



Philippine Institute for Development Studies
Surian sa mga Pag-aaral Pangkaunlaran ng Pilipinas

A Comprehensive Philippine Government Strategy on the Competitiveness of the Services Sector

Ramonette B. Serafica

DISCUSSION PAPER SERIES NO. 2015-05

The *PIDS Discussion Paper Series* constitutes studies that are preliminary and subject to further revisions. They are being circulated in a limited number of copies only for purposes of soliciting comments and suggestions for further refinements. The studies under the *Series* are unedited and unreviewed.

The views and opinions expressed are those of the author(s) and do not necessarily reflect those of the Institute.

Not for quotation without permission from the author(s) and the Institute.



January 2015

For comments, suggestions or further inquiries please contact:

The Research Information Staff, Philippine Institute for Development Studies
5th Floor, NEDA sa Makati Building, 106 Amorsolo Street, Legaspi Village, Makati City, Philippines
Tel Nos: (63-2) 8942584 and 8935705; Fax No: (63-2) 8939589; E-mail: publications@pids.gov.ph
Or visit our website at <http://www.pids.gov.ph>

A COMPREHENSIVE PHILIPPINE GOVERNMENT STRATEGY ON THE COMPETITIVENESS OF THE SERVICES SECTOR

Summary

DETERMINANTS OF COMPETITIVE ADVANTAGE	KEY ACTIONS
FACTOR CONDITIONS	
Education and training	Sustain international alignment initiatives.
ICT infrastructure	Accelerate development of ICT infrastructure nationwide.
Other infrastructure	Accelerate infrastructure convergence of tourism, transport, and public works.
Information	Improve statistics and research on service industries.
Intellectual property	Continue to strengthen intellectual property rights protection and enforcement.
Immigration	Facilitate mobility of foreign expertise and skill.
Regulatory environment	Practice good (high quality) regulation in all of government – at the national and local levels.
DEMAND CONDITIONS	
Standards and accreditation	Establish standards and rating system. Require third-party accreditation.
Consumer protection	Intensify consumer education.
National quality infrastructure	Establish the National Quality Infrastructure (NQI).
Government procurement	Utilize government procurement as a tool to drive innovation in services.
RELATED AND SUPPORTING INDUSTRIES	
Formation of clusters and networks	Support services clusters and networks. Provide incentives to nurture their growth.
FIRM STRATEGY, STRUCTURE AND RIVALRY	
Competition law and policy	Create a pro-competitive environment.
Foreign direct investment	Relax foreign ownership restrictions in service industries.
International trade	Scale up promotion of Philippine services and assistance to exporting and export-ready firms especially SMEs. Pursue greater market access for Philippine services.

Contents

The national vision for services	1
Determinants of competitive advantage.....	2
Factor conditions.....	3
Demand conditions	4
Related and supporting industries	6
Firm strategy, structure, and rivalry	6
Government policies to create competitive advantage in services.....	7
Factor conditions.....	9
Education	9
ICT Infrastructure	11
Other Infrastructure.....	11
Information	12
Intellectual Property Rights	13
Immigration.....	13
Regulatory environment.....	14
Demand conditions	16
Standards and Accreditation	16
Consumer protection	16
National Quality Infrastructure	17
Government procurement	17
Related and supporting industries	19
Formation of clusters and networks	19
Firm strategy, structure, and rivalry	20
Competition policy and law	20
Foreign Direct Investment	21
International trade	22
Conclusion	24
Bibliography	25
ANNEX A. TOP 10 IT ENABLED TRENDS FOR THE NEXT TEN YEARS	27
ANNEX B. GOVERNANCE OF SERVICE INDUSTRIES	30
ANNEX C. GATS ON REGULATION	35
ANNEX D. POLICY BASIS OF FOREIGN EQUITY RESTRICTION.....	36

List of tables

Table 1. National vision for services	1
Table 2. Why services are regulated	14
Table 3. Service industries with foreign equity restriction	22

A COMPREHENSIVE PHILIPPINE GOVERNMENT STRATEGY ON THE COMPETITIVENESS OF THE SERVICES SECTOR

“A nation without a favorable position in services will increasingly forfeit national income as well as benefits to the competitive position of other industries.”

– ‘The Competitive Advantage of Nations’ by Michael E. Porter

There is broad agreement that the Philippines should aim to have a globally competitive services sector. This paper applies Porter’s diamond model to identify appropriate government actions to achieve the national vision for services.

