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## The BPO challenge: Leveraging capabilities, creating opportunities

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

## The BPO Challenge: Leveraging Capabilities, Creating Opportunities

*Fatima Lourdes E. Del Prado*

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## **Abstract**

As APEC seeks to promote free trade and economic cooperation in the Asia-Pacific region, cross-border ICT-enabled services and business process outsourcing or BPO are expected to contribute to economic integration and growth in the region. ICT-enabled services have grown significantly over the years and across many parts of the globe including several developing countries in the Asia-Pacific region. While there may not be a single standard approach to developing the ICT-BPO sector, the successful experiences of developing countries can provide useful insights and practical lessons for countries contemplating to set up their ICT-BPO service industries. Using data from the Philippines, this paper describes the evolution of ICT-BPO services exports in the country and examines the factors that facilitated its transition from providing low-end contact center services, to back-office operations, and to higher value-added services. The paper also reviews some of the APEC initiatives relevant to the growth and expansion of ICT-BPO services in the region. The Philippine experience has shown that IT-BPO services is one area of trade in services where developing countries can take a shot at sustainable development, without relying so much on traditional primary industries and natural resource. Although the presence of an educated workforce and good telecommunication infrastructure do not always guarantee success in this area, the investments in human capital and critical telecoms infrastructure—considered by many as a backbone for other important industries—are more than enough reward for the decision or attempt to pursue and board the IT-BPO bandwagon. There is still enough space and opportunity for other developing countries to “build appropriate domestic capacity” to effectively participate in this sector.

**Keywords:** ICT, IT-BPO, Services Trade Liberalization

## The BPO challenge: Leveraging capabilities, creating opportunities<sup>1</sup>

### I. Introduction

For the first time since 1996, the Philippines will have the privilege of hosting the APEC Summit this coming 2015. The summit is an economic forum of 21 Pacific Rim countries seeking to promote free trade and economic cooperation in the Asia-Pacific region. As an input to the summit agenda, various government agencies including the Philippine Institute for Development Studies (PIDS) were tasked to formulate and prepare policy research papers on important issues that would form part of the basis for the substantive priorities that the Philippines would push during the forum.

One of the issues raised that is especially significant to the Philippines and most APEC member-countries is cross-border ICT-enabled services and business process outsourcing or BPO. These ICT-enabled services have grown significantly over the years and across many parts of the globe including the Asia-Pacific region. Its role in the growth and evolution of APEC economies, as well as in enhancing economic integration, is undeniably very important and one that warrants attention in a regional forum such as APEC.

The overall theme of the summit has yet to be formalized but the APEC National Organizing Council (NOC) has already identified the four priorities for the APEC Summit namely: Enhancing the Regional Economic Agenda, Fostering the Small and Medium Enterprises' (SME) Participation in Regional and Global Markets, Supporting and Investing in Human Resources, and Building Sustainable and Resilient Communities. ICT-enabled services and BPO fall under "Enhancing the Regional Economic Agenda".<sup>2</sup>

ICT-enabled services (also called ICT-enabled, IT-based services or IT-BPO), which include BPO (also called Business Process Management or BPM), are among the fastest-growing segments of tradable services worldwide. Traditionally treated as non-tradable that often requires provider and consumer to be close to each other, most services can now be provided remotely via the Internet and other electronic means. Modern electronic infrastructure has rendered distance and delivery costs practically irrelevant for cross-border services trade (ADB 2012). And although it is still largely dominated by industrial countries, some of the most dynamic exporters of services, especially ICT-enabled services, are developing countries from the Asia-Pacific region with India and the Philippines as emerging regional leaders. Mattoo and Wunsch (2004) attributed this phenomenon to three factors. The first involves advances in information and communication technology, which made cross-border trade of services possible. Second, the substantial investments in education in a number of developing economies, amid the absence of commensurate employment opportunities, created an abundance of skilled labor available at relatively low cost. Lastly, the changing nature of business practice and production innovations led to the outsourcing and off-shoring of most non-core business services of multinationals to third-party service providers in low-wage countries overseas. A significant portion of these non-core business activities are the ICT-BPO services off-shored to countries in Asia-Pacific.

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<sup>1</sup> Prepared by Fatima Lourdes E. Del Prado, Senior Research Specialist, PIDS;

<sup>2</sup> Under the subpriority *Promoting Connectivity, including through Services*, issues on ICT and BPO services are discussed together with issues on Labor Mobility, Global Value Chains, Eco-Tourism, People-to-People Tourism, and Supply Chain Connectivity. Other subpriorities under Enhancing the Regional Economic Agenda include: Support for the Multilateral Trading System, Advancing the Free Trade Agreement of the Asia-Pacific, Multi-Year Plan on Infrastructure Development and Investment, including bankable projects, and Advancing Regulatory Coherence.

However, despite the growing tradability of services, the share of services exports to aggregate output of most APEC economies has been less than impressive (i.e., averaging at only about 15% of total exports). Trade barriers and the high transaction costs involved in services trade have consigned the sector to a relatively smaller share of globally traded output. While some of these transaction costs are inherent in nature (i.e., geographical distance, cultural differences), some are artificial and can be compressed substantially through policy reforms that could lower the cost of international trade in services (Shepherd and Van Der Marel 2010). Domestic regulations and protectionist views, whether unintended or deliberate, have been known to limit trade and constrain the availability of productive services (Ramcharan 1999 as cited in Cortez et al., n. d.), presumably causing uneven growth and performance of services trade across countries. Perhaps this can also account for the wide variation among countries and why some countries were more successful than others in developing their ICT-BPO service industries (ADB 2010).

While there may not be a single standard approach to developing the ICT-BPO sector, the successful experiences of other developing countries can provide useful insights and practical lessons for countries contemplating to set up their ICT-BPO service industries (ADB 2010). Using data from the Philippines, this paper describes the evolution of ICT-BPO services exports in the country and examines the factors that facilitated its transition from providing low-end contact center services, to back-office operations, and to higher value-added services. The paper also reviews some of the APEC initiatives relevant to the growth and expansion of ICT-BPO services in the region. Although the focus is on ICT-enabled services and the BPO, the paper also made some reference to the status of the IT sector, including the Internet, telecommunications, broadcast and other media, as well as the ICT technology in the country.

The paper relies heavily on secondary data and consolidates available studies on the topic, including the presentation notes during the National Services Workshop. It also benefitted from consultations with industry representatives from the animation industry association conducted in preparation for the Creative Industries roadmap. Most of the papers used in the study are published reports from the ADB, World Bank, the Joint Foreign Chambers of Commerce, and industry associations.

## **II. Overview of Key Issues and Importance of ICT-enabled services and the BPO**

### ***Definition, scope and coverage***

The ICT-enabled services and the BPO sector cover a wide range of activities that cut across many different sectors. As technology continues to advance and develop, the scale and scope of ICT-enabled services will also keep on evolving, further complicating the task of establishing a globally accepted standard definition. Currently, global definitions of ICT-enabled services oscillate between broad and narrower frameworks (UNCTAD 2008). From a broader perspective, the ICT and ICT-enabled services would typically cover services from IT application, engineering services, and a wide spectrum of services delivered over electronic networks. For instance, Mattoo and Wunsch-Vincent (2004) compiled the set of ICT activities from Indian service providers delineating the commonly outsourced IT and BPO activities in India (Table 1). A similar attempt was done for the Philippines using data from the Business Processing Association of the Philippines (BPAP) in 2007 (Table 2).

Table 1

<b>1. INFORMATION TECHNOLOGY SERVICES (COMPUTER AND RELATED SERVICES)</b>	
Software Development and Implementation Services, Data processing and Database Services, IT Support Services, Application Development & Maintenance, Business Intelligence & Data Warehousing, Content Management, E-procurement and B2B Marketplaces, Enterprise Security, Package Implementation, System Integration, SCM, Enterprise Application Integration, Total Infrastructure Outsourcing, Web Services (Internet Content Preparation, etc.), Web-hosting and Application Service Providers (ASPs)	
<b>2. BUSINESS PROCESS OUTSOURCING</b>	
<b>CUSTOMER INTERACTION SERVICES</b>	Sales Support, Membership Management, Claims, Reservations for Airlines and Hotels, Subscription Renewal, Customer Services Helpline, Handling Credit and Billing Problems, etc.  Telemarketing and Marketing Research Services
<b>BACK-OFFICE OPERATIONS</b>	Data entry and handling, Data processing and database Services, Medical Transcription, Payment Services, Financial Processing (financial information and data processing / handling), Human Resource Processing Services, Payroll Services, Warehousing, Logistics, Inventory, Supply Chain Services, Ticketing, Insurance Claims Adjudication, Mortgage Processing
<b>MORE INDEPENDENT PROFESSIONAL OR BUSINESS SERVICES</b>	Human Resource Services (Hiring, Benefit Planning and Payroll, etc.), Finance & Accounting Services (including Auditing, Bookkeeping, Taxation Services, etc.), Marketing Services, Product Design and Development

