair of Motor Vehicles and Motorcycles	384.5	2.65%
Recreational, Cultural and Sporting Activities	338.8	2.34%
Postal and Telecommunications Services	203.0	1.40%
Supporting and Auxillary Transport Activities, Activities of Travel Agencies	183.8	1.27%
Banking Institutions	172.0	1.19%
Real Estate Activities	151.8	1.05%
Non-Bank Financial Intermediation	150.5	1.04%
Water Transport	53.3	0.37%
Insurance and Pension Funding except Compulsory Social Security	46.3	0.32%
Air Transport	27.5	0.19%
Activities Auxiliary to Financial Intermediation	24.3	0.17%
Sewage and Refuse Disposal, Sanitation and Similar Activities	16.0	0.11%
<b>TOTAL</b>	<b>14,483.5</b>	<b>100.00%</b>

Note: Public Administration, Extra-territorial organizations & bodies and Private households with employed persons not included

Author's estimates based on the Labor Force Survey, NSO

The fastest growing service sector in terms of employment is Business services (Table 5). This could be due to the IT-BPO sector, where employment has been growing at double digit rates.

Table 5. Annual employment growth (2008 to 2011), from highest to lowest

Sector	Simple Ave
Renting of machinery & equipment and other Business Activities	10.1%
Non-Bank Financial Intermediation	9.3%
Real Estate Activities	7.6%
Maintenance and Repair of Motor Vehicles and Motorcycles	5.7%
Recreational, Cultural and Sporting Activities	5.5%
Hotels and Restaurants	5.5%
Banking Institutions	5.1%
Health and Social Work	5.0%
Retail Trade	4.8%
Education Services	3.9%
Other Service Activities	3.2%
Supporting and Auxillary Transport Activities, Activities of Travel Agencies	3.0%
<b>TOTAL</b>	<b>2.8%</b>
Wholesale Trade	2.8%
Water Transport	2.6%
Land Transport; Transport Via Pipelines	2.4%
Activities Auxiliary to Financial Intermediation	2.3%
Postal and Telecommunications Services	1.8%
Air Transport	1.4%
Insurance and Pension Funding except Compulsory Social Security	1.1%
Sewage and Refuse Disposal, Sanitation and Similar Activities	-1.6%

Note: Total employment includes all sectors (goods and services) except Public Administration, Extra-territorial organizations & bodies and Private households with employed persons

Author's estimates based on the Labor Force Survey, NSO



Overall, there is gender balance in service sector employment with 52 percent male and 48 percent female. The distribution in specific sectors varies however. Females outnumber males in the following sectors – wholesale and retail; financial; education; hotel and restaurant; and in health and social work. The reverse is true in the other sectors – transport and communication; real estate, renting and business services; and in other community, social and personal services.

Managers and Supervisors make up about a fourth of the total occupations. This is largely due the size of the retail sector which alone employed about 2.6 million workers in this category from 2007 to 2011. Next would be service workers and shop and market sales workers, again due to the size of the retail sector. Obviously, the distribution varies across sectors. For example, in transport and communications the dominant occupation is plant and machine operators & assemblers, while for education and health, professionals comprise the biggest share (Table 6).

Table 6. Distribution of employment in services by occupation

Occupation	2007	2008	2009	2010	2011	Average
Corporate Executives, Managers, Managing Proprietors and Supervisors	24.1%	25.7%	26.9%	27.4%	27.6%	26.4%
Professionals	9.2%	9.4%	9.6%	9.6%	9.4%	9.4%
Technicians and Associate Professionals	4.4%	4.1%	4.2%	4.1%	4.1%	4.2%
Clerks	8.2%	8.6%	8.9%	9.3%	9.6%	9.0%
Service Workers and Shop and Market Sales Workers	20.5%	20.9%	21.6%	21.6%	22.5%	21.5%
Trades and Related Workers	2.6%	2.7%	2.5%	2.6%	2.4%	2.5%
Plant and Machine Operators and Assemblers	13.4%	11.8%	10.4%	9.8%	9.1%	10.8%
Laborers and Unskilled Workers	17.3%	16.5%	15.6%	15.3%	14.9%	15.9%
Other Occupations n.e.c.	0.3%	0.3%	0.3%	0.3%	0.4%	0.3%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Author's estimates based on the Labor Force Survey, NSO

In the last few years (2007 to 2011), there has been a noticeable shift in the composition of occupations within some sectors. For example, in wholesale and retail trade, the share of laborers and unskilled workers has decreased while the share of shop and market sales workers has gone up. In transportation, storage and communication the shift is significant with the share of plant and machine operators & assemblers down by around 18 percentage points while managers and supervisors increased by the same measure although it is not clear in which sub-sector the shift has occurred. In real estate activities, renting and business services, the share of clerks increased by almost 10 percentage points during the period.

## LABOR PRODUCTIVITY

Value added per worker is highest in the telecommunications sector. This is could be due to the high capital intensity as well as skill levels in the industry. All forms of financial services also enjoy high labor productivity by as much as 5 to 8 times the aggregate level. However, in the case of six sectors which account for almost 70 percent of total employment, their average output per worker falls below the aggregate level (Table 7). A key challenge is to increase productivity levels in these sectors or improve the mobility of workers from low to

high productivity jobs.

Table 7. Labor productivity by service sector (2008-2011, constant 2000 prices), from highest to lowest

Sector	Simple Ave
Postal and Telecommunications Services	1,350,456
Insurance and Pension Funding except Compulsory Social Security	1,261,098
Banking Institutions	948,880
Activities Auxiliary to Financial Intermediation	864,204
Non-Bank Financial Intermediation	771,325
Real Estate Activities	694,112
Air Transport	635,896
Wholesale Trade	345,869
Recreational, Cultural and Sporting Activities	297,949
Water Transport	239,274
Renting of machinery & equipment and other Business Activities	226,172
Education Services	224,486
Supporting and Auxillary Transport Activities, Activities of Travel Agencies	188,465
Health and Social Work	172,521
<b>Aggregate Labor Productivity</b>	<b>158,163</b>
Sewage and Refuse Disposal, Sanitation and Similar Activities	146,202
Retail Trade	119,073
Hotels and Restaurants	92,871
Maintenance and Repair of Motor Vehicles and Motorcycles	72,879
Other Service Activities	70,376
Land Transport; Transport Via Pipelines	41,341

Note: Aggregate Labor Productivity includes all sectors (goods and services) except public administration. Author's estimates based on the Labor Force Survey, NSO and Gross Value Added, NSCB National Accounts of the Philippines, Consolidated Accounts, 2010 - 2012.

The performance of labor productivity varies across different types of services. In the last four years (2008 to 2011), the three sectors with the highest average annual growth rate in labor productivity were sewage and refuse disposal sanitation and similar activities, recreational, cultural and sporting activities, and insurance. High growth in recreational services could be due to the flourishing gaming industry. However, during the same period labor productivity declined in wholesale trade, water transport, non-bank financial intermediation, land transport (including transport via pipelines), and other service activities. Note that except for other service activities, these services are critical to the goods sector. See Table 8.

TABLE 8. Labor productivity growth by service sector (2008 - 2011), from highest to lowest

Sector	Simple Ave
Sewage and Refuse Disposal, Sanitation and Similar Activities	13.22%
Recreational, Cultural and Sporting Activities	9.67%
Insurance and Pension Funding except Compulsory Social Security	6.21%
Air Transport	5.22%
Supporting and Auxillary Transport Activities, Activities of Travel Agencies	3.81%
Activities Auxiliary to Financial Intermediation	3.56%
Banking Institutions	3.04%
Renting of machinery & equipment and other Business Activities	1.65%
Health and Social Work	1.59%
Maintenance and Repair of Motor Vehicles and Motorcycles	1.48%
<b>Aggregate Labor Productivity</b>	<b>1.36%</b>
Retail Trade	1.28%
Hotels and Restaurants	1.08%
Real Estate Activities	0.91%
Education Services	0.75%
Postal and Telecommunications Services	0.25%
Other Service Activities	-1.59%
Water Transport	-1.77%
Non-Bank Financial Intermediation	-1.90%
Land Transport; Transport Via Pipelines	-2.00%
Wholesale Trade	-5.43%

Note: Aggregate Labor Productivity includes all sectors (goods and services) except public administration. Author's estimates based on the Labor Force Survey, NSO and Gross Value Added, NSCB National Accounts of the Philippines, Consolidated Accounts, 2010 - 2012.

Table 9 below classifies the various services sectors in terms of employment and productivity growth during the period from 2008 to 2011. The cut-off is the aggregate or total industry growth rate. "High" means it is above the cut-off (i.e. the sector's performance was above total industry) while "Low" means it is below the cut-off (i.e. the sector's performance was below total industry). In some cases, there was a decline in growth and is indicated accordingly.

Table 9. Productivity and employment performance of various services, 2008 to 2011

	Productivity growth Low	1.36%	Productivity growth High
Employment growth Low 2.8%	<ul style="list-style-type: none"> <li>• Wholesale trade (neg. prod growth)</li> <li>• Water transport (neg. prod growth)</li> <li>• Land transport (neg. prod growth)</li> <li>• Postal and Telecommunications</li> </ul>		<ul style="list-style-type: none"> <li>• Activities auxiliary to financial intermediation</li> <li>• Air transport</li> <li>• Insurance</li> <li>• Sewage and refuse disposal (neg. employment growth)</li> </ul>
Employment growth High	<ul style="list-style-type: none"> <li>• Non-bank Financial (neg. prod growth)</li> <li>• Real estate activities</li> <li>• Hotels and restaurants</li> <li>• Retail trade</li> <li>• Education services</li> <li>• Other service activities (neg. prod growth)</li> </ul>		<ul style="list-style-type: none"> <li>• Renting of machinery and other Business activities</li> <li>• Maintenance and repair of motor vehicles</li> <li>• Recreational, cultural and sporting services</li> <li>• Banking institutions</li> <li>• Health and social work</li> <li>• Supporting and auxiliary transport</li> </ul>

Sources: Table 5 and Table 8

Employment growth low, Productivity growth low – The services that fall in this category are critical to the efficient movement of goods and information (in the case of communications). Constraints in these sectors increase trade costs which disproportionately affect producer SMEs and also lead to higher market prices for consumers. Note that in the case of wholesale services, its decline could be due to vertical integration where retailers have started to undertake wholesale functions as well, a trend that has occurred in developed countries (Arkell and Johnson 2005, p. 15).

Employment growth low, Productivity growth high – These sectors are not sources of jobs and as indicated in Table 4 make up less than 1 percent of total employment in services. However, except for Sewage and refuse disposal, jobs in these sectors could be considered good quality jobs since their labor productivity is above the aggregate level. Note that during this period Philippine Airlines embarked on an outsourcing program which could explain the results for air transport.

Employment growth high, Productivity growth low – These sectors are good for employment generation especially for women and account for a significant share of total employment in services, but not necessarily good quality jobs. Productivity must be increased especially in sectors where the productivity level is below the aggregate level (i.e. retail trade, hotel and restaurants, other service activities).

Employment growth high, Productivity growth high – These are the dynamic sectors of the economy and their performance bodes well not only for job creation but in generating good

quality jobs at that since the productivity levels in these sectors are above aggregate labor productivity as shown in Table 7. Note however that “Renting of machinery and other Business activities” is not just the BPO sector. It is important to determine if the non-BPO Business activities (e.g. R&D, legal services, accounting, computer and related activities that are available to the domestic market) are experiencing high productivity and employment growth as well.

## OTHER INDICATORS OF PERFORMANCE

In the latest World Economic Forum’s Global Enabling Trade Index (ETI), the country is ranked 72<sup>nd</sup> out of 132 countries. The ETI measures the extent to which individual economies have developed institutions, policies, and services facilitating the free flow of goods over borders and to destination. Although the country’s ranking has improved significantly from its position in 2010 when it placed 92<sup>nd</sup>, it still falls behind its ASEAN neighbors that are on the list except for Cambodia. (Table 10)

Table 10. ETI ranking and scores of ASEAN members (2012)

<b>Economy</b>	<b>Rank (out of 132)</b>	<b>Score (highest is 7)</b>
Singapore	1 <sup>st</sup>	6.14
Malaysia	24 <sup>th</sup>	4.90
Thailand	57 <sup>th</sup>	4.21
Indonesia	58 <sup>th</sup>	4.19
Vietnam	68 <sup>th</sup>	4.02
<b>Philippines</b>	<b>72<sup>nd</sup></b>	<b>3.96</b>
Cambodia	102 <sup>nd</sup>	3.52

Source: WEF (2012), Table 1 p. 9

In services-related components of the Index, TABLE 11 lists the indicators where the country is competitive as determined by WEF.

Table 11. Areas of competitive advantage of the Philippines

<b>Indicator</b>	<b>The Philippines’ rank and score</b>	<b>Best performer and score</b>
Logistics competence 1–5 (best)	40 3.1	Finland 4.1
Tracking and tracing ability 1–5 (best)	40 3.3	Finland 4.1
Efficiency of the financial market 1–7 (best)	45 3.8	Qatar 5.4
Availability of trade finance 1–7 (best)	41 4.4	Hong Kong SAR 5.6

Source: WEF (2012), p. 295

Services-related areas of competitive disadvantage of the Philippines are listed in Table 12.

Table 12. Areas of competitive disadvantage of the Philippines

<b>Indicator</b>	<b>The Philippines' rank and score</b>	<b>Best performer and score</b>
Liner Shipping Connectivity Index 0–152.1 (best)	59 18.6	China 152.1
Ease and affordability of shipment 1–5 (best)	57 3.0	Hong Kong SAR 4.2
Timeliness of shipments in reaching destination 1–5 (best)	70 3.3	Singapore 4.4
Postal services efficiency 1–7 (best)	127 2.9	Japan 6.8
Extent of business Internet use 1–7 (best)	83 4.7	Sweden 6.5
Mobile phone subscriptions/100 population	88 85.7	Hong Kong SAR 195.6
Broadband Internet subscriptions/100 pop	81 1.8	Netherlands 38.1
Government Online Service Index, 0–1 (best)	65 0.5	Multiple economies (3) 1.0
Individuals using Internet %	85 25.0	Iceland 95.0
Government efficiency 1–7 (best)	111 2.9	Singapore 5.9
Domestic competition 1–7 (best)	107 3.8	Saudi Arabia 5.5
Openness to foreign participation 1–7 (best)	92 4.3	Luxembourg 5.9
Ease of hiring foreign labor 1–7 (best)	104 3.6	Albania 5.9
Prevalence of foreign ownership 1–7 (best)	67 4.7	Luxembourg 6.5

Source: WEF (2012), p. 295

## SUMMARY AND IMPLICATION FOR FORMULATING THE STRATEGY

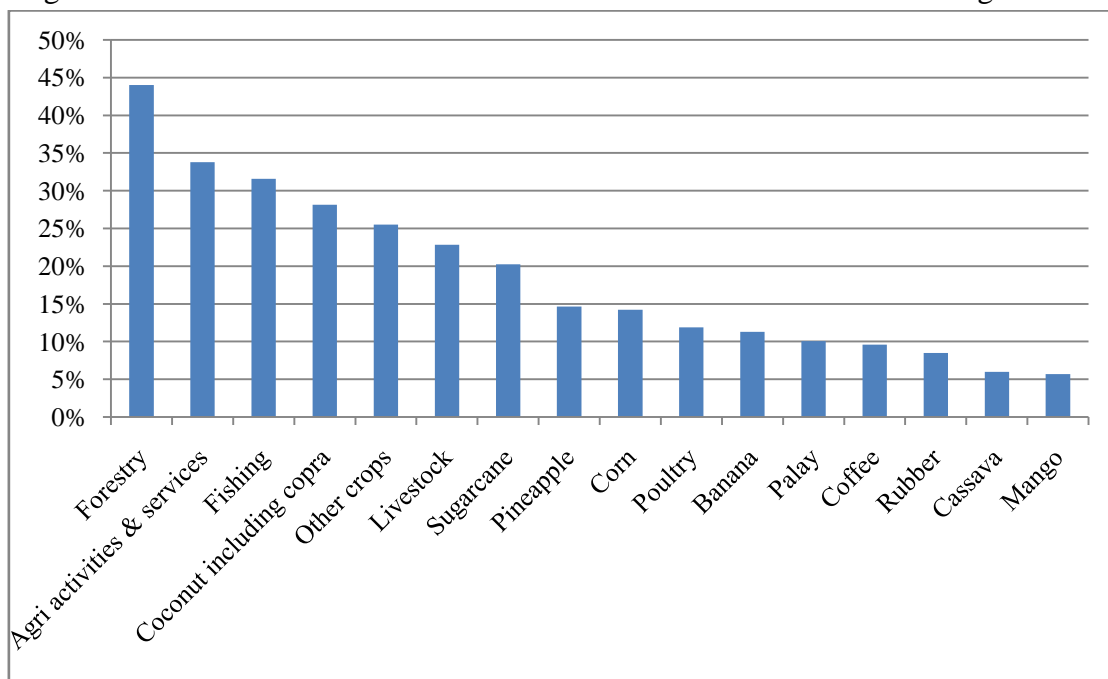
Services account for a significant share of output and employment in the Philippines. Moreover, the services sector as a whole has been growing faster than agriculture and manufacturing. The dynamic services sectors exhibiting both relatively high employment and productivity growth rates include Renting of machinery and other Business activities, Maintenance and repair of motor vehicles, Recreational, cultural and sporting services, Banking institutions, Health and social work, and Supporting and auxiliary transport. The importance given in the Development Plan to the BPO and Tourism sectors will further boost the contribution of the high growth sectors in the economy in terms of creating more jobs and value added.

Other services are experiencing low productivity growth however. From the perspective of achieving broad-based economic growth, it is essential that no service sector is ignored especially since services affect the performance of other sectors – both goods and services, through critical inter-sectoral linkages. Labor productivity growth from 2008 to 2011 was below aggregate in Retail trade, Hotels and restaurants, Real estate activities, Education services, and Postal and Telecommunications. In Other service activities, Water transport, Non-bank Financial, Land transport, and Wholesale trade labor productivity growth was negative during the same period. WEF (2012) also identified a number of services necessary to participate in global trade that are uncompetitive.

Inefficiencies in intermediate services hurt downstream sectors. Affected the most are the sectors that are the biggest users of the service (i.e. intermediate demand for the service is high) and those that use the service intensively (i.e. intermediate consumption for the service is high such that the service accounts for a significant share of its intermediate cost). Since services sectors are the biggest consumers and the most intensive users of services, poor labor productivity in the sectors listed above will weaken other services sectors. Moreover, five of these services are especially important to agriculture and manufacturing. These are distribution (wholesale and retail), water transport, land transport, non-bank financial services, and communication.

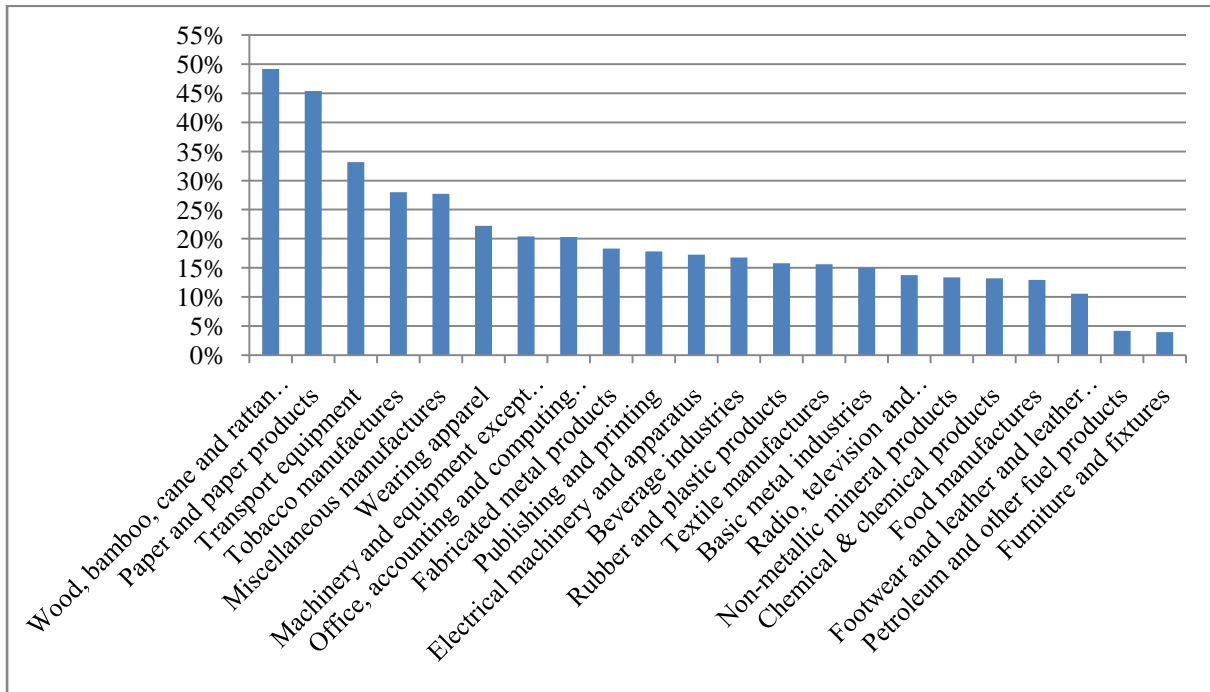
Figures 8 and 9 below show how intensively the five services with low to negative labor productivity growth (referred to as the inefficient services) are used in agriculture and manufacturing representing their share in intermediate cost. The top downstream sectors in terms of intermediate demand are shown in Appendices A to C. Given the downstream effects of services in determining the competitiveness of other sectors, government policy must not just focus on a couple of sectors but aim to develop all services.

Figure 8. Share of the Inefficient Services in Intermediate Cost of Agriculture



Author's estimates based on the NSCB 2006 Input-Output Table of the Philippines – 70 sectors

Figure 9. Share of the Inefficient Services in Intermediate Cost of Manufacturing



Author's estimates based on the NSCB 2006 Input-Output Table of the Philippines – 70 sectors



## THE PHILIPPINES' TRADE IN SERVICES PROFILE

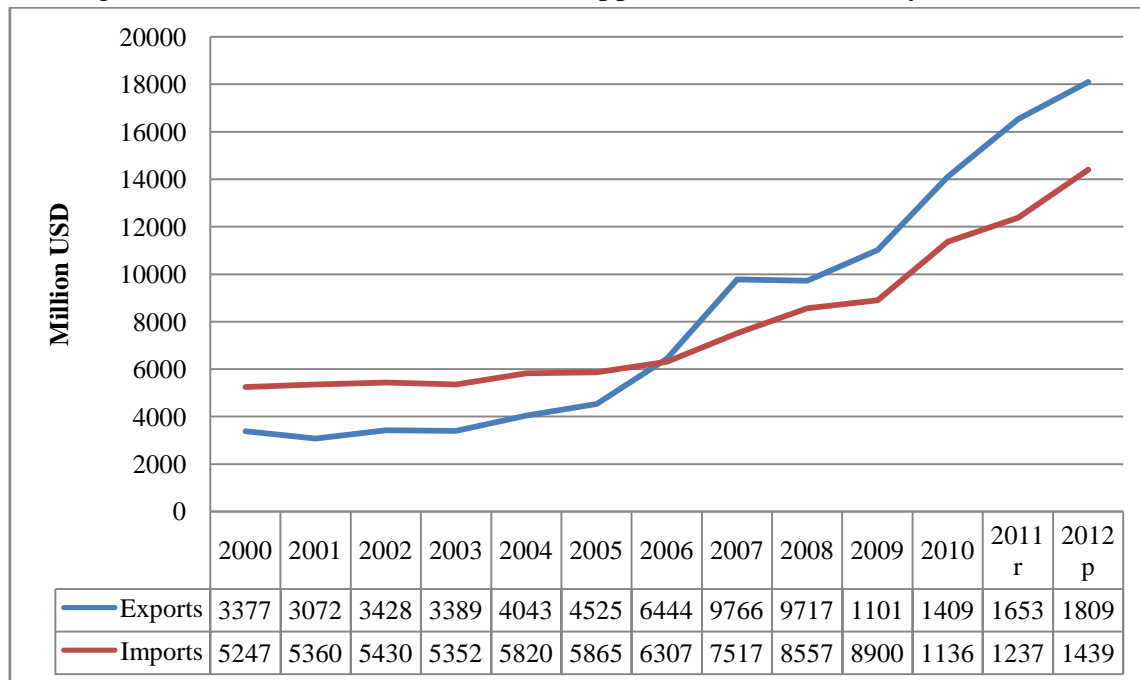
The World Trade Organization's (WTO) General Agreement on Trade in Services (GATS) describes four ways in which international service transactions takes place – cross-border supply, consumption abroad, commercial presence and the temporary movement of people. The modes of supply can further be divided in two groups, these being Cross Border Trade and Trade by Foreign Affiliates (FATS) (See Technical Note #2).

In the Philippines, reporting of services trade statistics is led by the Bangko Sentral ng Pilipinas. To date, only cross border trade data are available although still incomplete. Some questions related to FATS have been added to the inward FDI survey, but are not yet published (EASCAB 2012).

### CROSS BORDER TRADE

Cross border trade covers modes of supply Modes 1, 2 and 4 where something (i.e. financial advice sent online or a ship sent for repair) or someone (either the consumer or the supplier) crosses the border temporarily for the service to be supplied. Because these modes involve transactions between residents and non-residents then the services account in the balance of payments provides a general picture of cross border trade. From a deficit in 2000, the Philippines registered a net surplus in the services account starting in 2006 (Figure 10).

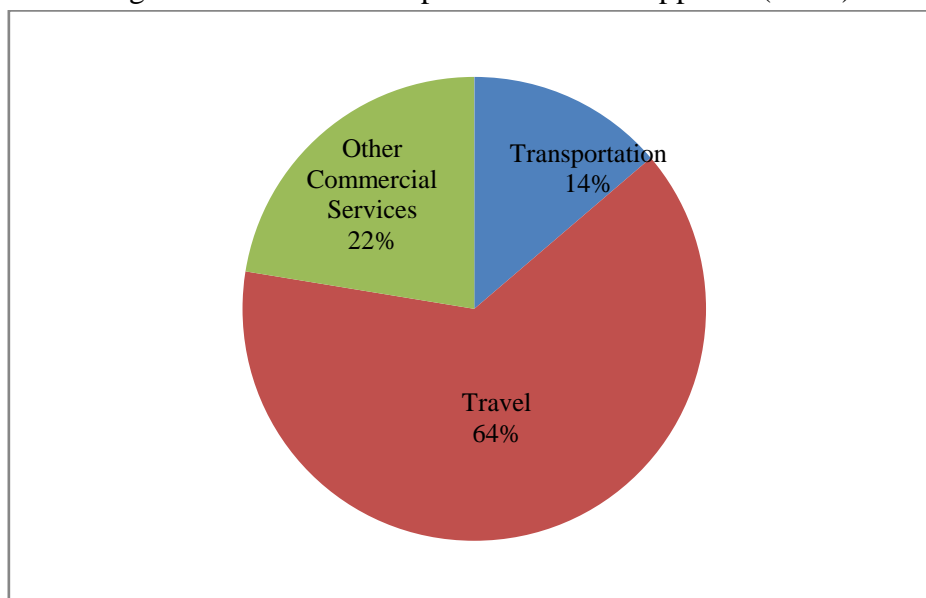
Figure 10. Services Trade of the Philippines (Balance of Payments basis)



Source of data: Bangko Sentral ng Pilipinas (accessed on 10 July, 2013)

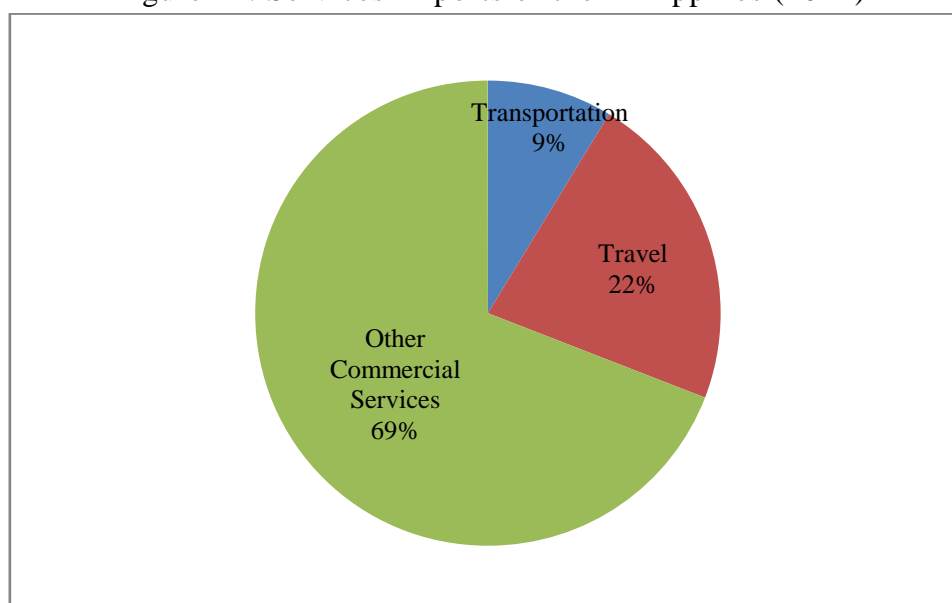
The composition of exports has changed over the years consistent with global trends. Traditionally, Travel dominated exports of services but with the increased tradability of services due to advances in information and communication technologies, Other Commercial Services now comprise the biggest share of services exports (See Figures 11 and 12).

Figure 11. Services Exports of the Philippines (2000)



Author's estimates based on Bangko Sentral ng Pilipinas data (accessed on 10 July, 2013)

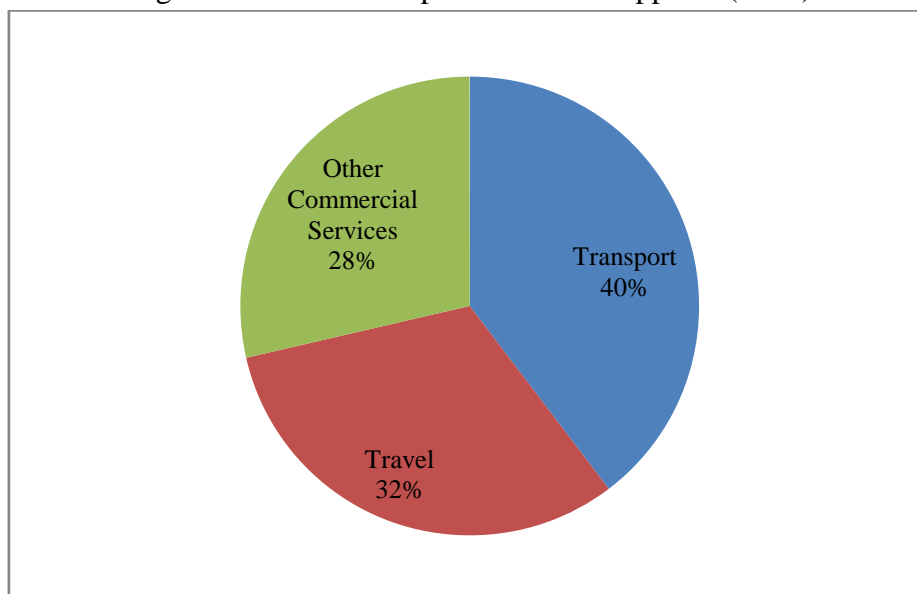
Figure 12. Services Exports of the Philippines (2012)



Author's estimates based on Bangko Sentral ng Pilipinas data (accessed on 10 July, 2013)

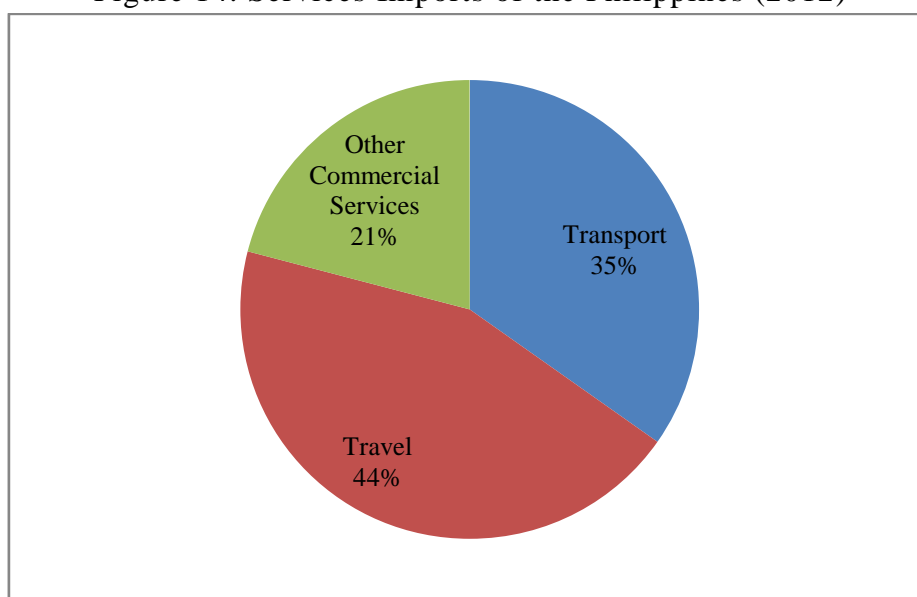
In the case of imports, the share of Travel has increased significantly since 2000 for the Philippines (See Figures 13 and 14). This could be due to the rise in overseas workers with contracts of less than one year whose expenditures in their host countries are counted as travel expenditures. In particular, estimates of living expenses of residents working abroad based on the Japan Family Income and Expenditures Survey (FIES) are used since most of the country's land-based workers with contracts of less than one year are deployed in Japan (EASCAB 2012).

Figure 13. Services Imports of the Philippines (2000)



Author's estimates based on Bangko Sentral ng Pilipinas data (accessed on 10 July, 2013)

Figure 14. Services Imports of the Philippines (2012)



Author's estimates based on Bangko Sentral ng Pilipinas data (accessed on 10 July, 2013)

Appendix K provides the Philippines' services trade performance by sector as classified using EBOPS.

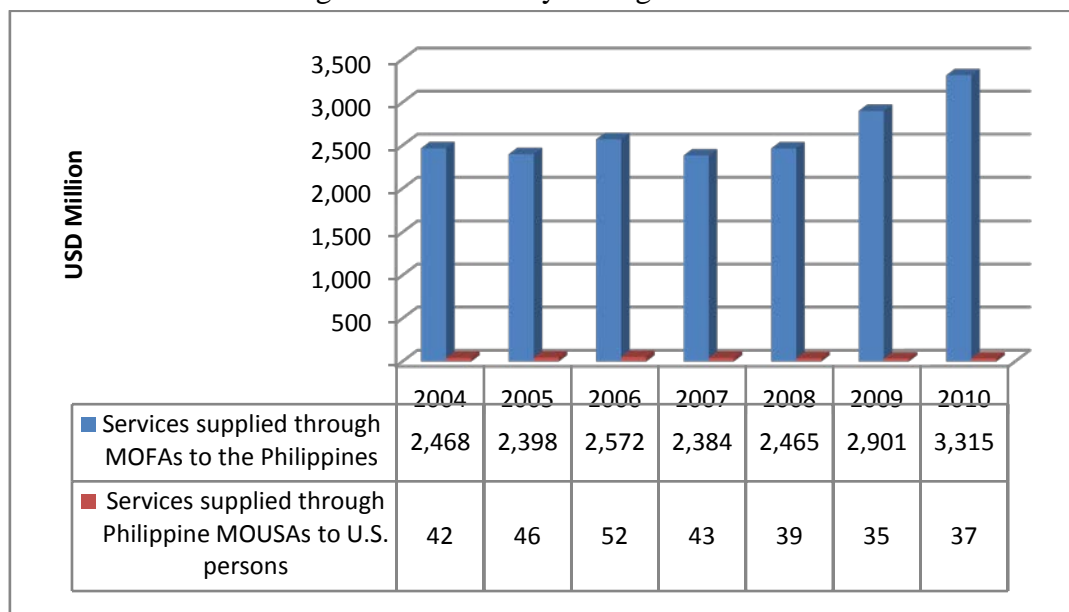
#### SALES BY FOREIGN AFFILIATES

Sales by Foreign Affiliates represent services trade via Mode 3 which involves the establishment of commercial presence in a host country to provide services. Domestic sales are not recorded in the services account of the BOP as the transaction takes place between residents (as opposed to between residents and non-residents). This method of serving

foreign markets is particularly important for services because often it can be the only method that permits close and continuing contact between service providers and their customers.