The national vision for services

“Globally competitive services” is the common vision articulated by various stakeholders as shown in the table below.

Table 1. National vision for services

Source	Vision
Philippine Development Plan 2011-2016	“A globally-competitive and innovative industry and services sector that contributes significantly to inclusive growth and employment generation.”
Comprehensive National Industrial Strategy (2014)	“Globally competitive services sector to create quality jobs, move up value chain and enable structural transformation.”
Philippine Services Coalition (2014)	“Globally competitive services sector to create quality jobs, move up value chain and enable structural transformation.”
Focus on trade in services.	

To promote global competitiveness and innovation, the Philippine Development Plan (PDP) 2011-2016 Midterm Update¹ focuses on improving the business climate, promoting an environment that increases productivity and innovative capacity, enforcing regulations that enhance consumer welfare and finally, expanding market access.

In line with the government policy to boost the manufacturing sector, the vision for services in the Comprehensive National Industry Strategy (CNIS) makes explicit the role of services in structural transformation. Through three main channels, namely: competition, innovation, and productivity (collectively called ‘the Framework’), the CNIS aims to (i) Increase investments in infrastructure services; (ii) Move up to high value added services in GVCs; and (iii) Increase use of services in

¹ National Economic and Development Authority, “Philippine Development Plan 2011-2016 Midterm Update,” (2014).

manufacturing.² The recently revived Philippine Services Coalition champions the same cause with a focus on trade.

Determinants of competitive advantage³

Porter provides a useful framework for identifying appropriate government actions to attain the vision. Before discussing the role of government, it is important to understand how competitive advantage in industries is achieved.

As Porter stressed, it is firms not nations that compete in industries. In the long run, firms succeed relative to their competitors if they possess competitive advantage that is sustainable. There are two basic types of competitive advantage: lower cost and differentiation. **Lower cost** is the ability of a firm to design, produce and market a comparable product more efficiently than its competitors. **Differentiation** is the ability to provide unique and superior value to the buyer in terms of product quality, special features, or after-sale service. Higher productivity results from either type of competitive advantage. The low-cost firm produces a given output with fewer inputs and the differentiated firm achieves higher revenues per unit. The source of competitive advantage of a firm and its choice of scope (which segment of the industry to serve) both determine the firm's positioning strategy within an industry.

The source of competitive advantage, either from lower cost or differentiation, develops from the way firms organize and perform discrete activities. These activities constitute the 'value chain' as all the activities contribute to buyer value. The value chain reflects the sources of cost advantage and/or the sources of differentiation. To gain competitive advantage over its rivals, a firm must either provide comparable buyer value but perform activities more efficiently (lower cost) or perform the activities in a unique way that creates greater buyer value and commands a premium price (differentiation).

Sustaining competitive advantage will depend on three conditions. First is the particular **source** of the advantage. Low labor costs or cheap raw materials are considered "lower-order" advantages because they can easily be duplicated by competitors. Proprietary process technology, product differentiation based on unique services, brand reputation are examples of "higher-order" advantages. The hierarchy implies that cost advantages are less sustainable than differentiation. The second condition for sustainability is the **number** of distinct sources of advantage a firm possesses. Firms with histories of sustained leadership tend to have many advantages throughout their value chain. The third determinant of sustainability and considered the most important is **constant improvement and upgrading**. Any advantage can be replicated sooner or later by competitors so in order to sustain competitive advantage a firm must be constantly innovating to create new advantages.

² Rafaelita M. Aldaba, "Strengthening Competitiveness, Facilitating Industrial Upgrading: Key elements & processes in crafting a strategic industry roadmap" (presentation, Philippine Services Coalition Services Industries Roadmap Training Workshop, SGV Hall, Makati City 20 August 2014).

³ Unless otherwise indicated, this chapter and sections in the next chapter draws from Michael E. Porter *The Competitive Advantage of Nations*. (New York: The Free Press 1990).

Why does a nation achieve international success in a particular industry? There are four attributes of the home nation in which firms compete that either promote or impede the creation of competitive advantage in particular industries. The ‘diamond’ is composed of the following:

Factor conditions – The nation’s position in the factors of production, such as skilled labor or infrastructure, necessary to compete in a given industry.

Demand conditions – The nature of the home demand for the industry’s product or service.

Related and supporting industries – The presence or absence in the nation of supplier industries and related industries that are internationally competitive.

Firm strategy, structure and rivalry – The conditions in the nation governing how companies are created, organized, and managed, and the nature of domestic rivalry.

