

Senator MAR Roxas  
e-Services Philippines: 7<sup>th</sup> Global Sourcing Conference and Exhibition  
15 February 2007  
Edsa Shangri-La Hotel Manila

*Friends, industry heads, leaders of the industry, foreign guests, members of the media, ladies and gentlemen:*

I have been a partner of this young and vigorous industry for the past 7 years, first as a Trade and Industry Secretary of two administrations, and now as the Senator of the Republic; and I hope to remain as your steadfast partner into the future.

In the last 7 years, the e-Services industry has moved from success to success and grown from strength to strength. Its early roots were in the invisible, in house, offshore, back office operations of some of the MNCs that discovered a cost-effective option in their Manila-based employees, delivering results equal to or better than their US based staff.

Really, when I walked into the DTI seven years ago, BPO was unheard of. “BPO” was really just a bunch of letters of the alphabet that were put together in a kind of acronym to mean Business Process Outsource. And “IT,” well, IT was just two other letters to refer to all sorts of other things as a pronoun, but not the Internet services or the IT community that we have with us today.

From these modest beginnings, the industry is now one of the world’s active players in the large—and growing—global BPO services market. It now generates revenues approaching three billion dollars and creates jobs for nearly 200,000 of our people.

From the National Income Accounts perspective, the communications sector, which is what measures your activities, represents a growth rate in 2006 of 9 percent, well above the growth rate of the entire services sector which came at 6 percent, and certainly, well above the entire economy which came in at 5.3 percent.

Beyond these statistics, the success of the industry is very palpable. The world’s leading BPO companies have located here and are here in the audience. Job sites have sprung up not just in Metro Manila but also in other cities of Luzon, as well as in Cebu, Iloilo, Davao, Cagayan de Oro, and other provincial locations.

The industry’s employees are re-shaping modern urban culture in Philippine cities. The constant strain to recruit, select, and hire more workers is a testament to the

industry stretching to capture its share of an exploding global BPO spending that now exceeds a trillion dollars, with no signs of slowing down.

I will not spend too much time dwelling on the highly successful Philippine participation in this exciting global business opportunity. We all do that already everyday, 24-by-7. You don't need me to talk about it up here in the podium.

Let us, however, think of our first seven years as merely a prelude, a warm-up, an appetizer of sorts. Let me spend some time instead drawing up lessons from these early years of success, and then I'll let you know where I think we can take the industry, as well as what we've done to make this more viable.

First, the lessons. I think of at least five lessons stand-up. First, on top of everything, there are the first movers in our industry. We made the promise to the world, and you delivered a fine performance. None of this growth would have been possible without your front ranks performing so well that the rest of the world took notice. The success of the pioneers made it possible for the success of others to follow. You have all my respect and acknowledgement for demonstrating that, indeed, the market rewards the performers. Let us give our first movers a round of applause.

What is even more remarkable for an industry composed of strong individual performers is that you did not remain solo players. You got organized and found your collective voice. Annual conferences like this and the robust associations you have built up are important components to the industry's success. I recall when I was DTI Secretary, to meet the industry, I would have had to meet with ten or so different associations. And clearly, everyone—all of the associations—gave up a little bit of their autonomy, a little bit of each of their independence, to come together for BPA/P so we could, in fact, have a stronger voice. So clearly, the Filipinos can get together to form a strong, productive association. Again, for that, congratulations, and give yourselves a round of applause.

A third key lesson is a partnership between the organized industry and government. The five key areas outlined in the first road map we drew when I was still at DTI provided institutional foundations of the business. I shall return to these five areas later. What I would like to emphasize here is that industry and government drew up a kind of "social contract" about how their mutual interests will be served by their joint action; and this came to pass.

A fourth lesson is that we all think big, but we all acted in detail. We read the same consultant studies by McKinsey or IDC and the books of Friedman and all the other globalists. And as our imaginations soared at the prospects of a global business, we've understood that the new rules are still being written even as annual spending

escalated. Yet, everyone stuck to the knitting, solving problems from lowering the cost of connectivity, to expanding the size of the qualified work force, to getting the legal framework right. A lot of very hard work went into making what seems to have been a wild dream in the beginning, and now is reality.

The final lesson is that it is possible to build on success. We can expand without blowing quality. We can diversify without losing competitive edge. We can get organized without bureaucratizing. And we can bring in more players without spoiling the game. We can see others building on our success. The local property industry, for example, is building on the success of your industry, having mobilized nearly 50 billion pesos in the last four years on infrastructure investments, and receiving about three billion dollars a year in office rentals from your efforts. A host of other support services has likewise emerged to meet your industry's needs. The employees spend each year nearly 20 billion pesos on food—these are the estimates—three billion pesos in transportation and communications, though this particular statistics sounds low, and more than 6 billion a year for housing, another 12 billion a year for personal care, entertainment, and other spending, as such. Our government has also benefited from your success, from the taxes that it collects from your operations, from your employees and investors. From your employees alone, from the estimated 60 billion pesos in salaries and compensation of your pay-out, at 20 percent withholding tax, that's easily 12 billion pesos annually.

