

ASEAN FRAMEWORK FOR TRADE NEGOTIATIONS

BPO, CALL CENTER AND INFORMATION TECHNOLOGY INDUSTRIES

A STUDY PREPARED FOR PACT / EMERGE / USAID

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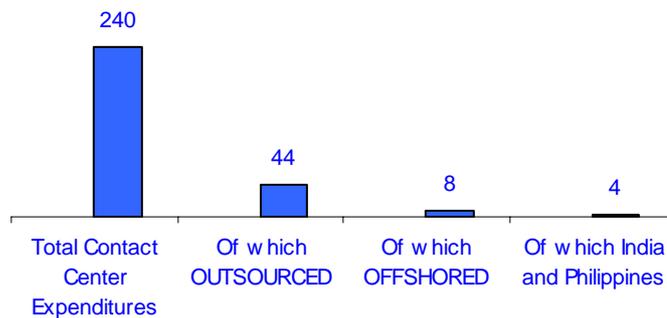
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Section 1: Overview of the Call Center Industry

Global Call Center Industry Overview

The global call center industry is huge. Despite its size and the surrounding controversy in the US about jobs going offshore, however, only a small portion of the Pie is currently off shored thereby demonstrating the tremendous potential of the industry for other countries. Industry data show that total Contact Center expenditures¹ in the USA has reached US\$240 billion, of which approximately 82% (US\$196 billion) is in sourced and only 18% (US\$44 billion) is outsourced. This number is further narrowed down to account for the portion off shored to other countries. If the US\$44 billion expenditures off shored, approximately 82% is outsourced within the USA and only 18% (US\$8 billion) is off shored.

Of the US\$8 billion off shored² to other countries, approximately US\$3 billion is off shored to India while only US\$1 billion is off shored to the Philippines. The fact that the % of total contact center expenditures that are currently being served in the Philippines indicates the still huge potential of the industry for growth. The above data is summarized in the graph below which shows the breakdown of contact center spending in US\$ billions:



¹ Refers to both in sourced and outsourced services. Outsourced includes special-purpose captive subsidiaries.

² "Outsourced" includes ALL captive subsidiaries, notwithstanding the fact that, strictly speaking, Citigroup's seats in Philippines are in-sourced-but-off shored while Convergys's seats in Philippines are outsourced-and-off shored).

The following shows the global distribution of call center seats from 2003 to 2005:

Call Centers: Number of Seats 2003 thru 2005

Country	2003	2004	Est. 2005
Australia	135,000	146,000	157,680
India	96,000	158,000	260,700
China	38,000	54,000	76,680
Philippines	20,000	40,000	70,000
New Zealand	12,000	13,500	15,255
Thailand	11,000	13,000	15,340
Singapore	10,000	10,100	10,201
Hong Kong	10,000	10,700	11,449
TOTAL	332,000	445,300	617,305

Philippine Call Center Industry Overview

The BPO and call center industry has proven to be one of the fastest growing industries thereby contributing a lot in terms of generating employment for the Philippines' 400,000 graduates every year and causing a multiplier effect to the Philippine economy. The success of the industry does not come as a surprise given the Philippines' natural advantage in this field. These advantages are discussed below:

Key Advantages of the Philippines

- Abundance of low cost American English speaking labor force.

The Philippines send about 2.5 million of its youth to college education every year and produces about 400,000 graduates annually. More than half of these graduates are from the fields of IT, engineering or commerce that are all eligible for call center work. Although this is lower than India's 2 million graduates every year, the number of Filipino graduates remains a compelling factor for investors who wish to set up call center operations offshore.

The average annual salary of entry level call center agents in the Philippines is US\$4,000 to US\$4,500 per year while the average annual salary for all levels is US\$7,000 per year. These costs represent approximately only 1/5 of the hiring costs for equivalent positions in the United States and are only marginally higher than the hiring costs in India. The gap though from India's hiring costs is narrowing down due to increasing competition in India for quality English speaking graduates and poaching from Multinationals.

The Philippines also has relatively low attrition rates compared to Agents situated in the United States. This is largely due to the difference in perception regarding the job, i.e., whereas in the United States a job in the Call center industry is generally not highly regarded, in the Philippines, a certain level of Prestige is associated with the job, given the higher salaries and the premium attached to the ability to speak English fluently.

- While the ability to speak English is valuable, the experience of most call center companies is that the ability to speak American English in particular makes a huge difference to clients. The Filipinos' neutral accent, and the emergence of educational institutions that cater to training students and graduates on American English grammar, intonation and accent put Filipinos at a distinct advantage over its counterparts in India and China. The Philippine Educational System, Business and Legal practices are heavily influenced by the American system, it being an American colony for about 50 years in the past. It should be noted that English remains the primary medium of instruction in most schools in the Philippines.

- **Means of diversifying Geo-Political risk.**

A number of Call center companies that have set up in India and in other countries have decided to lessen their exposure to geo-political and exchange rate risks due to the concentration of their businesses in a single country. Given the advantages that the Philippines has to offer, it has become a logical step for such companies to expand their operations here.

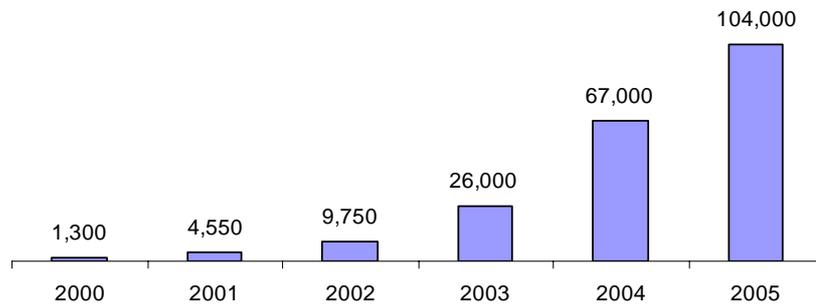
- **Cheap Telecommunications cost.**

Bandwidth costs have dropped significantly to about US\$4,500 for an E1/T1 line from US\$30,000 for each line before. This results in one area in which the Philippines has an advantage over India's bandwidth cost of US\$4,800 per full time equivalent ("FTE"). Savings in IT/Telecom expenses offsets the higher average cost of labor in the Philippine vs. India such that the total cost per FTE for voice-based services is only slightly lower in India compared to the Philippines.