Source: Lifted from Mattoo and Wunsch-Vincent (2004)

Table 2

<b>IT/ICT Services</b>		<b>IT/ICT-enabled services</b>
<b>Application services</b>	<b>Engineering services</b>	<b>Business process services</b>
<i>Application development and maintenance</i> ① Application development  ① Application development integration and testing ① Application maintenance  <i>System integration</i> ① Analysis ① Design ① Development ① Integration and testing ① Package implementation  <i>IT infrastructure services</i> ① Help desks ① Desktop support ① Data center services ① Mainframe support ① Network operations  <i>Consulting</i> ① IT consulting ① Network consulting	<i>Manufacturing engineering</i> ① Upstream product engineering - Concept design - Simulation - Design engineering  ① Downstream product engineering - Computer-aided design, manufacture and engineering - Embedded software - Localization ① Plant and process engineering  <i>Software product development</i> ① Product development ① System testing ① Porting1/variants ① Localization ① Maintenance and support ① Gaming	<i>Horizontal processes</i> ① Customer interaction and support (including call centers)  ① Human resource management ① Finance and administration ① Supply chain (procurement logistics management)  <i>Vertical processes</i> ① Banking ① Insurance ① Travel ① Manufacturing ① Telecommunications ① Pharmaceuticals ① Other  <i>Knowledge process outsourcing</i> ① Business and financial research ① Animation ① Data analytics ① Legal process and patent research ① Other high-end processes

Source: Lifted from Randeep, et al. (undated)

Both tables reflect the definitional/conceptual issues and relative novelty of the field, which make it very difficult to come up with accurate estimates and reliable statistics that are comparable across countries. Table 1 shows that there is a thin line between IT or ICT services and ICT-enabled services. IT is the backbone and enabling technology that handles all information and activities performed in ICT-enabled or BPO services (EXIM Bank of India 2012). The distinction between the two is often blurred and their growth cannot be divorced from each other (ADB 2010). The table also indicates that there are a variety of business support functions with combined and overlapping activities. For instance, customer care functions can cover multiple tasks, i.e. call center services as well as technical support. Mattoo and Wunsch-Vincent (2004) maintained that many of these BPO services do not neatly fit the GATS classification of cross-border services trade and several support activities do not have their corresponding entry in the W/120.

BPO is not formally classified as a sector under GATS (W/120), primarily because “BPO activities can be performed on behalf of many other different services and industries and in some cases would fall under commitments the sector concerned” (ITC 2010). It is also noteworthy to mention that the GATS and UN classifications were first elaborated in 1991 and many of the tasks and services common today were unheard of at that time (ITC 2010). The GATS uses the UN Central Product Classification (CPC) to identify service products and the different ways through which these can be traded. According to ITC (2010), the most amenable GATS classification would be “Other business service”, which is a very broad sector that covers a wide spectrum of business activities from advertising, to convention management, to packaging and photographic services. Mattoo and Wunsch-Vincent (2004) however argued that the lack of detail in this category “sits awkwardly with the fact that this category is the fastest growing segment in evolving classification systems like the CPC and in measured trade flows”. Table 3 presents the service product classification under UNCTAD. Tables 4 and 5 describe the ICT-enabled services as they appear and treated in the Balance of Payment transactions and in the GATS modes of supply. It must be noted that governments normally do not collect data on ICT-enabled services and most of the data available come from industry associations like NASSCOM, Tholons, and international agencies like UN, WTO, and OECD.

**Table 3. UNCTAD Classification of Outsourcing services**

Call/contact center services	Back-office services	IT services
Help desk	Claims processing	Software development
Technical support/device	Accounts processing	Application testing
After-sales	Transaction processing	Content development
Employees enquires	Query management	Engineering and design
Claims enquiries	Customer administration	Product optimization
Customer support/advice	Processing	
Market research	HR/payroll processing	
Answering services	Data processing	
Prospecting	IT outsourcing	
Information services	Logistics processing	
Customer relationship	Quality assurance	
Management	Supplier invoices	

Source: EXIM Bank of India (2012)

Table 4. BOP Components of services

Balance-of-payments standard classification components of services		ICT-enabled services
Transportation		
Travel		
Other services <sup>a</sup> :	Communication services	Include postal, courier and telecommunications services
	Construction services	
	Insurance services	Include life insurance, pension funding, freight insurance, other direct insurance, reinsurance and auxiliary services
	Financial services	Include financial intermediation and auxiliary services
	Computer and information services	Include computer, news agency and other information provision services
	Royalties and licence fees	Include franchises and similar rights, plus other royalties and licence fees
	Other business services	include merchanting, <sup>b</sup> trade-related, operational leasing, legal, accounting, management consulting and public relations, advertising, market research and public opinion polling, research and development, architectural, engineering, agricultural, mining, and other on-site processing and services between related enterprises <sup>c</sup>
	Personal, cultural and recreational services	Include audiovisual and related services plus education and health services provided online or onsite.
Government services		

Notes:

<sup>a</sup> This is not a standard component but is provided by the IMF as total services minus transportation and travel.

<sup>b</sup> E.g. commodity arbitrage and wholesale trading.

<sup>c</sup> E.g. payments between subsidiaries and the parent companies to cover overhead expenses.

Source: IMF CD-ROM and UNCTAD (2002).

Source: Lifted from UNCTAD Information Economy Report, 2006

Table 5. BOP Services transactions by GATS Modes of supply

Mode	Proxy
Cross-border supply	BoP: service exports (note this excludes travel)
Consumption abroad	BoP: travel (possibly excludes health, education, etc.)
Commercial presence	Foreign Affiliates Trade in Services (FATS): turnover
Movement of natural persons	BoP: compensation of employees (understatement)

Source: Adapted from Cali et al (2008)

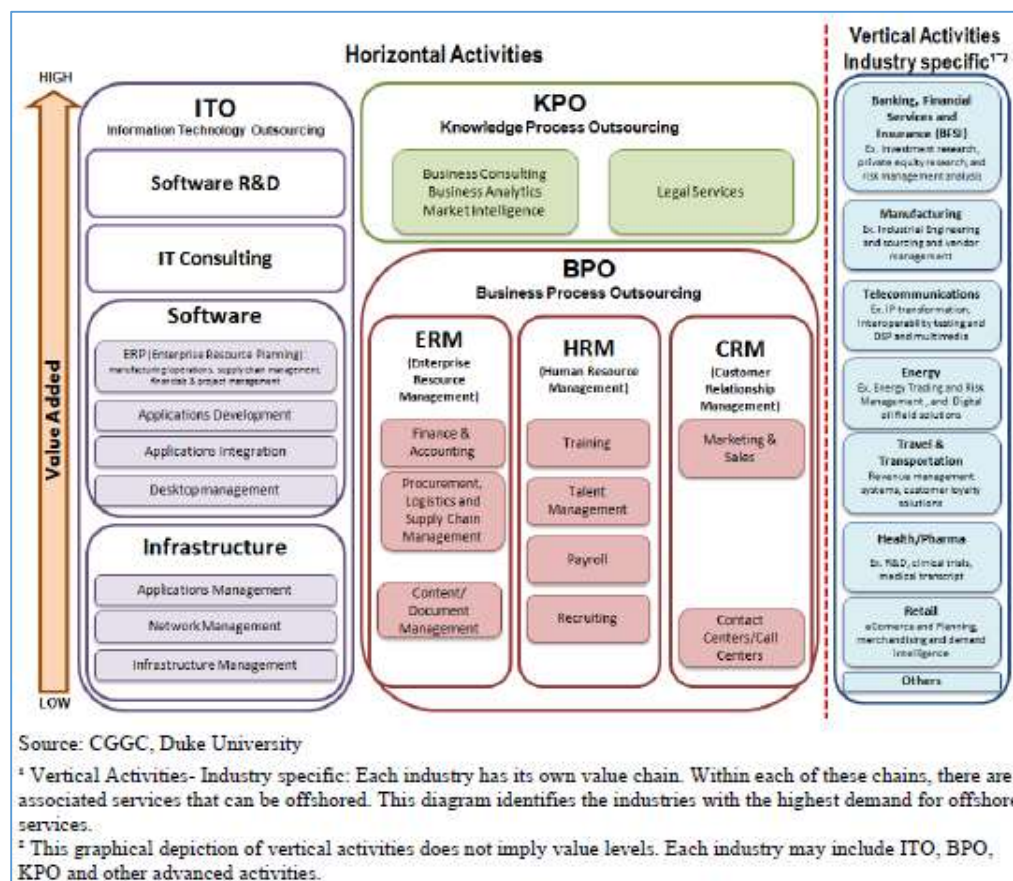
### Industry Value Chain

Although the CPC has been upgraded twice, there is still no assurance that all current and future or potential tradable services are and would be covered and classified accordingly (Mattoo and Wunsch-Vincent 2004), because as technology continues to develop, newer and more sophisticated services are being exported and the composition of services keeps on changing, making efforts at categorization very challenging. Despite these complexities, Gereffi and Fernandez-Stark (2010) developed a fairly



comprehensive, yet flexible classification using the Global Value Chain (GVC) framework. Under the GVC framework, firms are classified according to the value and stages of production of a good or service. For goods manufacturing, value added is simply the difference between costs of inputs and outputs at each stage of the chain. This is not easily done in the case of the offshore services industry because of lack of reliable firm-level data and trade statistics (Sturgeon and Gereffi 2009 as cited in Gereffi and Fernandez-Stark 2010). The problem however is partially addressed by the GVC framework by relating the value of different services chain to the education level and work experience of the employee. The human capital requirement and/or the quality of available workforce becomes the indicator and determinant of value and competitiveness in each activity and stage of production. A visual representation of this “offshore services industry” value chain developed by Gereffi and Stark is given below (Figure 1).