These five lessons—performance as promised, organization as an industry, partnership with the government, big ambition combined with the attention to detail, and building on success—created the conditions for the industry's success at present.

Let us now look beyond the next upcoming years.

In 2000 when I was DTI Secretary, we, together with you, wrote a road map with five key tracks, namely: telco infrastructure; human resource development; legal infrastructure, particularly the E-Commerce Law; the incentives package, in particular, re-writing the PEZA rules to allow the designations of the buildings within Metro Manila as PEZA ecozones, where you will all be locating; and business development.

This road map became the basis for partnership between the industry and the government. I won't dwell, as I said, in the remarkable success of this partnership in achieving many of our shared goals and objectives. It is enough to note with satisfaction how much the industry has grown, and this is the best evidence for the productive partnership that you now enjoy with government.

Instead, we now go to what we aim for and what we've done so that we can get started on those goals.

First, the good news, and that is when the prospects for your industries are, to use a Filipino term, “*nakakalula*”. For all of you Filipinos, turn to your foreign seatmates and explain to them what *nakakalula* is. Whatever the English equivalent is, in any event, it is not “*nakakahilo*”. It estimated that the Philippine addressable global market would be in excess of a hundred billion dollars in a few years’ time by 2010.

Second, perhaps even more important, is that we have a plan. You, the BPA/P, have a plan, and the leaders will be unveiling that in the sessions after me. Last year when I addressed you, I said that while as DTI Secretary, we wrote up a 5-year plan. What would be important is for us to get from where we are today to where we want to be, just as much as our first plan brought us from the 1,500 seats in 2000 to about a 160,000 seats today.

I said then that the challenges for the industry was to figure out where it goes from here and how it should go about doing it. I recall that I even offered my services as a convenor to come up with such a plan.

Well, in a year since I last addressed you, we—more likely, they—haven’t been idle. We call the plan 10-by-10-by-10: ten billion dollars or 10 percent market share by 2010. It’s an ambitious plan, and it’s also well grounded, and certainly, well worth the effort.

But let me explain to you the conceptual underpinnings of these efforts, so that everybody can appreciate what the upcoming presentation entails.

First is the concept that apart from the plan, we also ought to pay attention to the execution team. So while it would be very important to actually write up the plan itself, oftentimes, particularly here in our country, the failure happens in execution. So both the planning and writing up the plan also had to include the planning for creating the organizational set-up that would be able to support the plan and execute it successfully. Accordingly, funding would also have to take into consideration these two components.

From a funding point of view, the entire enterprise—both the plan and the funding for the organization for two years, subsequent to which you all have to actively chip-in—would be in the neighborhood in about three and a half million dollars. What’s important here is that this would be industry-driven, industry-led, and industry-funded. In fact, government can then piggyback along your efforts, as opposed to government initiating and then having the industry come along for the ride. It is important that it’s industry-led so that, in fact, politics stays out of it and that the true needs as expressed by industry players become incorporated and expressed in the plan

as well as its implementation, rather than another five-year medium-term-development-plan-government-write-up but which stays on the shelf.

But certainly, your industry pooled its funds, with some help from the telcos and McKinsey, and a modest counterpart from the budget that I helped introduce. So, three and a half million dollars to finance this road map.

In the Philippine context, that's not done very, very easily. And we recall all of the fund raising road show meetings that we have to undertake to try and convince the players that, although conscious that they belong to a broader industry, to a broader fabric here in our country, they really also acted from a corporate or an individual point of view. And it's a testament to all the founders, all of you, in particular, who are participants in this endeavor, in this undertaking that everybody has chipped-in, and there was a fair point system that was handed out, and everybody came across.

As part of this effort, there was also a consciousness for the recruitment of a world-class guy. I won't talk about him in too much length; you all know him; you've worked with him a little bit. We thought it very important that we find the guy who would have world-class skills to be able to implement this to a higher level, and we found him in Oca Sañez.

And finally, let me do a status and an updating of what I consider to be our future concerns, particularly with respect to the original five areas that were in the plan for the industry, and which got us to where we are and hopefully will be incorporated as well in the upcoming activities.