Unfortunately, there is no comprehensive source of statistics on trade via Mode 3 (representing the sales of the affiliates in the host country) even though it is considered the principal mode of service supply. The US is the only country that collects such information on a regular basis. As can be gleaned from Figure 15, sales of US affiliated service suppliers in the Philippines are much more substantial than the sales of Philippine affiliated service suppliers in the US. Moreover, the latter has declined from 2004 to 2010.

Figure 15. Sales by foreign affiliates



Source: [http://www.bea.gov/international/international\\_services.htm](http://www.bea.gov/international/international_services.htm) (accessed 19 July 2013)  
*MOFAs* Majority-owned foreign affiliates; *MOUSAs* Majority-owned U.S. affiliates

IBM, Citigroup, and Western Union are examples of US companies with affiliates in the Philippines. Max's Restaurant, Jollibee, and the Philippine National Bank are examples of Philippine companies with affiliates in the US.

## SERVICES WITH REVEALED COMPARATIVE ADVANTAGE

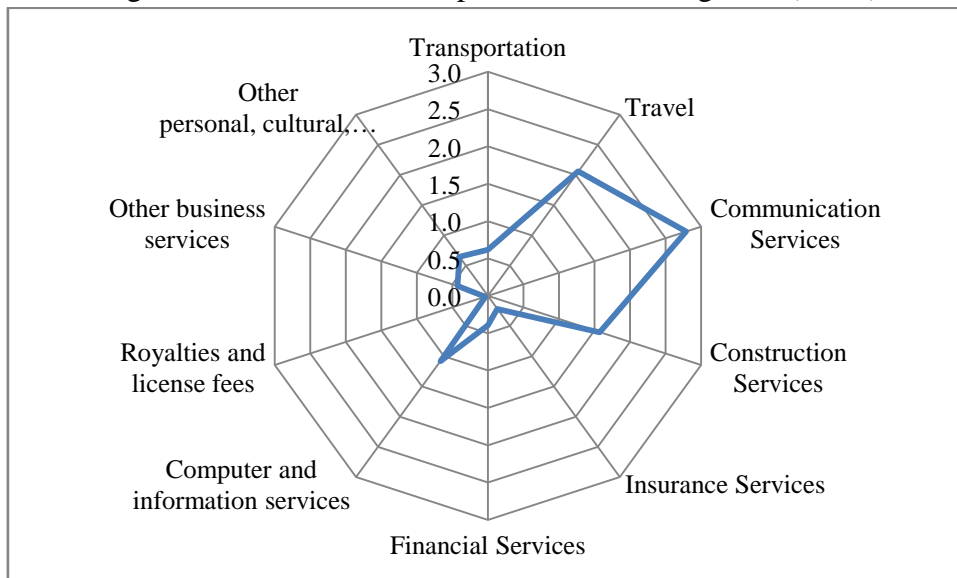
The standard measure of comparative advantage is given by:

$$RCA_i = \frac{X_{Ph,i} / \sum_i^n X_{Ph,i}}{X_{World,i} / \sum_i^n X_{World,i}}$$

With X as the value of service exports and an RCA greater than 1 indicates revealed comparative advantage in that sector. Based on this measure, the Philippines' comparative advantage has evolved from travel, communication and construction services in 2000 (Figure

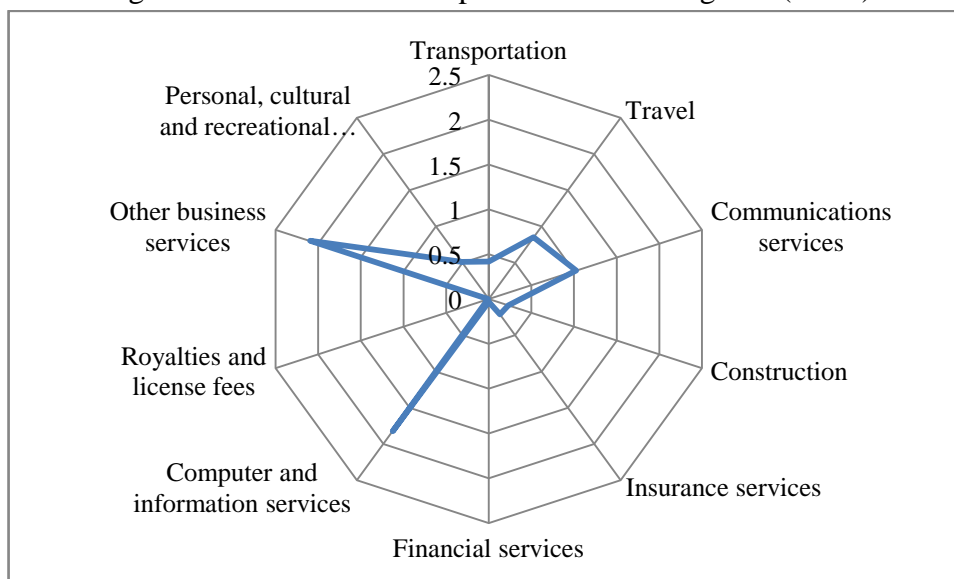
16) to Other business services and to Computer and information services in 2012 with high RCAs (Figure 17).

Figure 16. Revealed Comparative Advantage - 1 (2000)



Author's estimates based on WTO data: [www.wtostats.org](http://www.wtostats.org) (accessed on 30 September 2013)

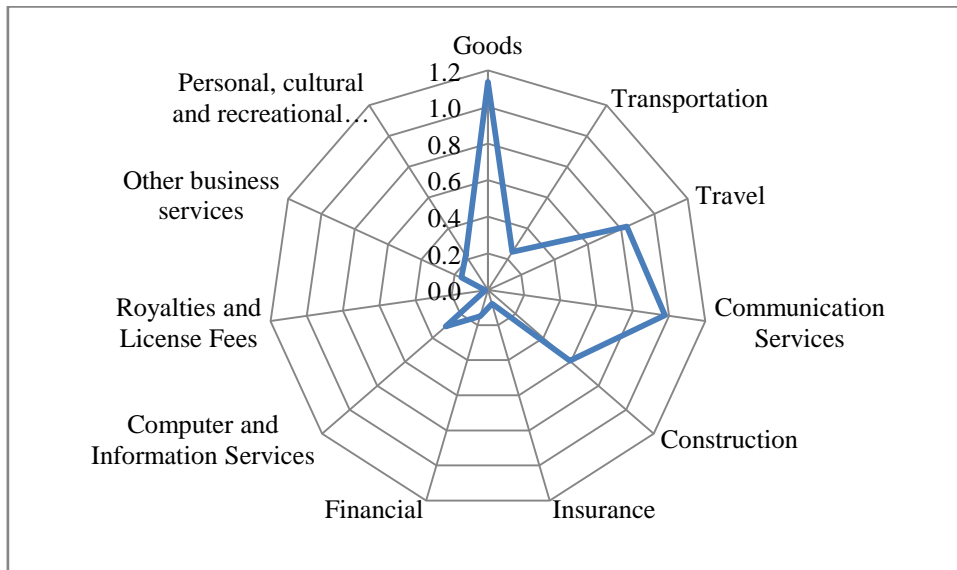
Figure 17. Revealed Comparative Advantage - 1 (2012)



Author's estimates based on WTO data: [www.wtostats.org](http://www.wtostats.org) (accessed on 30 September 2013)

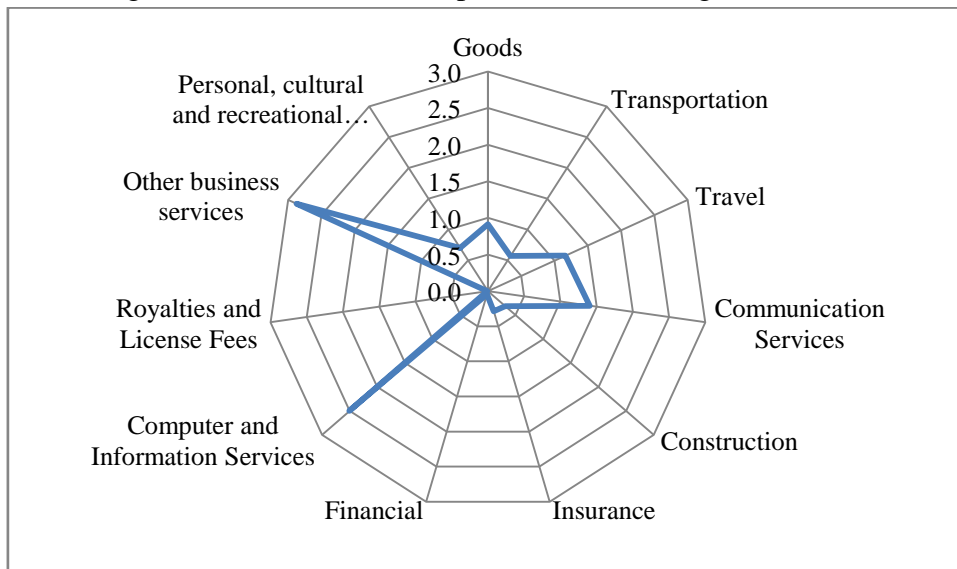
When merchandise exports are included as shown in the figures below, only goods display a modest RCA in 2000 (Figure 18). By 2012 however, a strong RCA has shifted to Other business services and computer and information services, which is consistent with the previous result (Figure 19).

Figure 18. Revealed Comparative Advantage - 2 (2000)



Author's estimates based on WTO data: [www.wtostats.org](http://www.wtostats.org) (accessed on 07 November 2013)

Figure 19. Revealed Comparative Advantage - 2 (2012)



Author's estimates based on WTO data: [www.wtostats.org](http://www.wtostats.org) (accessed on 07 November 2013)

It should also be noted from Appendix K that net exports in Personal, cultural and recreational services have doubled from 2011 to 2012 which may be indicative of an emerging area of export competitiveness.

In interpreting RCAs for services, caution must be applied. Langhammer (2004) explains that RCA measured in services trade cannot be compared to RCAs measured in goods trade. Services are not only supplied by cross-border trade but also by movement of the consumer to the producer or by factor movements- for capital via commercial presence and for labor via movement of natural persons. Any aggregate view on net exports of services supplied may be misleading if there is no information on which mode of supply dominates. Moreover,

trade policy in services basically interferes through domestic policy measures and not through border measures. Thus, the explanatory power of RCA in trade in services seems to follow other determinants than RCA in goods trade. He notes that travel is very much determined by natural endowments while in the case of transport there are strong policy interventions (e.g. bilateral treaties on air transport, freight sharing and liner codes in maritime transport) which do not facilitate a meaningful explanation of RCA. In addition to his observations, trade in telecommunication services is based on the volume of incoming and outgoing traffic which may be unrelated to the competitiveness of the sector. Note too that Royalties and license fees do not refer to a particular sector.

The 2012 RCA results for the Philippines reflect the significant contribution of the IT-BPO industry to services exports. In 2011, the industry grossed more than USD 12 billion in sales of which 92.4 percent was exported (See Tables 13 and 14).

Table 13. IT-BPO Sales Revenue (USD million)

<b>IT-BPO Category</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Contact Center	587	986	1,455	2,051	2,839	4,207	5,260	6,817
Transcription	4	8	20	33	34	57	84	122
Animation	12	17	26	29	36	52	63	72
Software Development	279	399	707	1,098	1,413	1,672	2,198	2,469
Other BPOs	441	585	697	1,157	2,004	2,270	2,452	2,594
<b>TOTAL INDUSTRY</b>	<b>1,324</b>	<b>1,996</b>	<b>2,906</b>	<b>4,368</b>	<b>6,325</b>	<b>8,258</b>	<b>10,058</b>	<b>12,074</b>

Source: Survey of IT-BPO Services, Table 1. Revenue, by IT-BPO Category, 2004-2011  
[http://www.bsp.gov.ph/statistics/efs\\_ext2.asp#ITBPO](http://www.bsp.gov.ph/statistics/efs_ext2.asp#ITBPO) accessed on 22 September 2013

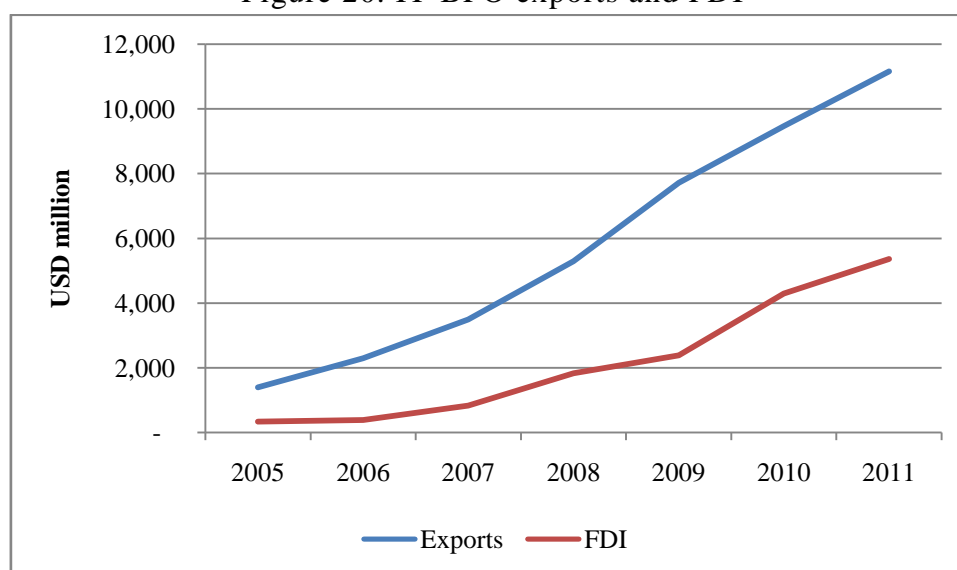
Table 14. Export to Revenue Ratio

<b>IT-BPO Category</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Contact Center	95.6	96.3	91.4	84.5	87.7	93.6	97.4	90.4
Transcription	100.0	99.5	92.9	77.1	70.5	96.1	89.0	100.0
Animation	62.4	66.4	87.3	91.9	95.8	87.1	85.0	83.1
Software Development	35.3	40.1	64.3	77.5	81.3	92.9	87.7	96.4
Other BPOs	49.1	44.2	66.2	73.9	79.4	93.7	93.3	93.7
<b>TOTAL INDUSTRY</b>	<b>67.1</b>	<b>69.5</b>	<b>78.7</b>	<b>79.9</b>	<b>83.6</b>	<b>93.4</b>	<b>94.2</b>	<b>92.4</b>

Source: Survey of IT-BPO Services Table 2.1. Export-to-Revenue Ratio, by IT-BPO Category, 2004-2011  
[http://www.bsp.gov.ph/statistics/efs\\_ext2.asp#ITBPO](http://www.bsp.gov.ph/statistics/efs_ext2.asp#ITBPO) accessed on 22 September 2013

As shown in Figure 20 below, FDI and export performance in the IT-BPO sector are highly correlated.

Figure 20. IT-BPO exports and FDI



Sources: Survey of IT-BPO Services Table 2. Export Revenue, by IT-BPO Category, 2004-2011 and Table 3.1. Foreign Direct Investment, by IT-BPO Category, 2005-2011

Foreign equity participation has increased significantly over the years particularly in software development with a jump of 58 percentage points from 2005 to 2011 (TABLE 15).

Table 15. Foreign-to-Total Equity Capital Ratio (In Percent)

IT-BPO Category	2005	2006	2007	2008	2009	2010	2011
Contact Center	87.6	92.0	98.1	96.5	95.9	99.7	98.2
Transcription	52.5	71.0	100.0	100.0	84.1	92.0	97.2
Animation	38.4	95.8	97.2	100.0	63.3	70.9	72.5
Software Development	37.0	73.9	50.9	84.6	99.4	94.8	95.4
Other BPOs	47.5	23.2	93.1	85.6	74.2	97.7	80.4
<b>TOTAL INDUSTRY</b>	<b>66.9</b>	<b>60.4</b>	<b>87.9</b>	<b>93.3</b>	<b>91.8</b>	<b>97.6</b>	<b>93.2</b>

Source: Survey of IT-BPO Services Table 3.2 Foreign-to-Total Equity Capital Ratio, by IT-BPO Category, 2005-2011 ([http://www.bsp.gov.ph/statistics/efs\\_ext2.asp#ITBPO](http://www.bsp.gov.ph/statistics/efs_ext2.asp#ITBPO) accessed on 22 September 2013)

According to the IT and Business Process Association of the Philippines (IBPAP), the following factors explain why the country remains a top offshore BPO location:

- Scalable educated talent pool (e.g. 3<sup>rd</sup> largest English-speaking country, Western-based legal and accounting curriculum and certification);
- Cost competitiveness (e.g. labor costs for English-speaking professionals among lowest in the world);



- Excellent infrastructure (e.g. reliable, redundant, low-cost telecommunication infrastructure);
- Government support and Public-Private Partnership (e.g. Government support in education, locator support; Income tax holiday, Comprehensive BPAP Road Map 2016 ); and
- Proven-track record.

As a location for offshoring services, the Philippines is ranked 9<sup>th</sup> among 50 countries according to A.T. Kearney’s Global Services Location Attractiveness Index. The Index measures the viability of countries as an offshore destination based on three main categories: financial attractiveness, people skills and availability, and business environment (See Technical Note #3). Interestingly, although the Philippines is ranked only 9<sup>th</sup> based on the criteria, actual industry activity in the Philippines surpasses other countries (Table 16).

Table 16. A.T. Kearney's Global Services Location Attraction Index: Score and Industry Activity

Rank and Country	A.T. Kearney's Global Services Location Attractiveness Score	INDUSTRY ACTIVITY		
		Business Process Outsourcing	Voice	Information Technology Outsourcing
1 <sup>st</sup> – India	7.01			
2 <sup>nd</sup> – China	6.49			
3 <sup>rd</sup> – Malaysia	5.99			
4 <sup>th</sup> – Egypt	5.81			
5 <sup>th</sup> – Indonesia	5.78			
6 <sup>th</sup> – Mexico	5.72			
7 <sup>th</sup> – Thailand	5.72			
8 <sup>th</sup> – Viet Nam	5.69			
9 <sup>th</sup> - Philippines	5.65			
10 <sup>th</sup> – Chile	5.52			
<b>LEGEND</b>				
High Industry Activity		Limited Industry Activity		

Source: The A.T. Kearney Global Services Location Index™, 2011

## EXAMPLES OF TRADE IN SERVICES

To supplement the RCA values presented above, concrete examples of Philippine services suppliers were identified to illustrate the breadth of Philippine service suppliers not only across sectors but also across modes of supply (See Table 17).

Table 17. Trade in services by Philippine firms and nationals

Sector	Mode of Supply			
	1	2	3	4
1. Business services	x	x	x	x
2. Communication services	x	x	x	x
3. Construction and related engineering	x	o	x	x
4. Distribution services	x	x	x	x
5. Education services	x	x	x	x
6. Environmental services	x	x	o	x
7. Financial services	x	x	x	x
8. Health related and social services	x	x	x	x
9. Tourism and travel related	x	x	x	x
10. Recreational, cultural and sporting services (other than audiovisual services)	x	x	o	x
11. Transport	x	x	x	x
12. Other Services n.i.e.	o	x	o	x

Note: o – no example found, could also be technically not feasible or not relevant

The table above is based on the WTO/120 the Services Sectoral Classification List used as a guide in trade negotiations. The 12<sup>th</sup> sector “Other services not included elsewhere” covers services such as laundry collection services, hairdressing and other beauty services. Under each sector are a range of services which total 155 sub-sectors. Below are examples of the international supply of services by Philippine firms and nationals.

### Cross-border supply of services (Mode 1)

In GATS, this is defined as the supply of a service from the territory of one member into the territory of any other member. IT-BPO services are typically supplied via cross-border supply although other modes of supply are used as well. Table 18 lists the range of services delivered from the Philippines covering various sectors such as finance and accounting, health/medicine, legal services, management consulting, logistics, and retail. (See Technical Note #4 on how outsourcing activities are recorded in the Balance of Payments.)

Table 18. IT-BPO services delivered from the Philippines

IT Application services	Business Process services	Engineering services
Application development and maintenance	Horizontal processes	Manufacturing engineering
• Application development	• Contact centers	• Upstream product engineering
• AD integration and testing	• Human resources	- Concept design
• Application maintenance	• Finance and accounting	- Simulation
	• Supply chain (procurement, logistics)	- Design engineering
		• Downstream product

System integration <ul style="list-style-type: none"> <li>• Analysis</li> <li>• Design</li> <li>• Development</li> <li>• Integration and testing</li> <li>• Package implementation</li> </ul> IT Infrastructure Services <ul style="list-style-type: none"> <li>• Help desk</li> <li>• Desktop support</li> <li>• Data centre services</li> <li>• Mainframe</li> <li>• Network operations</li> <li>• IT consulting</li> </ul> Software product development <ul style="list-style-type: none"> <li>• New product development</li> <li>• System testing</li> <li>• Localization/Support</li> <li>• Gaming</li> </ul>	management) Industry/vertical processes <ul style="list-style-type: none"> <li>• Banking and insurance</li> <li>• Telecom</li> <li>• Public sector</li> <li>• Utilities</li> <li>• Health care</li> <li>• High-tech</li> <li>• Oil &amp; Gas</li> <li>• Consumer products</li> </ul> Knowledge Process Outsourcing <ul style="list-style-type: none"> <li>• Business research, financial research</li> <li>• Animation</li> <li>• Data analytics</li> <li>• Legal process and patent research</li> <li>• Other high-end processes</li> </ul>	engineering <ul style="list-style-type: none"> <li>- CAD/CAM/CAE</li> <li>- Embedded software</li> <li>- Localization</li> </ul> <ul style="list-style-type: none"> <li>• Plan and process engineering</li> </ul> Architecture design <ul style="list-style-type: none"> <li>• Design process</li> <li>• Building Management models</li> </ul>
--	--	--

Source: IT and Business Process Association of the Philippines (IBPAP)

Other examples of services that are also exported by the Philippines via Mode 1 include:

- Communication services (Audiovisual Services) – ABS-CBN Corp.’s primetime soap opera *Pangako Sa ’Yo* starring Kristine Hermosa and Jericho Rosales became a huge hit in Malaysia, Indonesia, Thailand, Cambodia, and Singapore after the show was aired locally from 2000 to 2002. Sporting the English title *The Promise*, the 480-episode drama series also became a hit for China’s national television and rated second over all local and foreign programs airing in the country in 2010. Outside Asia, *Pangako Sa ’Yo* was also shown in Kenya, Ghana, Cameroon, Tanzania, Namibia, Zambia, Botswana and Uganda. (<http://www.bworldonline.com/content.php?section=Weekender&title=Pinoy-TV-goes-international&id=53472>)
- Distribution services (Franchising) – Eat Bulaga! of Television and Production Exponents, Inc. (TAPE), is the first international franchise of a Filipino show, a milestone for Philippine franchises. Eat Bulaga! Indonesia is being aired by SCTV network in Indonesia. (<http://www.inquirer.net/?people-events-places=eat-bulaga-top-executive-tuviera-feted-with-franchise-excellence-award#ixzz2gkm4HAcS>)
- Education services - UP Open University offers three undergraduate programs, 11 diploma and certificate programs, 13 master’s program, and 2 doctoral programs. It also offers non-formal courses. (<http://www2.upou.edu.ph/>)
- Environmental services - Pacific Spectrum Environmental Research and Consultancy, Inc. (PSEnvi) was formed in July 2001 by a group of environmental professionals from the various fields of science and engineering. In 2008, the company conducted a

Wastewater Treatment Assessment of Fezile Dabi District Municipality's Four (4) Sewer Treatment Plants (Fezile Dabi District Municipality, Republic of South Africa) (<http://www.pacific-spectrum.com/indexmain.htm>)

- Recreational, cultural and sporting services (other than audiovisual services) – I-Gaming is at the moment the most vibrant business at the Cagayan ecozone. An estimated P600 million in investments have poured in the Cagayan economic zone (otherwise known as the Cagayan Special Economic Zone and Freeport or CSEZF) as operators of interactive or online gaming. In I-Gaming, a dealer does his job in front of a camera to initiate an online game with players outside the country mostly from China, Korea and Japan. Gaming operators in Cagayan are not allowed to accept customers from the Philippines and the United States. (<http://www.firstcagayan.com/news.html#8>)

### **Consumption abroad (Mode 2)**

In GATS, this is defined as the supply of a service in the territory of one member to the service consumer of any other member. This refers to situations where a service consumer (e.g. tourist or patient) or his/her property moves temporarily to another country and obtains a service. Examples of Philippine exports via Mode 2 include:

- Education services - There are more than 61,000 foreigners studying in the various schools and learning institutions in the country, according to statistics from the Bureau of Immigration (BI). Citing a report from the BI student desk, the Immigration Commissioner disclosed that a total of 61,601 applications for student visa and special study permit (SSP) were processed and approved by the bureau in 2011. 41,497 SSP holders, mostly based in the provinces, account for the bulk of the foreign students while 19,654 were issued student visa. An SSP is issued to a foreign student below 18 years old who will study in the elementary, secondary, tertiary levels and those who will enroll in a special course of less than one year. On the other hand, a student visa is issued to foreigner aged 18 years and above, who will be taking up a course higher than high school at a university, seminary, college, or school duly authorized by the BI to admit foreign students. ([http://immigration.gov.ph/index.php?option=com\\_content&task=view&id=1420&Itemid=78](http://immigration.gov.ph/index.php?option=com_content&task=view&id=1420&Itemid=78), February 09, 2012)
- Business services (Medical and dental services), Health services, and Tourism and travel related services - Philippine Medical Tourism, Inc. (PMTI) is an integrator of all services required by a patient when he flies into the Philippines on a health holiday. The medical travel package is customized from the time the patient leaves home and returns. Packages include: Laparoscopic Gastric Banding; Metabolic Surgery; LASIK (both eyes); Executive Health Check-Up; Dental Package; Blepharoplasty; Coronary Artery Bypass Grafting (CABG); Total Hip or Knee Replacement; Abdominoplasty; and Wellness Package. (<http://www.philmedtourism.com/default/about-us/who-we-are>)
- Recreational, cultural, and sporting services (Other recreational services) - As the first integrated tourism resort in Entertainment City, Solaire Resort & Casino will be ideally positioned to meet the explosive international demand for high-quality

gaming properties across Asia by offering a premium experience to its customers in a facility with a prime location and superior design, varied gaming and non-gaming offerings, luxurious amenities, and high-quality customer service. <http://www.bloomberry.ph/company-information/>

- Transport services (Air transport services, maintenance and repair of aircraft) - Nordisk Aviation Services Phils. Corp. (Nordisk PH) is a world class registered repair station for ULD under US Federal Aviation Authority (FAA) FAR145 with Certificate No. QP0Y652Y and Civil Aviation Authority of the Philippines (CAAP) Repair Station Certificate No. 82-09. They handle the repairs for Hawaiian Airlines, Qantas Airways, Cathay Pacific Airways (CX), Philippine Airlines (PR), Air Niugini, FedEx, Jetstar and Northwest Airlines and have done various ULD assembly for Korean Airlines, CX and PR for the past years. (<http://www.nordiskph.com/Index.html>).
- Transport services (Maritime transport services, maintenance and repair of vessels) - According to a study by the Japan International Cooperation Agency and the Nomura Research Institute, the Philippines has the right ingredients to become ship repair hub. Its strengths include an inland sea, bay and deep seashore, abundant labor and legalized fiscal incentives. Examples of companies offering ship repair are Keppel Batangas Shipyard which is a major shipcare center in the Philippines servicing international and local shipowners and Herma Shipyard, Inc. (HSI) which is a Filipino-owned shipyard located in Mariveles, Bataan. (<http://ph.news.yahoo.com/philippines-ship-repair-hub-034131626--finance.html>, <http://www.keppelphilippinesmarineinc.com/batangas.htm>, <http://www.hermashipyard.com/services/>)

### **Commercial presence (Mode 3)**

In GATS, this is defined as the supply of a service by a service supplier of one member, through commercial presence in the territory of any other member. Commercial presence may include subsidiaries, representative offices and branches. Note that when the affiliate of Country A provides a service in Country B, this would not be considered an export or import since these terms are only applicable to transactions between residents and non-residents. Examples of Mode 3 supply include:

- Business services (Computer and related services) – PointWest started operations at the UP-AyalaLand TechnoHub in 2008. It has been recognized as the Best Mid-Sized Locally Owned BPO Company of the Year at the International ICT Awards & the Most Progressive Homegrown IT Service Company at the e-Services Awards. Pointwest has 2 delivery centers servicing a global clientele: one in Makati, which also serves as corporate headquarters, and another one at UP-AyalaLand TechnoHub in Quezon City. They also have satellite offices in Western and Midwestern United States. (<http://www.pointwest.com.ph/about-us/overview>)
- Business services (Real estate) - Century Properties is the first Filipino real estate firm to develop in Manhattan, New York (on 5th Avenue and 56th Street) a luxury condominium called The Centurion. <http://www.century-properties.com/portfolio/innovations/>

- Business services (Real estate) and Distribution services (Retailing services) - SM Prime Holdings is the Philippines' largest mall operator. In 2012, it had a total of 46 malls in the Philippines and 5 malls in China, which contribute 10 percent of total net income. SM malls can be found in Chongqing, Xiamen, Jinjiang, Chengdu, and Suzhou. They have about 1,723 tenants and are visited by around 200,000 customers a day (SM Prime 2012 Annual Report from <http://www.smprime.com/>)
- Communication services – ABS-CBN Global Ltd., a division of ABS-CBN is responsible for overseeing all of its international assets has offices and news bureaus throughout the world. ABS-CBN International, one of the largest international subsidiary of ABS-CBN is based in Redwood City, California. In 1994, ABS-CBN International launched its core product, TFC The Filipino Channel, which is distributed by major cable operators as well as satellite operators. In addition to TFC, ABS-CBN bundles three other 24-hour video channels (news, movies, and marathon episodes of well-loved TV series, classic and current), two radio channels, retail products (CDs, VCDs, videos, magazines, and books) from ABS-CBN's Starry Starry Store, as well as Sarimanok One (telecommunication products/services), Easy Remit (remittance service) and Star Kargo (cargo services). In 2008, San Francisco International Gateway, a teleport company and a subsidiary of ABS-CBN incorporated in Richmond, California started to operate. SFIG provides teleport services through its 2.5 acre facilities which consist of 19 satellite dishes and 9 modular equipment buildings. ([http://en.wikipedia.org/wiki/ABS-CBN\\_Corporation](http://en.wikipedia.org/wiki/ABS-CBN_Corporation) and <http://www.abs-cbnglobal.com/Regions/USA/AboutUs/tabid/167/Default.aspx>)
- Construction services – EEI Corporation has been providing overseas construction services since 1974 when it first ventured into the United Arab Emirates and the Kingdom of Saudi Arabia. Since then the company has won major contracts for large-scale industrial projects including petroleum refineries, power plants, and industrial installations in Saudi Arabia, Kuwait, Iraq, Algeria, Libya, Brunei, Qatar, Malaysia, and recently, New Caledonia in the Pacific. In the Kingdom of Saudi Arabia, EEI has forged a joint venture with engineering and construction giant Al-Rushaid Petroleum Investment Group of Companies and formed Al Rushaid Construction Company, Ltd. (ARCC) and in the island state of New Caledonia, EEI Nouvelle Calédonie. EEI has recently established offices in Guam, Papua New Guinea and Singapore. <http://www.eei.com.ph/content/products%20&%20services/overseas.php>
- Education services (Higher education) - AMA International University – Bahrain (AMAIUB) is a member of the AMA Education System (AMAES) based in the Philippines. It was established in September 2002 and offers both undergraduate and graduate degree programs that include Medical Science, Computer Science, Engineering Informatics, Mechatronics Engineering, Business Informatics and International Studies as well as Graduate Programs in Business Administration and Computer Science. ([http://www.amaiu.edu.bh/about\\_us.asp](http://www.amaiu.edu.bh/about_us.asp))
- Financial services (Insurance) – Pioneer Insurance is a 100 percent Filipino-owned company. Fifty years ago Pioneer ventured overseas and opened its Hong Kong branch. Situated in the central district of Shuen Wan, Hong Kong, Pioneer's HK

branch remains as the only Philippine non-life insurance company that is in direct business in China's Special Administrative Region.  
<http://www.pioneer.com.ph/content/pioneer-hong-kong-50>

- Financial services (Banking) – Founded in September 5, 1962, Metropolitan Bank & Trust Co. (Metrobank) is universal bank and offers a full range of banking and other financial products and services, including corporate, commercial and consumer banking, as well as credit card, remittances, leasing, investment banking and trust banking. In the late 1990s, Metrobank opened branches and offices in London, Taichung, Tokyo, and Seoul. Metrobank was the first to be granted a banking license by the Japanese Ministry of Finance. It was also the first Philippine bank in Korea. In 2001, Metrobank became the first Philippine bank in China when it opened its branch in Shanghai. In 2010, Metrobank inaugurated its wholly-owned subsidiary, Metropolitan Bank (China) Limited, the first foreign bank headquarters to be established in Nanjing. The new bank serves as the base for Metrobank's operations in China, with three branches located in Nanjing and Shanghai. Metrobank currently has 38 foreign branches, subsidiaries, and representative offices.  
<http://www.metrobank.com.ph/Blurb.asp>
- Financial services (Other Financial services) - I-Remit currently operates in 25 countries and territories worldwide. Lucky Star Management Limited, the first international office of I-Remit, opened in Hong Kong in May 2001. In July 2001, I-Remit forged a tie-up with its Canadian partner International Remittance (Canada) Limited (IRCL), and established operations in three (3) major provinces of Canada: British Columbia, Alberta, and Ontario.  
<http://www.myiremit.com/ipo/Corporate%20Filings/CF2013-203.pdf>
- Health services – The Philippine Medical and Dental Referral Services Offices was opened at the Micronesia Mall in Dededo, Guam in May 2013. This referral office will help coordinate medical care with St. Luke's Medical Center for patients and work with local providers in Guam.  
<http://www.guampdn.com/article/20130529/NEWS0101/305290015/>
- Tourism and travel related (Hotels and restaurants) - Jollibee Foods Corporation (JFC) operates the largest food service network in the Philippines. As of September 30, 2012, it was operating a total of 2,040 stores in the Philippines: Jollibee 765, Chowking 383, Greenwich 201, Red Ribbon 209 Mang Inasal 457 and Burger King 25. In foreign operations, the group has 541 stores: In China, Yonghe King 288, Hong Zhuang Yuan 52, San Pin Wang 39; in the US, Jollibee 27, Red Ribbon 32, Chowking 18, Chow Fun 3; in Southeast Asia and the Middle East, Jollibee 60 and Chowking 22 for a total of 2,581 stores worldwide.  
<http://www.jollibee.com.ph/investors>
- Transport services (Supporting services for maritime transport) - International Container Terminal Services, Inc. (ICTSI) is in the business of acquiring, developing, managing and operating container ports and terminals worldwide. Established in December 1987 in the Philippines, ICTSI has become a leading operator, innovator and pioneer in its field. ICTSI Ltd., a wholly owned subsidiary, manages foreign



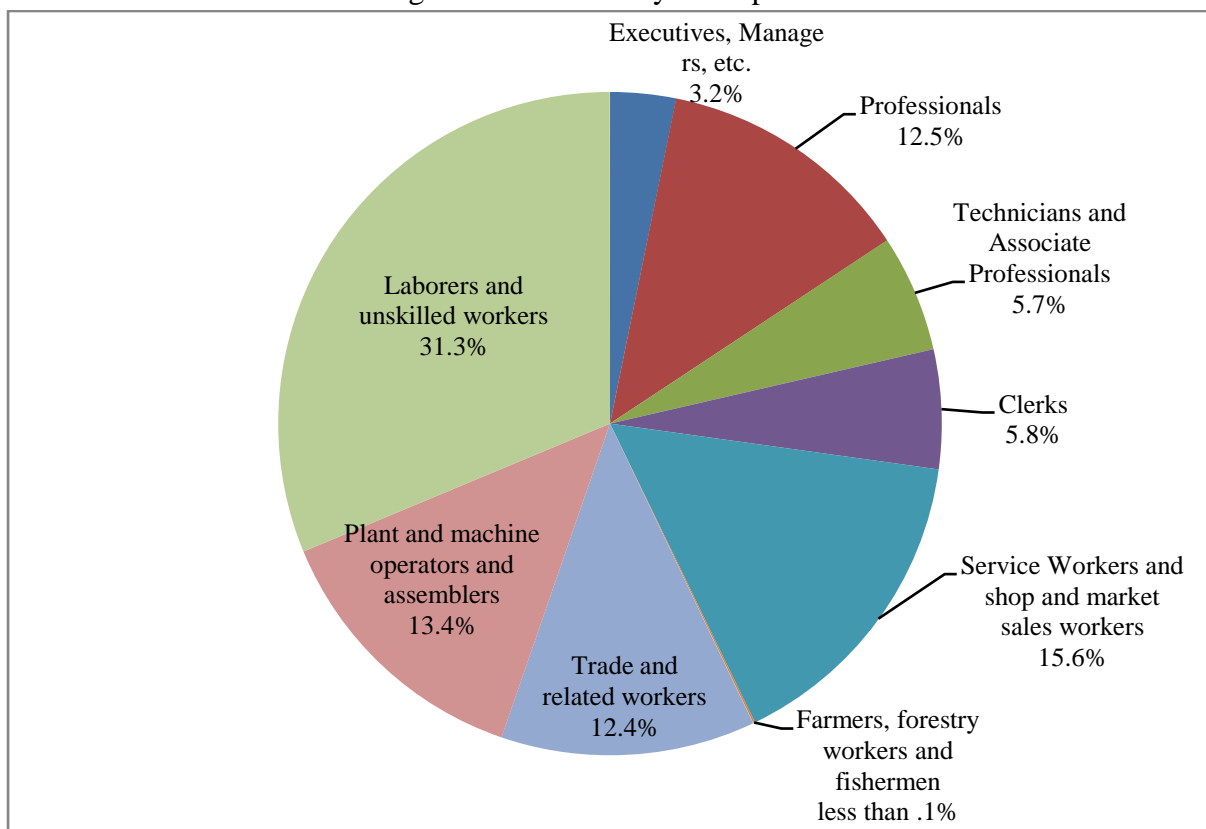
operations. Aside from developing new port concessions, this subsidiary is also tasked with overseeing operations of all acquired foreign terminals. It has regional representatives in Manila, Hong Kong, Jakarta, Miami, Sydney, Knysna, Dubai and Ghana. ICTSI is currently pursuing an active program to acquire new terminal concessions in Asia, Australia, the Indian Subcontinent, the Middle East, Africa, Europe and the Americas. (<http://www.ictsi.com/content/about-us/about-us/>)

**Presence of natural persons (Mode 4)**

In GATS, this is defined as the supply of a service by a service supplier of one member, through presence of natural persons of a member in the territory of any other member. The service could be supplied by an employee of a foreign company or an independent service supplier temporarily moving to the foreign country.