Figure 1



Source: Gereffi and Fernandez-Stark (2010)

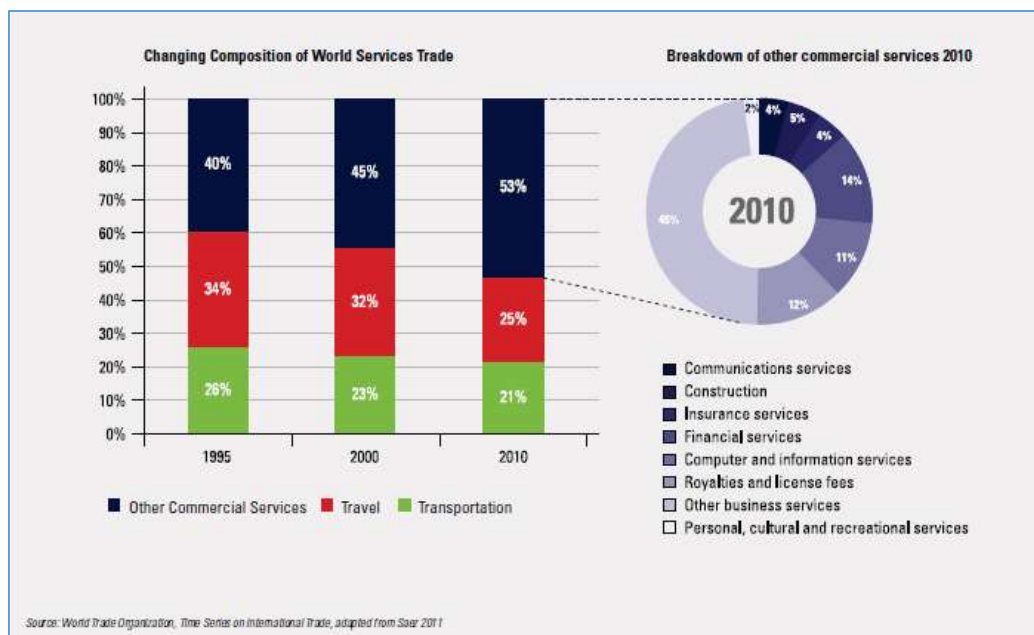
The diagram shows the industry being divided into services that can be provided across all sectors (horizontal services) and services that are industry-specific (vertical services). Firms under the horizontal services tend to be process experts and cover general support activities which include tasks ranging from repetitive transactional processes to transformational operations that depend on analytical skills (Stark et al. 2013), whereas those in the vertical chains require knowledge and expertise specific to the industry, that may have little or limited application in other industries. Horizontal services are further subdivided into information technology, knowledge, and business processes. ITO is reported to cover a full range of low-, mid-, and high-value activities while KPOs embody high value-added content. BPOs are shown to

cover mostly activities within the low and middle segments of the offshore services chain. By categorizing services this way and indicating the human capital required at each level of the chain, developing countries are given instruments through which they can determine how and where to participate in the value chain, given the current educational level of their workforce. They can opt to develop strategies and implement policies to build their human capital for those services segments that they wish to provide and concentrate on (Gereffi and Stark 2010).

### III. The BPO Sector in the Philippines<sup>3</sup>

The global offshore IT-enabled services industry has grown significantly over the years. It is the fastest growing segment of the “Other commercial services” that have overtaken the traditional “travel” and “transport” components of services trade. As shown in Figure 2, the biggest contributors to this growth are knowledge-intensive business services, particularly computer and IT services, R&D, and other business activities (PECC and ADBI 2011). Within the APEC region, the most established outsourcing destinations for these services are India, the Philippines, and China (Tholons 2014).

Figure 2



#### *Scope and economic importance*

The Philippines is one of the few widely recognized mature locations for offshore services. The country’s IT/ICT and ICT-enabled services sector, according to Mitra (2011), can be partitioned into five broad subsectors: telecommunications, broadcasting and media, electronics manufacturing (i.e. ICT hardware), IT software services plus ITO outsourcing services, and IT-enabled business process outsourcing services that include voice (i.e. contact centers) and non-voice and KPO services, i.e. transcription, animation, game development, and software development.

<sup>3</sup> Draws heavily from Mitra (2011)

Telecoms have been historically the most dominant not only in terms of industry revenue share but also in terms of widespread use and impact to national economy. Its deregulation in 1993 is particularly significant because of its profound impact in the growth and development of ICT-BPO in the country. Both the telecoms industry and broadcast media are well-entrenched in the Philippine economic and social milieu, compared with the BPO industry which is still in its nascent stage. Even the electronics export industry was already well established and thriving long before the ICT-BPO sector took off. Although there have been traces and fragments of outsourcing service activities in the country since the 1950s, it was only in recent years that the Philippine ICT-BPO services began to accelerate. Gereffi and Stark (2010) reported this to be the period between 2004 and 2007, when the industry recorded growth rates in the order of 50 percent (Table 6). Table 6 shows the double-digit growth which tapered off slightly to 18–24 percent during the crisis years of 2008 and 2009 from 47 – 50 percent in the preceding years. These figures highlight the industry’s resilience and ability to maintain its position in the global market amid pressures and adverse external shocks.

**Table 6. Philippine IT-BPO Industry, 2004-2009**

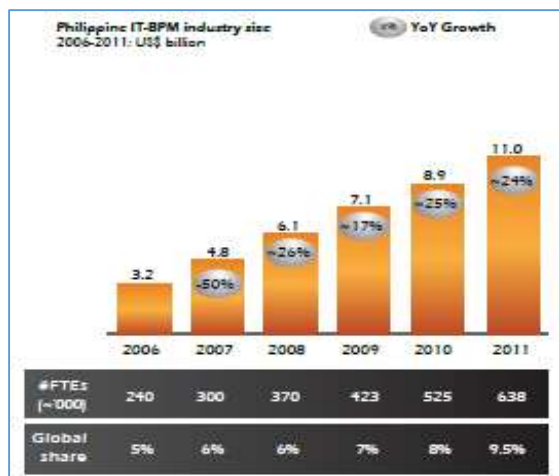
	2004	2005	2006	2007	2008	2009
Annual GDP Growth (%)	6.10%	5.10%	5.40%	7.10%	3.80%	0.90%
Revenues in Offshore Services Industry: Philippines (US\$ billions)	1.5	2.2	3.3	4.9	6.1	7.2
Growth Rate Offshore Services Industry		47%	50%	48%	24%	18%
Offshore Services Employment	101,000	163,000	236,000	300,000	372,000	442,000
Growth Rate Offshore Services Employment		61%	45%	27%	24%	19%

Source: Lifted from Gereffi and Stark (2010); NSCB; BPAP

Data published in the 2012-2016 Industry Roadmap confirms the above figures and extends the revenue streams to 2011 which is shown to exhibit continuous positive upward trend (Figure 3), posting a growth rate of 25 percent and 24 percent for the years 2010 and 2011 respectively. Figure 3 reflects the increasing number of jobs generated by the industry and its growing presence in the international market, capturing 5–9.5 percent of the global outsourcing industry.

The same industry report claimed that the ICT-BPO industry in the Philippines has thrived considerably over the years, registering an average growth rate of 30 percent in the last decade, faster than the growth rate of the global offshore services market (IT-BPM Roadmap). Much of the growth has been attributed to the steady expansion of the contact centers, which comprised 64 percent of the industry’s workforce and over 67 percent of total revenues. For 2011, it posted a 21-percent growth in earnings and was estimated to increase employment by 493,000 in 2012 from 416,000 the previous year. In 2010, the Philippines overtook India as the world’s leader in the voice BPM services, and ranked number two in the non-voice category.