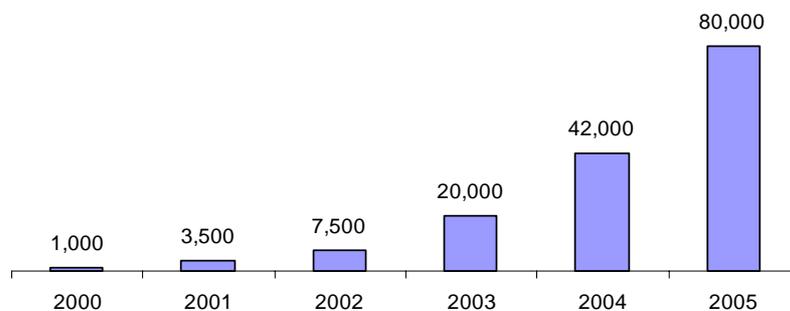
Historical volume growth

The Philippines saw its number of seats grow exponentially from about 1,000 seats in 2000 to approximately 70,000 seats in 2005 and finally to its current 95,000 seats as of April 2006. Currently the Philippine has 105 Call center, most of which are subsidiaries of US-based companies operating 95,000 seats and providing employment for at least 120,000 agents. The following graphs indicate the exponential growth experienced by the call center industry for the past 6 years:

Number of Agents
(ratio of 1.3 agents per seat)



Number of Seats



Historical Revenues.

Call centers' revenues have increased from US\$173 million in 2002 to US\$1.2 billion in 2005 translating to a compounded annual growth rate of 90% and 90,000 new jobs created over this period.

Current Government Incentive structure for the Industry.

Government agencies that support the development of the industry include: (1) the Securities and Exchange Commission; (2) the Department of Trade and Industry through the Information Technology and e-Commerce Council; (3) the Board of Investments and (4) the Philippine Economic Zone Authority. Incentives are given to IT related companies including BPO and call center companies, through registration with these government agencies.

Incentives under the Board of Investments include the following:

- Call centers are included in the Investment Priorities Act for 2004 of the Board of Investments and is also one of the priority sectors of the DTI

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- BOI-registered call centers with a minimum capitalization of US\$2,500 per seat are qualified to avail of a 4-year income tax holiday from start of commercial operations. The capitalization requirement covers hardware and software costs, office furniture and fixtures, building improvement and working capital.
- The income tax holiday can be extended for another three years following an approved expansion plan of the company.

Incentives under the Philippine Economic Zone Authority include:

- PEZA registered IT enterprises are entitled to four years income tax holiday for non-pioneer enterprises and six years income tax holiday for pioneer enterprises.
- After the ITH period, PEZA registered IT companies are given an option to pay 5% tax on gross income earned instead of the regular corporate income taxes and other national or local taxes except real property taxes. Companies are also given a special deduction of 50% of training expenses if they opt to pay the special 5% gross income tax.
- Exemption from import duties and taxes on imported machinery, equipment and raw materials.

Section 2: The Porter's Diamond Theory of Competitive Advantage of Nations

BPO Cluster in ASEAN:

A cluster is an economic phenomenon whereby large number of interconnected Industries group together in a small area. Some examples include California wine, Italian leather fashion and IT cluster in Silicon Valley.

According to Michael E. Porter, a famous Harvard Business School professor who developed "Diamond Theory of Competitive Advantage of nations", these clusters emerge due to the following four main conditions:

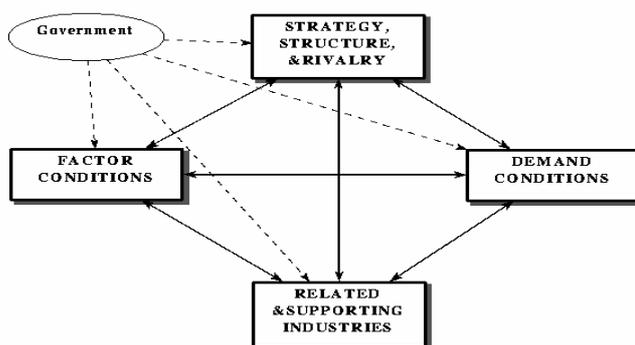
1. **Factor conditions** (i.e. the nation's position in factors of production, such as skilled labor and infrastructure),
2. **Demand conditions** (i.e. sophisticated customers in home market),
3. **Related and supporting industries**, and
4. **Firm strategy, structure and rivalry** (i.e. conditions for organization of companies, and the nature of domestic rivalry).

Classical theories of international trade propose that a comparative advantage resides in the factor endowments that a country may be fortunate enough to inherit. Factor endowments include land, natural resources, labor and the size of the local population.

Professor Michael Porter argued that a Nation can create new advanced factor endowments such as skilled labor, strong technology and knowledge base, government support and culture. Porter used a diamond shaped diagram as a basis of framework to illustrate the determinants of national advantage.

The same diamond model has been used to represent the national playing field that ASEAN countries have for the BPO industry.

Porter's "Diamond"



Factor Conditions:

Factor conditions refer to inputs used as factors of production - such as labor, land, natural resources, capital and infrastructure. The "key" factors of production (or specialized factors) are created, not inherited. "Non-key" factors or general use factors, such as unskilled labor and raw materials, can be obtained by any company and, hence, do not generate sustained competitive advantage. However, specialized factors involve heavy, sustained investment. They are more difficult to duplicate. This leads to a competitive advantage, because if other firms cannot easily duplicate these factors, they are valuable. Lack of resources often actually helps countries to become competitive (call it selected factor disadvantage). Abundance generates waste and scarcity generates an innovative mindset. Such countries are forced to innovate to overcome their problem of scarce resources. For example Switzerland was the first country to experience labor shortages. They abandoned labor-intensive watches and concentrated on innovative/high-end watches.

ASEAN Context:

- Low manufacturing activity (as a result of China becoming world's manufacturing hub) created ASEAN countries' dependence on service related industry
- Less of industrial activity has created presence of skilled labor in ASEAN
- Less presence of natural resources led to migration to non-natural resource related production.
- Good presence of US English speaking population due to past colonial structure and global trade dependency....Philippines/India
- High level of scientific and research and development to keep pace with other resource rich ASEAN neighbors...Singapore/India
- Presence of good infrastructure and communication allowed ASEAN to become attractive location for investment by international companies.....Singapore/Philippines/India/Malaysia

Demand Conditions:

Firms that face a sophisticated domestic market are likely to sell superior products because the market demands high quality and a close proximity to such consumers enables the firm to better understand the needs and desires of the customers. One example is the French wine industry. The French are sophisticated wine consumers. These consumers force and help French wineries to produce high quality wines.