In 2012, the number of Filipino Overseas Contract Workers (OCWs) was estimated at 2.11 million, of which 48.15 percent were women. Figure 21 and Figure 22 show the distribution of Filipino OCWs by occupation and destination, respectively.

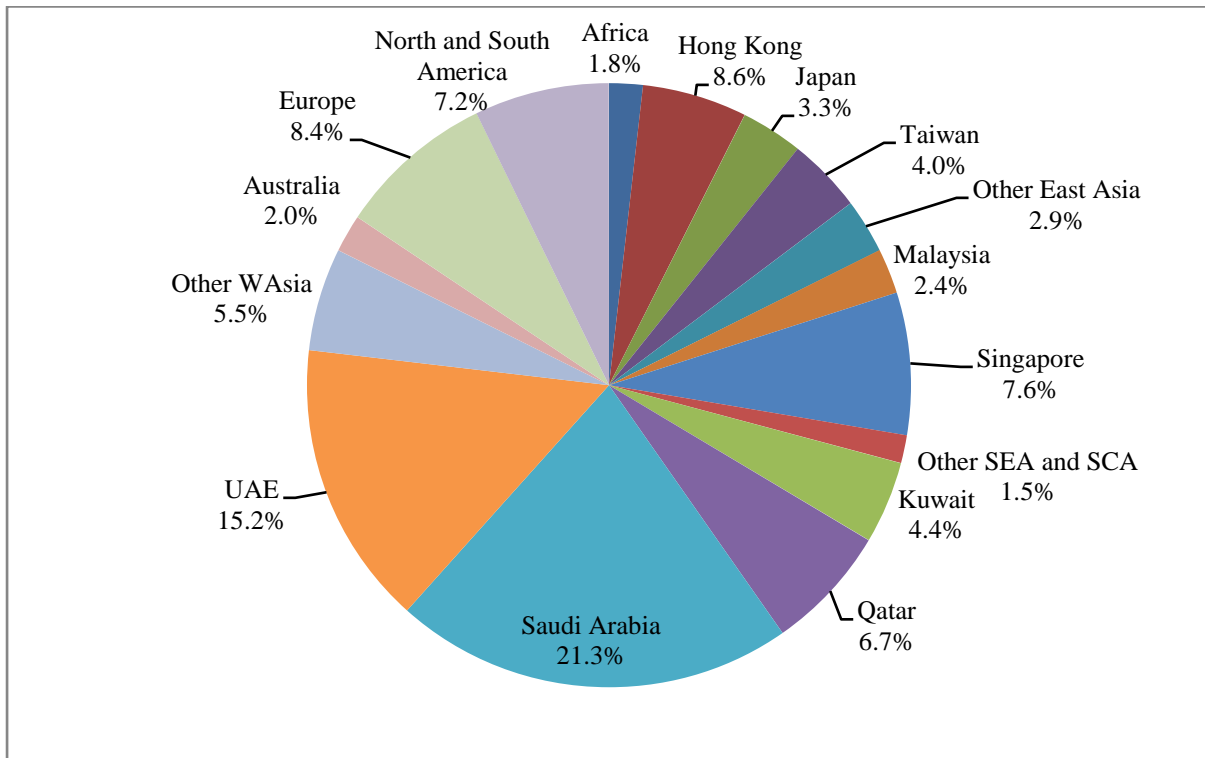
Figure 21. OCWs by Occupation



Source: NSO 2012 Survey on Overseas Filipinos (<http://www.census.gov.ph/content/2012-survey-overseas-filipinos>)



Figure 22. OCWs by Place of Work



Source: NSO 2012 Survey on Overseas Filipinos (<http://www.census.gov.ph/content/2012-survey-overseas-filipinos>)

Not all OCWs would be considered as Mode 4 (See Technical Note #5). Nonetheless, the Philippines is competitive in this mode of supply especially in certain sectors such as maritime, construction and related engineering, and health. Other interesting examples include:

- Business Services (Other Business Services) - Asia Business Consultants, Inc. has over 40 years of professional practice. The firm pioneered human resource management consulting and training in the Philippines. Its international clients include Colgate-Palmolive (Thailand), Pertamina (Indonesia), People's Bank of China, Commercial Bank of Zimbabwe, Industrial Finance Corp of Thailand, Development Finance Corp of Ceylon (Sri Lanka), Bank Rakyat Indonesia, Development Bank of Turkey, Industrial Development Co (Zambia), Nepal Industrial Development Corp, Bank of Communications (Taiwan), and Industrial Development Bank (Kenya) (<http://www.asiabusinessconsultants.com/index.htm>)
- Recreational, Cultural and Sporting services (Sporting and other recreational services) – Manny Pacquiao is a global brand. He is ranked 14<sup>th</sup> in the Forbes list of the world's highest paid athletes. (<http://www.forbes.com/profile/manny-pacquiao/>)

## SUMMARY AND IMPLICATION FOR FORMULATING THE STRATEGY

The Philippines is a net exporter of services. This is buoyed by a strong IT-BPO sector reflected in a revealed comparative advantage in Other business services and in Computer and information services. The export of Personal, cultural and recreational services has also

displayed strong growth recently. The country's potential export competitiveness in other services is demonstrated by various examples of successful service suppliers in different sectors and modes of supply.

The source of the country's comparative advantage is its pool of skilled, semi-skilled and low-skilled workers. In terms of Mode 4, Filipino service suppliers of various skill levels are engaged in different sectors and occupations. The confluence of other factors within the last decade (e.g. liberalization of telecommunications, technological changes in information and communication, restructuring of business models of multinationals toward outsourcing and offshoring of services) has enabled the country to leverage its human capital to also excel in the delivery of services through cross border supply or trade via Mode 1. Moreover, foreign direct investments in the IT-BPO sector have helped with the continued double digit growth of the sector and its export performance. Human resources can likewise be credited for our ability, albeit still modest, to export education and medical services through Mode 2. Our abundant labor was also cited as one of the reasons for the Philippines' potential to be a major hub for ship repair, another form of services trade by consumption abroad. In the case of commercial presence or Mode 3, our labor endowment has contributed to the success of EEI in construction services overseas. A company's competitive advantage could also explain success in Mode 3. ICTSI has cited its know-how of state of the art information technology, its specialization in developing market container ports, and its labor expertise or experience in handling the intricacies of port labor management throughout the world among its strengths.

There are other advantages of the Philippines that are conducive to developing competitiveness in services trade. Natural advantages of the country include:

- Geographic location - According to the Strategy Paper on the Air Cargo Logistics Sector of the Philippines, the Philippines specifically Clark is an ideal logistics hub for cargo because it is equidistant from all major South East Asian countries such as Hong Kong, Thailand, Korea, Japan, Guam, Vietnam, Singapore, Brunei, Malaysia and China. Flying time is within 4 hours from key Asian cities.
- Inland sea, bay and deep seashore – As mentioned earlier, this is one of the factors identified in a study by the Japan International Cooperation Agency and the Nomura Research Institute as key to the Philippines becoming a ship repair hub. As an archipelago, the Philippines is vested with inland sea especially in the Visayas region and bays, which provide ships with relatively calm water surface. Along with deep seashores, these are essentially important factors for shipbuilders to test run ships before their official launch to customers.

Finally, Filipinos abroad are a natural market for Philippine services. In 2011, there was an estimated 10.4 million Filipinos living overseas (Table 19). The top 10 destination countries of Filipinos were the US, Saudi Arabia, Canada, UAE, Malaysia, Australia, Qatar, Japan, UK, and Kuwait. The large Filipino diaspora explain the spread of remittance centers and restaurants that serve Filipino comfort food as well as the success of audiovisual services

exports. However, the popularity of our telenovelas even among other nationalities and the recent franchising success of a local TV program reflect Filipino creative abilities as well.

Table 19. Stock estimate of overseas Filipinos (as of December 2011)

REGION / COUNTRY	PERMANENT	TEMPORARY	IRREGULAR	TOTAL
WORLD TOTAL	4,867,645	4,513,171	1,074,972	10,455,788
PERCENTAGE	47%	43%	10%	100%
AFRICA	4,933	51,987	6,588	63,508
ASIA, East & South	284,646	621,400	543,327	1,449,373
ASIA, West	7,713	2,872,440	107,770	2,987,923
EUROPE	405,747	263,605	139,427	808,779
AMERICAS / TRUST TERRITORIES	3,811,111	244,798	270,150	4,326,059
OCEANIA	353,495	89,837	7,710	451,042
SEABASED WORKERS		369,104		369,104

Notes: Permanent - Immigrants, dual citizens or legal permanent residents abroad whose stay do not depend on work contracts. Temporary - Persons whose stay overseas is employment related, and who are expected to return at the end of their work contracts. Irregular - Those not properly documented or without valid residence or work permits, or who are overstaying in a foreign country.

Source: Commission on Filipinos Overseas (<http://cfo.gov.ph>)

The country's decades of experience and success as a supplier of labor of different skill levels, its strategic location both physically and virtually (being a key player in the offshoring industry), and the growing network of Filipino service suppliers and consumers around the globe provide the building blocks to establish the Philippines as the heart of services trade in the Asia-Pacific region. As part of the services strategy to achieve inclusive growth, there should be a comprehensive services export initiative that would consolidate successes already achieved in different modes of supply and sectors as well as facilitate the overseas expansion of other services and service suppliers with the potential to internationalize. A high profile umbrella program dedicated to services exports will help create the Philippines as a valuable brand in services trade over time.

# RESTRICTIONS ON THE SUPPLY OF SERVICES IN THE PHILIPPINES

As discussed in McGuire (2003, p. 43), restrictions can be any type of measure that limits a service being supplied to a consumer in the most efficient way. The restriction can be imposed on a service or on a service supplier. Restrictions can take the form of regulatory or non-regulatory measures. **Regulatory measures** are imposed by government while **non-regulatory measures** are usually private-sector practices. An example of the former is stringent and unjustified licensing requirements while an example of the latter would be the exclusive buyer-seller networks that exist in some distribution services markets. In both cases, effective competition in the market could be affected which in turn impacts on the price, quality, availability and reliability of services consumed by other firms, by households and by the government.

## REGULATORY MEASURES AFFECTING THE SUPPLY OF SERVICES

### National laws and regulations

Article XII on National Economy and Patrimony of the Philippine Constitution of 1997 sets out the keys restrictions affecting the supply of vital services. Article XII Section 11 limits foreign equity participation in public utilities to 40 percent. Moreover, participation of foreign investors in the governing body of any public utility enterprise is limited to their proportionate share in its capital, and the executive and managing officers must be Philippines citizens. In Article XII Section 14, the practice of all professions in the Philippines is limited to Filipino citizens, except in cases prescribed by law. In terms of trade policy, Article XII Section 13 of the Constitution states that “The State shall pursue a trade policy that serves the general welfare and utilizes all forms and arrangements of exchange on the basis of equality and reciprocity.” Other restrictions can be found in Article XVI on General Provisions. Article XVI Section 11 bars foreigners from the ownership and management of mass media. In the advertising industry, foreign ownership is limited to 30 percent. As in the case of public utilities, the participation of foreigners in the governing body is limited to their proportionate share in the capital and all the executive and managing officers must be citizens of the Philippines.

Restrictions imposed by the Constitution and other laws are reflected in the Foreign Investment List issued every two years by the President, which covers the non-bank sectors. Most of the economic activities included in the negative list are related to services. Table 20 contains the non-bank services sectors affected as contained in the latest list.

Table 20. Services included in the 9th Regular Foreign Investment List

Foreign equity limit	Investment area/activity
From List A: Foreign ownership is limited by mandate of the constitution and specific laws	
No foreign equity	1. Mass media except recording

allowed	<p>2. Practice of all professions (limited to Filipino citizens except in cases prescribed by law):</p> <table border="0"> <tr> <td>a. Engineering</td> <td>n. Librarianship</td> </tr> <tr> <td>b. Medicine and allied professions</td> <td>o. Marine deck officers</td> </tr> <tr> <td>c. Accountancy</td> <td>p. Marine engine officers</td> </tr> <tr> <td>d. Architecture</td> <td>q. Master plumbing</td> </tr> <tr> <td>e. Criminology</td> <td>r. Sugar technology</td> </tr> <tr> <td>f. Chemistry</td> <td>s. Social Work</td> </tr> <tr> <td>g. Customs brokerage</td> <td>t. Teaching</td> </tr> <tr> <td>h. Environmental planning</td> <td>u. Agriculture</td> </tr> <tr> <td>i. Forestry</td> <td>v. Fisheries</td> </tr> <tr> <td>j. Geology</td> <td>w. Guidance counseling</td> </tr> <tr> <td>k. Interior design</td> <td>x. Real estate service</td> </tr> <tr> <td>l. Landscape architecture</td> <td>y. Respiratory therapy</td> </tr> <tr> <td>m. Law</td> <td>z. Psychology</td> </tr> </table> <p>3. Retail trade enterprises with paid up capital of less than US\$2.5 million. Full foreign participation is allowed for retail trade enterprises: (a) with paid-up capital of US\$2.5 million or more provided that investments for establishing a store is not less than US\$830 thousand; or (b) specializing in high end or luxury products, provided that the paid-up capital per store is not less than US\$250 thousand.</p> <p>4. Private security agencies</p> <p>5. Ownership, operation and management of cockpits</p>	a. Engineering	n. Librarianship	b. Medicine and allied professions	o. Marine deck officers	c. Accountancy	p. Marine engine officers	d. Architecture	q. Master plumbing	e. Criminology	r. Sugar technology	f. Chemistry	s. Social Work	g. Customs brokerage	t. Teaching	h. Environmental planning	u. Agriculture	i. Forestry	v. Fisheries	j. Geology	w. Guidance counseling	k. Interior design	x. Real estate service	l. Landscape architecture	y. Respiratory therapy	m. Law	z. Psychology
a. Engineering	n. Librarianship																										
b. Medicine and allied professions	o. Marine deck officers																										
c. Accountancy	p. Marine engine officers																										
d. Architecture	q. Master plumbing																										
e. Criminology	r. Sugar technology																										
f. Chemistry	s. Social Work																										
g. Customs brokerage	t. Teaching																										
h. Environmental planning	u. Agriculture																										
i. Forestry	v. Fisheries																										
j. Geology	w. Guidance counseling																										
k. Interior design	x. Real estate service																										
l. Landscape architecture	y. Respiratory therapy																										
m. Law	z. Psychology																										
20 percent	Private radio communications network																										
25 percent	<p>1. Private recruitment, whether for local or overseas employment</p> <p>2. Contracts for the construction and repair of locally funded public-works except:</p> <table border="0"> <tr> <td>a. Infrastructure/development project covered in RA 7718; and</td> </tr> <tr> <td>b. Projects which are foreign funded or assisted and required to undergo international competitive bidding.</td> </tr> </table> <p>3. Contracts for the construction of defense-related structures</p>	a. Infrastructure/development project covered in RA 7718; and	b. Projects which are foreign funded or assisted and required to undergo international competitive bidding.																								
a. Infrastructure/development project covered in RA 7718; and																											
b. Projects which are foreign funded or assisted and required to undergo international competitive bidding.																											
30 percent	Advertising																										
40 percent	<p>1. Exploration, development and utilization of natural resources. Full foreign participation is allowed through financial or technical assistance agreement with the President.</p> <p>2. Ownership of private lands</p> <p>3. Operation and management of public utilities</p> <p>4. Ownership/establishment and administration of educational institutions</p> <p>5. Culture, production, milling, processing, trading except retailing, of rice and corn and acquiring, by barter, purchase or otherwise, rice and corn and the by-products thereof. Full foreign participation is allowed provided that within the 30-year period from start of operation, the foreign investor shall divest a minimum of 60 percent of their equity to Filipino citizens.</p> <p>6. Contracts for the supply of materials, goods and commodities to government-owned or controlled corporation, company, agency or municipal corporation.</p>																										

	<ul style="list-style-type: none"> <li>7. Project proponent and facility operator of a BOT Project requiring a public utilities franchise</li> <li>8. Operation of deep sea commercial fishing vessel</li> <li>9. Adjustment companies</li> </ul>
49 percent	Lending companies. No foreign national may be allowed to own stock in lending companies, financing companies or investment houses unless the country of which he is a national accords the same reciprocal rights to Filipinos.
60 percent	<ul style="list-style-type: none"> <li>Financing companies regulated by the Securities and Exchange Commission</li> <li>Investment houses regulated by the Securities and Exchange Commission</li> </ul>
From LIST B: Foreign ownership is limited for reasons of security, defense, risk to health and morals and protection of small- and medium-scale enterprises	
40 percent	<ul style="list-style-type: none"> <li>1. Sauna and steam bathhouses, massage clinics and other like activities regulated by law because of risks to public health and morals</li> <li>2. All forms of gambling, except those covered by investment agreements by the Philippine Amusement and Gaming Corporation</li> <li>3. Domestic market enterprises with paid-in equity capital of less than the equivalent of US\$200K</li> <li>4. Domestic market enterprises which involve advanced technology or employ at least fifty direct employees with paid-in-equity capital of less than the equivalent of US\$100K</li> </ul>

In the banking sector, the number of new foreign banks that could open full-service branches in the Philippines was limited to 10 and they could only have six branch offices each. Under certain qualification requirements, foreign banks may own up to 60 percent in a locally-incorporated subsidiary. Foreign investors that do not meet these requirements are limited to a 40 percent stake. Philippine law also requires that majority Filipino-owned banks must, at all times, control at least 70 percent of total banking system resources in the country.

The measures discussed above relate primarily to market access affecting the ability of foreign suppliers to establish commercial presence in the Philippines. Specific laws would contain additional restrictive measures. For example, aside from foreign equity limitations based on categories of enterprises, the Retail Trade Liberalization Act of 2000 lists qualification requirements of foreign retailers based on the net worth, number of branches or franchises and track record of the parent company. Moreover, only nationals from or juridical entities formed or incorporated in countries which allow the entry of Filipino retailers are allowed to engage in retail trade in the Philippines. The law also includes discriminatory measures that apply post establishment to foreign retailers such as local sourcing requirement, public offering of shares of stock, and prohibition to engage in certain retailing activities outside their accredited stores.

In the case of professional services, with the Professional Regulation Commission (PRC) Modernization Act of 2000 or RA 8981, the relevant Professional Regulatory Board can

recommend to approve the registration of and authorize the issuance of a certificate of registration/license and professional identification card with or without examination to a foreigner who is registered under the laws of his state or country and whose certificate of registration issued has not been suspended or revoked. Additional conditions attached to this are (1) that the requirements for the registration or licensing in foreign state or country are substantially the same as those required and contemplated by the laws of the Philippines and (2) that the laws of the foreign state or country allow the citizens of the Philippines to practice the profession on the same basis and grant the same privileges as those enjoyed by the subjects or citizens of such foreign state or country.

### **Local regulations**

In addition to national laws and regulations, under the Local Government Code of 1991 local governments can impose additional regulations that affect the operations of service suppliers. For example, measures related to land use zoning, hours of operation, the disposal of wastes, and road access are within the jurisdiction of local government units. Given that services are non-storable (by the time their production is completed, they must have been provided to the consumer) and oftentimes require proximity (personal contact between consumer and supplier of the service is necessary), local government regulations can significantly affect the efficient supply of services.

### **NON-REGULATORY MEASURES AFFECTING THE SUPPLY OF SERVICES**

As mentioned previously, non-regulatory measures affecting the supply of services refer to business practices. Some practices can be beneficial as joint activities may foster efficiencies, reduce risk, and create new or improved products or methods of distribution (OECD 1999). However, there are practices such as abuse of a dominant position (whether by private or publicly-owned companies) that raise the input costs of businesses, make it more difficult to participate in exports markets or preclude market access altogether (ITC 2012). Types of business practices include the following (OECD 1999):

#### **Agreements**

- Horizontal agreements – are implicit or explicit agreements that restrict competitors' ability to act independently. This covers a broad range of conduct such as joint ventures, joint advertising or marketing, or trade association activities, to price-fixing and bid-rigging by cartels.
- Vertical agreements – agreements between upstream and downstream firms. It is an intermediate form of vertical integration. Examples of restrictive vertical agreements include resale price maintenance, exclusive distribution agreements, and exclusive dealing arrangements.

Mergers – any transaction in which two independent actors are combined into one.

- Horizontal mergers - take place between two firms that are actual or potential competitors (i.e. they sell the same products or close substitutes). The term horizontal signifies that the two enterprises are at the identical level in the chain of production.

- Vertical mergers – take place between firms at different levels in the chain of production (i.e. firms that have actual or potential buyer-seller relationships).
- Conglomerate mergers – neither horizontal nor vertical, that is, the firms neither produce competing products nor are in an actual or potential buyer-seller relationship. Mergers between two multiproduct firms may be simultaneously horizontal, vertical, and conglomerate.

#### Abuse of dominant position

- Exploitative abuses – when a firm takes advantage of its market power by charging excessively high prices to its customers, discriminating among customers, paying low prices to suppliers, or through related practices.
- Exclusionary abuses – when a firm attempts to suppress competition for example, by refusing to deal with a competitor, raising competitors' costs of entering a market, or charging predatory prices.

In the Philippines, there have been anecdotal examples of restrictive business practices in services:

- Existence of a local trucking cartel which control access to some ports such that these ports only accept goods that go through the trucking cartel. (<http://businessmirror.com.ph/index.php/en/news/economy/17506-some-powerful-filipino-businessmen-engaged-in-anti-competitive-practices> 05 August 2013)
- In a particular mall, only credit cards issued by the bank also owned by the mall owners would be accepted. Also, only ATMs of that same bank could be found nearby. Another large mall chain allows only credit card terminals of its own bank in establishments within the mall. (<http://opinion.inquirer.net/57113/the-missing-measure> July 22, 2013)
- A distributor of a large multinational firm threatened to cut off a rural-based sari-sari store if it continued to sell a homegrown soap made by an NGO-assisted community livelihood project. (<http://opinion.inquirer.net/57113/the-missing-measure> July 22, 2013)
- Interconnection remains a problem in telecommunications. GLOBE Telecom has sought intervention from the National Telecommunications Commission claiming that PLDT has not enforced in full the terms of interconnection between the industry giant and Globe's subsidiary InnoVe Communications despite repeated representations made since 2007. (<http://www.businessmirror.com.ph/index.php/en/business/companies/9055-globe-seeking-ntc-intervention-on-innoVe-pldt-interconnection> February 10, 2013)

Abad et al. (2012) present various cases of alleged unfair trade practice in the Philippines such as predatory pricing in telecommunications, vertical agreements in the energy sector, obstruction of competition through 'voluntary loyalty programs' in the sale of canned tuna, exclusivity arrangements in banana and pineapple export industries and price fixing in cement. They also conduct a survey on perceptions of unfair trade practices (UTPs), which



focus on two general types of UTPs – exclusionary abuse (e.g. predatory pricing, refusal to deal, systematic obstruction of competition) and exploitative abuse (e.g. unfair pricing, tied selling, coercive dealing). The table below shows the sectors that are perceived to be most affected by unfair trade practices:

Table 21. Sectors Most Affected by Unfair Trade Practices (Survey Results)

Business	Business and Consumer Associations	Government
Retailers Manufacturing Energy Consumer Telecommunications Services Food	Agriculture Consumers Telecommunications Infrastructure Energy Construction Manufacturing Services Food	Consumer Energy Food Services Government

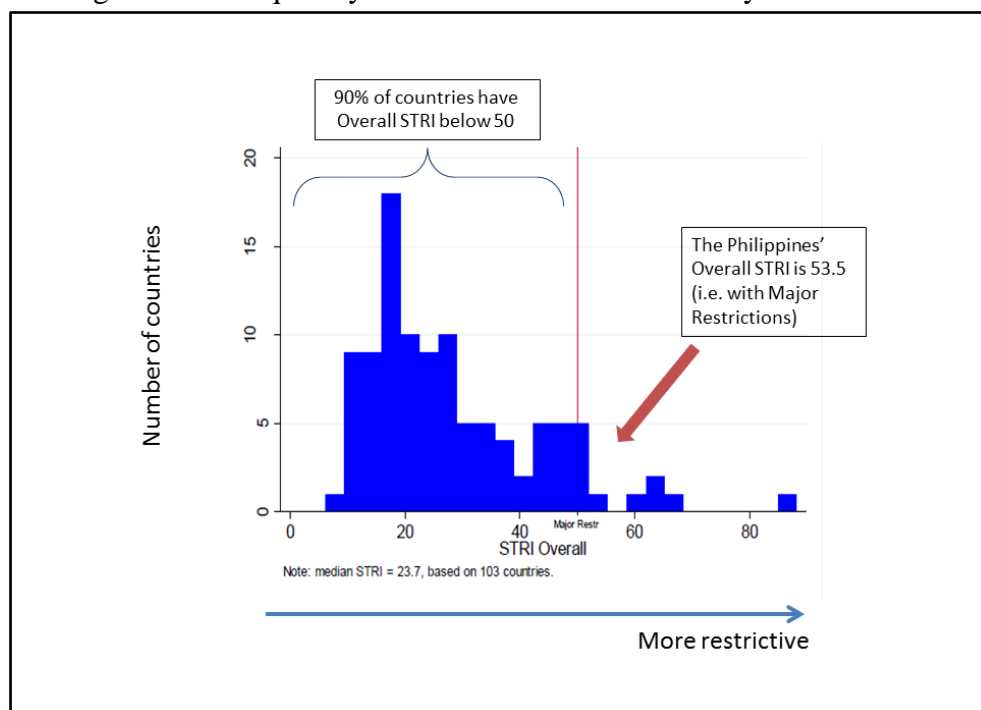
Source: Table 4.4 (Abad et al. 2012)

The authors note that while respondents from the business sector are aware of the adverse impacts of UTPs, there seems to be no interest to pursue legal action. Thus, it is likely that the effects of UTPs are passed on to consumers in the form of higher prices.

## MEASURES OF RESTRICTIVENESS AND THE IMPACT OF SERVICE REFORM

Based on the World Bank’s Services Trade Restrictiveness Index (STRI), the country has one of the most restrictive policy environments for services (See Figure 23).

Figure 23. Frequency Distribution of the Country-Level STRI

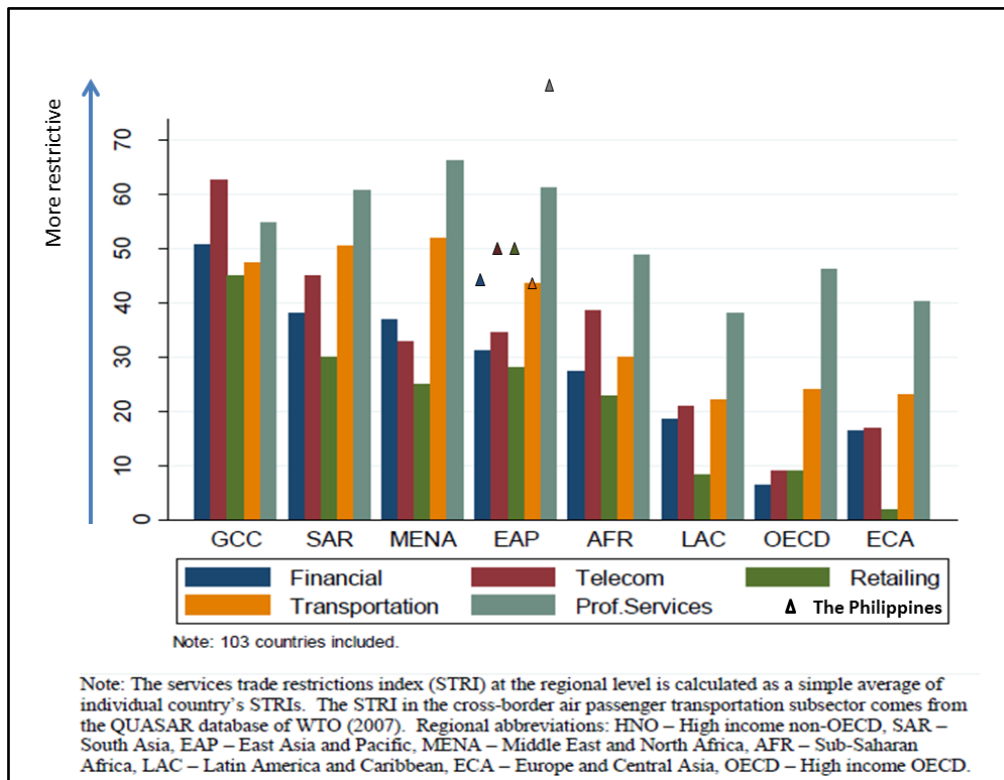


Source: Figure 1 in Borchert, Gootiiz and Mattoo (2012b) with additions

The STRI is a measure of the restrictiveness of a country’s policy regime based on policy information alone. Specifically, it measures the degree of discriminatory restrictions in financial services, telecommunications, retail, transport, and professional service. Technical Note #6 briefly describes the WB STRI methodology.

As can be seen in Figure 24, among the sectors included in the Index, it is in professional services where the extent of restrictiveness is highest for the Philippines.

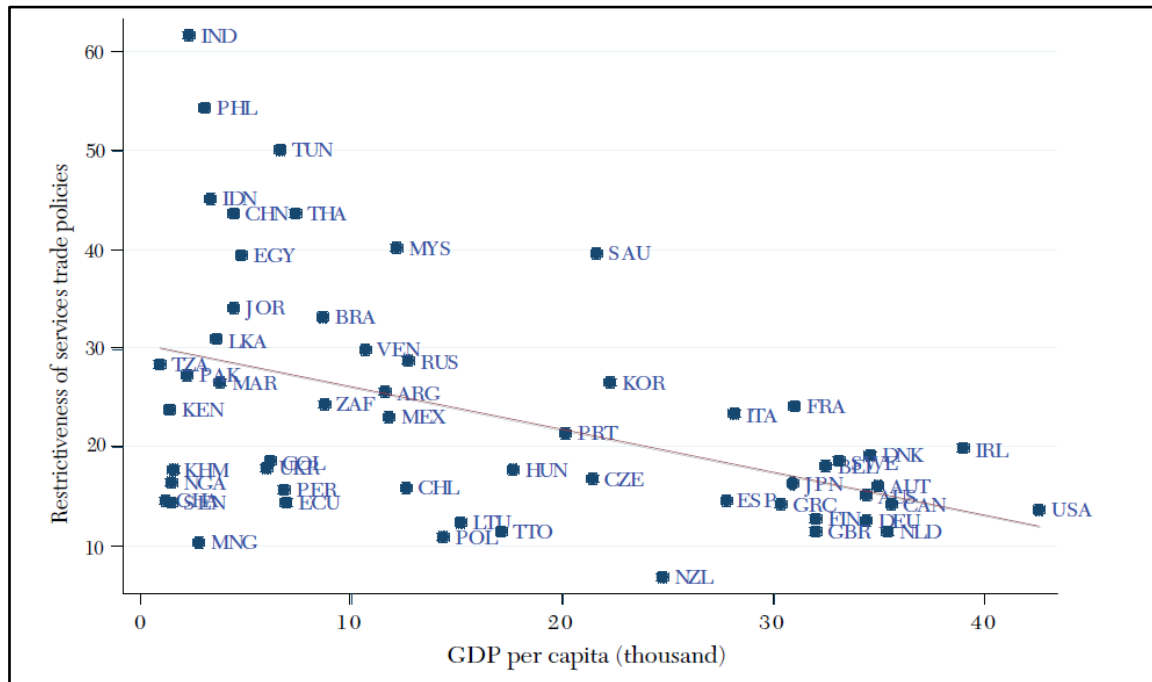
Figure 24. STRI by Sector and Region



Source: Figure 3 in Borchert, Gootiiz and Mattoo (2012b) with additions.

Figure 25 presents each country’s overall index of services trade restrictions plotted against its per capita income showing a negative relationship (i.e. high restrictiveness associated with lower GDP per capita). In the figure, the Philippines is just below India in terms of restrictiveness.