Figure 3



Source: IT-BPM Roadmap 2012-2016

Figure 4

IT-BPO Revenues and Employment's Contribution to the Economy (in percent)				
Year	IT-BPO Industry	IT-BPO Industry Employment as percent of the Country's Total Employment	IT-BPO Export Earnings as Percent of Total Exports of Goods and Services <sup>1/</sup>	Exports of Services <sup>2/</sup>
2004	1.4	0.3	2.1	22.0
2005	1.9	0.4	3.1	30.7
2006	2.4	0.8	4.3	35.5
2007	2.9	0.8	5.9	35.7
2008	3.8	1.0	9.1	54.4
2009	4.9	1.3	15.9	70.1
2010	5.0	1.5	14.6	67.2
2011	5.4	1.6	17.4	67.5

1/ Balance of Payments (BOP) statistics based on 5th Edition Balance of Payments Manual (BPM). BOP statistics based on BPM 6th Edition is only available for reference years 2011-2012.

Source: BSP

Available data from government agencies also support these claims. Tables 7a–c show contact centers dominating the entire industry in terms of total revenue, export sales, and employment. There is also a notable increase in the non-voice, high-value knowledge intensive services like software development and animation. The same is true for “Other BPOs” which include services such as backroom operations, data processing, online distribution of electronic content, outsourcing of financial and accounting as well as architectural and engineering services, and related activities. This indicates that the industry is diversifying its portfolio by expanding to higher value-added, knowledge-intensive services.

In terms of contribution to the GDP, the BSP estimates that the revenues generated by the local IT-BPO industry for 2011 accounted for 5.4 percent of the country’s gross domestic product (GDP). The BSP reckons that sustained growth in employment and salaries obtained from the sector over the years have greatly increased household spending and investments, from just 1.4 percent in 2004.

Table 7a. Total revenue by IT-BPO category

	Levels (in US\$ million)							
	2004	2005	2006	2007	2008	2009	2010	2011
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 Total Revenue	12	17	26	29	36	52	63	72
Software Devt Total Revenue	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>

Table 7b. Export sales by IT-BPO category

	Levels (in US\$ million)							
	2004	2005	2006	2007	2008	2009	2010	2011
Contact Center	561	949	1,330	1,732	2,489	3,938	5,126	6,166
Transcription	4	8	19	25	24	54	75	122
Animation Total Revenue	8	11	23	27	35	46	54	60
Software Devt Total Revenue	98	160	455	852	1,148	1,553	1,928	2,381
Other BPOs	217	259	462	855	1,592	2,126	2,288	2,432
<b>TOTAL INDUSTRY</b>	<b>888</b>	<b>1,388</b>	<b>2,288</b>	<b>3,490</b>	<b>5,288</b>	<b>7,717</b>	<b>9,470</b>	<b>11,160</b>

Table 7c. Total number of workers, by IT-BPO category

	Levels (count in persons)							
	2004	2005	2006	2007	2008	2009	2010	2011
Contact Center	65,006	96,246	153,683	169,748	212,372	255,765	329,597	433,183
Transcription	901	1,785	4,956	6,621	4,321	7,060	9,131	11,084
Animation Total Revenue	1,488	1,864	4,482	4,323	5,656	3,732	3,908	3,973
Software Devt Total Revenue	11,975	17,829	42,657	44,870	49,893	46,987	49,516	55,464
Other BPOs	15,118	20,278	42,267	45,994	82,893	131,267	143,975	175,761
<b>TOTAL INDUSTRY</b>	<b>94,488</b>	<b>138,002</b>	<b>248,045</b>	<b>271,556</b>	<b>355,135</b>	<b>444,811</b>	<b>536,128</b>	<b>679,464</b>

It must be noted that the government in recent years, has doubled up its effort to estimate and measure the ICT-BPO services sector. For its part, the Bangko Sentral ng Pilipinas (BSP) spearheaded the conduct of the Survey of IT-BPO Services (called IT and IT-Enabled Services until 2008), which started as an initiative of the Inter-Agency Committee on Trade Statistics (IAC-TrS)<sup>4</sup> to provide reliable statistics on the contribution of the BPO industry to the national economy. The survey respondents are DTI and PEZA-accredited companies involved in call center, BPO and animation business operations (BSP 2011). Similarly, the 2006, 2008, 2010, and 2012 rounds of the Annual Survey of the Philippine Business and Industry (ASPBI) administered by the Philippine Statistics Authority (PSA) incorporated data on ICT-BPO sector. But since BSP offers a longer data series, much of the data used in the report come from results of the BSP survey, unless indicated otherwise.

Apart from employment, export sales and gross income, the BSP also collects data on foreign equity, and Tables 8 and 9 reveal that foreigners have invested heavily in most IT-BPO subsectors, particularly contact centers, transcription, and software development. Data show that equity capital investments for the animation industry increased tenfold but this pales in comparison with that of software development segment whose foreign capital investments grew to a whopping USD 900 million in 2011 from USD 12 million in 2005, or 7,400 percent in a span of 5 years. Tables 9 and 10 likewise specify the nationality of

<sup>4</sup> IAC-TrS is comprised of DTI, NSCB, NSO, NEDA and BSP

these major foreign investors. Although they were slightly eclipsed by the Europeans in 2011, Americans were consistently the biggest investors in the Philippine IT-BPO sector, confirming reports that the industry is MNC-led. This is also indicative of the countries where most of BPO clients are located. According to reports (Mitra 2011, Yi 2011, and Mitra 2013), although the US has traditionally been the major export market of Philippine firms, demand from EU and Japan has been increasing and most of these are for animation and software development services, which is a big departure from the United States' requests for call center services. The data below likewise bear out these assertions.

**Table 8.** Foreign capitalization in BPO firms

IT-BPO Category	TOTAL EQUITY CAPITAL						
	Levels (in US\$ million)						
	2005	2006	2007	2008	2009	2010	2011
Contact Center	243	281	596	1,356	1,387	2,428	3,063
Transcription	1	2	8	13	16	33	48
Animation	11	18	24	23	63	103	104
Software Development	12	46	189	378	636	895	1,270
Other BPOs	224	274	117	188	486	938	1,262
<b>TOTAL INDUSTRY</b>	<b>492</b>	<b>622</b>	<b>934</b>	<b>1,957</b>	<b>2,587</b>	<b>4,395</b>	<b>5,746</b>

**Table 9.** Foreign-to-Total Equity Capital Ratio, by IT-BPO category: 2005-2011

IT-BPO Category	Foreign-to-Total Equity Capital Ratio (in percent)						
	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>

**Table 10.** Foreign Equity Capital by IT-BPO category and by country of investor: 2005

IT-BPO Category	USA	Europe	Japan	Other Asia <sup>1</sup>	Australia	Canada	Total FDI
Contact Center	139	72	-	2	-	-	213
Transcription	-	-	-	-	-	-	1
Animation	3	-	1	1	-	-	4
Software Development	(3)	1	4	3	-	-	5
Other BPOs	82	-	-	24	-	-	106
<b>TOTAL INDUSTRY</b>	<b>221</b>	<b>73</b>	<b>5</b>	<b>30</b>	<b>0.0</b>	<b>0.0</b>	<b>329</b>
<b>Percent Share</b>	<b>67.3</b>	<b>22.1</b>	<b>1.4</b>	<b>9.1</b>	<b>0.0</b>	<b>0.0</b>	<b>100.0</b>



Table 11. Foreign Equity Capital by IT-BPO category and by country of investor: 2011

IT-BPO Category	USA	Europe <sup>1</sup>	Asia <sup>2</sup>	Australia	Japan	India	China	Total FDI
Contact Center	1,385	1,510	18	28	0	61	3	3,007
Transcription	3	38	-	4	1	-	-	46
Animation	-	(43)	(29)	-	147	-	-	75
Software Development	230	875	(0)	1	106	0	-	1,211
Other BPOs	445	96	229	2	227	17	-	1,016
<b>TOTAL INDUSTRY</b>	<b>2,063</b>	<b>2,476</b>	<b>217</b>	<b>35</b>	<b>482</b>	<b>79</b>	<b>3</b>	<b>5,355</b>
<b>Percent Share</b>	<b>38.5</b>	<b>46.2</b>	<b>4.1</b>	<b>0.7</b>	<b>9.0</b>	<b>1.5</b>	<b>0.1</b>	<b>100.0</b>

### *Industrial upgrading and movement along the value chain<sup>5</sup>*

Indeed the Philippines' IT-BPO sector performance was nothing short of phenomenal. In less than 10 years, the industry has transformed itself into a mature production stage for offshored products and services. From 100,000 workers in 2000 to 443,000 in 2009 and revenues of USD 1.5 billion in 2004 to USD 11 billion in 2009, the industry grew by leaps and bounds, registering nearly 340 percent and over 400 percent employment and revenue growth, respectively.