ASEAN Context

- The local customers in ASEAN region demand high level of customer service which in turn has created an environment within firms to delight their customers. For example regional airlines like Singapore airlines, Thai Airways and Malaysian Airlines are well known around the world for their level of customer service.
- The high reliability on services sector is one of the main reason for creating a customer led environment.

Related and Supporting Industries:

A set of strong related and supporting industries is important to the competitiveness of firms. This includes suppliers and related industries. This usually occurs at a regional level as opposed to a national level. Examples include Silicon Valley in the U.S.(for the technology industry), Detroit (for the auto industry) and Italy (leather-shoes-other leather goods industry).

ASEAN Context:

- Due to small size of most countries in ASEAN region, it is likely that the main BPO centers would be concentrated in the same area and lead to clustering or agglomeration. Some of the advantage of this would be potential technology knowledge spillovers, and availability of skilled labor forces at a lower cost. This also has few disadvantages such as poaching of employees by rival companies and obvious increase in competition leading to reduced mark-ups and inflationary pressures on labor costs.
- The early liberalization and entry of multi-national companies in the region has led to developing a work force used to US style of working culture.

Firms Strategy, Structure and Rivalry:

Strategy:

Domestic capital markets affect the strategy of firms. Some countries' capital markets have a long-run outlook, while others have a short-run outlook. Industries vary in how long the long-run is. In the ASEAN context, while countries such as Singapore (which has a long-term capital outlook) attracts investments into infrastructure (which is long-term oriented), countries such as Philippines is likely to attract investments into highly dynamic computer and services industry (short-term in outlook) given Philippines' short-run outlook of its capital markets..

Individuals' Career Choices-

Individuals base their career decisions on opportunities and prestige. A country will be competitive in an industry whose key personnel hold positions that are considered prestigious. In the ASEAN region, individuals regard call centre job as highly prestigious and also take pride working for a multi national foreign company.

Structure:

The best management styles vary among industries. Some countries may be oriented toward a particular style of management. Those countries will tend to be more competitive in industries for which that style of management is suited. The ASEAN countries follow relatively flat management structure and are not hierarchical based like some other ASEAN economies such as India. This suits the US BPO industry as it is more oriented towards less hierarchical style of management.

Rivalry:

Porter argues that intense competition spurs innovation. Competition is particularly fierce in Japan, where many companies compete vigorously in most industries. Similarly there is fierce competition among IT and BPO sector companies in India which has brought India to a No.1 position in business confidence survey in BPO industry.

The rivalry of BPO companies in a small concentrated area of ASEAN would benefit from fierce competition and lead to spur innovation. ASEAN nations could also come together as one team and get more business from the developed nations. For e.g. Singapore with the advantage of world's best infrastructure and highly skilled engineers can become leading service provider in high end Information and Technology Services and specialized finance outsourcing activities; India can become the software product development and finance processes outsourcing hub, Malaysia and Vietnam can lead the way in Data Processing and Philippines can become the biggest Animation and Customer Service/Contact Center Zone.

The multinationals like IBM, Dell, Genpact and Sykes are segmenting their operations on similar lines across the globe. The governments' support by setting the uniform legal system and the start up process along with creation of free trade zone and better ICT across the ASEAN region would attract more multinationals and lead to increase in returns.

Government Role:

The government's role in the diamond model is to:

- Encourage companies to raise their performance, for e.g. by enforcing strict product standards.
- Stimulate early demand for advanced product
- Focus on the creation of specialized factor conditions.
- Stimulate local rivalry by limiting direct cooperation and enforcing antitrust regulations.

ASEAN CONTEXT:

- Establishment of a free trade zone by 2010. Philippines and other ASEAN countries should push for fair and open trade .This would build the confidence and focus the attention of the global corporations and investors.
- Encouragement of free movement of people by simplifying the visa and work permit process.
- Full recognition of certificates awarded by universities /professional bodies/Institutes.
- Recognition of the infrastructure, quality standards and environmental standards etc.-CMM, COCP, BS7000.
- Cross-country recognition of Techno Park and Economic Zones.
- Single organization promoting the ASEAN cluster to the world like setting up EAI (Enterprise for ASEAN initiatives) by US for trading with ASEAN.
- Encouragement of e-government services like IDA in Singapore to cut bureaucracy.
- Tax rebates and smooth legal steps in start ups.
- Friendly ties with world super powers and strategic alliances .e.g. WTO ties. Leaders of ASEAN community have signed the Cebu declaration on the acceleration of the establishment of an “ASEAN Community” by 2015.
- This should establish an environment that promotes free flow of trade and services among the ASEAN member countries
- The community should have stronger understanding of its identity and should be bound by uniform rules and commitments.
- Free air linkages and direct flights need to be established between the outsourcing giants like India and Philippines. This would bring the two countries closer and easily accessible. Currently clients from the US who are visiting their outsource branches in India and Philippines find the journey too long and cumbersome .The two countries are yet to establish direct flights.
- The EAI offers the prospect of bilateral free trade agreements (FTAs) between the United States and ASEAN countries that are committed to economic reforms and openness. The goal is to create a network of bilateral FTAs, which will increase trade and investment, tying more closely together ASEAN economies and their member countries’ futures. The EAI initiative will encourage both bilateral and regional liberalization, and help APEC reach the Bogor goals for achieving free and open trade and investment in the Asia Pacific region.
- According to ADB President Haruhiko Kuroda in a conference in Manila “Trying to set up a grand European union –style community for ASIA” does not appear feasible. We should rely on a pragmatic step –by –step approach rather than on conceiving and implementing a comprehensive pan ASEAN vision as was done in Europe.”

The key challenge is how to consolidate and streamline the 192 FTAs (free trade agreements) at various stages of negotiations or implementation in ASEAN. They should adopt a multispeed approach to cooperation whereby a few countries can start working together on selected common issues, leaving the option for other countries to join later. BPO sector can be the first such step in the right direction.

Conclusion:

Porter's Diamond Theory of National Advantage indicates that ASEAN countries clustering in the BPO and information Technology sector could take them to a remarkable economic growth by 2015.

- The ASEAN could become the regional hub for Asia, pulling together the fragmented national markets into an East Asia –wide FTA. There is a great disparity in the economy of various ASEAN countries in comparison to EU; like Cambodia and Brunei compared with Singapore and Philippines;. Never the less, ASEAN economic integration is still possible.
- Until a year ago, BPO was a simple industry to understand with few large American companies sending call centre work and some IT processes offshore. No longer is the case. The next phase is more complicated with myriad of activities like Accounting ,HR ,Financial Analysis ,Design Engineering ,Animation, Medical Services, Legal Services, Insurance processes, Banking, Map making, content solution, research and so on.
- Secondly it is just not US and UK but every developed country is in the race to take advantage of the offshoring benefits. E.g. Canada.
- Third, there are third party captive partners also. This increases the competition among the outsourcing providers by offers wider choices to companies that are seeking outsourcing.
- Fourth, ASEAN sector is becoming more competitive. .Most developing countries have seen the success of India and want to participate in the offshoring. Therefore, ASEAN needs to improve its promotional activity and increase the value of its service proposition.
- Lastly, leaders like India are moving up the value chain to more sophisticated processes like Analytics, Data Mining, Financial Strategies, Medical Services, etc.