Nations are most likely to succeed in industries or industry segments where the national diamond is the most favorable. It is possible to have competitive advantage based only on one or two determinants (e.g. industries involving little sophisticated technology) but this is not sustainable with global competition. Moreover, a nation’s success is achieved not in isolated industries but in *clusters* of industries linked through vertical and horizontal relationships.

The four attributes constitute a system (the ‘diamond’) and are interdependent. The weakest link constrains the development of competitive advantage and thus progress is needed on each determinant. The attributes and their application to service industries are discussed next.

Factor conditions

Factors of production are the inputs necessary to compete in an industry. It includes labor, land, natural resources, capital and infrastructure. Porter argues that the factors most important to competitive advantage in most industries are *not inherited* but are *created*. The stock of factors at any given time is less important than the rate at which they are created, upgraded, and made more specialized to particular industries. The rising world standards for factors mean that deriving competitive advantage from factors requires not just one-time investment but continual reinvestment to upgrade their quality. In this sense, the factor-creating mechanism in a nation is more important to competitive advantage than the current pool of production factors. Effective factor-creating mechanisms differ from country to country and industry to industry.

Porter presents two ways to distinguish factors of production – by **type** and by **specificity**. In terms of type, *basic* factors include natural resources, climate, location, unskilled and semi-skilled labor, and debt capital while *advanced* factors include modern digital communication infrastructure and highly educated personnel. In terms of specificity, *generalized* factors include highway system, a supply of debt capital, or pool of employees with general education who can be employed in a wide range of industries while *specialized* factors involve narrowly skilled personnel, infrastructure with specific properties, and knowledge bases in particular fields, for example. Government investment in factor creation usually focuses on more basic and generalized factors. Efforts by government to create advanced and specialized factors often fail unless they are closely linked to industry since they are more knowledgeable with market trends. Internationally successful national industries will need significant direct investment by firms, trade associations, and individuals in factor creation as well as close coupling of private and public investments.

The importance of factor conditions in service competition depends on the form of international competition in the particular service industry. Type 1 is when mobile buyers travel to a nation to have services performed, Type 2 is when firms from one nation provide services in other nations using domestically based personnel and facilities, and Type 3 is when a nation's firms provide services in other countries via foreign service locations, staffed with either expatriates or local nationals. Note that Porter's typology is analogous to the now commonly used GATS Modes of Supply where Type 1 would be Mode 2, Type 2 would be Mode 1 and Mode 4 (Contractual service suppliers and Independent Professionals), and Type 3 would Mode 3 and Mode 4 (Intra-Corporate Transferees).

According to Porter, factor conditions are usually important for success in Type 1 (e.g. tourism depends heavily on climate and geography; exports of education and health services depend on the training and skill of local personnel) and Type 2 are also sensitive to domestic factor conditions. For Type 3, success depends more on the techniques, technology, and service features that have been developed at home. Demand conditions and related and supporting industries prove in many services industries to have been decisive determinants for Type 3.

The stock of specialized, skilled professional and technical personnel is frequently vital in international service competition particularly in business services. A nation's language, the language skills of its citizens, and the ability to interact easily with many different cultures are also significant.

According to the IT-BPM Association of the Philippines, the country's success in exporting IT-BPM services can be attributed to, among other things, the educated talent pool (e.g. 3rd largest English-speaking country, Western-based legal and accounting curriculum and certification) and excellent infrastructure (e.g. reliable, redundant, low-cost telecommunication infrastructure). The Philippines is also endowed with natural advantages (e.g. geographic location; Inland sea, bay and deep seashore) which makes it an ideal location for maintenance, repair, and overhaul (MRO) services and as a logistics hub.

A study of the performance of several countries also confirms the importance of factor conditions.⁴ It finds that exports in a developing country are driven by the quality of service-specific infrastructure, endowments, and institutions:

- India and the Philippines excel in cross-border exports of skill intensive services.
- Business services (usually traded cross border) rely on telecommunications infrastructure and are sensitive to institutions that influence contract enforcement.
- Transport and travel services are intensive in the use of physical infrastructure and are also sensitive to institutions and border management.
- Mode 2 services exports such as travel, health tourism, and education services have benefitted from the quality of basic infrastructure.