The country has certainly gone a long way as far as offshore services is concerned. Yi (2011) narrates that the Philippines has a long history of BPO, dating as far back as the 19<sup>th</sup> century and the 1950s when HSBC and IBM decided to offshore some of their noncore service activities to the country. Data entry services for accounting was the area of concentration in those days. It was only in recent years when the industry started to take off.

Building on this initial status, the Philippines entered the value chain through the establishment of call centers. Among the pioneers or those who were the first to set up operations in the Philippines were Accenture in 1992<sup>6</sup>, Sykes in 1997, and Teleperformance, which started as a group of 50 agents back in 1998<sup>7</sup>. By 2009, the Philippines, according to Stark et al. (2011), had accumulated the same number of call center agents as India, and Sykes, which had only 16 employees in 1997, had expanded with over 2,000 workers. Teleperformance, through its brand Telephilippines, grew to 12,600 workstations, over 19,000 employees, and 11 operation sites nationwide. For Stark et al. (2011), this period in the late 1990s characterized the initial or first phase of the Philippines' industry upgrading.

By mid-2000s, what started out as call centers began to acquire more skills and accept transcriptions as well as back office services for finance and accounting, allowing the industry to establish its prominence in the BPO global market. Soon after, Manila became one of the choice locations for BPO services and was awarded the "Offshoring Destination of the Year" in 2010 by the National Outsourcing Association (NOA),

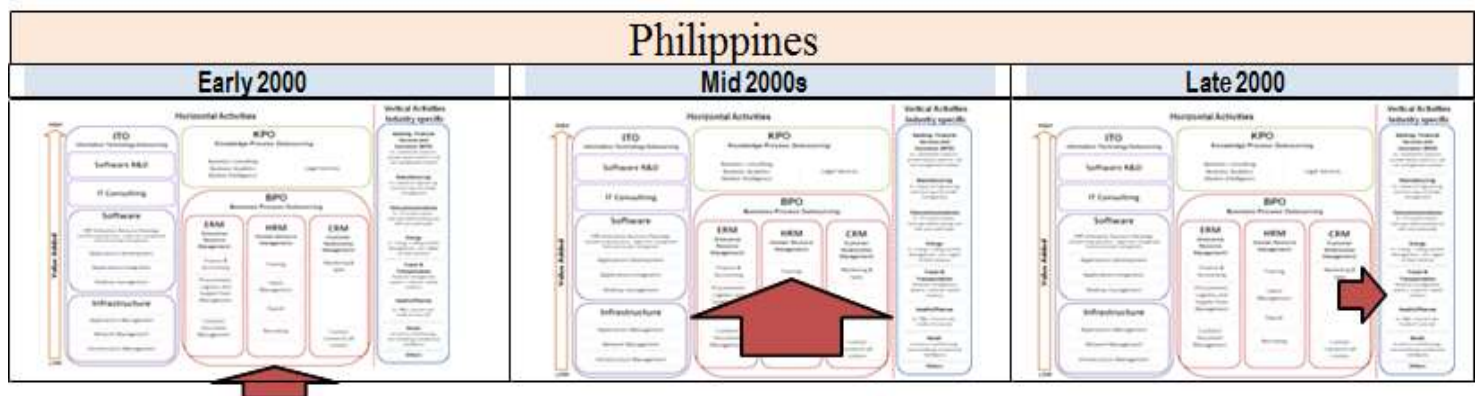
<sup>5</sup> Draws heavily from Stark et al (2011)

<sup>6</sup>

<sup>7</sup>

the United Kingdom's sole outsourcing trade association (Nejar et al. 2012). At this point, the Philippines according to Stark et al (2011) had reached the second phase of industry upgrading.

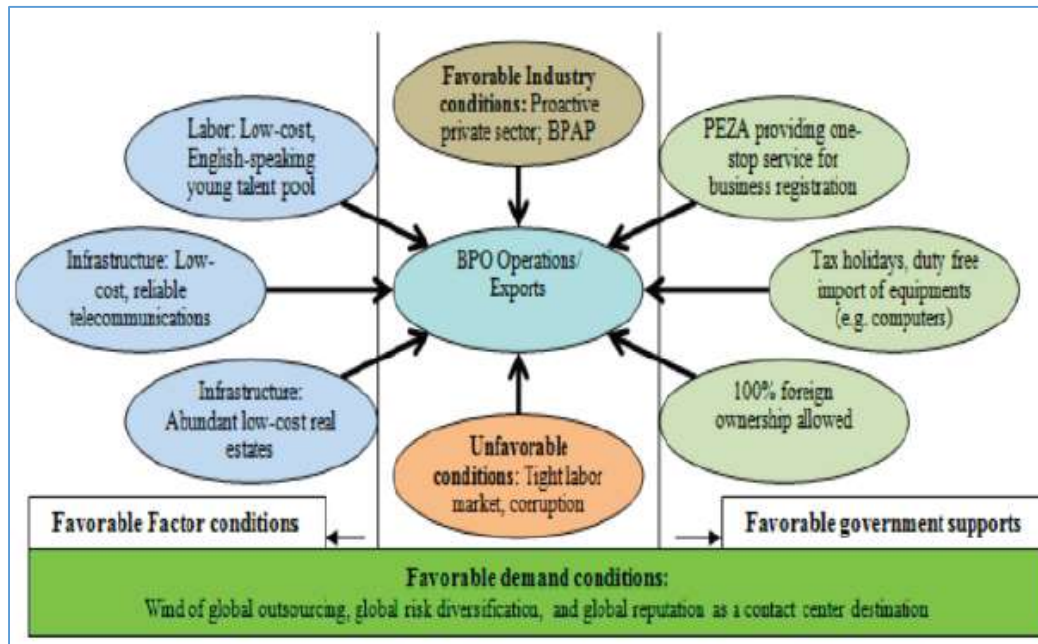
The country's progression from low- to high-value added offshore services is well documented and Stark et al. (2011) described this work development in terms of stages using the GVC framework. Figure 5 illustrates the different stages and the evolution of the Philippine IT-BPO industry from being a provider of basic call centers and low-end back-office services during the late 1990s to a higher value-added service provider by the end of the 2000s.



### Success factors



Figure 6



Source : Yi (2011)

Presumably the third largest English-speaking country in the world, the Philippines' greatest edge and strongest competitive advantage is the availability of a large and steady supply of workers deeply proficient in the English language and with strong cultural affinity to the West. Filipinos, according to Mitra (2010), speak better English and have a more neutral accent than Indians and most Asian countries. These, coupled with an overall service culture, heralded country's foray into BPO services particularly contact centers and customer care services (Mitra 2010, Yi 2011). Moreover, the similarity of the country's legal and accounting systems with that of the United States made the Philippines well-equipped to meet the demands of US firms, contributing significantly to the country's success and shift to legal transcription outsourcing and financial and accounting outsourcing (Yi 2011). According to sources, the operating costs of call centers in the Philippines in 2006 were roughly the same as in China and India, and about 75 percent lower than that of the US (ARANGKADA 2010).

To top it all, the country produces about half a million English-speaking college graduates every year. Over half are in the medical field, particularly nursing; more than 20 percent are in engineering and IT; and about 20 percent are in the business, accounting, and related fields (Mitra 2010, Yi 2011, and Herguner 2013). Hence there is an assured steady supply of talent suitable to be tapped for the industry (Mitra 2010, Yi 2011). While not all graduates automatically possess the right skill sets required by the industry, both the government and private sector have taken the necessary steps to equip the "near hires" with the necessary skills and make them "suitable" to industry needs. These efforts seemed to have been aptly rewarded as the suitability of labor in the Philippines was found to be higher than India. This observation was revealed in a report by Beshouri and Farrell (2005)<sup>8</sup>, who did a survey of human resources executives of multinational companies in 2005 and found that the Philippines bested India and China in terms of costs

<sup>8</sup> [http://www.mckinsey.com/insights/asia-pacific/the\\_philippines\\_offshoring\\_opportunity](http://www.mckinsey.com/insights/asia-pacific/the_philippines_offshoring_opportunity) ; Accessed September 10, 2014

and availability of suitable labor. Despite the huge differences in demographics, the Philippines produces one suitable graduate (i.e. finance graduate) for every two available in India.

The Philippines is also considered to have significant telecommunication advantages over India. It has solid and reliable telecommunication infrastructure,<sup>9</sup> including multiple cable lines “that extended undersea across the Pacific Ocean to the United States”, and which ensure that the country has reliable connectivity for the BPO industry (Cortez et al. 2008). Fiber optics were also installed, which made a standard E1 or high bandwidth telephone line two or three times cheaper in the Philippines than in India (Herguner 2013). All these came following the deregulation of the telecommunications industry in 1993 that provided for greater competition and improved the quality and efficiency of the telecommunication infrastructure (Yi 2011). These infrastructural advantages plus the availability of several international carriers for telecommunication services have made the rate structures more competitive and less costly.

