

The Philippine Services Sector and APEC



The Services sector produces intangible (invisible) outputs – the application of labor, skills, and technology – that change the condition of products or persons, or that facilitate transfer of knowledge or ownership, among others. The Business Process Outsourcing industry, for example, typically provides such services as technology-driven customer support, exchange of technical and administrative knowledge, marketing, and logistics for products.

Growth potential

The Philippines is widely acknowledged as a source of high quality human resources in services trade. For one, the country is a net exporter of services due to a strong IT-BPM (Information Technology-Business Process Management) sector, especially in legal, accounting, tax consultancy, bookkeeping and auditing, business and management consultancy, engineering services, and computer and information services.

Several sectors have also expressed interest to engage in services trade and promote the country as the best in their respective industries. These include the maritime sector, professional services, smarter analytics, and franchising.

As companies increasingly move some of their operations and production or manufacturing processes to other countries, such as the Philippines, more Filipino micro, small, and medium enterprises (MSMEs) are drawn into the global value chain. This creates more employment and business opportunities.

For example, in electrical and optical equipment, MSMEs could enter the value chain by providing relevant services that will match the industry needs. In the pre-production stage, this type of services could include research and development, consulting, prototyping, and design. In the production stage, there may be assembly, transport, logistics, and engineering services. In the post-production stage, there are marketing, advertising, sales, and branding services, among others.

As the country continues to undergo reforms and move toward a more business-friendly environment, more investments are expected to come in. One direct effect of these investments is an increase in demand for services, which in turn translates to more business and quality employment opportunities for MSMEs and for the Filipino workforce.

WHAT MAKES UP THE SERVICES SECTOR IN THE PHILIPPINES?

According to the Philippine Statistics Authority, our country's Services sector is composed of those who engage in the following:

Services that facilitate exchange



Wholesale and Retail Trade



Information and Communication



Financial and Insurance



Real Estate Activities

Services that change the condition of a good or product



Repair of Motor Vehicles and Motorcycles



Professional, Scientific and Technical Activities



Transportation and Storage

Services that change the physical or mental condition of people



Accommodation and Food Service Activities



Administrative and Support Service Activities



Public Administration and Defense



Education



Human Health and Social Work Activities



Arts, Entertainment and Recreation



Activities of Extraterritorial Organizations and Bodies



Activities of Households as Employers



SERVICES GREW AT AN AVERAGE OF 6.4% IN 2010-2014.



The contribution of services in exports, in gross terms (2009) is

23.5%.



The contribution of services in exports, in value added terms (2009) is

44.1%.



A total of

20.7M

Filipinos employed in the services sector as of 2014



A total of

599,000

of total jobs generated in 2014, the highest among the country's major sectors



Contributed

53.6%

to the total employment in 2014.



The Services Sectors grew by

6.0%

in 2014.



Accounts for

56.7%

of GDP in 2014

SERVICES IN GLOBAL VALUE CHAINS

Pre-Production



Research
Consulting
Prototyping
Design

Production



Transport
Logistics
Distribution
Accountancy
Engineering

Post-Production



Branding
Leasing
Financing and Insurance
Repairs and Maintenance



Philippine Services Sector in the Southeast Asian region

With these resources and strong interest from different segments of the sector, the creation of the ASEAN Economic Community (AEC) is expected to benefit the Philippines in terms of expanding consumer markets and increasing mobility of the country's labor force.

In manufacturing, more opportunities will be opened for people or firms engaged in services trade to complement the production of goods and services in the region. These could be in transport and warehousing, banking and insurance, business services, communication services, research and development, design, distribution, marketing services, and repair and maintenance.

The AEC blueprint indicates that by the end of 2015, cross-border supply and consumption abroad of services across ASEAN will no longer have restrictions. This means that suppliers may freely provide their services across the region from their own countries, and provide their services to ASEAN consumers within their own country.

Furthermore, suppliers of services who wish to establish commercial presence in the region through establishment of branches may do so with a maximum of 70 percent foreign equity participation, provided that they are nationals of an ASEAN-member state.

On labor mobility, suppliers will also be able to provide services by deploying their workers to ASEAN. However, much work needs to be done in the area of education and training to enable Filipino workers to acquire and make use of skills required by employers across the region.

Role of the Philippines' APEC hosting in Services

The Asia-Pacific Economic Cooperation (APEC) recognizes that the services sector is the largest economic sector and is a major employer in most APEC economies. As it is also a major contributor to productivity growth of economies and firms, a number of APEC working groups, committees and sub-committees such as those working on electricity, finance, and telecommunications have included services in their discussions.

For this year's hosting, the Philippines is advancing the APEC Services Cooperation Framework (ASCF), which aims to provide a common direction and

better coherence of strategies among APEC member economies to enhance the competitiveness of the services sector.

To further inform the ASCF, forums with the private sector were organized to enrich talks concerning challenges and possible policy and program solutions. The success of the forums is reflected in the increased interest and participation of economies and the private sector. Talks are expanding from IT-BPM services to more segments such as creative industries, research and development, and services related to agriculture, environment and manufacturing.

The ministers who met during the Structural Reform Ministerial Meeting (SRMM) held on September 7-8, 2015 in Cebu City also encouraged economies to undertake unilateral reforms in their services sectors. These include:

- Addressing services and investment restrictions;
- Prioritizing services in the development agenda;
- Balancing competing objectives in terms of regulations;
- Reducing unnecessary differences in regulations across economies; and
- Mitigating regulatory externalities

These recommended reforms will unleash the potential of the services sector to contribute further to growth and employment generation.

Through the APEC 2015 Leaders' Declaration, APEC member countries committed to develop the services sector as an enabler of economic growth and inclusion. The APEC Services Cooperation Framework was endorsed to ensure that all citizens can benefit from and contribute to high quality growth. Officials of APEC members countries were instructed to develop a strategic and long-term Service Competitiveness Roadmap in 2016, and to adopt a concerted set of actions and mutually agreed targets to be achieved by 2025.

As APEC moves toward the realization of the Free Trade Area of the Asia Pacific (FTAAP), with 21 economies working together for a more open and liberal regional trade environment, reforms in the services sector will definitely open opportunities for the MSMEs and the labor force in the Philippines and throughout the Asia Pacific region.

Sources:

Flores, S. R., Gonzales, K. G., & Orbeta Jr, A. C. (2015). *Toward and Beyond APEC Summit 2015: Key Issues and Challenges of Professional Service Mobility*. Philippine Institute for Development Studies Discussion Paper Series No. 2015-12.

Serafica, R. B. (2014). *Advancing Philippine Services Sector in the Asia-Pacific Region and the 21st Century Global Economy*. National Workshop on Services. Makati City.

Serafica, R. B. *APEC 2015: GVCs and Services*. Makati City: Philippine Institute for Development Studies.

Serafica, R. B. (2014). *Formulating the Philippine Services Strategy for Inclusive Growth*. Makati City: Philippine Institute for Development Studies Discussion paper Series No. 2014-22.

Asia Pacific Economic Cooperation. (2015). *Structural Reform Ministerial Meeting Joint Statement*. Asia Pacific Economic Cooperation. Philippines: APEC.