Demand conditions

Demand conditions are considered by Porter as the single most powerful determinant of national competitive advantage in services. Home demand shapes the rate and character of improvement and

⁴ A. Goswami, A. Mattoo and S. Saez *Exporting services: a developing country perspective*. (Washington, D.C.: The World Bank, 2011).

innovation by a nation's firms. The *quality* of home demand is more important than the *quantity* in determining competitive advantage. Three broad attributes of home demand are significant:

1. Composition of home demand (or nature of buyer needs) – the composition of home demand explains why some nations are more fertile incubators of internationally transferable services than others. It shapes how firms perceive, interpret and respond to buyer needs. Three characteristics of the composition of home demand are particularly significant for achieving national competitive advantage:
 - Segment structure of demand – Some segments of the industry are more global than others. A nation's firms are likely to gain competitive advantage in global segments that represent a large or highly visible share of home demand but account for a less significant share in other nations. For example, the hilly terrain of Italy creates the need for extensive tunneling and bridging in road construction making Italian contractors successful in overseas projects of this nature.
 - Sophisticated and demanding buyers – The presence of sophisticated and demanding buyers is as, or more important to sustaining advantage as to creating it. Buyers' demands can be due to a number of reasons – regulatory standards, social norms, geography, etc. National passions also account for sophisticated and demanding requirements for certain products or services.
 - Anticipatory buyer needs – Stringent home needs benefit national competitive advantage only if they anticipate needs elsewhere. If the requirements are specific to the nation, a nation's firms do not gain advantage.
2. Size and pattern of growth of home demand – Provided that its composition is sophisticated and anticipates international needs, the size and pattern of growth of home demand can reinforce national advantage. Nations differ considerably in attributes such as household income, the extent of female participation in the workforce, the desire for convenience, and the propensity of firms to de-integrate services that affect the timing of service demand. Social and historical factors also play a role in the intensity of service demand. For example, differences in the local mix of industries and company strategies lead to substantial variation among nations in the demand for business services. The pattern of government involvement also shapes service demand. Nations differ in the range of services provided by the governments as opposed to private firms (e.g. health services and education). Also, government regulation directly influences the demand for some services, making national differences in regulation important. Pollution standards, for example, determine the need for hazardous waste disposal, cleanup services, and environmental testing services. Government policy may determine not only the amount but the timing and sophistication of demand for new services.
3. Mechanism by which a nation's domestic preferences are transmitted to foreign markets – Mobile or multinational local buyers can be an effective channel for gaining competitive advantage. If domestic clients move overseas then related services may follow. This is consistent with one of the findings of the World Bank that cross-border service exports may be encouraged by outward FDI.⁵ For example, newly internationalized Brazilian firms needed software capable of setting up and integrating systems, processing and storing data, etc. so they looked to Brazilian ICT companies as a first choice for those services. In financial services, bank internationalization has

⁵ Ibid.

been attributed to the "follow-the-client" hypothesis, according to which banks' cross-border expansion is a by-product of internationalization in manufacturing.⁶ Another mechanism is when domestic needs and desires get transmitted to or instilled in foreign buyers. This can happen for example with emigration through exports of movies and television programs which creates a base of foreign demand, or through tourism, which exposes foreigners to national tastes and norms. However, for these to translate to competitive advantage, home demand must be sophisticated and advanced.

Related and supporting industries

The third broad determinant of national advantage in an industry is the presence in the nation of supplier industries or related industries that are internationally competitive.

In the case of supplier industries, downstream industries benefit from cost-effective inputs. Moreover, competitive advantage emerges from close working relationships between world-class suppliers and the industry by facilitating the process of innovation and upgrading. An important supporting industry to many services is information technology.

The presence of internationally competitive industries that are related leads to new competitive industries. Industries are related when they can coordinate or share activities in the value chain or when their products are complementary (e.g. computers and application software). Sharing of activities can occur in technology development, manufacturing, distribution, marketing, or other service activities. According to Porter, the presence of internationally competitive industries in a nation has a triple-barreled benefit for national competitive advantage in related service industries by 1) providing sophisticated buyers at home, 2) creating a base of demand abroad, and 3) by pulling through linked services. Diversification by service firms illustrates this phenomenon (e.g. a leading international competitor in hotels expanding into airline catering and other food- and hospitality-related businesses; a company engaged in hospital cleaning services expanding to industrial laundry).

Firm strategy, structure, and rivalry

'Firm strategy, structure, and rivalry' is the fourth determinant of national competitive advantage discussed by Porter. It refers to the context in which firms are created, organized and managed as well as the nature of domestic rivalry.