The industry association also acknowledged the role of the government and maintained that the success of the industry is in part owed to government support and incentives, not least of which are the PEZA benefits and income tax holidays (ITH) enjoyed by BPO companies as part of the Philippine priority development sector (Yi 2011). The government has also undertaken steps to assist the industry particularly during the critical years of 2008 and 2009. Stark et al. (2011), in particular, took note of the substantial training funds provided by the Philippine government initially to prepare and equip underutilized labor and later to accommodate unemployed engineers and returning OFWs for work in the IT-BPO sector at the height of the 2008-2009 financial crises. This move complemented private sector efforts to provide medical professionals with training and certifications that would make them eligible to accept medical transcription services. Box 1 presents some of the most important public, private and multisectoral initiatives undertaken to facilitate the development of the IT-BPO industry.

Moreover, the presence of highly organized professional niches and industry associations is also a strong point for the IT-BPO industry. These entities have been very active and instrumental in establishing networks and global linkages, and in pushing and working for a better professional and business environment in their respective fields. Yi (2011) noted that BPAP, the umbrella BPO organization, had taken an active role in marketing the Philippines as a BPO destination, and in promoting and advocating the interests and development of the industry.

### ***Growth prospects***

Despite the lingering impact of the 2008-09 financial crisis, the global IT-BPO market is estimated to double its growth to USD 240–250 billion by 2016 from USD 122 billion in 2010 (IT-BPM 2010-2016 Roadmap), and the Philippines, as one of the choice locations for offshore services, stands to benefit much from this growth. To date, the Philippines only covers 10 percent of the global market, indicating a wide untapped market waiting to be explored. Moreover, the fact that the Philippines was able to seize a sizeable portion of the market despite stiff competition from countries with very strong ICT sectors, says a lot about the country’s potential and competitive edge in this area.

Under the 2016 IT-BPM roadmap, the local IT-BPO sector should push for estimated annual growth rate of 14.5–19 percent, to attain the 2016 industry growth target of USD 20–25 billion in total revenues, 1.3 million and 3.2 million direct and indirect jobs, and an 8 percent contribution to GDP (Figure 7). Aside from

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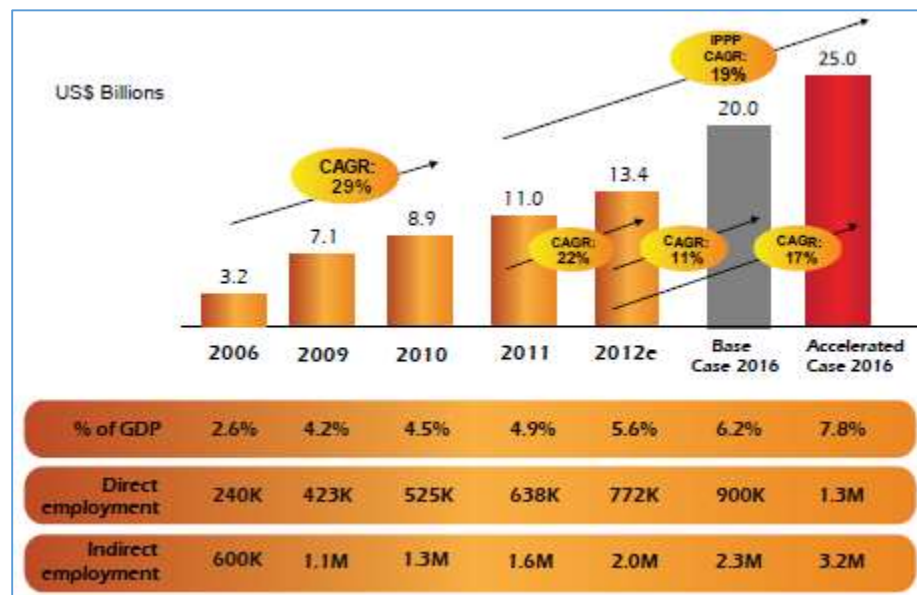
<sup>9</sup> <http://www.bpoc.uk.com/research.html> ; Accessed September 10, 2014

maintaining its status as the top voice BPM destination with a 29 percent global market share, the voice sub-segment is expected to grow between 17–19%, earn USD 14.7 million in revenues and penetrate markets outside the US. The industry is eyeing the UK which has an estimated market size of USD 22 million, and Asia Pacific and Australia which have an estimated market size ranging from USD 4 billion to USD 8 billion.

Although considered a mature destination for software and IT outsourcing, the Philippines' market share in the international market is small at 1 percent. To contribute to the 2016 target, the industry is aiming to double its global share to 2 percent, achieve a 25 percent growth rate, and expand its market reach within the Asia-Pacific region (estimated market size of USD 13 billion) and Australia (USD 14 billion).

The 2016 roadmap has likewise set an ambitious goal for Filipino animators and game developers. Banking on the significant progress in this area, the animation and game development sectors are being pushed to earn USD 500 million in annual revenues (or about four times their 2011 income), to attain the industry growth target for 2016. Currently, the Philippines with a 10 percent global market share, is among the top three destinations for offshore animation and game development services in the world.

Figure 7



Industry hopefuls insist that these ambitious goals are feasible. According to the 2016 roadmap, the Philippines is competitively positioned in terms of talent, costs, and risks relative to established and emerging industry players. This bodes well for the sector's broad-based growth and ongoing expansion outside established service segments. The industry has expressed its readiness to diversify service offerings and provide a larger volume of value-driven, non-voice, and complex ITO-KPO services. However, to do all this, the 2016 roadmap stipulated a number of conditions including government support in the area of remedial training and educational reforms, granting of investor incentives, and international and local marketing and promotions. Apart from these, Tholons (2014) also suggested systematic improvements in telecommunications infrastructure, supporting industry-policy frameworks. It lauded efforts to widen the geographical spread of the country's service locations.

Prolonged concentration of industry activities in Metro Manila and Cebu, where currently close to 70 percent of service providers are located, can lead to saturation problems and their attendant consequences (i.e., increased provider costs due to higher attrition costs), according to Tholons (2014).

To sustain the country's advantage, the industry understands it has to tap other sources of "potential-rich talents pools" and develop larger, alternative delivery hubs outside Metro Manila and Cebu. While much of the industry is likely to continue in Manila and Cebu, significant growth is expected in the next best alternative areas dubbed as the "Next Wave" cities (Figure 8). Industry representatives according to Tholons (2014) maintain that the wealth of talent outside Manila—F&A agents in Laguna, engineers in Pampanga, and the medical professionals/practitioners across the Visayas and Negros provinces—could propel the transition toward higher-value services.

Figure 8. The Next Wave Cities



The government has recognized the importance of the industry and has included IT-BPO as one of the priority sectors under the IPPs. This entitles all IT-BPO related establishments to government fiscal and non-fiscal incentives including the income tax holiday and the PEZA benefits and incentives. Mitra (2011) prepared a comprehensive list of all government initiatives especially significant to the Philippine IT-BPO sector (Box 2).

The most recent government initiative hailed by industry representatives is the passage of Republic Act 10173, also known as the Data Privacy Act of 2012. Signed on August 15, 2012, the new law penalizes the

unlawful use and disclosure of personal information collected by the government and the private sector<sup>10</sup>. RA 10173 seeks to make the Philippines compliant and at par with the European Parliament privacy standards as well as the Asia Pacific Economic Cooperation (APEC) Information Privacy Framework. This move is expected to boost investor confidence in the Philippines as a secure and reliable offshoring destination.

By now, the advantages of the Philippines over its regional and global competitors should become much clearer—a highly educated workforce, low operating costs, excellent ICT infrastructure, and a service-oriented culture—all contributing to making the Philippines the location of choice. While the sector is right to set its sights toward higher goals and across bigger and farther shores, it should be mindful of changing political economic landscapes and protectionist waves, which can severely challenge the industry and cause it to flounder and fall short of achieving its goals.

#### **IV. APEC and IT-enabled services/BPO**

The development and success of the Philippine IT-BPO industry presents a compelling argument for globalization and greater liberalization of services trade and “demonstrates the scope for rapid growth in outsourcing services to developing countries (Mitra 2011)”. The increase in services trade particularly offshore services is well acknowledged to have a profound impact on the global economy. It is one area in world services trade where developing countries can have important roles in global trade and greater opportunities for sustainable growth without the “traditional dependence on manufacturing and natural resource industries” (Gereffi and Stark 2010).

