

The Changing Business and Employment Environment

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There is no doubt that the world is in a state of continuing change - fast and purposeful – and that this trend is being experienced in individual countries such as the Philippines. Some of the problems that pre-occupied us when we entered the world of business and professions many years ago are not the same problems facing the young graduates today. For instance, we were focused on upgrading our economy from being the “carriers of water and hewers of wood” to adding value to our basic resources, such as lumber, coconut, oil, sugar, mineral ores, rice and cereals, and so on.

In the field of politics, USSR and China have stopped being threats to world security and instead are leading players in the economic build up. Countries have started specializing on activities where they are good at – and allowing partners to perform the parts of the chain where they are not competitive. The biggest example is the United States whose manufacturing has been “outsourced” to China.

The Philippines’ financial situations during those times was in continuous disarray as a result of (a) the monumental plunder by the dictatorship which we tolerated for decades, and (b) the inefficient taxation regime capped by half-hearted collection efforts. Now our national balance sheet is more robust as we make the dictatorship a thing of the past and with increased levels of taxation that Filipinos have to pay (although tax collection remains to be ripe for improvement, experts say).

We seem to have moved out of that tight box which prevented us from undertaking the required investments in both software (i.e., education) and hardware (i.e., infrastructure).

Globalisation is becoming a way of life, making trade and investment as the important engines fostering economic growth. In the past decades, there have been “winners” and there have been “losers” but as a whole, the Philippines appears to have benefited.

There are, of course, many safety nets that should have been given to the “losers”. Our trade negotiators could have been more astute to get more than what we gave. And lastly, our people (private and public sectors) should have been working more

closely in the past to ensure that appropriate policies and competitiveness programs are in place to prepare for this liberalization, free market and economic integration.

In the past 15 years, the Philippines' total trade has grown from \$ 20.9 Billion in 1991 to \$98.5 Billion in 2006. The growth of our exports is more dramatic.

Table 1.
TOTAL PHILIPPINE TRADE
In Billion Dollars
1991-2006

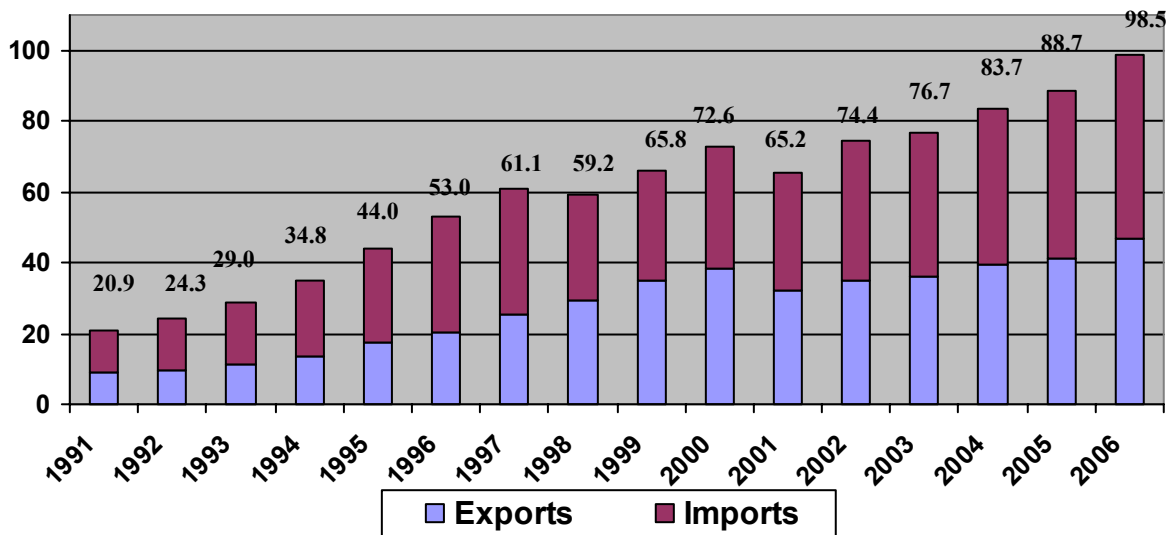
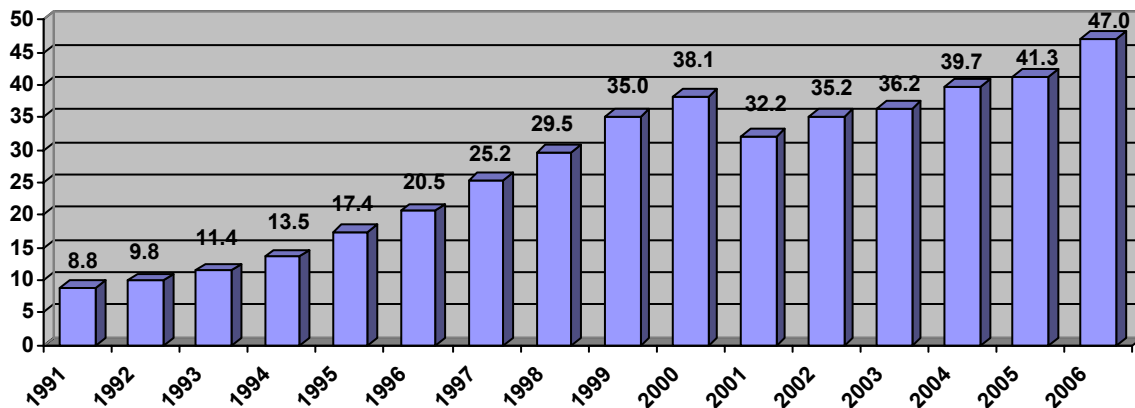