Among nations, there are differences in the goals (company and individual), strategies, and ways of organizing firms in industries. In Germany for example, many senior executives have engineering and technical backgrounds and place strong emphasis on methodical product and process improvement while Italian companies most often compete by employing focus strategies avoiding standardized products. There is no single managerial system that is universally appropriate. National advantage results from a good match between the management practices and modes of organization vis-à-vis the sources of competitive advantage in a particular industry. Service firms in different nations enjoy some characteristic differences in organizational practices. In activities where trust, discretion and personalized attention, or complex negotiations among parties are essential (e.g. trading) Swiss firms do well where while American firms excel in consulting and advertising where systematic analytical techniques and rapid problem solving are important, respectively.

The way in which firms are managed and choose to compete is affected by national circumstances. Many factors are at play – attitude towards authority, norms of interpersonal interaction, attitudes of

⁶WTO Secretariat, "Background Note on Financial Services (S/C/W/312S/Fin/W/73)", (2010).

workers toward management and vice versa, social norms of individualistic or group behavior, and professional standards are some of the most important aspects. There are also different attitudes or orientation of firms toward competing globally. Pressure from domestic market saturation or local rivalry, international outlook (attitude toward travel and learning new languages) are relevant factors but government policy also plays a role in influencing the ease or difficulty of internationalization of domestic firms (e.g. controls on foreign exchange or on the movement of managerial personnel – domestic or foreign).

There are also sharp differences within and among nations in the goals set by firms and the motivations of individuals. Nations will succeed in industries where these goals and motivations are aligned with the sources of competitive advantage in an industry. Ownership structures, capital market conditions, and the nature of corporate governance influence competitive advantage because industries have different appetites for funds, different risk profiles, different investment time horizons, and different average rates of return. In terms of individual goals, the motivations of managers and employees can enhance or detract from success in particular industries. The reward system, the nation's tax structure, pay and promotional practices, are among the factors which affect individual motivations (e.g. attitude towards work, taking risks, upgrading or accumulating skills).

Lastly, there is strong association between vigorous domestic rivalry and the creation and persistence of competitive advantage. Domestic rivalry creates a fertile environment in which to grow world-class service firms. Competition in most service industries involves attention to detail, constant introduction of new service variations, and the need for high levels of responsiveness to buyers. In this sort of industry environment, a group of domestic rivals provides an essential ingredient to success.

Service industries tend to grow out of small, entrepreneurial start-ups rather than large-scale entries. Nations gain a particular advantage in services when starting a new firm is easy and accepted. Also relevant is the availability of second-stage financing to transform the start-up into a multi-unit enterprise (initial capital requirements in many services are modest). The service sector is one of the areas that benefits most from active markets for venture capital and equity financing.

The service sector tends to be characterized by many smaller companies and fragmented industry structures. There are many regulations that protect small businesses or influence small business activity. Porter notes that if these regulations retard the introduction of technology, delay or block the creation of new services, retard the consolidation of localized service industries into national ones, inhibit foreign competition, or mute domestic rivalry, then the possibility that the nation will achieve international competitive advantage in the affected service industries will be diminished. International success in services requires a local environment that exposes firms to international competition.

Government policies to create competitive advantage in services

As Porter argues, governments do not control competitive advantage; they can only influence it. Since it is firms and not nations that compete in industries the real role of government is in influencing the determinants of national competitive advantage. In essence, the proper role for government policy toward industry is to stimulate dynamism and upgrading. It is through dynamism and constant upgrading that leads to productivity growth and a higher standard of living. Thus, policies must be measured in terms of their effects on dynamism and sustained productivity growth.

To guide government policy toward industry, Porter provides a set of benchmarks against which to evaluate any government initiative. These ‘premises’ must guide government policy in order to enhance national competitive advantage.

Premises of the role of government toward industry:

1. ***Firms compete in industries, not nations.*** A nation’s firms themselves must ultimately create and sustain competitive advantage compared to rivals from other nations. Government should play a direct role only in those areas where firms are unable to act (such as trade policy) or where externalities cause firms to underinvest (e.g. general education and some types of R&D).
2. ***A nation’s competitive advantage in industry is relative.*** Standards for competitive advantage are set by firms in other nations and the skill and motivation of workers elsewhere define what is required at home. International standards set the minimum policy targets if a nation is to upgrade its economy. Incremental improvement over one’s own historical performance is not sufficient.
3. ***Dynamism leads to competitive advantage, not short-term cost advantage.*** National competitive advantage grows out of the capacity of a nation’s firms to improve and innovate relentlessly. Policies that convey static, short-term cost advantages (to avoid wasteful duplication, for example) but that unconsciously undermine innovation and dynamism represent the most common and profound error in government policy toward industry.
4. ***National economic prosperity demands that industry upgrade.*** Competitive advantage based on such sources as abundant natural resources, low cost labor, a devalued currency is often associated with lower productivity and is unstable. The higher order advantages are those that come from rising level of technology or a stream of new models. Government policy must be concerned with laying the foundation for upgrading.
5. ***A nation’s competitive advantage in industries is often geographically concentrated.*** Geographic concentration is important to the creation of competitive advantage, and it strengthens the forces that upgrade and sustain advantage. While the national government has a role in upgrading industry, the role of local government is potentially as great or greater.
6. ***Competitive advantage in a nation’s industries is created over a decade or more, not over three- or four-year business cycles.*** Competitive advantage is created through a long process which requires upgrading of human skills, investing in products, building clusters, and penetrating foreign markets. A number of the most beneficial policies within the purview of government, such as factor creation, competition policy, and upgrading demand quality take time to develop. Many desirable policies also carry short-term negatives.
7. ***Nations gain advantage because of differences, not similarities.*** Each nation has a unique array of competitive industries, and no nation is, or can be competitive in everything. The task for any government is to understand the underlying principles of national advantage and apply them to the nation’s particular circumstances. Policies that work in one country may not work in another.
8. ***Many categorizations used to distinguish or prioritize industries have little relevance.*** There is temptation to classify a nation’s industrial base into categories and prioritize. Government policy must provide an environment in which any industry can prosper if firms are innovative and achieve high productivity. A diversified economy has room for a range of industries that can

provide employment to human resources with different skills and aspirations. However, industries and technologies that affect the potential productivity of many industries deserve special attention.

9. ***The process of sustaining advantage may be intensely uncomfortable for firms and those who work in them.*** Sustaining advantage implies constant pressure and challenges, requires constant improvement, and demands sustained investment. Many firms would prefer more stability and an environment in which prosperity is guaranteed. However, this attitude will hurt industry in the long run. Postponing change will only work if the domestic market continues to be protected but this harms the nation's consumers as well as downstream users.

To create and sustain competitive advantage, government policy can influence each determinant of the diamond. Applying Porter's model to Philippine services, key initiatives of the government are presented below. Policy areas which need to be given special attention are also examined.

Factor conditions

As discussed previously, the rate at which the quantity and especially the quality of factors improve is more important than the stock of factors at any given time. To achieve high productivity, firms must have access to an improving pool of advanced and specialized human resources, scientific knowledge, economic information, infrastructure, and other factors of production.

Education

Republic Act 10533 or the Enhanced Basic Education Act of 2013 (K to 12) was a significant policy reform that will contribute to enhancing the country's competitive advantage in services. The K to 12 Program covers Kindergarten and 12 years of basic education to provide sufficient time for mastery of concepts and skills, develop lifelong learners, and prepare graduates for tertiary education, middle-level skills development, employment, and entrepreneurship. A 12-year program for basic education is the standard for recognition of students and/or professionals abroad (i.e. the Bologna Process for the EU and the Washington Accord for the US). Before K to 12, the Philippines was the only country in Asia and one of only three countries worldwide (the other two being Angola and Djibouti) with a 10-year pre-university cycle.⁷ Other initiatives related to the international alignment of education include:⁸

1. National Qualifications Framework and Regional Reference Qualifications Framework
 - Institutionalization of the Philippine Qualifications Framework (Executive Order No. 83 – 2012 and Implementing Rules and Regulations)

The Philippine Qualifications Framework (PQF) covers basic education, technical / vocational education and training, and higher education. It also applies to all institutions and systems which provide trainings, specializations, skills and competencies, professional experience or through life-long learning. The PQF establishes national standards and levels for outcomes of education and training, specializations, skills and competencies; provides

⁷ The K to 12 Basic Education Program, accessed November 2014, <http://www.gov.ph/k-12/#FAQs>.

⁸ Maria Cynthia Rose Banzon Bautista, "International alignment of education" (presentation, 3rd Philippine Professional Summit, Manila, October 16-17, 2014) and Jose Y. Cueto, Jr., "The Philippine Qualifications Framework (PQF) in relation to International Qualifications Frameworks" (presentation, 3rd Philippine Professional Summit, Manila, October 16-17, 2014).

national regulatory and quality assurance arrangements for education and training; supports the development and maintenance of pathways and equivalencies which provide access to qualifications; supports individual lifelong learning goals by providing the basis for individuals to progress through education and training, and aligns the PQF with international qualifications framework to support the international mobility of learners and workers through increased recognition of the value and comparability of Philippine qualifications.