Aside from the Philippines, most of the countries that are benefitting from this offshoring wave are Asia-Pacific economies notably India and China. Tholons (2014) considers the Asia Pacific region as the best-performing service outsourcing market, and 10 of the top 25 BPO destinations identified by Tholons for 2013 are emerging APEC economies. While APEC is already well positioned to expand its presence in the global BPO market, Le and San Andres (2014) argued it may also do well for these economies to enhance services trade in other high-value sectors, i.e. construction, transportation and tourism, which are just as, if not more so, labor-intensive and crucial to many emerging economies in the region. To reap the full rewards of services trade, APEC economies according to Le and San Andres (2014) must endeavor to ensure a seamless physical, institutional, and people-to-people connectivity in the region, to facilitate efficient movement goods, services and people.

This advice comes at a time when fresh sentiments of protectionism threaten to remove traction and dim bright prospects of offshoring activities in Asia-Pacific countries particularly India and the Philippines. Several states in the US for instance, have passed legislation discouraging government from procuring services outside the US territory (Suri 2005). In some parts of Europe, protectionism came in the guise of “data security” and requirements for privacy laws.

The issue has been played up by the media, escalating fears of massive job losses. Some major companies in industrial countries were allegedly contemplating outsourcing all their service activities, both high- and low-end, probably to India and several other countries in the Asia-Pacific which, after years of accepting

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<sup>10</sup> Fonbuena, Carmela (2012). Aquino signs Data Privacy law. Accessed September 12, 2014; <http://www.rappler.com/nation/11060-aquino-signs-data-privacy-law>

basic low-end offshore activities, have developed comparative advantages in more integrated, complex and higher value-added services activities (Suri 2005, Rajan and Srivastava 2005, Mattoo and Wunsch-Vincent 2004). Far from the North-South issue that media have purported it to be, Suri (2005) points to some interesting evidence showing that most US services trade actually take place with other industrial countries and not with developing economies. Only 32 percent of US imports of private services in 2002 originated from developing countries, while 68 percent came from other industrial countries such as Ireland and Canada. The report further demonstrated that offshoring is not a “zero-sum game” but actually a “win-win” situation that can be beneficial to both sending and receiving countries. While indeed, in the near-term, many developing countries in the region stand to benefit significantly from offshoring and increased services trade, the long-term gains accruing to developed economies are often ignored, underreported, and hardly recognized.

### ***APEC documents and recent meetings***

APEC and its member-economies have long recognized the economic importance of services, and have long endeavored for a freer and more open trade in services in Asia Pacific as evidenced by a number of APEC declarations and commitments described as follows<sup>11</sup>:

- 1994 Bogor Declaration – commits all APEC economies to free trade and specifies ways to promote free flows of goods, investments and services among member countries.
- 1995 Osaka Action Agenda – provides the general framework and principles to implement the Bogor goals. As regards services, the Osaka action plan encourages member economies to progressively reduce market access restrictions, extend MFN status and national treatment, promote fair and transparent regulation in services sectors, and recognize the role of e-commerce. APEC economies are likewise enjoined to commit to participate positively in WTO negotiations and expand GATS commitments and take further actions with a view to undertaking appropriate voluntary liberalization.
- APEC Principles for Cross-Border Trade in Services – sets out core principles to guide actions that would promote free flows of services in APEC; it also incorporates main GATT obligations, i.e. MFN and national treatment.
- APEC Services Action Plan (SAP), 2009 – sets out a detailed matrix of actions, including past, present, and prospective work on services. Together with the Bogor Declaration, the Osaka Action Agenda, and the Principles for Cross-Border Trade in Services, the Services Action Plan represents a comprehensive framework to promote liberalization and facilitation of international trade in services among APEC member economies.

While there may have been numerous APEC initiatives listed under SAP (Table 12), activities directly connected or specific to IT-BPO are almost non-existent, except perhaps when discussed in relation to other industry verticals. Pasadilla and Findlay (2014) observed that a lot of APEC’s work on services is dispersed across different APEC subgroups, most of which do not take a “big picture” approach but rather have narrow focus, sticking to issues and concerns specific to their sectoral groups.

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<sup>11</sup> Lifted from Shepherd and Van der Marel (2011)



Table 12. APEC Services-Related Projects

Type of Projects	Number of Projects	As (%) of APEC Projects
Workshops/Conference/Capacity Building Seminar	86	24.23%
1. General: services trade	19	5.35%
2. Mode-specific a/	22	6.20%
3. Sector-specific	45	12.68%
Studies/Surveys/Database	49	13.80%
<b>Total</b>	<b>135</b>	<b>38.03%</b>

a/ Mode can be either by 'commercial presence' or investment; movement of natural persons or mobility of persons, either tourism related or people-to-people mobility  
Source: APEC Policy Support Unit computation based on APEC Projects Database, 2006-2012.

Source: Pasadilla and Findlay (2014)

Table 13

Policy Issue	Number
General	4
Growth Strategies	1
Impact of Services Trade	15
Regulatory Issues	5
Horizontal Issues	2
Services Trade Statistics	2
Related to WTO Negotiations	3
Cross-cutting/Multisectoral	7
Professional Services	12
Education Services	15
Energy Services	8
Environmental Services	25
Financial Services	1
Health Services	5
Telecommunications Services	31 (plus a number of workshops under the APEC Privacy Framework)
Tourism Services	15
Transport Services	28

Source: 2013/SOM3/GOS/004

It was also reported that 38 percent of APEC-funded projects are services-related (Table 13), most of which (24%) were in the form of workshops and capacity-building seminars. Another component, research studies, database, and survey and related undertakings, represent 13 percent of all APEC projects. An

example of this is the APEC Services Trade Access Requirements (STAR) Database which is an online repository of all regulatory procedures and conditions required to supply a service in individual APEC economies (Pasadilla and Findlay 2014). Other services-related APEC projects identified are as follows (Table 14)<sup>12</sup>:

Table 14

CTI: Committee on Trade and Investment & subgroups	<ul style="list-style-type: none"> <li>• STAR Database [under Group on Services (GOS)] facilitates business community's search for information on services regulations in the region.</li> </ul>
	<ul style="list-style-type: none"> <li>• Cross Border Privacy Rules [under Electronic Commerce Steering Group (ECSG)] aims to facilitate cross-border data information exchange.</li> </ul>
	<ul style="list-style-type: none"> <li>• IFAP [under Investments Experts' Group (IEG)] seeks to improve and liberalize investment regimes.</li> </ul>
	<ul style="list-style-type: none"> <li>• ABTC facilitates travel of business people within APEC.</li> </ul>
EC: Economic Committee	<ul style="list-style-type: none"> <li>• Projects lead to facilitation of services trade since much of services liberalization is about regulatory reforms.</li> </ul>
SCE:SOM Steering Committee on Economic and Technical Cooperation	<ul style="list-style-type: none"> <li>• Projects are sectoral specific.</li> </ul>
PSU: Policy Support Unit	<ul style="list-style-type: none"> <li>• Project on Structural Reforms in Transport, Energy &amp; Telecommunications Sectors</li> </ul>

An earlier report by ABAC (2011) also noted that because of definitional issues and the difficulty of monitoring BPO services, much of APEC's contribution to IT-BPO focused on capability-building activities under the following thematic concerns: *human capital, education and vocational training; transparent and efficient regulations; regulatory coherence; ICT, telecoms, quality digital infrastructure; and inter-agency coordination in governments*<sup>13</sup>.

The same report also acknowledges the "relative ignorance" of governments and the difficulty of articulating the importance of the services sector to the economy. In 2009, the services sector was the biggest contributor to domestic output, on average accounting for over 50 percent of the GDP of most APEC economies. This was accompanied by a similar increase in the countries' services exports, notably the "other commercial services", which have risen to over 51 percent and have become the fastest-growing segment of the services trade. Included in this segment are knowledge-intensive business components, i.e. business and ICT services, estimated to have accounted for about 24 percent of total commercial services exports.

<sup>12</sup> Pasadilla, Gloria. Presentation on the "Overview and assessment of mandates and services-related activities of various APEC fora and recommendations for new initiatives", National Services Workshop, June 2, 2014. Manila.