"Singapore is already a recognized player on the global BPO scene, but in a very different way than the countries like India and China are" said Corbett. "The nation has extremely strong ties to the West and has always been positioned as a natural 'jumping off' point for Western business interests in the region."

In fact, according to Hui Min of Singapore Computer Systems, most Western companies view Singapore as a business continuity hub that is ideally located away from natural disasters. "Moreover, Singapore also adopts world-class standards to ensure that the services provided are of top quality," she says

Philippines- location of choice due to its less expensive labor costs. Offers 24/7 multilingual and multimedia supported premium services for marketing, sales, customer care, crisis management, investor relations and other key business applications. The reasons cited for the bullish outlook towards the Philippines have been, among others, due to lower operating costs, English language proficiency and high ICT skills yet low-cost workforce. Ranked second among 32 countries in a business optimism survey and scored 88% from a negative rate in 2004- International business Report (IBR) Survey of Grant Thornton International .

Therefore, if all these strong players from ASEAN cluster together and get new projects according to their expertise, like Philippines-Customer Service; India-Analytics and Singapore-Financial Strategy, Malaysia and Vietnam-Data Processing, it would become easier to attract global community and get more business in ASEAN's favor.

Current boom time in BPO seems to be stronger than any boom time to-date. Most BPO organizations have been growing 40% to 50%. So it is in the interest of the ASEAN nations to take advantage of the opportunity with in view of the competitive advantages that ASEAN nations possess.

Reference:*The data has been gathered from the book Porter,Michael.E-The competitive Advantage of Nations; Manila Bulletin;The foreign Post –Newspapers;Google Search-Wikipedia,Economy of ASIA; ASEAN-JAPAN centre-what is ASEAN,The facts about ASEAN;Enterprise for ASEAN initiative;etc.*

Interviews with Key People and Major Findings

Following are the companies and individuals interviewed to assess their respective needs for effective Globalization in General and for ASEAN free trade in particular:

Issue 1- Free Movement of People – Work Visas

The following are the companies and the individuals interviewed:

1. **BLAST ASIA PHILIPPINES-SOFTWARE DEVELOPMENT** –Mr. Arup Maity, CEO.

Blastasia, Inc. is a Philippine based company that established its operation in the year 2000 with a vision to be a Global Technology Company. The company began to build its competency and track record in the local Philippine Market providing IT services to government and private institutions. Blastasia started providing offshore services to international clients from countries like US and Japan in the year 2004. In line with its vision, Blastasia has intensified its marketing effort by opening its California USA office in 2006 and is continually establishing channels in other parts of the US and in Europe through its partners.

Blastasia's primary business model is to work with technology companies in high cost regions helping them to grow with cost efficiency and flexibility. Blastasia capitalizes on its core strength in delivering not just software but total solutions to empower the business of its clients. Blastasia is not only strong in capabilities, but also equipped with proper tools to ensure the success of its projects. Blastasia ensures quality software solutions by providing the right team of people to work on the project and defined software development process and standards.

2. **NUCLEUS SOFTWARE PHILIPPINES**-Mr.Kumar Vaibhav-Country Manager

Nucleus Software is a leading **global software powerhouse** providing innovative and pioneering products and software solutions since 1986. Nucleus's core competence is wholly focused in banking and financial services spanning across solutions in the areas of **Core Banking, Retail & Corporate Banking**, Credit Cards, Cash Management, Relationship Banking, Financial CRM, Credit Risk & Appraisal, Trade Finance, EAI, Internet Banking, FX, Basel II, Data warehousing and Analytics. **Nucleus Software** has a strong quality culture, reflected in **SEI CMM Level 5 certification and Six Sigma** initiatives. Nucleus Software Philippines is a wholly owned subsidiary of Nucleus Software.

Complete Banking Solution	Banking Software Services
<p><i>FinnOne™</i>(Complete Banking):The flagship product of Nucleus Software is an integrated suite of applications designed to support the business offerings of banks and financial services companies.</p>	<ul style="list-style-type: none"> > Consulting > Outsourcing Software Solutions > Software Support and Maintenance > Customized Software Development
Accolades	Best Practices
<p>Nucleus Software's flagship product <i>FinnOne™</i> globally ranked "No.1 Best Selling Lending Software" by IBS Publishing London 2006.</p> <p>Nucleus Software received the best Partner award for "Building World Class Loan Management Solution" by Oracle Corporation (2003-2004).</p>	<ul style="list-style-type: none"> > Core Banking > Retail Banking > Cash Management > Trade Finance > Customer Acquisition > Credit Risk Management > Credit Cards > Enterprise Application Integration

3. **TELETECH SINGAPORE**-Mr. Vineeth Iyengar, Business Development Manager,
4. **Teletch India Limited** – Mohan Kulkarni, Country Manager

TeleTech Holdings, Inc., a global business process outsourcing company, provides a range of front-to-back office outsourced solutions, including customer management, transaction-based processing, and database marketing services. Teletech's solutions comprise on-demand services, including infrastructure, software, and business intelligence, which the company delivers on a centralized and standardized delivery platform. The company's Customer Management Services segment provides outsourced customer support and marketing services to various industries worldwide. Its Database Marketing and Consulting segment offers outsourced database management, direct marketing, and related customer acquisitions and retention services for automotive dealerships and manufacturers operating in North America. TeleTech offers its services in 150 languages to Global 1000 businesses and governments. The company was founded in 1982 and is headquartered in Englewood, Colorado.

5. Credence Analytics – Indonesia – CK Guruprasad, Head, International business.

Credence Analytics is a specialist financial software solutions provider with strong domain skills in the treasury markets, investment and risk management, and financial products distribution industry. Credence Analytics has been ranked as India's largest wholesale banking software solutions provider (Source : IBS Newsletter, March 2003). Credence primarily focuses on treasury management, risk management & ALM, research and advisory services, as well as related areas like real-time work-flow & communication management, data-mining, client servicing and functional training.

