

BPO Sector Growth and Inclusive Development in the Philippines

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January 26, 2011

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Raja M. Mitra¹

1. Introduction

1.1 Background

The rapid development of Information Technology (IT), IT-enabled Services (ITeS)/Business Process Outsourcing (BPO)² usages as well as industry production in many developing countries is an established fact. That these trends have given a fillip to the economies of these countries has also been noted; but how these trends affect society at large still remains to be understood. Policymakers opine that it will have a significant positive socio-economic impact not only on the life of the urban upper- and middle-classes but also on that of the poor and rural areas. The evidence of these developments is, however, mostly sketchy and nebulous.

The public debate on ICT developments encompasses a wide range of views regarding the implications of IT-BPO industry and the use of ICT. It includes those who claim that ICT can be a principal positive catalyst to swiftly achieve sustainable and inclusive economic development which empowers low income groups as well as those who say that at most it can only play a secondary role and that ICT related development has a number of adverse effects such as disruptive economic-wide structural adjustments and digital divides. Moreover, opinions differ regarding the IT-BPO industry's growth prospects and factors driving and constraining its development. Some claim that the BPO as well as IT services will be about to sustain double digit revenue growth in the next 10 to 20 years while others argue that this is unfeasible. Attempts to explain IT-BPO industry growth ranges from those that stress the role of government to those that primarily put the emphasis on private entrepreneurship and markets; and from those that stress the importance of access to human resources with English language proficiency to those that underscore other factors as well. Some highlight similarities between the Philippines, India and other countries while other underscore differences (Interviews).

¹ Authored by Raja M. Mitra, Senior Consultant with the World Bank Group. This work has benefitted from the support, ideas and comments provided by a large number of stakeholders in the private industry, government, international organizations, and the research community, too many to mention here. The author is especially grateful to Eric Le Borgne, Torbjörn Fredriksson, Bert Hofman, Reuben Mondejar, Sheryll Namingit, Feichin Ted Tschang and Gillian Joyce G. Virata for their valuable support. This chapter is a synopsis derived from the more comprehensive study entitled *ICT-BPO Industry Growth, Transformation and Impact: Opportunities and Challenges for the Philippines* (Mitra 2011b) and various other works by the author focusing on IT and high technology developments in Asia. The author can be reached at rmmitra@hotmail.com or mitra@post.harvard.edu.

² ICT (information and communication technology) is defined here as computing and communication equipment, software and services and communication services, including telecommunications, Internet connectivity, broadcasting and media. The definition of IT (information technology) is limited to computing equipment and software services and their related applications in various sectors. IT software includes software products and services but does not include hardware. IT-enabled service (ITeS) (or ICTeS) includes business process (BP) and knowledge processes (KP). The latter includes business process outsourcing (BPO), knowledge process outsourcing (KPO) as well as other ITeS. More widely defined BPO includes KPO. BPO or KPO are commonly used terms. ITO refers to information technology outsourcing, primarily the offshoring of IT services. This study uses a broad interpretation of the meaning of the terms IT, ICT, ITeS and BPO while recognizing the difference in their meaning (Mitra 2009a). While the meaning of these terms differs, these words are often used inter-changeably as is the case with much of the literature. The enquiry tries to use the prevailing terminology in a consistent fashion as far as possible, but it is, however, unavoidable that terms are sometimes used inter-changeably reflecting the way they are used in data sources referred to.

The enquiry argues that the BPO industry, and more broadly the ICT sector, is poised to experience continued rapid growth and transformation in the 2010s and beyond in the Philippines. This will have major repercussions on the country's economic development and its interface with the rest of the world. Moreover, this rapidly evolving reality implies major opportunities and challenges for fostering a pattern of sustainable and inclusive growth perpetrating different sectors, regions and social groups.

This presentation proposes that BPO and other ICT development have a potential to be a major catalysts for economic growth and socio-economic transformation. It claims that IT-BPO sectors development represents major promises that potentially can transform the Philippine economy and also foster inclusive growth. The presentation postulates that the importance of IT-BPO industry development goes beyond the debate of picking industry winners. It argues that the BPO industry is poised to have a substantive impact on the country and that especially so if there simultaneously is major growth in other ICT sectors and the scale and scope local usage of ICTs. It claims that expanded scale and scope of BPO industry in conjunction with further development of IT services, Telecom and other ICTs industries coupled with the advancement in education, science & technology can be principal factors that can transform the Philippine economy and its interface with the rest of the world.

1.2 Objective

The objective of this enquiry is to examine the expansion of the IT-BPO services sector and also how it has impacted economic growth and socio-economic transformation across different sectors, regions and social groups. The centre of attention is on the growth and impact of the IT-BPO industry production itself rather than the use of ICT related technology. The focus is on BPO services but the presentation also makes brief references to the developments in the IT services, Telecom, Internet, broadcasting and other media and ICT hardware industries.

The enquiry examines how and why IT-BPO industry has developed in the Philippines (section 2) after which it provides an analysis of the impact of these developments (section 3). This is followed by an outline of scenarios for the IT-BPO industry developments in the 2010s (section 4) and a discussion on opportunities, challenges and stakeholder action agenda and end remarks on the ICT and BPO sectors potential to play a major role in sustainable and inclusive economic development (section 5).

1.3 Methodology

The method of enquiry is that of historical and comparative review. The work uses descriptive (and some aspects of exploratory) research design. The examination uses both quantitative and qualitative source material such as academic studies, industry reports compiled by industry associations and major consulting firms. The analysis is based on a synthesis of published information namely reports and data published by government, international market intelligence and consulting firms, Business Processing Association of the Philippines (BPAP) and other industry associations, the World Bank Group, the Asian Development Bank (ADB), the United Nations, the academic literature as well as various IT-BPO firms and clients in the Philippines and internationally. This material is supplemented with insightful examples, including findings originating from semi-structured interviews. The latter includes interviews conducted with IT-BPO industry leaders and employees, educational and research institutions, financial, market intelligence, employment agencies

and management consultancy firms, industry associations, news media and public policymakers (Interviews).

To examine the transformation of the IT and BPO services industry and its impact is demanding due to the complexity of issues involved and the weakness in available data. Due to lack of data and survey material it is hard to stringently verify the various types of impacts of IT-BPO industry developments. The research task is further complicated by issues relating to how the industry and boundaries of firms and social groups are defined. There is no commonly agreed definition of low, middle or high income groups or the term “middle class” and “wealthy” in the Philippine context. This presentation defines the “poor” as per the World Bank Group, that is, those who are living on less than 1.25 dollar per day in Purchasing Power Parity at 2005 prices (World Bank 2008b). Also, this presentation refers to a broader concept of “low income” groups which includes those living below the poverty line as well as the low end of the Philippines so called “middle class” many of whom live close to the poverty line. The World Bank’s definition and estimates of poverty are often used for comparing the Philippines with other countries. In addition there is the ADB’s and several other estimates the middle class and low income groups or poor. Also, it should be noted that what is considered “poor” or “middle class” as per “official” estimates often differs from what is considered so by the concerned communities themselves.

This enquiry refers to a broader concept of “low income” groups which includes those living below the poverty line as well as low end of the Philippines so called “middle class” many of whom live close to the poverty line. Moreover, if one were to agree on a general definition of the terms “middle class” and “poor”, it is crucial to take into account the fact that both of these are very heterogeneous groups not only in income levels but also in terms of education, exposure to ICT and other social and economic development dimensions. Furthermore it is important to keep in mind that IT services as well as BPO industry are extremely heterogeneous in terms of the scale and scope of their operations and the type of companies involved.

2. IT-BPO developments in the Philippines

2.1 The Philippines compared to other economies

The Philippines is a prime example of a country which succeeded in developing a sizeable BPO export industry in the 2000s. In the past few years it has outperformed most countries in BPO industry growth. The Philippines, second only to India, has emerged as a leading BPO industry center in the developing world. As of 2010, the BPO export sector directly employed 0.5 million peoples in the Philippines (BPAP 2010a) compared to 0.8 million in India (Nasscom 2010a). Both countries have experienced high growth in the BPO sector, although with the Philippines growing somewhat faster than India in recent years. The latter is reflected in the fact that the Philippines overtook India in terms of call center industry employees and revenue as of 2010 and 2011 (CCAP 2011). Moreover, if measured in terms of revenue or employment on a per capita basis the Philippines has a larger BPO industry than India. Also, the Metro Manila now has more persons employed in the BPO export industry than any other city in the world.

2.2 Overall ICT and BPO industry growth and composition

The ICT and ITeS sectors in Philippines can be partitioned into five broad subsectors, namely: telecom, broadcasting and media, electronics manufacturing (mainly ICT hardware)

plus IT software & services including information technology outsourcing (ITO), and ITeS-BPO services, the latter including voice as well as non-voice BPO and KPO services.

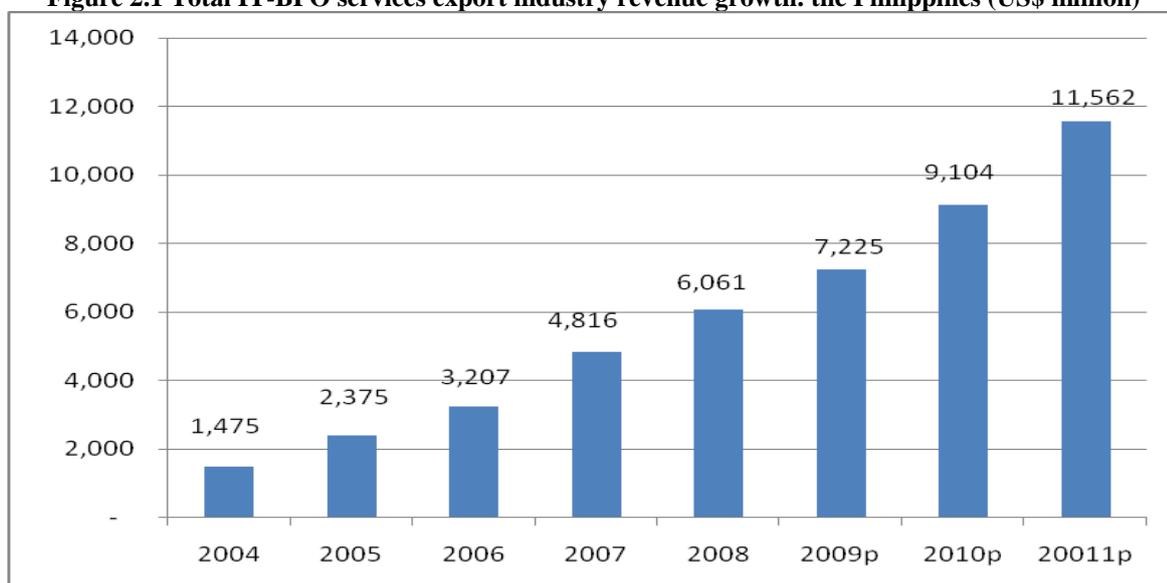
Of these, telecommunications has traditionally accounted for the greatest portion of total revenues. Telecom — along with Internet, broadcasting and media sector (radio, television, and other) — has had the greatest impact on the domestic economy in terms of widespread local use. The telecom industry, broadcasting and media industry has a long history and more well established government and indigenous corporate milieu compared to that of the comparatively young IT-BPO services industry. The electronics hardware export industry began to be significant well before the IT-BPO services sector took off. It is only recently that the latter has overtaken the electronics industry in revenue and employment. The value added per employee is typically low in the electronic industry as much of the sector consists of assembly of imported components.