- ASEAN Qualifications Referencing Framework (AQR) - functions as a device to enable comparisons of qualifications of skilled labor across ASEAN Member States. Each country is expected to start the referencing process by 2016 and at the latest by 2018.⁹

2. Mutual Recognition Arrangements

The goal of the MRAs is to facilitate the flow of foreign professionals taking into account relevant domestic regulations and market demand conditions. In ASEAN, there are different models of MRAs:¹⁰

- MRAs on engineering and architecture provide recognition for registered ASEAN professionals.
- MRAs on Accountancy Services and Surveying lay down the broad principles and framework for the negotiating bilateral or multilateral MRAs.
- MRAs on medical practitioners and dental practitioners are based on bilateral registration processes.

For the Architecture and Engineering MRAs, the Philippines has set up the respective Monitoring Committee and developed the Assessment Statements. As of September 2014, 40 Filipino Architects have been registered as an ASEAN Architect (AA) by the ASEAN Architects Council (AAC)¹¹ and 38 Filipino Engineers have been registered as ASEAN Chartered Professional Engineers (ACPE) by the ASEAN Chartered Professional Engineer Coordinating Committee (ACPECC).¹²

3. Quality Assurance

- Commission on Higher Education (CHED) has produced CHED Memorandum Order (CMO) 46 Series of 2012 “The Policy Standard to Enhance Quality Assurance (QA) in Philippine Higher Education through Outcomes-based and Typology-based QA” and Implementing Guidelines
- Philippine Regulation Commission (PRC) issued PRC Resolution No. 2013-774 on “Revised Guidelines on the Continuing Professional Development (CPD) Program for All Registered and Licensed Professionals”

⁹ Association of Southeast Asian Nations, “ASEAN Enhances Mobility of Skilled Labour through Qualifications Reference Framework,” last modified October 13, 2014, <http://www.asean.org/news/asean-secretariat-news/item/asean-enhances-mobility-of-skilled-labour-through-qualifications-reference-framework>.

¹⁰ Tan Tai Hiong, "ASEAN Integration in Trade in Services: Development, Challenges and Way Forward" (presentation, Conference on Trade and Investment in Services, Hong Kong, ADBI-PECC, June 1-3, 2011).

¹¹ Rolando L. Cordero (Chairman, Board of Architecture, Professional Regulation Commission), interview by Ramonette B. Serafica, October 3, 2014.

¹² Leandro Conti (Chairman, Board Mechanical of Engineering, Professional Regulation Commission), interview by Ramonette B. Serafica, October 30, 2014.

A bill has been filed in the Senate (15th Congress Senate Bill No. 3084, 16th Congress Senate Bill No. 1005 entitled the “Continuing Professional Education Act”) to promote and upgrade the practice of professions. The proposal seeks to institutionalize and strengthen the existing Continuing Professional Education (CPE) of the PRC and also make CPE a mandatory requirement in the renewal of professional license and accreditation system for the practice of professions. Enactment of the law is seen as crucial to the global competitiveness of Filipino professionals.¹³

Upgrading of education and training is a significant element of creating and sustaining competitive advantage in services. Although difficulties may be experienced with the implementation of various international alignment initiatives, the government must persevere in its efforts in order to achieve competitive advantage in services.

ICT Infrastructure

The Philippine Digital Strategy (PDS) for 2011 to 2016 was developed with four strategic thrusts: Transparent Government and Efficient Service; Internet Opportunities for All People; Investing in People: Digital Literacy for All; and ICT Industry and Business Innovation for National Development. In developing the strategy back in 2011, it acknowledged the following internal weaknesses of the Philippine ICT sector: Concentrated telecom market, limited competition; Low broadband penetration & limited service provision throughout country; Low government spending on Education in the past; Insufficient ICT training and skills; Drop in e-Government ranking as well as lack of coordinated, cross-department e-Government services; Low ranking in ease of doing business; Limited local content available; Lack of high-level ICT leaders in government; Lack of standards on interoperability and ICT resource sharing; and Lack of transparency in government.