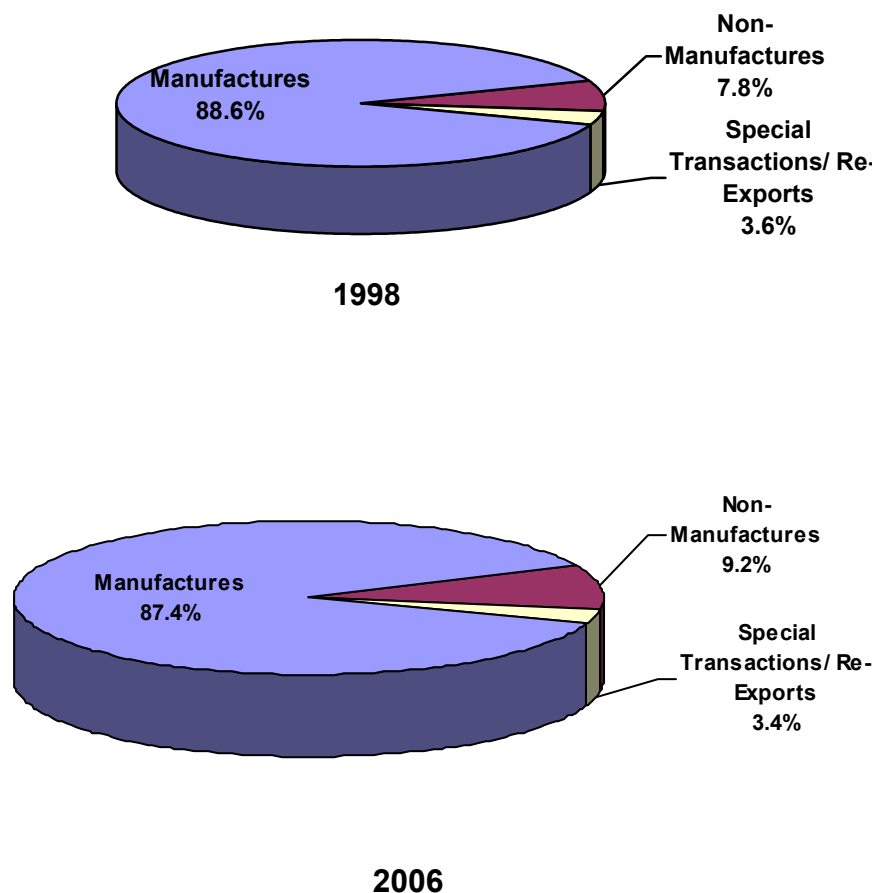
Table 2.
TOTAL PHILIPPINE MERCHANDISE EXPORTS
In Billion Dollars



This six-fold increase in 15 years time indicate (a) we can be as good as anyone in the exports of specific products (eg., semi-conductors and electronic products) and (b) government can lay out supportive policies if required. Why did we not replicate this success to other products and services? The private sector had long ago identified a member of industries where our core competencies can make us world class. That is a valid but rhetorical question.