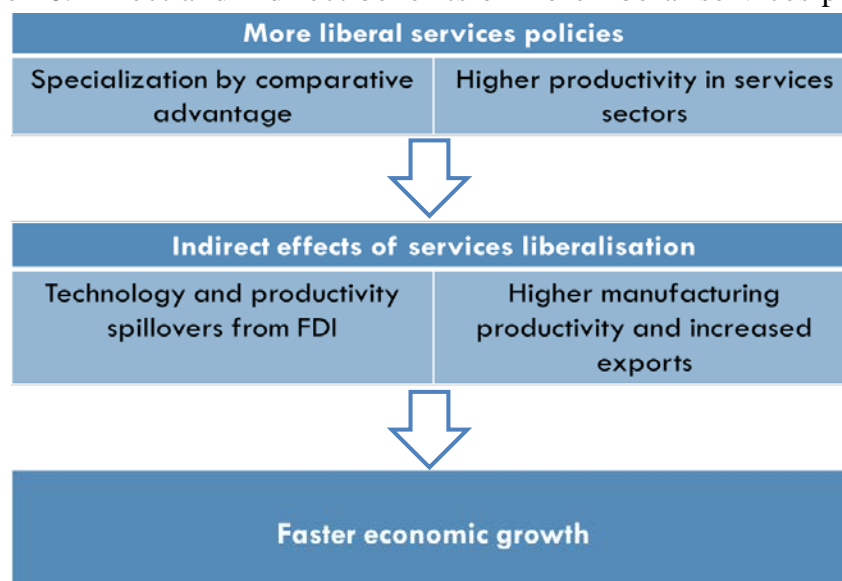
Figure 25. Restrictiveness of Services Trade Policies by GDP per Capita, 2007



Source: Gootiz and Mattoo (2009) as cited in Francois and Hoekman (2010)

Shepherd and Van Der Marel (2010) describe the mechanism by which more open services policies can lead to productivity improvements and economic growth (Figure 26). Since services are an important input into many production processes, regulatory reform that reduces restrictions in services sectors leads not only to improved resource allocation through specialization by comparative advantage, but also to significant “knock on” effects in other parts of the economy. Productivity in manufacturing (and other goods sectors) can be increased as a result of gains in service sector efficiency. An additional set of spillovers from services trade come from the important role played by FDI and trade via Mode 3 (sales by foreign affiliates). The authors note that these spillover effects matter for subsequent economic growth in addition to its contribution in augmenting the stock of capital (through increased FDI) and human capital through education and health services. Substantial technology spillovers from FDI, as well as skill upgrading in labor markets can occur.

Figure 26. Direct and indirect benefits of more liberal services policies



Source: Shepherd and Van Der Marel (2010)

Francois and Hoekman (2010) present various supporting empirical evidence of the relationship between the policy environment for services and various economic outcomes (See Box 1).

#### Box 1. Services and economic performance

There is increasing evidence that openness in the services sector contributes to good economic performance including productivity in manufacturing and the coordination of activities both between and within firms. Various studies conclude that policy reforms that increase competition result in improved performance of the industries concerned.

Looking at basic telecommunications Fink, Mattoo, and Rathindran (2003) analyze the impact of specific policy changes relating to ownership and competition on sector performance. They conclude that both privatization and more competition lead to significant improvements in performance. However, a comprehensive reform program involving both of these policies supported by an independent regulator produced the largest gains. They also conclude that the sequence of reform matters: the number of new fixed line connections is lower if competition is introduced after privatization, rather than at the same time.

Studies of the Czech Republic (Arnold, Javorcik, and Mattoo 2007) and Chile (Fernandes and Paunov 2008) find a significant positive relationship between FDI in services following liberalization and the performance of downstream domestic firms in manufacturing. The increased presence of foreign services providers following the opening of the associated services sectors is the most robust services variable affecting total factor productivity.

In related firm-level research focusing on Africa that uses data from over 1,000 firms in ten sub-Saharan African economies, Arnold, Mattoo, and Narciso (2008) also find a

statistically significant positive relationship between firm performance and the performance of three service input industries (access to communications, electricity and financial services).

Other studies confirm positive dynamic effects from trade liberalization and regulatory reform in services. Robinson, Wang, and Martin (2002) stress indirect effects from services sector trade liberalization on the efficiency and output of other sectors in the economy working through interindustry input–output relations induced by imports of high-quality services.

Cross-section cross-country regression studies also point to positive linkages between service sector openness and growth in developing countries. For example, Mattoo, Rathindran, and Subramanian (2006) find that controlling for other determinants of growth, countries with open financial and telecommunications sectors grew, on average, about 1 percentage point faster than other countries. Fully liberalizing both the telecommunications and the financial services sectors was associated with an average growth rate 1.5 percentage points above that of other countries.

Working with a panel of 93 developed and developing countries for the period 1986–95, Eschenbach, Francois, and Schuknecht (2000) find strong linkages between a range of measures of financial sector openness and growth. Along similar lines, Eschenbach and Hoekman (2006b) utilize three indicators of the “quality” of policy in banking, nonbank financial services and infrastructure to investigate the impact of changes in services policy, including liberalization, on economic performance over the period 1990–2004 for a sample of twenty transition economies. They find that changes in policies toward financial and infrastructure services, including telecommunications, power, and transport, are highly correlated with inward FDI. Controlling for regressors commonly used in the growth literature, they conclude that measures of services policy reform are statistically significant explanatory variables for the post-1990 economic performance of the transition economies in the sample.

Source: Francois and Hoekman (2010), pages 668–671.

A recent study by Dee (2013) estimated the likely impact if ASEAN were to introduce reforms in their services sectors. Both economy- and region-wide effects of prospective services trade reforms in the transport, telecommunications, medical, accounting, finance and energy sectors in ASEAN economies were examined. These reforms involve the removal of explicit discrimination against foreign suppliers, the removal of non-discriminatory barriers to market access, and the introduction of more competition-friendly domestic regulatory regimes. Key results include:

- The estimated first-round impacts of the reforms suggest that they could lead to weighted average price reductions in most economies in the range of 10 to 20 per cent across the sectors involved, with a substantial proportion of these price reductions

coming about through productivity improvements. For the Philippines, the estimated price reduction is 14.8 percent.

- Once these price reductions flowed throughout each economy and through the region as a whole, it is projected that the services trade reforms would generate real income gains in each ASEAN economy of between 1.5 and 5.6 per cent of GDP, relative to what would have happened had no reforms occurred. For the Philippines, the welfare gains from services trade reforms relative to economic size is 2.18 percent of GDP.
- The proportion of welfare gains that is attributable to reforms at home is high relative to reforms in all other ASEAN countries. Thus, while the benefits from joint reforms are considerable there is no compelling reason to wait for other countries to undertake domestic reforms. For the Philippines it is estimated that 97.80 percent of the gains would be attributable to own reforms.
- In terms of the contribution to the overall gains in each ASEAN country from the regional services trade reforms in each sector, the biggest share tend to come from reforms in maritime and air transport. This could be due to the size of the sectors and because they are closely linked to the manufacturing production networks and primary-based export activities in ASEAN. These sectors can also achieve sizable productivity improvements from own reforms. In maritime, reforms include dismantling of any remaining entry restrictions (including cabotage restrictions), quotas or cargo sharing arrangements, and the granting of national treatment to foreign-owned carriers located domestically. In air transport, the range of reforms includes reforms in air services agreements, entry conditions for domestic and foreign carriers, and reforms in ownership. For the Philippines, the biggest contributor to overall gains from services reform is maritime sector reform accounting for 30.45 percent of the gains.

## SUMMARY AND IMPLICATION FOR FORMULATING THE STRATEGY

The Philippines has one of the most restrictive policy regimes for services in the world. Moreover, anti-competitive business practices take place, at times despite the presence of industry regulators. Both regulatory measures and non-regulatory measures undermine the efficient supply of services to users.

Ex-ante and ex-post studies of services reform indicate significant benefits from removing restrictions on the supply of services. Moreover, gains are greater when comprehensive sectoral reforms are undertaken which not only remove discriminatory measures but also create a pro-competition environment.

As part of the services strategy, a trade-related audit of the laws and regulations affecting services should be conducted with the view of removing the laws and regulations whose policy objective is no longer relevant or could be achieved by a less restrictive measure.

From an economic perspective, there must be a closer alignment between a regulation and the market failure it seeks to address. With Congress considering amendments to the economic provisions of the 1987 Philippine Constitution, there is an opportunity to reflect on the policy rationale behind key measures affecting services (some of which could be traced back to the Commonwealth Act No. 146 “The Public Service Law of 1936”) and adopt less trade restrictive measures that take into consideration the technological, economic, and business landscape of the 21<sup>st</sup> century. There are also other benefits of a regulatory audit in the context of trade negotiations which include promoting understanding among regulators and trade negotiators of the implications of making commitments; benchmarking of the national regulatory regime in terms of effectiveness and compliance with international best practices; and anticipating and preparing for requests from trade partners (UN 2013, pp. 24-26).

## CONCLUSION: PROPOSED STRATEGIC FRAMEWORK TO HARNESS SERVICES FOR INCLUSIVE GROWTH

Inclusive growth requires broad-based, rapid, and sustainable economic growth. Because services are used for intermediate and final demand, productivity growth in all services sectors can contribute to achieving inclusive growth. Competitive intermediate services will benefit the downstream users and help grow other sectors. Competitive final services will generate more demand creating additional jobs and revenues (including export earnings).

The Philippine development plans and policies should not just focus on the BPO and Tourism sectors but harness all services to achieve inclusive growth. Given the diversity of services, their role in the economy varies. Each should be developed taking into account its unique characteristics and contribution to overall economic growth.

Special attention should be given to inefficient sectors. Labor productivity growth from 2008 to 2011 was below aggregate in Retail trade, Hotels and restaurants, Real estate activities, Education services, and Postal and Telecommunications. In Other service activities, Water transport, Non-bank Financial, Land transport, and Wholesale trade labor productivity growth was negative during the same period. Improving productivity of these sectors, especially those that are used intensively in other industries should be a priority.

Regulatory measures and non-regulatory measures that undermine the efficient supply of services should be eliminated. The Philippines has one of the most restrictive policy regimes for services in the world. Moreover, anti-competitive business practices occur, at times despite the presence of industry regulators.

A trade-related audit of the laws and regulations affecting services should be conducted with the view of removing the laws and regulations whose policy objective is no longer relevant or could be achieved by a less restrictive measure. In terms of priorities for the audit, in addition to a review of the horizontal measures (those that affect all sectors such as immigration-related regulations), the services that have experienced poor productivity growth are good candidates. These same services are subject to key trade and investment restrictions. As emphasized in the various economic policy literature surveyed, it is important to look into the competition regime in the sector as well and not just the restrictive regulatory measures.

Despite competitiveness issues in key sectors, the Philippines has made solid achievements in the export of some services. Capitalizing on these accomplishments, a comprehensive and high profile services export initiative should be established. The country's decades of experience and success as a supplier of labor of different skill levels, its strategic location both physically and virtually (being a key player in the offshoring industry), and the huge network of Filipino service suppliers and consumers around the globe provide good building blocks to establish the Philippines as the heart of services trade in the Asia-Pacific region. An umbrella program dedicated to services exports would consolidate successes already



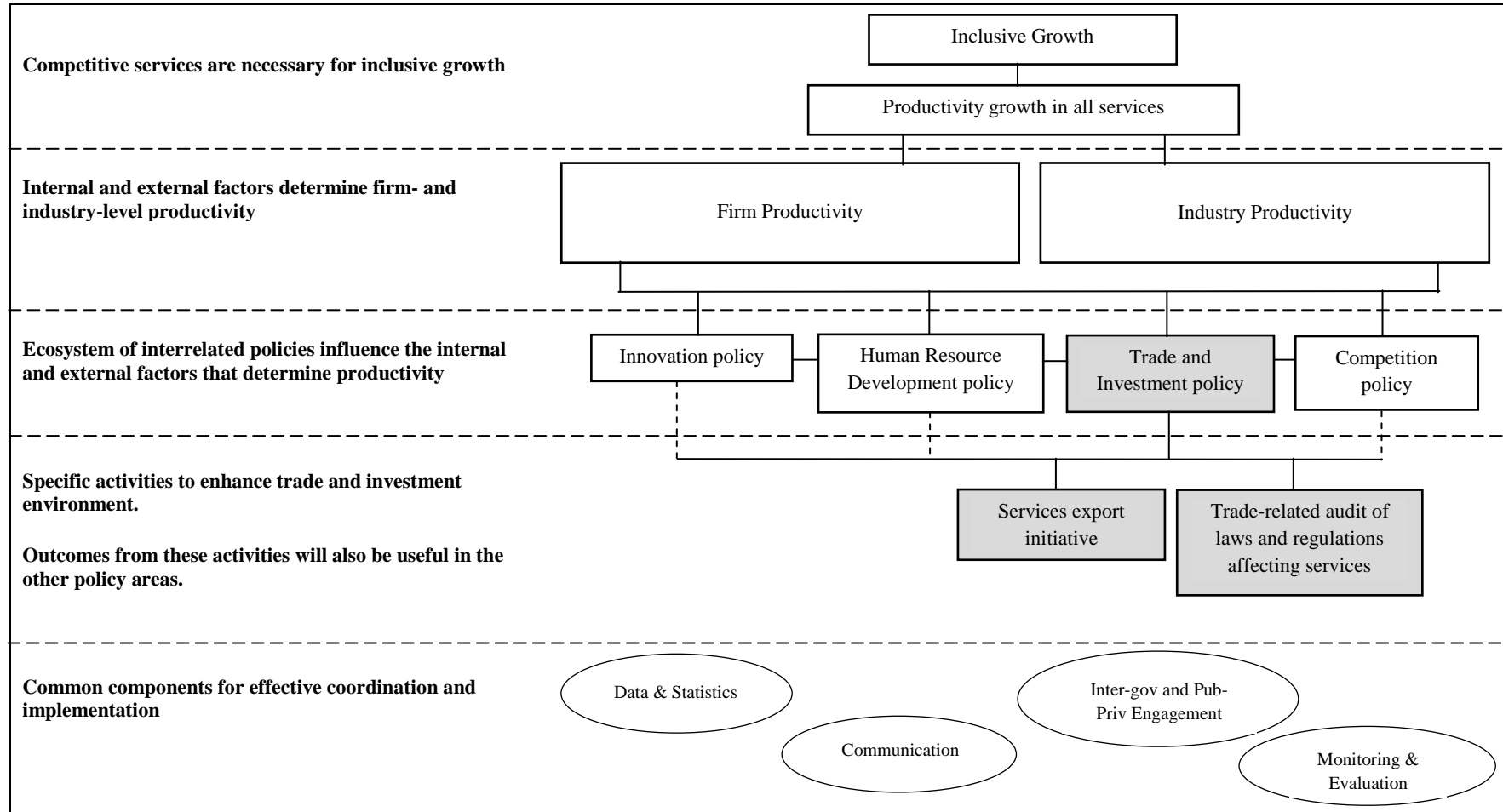
achieved in different modes of supply and sectors as well as facilitate the overseas expansion of other services and service suppliers with the potential to internationalize. Over time the services export program will help make the Philippines a valuable brand in services trade.

The two concrete initiatives proposed above will lead to a trade and investment policy environment that is conducive to creating competitive services. However, there are other related policy areas that are also instrumental in increasing firm- and industry-level productivity. As discussed in Syverson (2011), factors that directly impact productivity at the micro level include: managerial practice/talent; higher-quality general labor and capital inputs; information technology and R&D; learning-by-doing; product innovation; and firm structure decisions. These are “levers” that managers can employ to impact the productivity of their business. Another set of factors are external to the firm. Although they may not have a direct impact, they affect producers’ incentives to improve productivity and employ initiatives that are within their control as enumerated above. Moreover, external drivers of productivity can have industry-wide effects as more efficient producers grow faster than less efficient ones or more efficient entrants replace less efficient exiting firms. Elements of the market environment that can influence the behavior of the firm and induce productivity improvements include productivity spillovers (for example, through knowledge transfers and technological spillovers); competition; proper regulation; and flexible input markets.

With the host of factors that determine productivity at the firm and industry level, strategies involving government policy on innovation and human resource development (HRD) would be needed as well. Innovation is broader than just science and technology. It involves the use and dissemination of new technologies and practices which then improve productivity. Creating an overall climate that encourages innovation includes appropriate incentives and mechanisms to support innovators, removing obstacles to innovative initiatives, establishing responsive research structures and fostering a creative and receptive population through appropriate educational systems. Many countries both developed and developing are using innovation as the foundation of competitive industries from agriculture to services (WB 2010). HRD policies cover the quality of the labor force and the regulation of the labor market. HRD has multiple dimensions, which include educational attainment, workforce skills, population health and the set of employment policies that provide businesses with workers with the right skills and the ability to adapt quickly to new challenges. Each of these dimensions contributes to creating an environment conducive for both domestic and foreign enterprises to grow (OECD 2012). As innovation and HRD issues cut across all economic sectors (i.e. not just services) and are complex issues on their own, it is important to examine them separately to identify concrete activities appropriate for services.

Figure 27 depicts the proposed strategic framework to harness services to achieve inclusive growth. It is based on the key insights from the previous chapters (mentioned again above) and focuses on trade and investment policy noting that the other related policy areas need to be studied further. The framework also identifies important components for the effective implementation of any strategy.

Figure 27. Proposed Strategic Framework to Harness Services for Inclusive Growth



## REFERENCES

Abad, A., Gonzales, K., Rosellon, M. and Yap, J. 2012, 'Unfair Trade Practices in the Philippines', PIDS Discussion Paper Series No. 2012-39

Arkell, J. and M. D. C. Johnson 2005, *Sustainability Impact Assessment of Proposed WTO Negotiations: Final Report for the Distribution Services Study Report*, International Trade and Services Policy and Institute for Development Policy and Management, School of Environment and Development, University of Manchester, Manchester, United Kingdom.

Borchert, Ingo, Batshur Gootiiz and Aaditya Mattoo 2012a, 'Guide to the Services Trade Restrictions Database', World Bank Policy Research Working Paper 6108

Borchert, Ingo, Batshur Gootiiz and Aaditya Mattoo 2012b, 'Policy Barriers to International Trade in Services: Evidence from a New Database', World Bank Policy Research Working Paper 6109

Dee, P. 2013, *The Benefits and Costs of Further Services Liberalization in ASEAN*. Unpublished.

The EU-ASEAN Statistical Capacity Building Programme (EASCAB) 2012, *Statistics on International Trade in Services (SITS) National Contribution to an ASEAN Metadata Publication – Philippines*. (Downloaded from <http://eascab.asean.org> on 23 July 2013)

Francois, J and Bernard Hoekman 2010, 'Services Trade and Policy', *Journal of Economic Literature* 48: 642-692.

International Trade Center (ITC) 2012, *Combating Anti-Competitive Practices: A Guide for Developing Economy Exporter*, Geneva.

Langhammer, Rolf J. 2004, 'Revealed comparative advantages in services trade of the United States, the European Union and Japan: what do they tell us?' *The Journal of World Investment and Trade* ISSN 1660-7112, Vol. 5 Iss. 6, pp 887-896 <http://hdl.handle.net/10419/3429>

McGuire, G. 2003, 'Methodologies for measuring restrictions on trade in services', in Sidorenko, A. and Findlay, C. eds. *Regulation and Market Access*, Asia Pacific Press at the Australian National University

OECD, 2012. Chapter 8. Human Resource Development in Policy framework for investment user's toolkit (downloaded from <http://www.oecd.org/investment/toolkit/>)

Shepherd B, Van Der Marel E. 2010, 'Trade in Services in the APEC Region: Patterns, Determinants, and Policy Implications' Singapore: APEC Policy Support Unit

Syverson, C. 2011, 'What determines productivity?' *Journal of Economic Literature* 49 (2):326-365.

UN 2009, *System of National Accounts 2008*

UN 2011, *Manual on Statistics of International Trade in Services 2010* (MSITS 2010)

UN 2013, *A Handbook on Negotiating Preferential Trade Agreements: Services Liberalization*

World Bank. 2009, “What is Inclusive Growth”, World Bank, Washington DC. (Accessed on 22 October 2013 from <http://siteresources.worldbank.org/INTDEBTDEPT/Resources/468980-1218567884549/WhatIsInclusiveGrowth20081230.pdf> )

World Bank. 2010, *Innovation Policy A Guide for Developing Countries*. World Bank, Washington DC.

World Economic Forum (WEF) 2012, *The Global Enabling Trade Report 2012 Reducing Supply Chain Barriers*. Geneva

# TECHNICAL NOTES

## Technical Note #1 Definition of services

### Definition of services

**Services are the result of a production activity that changes the conditions of the consuming units, or facilitates the exchange of products or financial assets.**

*Change-effecting services* (also referred to as “*transformation services*”) are outputs produced to order and typically consist of changes in the conditions of the consuming units realized by the activities of producers at the demand of the consumers. Change-effecting services are not separate entities over which ownership rights can be established. They cannot be traded separately from their production. By the time their production is completed, they must have been provided to the consumers.

The changes that consumers of services engage the producers to bring about can take a variety of different forms as follows:

- a) Changes in the condition of the consumer’s goods – the producer works directly on goods owned by the consumer by transporting, cleaning, repairing or otherwise transforming them;
- b) Changes in the physical condition of persons: the producer transports the persons, provides them with accommodation, provides them with medical or surgical treatments, improves their appearance, etc.;
- c) Changes in the mental condition of persons: the producer provides education, information, advice, entertainment or similar services in a face to face manner.

The changes may be temporary or permanent. In general, the changes may be presumed to be improvements, as services are produced at the demand of the consumers. The improvements usually become embodied in the persons of the consumers or the goods they own and are not separate entities that belong to the producer. Such improvements cannot be held in inventories by the producer or traded separately from their production.

*Margin services* result when one institutional unit facilitates the change of ownership of goods, knowledge-capturing products (which involve the provision, storage, communication and dissemination of information, advice and entertainment in such a way that the consuming unit can access the knowledge repeatedly), some services or financial assets between two other institutional units. Margin services are provided by wholesalers and retailers and by many types of financial institutions.

Source: UN (2009, pp. 96-97)

In practice, services activities are mainly taken to be those listed in sections G through S of ISIC, Rev.4 with some exceptions appearing in other sections. Electricity, gas, steam and air conditioning supply (ISIC, Rev.4, sect. D); water supply; sewerage, waste management and remediation activities (ISIC, Rev.4, sect. E); and construction (ISIC, Rev.4, sect. F) are not covered, since the main production is generally regarded as being related more to goods. (UN 2011, page 9)

### Technical Note #2 Measurement of the supply of services by GATS modes

There are two main sources of statistics on trade in services. One is the Balance of Payments (BOP) and the other is Foreign Affiliates Statistics (FATS). The BOP services transactions record sales of services by residents to non-residents and vice versa. FATS record the total sales/output of services of the affiliate to clients who are resident in the economy where the affiliate is established, as well as exports of the affiliate outside this economy. For a complete view of the total value of GATS supply of services, it is necessary to combine statistics drawn from the BOP and FATS frameworks. However, the different sets of statistics cannot be compared precisely because of differences in terms of coverage, measurement and classification.

The Services Account in the BOP captures cross-border trade and therefore generally reflects the supply of services via Modes 1, 2, and 4<sup>1</sup>. However, allocation by modes of supply is not available at this time. Some services, when exchanged between residents and non-residents, are predominantly delivered through one mode. For example, services primarily delivered by Mode 1 include communications, insurance, financial services, royalties and license fees, and transportation (except supporting and auxiliary services to carriers in foreign ports, which should be allocated to Mode 2). All services recorded under item travel (i.e. excluding goods) should be allocated to Mode 2 (consumption abroad). However, some other services may involve significant elements of two modes of supply. Computer and information services; other business services; and personal, cultural, and recreational services may be delivered through Mode 1 and Mode 4. For example, under computer services, part of it could have been delivered by Mode 1 (e.g. electronic transmission of a specific software developed in the country of the provider) and part of it by Mode 4 (e.g. a programmer developing a specific application in the premises of the foreign customer).

To measure the supply of services via Mode 3, the Foreign Affiliates Statistics (FATS) framework is used. The most pertinent information on the operations of affiliates would be

---

<sup>1</sup> Not all Mode 4 supply would be recorded in the Services Account of the BOP. The supply of contractual service suppliers (either as employees of foreign service suppliers or as independent professionals) would be recorded as imports of services in the host country where the service is delivered. However, employees of services foreign affiliates and intra-corporate transferees would not be recorded as imports as they are linked to Mode 3. Business Visitors for the establishment of commercial presence for sales negotiations are not supplying services at that stage. The BOP may also include some Mode 3 of Construction Services. Some construction services may be carried out by a non-resident enterprise, without the creation of a resident entity. In these cases, the work provided to the customers that are resident in the territory of the operations is classified as international trade in services. For major projects, such as those involving bridges, dams and power stations, that take a year or more to complete and are managed through a site office, the operations would usually satisfy the criteria set up for identification of a branch and would not be classified as international trade in services.

their sales (turnover) and/or output. FATS may be developed for both foreign-controlled affiliates in the compiling economy (inward FATS) and controlled foreign affiliates of the compiling economy (outward FATS).

Sources: UN (2011) and EASCAB (2012)

Technical Note #3 A.T. Kearney’s Global Services Location Attractiveness Index

Formerly called the Offshore Location Attractiveness Index, it is a tool to help companies understand and compare the factors that make countries attractive as potential locations for offshore services. The Index measures the viability of countries as an offshore destination based on 3 main categories:

Category: Financial Attractiveness (40%)

Compensation costs	<ul style="list-style-type: none"> <li>• Average wages</li> <li>• Median compensation costs for relevant positions (call-center reps, BPO analysts, IT programmers and local operations managers)</li> </ul>
Infrastructure costs	<ul style="list-style-type: none"> <li>• Rental costs</li> <li>• Commercial electricity rates</li> <li>• International telecom costs</li> <li>• Travel to major customer destinations (New York, London and Tokyo)</li> </ul>
Tax and regulatory costs	<ul style="list-style-type: none"> <li>• Relative tax burden</li> <li>• Corruption perception</li> <li>• Currency appreciation or depreciation</li> </ul>

Category: People Skills and Availability (30%)

Remote services sector experience and quality ratings	<ul style="list-style-type: none"> <li>• Size of existing IT and BPO sectors</li> <li>• Contact center and IT center quality certifications</li> <li>• Quality ratings of management schools and IT training</li> </ul>
Labor force availability	<ul style="list-style-type: none"> <li>• Total workforce</li> <li>• University-educated workforce</li> <li>• Workforce flexibility</li> </ul>
Education and language	<ul style="list-style-type: none"> <li>• Scores on standardized education and language tests</li> </ul>
Attrition risk	<ul style="list-style-type: none"> <li>• Relative IT and BPO sector growth and unemployment rates</li> </ul>

Category: Business Environment (30%)

Country environment	<ul style="list-style-type: none"> <li>Investor and analyst ratings of overall business and political environment</li> <li>A.T. Kearney FDI Confidence Index</li> <li>Security risk</li> <li>Regulatory burden and employment rigidity</li> <li>Government support for the information and communications technology (ICT) sector</li> </ul>
Infrastructure	<ul style="list-style-type: none"> <li>Overall infrastructure quality</li> <li>Quality of telecom, Internet and electricity infrastructure</li> </ul>
Cultural exposure	<ul style="list-style-type: none"> <li>Personal interaction score from A.T. Kearney Globalization Index</li> </ul>
Security of intellectual property (IP)	<ul style="list-style-type: none"> <li>Investor ratings of IP protection and ICT laws</li> <li>Software piracy rates</li> <li>Information security certifications</li> </ul>

The scores of the top ten countries in each category are as follows:

Rank and Country	A.T. Kearney's Global Services Location Attractiveness Score	Financial Attractiveness (40%)	People Skills and Availability (30%)	Business Environment (30%)
1 <sup>st</sup> – India	7.01	3.11	2.76	1.14
2 <sup>nd</sup> – China	6.49	2.62	2.55	1.31
3 <sup>rd</sup> – Malaysia	5.99	2.78	1.38	1.83
4 <sup>th</sup> – Egypt	5.81	3.10	1.36	1.35
5 <sup>th</sup> – Indonesia	5.78	3.24	1.53	1.01
6 <sup>th</sup> – Mexico	5.72	2.68	1.60	1.44
7 <sup>th</sup> – Thailand	5.72	3.05	1.38	1.29
8 <sup>th</sup> – Viet Nam	5.69	3.27	1.19	1.24
9 <sup>th</sup> – Philippines	5.65	3.18	1.31	1.16
10 <sup>th</sup> – Chile	5.52	2.44	1.27	1.82

Source: The A.T. Kearney Global Services Location Index™, 2011

Technical Note #4 Services in the Balance of Payments: The case of outsourcing

In cases where a company “outsources” services that is, contracts another (specialist) company to provide services that were previously internal company functions (for example, billing or information “help” services), those services should be classified to the appropriate



services item. Services supplied by “call centres” and similar types of operation should be classified according to the type of service provided. For example, call centres selling products are included in *trade-related services*, while call centres providing computer support are included in *computer services*. (para 3.61 of MSITS 2010 and para 10.59 of BPM6)

#### Technical Note #5 Coverage of GATS Mode 4

	Included	Excluded
Duration of stay	Temporary presence as well as non-specified periods of stay (“temporary” is not defined in the GATS, the period is set by the host country)	Permanent migration (not defined, but the GATS does not apply to measures affecting residence, citizenship or employment on a permanent basis)
Purpose of stay	Presence of natural persons for the supply of commercial services	Persons seeking to access the employment market Presence of natural persons for the production of goods (for example agricultural products and manufactures) Services supplied under governmental authority
Skill level	All skill levels	No skill level is excluded from the GATS
Main categories of natural persons	Self-employed service suppliers ( <i>Contractual services suppliers — self-employed</i> ) Employees of service suppliers sent abroad to supply a service ( <i>Contractual services suppliers — employees</i> ) Employees of foreign service suppliers established in the host country linked to Mode 3 ( <i>Intra-corporate transferees and directly recruited foreign staff</i> ) <i>Service sellers and persons responsible for setting up commercial presence</i>	Foreign employees of domestically owned juridical persons

Source: Table V.1 Summary of GATS Mode 4 Coverage (UN MSITS 2010, p.115)

#### Technical Note #6 Summary of STRI methodology

The World Bank Services Restrictiveness Index (STRI) provides a single measure of overall openness for any subsector-mode combination where 0 means open and 100 means restricted. It focuses on policy measures that discriminate against foreign services or service providers affecting international trade in services (Mode 1, 3, and 4). The sectors covered include: financial services (banking and insurance); telecommunications; retail distribution; transportation, and professional services (accounting and legal). These were chosen based on

an assessment of their economic importance from a development perspective, the existence of meaningful restrictions on services trade, and the feasibility of collecting relevant policy data.

The steps in constructing the STRI are as follows:

First, the policy measures that go into building the STRIs for each subsector-mode combination were selected. For example, the broad categories of Mode 3 measures include: foreign equity limit, legal form of entry, licensing limits and transparency of licensing requirements, and restrictions on operations.

Second, the level of restrictiveness imposed by a particular measure was determined using the following rules for scoring the key restrictions:

Category of openness	Score
Open	0
Virtually open	25
Significant restrictions	50
Virtually closed	75
Closed	100

Third, subsector-mode scores were aggregated using a set of weights:

a. Sector Score

$$STRI_{cj} = \sum_m w_m^{(j)} s_{jmc} \quad c - \text{country}; j - \text{sector}; m - \text{mode}$$

$s_{jmc}$  - the basic scores on a 5-point scale per subsector and mode of supply

$w_m^{(j)}$  - the set of modal weights specific to sector  $j$

Note that the sectors differ in the relative importance of alternative modes for delivering a specific service. For example, in a “consumer service” such as life insurance, a higher modal weight is attached to commercial presence than in the reinsurance sector in which cross-border provision amongst firms is the dominant mode of supply. In assigning the weights, extensive consultations were conducted with the private sector representatives and regulators.

b. Overall Country-Level Score

$$STRI_c = \sum_j w_j STRI_{cj} \quad c - \text{country}; j - \text{sector}$$

Sector weights ( $w_j$ ):

- Financial services (banking and insurance) - .149 and .095
- Telecommunications - 0.095
- Retail distribution - 0.239
- Transportation - 0.223
- Professional services (accounting and legal) - 0.199

Sector weights are based on services sector's standardized share in total services output for an 'average' industrialized country.

The STRI scores and the supporting qualitative information are available in the Services Trade Restrictions Database (<http://iresearch.worldbank.org/servicestrade/>). In addition to discriminatory measures, the database contains some information on complementary areas of non-discriminatory prudential and pro-competitive regulation as well as limited information on the implementation of policies (e.g. transparency in granting licenses). Information on the existing market structure and extent of competition; outcome variables such as prices, quality or diversity of services and preferential policies are not yet included.

The database includes information on 103 countries, broadly representing all regions and income groups in the world. Data on the 24 OECD countries were based on publicly available sources while for the 79 non-OECD countries, questionnaires ([http://iresearch.worldbank.org/servicestrade/WB\\_Survey\\_Services\\_Version\\_2010.pdf](http://iresearch.worldbank.org/servicestrade/WB_Survey_Services_Version_2010.pdf)) were completed by local law firms (ACCRA Law for the Philippines).

The STRI score of the Philippines (and most of the countries in the database) was based on the policy environment in 2008. TABLE 22 below shows the scores of the Philippines per sector and mode of supply. The higher the score, the more restrictive is the policy environment.

Table 22. STRI Scores of the Philippines (2008)

Sector	Overall	Mode 1	Mode 3	Mode 4
<b>Overall</b>	53.5	27.56	57.59	80
<b>Financial</b>	45.1	50.85	40.31	
Banking	46.3	25	50	
Lending by banks	46.3	25	50	
Acceptance of deposits by banks	46.3	25	50	
Insurance	43.3	91.67	25	
Automobile Insurance	32.5	100	25	
Life Insurance	32.5	100	25	
Reinsurance	65	75	25	
<b>Telecommunications</b>	50		50	
Fixed-line telecommunications	50		50	
Mobile telecommunications	50		50	
<b>Retail</b>	50		50	
<b>Transportation</b>	44.2	25	50	
Air Passenger Domestic			50	
Air Passenger International	15	0	50	
Maritime Shipping International	50	50	50	
Maritime Auxiliary Services	50		50	
Road Freight Domestic	50		50	
Rail Freight Domestic	50		50	
<b>Professional</b>	80	0	100	80
Accounting and Auditing	70	0	100	75

Accounting	70	0	100	75
Auditing	70	0	100	75
Legal	86.7	0	100	83.33
Legal Advice Foreign Law	60	0	100	50
Legal Advice Domestic Law	100		100	100
Legal Representation in Court	100		100	100

Source: <http://iresearch.worldbank.org/service/trade/>

More recently, new STRI scores (with additional sectors) were calculated for all ASEAN member states based on the policy environment in 2012. However, the results are not yet publicly available.