Credence Analytics offers its complete range of products and services through the two divisions within the company :

- Research & Advisory Division
- Software Division ::

➤ **Major Findings:**

Infosys agreement with Singapore Government for 100 pre-arranged employment visas at anytime

1) Increases flexibility of Infosys which results in more contracts and more jobs in favor of Infosys. It would help in importing skilled knowledge at any point in time.

2) Singapore's standing as global business center is reaffirmed-Singapore is strongly positioning itself as a High ICT and intellectual hub day after day .It has the best infrastructure with a business friendly government policies and e-governance .This removes the bureaucracy and makes the set up very business friendly.

3) Global corporations would like to locate their business centers in Singapore given availability of skilled labor force and smooth start up facilities.

4) Combined with the infrastructure, capital availability of Singapore and human resources of India, the combination provides excellent strength to Singapore.

5) When First Data Corp., the US based global back office service provider of electronic commerce and Payment systems , decided to establish a regional hub for its south and South Asian operations last year ,it choose Singapore as its hub instead of India –considered as the top destination for outsourcing. As per the spokes person, Carla Taylor “Singapore was a clear choice because “of its growth, infrastructure and proximity to its clients.”

In fact, in a 2004 report the U.S. department of commerce ranked Singapore as the fastest –growing hub for outsourcing, while reports by AT Kearney, Price water house Coopers and Economist Intelligence Unit have all found Singapore to be amongst the Top destination for off shoring

Apart from cost there are other pull factors as well. When a company chooses a BPO destination there are other pull factors as well. According to Chong Hui Min of Singapore Computer Systems, “a BPO service provider that claims to specialize in a unique service called unique forms process outsourcing (FPO).” “The business environment , political stability ,government support ,workforce competency and having a total eco-system for a particular industry are all factors that also need to be considered,” she says ,and Singapore is strong in all of these.”

According to Lim Chim Hu, President and CEO OF Singapore frontline technologies Corporation, which claims to be the leading provider of Information Technology including outsourcing?“(It should be positioned) as a trusted BPO hub with the talent and skill sets that are required for high value services.”

HIGH IMPACT	Technology, Software, BPO, KPO
MEDIUM IMPACT	Healthcare, Shipping, Engineering, Finance and Accounting
LOW IMPACT	Law, Marketing, Economics, Teachers, Scientists

Issue 2 - Full Recognition of Certificates/Degrees Awarded By Universities/Professional Bodies/Institutes.

The following are the companies and the individuals interviewed:

1. Have Nurses Inc.

Have Nurses is an international health care recruiting company poised to help its clients gain a competitive edge by hiring the very best talent and supporting them through our global resource and appraisal base. Have Nurses manages the entire process from the source to the facility, ensuring its client gets the best service in the fastest time at a very competitive cost. Have Nurses also have very attractive payment plans tied to steps in the process helping clients optimize their recruiting budgets. Have Nurses recruit for a broad spectrum of the health care industry including hospitals, nursing homes, convalescent homes, travel nurse companies and home health agencies.

2. M3 Medical Corporation

- Leaders in recruitment of skilled nurses and Medical Practitioners.

3. 24x7 Customer Support- PV Kannan, Co-Founder and Chief Executive Officer

24/7 Customer is the first BPO Company that provides integrated customer lifecycle management services through a " Multi-shore™ global delivery model " and is the number one in business performance to 70% of its clients globally. Recently the Black Book of Outsourcing ranked 24x7 as the best performing call center globally, an achievement that is supported by its commitment to outperform. Headquartered in Los Gatos , California , 24/7 Customer is a rapidly growing global company with a CAGR of over 80%. With state-of-the-art facilities across 7 global delivery centers that accommodate nearly 9000 seats, 24/7 Customer is among the top 20 Contact Centers worldwide. 24/7 Customer provides Integrated Customer Lifecycle Management services (CLM) to the Global 1000 companies across the financial services, technology and telecommunications, retail and services industries. With a focus on predictable and sustainable business performance coupled with innovation 24/7 Customer delivers a sustainable competitive advantage for its clients in their end customer management.

Major Findings

- A framework that will recognize certificates-It will help in increasing the highly skilled Professionals availability at any point of time.
- Degrees awarded by select universities-This would help in standardizing the Education Pattern all across the region.
- Professional institutions among ASEAN countries-This would enhance the technical and Professional capability of the Region.
- **Immediate Requirement:**
 - Recognize Qualifications of Healthcare Professionals, Software Engineer and other major Professional categories
 - Opens up free movement of qualified and skilled Professionals.
 - Results in off shoring of services
 - *Medical Tourism*
 - *Online game testing*
 - *Software testing*
 - *Online tutoring*
 - *Medical transcription*
 - *Finance and Accounts support*
 - *Treasury back-office operations*

HIGH IMPACT – Nursing, Doctors, Lawyers, Finance & Accounting, Shipping, Logistics and Teachers

Issue 3 - Recognition of the Infrastructure Quality, Standards and Environmental Standards etc. – CMM, COCP, BS7000

The following are the companies and the individuals interviewed:

- 1. ECCI Philippines-Mr. Tan Hak Yek, SVP**
 - Leaders in Environmental Management .Involved in the development of Quality tools, Research, Safety and Productivity Management Consultants, Knowledge Management tools, Environmental, Training Services.
- 2. BFL MPHASIS- Mr. Lakuman, Quality Assurance Manager**
 - End to end service provider for E-business. Mphasis is global IT and BPO services company which consistently delivers real improvements in business performance for its clients through a combination of technology know- how, domain and process expertise.
- 3. IPVG Corporation-Mr. Enrique Gonzalez, CEO**
 - The group’s principal activity is investing in and engages in business related to media & InfoTech industries. Its objective is to invest in innovative and market moving ventures that are rich intellectual capital.

Major Findings

- Automatic recognition of the Infrastructure, Quality Standards and Environmental Standards etc.

Among ASEAN countries following steps are immediately needed :-

- Allows opening of more world class data centers in Philippines
 - Results in more off shoring of services to Philippines
 - More jobs and more investment
 - Win-win for both advanced ASEAN countries such as Singapore and Malaysia and developing ASEAN countries such as Philippines
- Singapore helped launch the World's first industry standard for business continuity and Disaster Recovery, which outlines certification requirements that service centers must meet.
 - The U.S. –Singapore free trade Agreement, which strengthens IPR enforcement (among other things) gave an additional boost to Singapore's business environment for foreign investor.