What is even more interesting is the changing texture of our exports of goods. Whereas 20 percent of the country's exports used to be in non-manufactured goods and 80% in manufactured state, now the ratio is 9 percent to 91 percent. This is what we mean by more value-added and consequently, more labor inputs are required.

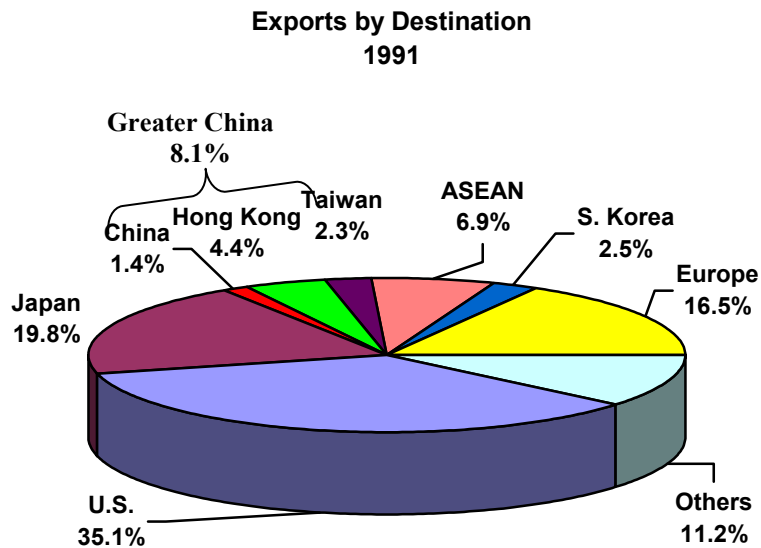
CHANGING TEXTURE OF EXPORTS 1998 VS 2006



Filipinos are becoming more successful in international marketing. I use “marketing” and not “trading” because the latter is more appropriate for commodities and basic resources which are handled by few international traders that screens out most Filipino businessmen. Marketing implies the need to reach out to the consumers/customers, know their constraints and buying habits, and the competitive forces in the target countries. This is a big factor in achieving success in our exports of goods.

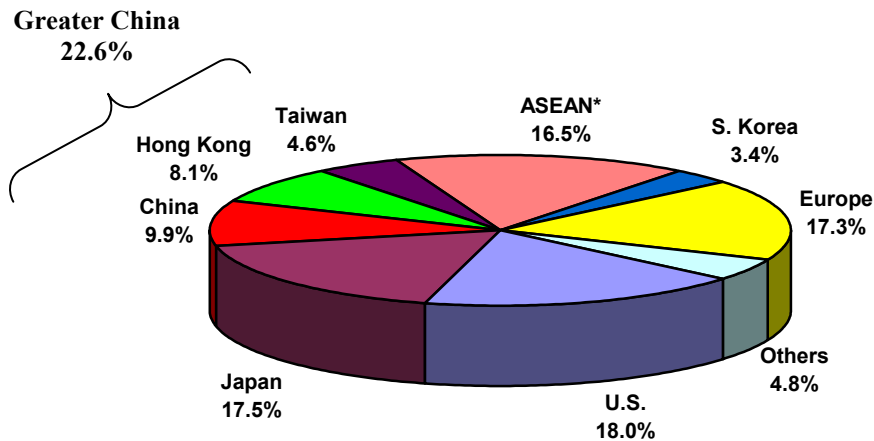
The fact is that the Philippines has ceased to be fully dependent on the United States and Japan or its major partners. The ASEAN regional market is now a significant player, especially with such complementation program as AICO where cars and car parts for example, can be exported to any member with no duties. Nestle in the Philippines has been exporting corn flakes to all the 9 other ASEAN countries for 10 years now.

The importance of Europe as a trading partner is also more evident now. The Philippines’ share in that market is relatively small but it merely indicates that the potential for higher growth is present.