Sources:

Borchert, Ingo, Batshur Gootiiz and Aaditya Mattoo 2012a, '*Guide to the Services Trade Restrictions Database*', World Bank Policy Research Working Paper 6108

Borchert, Ingo, Batshur Gootiiz and Aaditya Mattoo 2012b, '*Policy Barriers to International Trade in Services: Evidence from a New Database*', World Bank Policy Research Working Paper 6109

## APPENDIX A. PROFILE OF WHOLESALE AND RETAIL TRADE; REPAIR OF MOTOR VEHICLES AND MOTORCYCLES

### Gross Value Added

Share of GDP

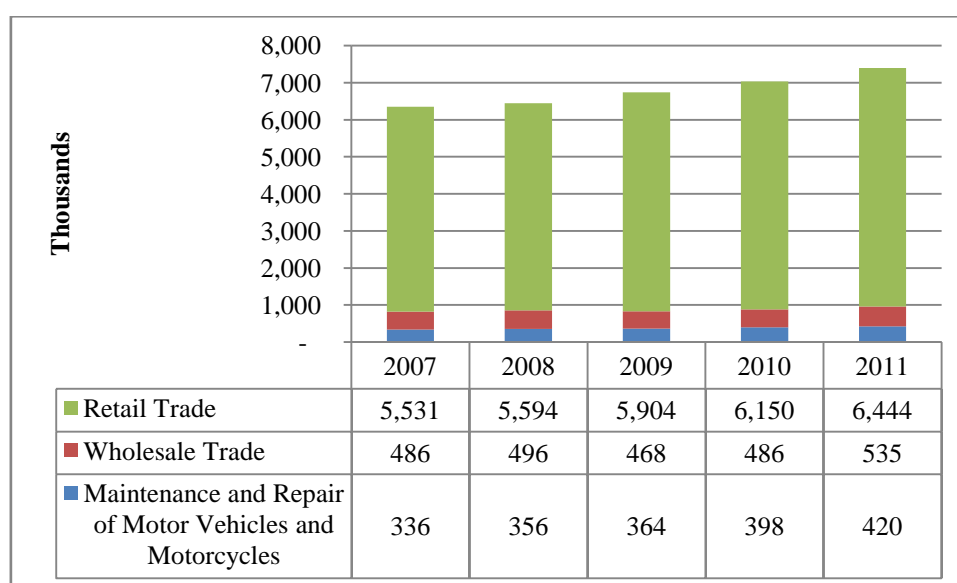
Sector	2008	2009	2010	2011	2012
Maintenance and repair of motor vehicles, motorcycles, personal and household goods	0.47%	0.52%	0.52%	0.51%	0.52%
Wholesale trade	3.52%	3.06%	3.00%	2.84%	2.82%
Retail trade	12.50%	12.96%	13.12%	13.24%	13.37%
TRADE AND REPAIR OF MOTOR VEHICLES, MOTORCYCLES, PERSONAL AND HOUSEHOLD GOODS	16.49%	16.5%	16.6%	16.6%	16.7%

Average Annual Growth Rate

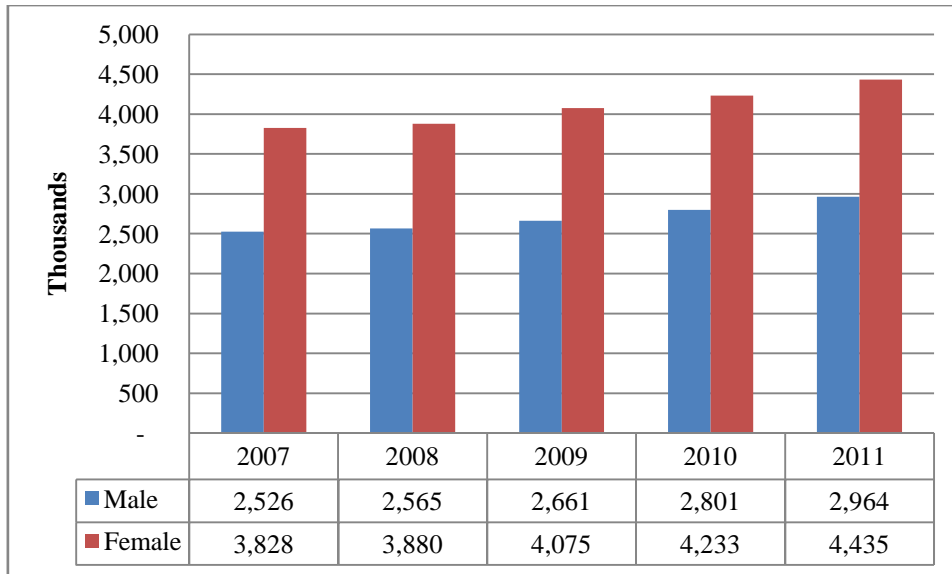
Sector	CAGR 2008 to 2012	Simple Average 2008 to 2012
Maintenance and repair of motor vehicles, motorcycles, personal and household goods	7.14%	7.18%
Wholesale trade	-0.89%	-0.60%
Retail trade	6.56%	6.57%
TRADE AND REPAIR OF MOTOR VEHICLES, MOTORCYCLES, PERSONAL AND HOUSEHOLD GOODS	5.11%	5.15%

### Employment

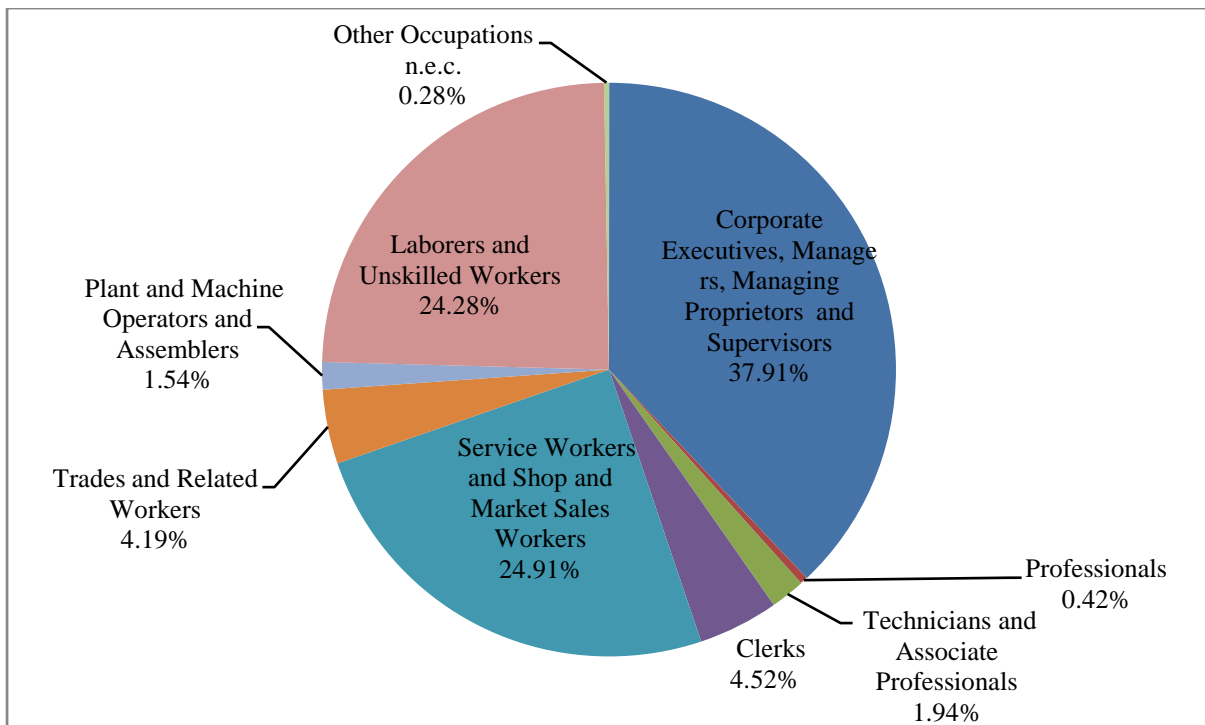
Employment by Sub-sector



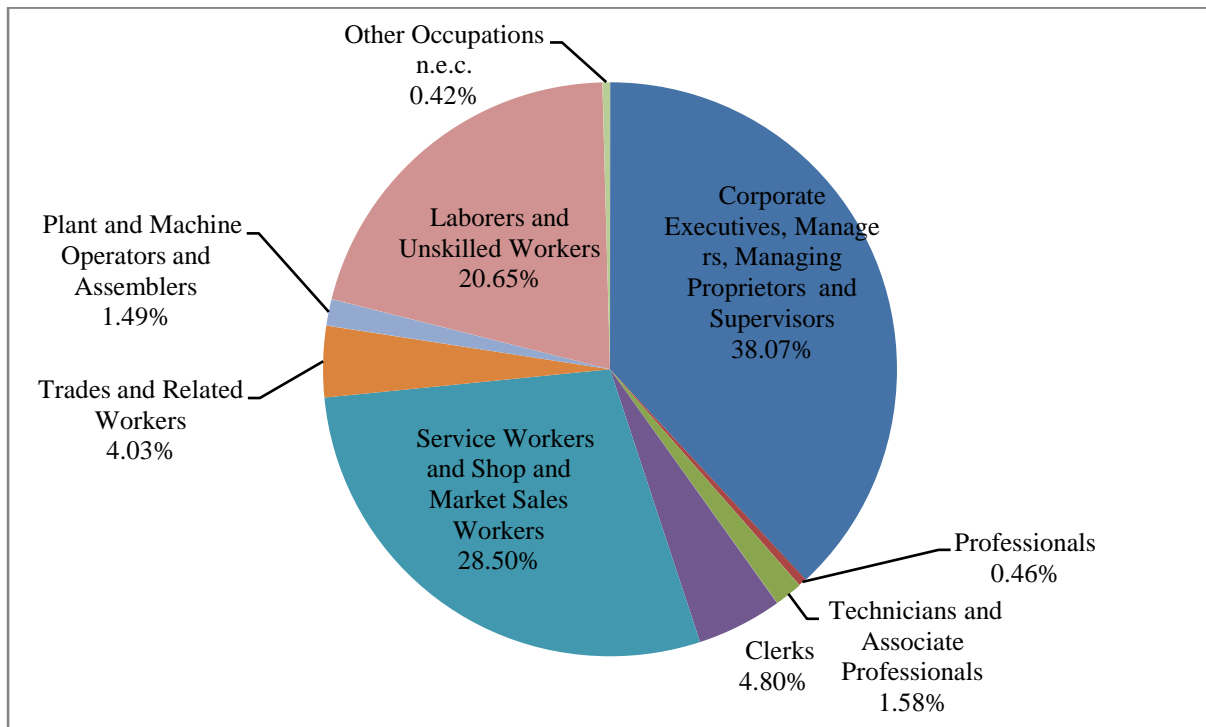
### Employment by Gender



### Employment by Occupation (2007)



### Employment by Occupation (2011)



### Labor Productivity

Sector	2008	2009	2010	2011	CAGR	Simple Ave
Maintenance and Repair of Motor Vehicles, Motorcycles, Personal and Household Goods	69,540	75,429	74,336	72,323	1.32%	1.44%
Wholesale Trade	372,244	345,874	352,195	313,173	-5.60%	-5.45%
Retail Trade	116,988	116,265	121,613	121,445	1.25%	1.28%
TRADE AND REPAIR OF MOTOR VEHICLES, MOTORCYCLES, PERSONAL AND HOUSEHOLD GOODS	134,005	130,016	134,873	132,520	-0.37%	-0.33%

### Top Upstream Sectors

#### Wholesale and retail trade; Maintenance and Repair of Motor Vehicles, Motorcycles, Personal and Household Goods

Goods	Services and Other Industry
Crude oil, Natural Gas & Condensate Petroleum and other fuel products Beverage industries	Wholesale and retail trade Communication Storage and services incidental to transport

## Top Downstream Sectors

### Wholesale and retail trade; Maintenance and Repair of Motor Vehicles, Motorcycles, Personal and Household Goods

Goods	Services and Other Industry
Food manufactures Radio, television and communication equipment and apparatus Office, accounting and computing machinery	Wholesale and retail trade Construction Communication



## APPENDIX B. PROFILE OF TRANSPORTATION, STORAGE AND COMMUNICATION

### Gross Value Added

#### Share of GDP

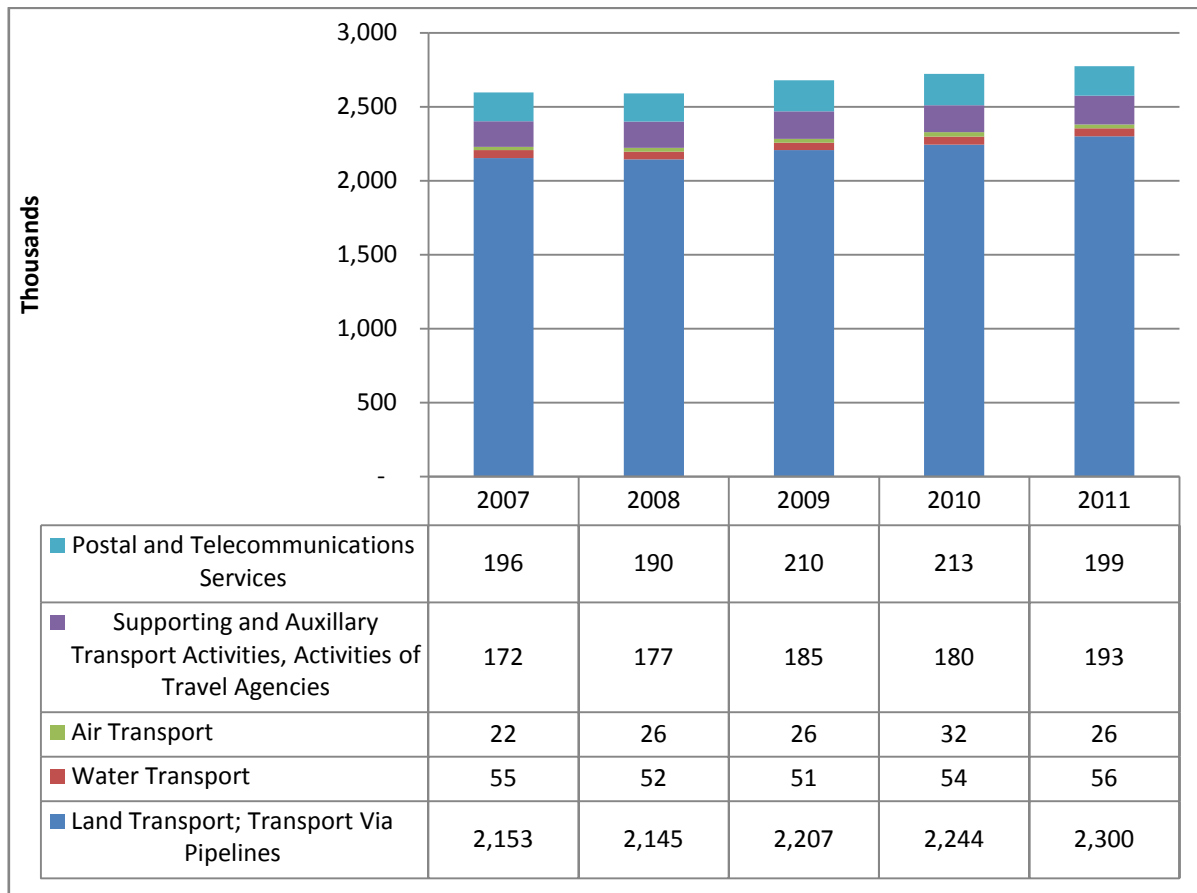
Sector	2008	2009	2010	2011	2012
Land transport	1.8%	1.8%	1.8%	1.6%	1.6%
Water transport	0.3%	0.3%	0.2%	0.2%	0.2%
Air transport	0.3%	0.3%	0.3%	0.3%	0.3%
Storage and services incidental to transport	0.6%	0.6%	0.6%	0.6%	0.7%
Postal and Telecommunications Services	5.1%	5.1%	4.8%	4.8%	4.8%
<b>TRANSPORT, STORAGE AND COMMUNICATION</b>	<b>8.1%</b>	<b>8.0%</b>	<b>7.5%</b>	<b>7.5%</b>	<b>7.6%</b>

#### Average Annual Growth Rate

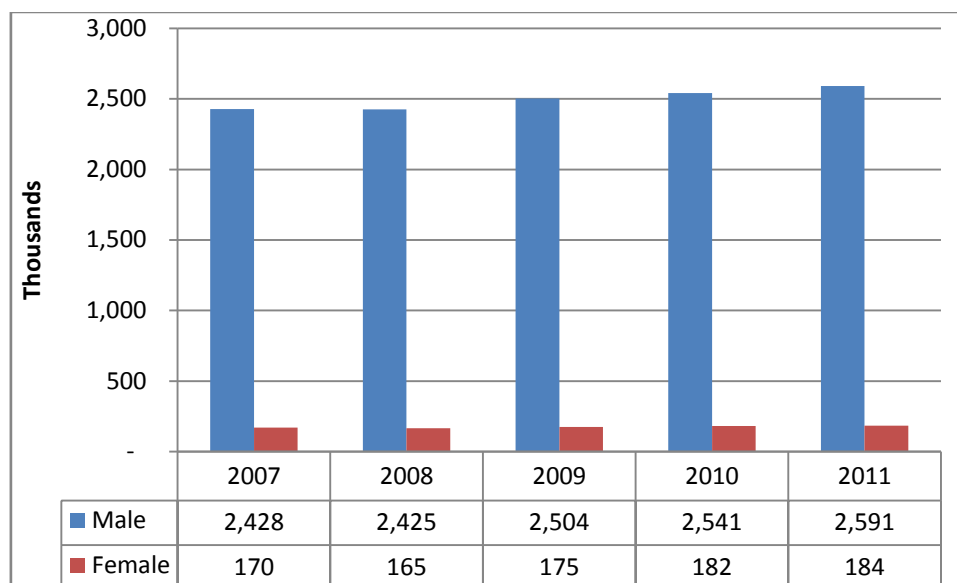
Sector	CAGR 2008 to 2012	Simple Average 2008 to 2012
Land transport	2.19%	2.29%
Water transport	2.84%	3.86%
Air transport	3.73%	3.79%
Storage and services incidental to transport	7.28%	7.50%
Postal and Telecommunications Services	3.10%	3.14%
<b>TRANSPORT, STORAGE AND COMMUNICATION</b>	<b>3.55%</b>	<b>3.31%</b>

## Employment

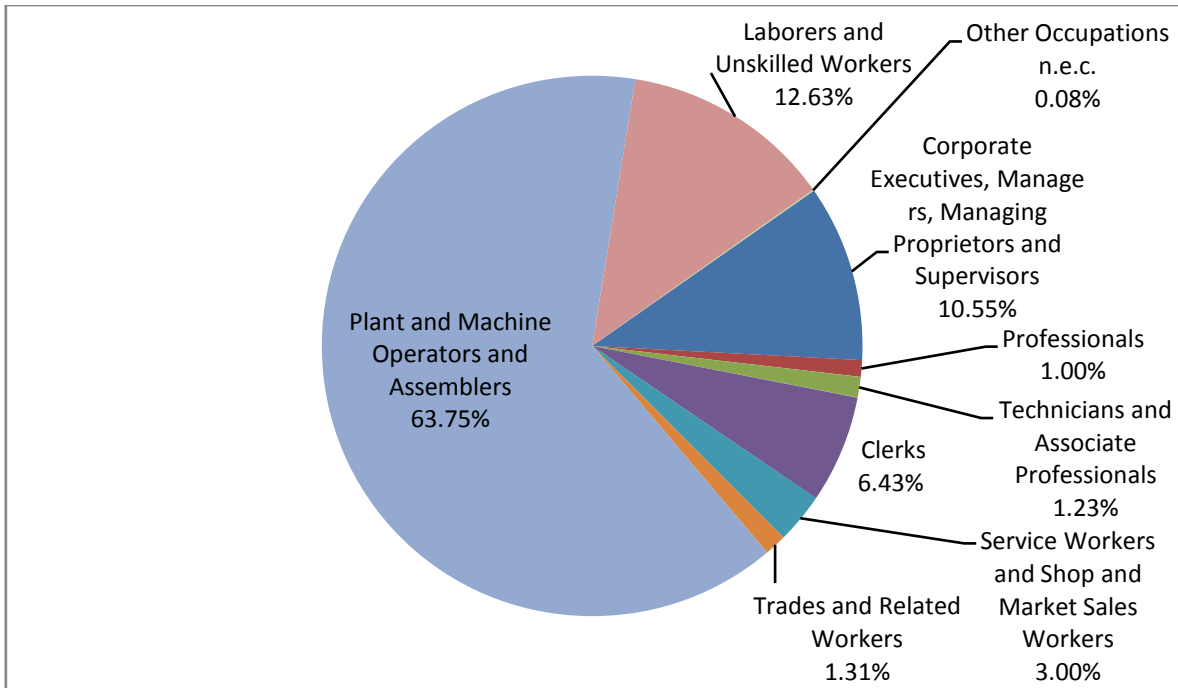
Employment by Sub-sector



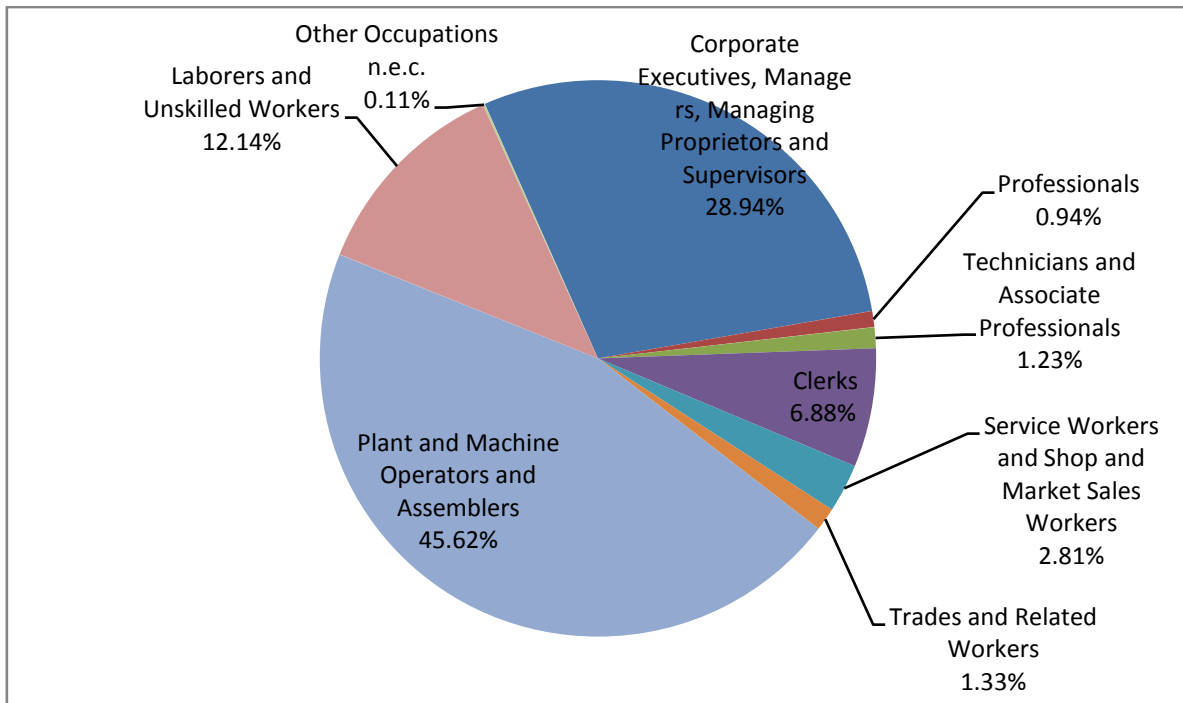
Employment by Gender



Employment by Occupation (2007)



Employment by Occupation (2011)



## Labor Productivity

Sector	2008	2009	2010	2011	CAGR	Simple Ave
Land Transport; Transport Via Pipelines	43,036	42,064	39,809	40,457	-2.04%	-2.00%
Water Transport	265,692	216,849	228,463	246,093	-2.52%	-1.77%
Air Transport	635,230	631,464	561,808	715,083	4.03%	5.22%
Supporting and Auxiliary Transport Activities, Activities of Travel Agencies	185,541	171,410	191,349	205,561	3.47%	3.81%
Postal and Telecommunications Services	1,412,990	1,292,259	1,284,871	1,411,705	-0.03%	0.25%
TRANSPORT, STORAGE AND COMMUNICATION	163,688	158,043	157,094	160,730	-0.61%	-0.58%

## Top Upstream Sectors

### Land transport

Goods	Services and Other Industry
Petroleum and other fuel products Transport equipment Electrical machinery and apparatus	Wholesale and retail trade Land transport Non-bank Financial Intermediation

### Water transport

Goods	Services and Other Industry
Petroleum and other fuel products Electrical machinery and apparatus Food manufactures	Wholesale and retail trade Real Estate Renting and other Business Activities

### Air transport

Goods	Services and Other Industry
Petroleum and other fuel products Food manufactures Transport equipment	Real Estate Renting and other Business Activities Wholesale and retail trade

### Storage and services incidental to transport

Goods	Services and Other Industry
Petroleum and other fuel products Electrical machinery and apparatus Basic metal industries	Real Estate Storage and services incidental to transport Land transport

### Communication

Goods	Services and Other Industry
Radio, television and communication equipment and apparatus Basic metal industries Petroleum and other fuel products	Real Estate Communication Renting and other Business Activities

### Top Downstream Sectors

#### Land transport

Goods	Services and Other Industry
Radio, television and communication equipment and apparatus Livestock Food manufactures	Land transport Wholesale and retail trade Construction

#### Water transport

Goods	Services and Other Industry
Livestock Corn Palay	Construction Wholesale and retail trade Air transport

#### Air transport

Goods	Services and Other Industry
Food manufactures Sugarcane Corn	Wholesale and retail trade Communication Banking Institutions

#### Storage and services incidental to transport

Goods	Services and Other Industry
Food manufactures Non-metallic mineral products Radio, television and communication equipment and apparatus	Wholesale and retail trade Storage and services incidental to transport Air transport

**Communication**

<b>Goods</b>	<b>Services and Other Industry</b>
Radio, television and communication equipment and apparatus Food manufactures Beverage industries	Wholesale and retail trade Communication Renting and other Business Activities

## APPENDIX C. PROFILE OF FINANCIAL AND INSURANCE ACTIVITIES

### Gross Value Added

#### Share of GDP

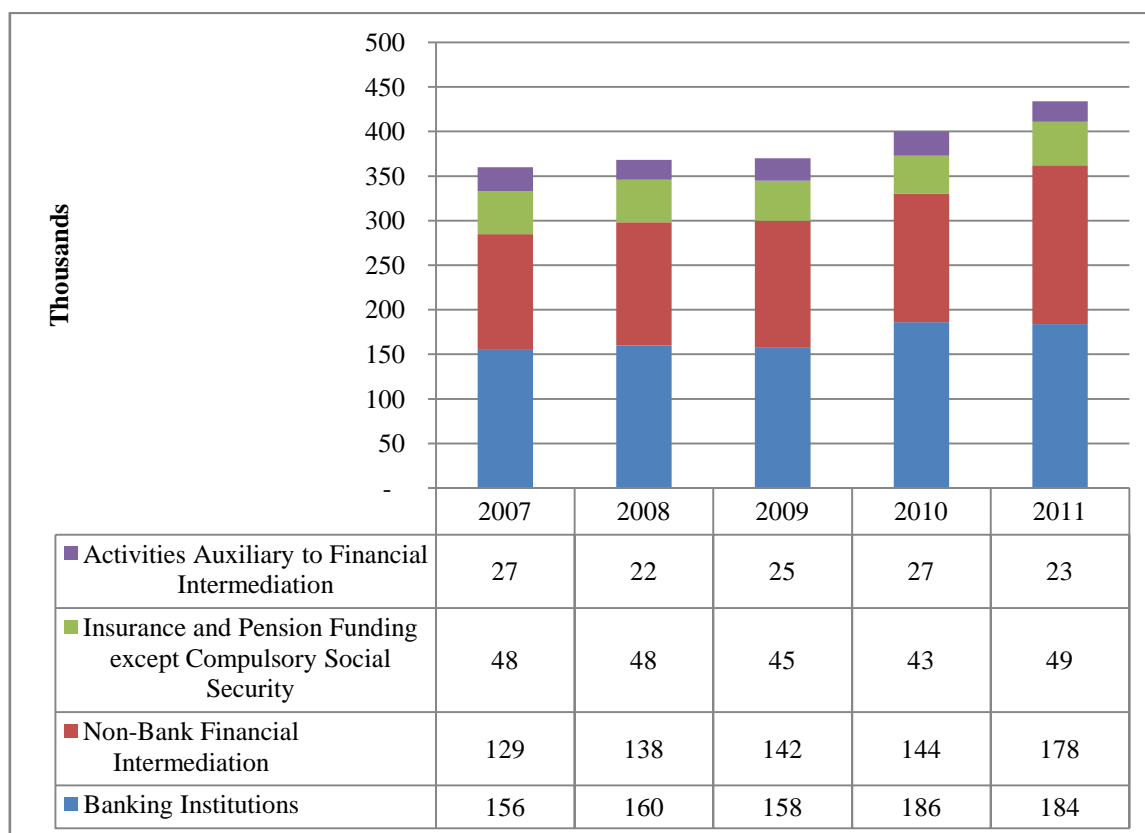
Sector	2008	2009	2010	2011	2012
Banking Institutions	2.7%	3.0%	3.1%	3.0%	3.0%
Non-bank Financial Intermediation	2.0%	2.0%	2.1%	2.2%	2.2%
Insurance	1.0%	1.0%	1.0%	1.1%	1.1%
Activities Auxiliary to Financial Intermediation	0.4%	0.4%	0.4%	0.4%	0.4%
<b>FINANCIAL INTERMEDIATION</b>	<b>6.2%</b>	<b>6.4%</b>	<b>6.6%</b>	<b>6.7%</b>	<b>6.8%</b>

#### Average Annual Growth Rate

Sector	CAGR 2008 to 2012	Simple Average 2008 to 2012
Banking Institutions	7.46%	7.53%
Non-bank Financial Intermediation	7.20%	7.25%
Insurance	7.35%	7.41%
Activities Auxiliary to Financial Intermediation	5.53%	5.55%
<b>FINANCIAL INTERMEDIATION</b>	<b>7.24%</b>	<b>7.26%</b>

## Employment

### Employment by Sub-sector

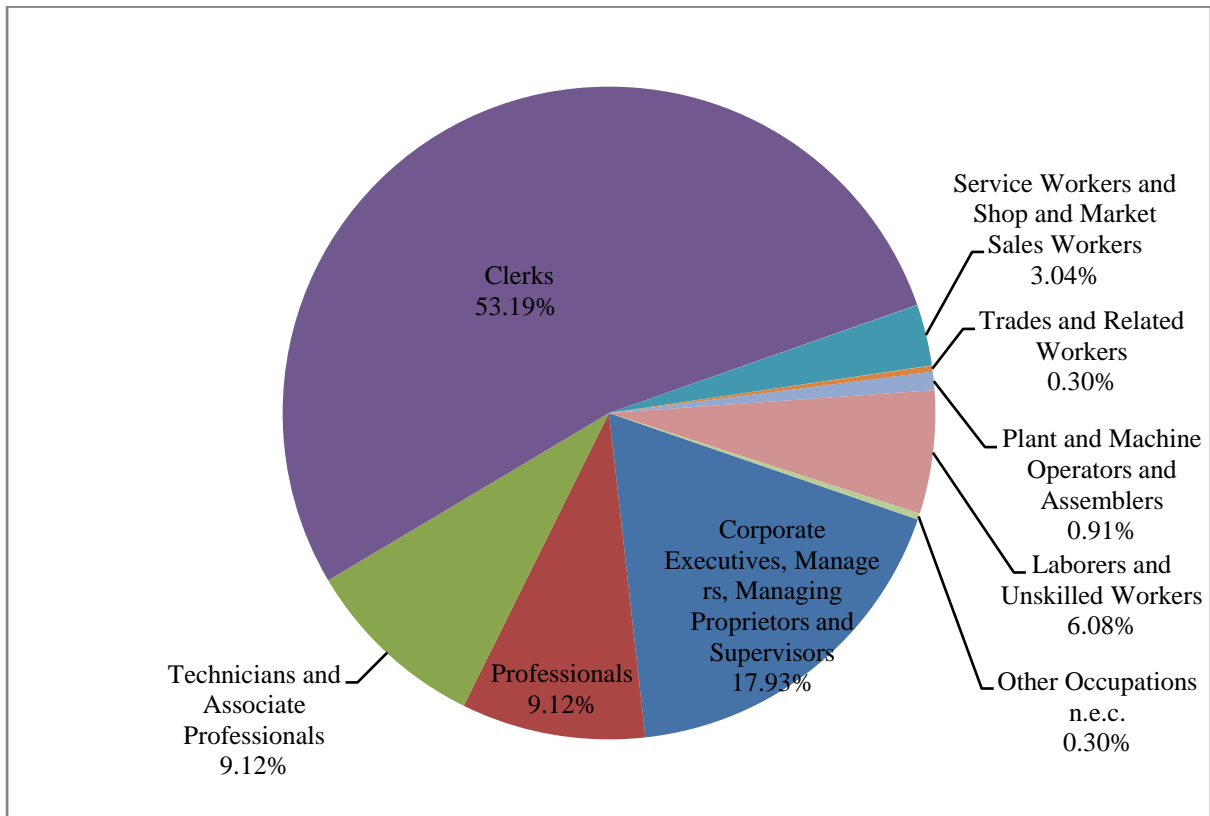


### Employment by Gender





### Employment by Occupation (2007)



### Employment by Occupation (2011)

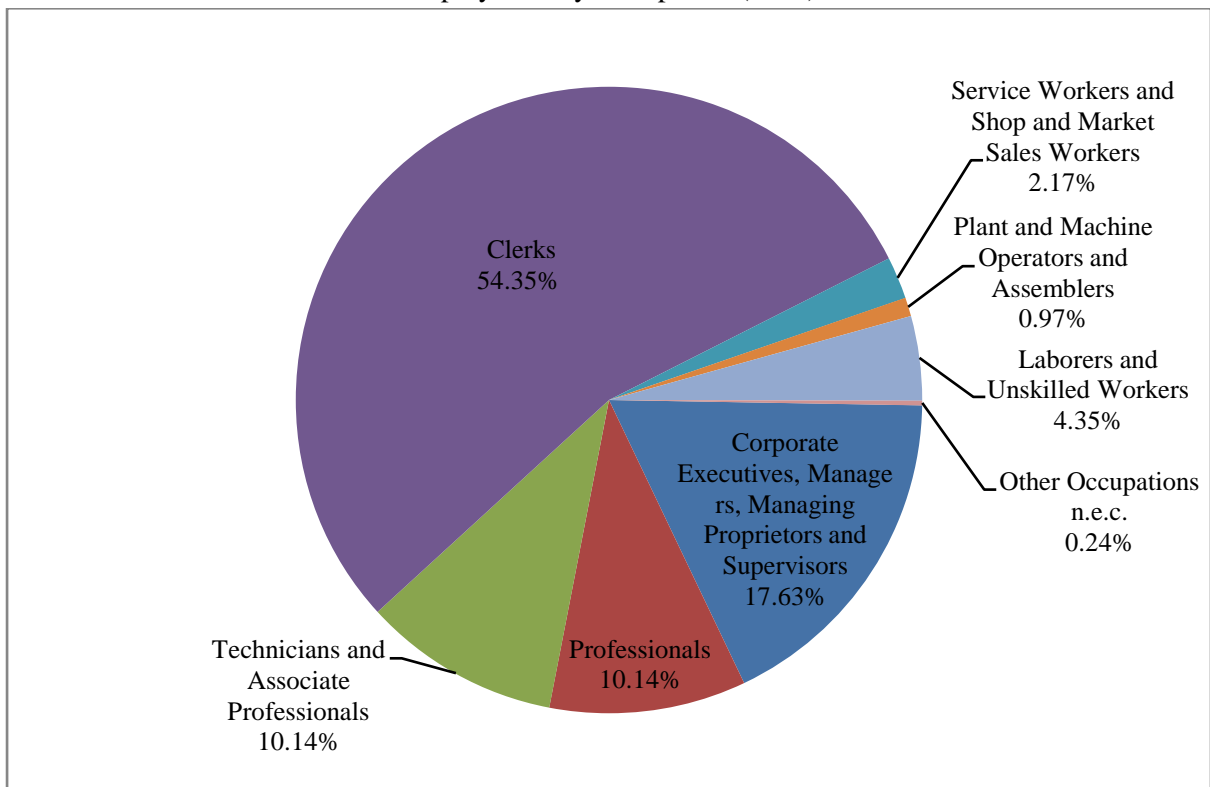


Figure for trades and related workers less than 500

## Labor Productivity

Sector	2008	2009	2010	2011	CAGR	Simple Ave
Banking Institutions	891,176	993,567	942,198	968,578	2.82%	3.04%
Non-bank Financial Intermediation	774,693	764,673	821,768	724,166	-2.22%	-1.90%
Insurance	1,118,830	1,208,098	1,388,477	1,328,988	5.91%	6.21%
Activities Auxiliary to Financial Intermediation	885,109	815,884	793,630	962,193	2.82%	3.56%
FINANCIAL INTERMEDIATION	876,826	922,300	936,790	908,688	1.20%	1.25%