BPO export, and call centers in particular, have been a major growth area. Domestic BPO is also growing but has limited scale and scope compared to exports. The potential for expansion of outsourcing of export-oriented IT and BPO services industry growth is infinitely larger than that of the domestic market. In terms of exports the IT-BPO industry is dominated by the call center business, followed by back-office/KPO, information technology outsourcing (ITO) and animation. Other business segments that have been growing include transcription, engineering services outsourcing (ESO) industry and animation.

The IT-BPO industry is young and it is hard to foresee its long term growth trajectories. Nevertheless, in less than ten years the Philippines have established a sizeable BPO industry. The BPO export sector has grown by about 38 percent CAGR in the 2004 to 2009 period. This rapid growth is partly explained by the base effect, that the fact that the industry has been and still is small but the growth record is nevertheless impressive.

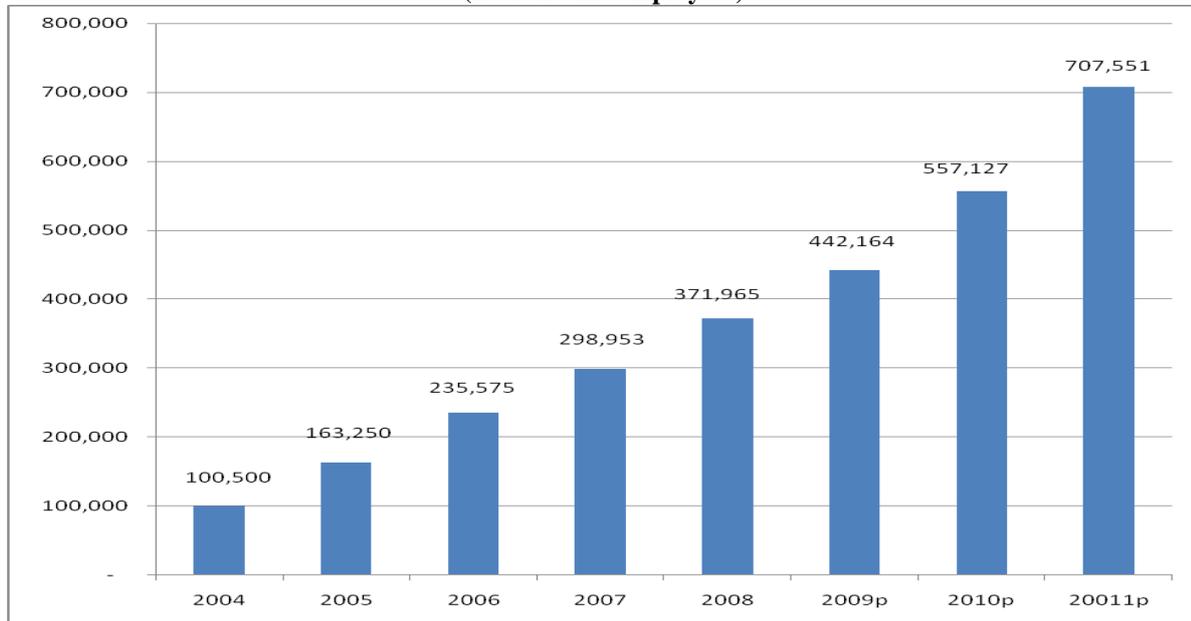
The Philippines has, indeed, outperformed most other countries aspiring to develop a sizeable BPO industry. IT-BPO industry export revenue earnings have grown from US\$ 100 million in 2001 to US\$ 1.5 billion in 2004 to US\$ 6 billion in 2008. In 2009 it expanded further to reach US\$ 7 billion despite the global economic slowdown and revenues estimated at around US\$ 9 billion in 2010 and is projected to reach US\$ 11.5 billion in 2011 according to BPAP. As of the end of 2010 the IT-BPO had around 530,000 to 557,000 full time employees (FTE) compared to 442,000 persons in 2009 and 100,000 in 2004 according to BPAP (see figures).

Figure 2.1 Total IT-BPO services export industry revenue growth, the Philippines (US\$ million)



Note. P. provision estimates and BPAP projections. *Source:* Animation Council of the Phils. Inc. (ACPI), Business Processing Association of the Philippines BPAP, the Contact Center Association of the Philippines (CCAP), the Gaming Development Association of the Philippines (GDAP), the Medical Transcription Industry Association of the Philippines (MTIAPI), the Philippine Software Industry Association (PSIA).

Figure 2.2 Total IT-BPO services export industry employment growth, the Philippines (no. full-time employees)



Note. P. provision estimates and BPAP projections. As of November 2009 BPAP revised its estimates 530,000 employees in 2010 and 610,000 by the end of 2011. *Source:* Animation Council of the Phils. Inc. (ACPI), Business Processing Association of the Philippines (BPAP), the Contact Center Association of the Philippines (CCAP), the Gaming Development Association of the Philippines (GDAP), the Medical Transcription Industry Association of the Philippines (MTIAPI), the Philippine Software Industry Association (PSIA).

The Central Bank’s (BSP) annual surveys of the IT and ITeS-BPO industry validates industry association data showing a rapid growth in the sector. There are, however, some noteworthy differences. A review of the IT-BPO services industry based on Central Bank surveys covering the 2004 to 2008 period can be summarized as follows (BSP 2010a):

- Total IT-BPO services industry revenue has risen from US\$ 1,324 million in 2004 an estimated to US\$ 6.3 billion in 2008, that is, with annual growth rates between 45 to 51 percent.
- The industry has been growing both in terms of the export and domestic market revenue but export revenue has grown significantly higher than that of the domestic market. This is reflected in the fact that export’s share of total industry revenue has increased from 67.1 percent in 2004 to 83.6 percent in 2008 while the corresponding share for the domestic revenue has declined from 32.9 percent to 16.4 percent.
- The United States has traditionally dominated IT-ITeS services export. As of 2008 its share was 67.6 percent (US\$ 3.6 billion) of the industry’s total export. Other major export destinations were Europe and Japan followed by other Asian countries. India’s and China’s share have remained less than one percent. The domestic market business remained heavily focused at the Metro Manila area.
- The industry continues to be dominated by contract centers, with US\$ 2.8 billion revenues generated in 2008 (44.9 percent of the total for industry). The industry category named “other BPO” has, however, been growing faster than that of call centers since the latter part of the 2000s. This indicated that the local outsourcing industry has shifted

towards more value-added chain activities on financial, research and consultancy services which are covered under the category “other BPOs”. Software development remains a fairly small segment.

- Foreign and local equity investment has been rising rapidly with foreign firms dominating. Total equity investment in the entire industry amounted to US\$ 1,957 million in 2008 compared to US\$ 492 million in 2004. More remarkable were the more than two-fold increase in foreign equity participation as of end-2007 and 2008. Foreign equity represented 93 percent and 88 percent of total equity investments in the industry in 2008 and 2007, respectively compared to 60 percent in 2006. As of end-2008, the share of foreign equity in all sub-sectors exceeded 85 percent of their respective total equity investments.

Table 2.1 Total IT-BPO revenues by industry category, 2004-2008 (US\$ million and growth rate)

Industry	Revenue Level (US\$ m)					Growth Rate (Percent)			
	2004	2005	2006	2007	2008	2005	2006	2007	2008
Contact Center	587	986	1,455	2,051	2,839	67.9	47.7	40.9	38.4
Transcription	4	8	20	33	34	100.4	140	60.6	4.1
Animation	12	17	26	29	36	37.6	52.6	11.2	25.5
Software Dev.t	279	399	707	1,098	1,413	43.2	77.1	55.4	28.6
Other BPOs	441	585	697	1,157	2,004	32.8	19.1	66	73.2
Grand Total	1,324	1,996	2,906	4,368	6,325	50.8	45.6	50.3	44.8
Tot. domestic	436	608	618	878	1,037	39.4	1.6	42.1	18.1
Tot. exports	888	1,38	2,288	3,490	5,288	56.3	64.9	52.5	51.5

Note. Export and domestic sector combined expect for memo items. The “other BPOs” category includes backroom operations, data processing, data base activities and online distribution of electronic content, and the more value-added chain activities such as shared financial and accounting services, outsourcing for research and public opinion polling, outsourcing for business & management consultancy activities. The category “software development” is dominated by services rather than products. *Source:* Central Bank of the Philippines 2010a and author’s calculations.

Table 2.2 Total IT-BPO revenues by industry category, 2004-2008 (Percentage share)

Industry	Industry Category Share (Percent)				
	2004	2005	2006	2007	2008
Contact Center	44.4	49.4	50.1	46.9	44.9
Transcription	0.3	0.4	0.7	0.7	0.5
Animation	0.9	0.9	0.9	0.7	0.6
Software Dev.t	21.1	20	24.3	25.1	22.3
Other BPOs	33.3	29.3	24	26.5	31.7
Grand Total	100	100	100	100	100
Tot. domestic	32.9	30.5	21.3	20.1	16.4
Tot. exports	67.1	69.5	78.7	79.9	83.6

Note. Export and domestic sector combined expect for memo items. The “other BPOs” category includes backroom operations, data processing, data base activities and online distribution of electronic content, and the more value-added chain activities such as shared financial and accounting services, outsourcing for research and public opinion polling, outsourcing for business & management consultancy activities. The category “software development” is dominated by services rather than products. *Source:* Central Bank of the Philippines 2010a and author’s calculations.

The growth in the industry is reflected in major growth in employment, total compensation and to a moderate increase in annual compensation level per employee. The IT and ITeS-

BPO services industry generated 355,135 employees in 2008 compared to 94,488 employees in 2004 according to Central Bank data. Average annual compensation per employee in the industry has increased substantially in the 2004 to 2010 period, leaving aside a slight decline in 2008, a typical year of the global economic slowdown. It has risen from US\$ 4,989 in 2004 to US\$ 7,778 in 2008. Software development continues to be the highest paying subsector with an annual average compensation per employee of US\$ 10,743 in 2008. Contact centers were the second highest paying at US\$ 7,912 average per employee per annum. The “other BPOs” category ranked third with US\$ 5,997 annual average pay per employee in 2008 (BSP 2010a).

2.3 Nexus of industry growth drivers and constraints

Multidimensional growth factors at global, national and local levels

The rapid development of a BPO services industry in the Philippines (and several other emerging markets) has largely been driven by strong external demand pull; primarily in low end call centers and other ITeS (early 2000s and onwards) and later on also in higher end non-voice BPO and KPO (late 2000s and onwards). Moreover, IT-BPO development and expansion of offshore services business have been facilitated by improved connectivity, the Internet and other technological breakthroughs and trends toward international competency equalization coupled with greater international mobility of human resources, capital, technology, information and knowledge content (Mitra 2009a and 2011b). It has been natural for the IT-BPO services industry have focused heavily on exports to advanced industrial economies. Low average income levels, limited penetration of computers and Internet connectivity and other characteristics have limited the scope for growth in the domestic market. In contrast, the Philippines comparative advantages have appeared to offer an almost infinite scope for export-oriented growth. Capturing even a small percentage share of the global market for IT-BPO services has offered a substantive industry growth opportunity.

While strong external demand pull coupled with the fact that the Philippines has been able to offer access to educated human resources as low cost appears to have been a principal factors enabling extraordinarily rapid BPO industry growth it is important take into account a wide nexus of factors driving and constraining IT-BPO industry development, namely: human resource, financial, infrastructure-technology, legal & regulatory developments; and specific characteristics in terms of the roles of the foreign companies and indigenous entrepreneurship, the government, partnerships, industry associations, civic society, individual champions, linkages, the Diaspora and other networks and there respected roles and interplay of all this factors at local, national and international levels.