Source: National Statistics Office

**Exports by Destination
2005**



* No data available from CLMV countries

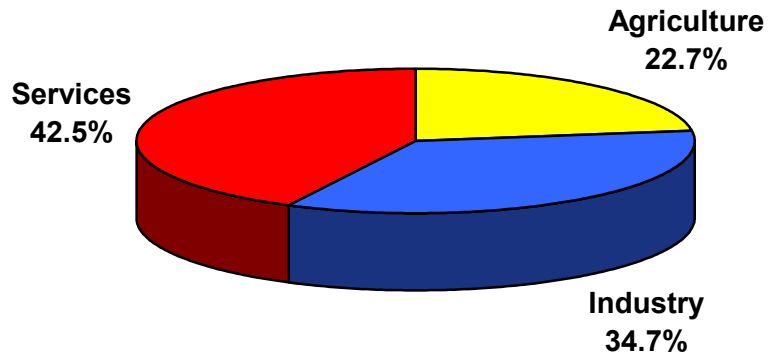
Source: National Statistics Office

But the most significant change is the emergence of China as one of the dominant partners of the Philippines. China has become the manufacturing center of the world due to its low costs and the attractiveness of its huge domestic market to the investors. Consequently, it has become the dominant user of basic resources such as energy, iron and other minerals, tropical produce, etc. Recently, it has become quite clear that China has its own problems in its manufacturing facilities especially outside of its big cities. This presents possibilities for our semi-finished goods in such areas as motor vehicles, electronics and food. Our special economic zones, such as Clark/Subic/Mactan-Cebu, with efficient airports and systems will enable our companies to be competitive in the field of Logistics Services. Due to the magnitude of China's manufacturing sector, the potential for the Philippines could be very significant, with results coming in as early as 2010.

Services Sector

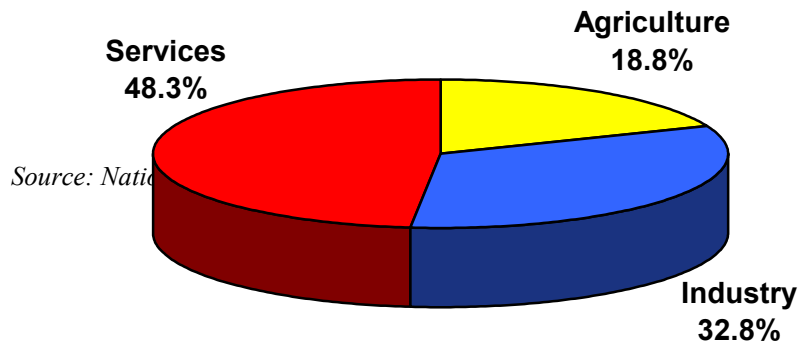
The service sector is the fastest growing sector of the country today. This is brought about by many factors such as the liberalization efforts in the communications industry, the global economic integration and innovative methods which in turn created new businesses.