HIGH IMPACT:

- Software and Hardware Infrastructure Data Centers
- Hospitals -Health Care Tourism
- Banking- Mobile Banking/ Online Remittances
- Broad Band Infrastructure-Online Games Outsourcing
- Educational Institutions-Teachers
- Scientific Institutions and R & D Labs- Scientist

Issue 4 - Recognition of Techno Park and Economic Zones.

The following are the companies and the individuals interviewed:

1. Walden International -Mr. Martin Lichauco, VP

Established in 1987, Walden International is an established global venture capital firm. They invest in companies which demonstrate an ability to gain a competitive advantage in the markets they serve. They focus the investment on four key industries: communications; electronics/digital Consumer, software & IT Services, and semiconductors.

2. ICCP Philippines-Venture Capital-Mr. Jovy Cruz, MD

It is a leading Philippine investment house with a unique character and orientation. Principle activities include-Mergers and acquisition, Project finance, Loan arrangement, Venture capital access, etc.

3. IBM Daksh- Call Center-Mr. Pradeep Agarwal, VP.

It is a fast growing BPO global service provider in Philippines. IBM Daksh provides a comprehensive range of outsourced voice based services as well as back office transactions. IBM Daksh offers services to fortune 500 companies in the following cross industry offering such as banking, insurance, travel, and hospitality ,technology, telecom and retail industries.

The various Cyber Parks which are being developed across the ASEAN and the neighboring countries are:

PHILIPPINES -Cyber Corridor

- The corridor will stretch 600 miles from the city of Baguio in the north of the country to the city of Zamboanga in the south of the country.

- A major center of the corridor, Silicon Gulf, is also being developed which will be based in Davao

MALAYSIA – Multi Media Super Corridor, Cyberjaya High tech city

THAILAND – Knowledge Park, Software

INDIA – Software Technology Parks

Major Findings

Call centers have opened in Bacolod City, Iloilo, Cagayan de Oro and Baguio. Business process outsourcing operations have also sprung up in Legaspi, Tacloban and Pampanga. Medical transcription agent's centers have been established in Dumaguete, Davao, and Naga.

- Automatic recognition of technology and knowledge parks will put Philippines on par with similar sites in Singapore and Malaysia and India.
 - Results in giving option to offshore investors to have ready to move in ICT infrastructure with fiber optic network spreading all across the corridor.
 - Provides a competitive advantage to the regions.
 - Help in creating a pool and development of Human Resource
 - Offers Investment Avenue to Singapore/Malaysia/Philippines.

Conclusion:

From the small, highly specialized market of Singapore to low cost Vietnam, the ASEAN region spans the extremes. Singapore, Malaysia, The Philippines and Thailand are all in the top 10 of the Index, and Indonesia and Vietnam are emerging as low cost contenders. Free movement of highly skilled professionals, increased seats and expenditure on technical education, standard certification and quality standards along with the building of strong infrastructure ground can give the ASEAN region a competitive advantage. The Governments' free trade policies and political stability will play a major role in building a strong threshold in the ASEAN region.

Annex A : PEST Analysis

A scan of the external environment in which the Philippines BPO /Contact centers, operate can be expressed in terms of the following factors:-

Environmental Scan:

POLITICAL FACTORS:

Philippines is a member of the ASEAN and has friendly relationship with its neighbours. The President of the Philippines is the concurrent Chairman of the ASEAN and is spearheading the promotion of ASEAN and Philippines to the Global community.

Bagiuo, Bacolad, Lagayan de Oro, Cebu city, Clark, Dagupan city, Davao City and Iloilo City are being developed as new Cyber cities. PEZA along with the Government support is creating a cyber service corridor .It is the 10 point agenda of President GMA.
(http://en.wikipedia.org/wiki/Philippine_Cyberservices_Corridor)

Politically, the Philippines has been through a rather tumultuous period in the past few years. Now the President's position appears to be stable particularly as the opposition is fragmented and without a unified leader. What is likely is that political unrest might continue, but as in the past it may not impact the business (Ref: Economic outlook of Philippines; By Peter Wallace-internet explorer)

The government has been showing stability and in spite of the coming elections, the Peso has been gaining strength. There does not seem to be any major changes in the political arena because the opposition is disintegrated.

CONCERNS

- Absence of clear policies and strategies to promote competition and ensured innovative and more efficient services at lower cost has discouraged entry of new players and further investment in the sector.
- Relaxation in Visa policy is needed to attract qualified managers from more developed market of BPO.
- Free Trade Zone and Better Air links to be established in between Philippines, India, Singapore, China, Malaysia to encourage easier connectivity and development of competitive market in ASEAN.

ECONOMIC FACTORS:

The Call center industry is an emerging industry in the Philippines. Business process outsourcing is regarded as one of the fastest growing industries in the world. Business process outsourcing in the Philippines became the latest trend in the services sector in the 2000s and is led by demand for offshore call centers. The growth of Call centers continue to be rapid, up from 72 registered in late 2003 when the ASEAN Call Center Review reported the Philippines as the **first rank** in the off shore Call center industry for the ASEAN region, surpassing India

at the second spot. From being an almost unexplored BPO territory in 2000, the Call center industry has grown leaps and bounds.

From an employment base of less than 2,000 seats at the start of the millennium, industry sources reveal that the employment has burgeoned to more than 200,000 seats as of end-2006, a yearly two-fold increase for six consecutive years. Consequently revenues have dramatically soared from only US\$350 million in 2001 according to archives of Philippines Information Agency to nearly US\$3.0 billion in 2006, a quantum leap of more than seven times.

In 2004, the Philippines already captured 20 percent of the total world market share in Contact center services. The Philippine government estimates the Philippines could capture 50 percent of the total world English-speaking market in 2008. This industry, aside from contributing 12 percent in to the Philippines gross national product, is also the fastest growing provider for Filipino college graduates.. According to industry forecasts, more than a million Filipinos would be employed in the Call center industry, with more than US\$12 billion in revenues in the year 2010.

(Ref:http://en.wikipedia.org/wiki/Call_center_industry_in_the_Philippines#Locations)

The Philippine economy is Service Led, Consumer Driven, with a significant and growing overseas income component. Services account for 49.5% of total GNP while personal consumption accounts for 65.3% of total expenditures.