## Top Upstream Sectors

### Banking Institutions

Goods	Services and Other Industry
Chemical & chemical products Publishing and printing Petroleum and other fuel products	Real Estate Renting and other Business Activities Electricity

### Non-bank Financial Intermediation

Goods	Services and Other Industry
Miscellaneous manufactures Chemical & chemical products Paper and paper products	Non-bank Financial Intermediation Banking Institutions Renting and other Business Activities

### Insurance

Goods	Services and Other Industry
Chemical and chemical products Miscellaneous manufactures Petroleum and other fuel products	Renting and other Business Activities Real Estate Banking Institutions

### Activities Auxiliary to Financial Intermediation

Goods	Services and Other Industry
Chemical & chemical products Miscellaneous manufactures Paper and paper products	Renting and other Business Activities Banking Institutions Land transport

## Top Downstream Sectors

### Banking Institutions

Goods	Services and Other Industry
Food manufactures Palay Radio, television and communication equipment and apparatus	Real Estate Renting and other Business Activities Non-bank Financial Intermediation

### Non-bank Financial Intermediation

Goods	Services and Other Industry
Fishing Agricultural Activities & services* Food manufactures	Non-bank Financial Intermediation Construction Wholesale and retail trade

\* Part of agriculture sector

### Insurance

Goods	Services and Other Industry
Fishing Food manufactures Radio, television and communication equipment and apparatus	Education Wholesale and retail trade Health and Social Work

### Activities Auxiliary to Financial Intermediation

Goods	Services and Other Industry
Food manufactures Radio, television and communication equipment and apparatus Wearing apparel	Wholesale and retail trade Education Construction

## APPENDIX D. PROFILE OF REAL ESTATE ACTIVITIES, RENTING AND BUSINESS SERVICES

### Gross value added

Share of GDP

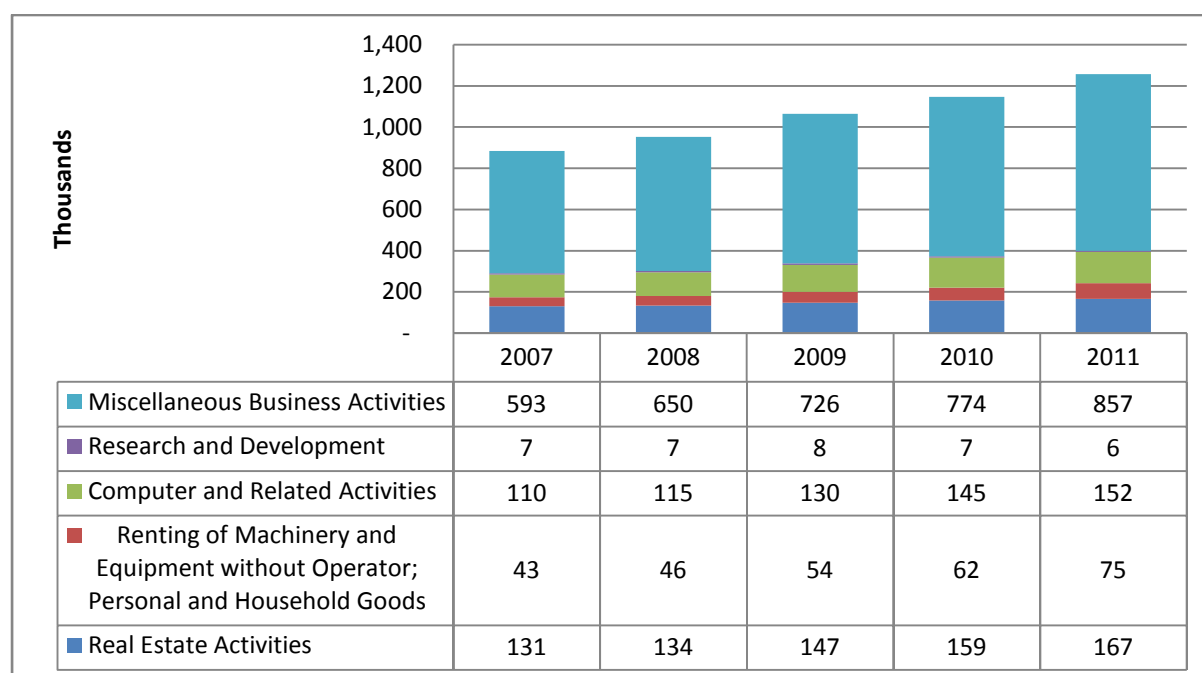
Sector	2008	2009	2010	2011	2012
<b>Real estate</b>	1.9%	1.7%	1.9%	2.1%	2.3%
<b>Renting and other business activities</b>	3.4%	3.9%	4.0%	4.3%	4.3%
<b>Ownership of dwellings</b>	4.7%	4.7%	4.5%	4.4%	4.2%
<b>REAL ESTATE ACTIVITIES, RENTING AND BUSINESS SERVICES</b>	10.0%	10.3%	10.3%	10.8%	10.9%

Average Annual Growth Rate

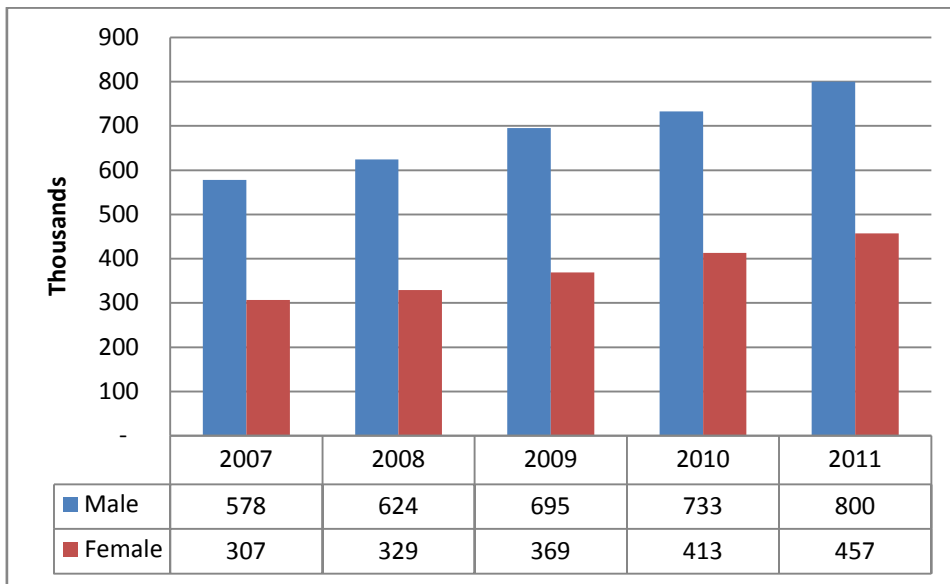
Sector	CAGR 2008 to 2012	Simple Average 2008 to 2012
<b>Real estate</b>	10.25%	10.84%
<b>Renting and other business activities</b>	10.87%	10.90%
<b>Ownership of dwellings</b>	2.04%	2.04%
<b>REAL ESTATE ACTIVITIES, RENTING AND BUSINESS SERVICES</b>	6.88%	6.89%

### Employment

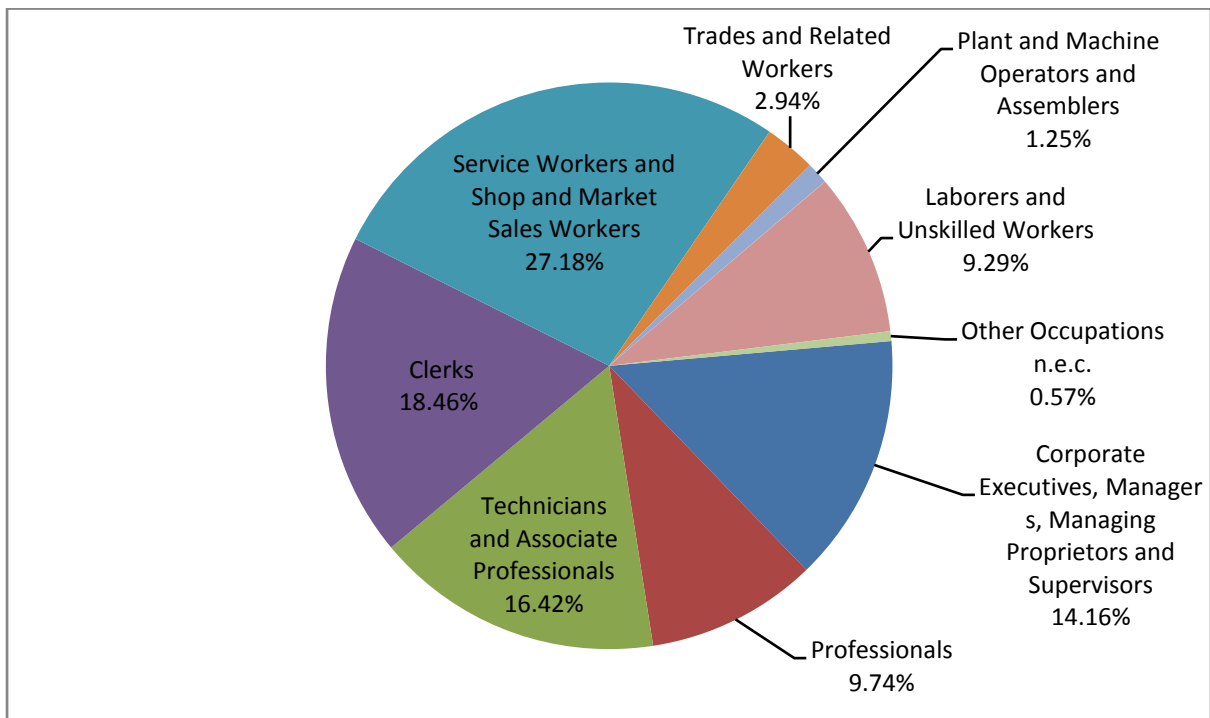
Employment by Sub-sector



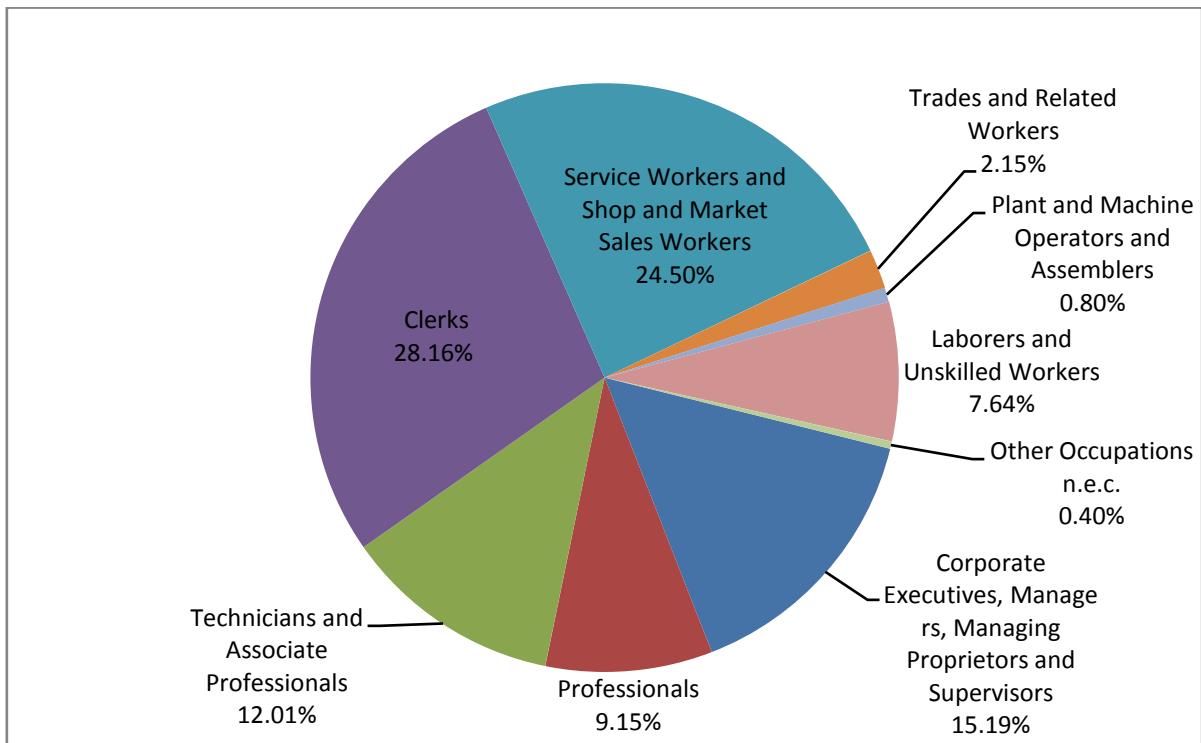
### Employment by Gender



### Employment by Occupation (2007)



### Employment by Occupation (2011)



### Labor Productivity

Sector	2008	2009	2010	2011	CAGR	Simple Ave
Real estate	741,328	620,567	670,554	744,001	0.12%	0.91%
Renting and other business activities	220,319	223,882	229,065	231,424	1.65%	1.65%
REAL ESTATE ACTIVITIES, RENTING AND BUSINESS SERVICES	293,654	278,635	290,265	299,523	0.66%	0.75%

Note: Gross Value Added from Ownership of Dwellings is not included as the sector does not involve any labor

### Top Upstream Sectors

#### Real Estate

Goods	Services and Other Industry
Petroleum and other fuel products Non-metallic mineral products Chemical & chemical products	Banking Institutions Renting and other Business Activities Real Estate

### Renting and other Business Activities

Goods	Services and Other Industry
Publishing and printing Petroleum and other fuel products Food manufactures	Real Estate Recreational, Cultural and Sporting Activities Banking Institutions

### Ownership of Dwellings

Goods	Services and Other Industry
Non-metallic mineral products Petroleum and other fuel products Chemical & chemical products	Renting and other Business Activities Insurance Wholesale and retail trade

### Top Downstream Sectors

#### Real Estate

Goods	Services and Other Industry
Furniture and fixtures Radio, television and communication equipment and apparatus Beverage industries	Banking Institutions Renting and other Business Activities Communication

### Renting and other Business Activities

Goods	Services and Other Industry
Beverage industries Food manufactures Chemical & chemical products	Communication Banking Institutions Renting and other Business Activities

## APPENDIX E. PROFILE OF EDUCATION

### Gross value added

Share of GDP

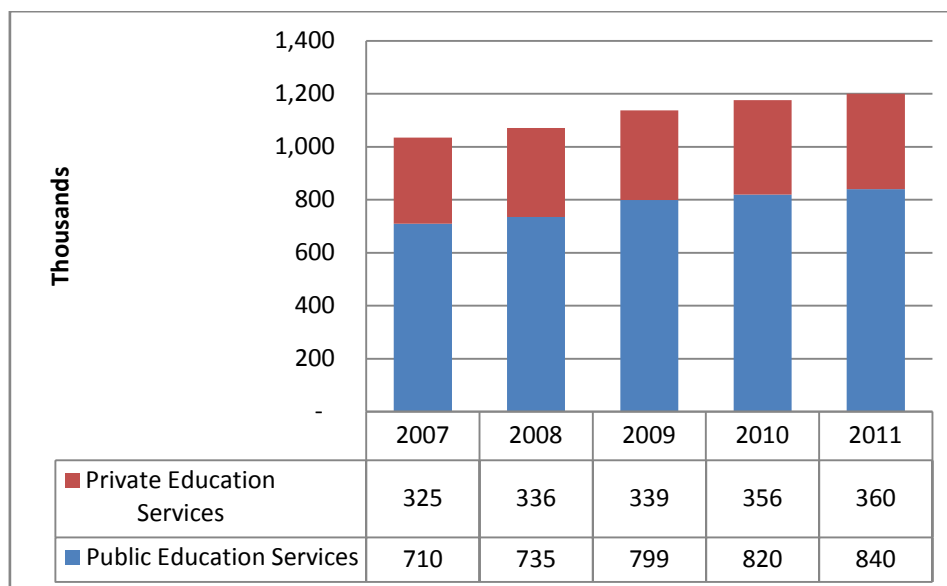
Sector	2008	2009	2010	2011	2012
Education	4.5%	4.8%	4.6%	4.6%	4.4%

Average Annual Growth Rate

Sector	CAGR 2008 to 2012	Simple Average 2008 to 2012
Education	3..87%	3.89%

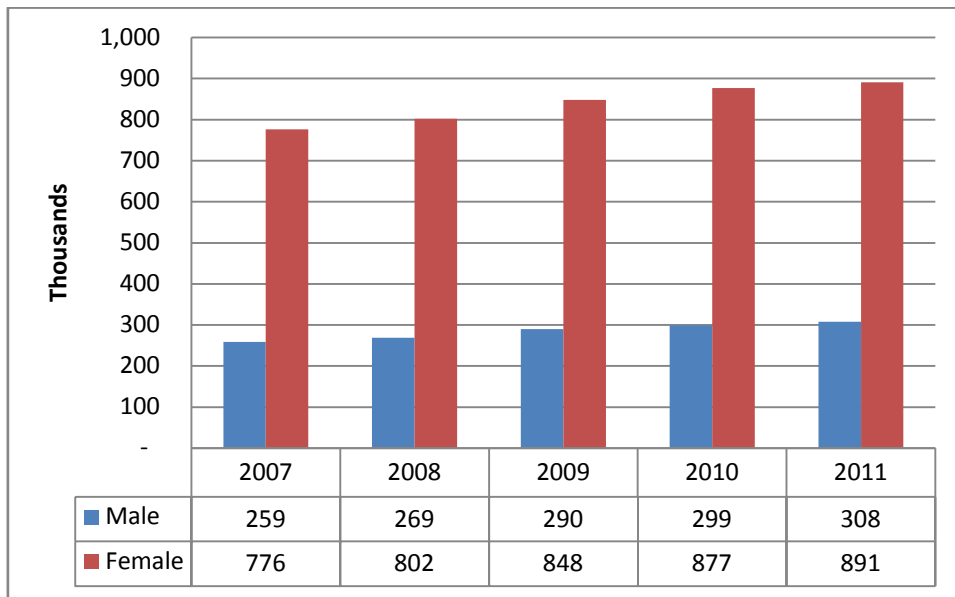
### Employment

Employment by Sub-sector

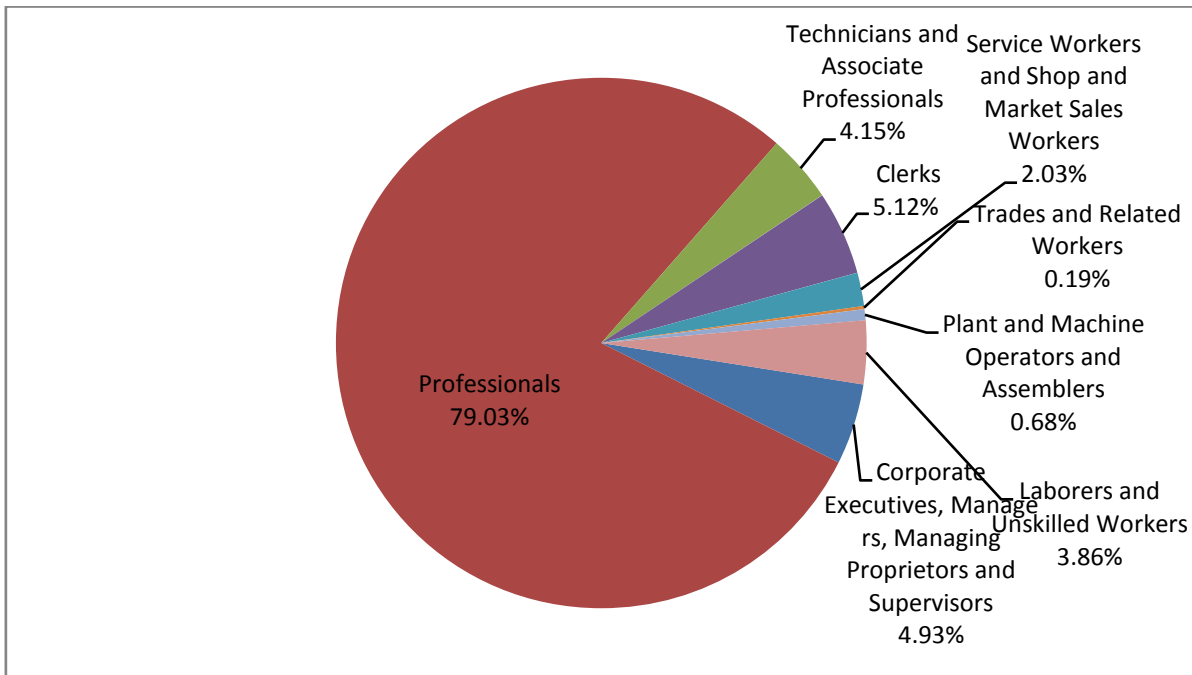




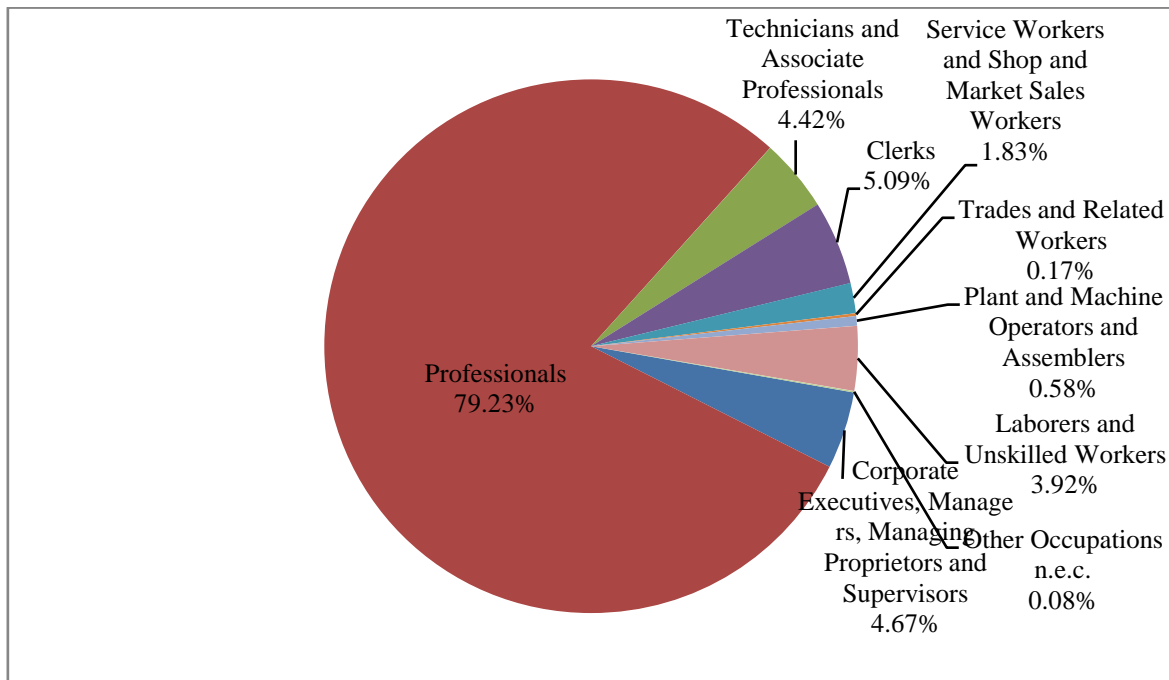
### Employment by Gender



### Employment by Occupation (2007)



### Employment by Occupation (2011)



### Labor Productivity

Sector	2008	2009	2010	2011	CAGR	Simple Ave
<b>Education</b>	222,485	225,361	222,616	227,481	0.74%	0.75%

### Top Upstream Sectors

#### Education

Goods	Services and Other Industry
Publishing and printing Petroleum and other fuel products Paper and paper products	Insurance Electricity Activities Auxiliary to Financial Intermediation

### Top Downstream Sectors

#### Education

Goods	Services and Other Industry
Beverage industries Gold mining Radio, television and communication equipment and apparatus	Education Renting and other Business Activities Real Estate

## APPENDIX F. PROFILE OF HOTELS AND RESTAURANTS

Gross value added

Share of GDP

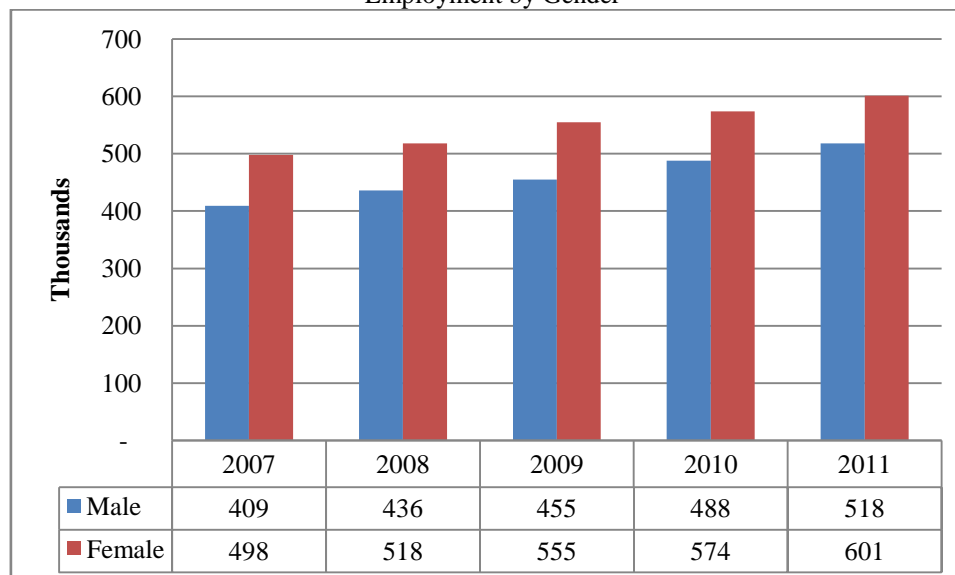
Sector	2008	2009	2010	2011	2012
Hotels and Restaurants	1.7%	1.7%	1.7%	1.8%	1.8%

Average Annual Growth Rate

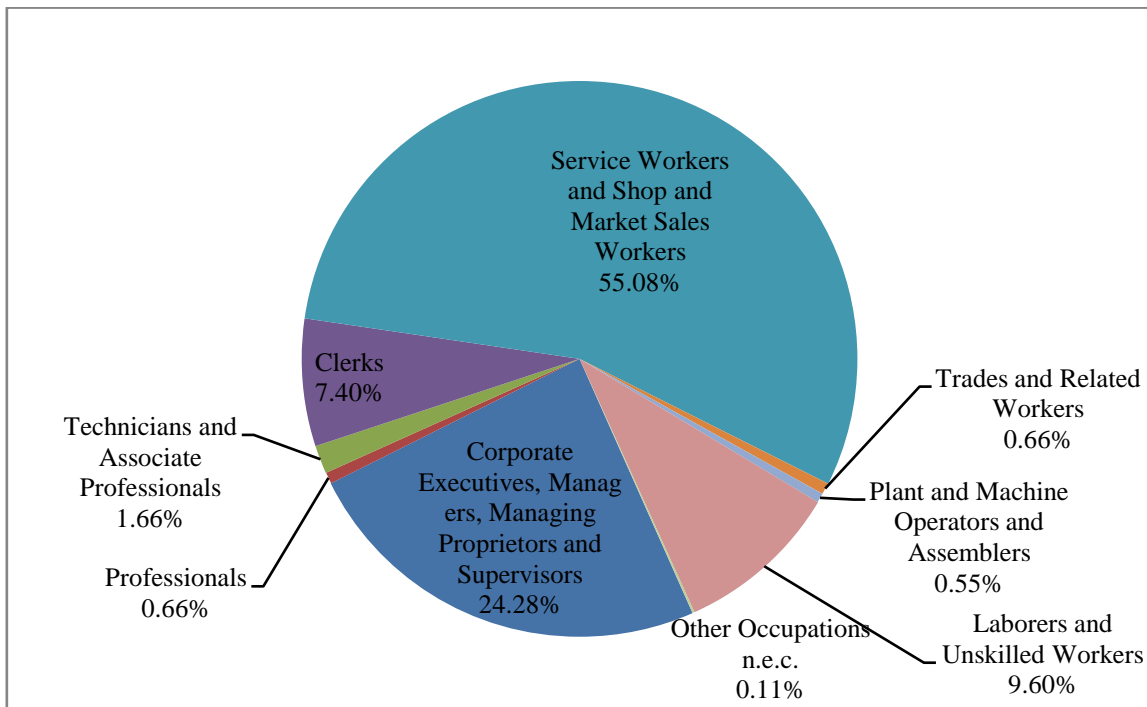
Sector	CAGR 2008 to 2012	Simple Average 2008 to 2012
Hotels and Restaurants	6.73%	6.76%

Employment

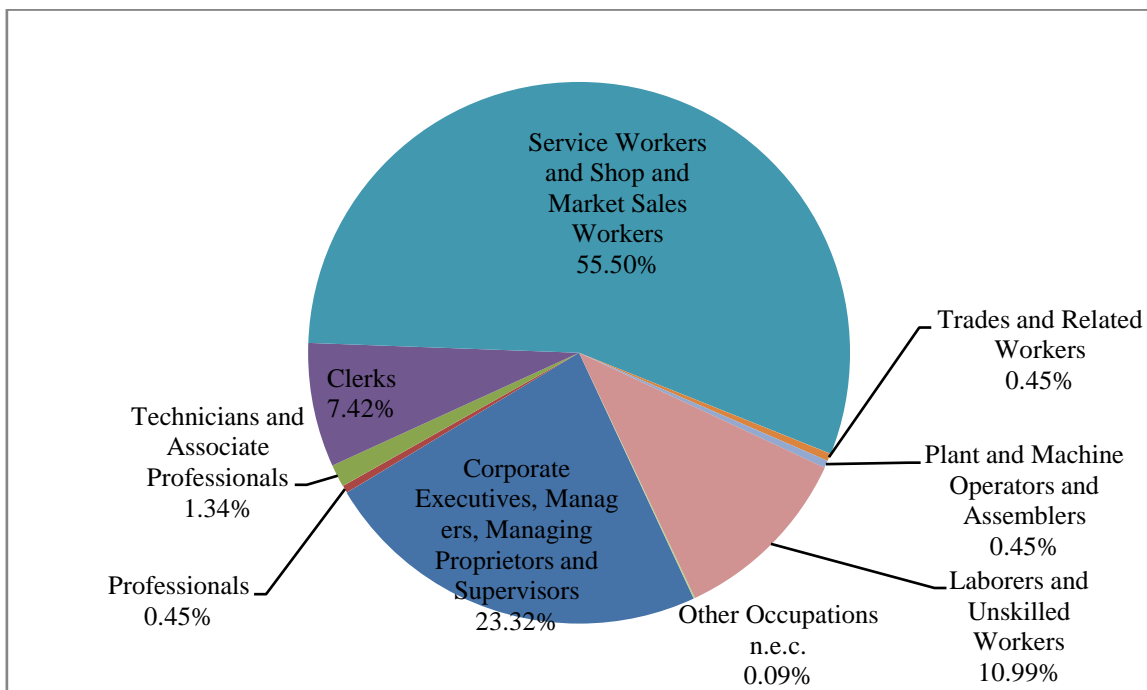
Employment by Gender



Employment by Occupation (2007)



Employment by Occupation (2011)



**Labor Productivity**

Sector	2008	2009	2010	2011	CAGR	Simple Ave
<b>Hotels and Restaurants</b>	92,930	89,746	92,992	95,814	1.02%	1.08%

**Top Upstream Sectors**

**Hotels and Restaurants**

Goods	Services and Other Industry
Food manufactures Beverage industries Other crops	Hotels and Restaurants Electricity Renting and other Business Activities

**Top Downstream Sectors**

**Hotels and Restaurants**

Goods	Services and Other Industry
Food manufactures Radio, television and communication equipment and apparatus Chemical & chemical products	Hotels and Restaurants Education Recreational, Cultural and Sporting Activities

## APPENDIX G. PROFILE OF HEALTH AND SOCIAL WORK

### Gross value added

Share of GDP

Sector	2008	2009	2010	2011	2012
Health and Social Work	1.3%	1.3%	1.3%	1.4%	1.4%

Average Annual Growth Rate

Sector	CAGR 2008 to 2012	Simple Average 2008 to 2012
Health and Social Work	7.71%	7.74%

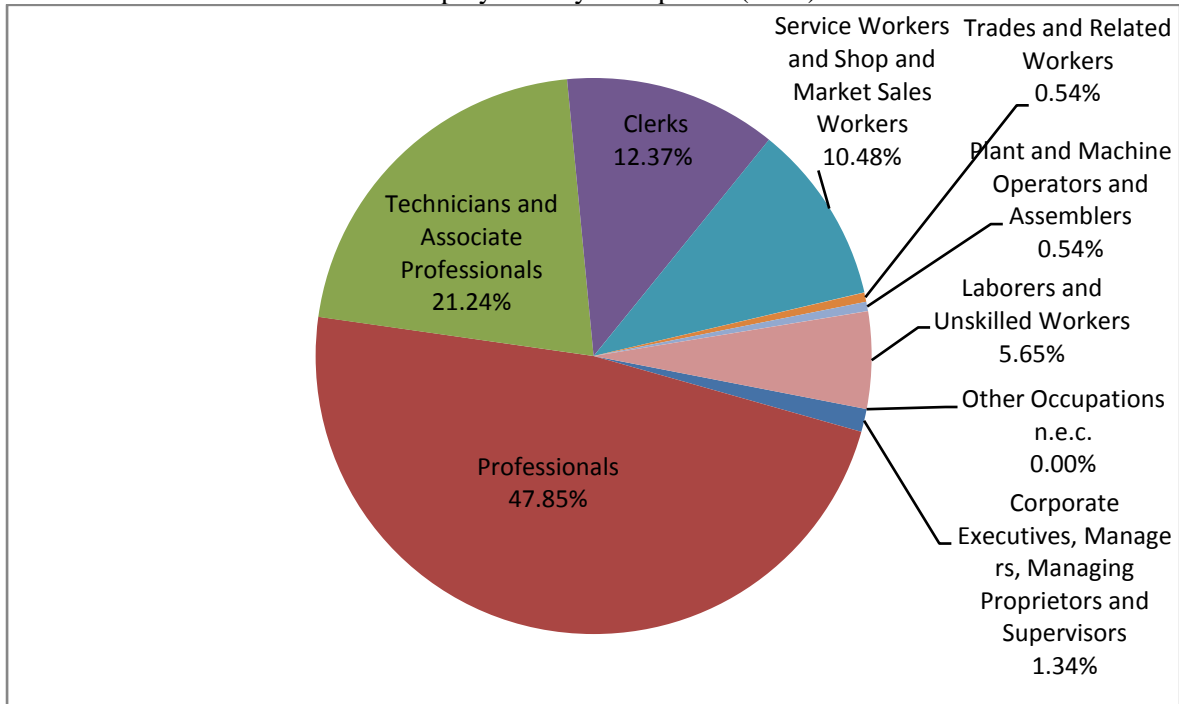
Contribution to GDP Growth (in percentage points)