Human resources. The Philippines’ principal strength in BPO industry development stems from the fact that the country has a large pool of people with higher education and strong English language capabilities. This is coupled with an overall service culture mindset which appeals to many external clients. Filipinos speak idiomatic American English better than Indians and many other Asian communities, and their accent is more neutral. The work force is familiar with multiple cultures (American, Spanish as well as Chinese, Japanese, Malay and other Asian cultures) and has proven strengths in responding to change in customer demands and in delivering quality at low cost. Moreover, the industry’s development has benefitted from traditional close business and other relationships with the United States and from “piggy backing” on IT-BPO industry related developments in India and dynamic East Asian countries and the role of Diasporas and other international networks. More generally the Philippines benefits from affinity with the American culture, lack of competing industries for skilled workforce. Moreover, the Filipinos have gained a reputation for being flexible,

productive, loyal, dedicated workforce with key strengths in term work ethics, attention to detail and ability to communicate and take initiatives and have a strong adaptability to both Asian and western cultures.

The country's human resources represent varied skilled sets. It produces half a million English speaking students graduating from college yearly. There are more than 400,000 young professionals at work in finance & accounting BPO services (more than that of Canada, Germany, and the UK combined). The annual output of higher education graduates in the Philippines have risen from 350,807 in the academic year (AC) 1999/2000 to 474,583 in AC 2009/10. In, the academic year 2009/10, 95,458 graduated from business, accounting and related fields, 50,255 from engineering & technology and 43,328 from information technology according to the Commission for Higher Education (CHED 2011a). This access to educated human resources coupled with costing advantages has indeed been key factors making the Philippines a prime destination of offshoring of BPO services. It has attracted the back-office finance and accounting functions of major MNCs. The Philippines has nearly 290,000 engineers (more than that of Germany and the UK combined), 100,000 medical doctors and 340,000 nurses (nearly as many as the UK in both professions), whose skills have been leveraged in various BPO activities, such as life sciences, engineering, and IT (BPAP 2009).

The rapid growth of the IT-BPO industry has, however, resulted in high attritions, wage inflation and shortage of in terms of higher level technical and management expertise. IT industry development is impeded by the fact that the Philippines lags behind India, China and many other Asian countries in the terms of higher end science & technology human resource and institutional capacity building developments (NEDA 2004).

Capital requirements and financing avenues. IT-BPO industry expansion has been characterized by a substantive expansion in foreign companies operations in the Philippines as illustrated by the rise in foreign equity investments from US\$ 329 million in 2005 and US\$ 1,825 million in 2008. In contrast indigenous private equity investment amounted to US\$ 163 million in 2005 to US\$ 132 million in 2008 as per Central Bank data (BSP 2010a). Access to capital, that is, principally foreign direct investment has enabled rapid development of the BPO export industry. For MNCs has wishing to expand their operations in the Philippines financing has typically not been a principal impediment. The availability of venture capital funding for SME has, however, been comparatively limited. Indigenous industry conglomerates as well as SMEs are yet to become major investors as much of the IT-BPO business in dominated by foreign MNCs.

Infrastructure, technology, industrial parks and living conditions. Improved access to quality telecom and other infrastructure plus real estate, working and living environment typically facilitate IT-BPO industry growth. The Philippines infrastructures is by and large amenable to IT-BPO industry development but it continues to lag behind most East Asian countries in diffusion of computer, Internet connected devices, telecommunication infrastructure capacity, transportation, energy and other physical infrastructure. While improving weakness in infrastructure is nevertheless a major factor constraining economic development and that especially in economically backward and remote areas of the country. It can be argued that the IT-BPO industry could have developed significantly faster both in terms of export and domestic market if development of infrastructure and urban planning had been better. New and more efficient and effective telecommunication technology and more rapid growth in computer, telecom and Internet infrastructure is rapidly building up the scope of IT-BPO industry developments. Export-oriented industrial parks or their equivalents have played an especially pivotal role. They have provided land, physical infrastructure and special incubator

facilities. Industrial parks or their equivalent in major cities have served as magnet not only for foreign and local corporate investments but also in terms of attracting manpower from different parts of the country. Also, leaving aside traffic congestion and pollution in Manila NCR, the living environment in the Philippines is generally perceived as attractive. Expatriates typically claim that the Philippines offerings of English language and foreign culture awareness and access to quality affordable domestic servants, international schools and recreation facilities as key advantages if compared to India and other emerging market locations (Interviews).

Legal and regulatory frameworks. The importance of appropriate legal and regulatory frameworks for IT-BPO industry development is well acknowledged internationally. The Philippine government has undertaken a series of regulatory and legal reforms directly facilitating IT-BPO industry development. This includes telecom sector reforms from the 1990s and onwards. The Intellectual Property Rights Code law took effect on January 1998, imposing higher penalties and fines for the manufacture, distribution and use of unlicensed software. The Information Technology Agreement (ITA) was also formed to eliminate tariffs on IT to a uniform duty of 5 percent by 2004. The Cyber Crime Bill (to be passed in 2011) aimed at ensuring the security, integrity, and dependability of the country's information and communications structure by facilitating the detection, investigation and prosecution of their misuse, abuse and illegal access. In 2010, BPAP and other industry associations stressed the importance of addressing data privacy and cybercrime through appropriate legislation. To support these goals, the industry is lobbying for legislative measures aimed at strengthening the sector further, namely pending bills in Congress on data privacy, the creation of the Department of Information and Communications Technology (DICT), and amendments to the Labor Code.

Industry characteristics: foreign and local firms, linkages, networks and agglomeration

Foreign companies and indigenous entrepreneurship. BPO industry growth has primarily been driven by (i) external demand pull coupled with (ii) foreign companies wanting to expand their offshoring operation in the country. This development has been supported by measures taken by major international market intelligence and consulting firms and local industry associations as well as the fact that government had put in place policies that were favorable to foreign investors.

Much of the software products (and hardware products) as well as the IT services and export-oriented BPO-KPO sector in the Philippines are dominated by foreign companies. A large number of American, European, Indian and other MNCs have established captive sales and service delivery centers in the country. This is reflected in a major surge in foreign investment in the BPO sector from 2004 and onwards (BSP 2010a).

The indigenous owned ICT industry has been dominated by telecom, media and entertainment but is rather shallow in many other ICT-BPO business segments. The Philippines has so far not been able to develop a large indigenous IT software products & services or BPO industry, leaving aside smaller firms focusing on the certain local market niches and providing support to foreign companies. While the strong presence of foreign MNCs has its advantages it has also been associated with “shallowness” in the local IT-BPO sector, that is, if compared to countries such as India, China, Taiwan (China) and South Korea where local firms and entrepreneurs have more substantive roles. It is, therefore commonly argued that there is a need for special efforts to foster indigenous entrepreneurship and industry champions which could generate wealth locally and facilitate job creation and greater industry and other linkages in the local economy (Tschang 2005a).

Linkages, networks and the Diaspora. Rapid rise in the importance of international networks among firms, education and research institutions have often been a key feature in the IT based industry development in both advanced industrial countries and emerging market economies. IT-BPO industry development in all parts of the world have typically been characterized by a central role of linkages which emerge between individuals, between work groups, between firms, and between nations due to geographic, cultural, linguistic or ethnic connections. This is reflected in the proliferation of educational, research, management consultancy, market intelligence, financial networks and MNC and SMEs strategic alliances and across industry centers, regional, national and international levels.

On special dimension of networks is the role of the Diaspora. This aspect have often been a key feature in the IT based industry development in the 2000s and earlier as illustrated by the cases of India, Taiwan (China) and Israel for example. While large in size the Filipino Diaspora, however, cannot match the Indian, Chinese or Jewish in terms of its role in IT-BPO industry development internationally and in the country of origin. In this cases of India, Taiwan (China) and Israel their Diaspora's have contributed substantially to IT-BPO industry development in multiple direct and indirect ways, namely, (i) fostering of general awareness and more specifically facilitated educational, research, business and other connections and investments relating to their country of origin; (ii) the role of returning Diaspora members as professions and in some cases also investors (Mitra 2011a). These types of effects could potentially become increasingly significant in the case of the Philippines as well. However, the Filipino Diaspora exposure to IT and other high technology industry has been more limited internationally and it is only in recent years that the IT-BPO sector has become more significant in the Philippines. The existence of a large Filipino Diaspora representing a wide range of professional skills has nevertheless facilitated educational, IT-BPO industry and other business relationships especially with the United States and could potentially do so in several other countries as well. The number of Filipino IT professions overseas has risen significantly in the 2000s with prime locations being North America (including the Silicon Valley), Japan, Singapore, Malaysia and the Middle Eastern countries (Interviews).

Industrial agglomeration and "clustering". All of the above has been associated with concentration of skilled manpower to major cities and the development of varied forms of local, national and international networks. This has resulted in multiple set of synergies (production, technology know how and other formal and informal connections between institutions and individuals) were typically (i.e. major firms which primarily focused on exports) more central than linkages with the local market. Moreover, it can be argued that the growth of the industry eventually got special inertia from psychosocial factors such as banding and "success breeding further success." as demonstrated by the emergence of Metro Manila and Cebu as major BPO industry centers. Few major cities or industrial parks/zones have typically been a focus point for industry development. Metro Manila constitutes an example region in which all of the above (and below) mentioned factors driving industry development have been prevalent or intersected. As in other countries the IT-BPO industry development has been characterized by high degree of concentration to the few cities implying clustering like benefits such as the access to valued human resources, infrastructure, business and government institutions, with Metro Manila being a prime example.

Government visions, policies, investment, partnerships and industry associations

Government visions, policies and investments. While not being the owner or prime driver the development of the IT-BPO sector has been augmented by government visions, policies and investments which have aimed at expanding foreign trade and investment and to promote the

industry's expansion through fiscal incentives (corporate income tax holiday for 4-8 years), telecom and other infrastructure, training and education, legal and regulatory reform. While significant progress has been made in these areas, industry representatives do, however, frequently argue that the government needs to improve its record in terms education, urban planning, infrastructure development and other investment programs, legal and other reforms (BPAP 2009a and 2010a).

The government has launched several initiatives to promote ICT development from the 1990s and onwards. In July 1994, then-president Fidel V. Ramos approved the National Information Technology Plan. The National Information Technology Council (NITC), a predecessor of the Information Technology and Electronic Commerce Council (ITECC) was set up to oversee the implementation of the plan, eventually called the *IT Action Agenda for the 21st Century* (IT21), the country's blueprint for IT development. The IT21 was approved on October 28, 1997 as the Philippines' guide for IT development over the next 7 to 15 years. Its overall goal and vision for the country was to transform the Philippines into a 'Knowledge Centre in Asia'. In the year 2000 the NITC and the Electronic Commerce Promotion Council (ECPC) were merged to form ITECC against the backdrop of a need to provide a more focused leadership in the implementation of the governments' ICT policy. The Commission on Information and Communications Technology was created in 2004. As a transitory measure, the CICT was not merely advisory in nature, but had a more active role in streamlining, managing, coordinating, and implementing the various ICT-related plans and policies of government and need to harmonize and make the country's approach to ICT development more coherent and efficient. The CICT's mission was to "develop the country as a world-class ICT services provider, provide government services to stakeholders online, provide affordable Internet access to all segments of the population, develop an ICT enabled workforce, and create an enabling legal and regulatory environment" (CICT 2011).