The Philippine economy posted a 5.4% growth for 2006, higher than the 5.0% growth registered in 2005. Global analysts predict that the Philippines will continue its recent economic strides and see the following three catalysts that will propel the economy in the coming years:

- ❖ Overseas Filipino Workers' ("OFW) remittances boom
- ❖ Beginning of banks lending activity
- ❖ Outsourcing industry boom

For immediate reference, the following table shows Philippines GDP growth forecast for the year 2007 by various international agencies:

Philippines GDP Growth Forecasts for FY07	% Growth
Philippine Government's target	5.7 to 6.5
IMF	5.4
World Bank	5.7
ADB	5.3
EIU	5.4
IDEA	4.9 to 5.4
Merrill Lynch	5.8
UBS	5.4
World GDP Growth*	4.9
U.S.*	2.9
Japan*	2.1

*World Economic Outlook, IMF, September 2006

- **OFW remittances boom:** The Philippines is the third largest recipient of remittances in the world, after India and Mexico. There are 8 million Filipinos living abroad and 2.7 Million Filipinos in the US alone. The Bangko Sentral ng Pilipinas (“BSP”) said total remittances from Filipino migrant workers may have reached US\$13 billion to US\$14 billion last year, including those sent through informal channels. It said remittances sent through official channels like banks would have likely reached US\$12 billion to US\$13 billion in 2006. Remittances from Filipino migrant workers, coupled with robust exports and heavy investment flows, have strengthened the peso against the US dollar.
 - Overseas remittances surged to USD1.3Bn in December (+37% YoY), a historic monthly high, which encouraged investors on the expectation that remittances will continue to drive the economy.
 - Real estate, consumer and retail sectors are the direct beneficiaries of strong OFW remittances resulting in robust performance for these sectors.

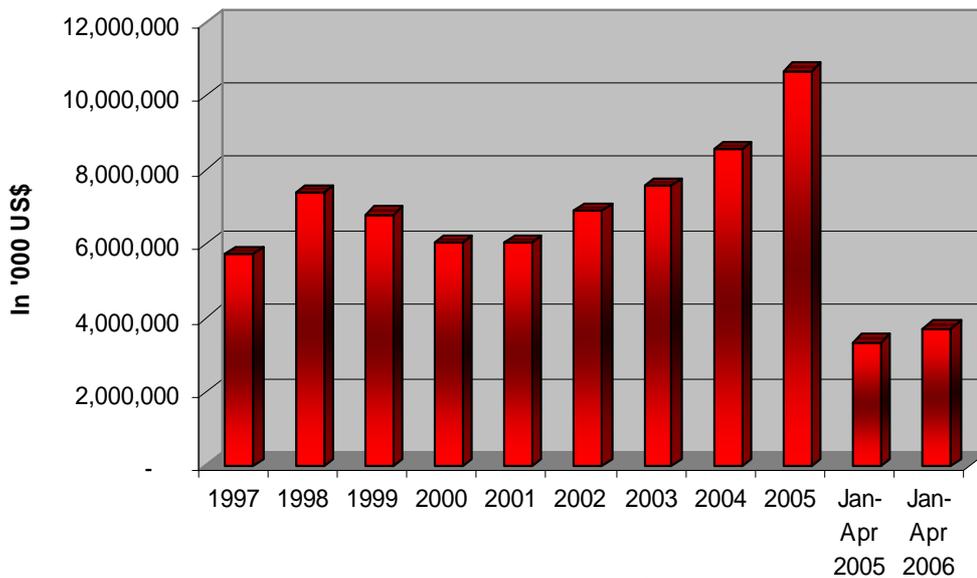
Stock Estimates of Overseas Filipinos, as of December 2004

	Permanent	Temporary	Irregular	Total	% of total
World Total	3,187,586	3,599,257	1,296,972	8,083,815	
Africa	318	58,369	17,141	75,828	0.9
Asia	91,901	1,005,609	443,343	1,540,853	19.1
Middle East	2,312	1,449,031	112,750	1,564,093	19.3
Europe	174,387	506,997	143,035	824,419	10.2
Americas	2,689,722	292,892	549,725	3,532,339	43.7
-- Including US	2,271,933	101,249	350,000	2,723,182	33.7
Oceania	228,946	57,357	30,978	317,281	3.9
<i>Seabased Workers</i>		229,002		229,002	

Note: "Permanent" refers to immigrants or legal permanent residents abroad whose stay does not depend on work contracts. "Temporary" are persons whose stay overseas is employment related and who are expected to return at the end of their work contracts. "Irregular" refers to those not properly documented or are without valid residence or work permits or who are overstaying in a foreign country.

Source: POEA, Merrill Lynch calculations

OFW Remittances (In US\$)



Source of Basic Data: Bangko Sentral ng Pilipinas

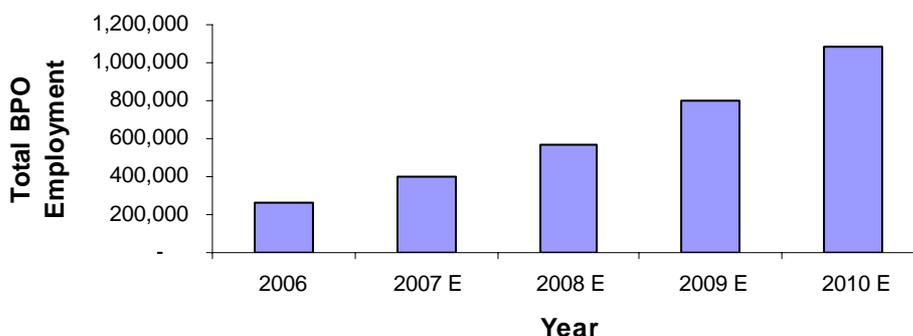
- **Beginning of banks' lending activity:** In December 2006 outstanding loans of commercial banks rose 10.1 percent to PhP1.695 trillion from the same month a year earlier according to BSP reports. Loans grew 6.8 percent year-on-year in November. In its latest client report, Macquarie Research Equities said it expects bank lending in the Philippines to rise 14 percent in 2007- the fastest pace since 1998.
- **BPO and Call Center industry sparking growth:** Given the country's large English-speaking population, high hopes have been placed on the BPO industry for years. Finally it appears to be gaining momentum as the rapid pace of globalization, which has increased outsourcing activity, has spilled over to the Philippines. According to the Business Process Association of the Philippines, about 200 thousand jobs have been created by the Industry. This is expected to grow to 1.08 million jobs by 2010. More than US\$2.5 billion in revenues have been created by this industry and this is expected to grow to US\$3.5 billion next year to 1.4% of the world BPO market. All this bodes well for the real estate industry in both the residential and the commercial space as sales and leases of new apartments and office space is expected to increase in line with the growth of this industry.