For telco infrastructure, the liberalized telco industry has largely been responsive to the demands and opportunities created by the e-services industry, as cost of connectivity has declined in line with global trends. The spate of recent typhoons—and in particular, the recent quake in Taiwan that affected telco lines—highlights the need to re-assess the robustness of present systems: perhaps, reconfigure, add to, or find alternatives and supplements to reduce vulnerability to disruption.

At the legal front, the implementation of the E-Commerce Law remains a critical platform. Through the participation of the oversight committee which I chair, important steps have been undertaken, including a facility now open to finance IT capabilities for SMEs in our country. The DTI has issued guidelines to protect personal data in ICT systems of the private sector, and the Bangko Sentral has moved to improve consumer protection in electronic banking products. The DTI and the Department of Finance has implemented electronic payment and collection systems in the government financial transactions sphere. Government procurement now grants

SMEs a fair chance of participating in government bidding by making experience count in these project requirements.

The industry should also give some priority to formulating its co-legislative agenda for the new Congress in July. Even as all the other candidates are running around the country obtaining a mandate from the people, I think it's incumbent upon the industry to figure out what's needed, so that when the 14<sup>th</sup> Congress convenes in July, the industry itself will have a laundry list of what would it like to be enacted. Areas such as data protection, VOIP law, and critical amendments to the Labor Code are all very important, and I would think, would be part of these amendments.

As for incentives, the thinking and voice of the industry certainly must be heard. Although I carry them with me, I would like to see a more active engagement by the industry, particularly in the public debates around the elimination of many existing incentives for investment in the country. As I've argued in the past, in this same forum, the industry, while not served by incentives linked to location, because most of the industry is already here in the Philippines, it is linked to certain activities, such as training that expands the size of the globally qualified Filipino work force to all of your benefit.

In business development, the industry must keep thinking ahead of the curve. We've already seen call centers peaking and new services expanding, such as finance and accounting, medical and legal transcription, software development and animation. A new wave of BPO services is moving up the horizons in such areas as research and analysis for investment banks, contract reviews for law firms, commercial graphics for publishers and advertising agencies, among others. We need to think about re-positioning our business development effort, preferably in line with our new thrust on incentives, to cultivate high-value BPO activities in which the innately talented Filipino work force may be particularly affected.

And this brings me to what I think is our greatest vulnerability, as well as also our best potential asset, which is our human resource. A key constraint to the industry's even faster growth and more secure competitive position is that despite a large growing and young work force, we really just have a thin layer of globally qualified people in every age cohort that passes through our education and training system. This is the thin layer from which all companies recruit and hire. The BPO industry is a highly competitive employer and has thus secured its fair share of available human resource. But we need to widen this layer of globally qualified people for us to be able to grow the industry beyond where it is today.

I have seen the distribution of test scores of students at elementary and high school levels. The bad news is that the best students meeting mastery levels from certain

subjects comprise just below 10 percent of the student cohort. That's the bad news: below 10 percent. But here's the good news: the good news is that the next best students meeting what's called near-mastery levels of accomplishment comprise a more robust 35 percent of the student cohort. If enough of these near-mastery level students improve, they can easily double or triple the sized of the recruit-able pool of workers in the near term.

And how might we do this? I think that one of the things that the industry can do is work on what we call a quality signaling system in our schools. The industry should expand its existing collaboration to include second-tier universities and colleges, not just UP or Ateneo, and La Salle—and the appropriate preparation of the students for eventual BPO employment. As this collaboration deepens, it will affect the quality of students that the universities and colleges admit from high schools. And as admissions to the better high schools become more competitive, this will transmit the quality standards to graduates of elementary schools, so there will be a cascading effect. The main advantage of the approach is that it addresses the immediate and near-term needs of the industry, even as it contributes to the general improvement of the educational system over the long-term.

There is really no reason why the Philippines' e-services industry cannot double or triple revenues and employment in the near-term. We have many capable and hungry players leading the industry. We have a track record of solving difficult problems creatively. We have a global market that offers vast opportunities for growth. As the developed world ages and the cost connectivity decline, any service that can be provided over the phone or computer can be provided remotely by skilled and trainable people. And why not by the young people of the Philippines? And why not, as well, by the Philippines' e-services industry?

Let us learn well our lessons from the first seven years of working together. Let us apply them on the challenges and the opportunities over the next several years. We are building the next generation economy for our country. We cannot fail, as this future is our own future.

Before I end, let me again thank each and everyone of you for allowing me to partner with you and to be of service to you. I recall how validated and thrilled I was to receive news that I have been "hired". And it is this validation, this affirmation, this joy that you all provide to the young kids all across our country when they hear of news that you have hired them; it is this that drives me doing what I can to ensure your success.

Thank you for this honor. More power to you and full speed ahead.