The Philippine Digital Strategy (PDS) initiative of the CICT was put forward in 2010 and 2011. The PDS is envisaged to be an important guide to ICT development in line with a *Philippine Digital Strategy 2011-2016* released in 2011. According to this document the government plans to foster the Philippine ICT capabilities in terms of human capital, infrastructure, "cyber" (commercial IT-BPO) services, and e-government. This document is to guide policy and its scope includes IT-BPO industry as well as other dimensions of ICT development such as the Internet and e-governance access issues. The work on the digital strategy report is sponsored by CICT and produced in consultation with industry associations and other principal stakeholder. CICT is to follow an inclusive approach to the development of the PDS thus it is seeking inputs from a broad range of stakeholders and interest groups. As of 2010-2011, the CICT has formed four Technical Working Group (TWGs) to collect these inputs. These TWG's are organized according to four themes/digital sectors; namely: i) Cyber Services, Digital Service and Creative Media; ii) e-Governance, e-Government, Interoperability and Standards; iii) Human Capital, Skills, Training & Education and iv) Infrastructure, Universal Access, Digital Inclusion, Broadband (CICT 2011).

As of 2011, the government has reiterated that ICT, including IT-BPO industry, is one of its priority sectors the others including tourism, electronic, mining, infrastructure and agriculture. This is expected to be reflected in the *Medium-Term Philippine Development Plan 2011-2016* (MTPDP) to be published by the National Economic and Development Authority (NEDA) in 2011. Also, both central and local government authorities has become proactive in fostering BPO industry development various parts of the country, that is beyond Metro Manila and Cebu.

Partnership and industry associations. Furthermore, it should be noted that governmental ICT related initiatives have been carried out in consultation with industry associations. This is illustrated by the fact that BPAP, the premier industry apex body for the BPO sector has been working closely with CICT and other government entities. While having limited financial resources BPAP and other industry associations have played significant roles in promoting the IT-BPO industry's interests in the Philippines and internationally. Also, it should be noted that several BPAPs initiatives have received financial support from that government. This is in line with what has been occurred in several other Asian countries but differs from the case of India where the National Association of Software and Services Companies (NASSCOM) has benefitted much from gradually building up a large membership base of both foreign and indigenous companies but at a scale not comparable to the Philippines.

3. IT-BPO industry growth impact

3.1 Overall economic growth, linkages and transformation impact and disparities

Share of GDP, trade and employment

The development of the sizeable IT-BPO sector in the Philippines is reflected in the fact that it now constitutes a substantial share of GDP and exports. The IT services industry, and subsequently also the BPO sector, have experienced extraordinarily high growth compared to other sectors of the economy. The importance of the IT-BPO export services industry is illustrated by its rising shares in the GDP and foreign trade. The IT-BPO sector's export revenues-ratio-to-GDP has risen from less than one percent in the early 2000s to 1.7 percent in 2004 and the further to 4.8 percent in 2009. The sector's share of the total Philippines exports (goods and services combined) has increased from less than 1 percent in 2000 to 3 percent in 2004 and then to 16 percent in 2008 (see table below).

The IT-BPO export services industry's share of the country's employment is significantly less than its share of GDP or foreign trade. Direct employment in the sector as a share of the Philippines' total labor force employment have, however, risen from less than 0.1 percent in the early 2000s to 0.4 percent in 2004 and then to 1.1 percent in 2009 (see tables below). Moreover, it should be noted that relative importance of the IT-BPO services sector varies substantively across regions. The role of the sector is significantly greater in the Metro Manila area compared to the country as whole. As of 2010, direct employment in the IT-BPO services industry would account for around 10 percent of total labor force the Metro Manila area.

Moreover, it should be noted that ICT sector's overall contribution to the economy is substantially larger if one takes into account the fact that it includes not only IT-BPO services but also telecom services, broadcasting as well as the electronic hardware. As of 2009 the GDP share of computer-related services (that is, IT services and software production plus ITeS-BPO) was close to 5 percent of GDP (2009) while the share of communications (that is, the Telecom service sector) was around 4 percent and electronics manufacturing 14 percent. This implies that a more broadly defined ICT sector (that is, the IT-BPO services industry, telecom services and the electronics hardware sector) generated revenues corresponding to 23 percent of GDP in 2009. Also, the exports of IT-BPO service and electronics hardware industry accounted for 15 percent and 47 percent respectively or a combined 62 percent of the Philippines total exports of goods & services in 2009 (Mitra 2011b).

Table 3.1 IT-BPO services export industry share of GDP, export and employment, 2004-2010

Year	2004	2005	2006	2007	2008	2009p	2010p
IT-BPO industry revenue-to-GDP-ratio (%)	0.17	2.40	2.73	3.34	3.63	4.49	4.82
IT-BPO industry revenue share of total export of goods & services (%)	3.44	5.30	6.05	8.12	10.37	15.18	16.18
IT-BPO industry as share of total employment (%)	0.28	0.46	0.65	0.81	0.98	1.14	

Note. P= provision estimates and BPAP projections. *Source:* Author's calculations based on World Bank WDI (2010) macroeconomic data and IT-BPO services industry export data as reported by Animation Council of the Phils. Inc. (ACPI), Business Processing Association of the Philippines (BPAP), the Contact Center Association of the Philippines (CCAP), the Gaming Development Association of the Philippines (GDAP), the Medical Transcription Industry Association of the Philippines (MTIAPI), the Philippine Software Industry Association (PSIA).

Knowledge economy transformation and linkages

One of the principal economic-wide implications of IT-BPO sector development is that it can serve as a catalyst for knowledge economy transformation and acceleration of globalization and innovation. Among other things, this implies industrial and institutional transformation that can be manifested in the emergence of new entrepreneurs, networks and modalities for service perpetuating the private sector, government and civic society. Much of this transformation is, however, yet to take place as ICT and other knowledge economy advancements still are in early phases of development.

IT-BPO industry linkages are by and large still weak as most these types of linkages are in an early phase of being developed. As of the mid 2000s the BPO was not a major buyer of inputs or supplier of outputs in the Philippine economy. It had, however, begun to be a significant consumer of inputs from the banking, telecom and electricity sectors and a provider of services to the tourist industry, wholesale, retail, and banking (Magtibay-Ramos et al 2008). While it is hard to comprehend the scale and scope of linkages effects relating to IT-BPO development, it is important to note some linkages are appear more important than others and some take more time to develop than others. Also, the manifestation of linkages differs by industry segments and in terms of local, national and international dimensions. The varied forms of linkages include backward and forward linkages, inter-firm linkages, agglomeration effects including inter-industry linkages resulting from industrial clustering in certain regions and the role of transnational communities in facilitating business development and knowledge flows within and across countries. Other kinds of linkages include multiplier and spillover effects which can result from the impact that firms have on wages, investments and procurement of other businesses and services in and across economies (Tschang 2005a)

Uneven development, strengths and weaknesses

While improving much of the country lags behind many East Asian countries in terms of physical infrastructure, the education system and legal and regulatory frameworks and innovation. The corporate governance record, and even more so public sector management, is mixed. The most problematic factors for doing business in the Philippines is corruption followed by inefficient government bureaucracy and inadequate supply of infrastructure according to the World Economic Forum Global Competiveness report (World Economic Forum 2010a) While it will take considerable time to overcome these weaknesses it can be argued that e-government and other IT applications can serve as important catalysts in doing so.

In short, the Philippines is characterized by considerable social, cultural and economic diversity is reflected in uneven human resource, infrastructure, technology and institutional development across different sectors, regions and social groups. The country has large

number of poor as well as a significant middle-class and a smaller group of very wealthy. While the country has a several US\$ billionaires it also has a larger number of poor than any other country in the world. On the one hand the Philippines is lagging behind higher income economies in social and economic development as reflected in ICTs diffusion and higher education enrollment ratios. But on the other hand, in absolute terms it has a large pool of educated manpower, including those with higher education and English language competency.

The poor, the middle class, the wealthy and urban-rural divides

Poverty is widespread across the country. Most parts of the country have, however, experienced rapid transformation in the past decades. The ratio of the population which is below the poverty line has declined and literacy and health indicators have improved. Agricultural productivity has improved and manufacturing and service sectors in urban areas have an increased share of the total employment. Radio and TV, and more recently mobile telephone technology, have empowered the society with new communication and information tools — a development which has a more widespread impact than that of the export-oriented IT-related services industry. All of this has implied a major transformation in both the urban and rural economy.

The government's and other data show that the ratio of population which is classified as poor appears to have declined and that the size of the middle class is rising. Moreover, if one were to agree on a general definition of the terms "middle class" and "poor", it is crucial to take into account the fact that both of these groups are very heterogeneous not only in income levels but also in terms of education, exposure to ICT and many other socio-economic and cultural dimensions. These differences need to be understood as they influence how different parts of the poor community are affected by IT-BPO industry developments and what is needed to break out of poverty (World Bank 2009b).

Going by the World Bank's definition of the "poor" it refers to those who are living on less than 1.25 dollar per day in Purchasing Power Parity (PPP) at 2005 prices. According to this measurement the share of the population living in poverty was 34.9 percent in 1985 to the 22.4 percent 2000 and 22.6 percent in 2006 (World Bank 2008b). Although poverty in the Philippines declined in the 1990s especially in Metro Manila, it remains relatively high and is concentrated in the rural sector. There are also significant regional disparities in poverty reduction, with two of the five lagging regions in Mindanao, the Philippines' poorest region.

Estimates of the size of the middle class in the Philippines vary. According to the most generous estimates the middle class comprises of 55 percent of the population (ADB 2010a). These larger estimates of the middle class include people living on US\$ 2 to 20 per day (at 2005 PPP prices) most of them living on 2-4 per dollar day (31.9 percent) or 4-10 dollar per day (19.7 percent) and the minority living on 10-20 dollar per day (5.8 percent). While rise in earning levels are modest by advance country standards, the special importance of the middle class stems from the fact that it is growing.

The Philippines' economic growth has been associated with a reduction in the number of poor and an increase in the size of the middle class. But at the same time there are instances where income and other disparities are widening between rural and urban areas as well as within rural and urban areas. Moreover, while several regions and cities are experiencing rapid economic and industrial growth, others have experienced little economic growth, the latter aspect being reflected in lack of progress of IT-BPO industry development.

3.2 Employment generation and migration

Multiple employment impact

IT-BPO industry development has multiple employment impacts; first, the employment within the IT-BPO industry; second, the so called indirect employment impact resulting from consumption and capital expenditure by the IT-BPO industry and its employees; thirdly, and most significantly, the impact of economy-wide job creation and job losses and changes in working conditions in other sectors resulting from the use of ICT and outsourcing services. All of these impacts apply to the Philippines as well as internationally, that is, at the local, national and global level and the interface between these levels; examples of the latter are potential job losses or gains resulting from offshoring and impact of introduction of new technology solutions.

Direct employment in the IT-BPO export industry in the Philippines (hardware excluded) reached over ½ million in 2010. Admittedly, this BPO industry only contributed 1 percent of total employment in 2010. Nevertheless, but its continued expansion, as evidenced by announcements that various companies plan to significantly expand their operations in the country implies that BPO industry is poised to continue being major contributor in terms of incremental employment growth. In addition to direct employment, the IT-BPO export industry contributed to generating indirect jobs which provisionally can be estimated at 1.25 million bringing the total employment to about 1.75 million in 2010, that is, assuming that the multiplier can be estimated to be around 2.5 in the Philippines (Interviews).

Direct employment. The IT-BPO export services industry has emerged from a small industry to a significant generator of jobs for urban youths with higher education and knowledge of the English language. The industrial expansion is evident from the fact that the number of persons directly employed in the industry has increased from a few thousands in 2000s to 100,000 in 2004 to more than ½ million in 2010 (BPAP 2010a). The growth has been rapid in call centers as well as in other segments of the industry.