BPO Employment Forecasts

	2006	2007 E	2008 E	2009 E	2010 E
Customer contact	179,200	259,800	337,700	422,100	506,500
Back office	40,500	72,900	123,900	210,600	337,000
Software development	15,600	20,300	26,400	34,300	44,600
Medical transcription	13,800	24,800	42,200	71,700	114,700
Animation	6,800	9,900	13,900	18,800	24,400
Engineering design	4,200	6,700	10,700	16,100	22,500
Other data transcription	4,200	5,900	8,300	10,800	14,000
Legal transcription	700	1,100	1,700	2,400	3,100
Digital content	1,000	2,000	4,000	8,000	16,000
Total workforce	266,000	403,400	568,800	794,800	1,082,800

Source: NEDA, CICT, BOI, BPAP and its member organizations

BPO Employment Forecasts



- **Decreasing interest rates:** The strengthening of the Peso against the US Dollar (+8% YoY) is despite record low interest rates of 2.88% for benchmark 91 day T-Bill which Philippine banks have traditionally used to price loans. Low rates are also driving the real estate market. New banking products such as 25 year mortgages are also spurring on the property market and helping loan growth for December 2006 increase by 10% YoY according to BSP data.
 - ❖ The benchmark Treasury bill (T-bill) yield fell to a record low at a regular auction on February 19, 2007, prompting the government to sell more securities than planned. The yield on the 91-day T-bill dropped to 2.885 percent from 3.008 percent at the Feb. 5 sale. The yield on the 182-day T-bill declined to 3.395 percent from 3.473 percent while the rate on the 364-day T-bill fell to 3.820 percent from 3.9980 percent. The government sold a combined P4.8 billion of the three bills instead of the P4 billion it planned to sell. Banks and other investors submitted bids totaling P22.1 billion.
- **Overall Business Sentiment:**
 - ❖ **Philippines business confidence at record high levels:** an independent survey by the Grant Thornton International group, polled businessmen across 30 major world economies, and concluded that the Philippines ranks second in terms of

optimism in the economy over the next 12 months. Optimism from Filipinos improved significantly to +88% from last year's 70%.

- ❖ **IMF bullish on Philippine growth**: The IMF sees the Philippine economy to expand 5.4% this year, and growing to a higher range of 7% in the medium term on the back of additional reforms "that put public debt on a more sustainable downward path and boost investor confidence and investment".
- ❖ **CALPERS**, the largest US pension fund with over \$223Bn in assets ranks the Philippines 10th (up from 14th) out of 27 emerging markets that the pension fund tracks.

CONCERNS

- Require higher, sustained growth path to make appreciable progress in the alleviation of poverty given the Philippines' high annual population growth rate and unequal distribution of income.
- More bullish approach to be taken to encourage Free Trade and Open Trade Policies, just like Singapore is doing with US presently.

SOCIAL FACTORS:

There are various social factors which contribute to the rise of call centers in Philippines. The biggest being command on the English Language. The Filipinos have a great affinity towards US culture and Pop music. Filipinos are able to understand and comprehend the US slang and Idioms. As the Philippines was ruled by US for a long time, the infrastructure, legal systems, education and medical system in the Philippines follows the same guidelines as US. This provides a tremendous competitive advantage to the Philippines in BPO sector. The various other factors which contribute are as follows:

- Attraction towards customer service job due to high EQ level. Culturally humble approach.
- Call centre job treated with pride and people are naturally inclined.
- 2.9 million People unemployed.
- Huge gap between rich and poor with high population growth rate. Low skilled labor costs suitable for outsourcing.
- 200,000 employed in BPO sector and 500,000 could get the job in next 4 years.
- More than 1000 accredited CPAs and IT trained professionals available in the market at lower salary cost.

- The expatriates enjoy the lifestyle in the Philippines and prefer Philippines as a living destination.

CONCERNS

- Negative security perception of Philippines.
- Lack of local entrepreneurs and senior managers with BPO Knowledge and interested in BPO industry.
- Lack of highest degree of professionalism demanded by US corporations.

TECHNOLOGICAL FACTORS:

- The Philippines Cyber Service corridor is a plan that is being pursued by the government to create interconnected centers of tech related services that are spread all over the country. The corridor will stretch 600 miles from the city of Baguio in the north, to the city of Zamboanga in the south of the country. (Ref:http://en.wikipedia.org/wiki/Call_center_industry_in_the_Philippines#Locations)
- A major centre of the corridor Silicon gulf is also being constructed. It is based in Davao.
- A fast growing Telecom & IT enabled infrastructure to be set up by 2008 is the 10 point agenda of President GMA.
- Government Broadband Network budgeted at P5.1 billion; ICT Education and distance learning at P11.1 Billion ;Tech assistance project P221 Million.
- Philippines is a preferred country over other outsourcing locations such as India in Infrastructure facilities but has a long way to develop the infrastructure similar to the one prevailing in Singapore.
- Cebu is being developed as the biggest Animation hub.
- P 400 million RP-Canada E-governance projects launched. The project is being funded by CIDA (Canadian information development agency) and should be completed by 2012.
- The Information and Communications Technology division of the BOI reported that the call center industry experienced a growth rate of 70 percent in 2005 making it the most dynamic of all sectors in the Philippine information technology industry.
- CICT promotes computer for all Initiative .This would educate and enhance the usage of ICT.

CONCERNS

- The country's broadband infrastructure and connectivity is a lot to be desired.
- The absence of clear and updated policies and strategies to promote competition and ensure innovative and more efficient services at lower cost has discouraged entry of new players and further investment in the sector.
- PEZA and BPAP should play a more aggressive role in facilitating the initial infrastructure hurdles by new BPO investors.
- The rental value of the office space is shooting up due to upsurge in the demand of no. of seats and office space in Makati, Ortigas, etc. Government needs to make sure that Cyber corridor is ready on time.

Conclusion

The PEST Analysis clearly indicates that Philippines is “**The fashion of the Year**”.

It has a stable government which is working towards economic reforms. The Peso is continuously strengthening. Philippines has highly skilled English speaking work force that are inclined towards customer service and available at a lower labor cost. The new Cyber Corridor which is being constructed covering 600 miles should get ready on time and contribute in attracting more global players. This could be possible with a proper investment in ICT infrastructure, Computer education and E-Governance.

There is no time to become complacent, as there are smarter players in the Market like Singapore, India, Mainland China and other developing countries who have seen the success story of India and are slowly trying to catch up.

The “Product” is good .The Philippines just need to market it little better backed by good economic reforms and the government's strong will. There is a strong possibility that Philippines can rise up and take its rightful place among the Tigers in Asia.

References: The Manila bulletin; Google search-Wikipedia; getting ready for the Deluge-Philippines by Richard Mills; Callcentre.net report.