**GDP by Industrial Origin
1991**



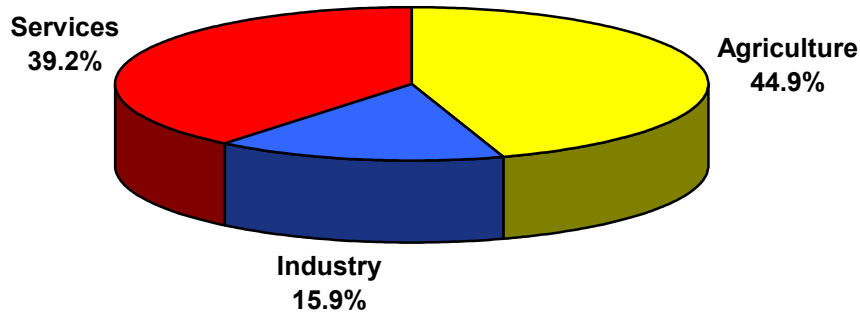
Source: National Statistics Office

**GDP by Industrial Origin
2006**



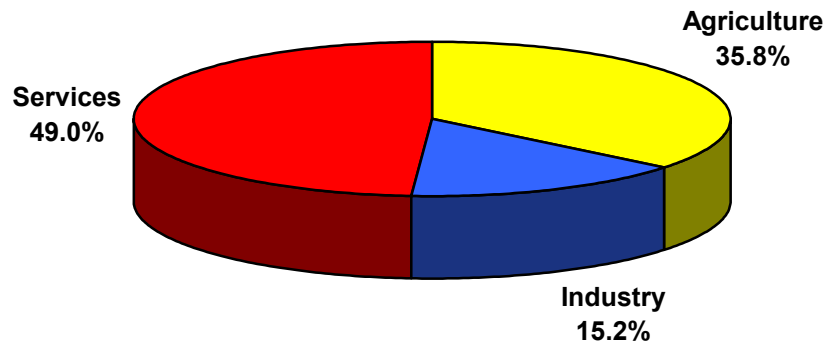
Source: Natio

Employed Persons by Industry Group 1991



Source: National Statistics Office

Employed Persons by Industry Group 2006



Source: National Statistics Office

We will see from these charts that 64 per cent of our people are dependent on the Industry and Services sectors which account for 85 percent of our outputs. However, Agriculture is relatively inefficient because 36 percent of our people are in that sector, but contributes only 19 percent of our wealth output – an improvement over 5 years earlier when 45% of our people are in Agriculture, which account for 23% of our output. This situation is responsible for the non-competitiveness of Agriculture in the world and in the generally poorer earnings in the countryside.

A PPP Task Force has been identifying Service industries with the potential of being world-class and developing appropriate strategic approaches. So far, three

service industries have been identified as sufficiently promising to land in the Top Five list of exports by 2010. These are: IT-enabled Services, Health and Wellness, and Logistics Services. Private sector champions and leaders are rallying around to develop and implement their plans for growth and competitiveness together with the government officials.

Tourism is perhaps the mother of all service industries. It has a very high multiplier effect in economic activities and its impact is nationwide considering the natural assets of both our people and our locations. Considering that it is an under-performing industry at the moment – one can project that doubling or even tripling the number of tourists is doable in the next five years.

The service industries will be the generator of millions of new jobs in the next few years. We do not yet have the exact figures of future employment because the studies are still ongoing, but the call centers alone are expected to employ 1 million Filipinos by the year 2010, with more than \$12 billion in revenues.

With our young, open and talented population, our country is well placed to play a bigger role in the services industry. However, the players in the services sector face fast-changing innovations in their environment. They have to be agile and prepared to embrace new ideas and innovation. The name of the game today may have little relation to those that will be played in the future (eg., telecommunications industry).

Due to the emergence of the services sector as the Philippines' "winners" in the future, there are views that it will eventually replace the industry and the agriculture sector. This would be a dangerous policy track.

For countries with big populations such as the Philippines, UK, Germany, Mexico and the like, economists will opine that it will be quite difficult to provide economic activities to all members of society. A mono-sector economy, based on services alone will require a closely-managed set of skilled workers that is only possible in small states such as Singapore and Hong kong. Services in the nature of highly developed businesses such as the financial industry and the specialized targeted procedures require expertly-trained individuals which is quite short in supply in developing countries.

Competitiveness

Firms need to be competitive to grow, to generate employment and to develop new products or meaningful employment and to develop new products or services that will sustain its position in the future.

Nations must also achieve competitiveness to be a significant player in trade and investment, subsequently ensure growth for their people.

A PPP team has been tasked to identify issues that will promote national competitiveness. With the help of thousands of participants in various consultations last year, eight factors of competitiveness have been identified as an Action Agenda. The eight factors are:

- (1) competitive human resources;
- (2) effective public and private sector management;
- (3) improved transaction costs and flows;
- (4) effective access to financing;
- (5) seamless infrastructure network;
- (6) energy cost competitiveness and sufficiency;
- (7) legislative role in competitiveness; and
- (8) Judiciary and Ombudsman or timely and equitable resolution of disputes in enterprises and economic sectors.

In addition to the respective government offices looking at these factors, more than 50 private sector leaders are involved in the Council on a “pro bono” basis. Champions are looking after each factor with 6-8 projects for action, some with quick results and others with results after three to four years.

Firm-level, national and global competitiveness – these are daunting tasks. Neither the public sector nor the private sector can do these alone. The PPP approach is expected to be more effective as we saw in the past in the electronics industry. The mantra is: the private sector “DRIVES”; government sector “ENABLES”.

It is expected that the Philippines will improve its competitiveness standing from the bottom third to the top third in 2010.

Coupled with these initiatives in competitiveness is the citizens’ role in values formation towards governance, democratization, and sustainable development which Harvards’ Michael Porter classified as Demand Conditions in his Diamond Model Strategy.

Vision ... (or Dreams?)

Development, building of competitiveness, and the uplifting of living conditions especially of the poorer Filipinos are not merely matters of policy engineering, as the captains in business and industry only know too well. It is a matter of will, of vision, of imagination.