Direct employment in the IT-BPO industry consists of a wide range of categories. It covers technical as well as non-technical categories both of which will employ persons with major variation in skill and education levels. Generally positions that are well paid and require higher education is staffed by persons with middle class background while lower staff categories originate from middle class as well as low income communities. Generally, a rapidly growing economy strong demand for manpower results in that those working in low income and unskilled or semiskilled jobs have opportunities to move on to better paid and more skilled jobs. This results in new opportunities (demand pull) for the poor and unskilled persons to fill these job vacancies. Both of these trends are happening in Manila NCR and other places in which there is a strong demand for both skilled and unskilled manpower.

Table 3.2 IT-BPO services export industry employment, the Philippines (no full time employees)

	2004	2005	2006	2007	2008	2009p	2009 (% share)
Contact centers	64,000	112,000	160,000	198,000	227,000	280,000	63.3
Back office/KPO	15,000	22,500	36,000	40,156	68,927	86,000	19.4
Transcription	6,300	8,950	11,675	16,409	20,224	20,224	4.6
Med trans	4,000	5,500	7,000	10,375	12,500	12,500	2.3
Legal trans	300	450	675	816	1,513	1,513	0.3

Other data trans	2,000	3,000	4,000	5,218	6,211	6,211	1.4
Animation	3,000	4,500	6,500	7,000	8,000	8,000	1.8
ITO	10,000	12,000	16,000	29,188	35,314	35,300	8.0
ESO	2,000	2,800	4,400	8,000	12,000	12,000	2.7
Digital content/Game development	200	500	1,000	200	500	640	0.1
Total employment	100,500	163,250	235,575	298,953	371,965	442,164	100.0

Note: Digital content was added to back-office in 2007; it was replaced in the row by Game development starting 2007. f. BPAP forest projections as per July 2010. *Source:* Animation Council of the Phils. Inc. (ACPI), Business Processing Association of the Philippines (BPAP), the Contact Center Association of the Philippines (CCAP), the Gaming Development Association of the Philippines (GDAP), the Medical Transcription Industry Association of the Philippines (MTIAPI), the Philippine Software Industry Association (PSIA).

Indirect employment. As noted above, every job in the IT-BPO export industry creates an estimated 2.5 additional jobs. Key examples of such indirect job opportunities offered to those active outside the IT-BPO industry itself include the following: construction, facility maintenance and security workers, transportation, telecommunication and other communication services, water, energy and other public utility services, employed in catering, hotel and travel industry, entertainment, consumer goods and other whole sale and retail trade plus banking-financial services, education, health, domestic help and other social services.

Employment across social groups and within poor communities

Direct employment generated by the IT-BPO industry has by and large benefitted the educated middle class – a group which in itself is highly diverse in terms of income and other attributes. The IT-BPO industry has generated a comparatively large number of well paid jobs for the educated middle income and to a lesser extent also persons originating from low income groups.

The earning potential in both lower and high end jobs offered to young people working in the IT-BPO industry is often well beyond what their parent generation could expect. Moreover, working in the IT-BPO industry has become a key employment options for youths from middle- as well as low income families. Lack of opportunities in other sectors has induced the young to seek employment in the BPO industry even if their educational background or first preference in many cases has been otherwise. Nevertheless, even low end jobs in the BPO industry often offer a launching pad from which young people can begin their professional life. Working a few years in this type of jobs not only provides income but also becomes a breeding ground for developing social and professional context, professional skills and work culture.

Key examples of significant direct employment of persons originating from poor and other communities in the IT-BPO industry include areas such as facility maintenance and security workers, drivers, low end data entry and software service maintenance work and low end BPO as well as electronics component manufacturing and assembly operations. There are, however, many examples of persons from poor communities with higher education, some of whom are having extraordinary technical abilities have acquired jobs with high skill and pay levels including top management positions. Furthermore, it should be noted that the industry has offered major employment opportunities for women and a significant number of differently abled peoples, some of them belonging to low income communities. In 2005,

more than half (55.4 percent) or 45,225 of the 81,578 full time employees in the BPO industry were women. Females dominated in medical transcription industries (74.5 percent), data processing (65.2 percent) and call center activities (58.8 percent) (National Statistics Office, COM 2009).

The employment impact on low income groups differ by industry segment and whether the focus is on exports or the domestic markets. The direct impact in terms of employment generation for the poor is typically highest in lower value added services industry segments where the skills as well as salary levels are comparatively low. In contrast, direct employment generation for the poor is typically lesser at the high end of the value added chain where education and salary levels are high, e.g. the software development and KPO sectors. These types of differences are also often manifested in the domestic versus export oriented industry and firm size. This is illustrated by the “fact” that most large export-oriented IT-BPOs pay more and are more demanding in terms of education, English language and technical skills, that is, if compared to most of the smaller and/or domestic market oriented firms. While the former category is largely dominated by middle class persons from more reputable educational institutions, the latter often has a comparatively larger number of employees from the poor communities, that is, in particular those educated in less reputed institutions (Interviews).

Indirect employment generation has primarily affected persons originating from the upper middle, middle as well as the lower middle income and those originating from poor communities. While a significant number of the poor have gained indirect employment as a result of the expansion of the IT-BPO industry production, most of them are employed within the unskilled or semi-skilled worker categories with low salary levels. The latter includes a large number of domestic workers most of which are women originating from low income communities.

In sum, an examination of the IT-BPO industry production impact shows that some segments of middle class as well as low income communities have been affected significantly while others only moderately or not at all. This point to the fact that the middle and low income communities are characterized by major differences not only in income levels but also in terms of education, language, culture, proximity to major cities or having access to other employment opportunities. The poor who are most likely to obtain their livelihood from IT-BPO industry production include those who have higher education and strong English language skills. Nevertheless, it should noted that a large number of the poor with weak formal education background have also gained livelihood as a result of the expansion of the IT-BPO industry, as manifested in the creation of new but low paying job opportunities in the informal sector (Interviews). Also, the poor who have been able to get jobs as a result of the industry’s expansion, are more likely to be those who are living in a major city or its urban periphery or are willing to migrate to a major city. Those with little or no chances to benefit include those who are culturally or otherwise marginalized in the modern society. This underscores the importance of mobility and cultural factors that can enable low income communities to benefit from industry developments.

Migration, commuting and remittances

Internal migration. One of the significant impacts of rapid economic development in the Philippines has been the acceleration of internal migration. This applies not only to the upper and the middle classes but also to the poor. In part this is related to the rapid development of the BPO industry in Manila NCRs. The rapid expansion of BPO and other urban based related industries have resulted in major migration of the poor including those who have

gained employment in manufacturing, construction, domestic and other services sectors in Manila NCR. Also, those who have migrated to the cities belong to poor communities in rural areas and smaller townships and they typically remit significant amounts of money to their dependants back home (Interviews).

External migration. The Philippines has a large Diaspora representing a wide range of skill sets. A large number of unskilled, semiskilled as well as highly educated Filipinos have opted to for overseas employment due to lack of opportunities locally, including well paying jobs. The Diaspora represents a wide set of skill categories such as a medical doctors, nurses, accountants, engineers, architects, seafarers, caregivers, physical therapists, IT professionals, teachers, technicians, and domestic helpers or housemaids. The rapid development of the BPO industry has somewhat mitigated this trend for certain skill categories. While significant, the number of Diaspora members with higher education is, however, small if compared to India, China and Russia for example. Furthermore, Filipino's overseas remit large amounts of funds to their native country, although the revenue earnings of the IT-BPO export industry in the Philippines appear poised to surpass that of workers remittance in the 2010s (BSP 2011a).

From 1960s and onwards a growing number of Filipinos have gone to other countries to pursue higher studies and several million persons are now working outside the Philippines in a wide range of sectors and service occupations. The number of people working or studying outside the Philippines has continued to increase to more than 8 million. More than 2 million live in the United States. While the number of individuals going abroad has increased in past decades there have also been a significant number of persons returning to the Philippines. This has been described as an evolution for brain drain to brain circulation (Saxenien 2005). Much of the external migration is seen in the cases of those with higher education originating from middle class communities but a large number also come from low income communities. Information on the role of Filipino Diaspora in the IT-BPO sector is, however, meager. This is no major data set and no substantive study has been undertaken on the subject. There are, however, several examples of returning Diaspora being employed and in some faces serving as manager of BPO firms in the Philippines (Interviews).

In short, while not comparable to the Chinese and Indian Diaspora, the existence of a large Filipino Diaspora plays a significant role in facilitating educational, IT-BPO industry and other business relations with the United States and could potentially do so in several other countries as well. It is, however, hard to assess the indirect as well as the direct role of the Diaspora. Nevertheless, as noted earlier sections, the experience from India and other emerging market economies show that the Diaspora can foster industry development in multiple ways but the international experience also illustrates that it can take considerable time before the Diaspora can have a major impact IT-BPO industry development in their country of origin (Mitra 2011a). Moreover, the rapid development of a sizeable IT-BPO industry in the Philippines implies enhanced job market opportunities within the country. This has the dual effect of more skilled persons deciding not to work overseas and some members of the Diaspora returning to the Philippines.

3.3 Income, wealth generation and taxation

As outlined above direct and indirect employment have resulted in salaried jobs for a large number of persons from the middle class as well as lower income communities. Also, it should be noted that jobs in the IT-BPO industry typically pay more than the service sector. This disparity is even larger when a comparison is made with the goods manufacturing industry. Also, it should be noted that there are large salary differences within the IT-BPO

industry itself. Furthermore, Salary levels for those directly and indirectly employed have risen sharply as the IT-BPO sector has risen significantly in the 2000s. Those with well paid jobs have emerged as major consumers and have in some cases also been able to accumulate significant personal wealth. Also, increasingly high salary levels in the IT-BPO sector have contributed to wage inflation affecting other sectors as well. On an average, wage levels in the export segment have been significantly higher than that of the domestic market segment, one primary reason being the higher billing rates in the export business. Moreover, it should be noted that those working in the IT-BPO export sector are typically paid 50 to 100 percent more than in other service jobs and tend to fall into the top income quintile (Roxas-Chua 2008).

IT-BPO industry's growth has generated significant personal wealth. This includes salaried professional staffers as well as those in control and owning foreign MNCs and local entrepreneurs in the industry or sectors benefiting from the industry's development. Unlike India, the Philippines do not yet have major indigenous firms that can create a substantial number of US dollar multimillionaires. While the private sector in the Philippines has generated substantive wealth in telecom, real estate and other sectors it has not done so at a comparable scale in the IT-BPO services sector.

The rapid growth of the IT-BPO industry is reflected the rise in income generation as well as tax collections. The industry and its employees contributed around US\$ 1 billion in personal taxes in 2010. Adding other taxes including direct and indirect taxes paid the total tax revenues generated by the industry can, however, be estimated to be in the range of US\$ 2.5 to 3.5 billion dollars. The bulk of the government tax collections from the industry and its employees come from employee's personal income tax, wealth and property tax plus VAT, sales, excise, stamp and registration revenue collections and various other taxes (Mitra 2011a). The IT-BPO export industry is partly exempt from paying corporate tax as the government perceived it to be especially important to promote this industry. Nevertheless, the expansion of the industry has generated substantial additional personal income tax, sales tax and other revenue. Assuming that the government spending of tax revenue to a significant extent is targeted at low income groups and areas, it could be argued that taxes generated directly and indirectly due to the expansion of the IT-BPO industry can largely benefit the low income groups.

3.4 Other socio-economic impacts: empowerment and the downside

Other socio-economic impacts of the rapid expansion of the IT-BPO industry production include positives such as empowerment as well as downside effects such as unwarranted disruptions in the overall socio-economic fabric.