### Employment

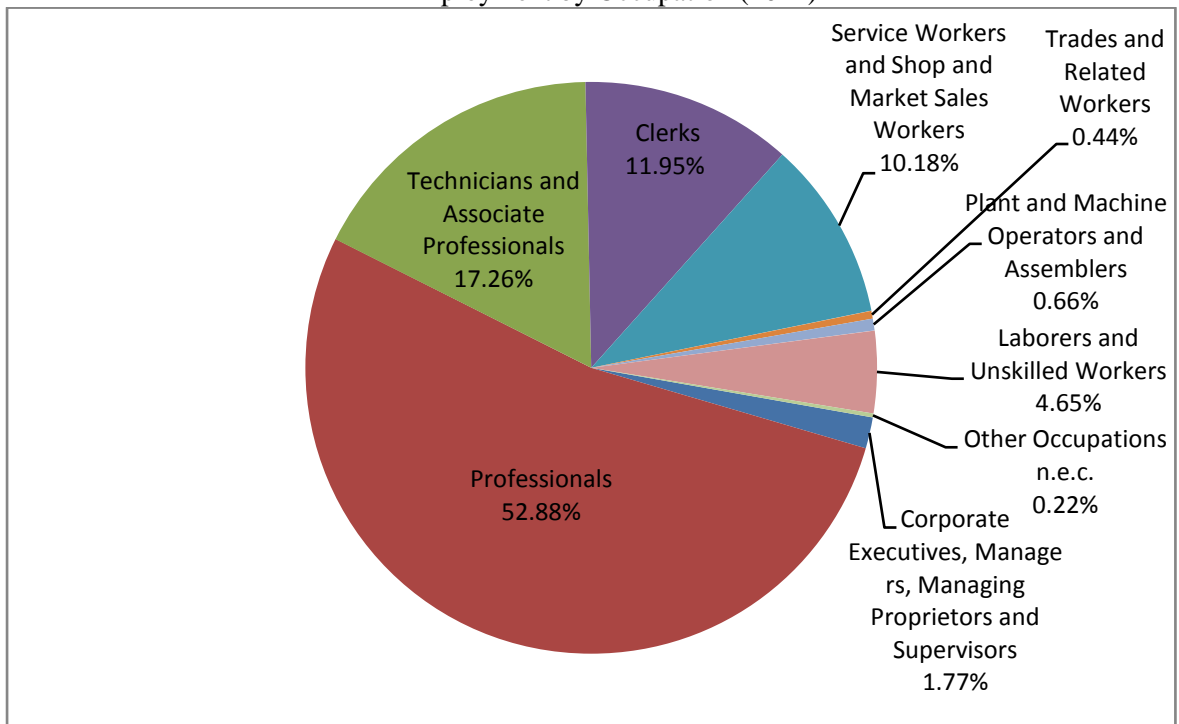
Employment by Gender



Employment by Occupation (2007)



Employment by Occupation (2011)



**Labor Productivity**

Sector	2008	2009	2010	2011	CAGR	Simple Ave
<b>Health and Social Work</b>	173,062	168,532	167,582	180,906	1.49%	1.59%

## Top Upstream Sectors

### Health and Social Work

Goods	Services and Other Industry
Chemical & chemical products Food manufactures Miscellaneous manufactures	Health and Social Work Wholesale and retail trade Electricity

## Top Downstream Sectors

### Health and Social Work

Goods	Services and Other Industry
Food manufactures Beverage industries Machinery and equipment except electrical	Health and Social Work Land transport Education



## APPENDIX H. PROFILE OF OTHER COMMUNITY, SOCIAL AND PERSONAL SERVICE ACTIVITIES

### Gross value added

Share of GDP

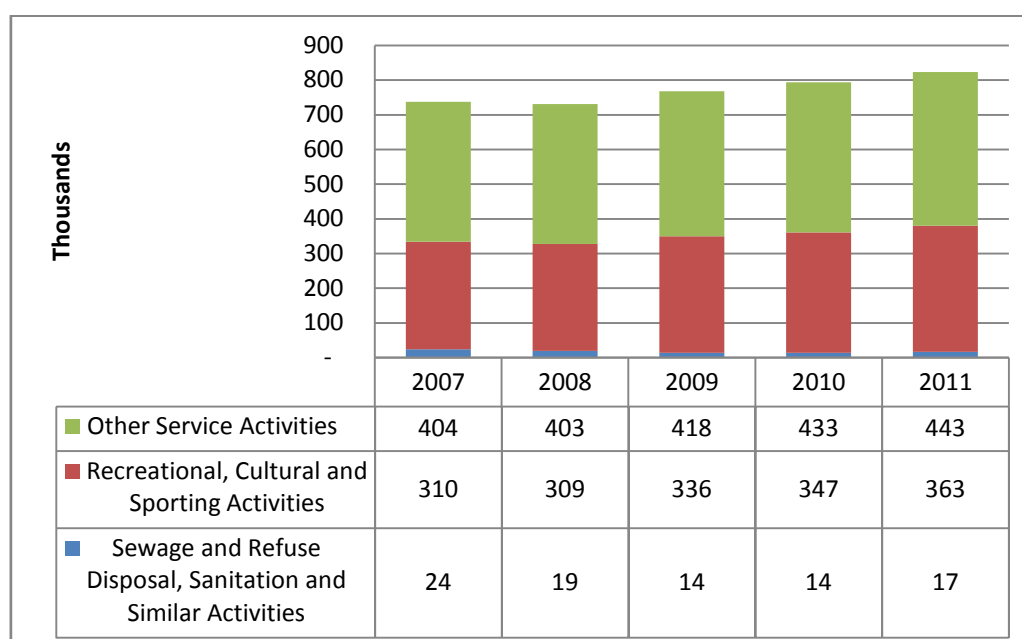
Sector	2008	2009	2010	2011	2012
<b>Sewage and refuse disposal sanitation and similar activities</b>	0.04%	0.04%	0.04%	0.04%	0.04%
<b>Recreational, cultural and sporting activities</b>	1.53%	1.67%	2.02%	2.07%	2.26%
<b>Other service activities</b>	0.55%	0.57%	0.53%	0.51%	0.57%
<b>OTHER COMMUNITY, SOCIAL AND PERSONAL SERVICE ACTIVITIES</b>	<b>2.12%</b>	<b>2.28%</b>	<b>2.59%</b>	<b>2.62%</b>	<b>2.87%</b>

Average Annual Growth Rate

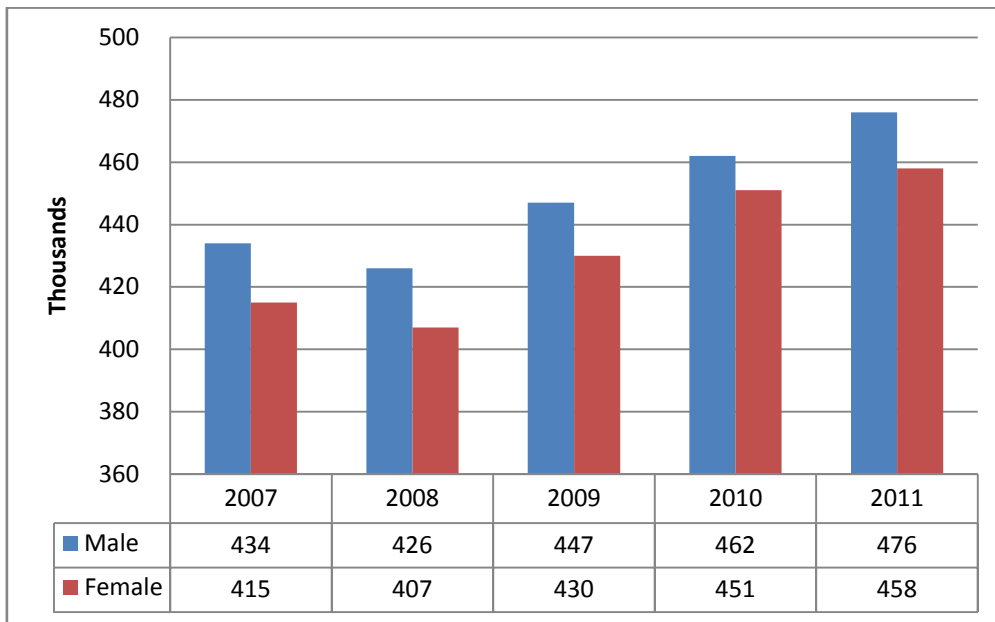
Sector	CAGR 2008 to 2012	Simple Average 2008 to 2012
<b>Sewage and refuse disposal sanitation and similar activities</b>	7.90%	7.92%
<b>Recreational, cultural and sporting activities</b>	15.47%	15.83%
<b>Other service activities</b>	5.57%	5.82%
<b>OTHER COMMUNITY, SOCIAL AND PERSONAL SERVICE ACTIVITIES</b>	<b>13.00%</b>	<b>13.21%</b>

### Employment

Employment by Sub-sector

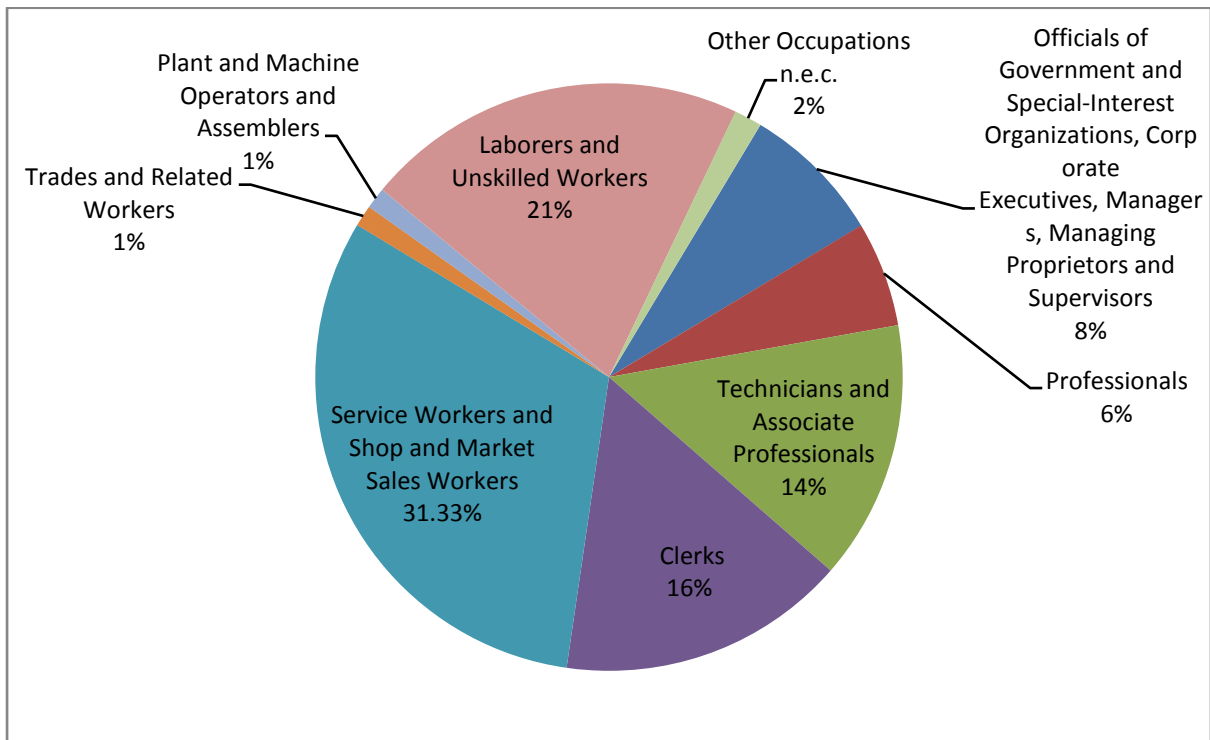


### Employment by Gender



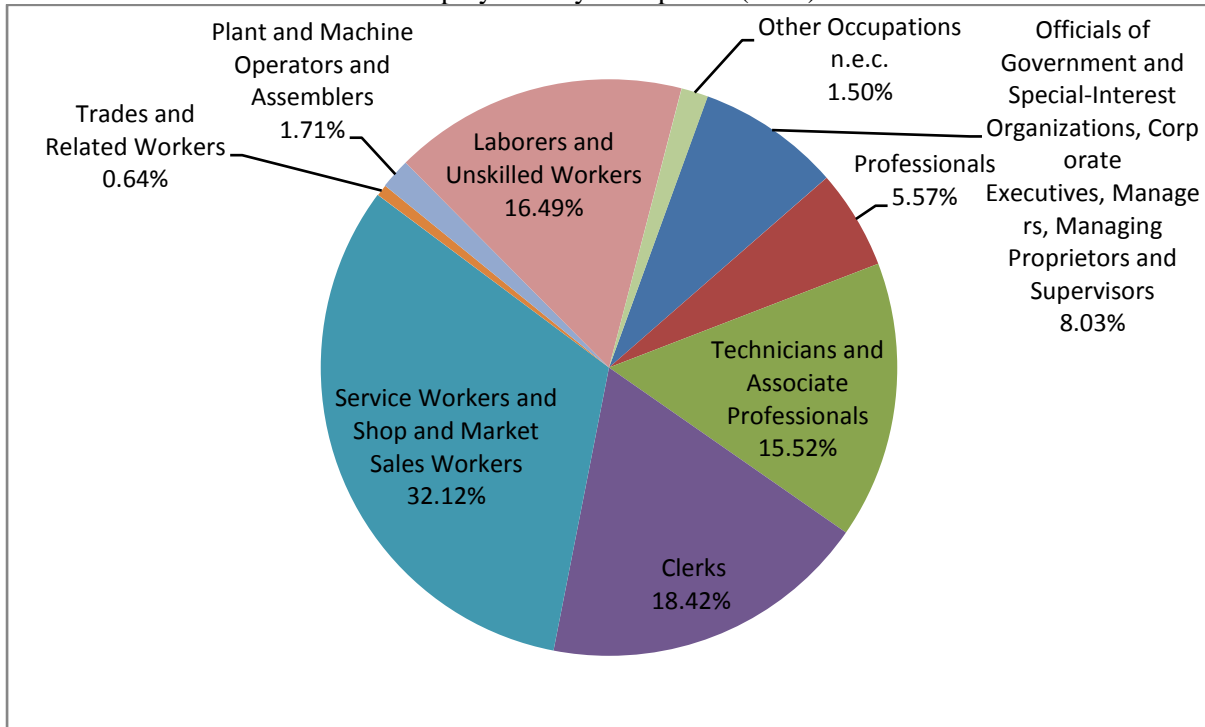
Includes Activities of Membership Organization, NEC

### Employment by Occupation (2007)



Includes Activities of Membership Organization, NEC

Employment by Occupation (2011)



Includes Activities of Membership Organization, NEC

### Labor Productivity

Sector	2008	2009	2010	2011	CAGR	Simple Ave
<b>Sewage and refuse disposal sanitation and similar activities</b>	109,749	155,249	168,763	151,047	11.23%	13.22%
<b>Recreational, cultural and sporting activities</b>	259,448	263,327	332,380	336,642	9.07%	9.67%
<b>Other service activities</b>	71,753	71,696	69,687	68,368	-1.60%	-1.59%
<b>OTHER COMMUNITY, SOCIAL AND PERSONAL SERVICE ACTIVITIES</b>	152,081	157,057	186,238	188,403	7.40%	7.67%

### Top Upstream Sectors

#### Sewage and Refuse Disposal Sanitation and Similar Activities

Goods	Services and Other Industry
Chemical & chemical products Petroleum and other fuel products Paper and paper products	Sewage and Refuse Disposal Sanitation and Similar Activities Wholesale and retail trade Activities Auxiliary to Financial Intermediation

### Recreational, Cultural and Sporting Activities

Goods	Services and Other Industry
Wearing apparel Textile manufactures Paper and paper products	Recreational, Cultural and Sporting Activities Renting and other Business Activities Hotels and Restaurants

### Other Service Activities

Goods	Services and Other Industry
Chemical & chemical products Petroleum and other fuel products Miscellaneous manufactures	Real Estate Electricity Wholesale and retail trade

### Top Downstream Sectors

#### Sewage and Refuse Disposal Sanitation and Similar Activities

Goods	Services and Other Industry
Poultry Livestock Food manufactures	Sewage and Refuse Disposal Sanitation and Similar Activities Renting and other Business Activities Recreational, Cultural and Sporting Activities

### Recreational, Cultural and Sporting Activities

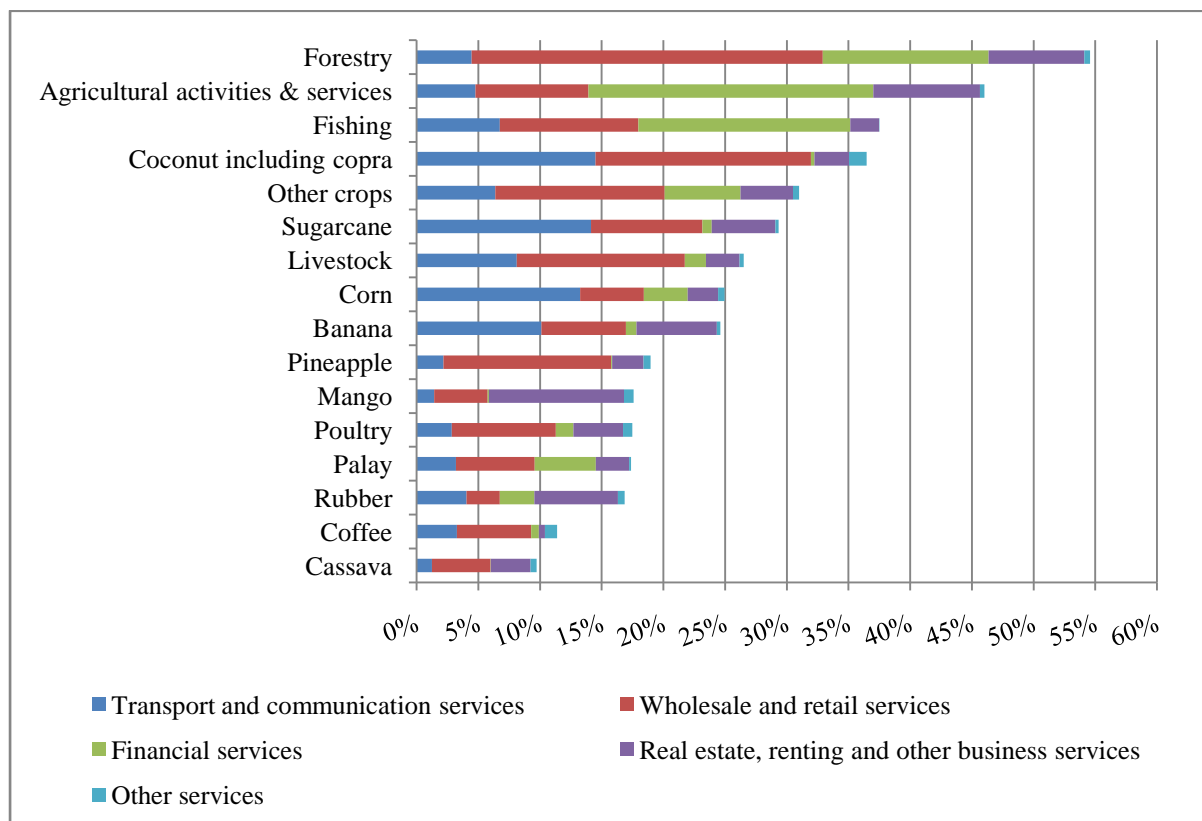
Goods	Services and Other Industry
Radio, television and communication equipment and apparatus Food manufactures Chemical & chemical products	Renting and other Business Activities Recreational, Cultural and Sporting Activities Storage and services incidental to transport

### Other Service Activities

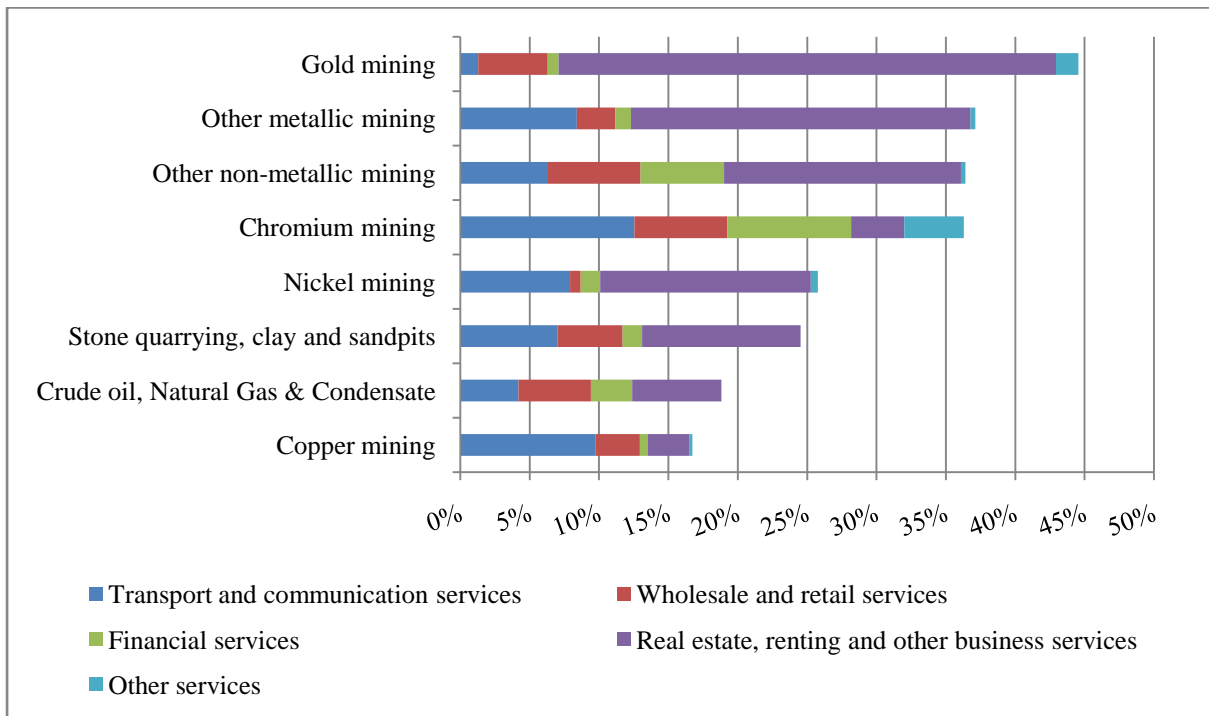
Goods	Services and Other Industry
Electrical machinery and apparatus Chemical & chemical products Rubber and plastic products	Other Service Activities Education Wholesale and retail trade

# APPENDIX I. SERVICES AS A SHARE OF INTERMEDIATE INPUTS

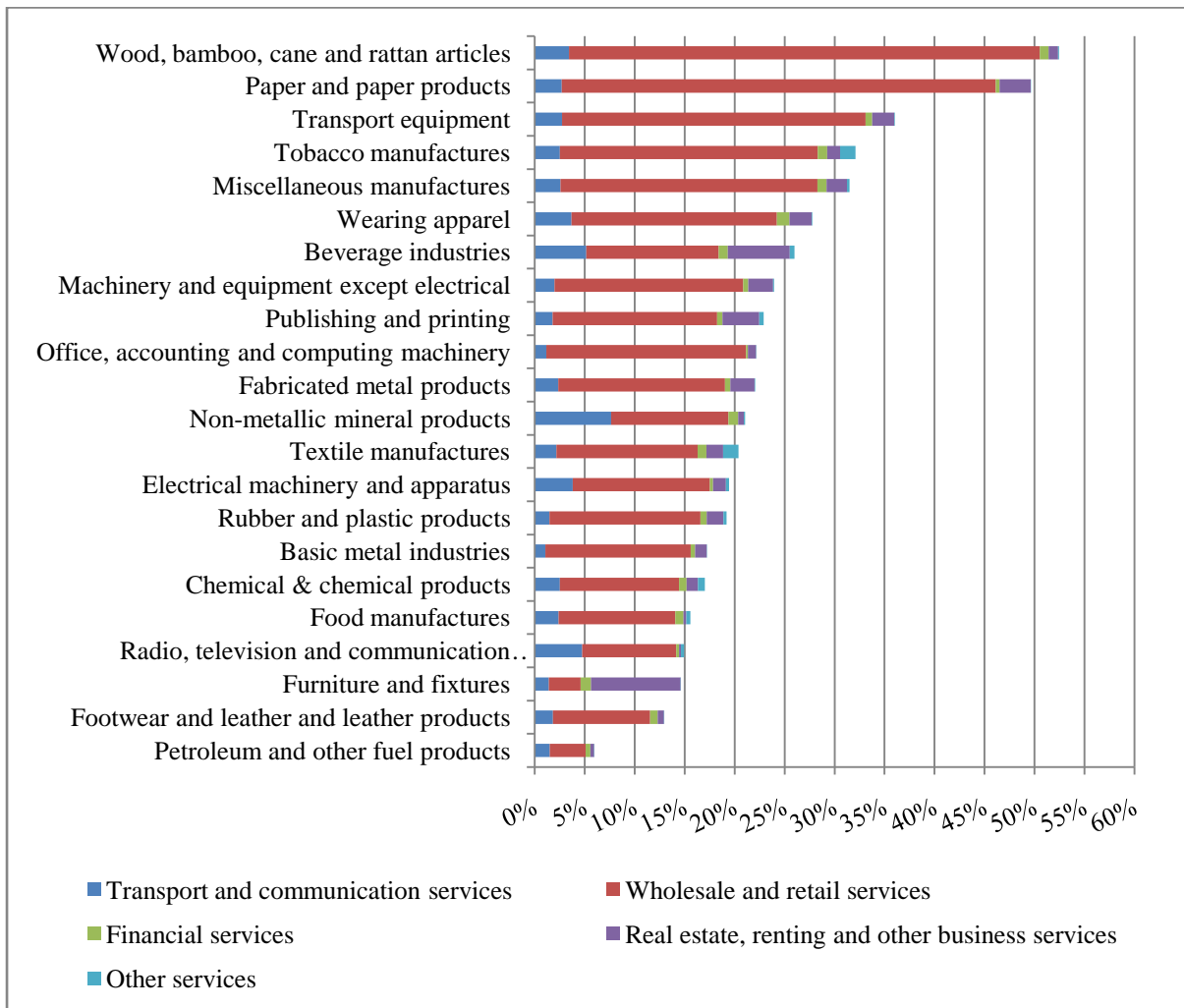
## Agriculture, Forestry and Fishing



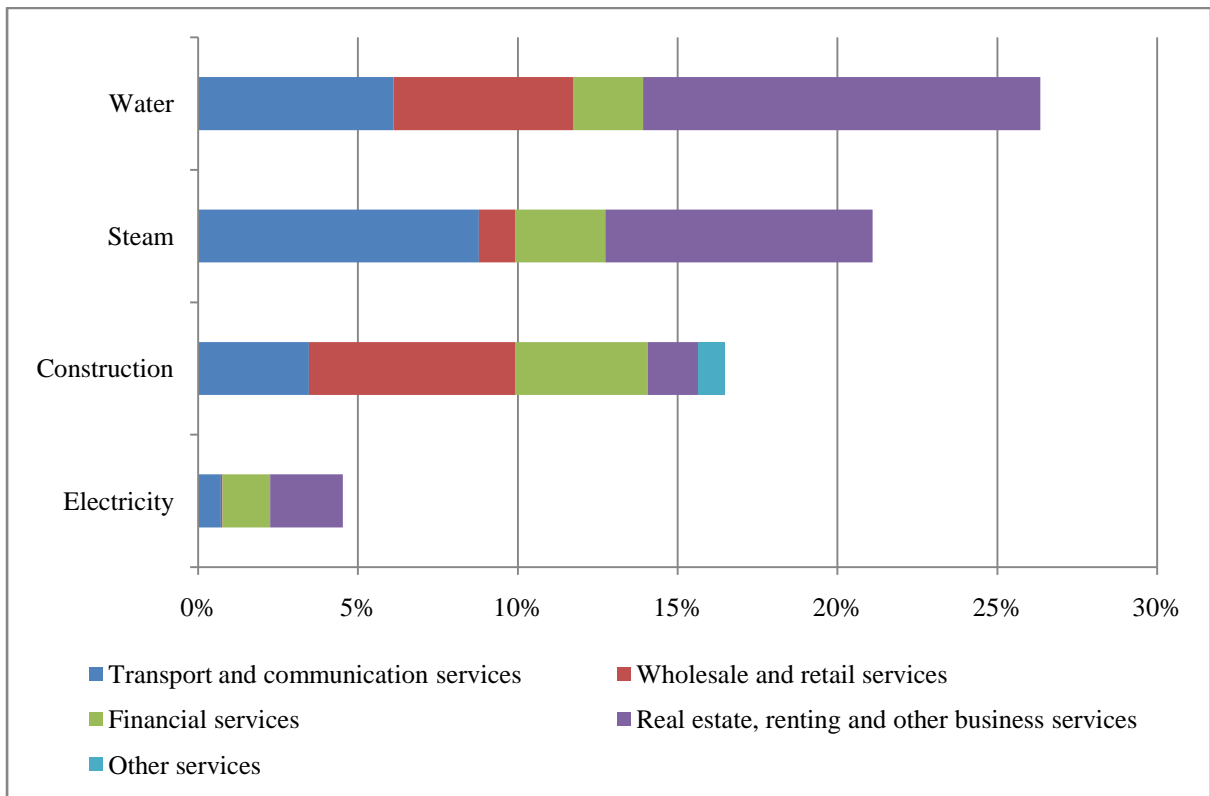
## Mining & Quarrying



## Manufacturing

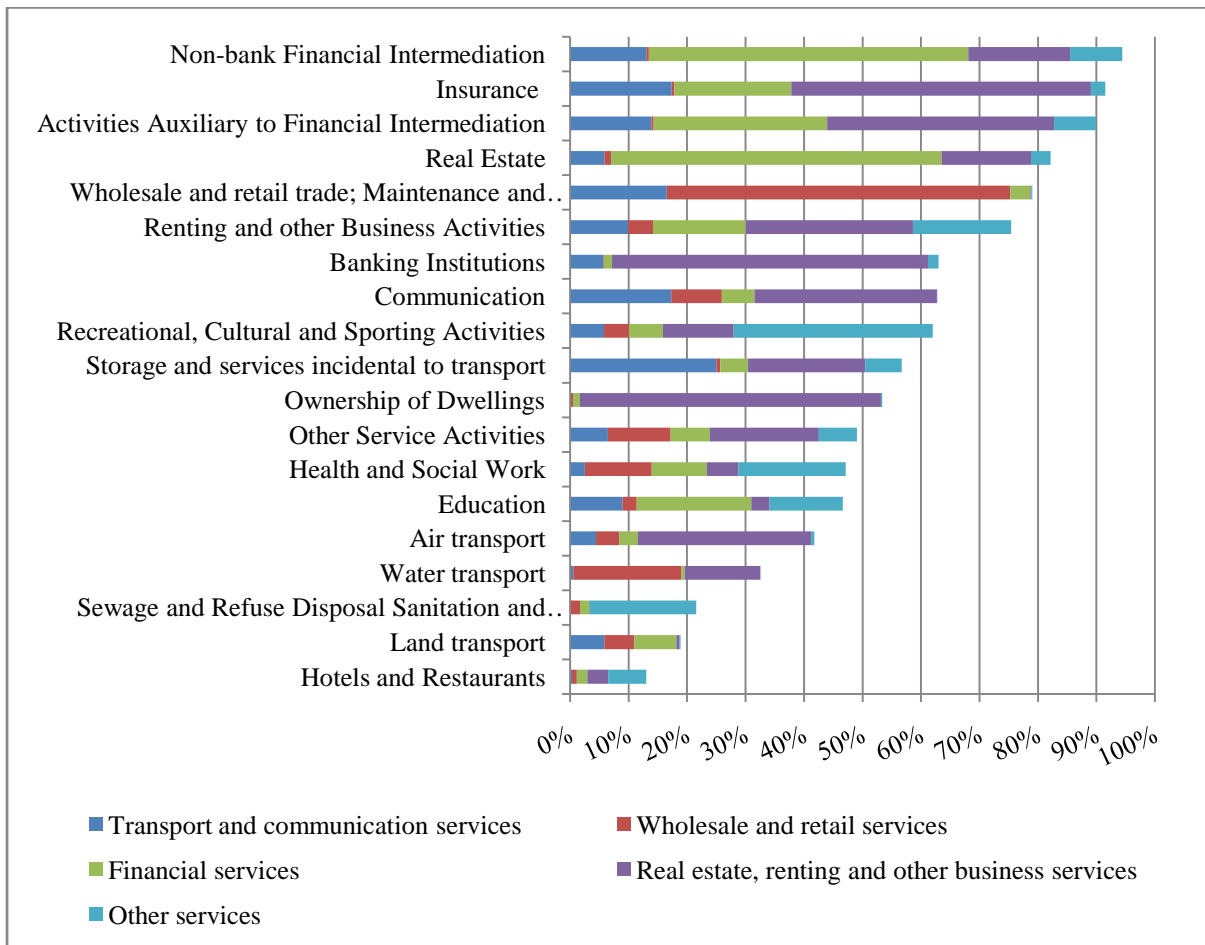


### Other Industry





## Services



Note that the most intensively used services would also be the top upstream services sectors in Appendices A to H.