Humanity did not send men to the moon because it had the money to do so nor because it became technologically possible to do so. Humanity sent men to the moon because of the will to do something that has always burned our imagination. The aspiration is to take control of our future and to expand the frontiers of knowledge for the sake, not perhaps of our generation, but those that will come after us.

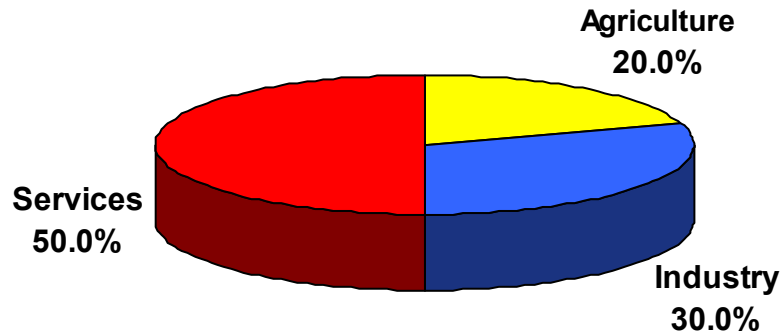
The Philippines has been distracted from the task of development towards full nationhood. We are trying to re-capture the vision of the future, thus we need less hostility and more private-public partnerships.

We should continue to build on our core competencies, mostly in global service industries, and employ its benefits to the relevant industry sectors to achieve the high double-digit growth rates. Eventually, it should be possible to re-align these “winners” with the low-paying agricultural sector perhaps in agri-industries or agri-services which will make the people in the agriculture sector pursue more-rewarding activities. Consequently, a more balanced sectoral employment should be possible in 15-years time, which would strengthen the country’s economy and reduce the wealth gap of our people.

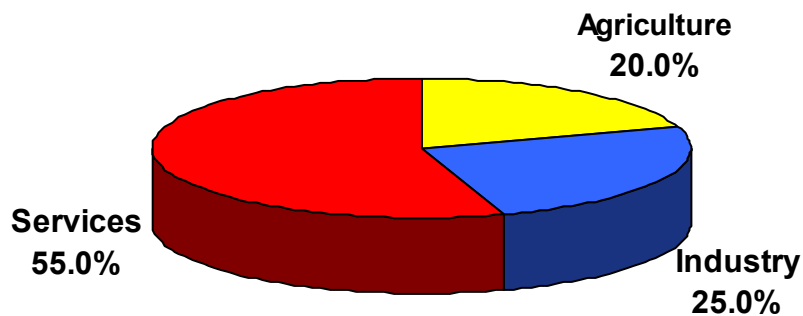
Having a smaller number dependent on the agricultural sector will encourage greater productivity in the former and a move away from the feudal system of the past (some will say it is still prevalent up to the present). Working on a finite area of farmlands, the challenge is to maximize the value of their outputs and to achieve world-class productivity levels. Opening up such environment to global opportunities is expected to push innovation and new concepts that will strengthen our agricultural position worldwide.

One can extrapolate that the changes in the sectoral development will result in the following economic pie charts on sectoral origins and employment in 10-15 years time.

**GDP by Sectoral Origin
2020**



**Employment by Industry Group
2020**



This sectoral combination is more balanced for the type of economy and the size of population such as the Philippines. Those dependent in agriculture may not be as few as those in the developed countries where the percentages are less than 10% or even less than 5%. But this is comparable to countries with more specialized agriculture products which are equipped with core competencies and with values or cultures similar to us.

The national drive for more balanced growth between economic sectors assume that businesses and industry enterprises will compress the layers of hierarchy and push down decision making to the workers and employees, who after all know

their job best. This will promote greater work satisfaction to the average Filipino worker and which will come with increased remuneration.

Filipinos will need to be globally oriented on competitiveness and will have to be trained much better than what the situation is today. The competencies of the schoolchildren in math, science and English must be significantly improved. Relevant training modules (not necessarily University courses) must be made available to the needs of the workplace.

This scenario assumes that with the increased work opportunities and qualities, the overseas Filipinos will be returning to the Philippines to be nearer to their kins and heritage. This will follow the model in Ireland where with economic opportunities, there are more people returning to their homelands than those moving out. The “brain gain” from this trend will be invaluable in jacking up the competitiveness level of the service and industry sectors.

A dream? Perhaps not. It is more a Vision. However, competitiveness and citizens’ participation are the two essential ingredients that will propel our quantum leap to prosperity.