The industry expansion has led to a wide range of demonstrative effects. It has empowered not only the rich but also the less wealthy. It has fostered new role models and patterns of economic advancement. This is illustrated by cases in which parents from poor communities — e.g. a father working as a driver, security guard or maintenance worker in the IT-BPO industry or a mother working as a domestic helper for an IT industry professional — provide their children with education and a socio-cultural context which enables them to gain employment as higher level professionals in the IT-BPO industry or other sectors. Also, the expansion of the industry has resulted in greater exposure to the English language and foreign influences. One empowering effect of the growth of IT-BPO and other international businesses is that lower income parents increasingly want their children to learn English and complete higher studies. Moreover, most of the IT-BPO industry is comparatively less riddled with ethnic and other prejudices. This implies a comparatively open mindset in

employing persons originating from poor and so-called backward communities (Interviews). Furthermore, it is important to point out that the IT-BPO industry development has spurred new entrepreneurship, including a new set of SMEs which impact all sectors and social groups in the nation.

While the expansion of the IT-BPO and other industries has resulted in new livelihood opportunities it has also had a wide range of adverse effects. The development of the ICT sector has not only resulted in creation of new jobs but it has also resulted in job losses — one example of this being automation in manufacturing and services sectors, and another being the closure of a large number of public telephony facilities due to the rapid growth of mobile telephony. While the expansion of the IT-BPO industry in major metros has created promises of new opportunities for those from poor communities to seek livelihood, the migration to these areas has also resulted in the development of new low income neighborhoods which house persons whose jobs are directly or indirectly related to the expansion of the industry. These persons also experience a disruption of ties with the communities they originated from, one issue being difficulties in and other commotions in family life due to night shift work (Interviews).

Moreover, the expansion of the IT-BPO and other industries has resulted in negative developments in terms of access to land and housing. Rapid industrial development has caused higher prices of land, housing and other essentials. Thus the poor living in more central locations have been compelled to move to less attractive or remote areas where land, housing and other services are more affordable (Interviews). Also, many of the poor have been forced into situations in which they have to spend much time commuting to work. Moreover, social critics as well as some entrepreneurs have argued that in many cases the poor persons who have migrated to large urban metros from rural areas or smaller town would have been better off not doing so. It is pertinent to point out that they lose out on social interactions and other aspects important for the overall quality of life which they may have enjoyed in their native places.

The use of IT, especially Internet, and the culture adopted by many persons working in the IT-BPO sector have resulted in a rapid adoption of alien cultures, that is, especially American culture. This can be perceived as positive as well as negative. It can result in greater effectiveness in business organization and access to more information. However, it can also result in adverse or disruptive affect on organizations, value systems and the social fabric more broadly. Call centers are often perceived as luring persons with high educational qualifications to do work in which much of their education and talent is wasted (Messenger Jon C. and Naj Ghosheh 2010). Others see them as well paid first job experiences which can serve as a stepping stone for other professional opportunities. Moreover, some news media has depicted the IT-BPO industry as resulting in bad life styles, that is, night shift work, insomnia and other health issues, stress, rupturing of family ties, promiscuity, drinking, smoking and undesirable copying of alien cultures. Others point to the fact that this critique is unfair and that many of the downside impacts are common in other sectors as well. Also, it is pointed out that IT-BPO services industry is comparatively clean or non-polluting and have major potential for spillovers such as linkages that can foster the development of other knowledge-based industries.

Finally, the IT-BPO and other industrial expansion has resulted in disruptions in terms of breakdown of traditional family and other social structures. This is illustrated by examples whereby girls and boys from poor families employed in the IT-BPO industry no longer comply with parental authority. In some cases they may not feel compelled to get married; others get divorced and are no longer are following traditional social customs and mores.

Also, rapid change in the socio-economic context has resulted in unhealthy lifestyles and sometimes criminal manifestations of greed. This has been associated with erosion of traditional community ties and value systems.

3.5 Regional dimensions: Industry concentration, Manila, Cebu and tier 2 and 3 cities

One key part of the government's and business association's agendas for ensuring continued growth of the BPO industry is to attract firms to new regions. As of end-2009, there are about 442,000 employees in the Philippine IT-BPO sector. Majority or 85 percent of the sector was located in established IT-BPO hubs Metro Manila, Metro Cebu, and Metro Clark. In the past few years, Cebu has emerged as the fastest-growing BPO industry region as it benefits from dynamic cooperation between schools and BPO companies. Cebu contributed about 6 percent to Philippine's BPO revenues in 2007/08 and has ambitious plans to increase this share to as much as 20 percent or around US\$ 2 billion by 2010. Cebu plans to achieve this by attracting more foreign investment, forging closer ties between universities and industry, and working closely with national and international partners (CICT 2010).

In addition to Manila and Cebu, the government and BPAP has identified 10 cities as forming the core for the next wave of IT BPO expansion as per the Next Wave of Cities TM initiative. These include Metro Laguna, Metro Cavite, Iloilo, Davao, Bacolod, Pampanga, two areas in Bulacan, Cagayan de Oro and Lipa City in Batangas. The government has also outlined plans to develop five 'Super Regions', including the Central Luzon Cyber Corridor (CICT 2010). These initiatives points to the scope to develop a large number of industry centers, thereby easing the pressures to raise salaries and rental rates in these major hubs. Moreover, it can foster more inclusive economic growth as it spreads the benefits of employment, higher incomes, and increased business activity across the country.

3.6 Summing up the impact so far

Assessments of the impact IT-BPO sector development need to go beyond macro statistical indicators. While some implications can render themselves to quantitative assessment others require more of qualitative analysis. The latter include impact on the overall socio-economic fabric and empowerment effects. It can indeed be argued that one of the major impact of the rapid expansion of the BPO industry in the Philippines is that it has invigorated new generation of students and entrepreneurial initiatives. It has had major demonstrative effects within the country as well as internationally. It has shown that the country can succeed in a knowledge economic based sector with potential for foster a wide range of developmental synergies. It has generally enhanced the perceptions of the Philippines in the international business community as manifested in new waves of foreign investment. Moreover, it points to a wide range of opportunities and challenges in globalization, knowledge economy transformation and in achieving sustainable and inclusive economic growth.

So far, a principle direct economic impact of the expansion of IT-BPO industry production has been the generation of new job opportunities. In turn, this has resulted in increase of tax collection, charity contribution and new entrepreneurial ventures. Moreover, the expansion has had indirect impact in terms of employment and migration, incomes and generation of personal wealth, empowerment and other socio-economic effects some of which have major implications for the county's economic and social development. Due to lack of data and survey material it is hard to stringently verify the various types of impacts of IT-BPO industry developments. Nevertheless, the following findings emerge from interviews and the examination above.

- The IT-BPO industry's expansion has enabled social mobility within and across social groups although with major disparities remaining in terms of different regional, ethnic and income groups. The industry has generated a significant number of new job opportunities. Nevertheless, the number of person directly employed in the industry is still small compared to other major sectors such as agriculture and manufacturing industry and a wide range of services.
- Although much of the impact of IT-BPO industry growth has affected the middle class, nevertheless, the direct and indirect impact on lower income groups has also been significant, that is, especially in terms of lower level jobs in the IT services and BPO industry as well as a large number of indirectly employed in the formal and informal sectors. While a section of the poor with basic or higher education have got new employment opportunities, it is also a fact that a significant number of persons with weak or no formal education also have got jobs. In addition to employment, the expansion of the IT-BPO industry has had direct and indirect impact on income, cost of living and other socio-economic effects some of which have significant implications especially for the middle class as well as low income groups.
- IT-BPO sector has generated new income opportunities but it has also increased cost of living and appears to have contributed in widening of income disparities. On the other hand, it has generated new sizeable amounts of new private wealth among financiers, entrepreneurs as well as high ranking employees.
- IT-BPO industry growth has directly and indirectly generated significant amounts of additional tax revenues, that is, despite the fact that much of the industry has been partly exempted from paying taxes.
- The rise of the IT-BPO industry and accumulation of new private wealth has, resulted in expansion of corporate social responsibility programs, NGOs and other philanthropic activities targeted at underprivileged groups such as the poor, the disabled and those lacking basic education.
- Other socio-economic impact of IT-BPO industry expansion includes empowerment of the low income groups, including intergenerational effect in terms of job and educational aspirations. It has also brought about new entrepreneurship, technical and business process innovation. But, there is also a significant downside such as rising prices and disruption of life styles and family and other social structures.

Furthermore, much of the IT-BPO industry and hence its impact has been centered around Metro Manila and Cebu. There is, however, also a trend towards rapid industry growth in larger number of cities, the latter including both larger cities and smaller towns with a large number of persons belonging to middle as well as lower income groups.

4. Scenarios for the 2010s: What is next?

4.1 IT-BPO industry growth projections for 2020

IT-BPO industry in the Philippines is poised to undergo continued rapid and major transformation in the scale and scope of its operations with the impact being increasing paramount. It can be argued that the IT, and even more so, the BPO sector, still are young sunrise industries, especially in terms of developing countries. These sectors are likely to continue to grow significantly in the 2010s and thereafter.

The international historical record does, however, demonstrate that it is especially hard to forecast industry growth in new and rapidly changing industries. The long-term growth path for the ICT industries, outsourcing and offshoring in the Philippines and elsewhere depends

on the overall economic growth and investment climate conditions and changes in technology, industrial organization, business models and markets and stakeholder response at the firm, regional, national and international levels and the interface between this and other dimensions. These intricacies involved in predicting, it is imperative to continuously revise forecasts and to always consider several alternative scenarios methodologies and outcomes. Moreover, it is essential to avoid a singularly focus variations in forecasted outcome and instead primarily highlight more fundamental growth and structural transformation developments (Mitra 2009a).

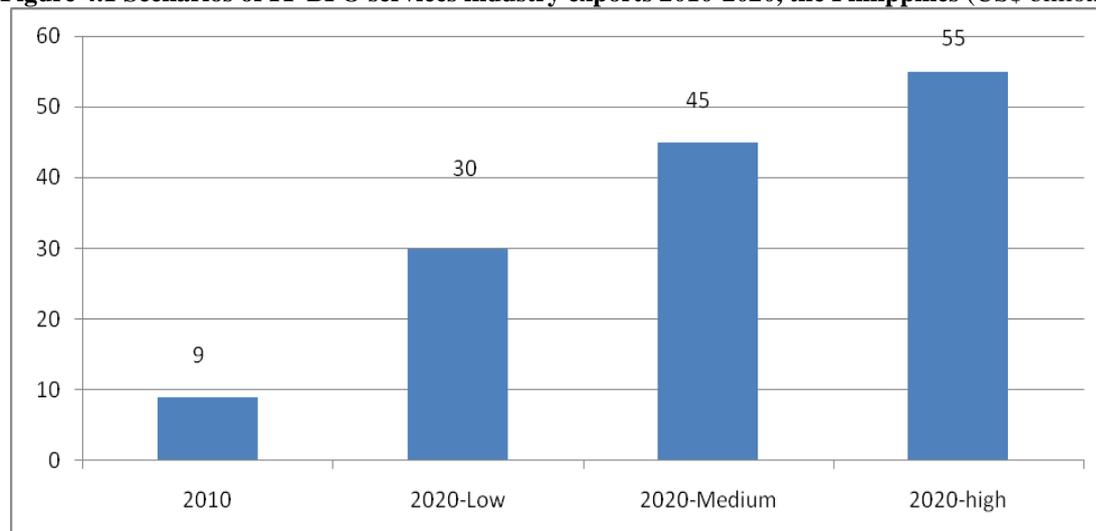
Drawing on the analysis in previous sectors of this enquiry identifies three major growth scenarios for the IT service and the BPO export sector in the Philippines for the 2011-2020 period ((see further key growth features and scenario assumptions for 2020 in Mitra 2011b).