<sup>13</sup>

<http://www.ncapec.org/docs/Understanding%20Services%20at%20the%20Heart%20of%20a%20Competitive%20Economy1.pdf>, Accessed: September 13, 2014



Despite this however, the services sector is, by far, the least understood and the most restrictive and heavily protected sector, and is often subject to high levels of government intervention. According to the report, the governments' seeming preference to keep this arrangement and "reluctance to open up domestic services sectors to higher levels of foreign competition" have stalled negotiation efforts to liberalize services trade at the regional level. The report concluded with a proposal for the APEC to:

**Proposal 1:** *Launch a new and dedicated initiative specifically aimed at liberalizing and facilitating regional services trade and investment. The new initiative should prioritize regulatory reform and it should cover all services markets and all modes of delivery. The initiative should include drafting of joint APEC principles for all-of-services best practice regulation, including with a view to generating global interest in development of such principles.*

**Proposal 2:** *Commission an APEC-led tripartite (i.e. including the business community) "Services Expert Group" to take a "back to basics" look at how to improve the global governance of services trade and investment.*

**Proposal 3:** *Commit to substantially improve, in collaboration with relevant international organizations, the region's official statistics on services production, employment, productivity, trade and investment to ensure the regional services economy becomes more "visible"*

## **Conclusion**

The Philippine experience has shown that IT-BPO services is one area of trade in services where developing countries can take a shot at sustainable development, without relying so much on traditional primary industries and natural resource. While indeed the presence of an educated workforce and good telecommunication infrastructure do not always guarantee success in this area, the investments in human capital and critical telecoms infrastructure—considered by many as a backbone for other important industries—are more than enough reward for the decision or attempt to pursue and board the IT-BPO bandwagon. But the trend is still in its infancy. There is still enough space and opportunity for other developing countries to "build appropriate domestic capacity" to effectively participate in this sector (Suri 2005). They should be mindful however, of the protectionist waves coming from developed countries and treat them as real and present dangers that must not be dismissed and underestimated. A sincere and constructive campaign highlighting the "win-win" elements of offshoring, as suggested by some (Suri 2005, Rajan and Srivastava 2005), can be taken up and performed most appropriately under the auspices of entities like the UN and the APEC.

Hence, in line with the Philippines' interests and consistent with the above call for an overarching services' initiative, the study recommends the following for the 2015 summit: that an emphasis on offshore services/ IT-BPO as part of trade in services be made; capability-building activities especially relating to measurement be undertaken; cooperation for collection of better services trade data and official statistics on offshore services/IT-BPO to mitigate false perception arising from offshoring; cooperation for increasing awareness and better understanding of offshoring services to allay anxieties and fears that "services outsourcing may lead to massive job losses on a net basis in the industrial countries"<sup>14</sup>, and lastly, deepen commitment for extensive and faster services trade liberalization.

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<sup>14</sup> Rajan and Srivastava, 2005

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Box 1

Late 1990s			Mid-2000s			Late 2000s		
<p>General Business Activities</p> <p>ITO</p> <ul style="list-style-type: none"><li>Software R&amp;D</li><li>IT Consulting</li><li>Software</li><li>Infrastructure</li></ul> <p>KPO</p> <p>BPO</p> <ul style="list-style-type: none"><li>ERP</li><li>HRM</li><li>CRM</li></ul> <p>Industry Specific Activities</p> <ul style="list-style-type: none"><li>Banking</li><li>Insurance</li><li>Retail</li><li>Manufacturing</li><li>Healthcare</li><li>Education</li><li>Government</li><li>Non-Profit</li></ul>			<p>General Business Activities</p> <p>ITO</p> <ul style="list-style-type: none"><li>Software R&amp;D</li><li>IT Consulting</li><li>Software</li><li>Infrastructure</li></ul> <p>KPO</p> <p>BPO</p> <ul style="list-style-type: none"><li>ERP</li><li>HRM</li><li>CRM</li></ul> <p>Industry Specific Activities</p> <ul style="list-style-type: none"><li>Banking</li><li>Insurance</li><li>Retail</li><li>Manufacturing</li><li>Healthcare</li><li>Education</li><li>Government</li><li>Non-Profit</li></ul>			<p>General Business Activities</p> <p>ITO</p> <ul style="list-style-type: none"><li>Software R&amp;D</li><li>IT Consulting</li><li>Software</li><li>Infrastructure</li></ul> <p>KPO</p> <p>BPO</p> <ul style="list-style-type: none"><li>ERP</li><li>HRM</li><li>CRM</li></ul> <p>Industry Specific Activities</p> <ul style="list-style-type: none"><li>Banking</li><li>Insurance</li><li>Retail</li><li>Manufacturing</li><li>Healthcare</li><li>Education</li><li>Government</li><li>Non-Profit</li></ul>		
<b>Private Sector Workforce Initiatives</b>								
<ul style="list-style-type: none"><li>• Short 2–3 week training for call center operations.</li><li>• Opportunities to practice and in-house language trainers provide constant monitoring and coaching.</li><li>• National Competency Test and database helps to reduce recruitment delays and costs.</li></ul>						<ul style="list-style-type: none"><li>• Focus on raising awareness of medical transcription as a viable career alternative (Sibal, 2009).</li><li>• MTC Academy establishes partnership with AAMT to provide training for transcriptionists based on the U.S. model and standards.</li></ul>		
<ul style="list-style-type: none"><li>• American expatriates work with agents in various areas of language production and task performance.</li><li>• ADEPT, a program designed to improve English language skills of BPO applicants, is launched in universities. Additional English language improvement programs introduced to raise “near-hires” to U.S. standard levels amongst graduates.</li></ul>								
<b>Public Sector Workforce Initiatives</b>								
<ul style="list-style-type: none"><li>• 40,000 PGMA Training for Work scholarships offered for the ITO and BPO industry.</li><li>• In 2009, program expanded to “near hires”.</li><li>• In 2009, government also provides crash training for out of work engineers and overseas Filipinos returning to the country for hiring in the BPO sector.</li></ul>			<ul style="list-style-type: none"><li>• Government offers scholarships to healthcare professionals for specialized training, including laboratory work; knowledge about foreign health care systems, particularly that of the United States; and accents and idioms to prepare them to provide high quality services for mainly U.S.-based doctors (Philippines Medical Transcription, 2007).</li></ul>					
<b>Multisector Workforce Initiatives</b>								
			<ul style="list-style-type: none"><li>• Educational system has favored curriculum related to BPO rather than ITO activities, particularly in finance and economics. Two-thirds of college-degree graduates in complete programs suitable for the sector.</li></ul>					
			<ul style="list-style-type: none"><li>• As a result of the crisis, the Trade Union Congress was contracted by the government to provide finishing courses for call center agents and for medical transcriptionists (Boboy Syjuco, 2010).</li></ul>					
<ul style="list-style-type: none"><li>• In 2007, University of the Cordilleras launched a pilot preparatory course in English proficiency, technical competency, and customer relations collaboratively designed with a U.S.-owned BPO Sitel Philippines (Cakreza, 2007).</li></ul>			<ul style="list-style-type: none"><li>• Middle management training programs developed by BPAP with Ateneo de Manila University and De La Salle University. Harvard Business Publishing, BPAP also developed an e-learning tool, combining online and class activities. 100 managers graduate in first year.</li></ul>					

Source: Stark et al (2011)

## Box 2.

### Principal National Visions, Strategic Plans, and Programs

- Medium-Term Philippine Development Plan, 2004–2010 and 2011–2016
- Roadmap 2010 and Roadmap 2016 for information technology–business process outsourcing (IT-BPO) industry development formulated by the Business Processing Association of the Philippines in consultation with a wide range corporate and government agencies
- The Philippine Digital Strategy 2011–2016 launched by the Commission on Information and Communication Technology in 2011
- National Broadband Plan 2016
- Philippine IT-BPO Brand Management Plan
- Government Information and Communication Technology Office flagship public–private partnership projects presented in 2012
- The Smarter Philippines flagship program launched by the Department of Science and Technology in 2013; key elements include Smarter Government, Smarter Economy, Smarter Mobility, Smarter Environment, Smarter Living, and Smarter Cities

### Legislation

- Republic Act 10173, or the Data Privacy Act of 2012

### Cyber Parks and Development of “Next Wave” Cities

- Rapid expansion of cyber parks (techno parks, IT parks, and economic zones): typically developed in partnership with the private IT-BPO or real estate firms, offering office space, reliable connectivity, and energy supply; with flexible tax exemption rules in Metro Manila and its peri-urban areas, in Cebu, and in other parts of the country.
- The Philippine Cyber Corridor Initiative and the Next Wave Cities Initiative: special efforts to promote the development of the IT-BPO industry in areas other than Metro Manila and Cebu.
- Philippine Economic Zone Authority industrial parks and economic zones with fiscal and non-fiscal incentives for private investors: 217 economic zones in operation and 103 under development with more than 60% recognized as IT parks/centers.

### Fiscal Incentives

- Income tax holiday initially for 4 years extendable to 8 years if further investment and other requirements are fulfilled
- Special 5% tax rate on gross income in lieu of all national and local taxes after the lapse of the tax holiday (for IT park/economic zone locators)
- Tax and duty exemption on imported capital equipment (for IT park/economic zone locators); duty-free importation of capital equipment (for Board of Investment registered firms under Executive Order 528)
- Exemption from wharf fees and export taxes, duties, imposts, and fees
- Exemption from 12% value-added tax on allowable local purchases of goods and services such as telecommunications, power, and water (for IT park/special economic zone locators)
- Additional deduction of 50% of total worker training costs under the special 5% gross income regime

### Non-Fiscal Incentives

- Unrestricted use of consigned equipment
- Liberal rules for employing foreign nationals and granting special investor resident visas

Source: Mitra (2011)