## APPENDIX J. BREAKDOWN OF SERVICES EMBODIED IN PHILIPPINE EXPORTS (2009)

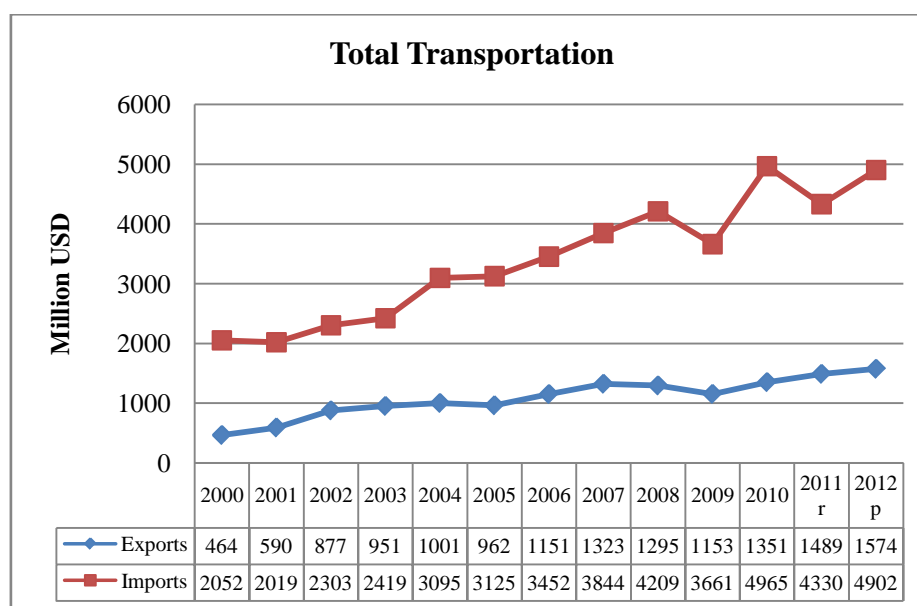
Sector	Gross exports (USD million)	Services industry value added embodied in gross exports (USD million)	Services industry value added embodied in gross exports (%)	Direct domestic service industry value added content of gross exports (USD million)	Indirect domestic services content of gross exports (originating from domestic intermediates) (USD million)	Re-imported domestic services value added content of gross exports (USD million)	Foreign services value added content of gross exports (USD million)
Agriculture, hunting, forestry and fishing	543.4	87.7	16.14%	0	70.2	0	17.5
Mining and quarrying	477.8	115.6	24.19%	0	91.6	0	24
Food products, beverages and tobacco	349.8	72.1	20.61%	0	60.5	0	11.6
Textiles, textile products, leather and footwear	2154.8	491	22.79%	0	258	0.2	232.8
Wood, paper, paper products, printing and publishing	185.6	47.9	25.81%	0	35.2	0	12.7
Chemicals and non-metallic mineral products	446.9	117.1	26.20%	0	77.2	0	39.9
Basic metals and fabricated metal products	252.4	71.7	28.41%	0	38.7	0.1	32.9
Machinery and equipment, nec	555.1	178.9	32.23%	0	110.6	0.1	68.2
Electrical and optical equipment	33288.6	10944.4	32.88%	0	4240.2	35.1	6669.1
Transport equipment	1261	488.1	38.71%	0	332.5	0.3	155.3
Manufacturing nec; recycling	128.9	33.5	25.99%	0	22.9	0	10.6
Electricity, gas and water supply	0	0		0	0	0	0
Construction	0	0		0	0	0	0
Wholesale and retail trade; Hotels and restaurants	7464.2	6481	86.83%	4576.4	1631.3	0.2	273.1
Transport and storage, post and telecommunication	2638.4	1891.8	71.70%	961.1	742	0.3	188.4
Financial intermediation	961.5	874	90.90%	575.8	254.6	0	43.6
Business services	1136.8	994.2	87.46%	714.1	227	0	53.1
Other services	0	0		0	0	0	0
Total	51845	22889.3	44.15%	6827.3	8192.6	36.5	7832.9
Service industry gross exports (%)	23.53%						

Source: OECD-WTO Trade in Value Added (TiVA) - May 2013 database

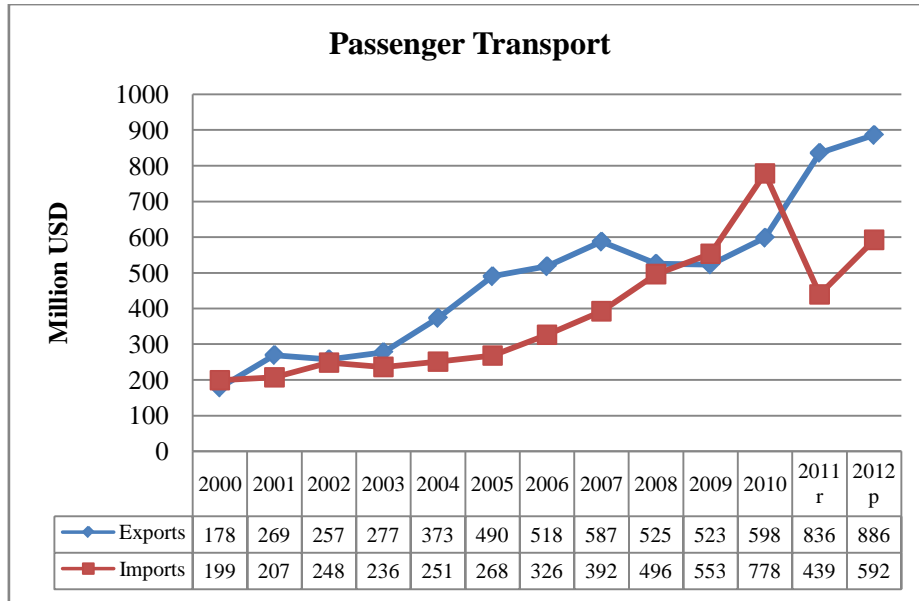
## APPENDIX K. CROSS-BORDER TRADE BY SECTOR

The service components are based on the Expanded Balance of Payments (EBOPS) Classification. Data are from Banko Sentral ng Pilipinas (accessed on 10 July, 2013) and the descriptions are from the IMF BOP Manual 5. EASCAB (2012) discusses the organization, methodology, definitions and classifications used in the production of statistics on international trade in services in the Philippines.

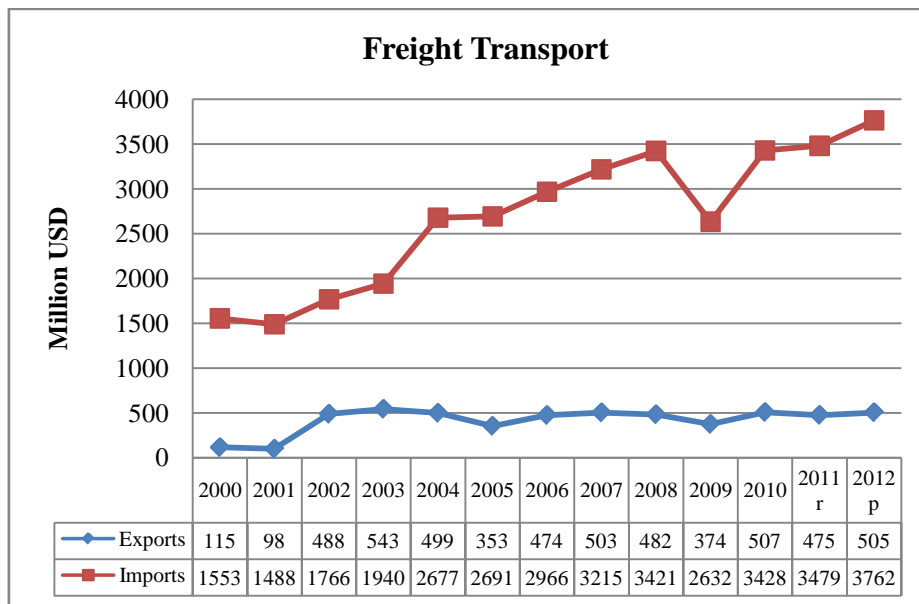
**Transportation** covers all transportation (sea, air, and other—including land, internal waterway, space, and pipeline) services that involve the carriage of passengers, the movement of goods (freight), rentals (charters) of carriers with crew, and related supporting and auxiliary services. Some related activities are *excluded*: freight insurance, which is included in insurance services; *goods procured in ports by nonresident carriers* and repairs of transportation equipment, which are included in *goods*; repairs of railway facilities, harbors, and airfield facilities, which are included in *construction services*; and rentals (charters) of carriers without crew, which are included in *other business services*.



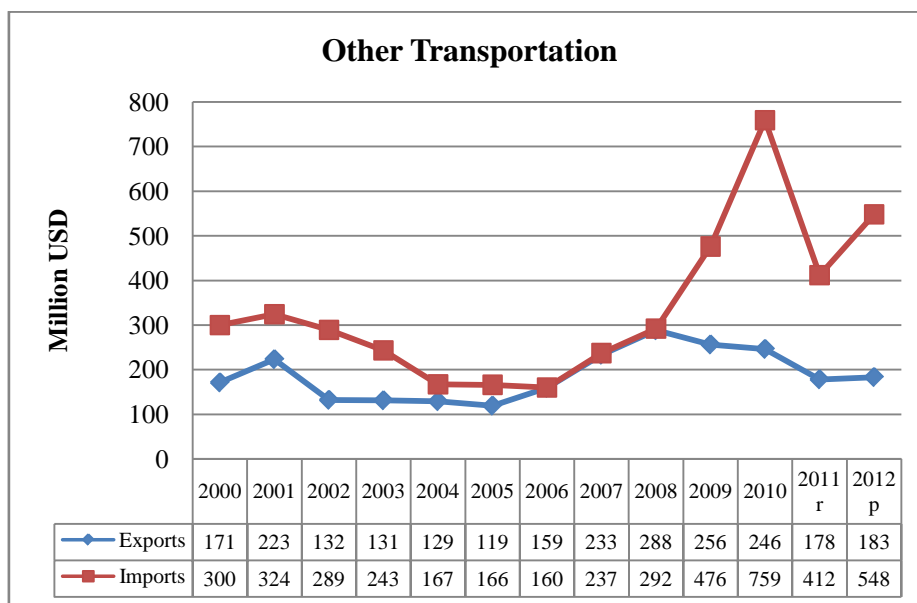
**Passenger Transportation** covers all services provided in the transportation of nonresidents by resident carriers (credit) and that of residents by nonresident carriers (debit). Also included are passenger services performed within an economy by nonresident carriers. Excluded are passenger services provided to nonresidents by resident carriers within the resident economies; these are included in *travel*. In addition to the services covered by passenger fares—including fares that are a part of package tours but excluding cruise fares, which are included in *travel*—passenger services include such items as charges for excess baggage, vehicles, or other personal accompanying effects and expenditures for food, drink, or other items for which passengers make expenditures while on board carriers.



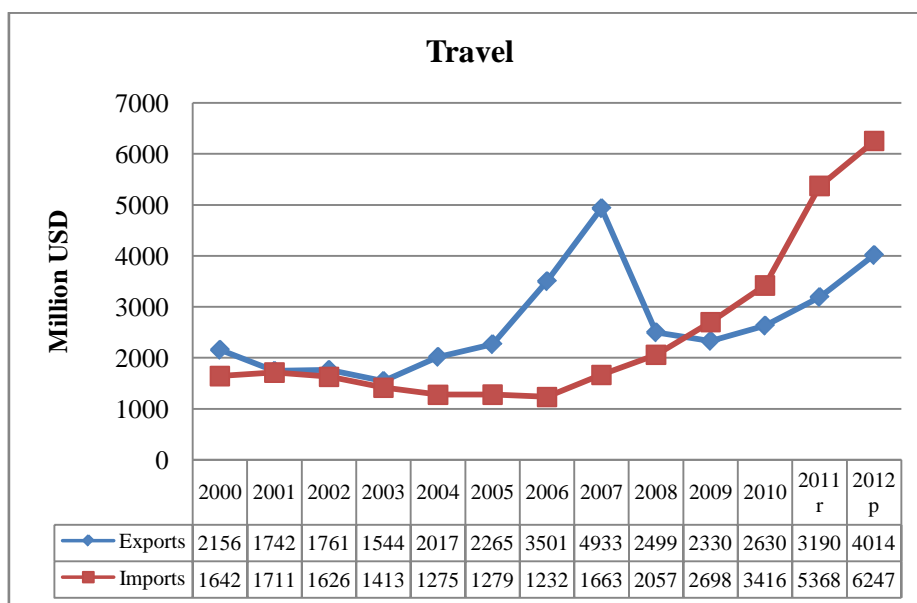
**Freight Transportation** includes the loading on board or the unloading of goods from carriers if contracts between owners of goods and carriers require that the latter provide that service. When such a service is performed at the customs frontier of the country from which goods are exported, the loading charge is classified as freight if the service is provided by, or for the account of, the carrier; otherwise, the service is classified as part of **goods**.



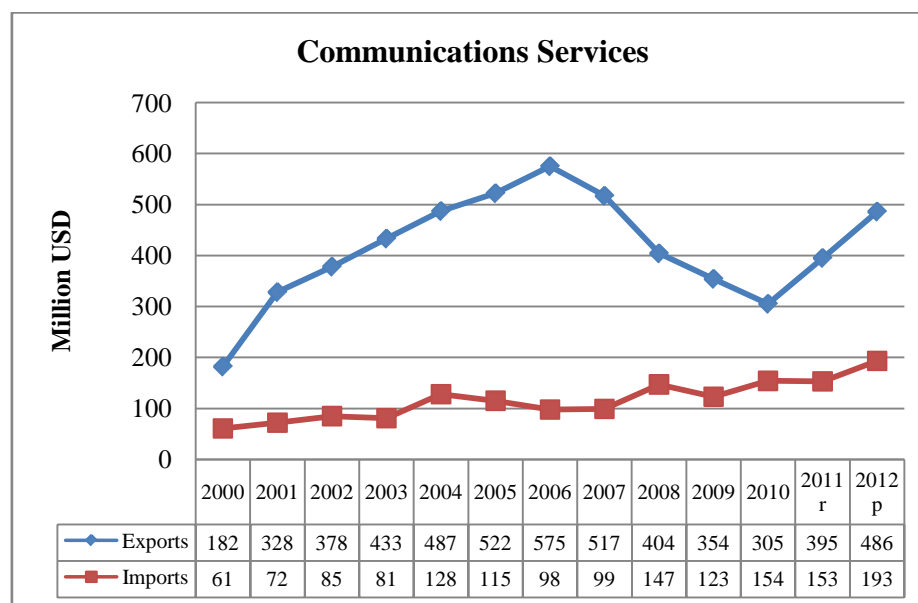
**Other Transportation** This category covers a range of services provided in ports, airports, and other terminal facilities. Among such services are cargo handling (loading and unloading of containers.); storage and warehousing; packing and repacking; other towing, pilotage, and navigational aid for carriers; maintenance and cleaning of transportation equipment; and salvage operations. Also included are commissions and agents' fees associated with passenger and freight transportation.



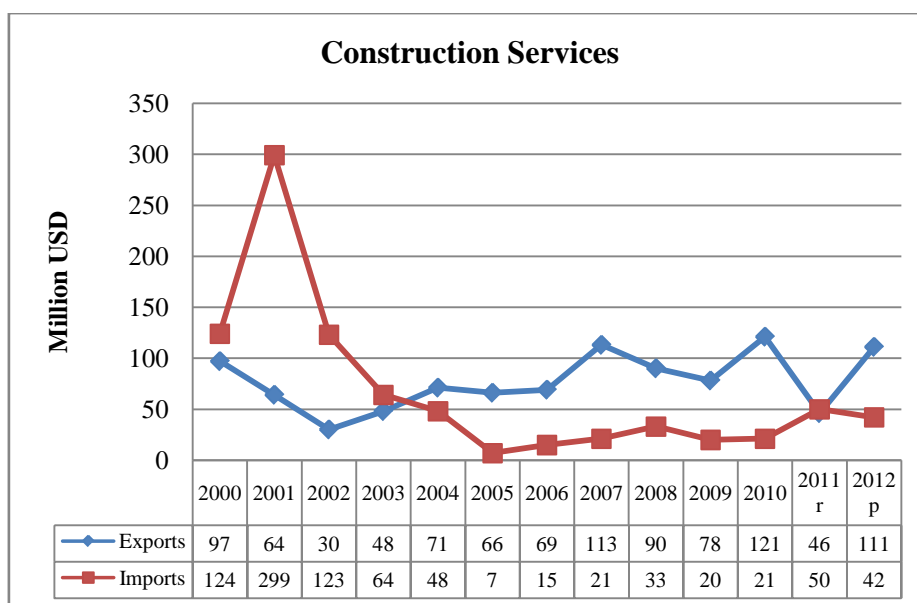
*Travel* covers primarily the goods and services acquired from an economy by travelers during visits of less than one year in that economy. Excluded is the international carriage of travelers, which is covered in passenger services under *transportation*. The one-year rule does not apply to students and medical patients, who remain residents of their economies of origin even if the length of stay in another economy is one year or more. All expenditures, including those for educational and health-related purposes (such as tuition, room and board paid for or provided by educational institutions, hospital charges, treatments, physicians' fees), made by students and medical patients are recorded under *travel*. Fees for services rendered abroad (including provision of correspondence courses) by teachers or doctors are recorded under *personal, cultural, and recreational services*.



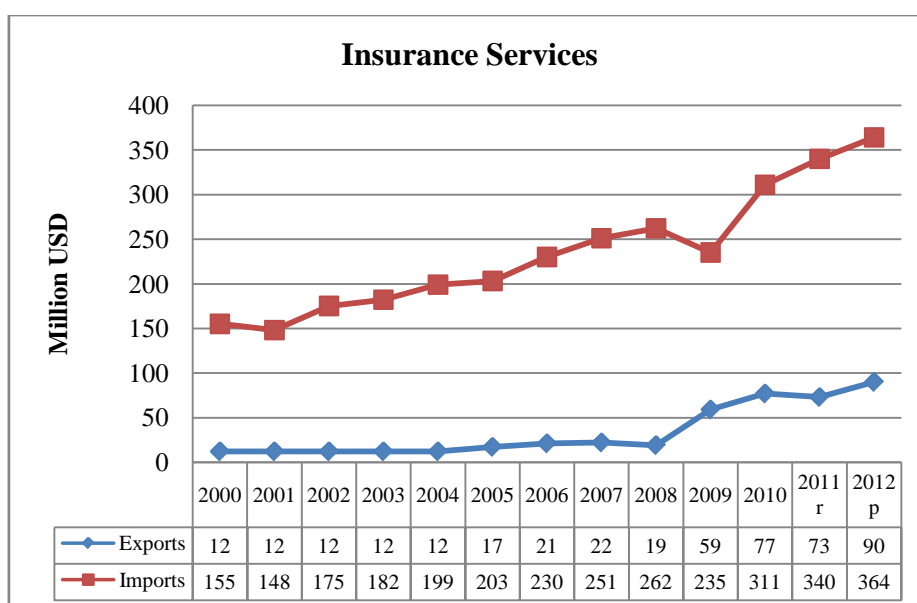
**Communications services** cover two primary categories of transactions between residents and nonresidents in international communications. These are (i) telecommunications, which encompass the transmission of sound, images, or other information by telephone, telex, telegram, cable, broadcasting, satellite, electronic mail, facsimile services, etc. and include business network services, teleconferencing, and support services; and (ii) postal and courier services, which encompass the pickup, transport, and delivery of letters, newspapers, periodicals, brochures, other printed matter, parcels, and packages by national postal administrations and other operators. Also included are post office counter and mailbox rental services.



**Construction services** cover work performed on construction projects and installations by employees of an enterprise in locations outside the economic territory of the enterprise. (The work is generally performed for a short time period; the one-year rule is to be applied flexibly.) Goods imported by the enterprise for use in the projects are included in the value of these services rather than being recorded under *goods*; expenditures for local supplies, etc. are included under *other business services*. Projects carried out by foreign subsidiaries or branches of enterprises (direct investors) and certain site offices are excluded because such projects are part of the production of the host economy.

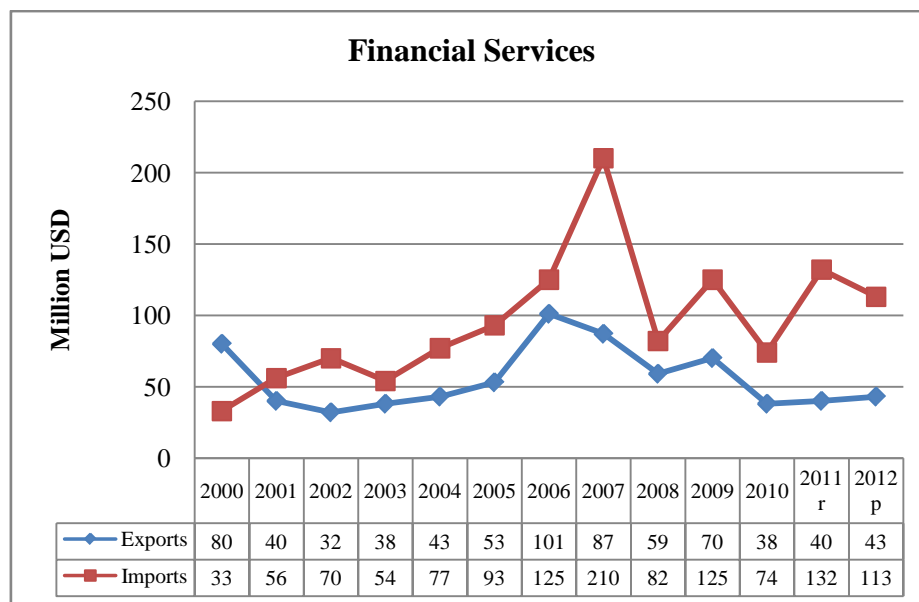


*Insurance services* cover the provision of various types of insurance to nonresidents by resident insurance enterprises, and vice versa. Such services cover freight insurance (i.e., insurance on goods that are in the process of being exported or imported); other types of direct insurance (i.e., life—including pension and annuity services, other casualty or accident, health, general liability, fire, marine, aviation, etc. insurance); and reinsurance. The specific classification of various types of insurance is determined by individual countries according to particular requirements. Also recorded as *insurance services* are agent commissions related to insurance transactions.



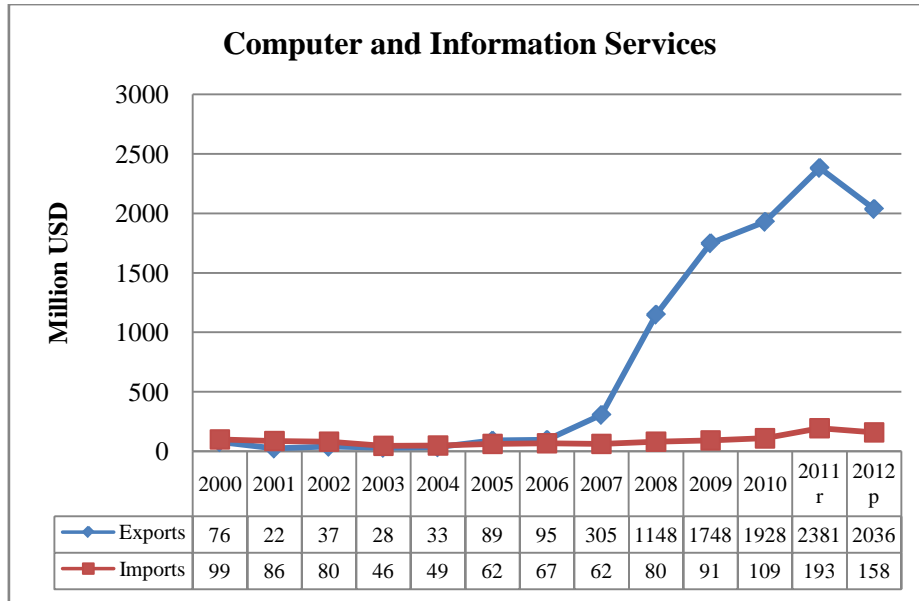
*Financial services* cover financial intermediary and auxiliary services (except those of insurance enterprises and pension funds) conducted between residents and nonresidents. Included are intermediary service fees, such as those associated with letters of credit, bankers' acceptances, lines of credit, financial leasing, and foreign exchange transactions. Also included are commissions and other fees related to transactions in securities—

brokerage, placements of issues, underwritings, redemptions, and arrangements of swaps, options, and other hedging instruments; commissions of commodity futures traders; and services related to asset management, financial market operational and regulatory services, security custody services, etc.

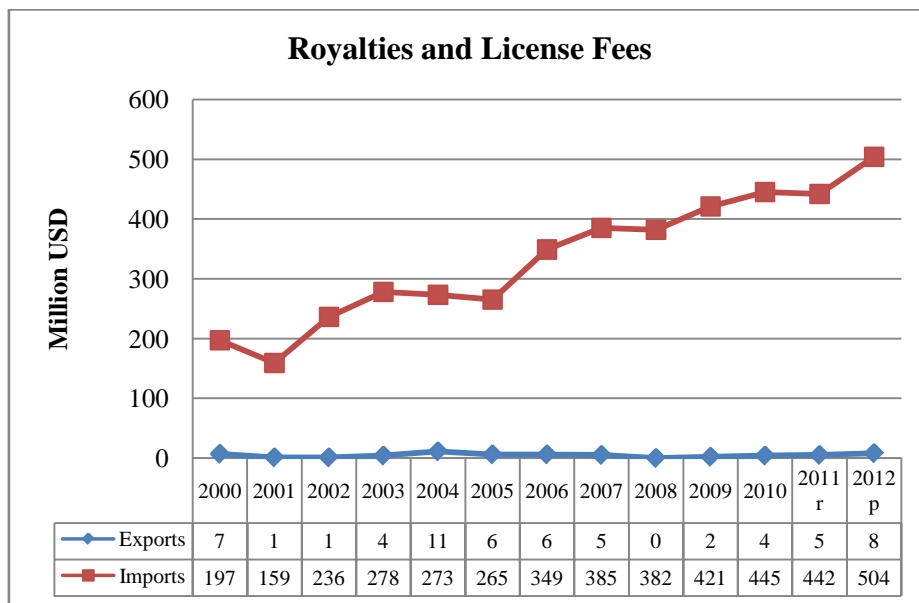


**Computer and information services** cover computer data and news-related service transactions between residents and nonresidents. Included are data bases, such as development, storage, and on-line time series; data processing—including tabulation, provision of processing services on a time-share or specific (hourly) basis, and management of facilities of others on a continuing basis; hardware consultancy; software implementation—including design, development, and programming of customized systems; maintenance and repair of computers and peripheral equipment; news agency services—including provision of news, photographs, and feature articles to the media; and direct, non-bulk subscriptions to newspapers and periodicals.

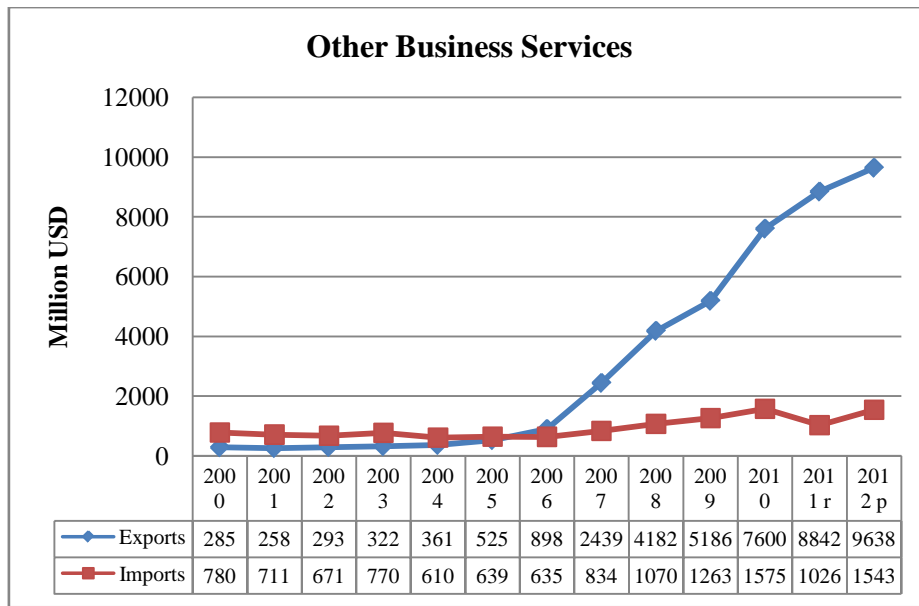




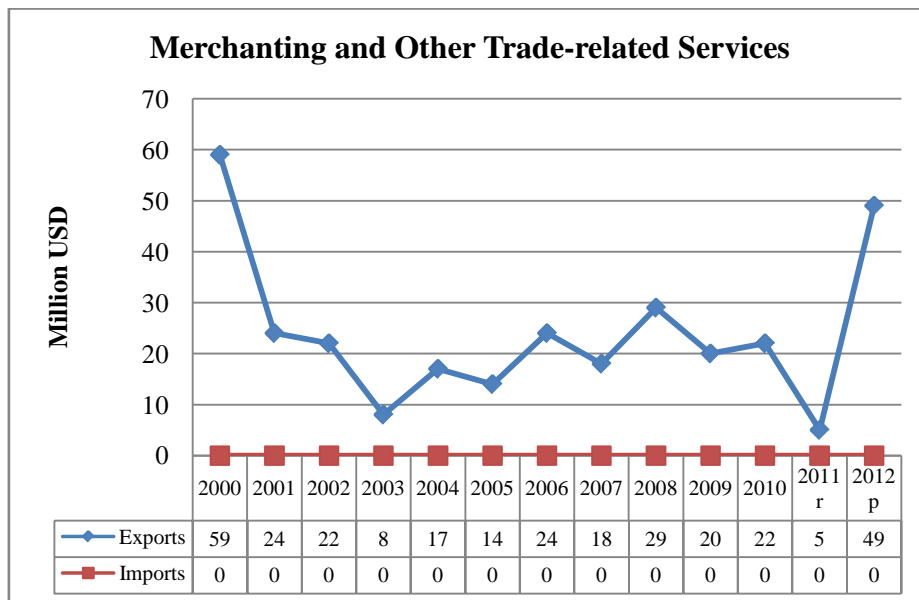
*Royalties and license fees* cover the exchange of payments and receipts between residents and nonresidents for the authorized use of intangible, nonproduced, nonfinancial assets and proprietary rights (such as patents, copyrights, trademarks, industrial processes, franchises, etc.) and with the use, through licensing agreements, of produced originals or prototypes (such as manuscripts and films).



*Other business services* cover merchandising and other trade-related services; operational leasing services; and miscellaneous business, professional, and technical services.



**Merchandising** is defined as the purchase of a good by a resident from a nonresident and the subsequent resale of the good to another nonresident; during the process, the good does not enter or leave the compiling economy. *Merchandising* and other trade-related services covers commissions on goods and service transactions between (i) resident merchants, commodity brokers, dealers, and commission agents and (ii) nonresidents. This category includes transactions in ships, aircraft, and auction sales as well.



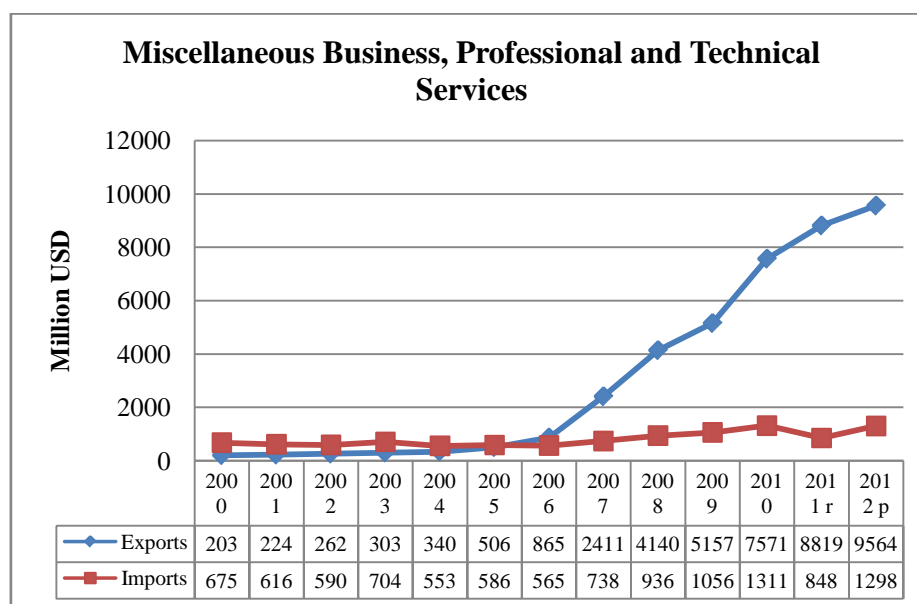
**Operational leasing** (rental) without operators covers resident-nonresident leasing (other than financial leasing) and charters of ships, aircraft, and transportation equipment such as railway cars, containers, rigs, etc. without crew.



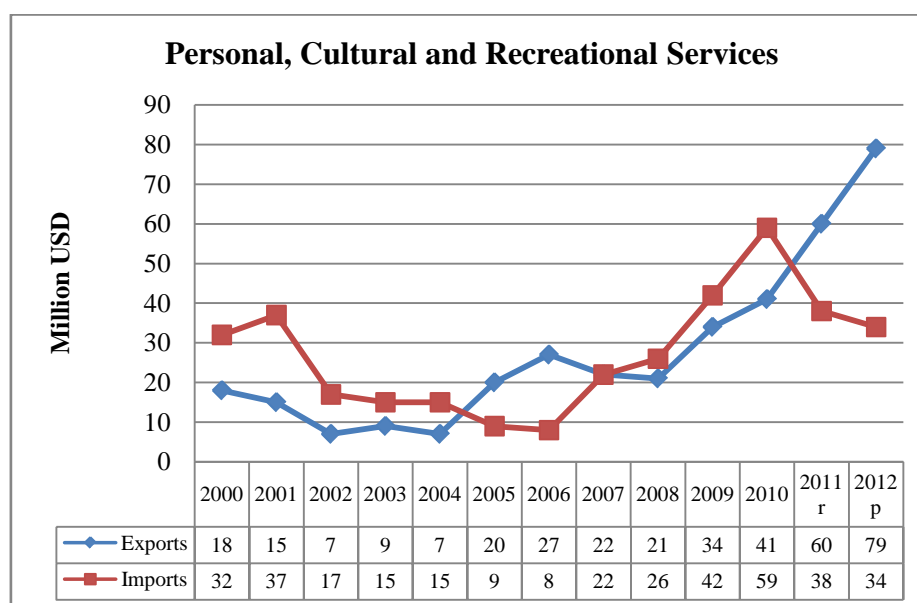
**Miscellaneous business, professional, and technical services** cover the following services:

- Legal, accounting, management consulting, and public relations services cover the provision of legal advice, representation, and documentation; accounting, auditing, bookkeeping, and tax consultant services; and management consulting related to the provision of advice, guidance, or operational assistance to business.
- Advertising and market research services cover the design, creation, and marketing of advertisements by advertising agencies; media placement, including the purchase and sale of advertising space; exhibition services provided by trade fairs; the promotion of products abroad; market research; and public opinion polling abroad on various issues.
- Research and development services cover those associated with basic research, applied research, and experimental development of new products and processes. In principle, such activities in the sciences, social sciences, and humanities are covered; included is the development of operating systems that represent technological advances.
- Architectural, engineering and other technical services cover transactions related to architectural design of urban and other development projects; planning and project design and supervision of dams, bridges, airports, turnkey projects, etc.; surveying, cartography, product testing and certification, and technical inspection services.
- Agricultural, mining, and on-site processing services cover services associated with agricultural crops (e.g., protection against insects and disease, increasing of harvest yields, etc.); forestry services; mining-related services (e.g., analysis of ores, etc.); and on-site processing of, or work on, goods that have been imported but not re-exported (e.g., nuclear waste processing) or vice versa.
- Other services cover items such as placement of personnel, security and investigative services; translation and interpretation; photographic services; building cleaning, etc.

Also included are payments for local supplies, utility payments, etc. by nonresident enterprises engaged in construction services.

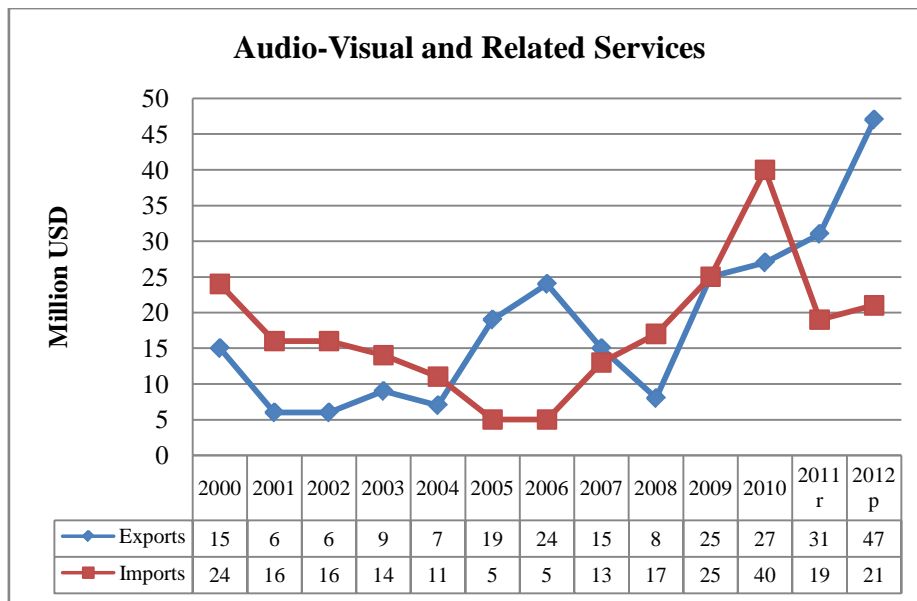


*Personal, cultural, and recreational services* are subdivided into two categories: (i) audiovisual and related services and (ii) other cultural and recreational services.



**Audiovisual and related services.** The first category comprises services and associated fees related to the production of motion pictures (on film or video tape), radio and television programs (live or on tape), and musical recordings. Included are receipts or payments for rentals; fees received by resident actors, directors, producers, etc. (or by nonresidents in the compiling economy) for productions abroad; and fees for distribution rights sold to the media for a limited number of showings in specified areas. Fees to actors, producers, etc. involved

with theatrical and musical productions, sporting events, circuses, etc. and fees for distribution rights (for television, radio, etc.) for these activities are included.



**Other personal, cultural and recreational services.** The second category comprises other personal, cultural, and recreational services such as those associated with museums, libraries, archives, and other cultural, sporting, and recreational activities. Also included are fees for services, including provision of correspondence courses, rendered abroad by teachers or doctors.