- *A. The high growth scenario.* IT-BPO industry export revenue reaches the US\$ 55 billion level by 2020 compared to US\$ 9 million in 2010. This implies that overall IT-BPO industry growth will grow at comparatively higher rates (20 percent CAGR) but the average annual growth rate will still be well below the 2000s level. Under this scenario there is steady growth of IT-BPO services exports as global demand expands and the Philippines increases its market share substantially in several business niches. Supply of skilled labor would grow at a high rate, as are revenue earnings per employee. The country investment climate would on the whole be especially positive and with substantive progress in implementing corporate and public policy responses that can spur industry growth.
- *B. The medium growth scenario.* IT-BPO industry export revenue reaches the US\$ 45 billion level by 2020. This implies that industry revenue growth reaches a CAGR of 17 percent while the number of employees would grow at a CAGR of 13 percent in the 2011 to 2020 period — compared to the high growth scenario this would entail a moderate deceleration in revenue and employment growth compared to the 2000s. This implies that reasonably favorable external demand developments and the market share for the Philippines increase although to a lesser extent than in the high growth scenario. The supply of skilled labor is expected to expand significantly and value added per employee is also expected to grow at current rates. The country investment climate would be favorable with reasonable progress in implementing corporate and public policy responses that can spur industry growth.
- *C. The low end growth scenario.* IT-BPO industry export revenue reaches the US\$ 30 billion level by 2020. This implies a substantive deceleration of industry growth (CAGR of 13 percent) compared to levels prevailing in the late 2000s. As per this scenario there is market deterioration in the global prospects for growth in IT-BPO services export and the Philippines is unable to increase its market shares significantly. The skilled labor pool would not grow at levels close to current rates, and neither would revenue earnings per employee. The country investment climate would be less favorable than at present with only modest progress in implementing corporate and public policy responses that can spur industry growth.

The medium growth scenario appears to be most likely and hence it is viewed as the base line. This scenario assumes a gradual but robust recovery in the global economy and IT spending levels. It is, however, hard to forecast global IT spending and sourcing market behavior. Also, it is hard to predict the implications of the emergence of new technologies, and changes in business models, industrial organization, infrastructure development, labor

markets and the macroeconomic situation; hence, the wide range in the projected outcomes presented.

Figure 4.1 Scenarios of IT-BPO services industry exports 2010-2020, the Philippines (US\$ billions)



Source: The author's scenarios for the year 2020 and BPAP's projection for 2010.

All scenarios project that much of the dynamism in IT-BPO industry development in the Philippines will be driven by the offshoring business of voice as well as non-voice services. The size of the domestic market will be substantially larger than in the 2000s. Nevertheless, the actual size of the export business would continue to be several times larger than that of the domestic market. Furthermore, all scenarios point to the potential to expand in the predominant traditional as well as in newer market and business segments, that latter including the lower as well as at the higher end of the value chain. They do, however, vary in terms of to what extent this is achieved. However, they differ as far as the scale and scope of foreign investment and expansion of indigenous entrepreneurship as well as in the efficacy of government policies and public-private-sector partnership, one key area being training and education.

According to the medium growth scenarios, the IT-BPO services export industry's revenue-to-GDP-ratio would rise from 5 percent in 2010 to about 11 percent in 2020 and the share of the country's total exports of goods & services could well increase from 16 percent in 2010 to over 25 percent in 2020. IT-BPO development will have increasingly substantive direct and indirect economic wide implications for labor markets. By itself the IT-BPO industry's share of total labor force would increase from 1 percent in 2010 to close to 3 percent in 2020. The employment in the industry would, however, continue to be rather modest in most areas of the nation leaving aside the Manila NCR area and a few other industry centers where the share of the labor force employed in the IT-BPO industry could exceed 10 percent.

The number of persons directly employed in the IT-BPO export industry would increase from 1/2 million in 2010 to 1.8 million in 2020 according to the medium growth scenario. In addition there would be about 4.2 million indirect jobs resulting in a total employment of about 5 million persons by 2020 compared to about 1.75 million in 2010, that is, under the assumption that each job in the IT-BPO industry creates an additional 2.5 indirect employment opportunities, that is, in line with estimates provided above. Furthermore, if dependents are included IT-BPO industry related employment (direct and indirect employment generation) could be a main source of livelihood for around 12 million persons in 2020 compared to 4 million in 2010, that is, under the assumption that those employed on average have three dependents. Moreover, revenue earnings per employee in the IT-BPO

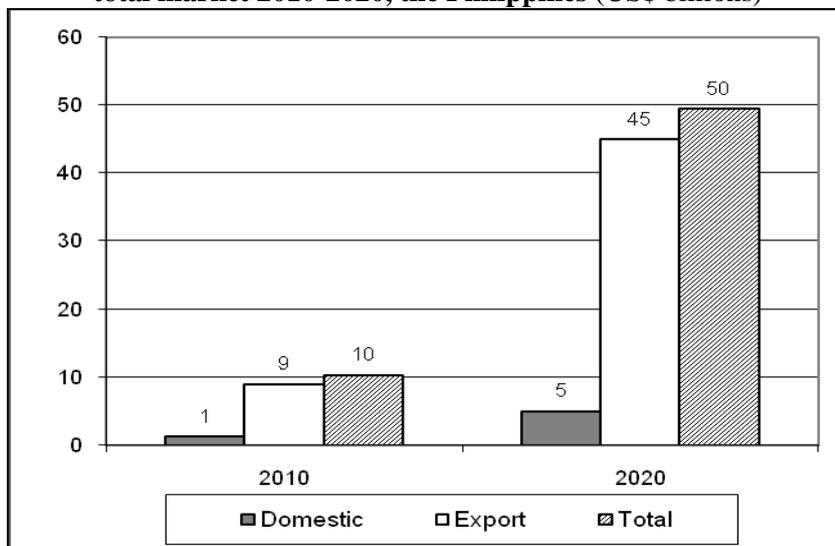
industry would continue to rise and be substantively higher in the IT-BPO services export sector as compared to most other services or goods producing industries.

The supply of skilled human resources is not likely to match demand, that is, despite the fact that the number of graduate students is poised to increase substantially. Thus, the access to skilled manpower is poised to be a major factor constraining IT-BPO industry growth. It can therefore be argued that a further expansion of the IT-BPO industry will be increasingly dependent on the expansion of education and broadening of the recruitment base not only in terms of the middle class but also in lower income communities. Also, there is a paramount need to enlarge the human resource pool by increasing recruitment in a large number of cities, the urban periphery and rural areas as well as from the Diaspora.

The domestic IT-BPO services industry business is poised to continue to grow rapidly. While not growing as fast as exports it has indeed grown rapidly. As per central bank data, IT-BPO revenue in the domestic market has more than doubled in the 2004-2008 period, that is, from 436 million in 2004 to 1,037 US\$ million in 2008 (BSA 2010a). The domestic sector revenue earnings may well reach the US\$ 5 billion level by 2020 according to a the medium growth scenario, that is, a CAGR of around 14 percent which implies a gradual slowdown in growth rates compared to the 2000s. The growth of the domestic market will get its impetus from a wide range of factors such as income levels and greater affordability and access to ICT infrastructure and training. Moreover, continued expansion of the domestic market will open up new opportunities not only for foreign companies but also local entrepreneurship including SMEs. Also, as illustrated by the case of India the capacity building in the export-oriented industry competency is poised to gradually also facilitate the domestic market development.

Added together, the export and domestic market IT-BPO services industry’s revenues would reach US\$ 50 billion in 2020 (about 12 percent of GDP) compared to around US\$ 10 billion in 2010 (5 percent of GDP) according to the medium growth scenario. The industry would directly employ about 2 million people in 2020 (about 3 percent of the labor force) compared to 0.6 million in 2010 (1 percent of the labor force). While both exports and the domestic market would expand substantially, the annual rate of growth in export revenue would continue to be higher than that of the domestic sector (see figure 4.2).

Figure 4.2 Medium growth scenarios of IT-BPO services industry revenue: Domestic, export and total market 2010-2020, the Philippines (US\$ billions)



Source: The author’s scenarios for the year 2020. Data for 2010 is BPAP projection for the export and author’s estimate for the domestic market.

4.2 Impact of ICT sector developments in the 2010s and beyond

In short, looking at the 2010s and beyond, the ICT sector broadly defined appears poised to overtake most traditional goods manufacturing and services industries not only in terms of revenue earnings but also generation of new jobs. The direct impact of the IT-BPO services industry production by itself so far has been limited except for those with higher education and in terms of major cities such as Metro Manila and Cebu. Projections for the 2010s, however, point to the fact that this will change as the sector becomes one of the major industries in the country with considerable impact across most social groups in a larger number of cities and possibly also in some rural areas. While most of jobs generated through the expansion of the IT-BPO industry would be given to persons from the middle class background, a significant number of persons are also likely to originate from lower income communities. Responding to substantive growth in demand will imply a need for rapid increase in employment both at the higher and lower end of the value added chain in a wide range of business segments. Also, compared to the past, the demand for skilled manpower is likely to be high in sectors other than IT-BPO as well. This implies more competition for manpower and wage inflation pressures.

5. Building on strengths and tacking weaknesses

5.1 IT-BPO industry growth opportunities and challenges: the 2010s and beyond

Achieving the industry growth targets for 2020 outlined above implies a need to build on strengths and tackling weaknesses and responding to challenges and threats. The country appears poised to increase its global market share at the lower end of BPO services but part of this business may not be viable in the long turn due to changes in demand and commoditization coupled with lower profit margins and intensified international competition. These facts coupled with the emergence of new technologies, business models and opportunities across a wide range of industry segments and verticals will imply a need for major transformation of the IT-BPO sector in the country. In short, the key opportunities and challenges for the IT-BPO industry in the Philippines in the 2010s and beyond include the following.

First, the need to foster multipronged industry growth and synergies. There are major opportunities for rapid expansion of the IT-BPO services offshoring business and more gradually also in the domestic market. External demand outlook remains positive which points to opportunities to expand the offshoring and outsourcing business (Mitra 2011a). In the long term the domestic market is also poised to be more sizeable as well. Hence the main factor determining the rates of expansion of the IT-BPO industry in the Philippines (and elsewhere) is not demand constraints but rather the ability to expand the scale and scope of service offerings and to develop new business niches coupled with continues enhancement of service delivery models and productivity. Furthermore, there is a need to develop export opportunities in a wider range of geographies in Asia, Europe and elsewhere, and hence reducing the currently high dependence on the United States.

There is considerable scope to expand the scale and scope of non-voice BPO as well as KPO and IT services business segments and that so both at the lower as well as at the higher end of the value added chain and across “new” verticals with focus on exports and subsequently also more on the domestic market. Such a development would further benefit from developing stronger synergies within and across different parts of the ICT sector, that is, IT-BPO services

as well as telecom, broadcasting and media services and some parts of the electronics industry. The strengthening of synergies within and across the different ICT sectors requires an ability to think about linkages or synergies very broadly. This would include backward and forward linkages, inter-firm linkages, agglomeration effects including inter-industry linkages resulting from industrial clustering in certain regions and the role of transnational communities in facilitating business development and knowledge flows within and across countries. Other kinds of linkages include multiplier and spillover effects which can result from the impact that firms have on wages, investments and procurement of other businesses and services in and across economies.

Secondly, the paramount need to respond to human resources challenges. The main factors constraining the IT-BPO industry's growth in the Philippines (and elsewhere) is indeed access to and quality of human resources be it technical and managerial staff or entrepreneurs. As the industry has been growing very fast it is increasingly facing human resource constraints both in terms of technical and managerial staff. BPO companies are increasingly reeling from low recruitment yield, high attrition, poaching and shortages of the qualified applications, especially at the higher end of BPO and IT services. Human resource development is indeed a principal challenges for the IT-BPO sector. Critical issues are how best to expand quality training and education access at the lower as well as at the higher end of the value added chain and in traditional as well as new emerging verticals or domain knowledge areas. All of this will entail a need to strengthen education and training and to widen the requirement base across geographies and social groups, that is, including smaller towns, rural communities, the Diaspora, middle as well as low income communities.

Thirdly, the need for persistent focus on nexus of opportunities and challenges in technology, productivity, quality and business process innovation. There is a continuous need to expand and improve the use of existing technology as well as making greater efforts in technological and business process innovation and to improve quality and productivity. Costing and quality will continue to be key issues determining industry growth prospects. It is essential to continuously enhance productivity and ensure cost competitiveness. Sustaining industry growth will greatly depend on swift response to new technology and business models.

Fourthly, the need to foster foreign and local entrepreneurship, investment, strategic alliances and the development of Diaspora and other networks. Foreign investment has been a key driver of the IT-BPO industry in the country. Continued expansion of the IT-BPO industry will critically demand further expansion of the scale and scope of foreign firm's investments and other forms of foreign collaboration. In addition the need for a more balance development implies a need to develop a stronger indigenous industry. The latter involves the issue relating to the need for a more balanced industry encompassing both large and small firms. Moreover, it is important to strengthen local, regional, national as well as global networks among indigenous and foreign companies, financing and consulting firms, the Diaspora, research, educational and training institutions and other major stakeholders.

Fifthly, the need to ensure that the industry specific as well as the overall investment climate in favorable. Success will hinge on stability and predictability of the business climate environment, including perceptions of the political context, and that is so especially in an industry which quickly can decide re-allocate. The industry specific as well as the overall investment climate has to be favorable compared to other countries. Government polices and industry associations have to be actively promoting IT-BPO development and public-private partnerships in particular.

5.2 Stakeholder response and the need for multidimensional strategies and actions

Taking maximum advantage of export and domestic market growth opportunities implies major challenges to respond to changes in demand and in being able to compete with, and even more importantly to collaborate with others. High growth cannot be achieved unless major investments are made in expanding the size and improving the quality of human resources and institutions. Moreover, it entails major challenges to improve physical infrastructure, the legal and regulatory regime, overall governance and the investment climate. Also, it will take concerted long term efforts by the corporate sector and others, including a greater ability to embark on innovative business processes and technology development ventures. All of this requires appropriate corporate strategy and public policy response. It will require resolute actions from a wide range of stakeholders involving both top down and bottom up initiatives.

In conclusion, factors identified as fundamental in fostering IT and BPO industry development include the following interrelated dimensions which imply need for action by multiple stakeholders:

- *Coherent national, regional and sector specific efforts:* formulating, evaluating and updating of strategies and action agendas for IT-BPO industry development; schemes to promote the industry internationally and locally; enhancing public policy and investment by means of sound macroeconomic management, legal and regulatory framework, fiscal incentives, institutional reforms, public-private sector partnerships and various issue/sector specific matters — all of which will help to ensure the overall growth opportunities and the investment climate as perceived by local and foreign firms.
- *Private sector development:* expanding the scale and scope for foreign investment coupled with development of the indigenous entrepreneurship and strategic alliances between local and foreign firms, and links with the Diaspora and other international networks.
- *Human resources:* substantive efforts to expand the scale, relevance and quality of education and training covering both managerial and non-managerial requirements for potentially fast-growing software development and services at low as well as at higher-end industry segments and across a wide range of verticals – all of which entailing a the need to expand and improve the quality of education and training provided in-house as well as outside the firm and widening of recruitment base across different geographies and social groups.
- *Infrastructure:* improving diffusion of computing devices, telecom and Internet broadband connectivity, energy, water & sanitation, health and other public utility services, land and air communications, development of real estate and industrial parks or their akin, the environment and overall living conditions.
- *Technology:* developing excellence in industry-standard awareness and quality assurance by maintaining standards, certification and developing research labs, centers of excellence or other means.
- *Financial resources and management:* expanded scope for financing SMEs and promoting a viable role for the venture capital industry to invest in and mentor firms.
- *Raising awareness, building consensus, formulating, implementing and evaluating and revising plans:* raising strategic and other awareness and dissemination of information, building consensus in formulating, implementing, evaluating, revising strategies and coherent action plans that can foster IT and BPO development at the firm, cluster-hub, industry, regional, national and international levels.

Priority action agenda items selected from this dimensions are featured in box 5.1.

Box 5.1 Potential action agenda priority items

1. *Ensure that the overall investment climate and specific conditions for both exports-oriented and domestic market-led ICT-BPO industry growth are favorable*, the latter entailing strong commitment to effective implementation of ICT and BPO sector-related policy reforms and investment (telecom including broadband, reliable and affordable electric power supply, industrial parks, e-government, education, and other) programs at the national, sector, and firm levels.
2. *Promote foreign investment and quality strategic alliances between foreign and local firms and build international knowledge networks* covering technology and market intelligence institutions, academia, consulting and venture capital firms, and the Diaspora.
3. *Promote indigenous entrepreneurship developments* by cultivating financial risk-taking, receptivity to innovation, and eagerness to venture into new technology niches and markets — all the while maintaining international corporate governance standards.
4. *Major and stable commitment to funding and carrying out quality initiatives to deliver education and training programs* directly targeted to specific industry needs for management and non-managerial staff covering corporate strategy, finance, project management, marketing, bidding processes, technical standards and quality assurance, ICT technical training, English language skills, sector-specific domain skills needed for IT and BPO industry development and training of teachers for technical and managerial skill development requirements.
5. *Strengthen strategic planning, evaluation, market intelligence, and lobbying* relating to ICT and BPO development within the industry itself and among end-users. Examples of priority items include efforts to:
 - Further development of local trade journals and quality Web sites with extensive links;
 - Establish processes for annual publication of surveys on ICT and ITeS industry-related developments and quality industry promotion information;
 - Establish effective processes to raise awareness and improve lobbying among CEOs and board members of ICT and non-ICT firms, as well as engaging in other efforts that can help foster ICT and BPO industry growth and intra- and inters-sector links; and
 - Invigorate and consolidate the role of industry associations and the branding of the Philippines as a prime destination for a wide range of ICT and BPO industry operations.

Source: The author

5.3 Concluding remarks

As outlined above IT-BPO industry development coupled with expanded scale and scope of usage of ICTs has the potential to be a major catalyst that can help to achieve sustainable and inclusive growth in the 2010s and beyond. The industry and even more to the use of ICT can serve as a socio-economic equalizer thereby alleviating poverty as demonstrated by development in several parts of India (Mitra 2011a) Also, it can enhance the prospects for environmentally sound development. There is major potential to expand exports and eventually to also having a more sizeable domestic market demand all of which point to major opportunities to expand IT and BPO industry. While demand is poised to grow the industry will face a number of challenges in responding to growth prospects.

The IT-BPO industry is indeed only in a nascent phase of development in the Philippines and it is poised to continue to be a sunrise industry. The BPO industry's potential should not be seen in isolation. Rather it is part of a broader context of ICT and economic-wide technology, industry transformation and the development of new business models and user applications across various sectors. To get fuller traction of the promise of BPO it is essential to expand the scale and scope of BPO across a wide range of verticals and that so at both at the lower and higher end of the value chain. In addition, it is important to simultaneously development the IT, Telecom, education and other knowledge economy sectors and to enhance the

potential synergies between BPO and other ICT sectors and that so both in terms of external and domestic markets. Such a development offers significant promise as it can contribute importantly towards achieving sustainable and inclusive economic growth.

All of this implies a need for short as well as medium and long term visions and timely actions in terms of human resource, infrastructure & technology, finance, legal & regulatory and corporate measures for further industry development. It requires timely, multi-dimensional and effective response from the government, the private sector and other stakeholders in development of market niches and adopting new business models and technologies and to ensuring that the overall business environment is favorable.

A long term perspective of IT-BPO industry production and use points to major differences in the scale and scope of the industry's operations in terms of the past, present and future. The industry had only a very minor direct impact on the overall economy in the 1990s and earlier. As the 2000s evolved, it grew but still had only a rather modest impact on most parts of the middle and low income groups, except in a few cities. Projections for the 2010s suggest yet another phase in which the industry will have substantial direct and indirect impacts on all social groups, including the poor, in a large number of cities and some rural areas.

The role of the ICT and BPO sector cannot be measured only in terms of ICT spending or the industry's share of GDP, export, employment and investment. Like other key multipurpose technologies ICT plays a transformational role affecting most aspects of cultural, social and economic development. BPO differs from ICT in that it is not ICT but rather represents business models which typically make extensive use of ICT to deliver services to a wide range of sectors. Without the IT industry and a widespread use of telecom, Internet, BPO and other ICT applications across all major sectors, much of the economy would quickly become obsolete and fail to generate income and employment opportunities. IT-BPO industry development can empower the young and innovative bottom up initiatives. Moreover, ICT development can service as a major socio-economic development equalizer while it also offer many opportunities for wealth generation and entrepreneurship, including a new set of SMEs, some of which potentially can play a major role in transforming the domestic economy and the global offshoring business.

In conclusion, IT-BPO services combined with Telecom, Internet, broadcasting & media industry and the use of ICTs can serve as an important catalyst for economic and social transformation impacting on all social groups, including poor communities. Moreover, the role of the ICT sector and knowledge economy transformation has to be understood as part of a broader historical context of uneven development and the potential for economic and social catch up internationally and within the country itself as well as the potential to produce a new bride of professional and entrepreneurial millionaires as in the case of India (Mitra 2011a)

ICT development is central to economic development but not a panacea for social and economic development as other aspects typically are equally or more important. Also, ICT related development entails adverse affects such as disruptive changes in socio-economic structures affecting most sectors, and unwarranted security and other vulnerability implications. Nevertheless, ICT-ITeS industry and the use of ICT across different sectors — and more broadly related to investment in higher education, science & technology and thereby related institutional capabilities — is poised to play an increasingly central role as a catalyst to socio-economic transformation. This will have major direct and indirect long term implications for all sectors, regions and social groups. ICT related development is, however, only one of several components that can help achieve sustainable inclusive economic

development; others include the need for major progress in providing basic infrastructure, education and social welfare.

While not a panacea, expanding the scale and scope of exports of IT-BPO services as well as domestic IT-BPO industry development will offer new avenues that can help the economy to be more productive and accelerate efforts to achieve inclusive growth within the country and to interface and catch up with the rest of the world in economic development. Conversely, if this opportunity is lost, countries risk falling behind.

ANNEX

Interviews

A.T. Kearney, Accenture, Asian Development Bank, Asian Institute of Management, Association of Southeast Asian Nations, Board of Investment, Bureau of Labor and Employment Statistics, Business Processing Association of the Philippines, Central Bank of the Philippines, Citigroup, City University of Hong Kong, Commission on Information and Communications Technology, Dell, Deutsche Knowledge Services, Ericsson, Everest Research Institute, Gartner, Genpact, Goldman Sachs, Hewlett Packard, HSBC, IBM, Indian Institute of Management, Infosys Technology Ltd, International Data Corporation, International Finance Corporation, International Monetary Fund, JP Morgan Chase, KPMG, London School of Economics, McKinsey & Company, National Association of Software and Services Companies, Oracle, Singapore Management University, Singapore National University, Tata Consultancy Services, The Philippine Software Industry Association, Tholons, The World Bank, Thomson Reuters, United Nations Conference on Trade and Development and Wipro.

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