A review of the strengths and weaknesses will be conducted when a new strategy is developed for the next phase. Based on the Philippines’ international ranking, significant challenges remain. In the International Telecommunication Union’ ICT Development Index (IDI), which ranks countries’ performance with regard to ICT infrastructure and uptake, there was no change in the Philippines’ ranking from 2011 to 2012 at 98th out of 157 countries.¹⁴ In the World Economic Forum’s Networked Readiness Index, the Philippines is ranked 78th out of 148 countries for 2014 although this is a significant improvement by eight places from 2013.¹⁵

Since 2011, new opportunities with digital technology have emerged which could be a source of competitive advantage for firms especially in terms of product differentiation. Most of the sectors that are affected are services including government services (See Annex A). Ensuring that the ICT infrastructure required is available to enable Philippine service industries as well as consumers to take advantage of IT-enabled business trends must be a focus of the strategy of the government.

Other Infrastructure

The importance of roads and ports for goods trade is well known. The same infrastructure is also critical for services trade. As discussed earlier, infrastructure needs tend to be service-specific¹⁶.

¹³ Carmencita Matias Abaquin, (Chairman, Board Nursing, Professional Regulation Commission) interview by Ramonette B. Serafica, October 24, 2014.

¹⁴ International Telecommunication Union, “Measuring Information Society 2013” (2013).

¹⁵ WEF and INSEAD, “The Global Information Technology Report 2014”, (2014).

¹⁶ A. Goswami, A. Mattoo and S. Saez, *Exporting services: a developing country perspective*

Transport and travel services are intensive in the use of physical infrastructure and are also sensitive to institutions and border management. Trade through consumption abroad for health tourism and education services are affected by the quality of basic infrastructure.

Weak spots of Philippine medical tourism for example, include the airport infrastructure deficit, the few direct flights to the Philippines, ground transport infrastructure as evidenced by severe traffic congestion, and the state of environmental hygiene.¹⁷ Increased investment in infrastructure is necessary to improve the competitive advantage of the country in services trade.

The National Tourism Development Plan identifies several programs between the Department of Tourism (DOT) and other departments, especially the Department of Public Works and Highways (DPWH) in the provision of access roads to tourist destinations and the Department of Transport and Communications (DOTC) in upgrading key airports throughout the Philippines. According to its 2013 Annual Report, the DOT signed a Memorandum of Agreement with the Department and DPWH to establish a convergence program on Enhancing Tourism Access. In 2013, the convergence program has funded 598 km of tourism road networks amounting to Php12 Billion.

Information

As Porter stressed, the amount and quality of information available in a nation is important in modern international competition. Information about markets, technology and competition reveal threats and opportunities that can urge firms to innovate. Signaling, in which government highlights information and issues of importance to firms, is considered by Porter as one of the most important roles of government. He notes the success of MITI of Japan which conducts countless study groups and industry committees composed of experts from academe, industry and government. The reports are disseminated widely and are also covered in the press.

Statistics on services are notoriously deficient. For trade data, for example, the only available information are from the Balance of Payments (BOP) but this has serious limitations (e.g. not all sectors are distinctly identified, it does not distinguish by mode of supply, and bilateral data not available). The BOP also does not capture the most significant mode of supply in services which is commercial presence.

Developing firm level strategies and industry roadmaps is challenging due to the lack of data reflecting how service industries are actually organized (this problem has been cited for example in medical tourism and in animation industries).

Good data and statistics are also needed to build the evidence base for government policy toward industry. There is a need to know (and show) how much trade is already going on in various service industries (e.g. by mode of delivery, type of clients and geographic markets). Moreover, it is important to promote their contribution to the economy. For example, the recently launched report commissioned by IPO Phil showing the contribution of copyright-based industries to the economy at 7.34% and 14.14% of GDP and employment, respectively will be very useful to both government and industry in understanding the economic and market opportunities of the industry.¹⁸

¹⁷ Oscar F. Picazo, "Medical Tourism in the Philippines: Market Profile, Benchmarking Exercise, and S.W.O.T. Analysis," *Discussion Paper Series No. 2013-45*, Philippine Institute for Development Studies (2013).

¹⁸ Intellectual Property Office of the Philippines, <http://www.ipophil.gov.ph/index.php/20-what-s-new/277-copyright-based-industries-contribute-7-34-to-philippine-gdp>.

Intellectual Property Rights

A significant milestone that signals the strength of the country's IPR regime was the removal of Philippines from the USTR Watch List in the 2014 Special 301 Report. It was first placed on the Watch List in 1989. According to the report, this decision was based on the collective weight of a series of significant legislative reforms, a move toward more effective civil and administrative enforcement efforts, sustained and constructive engagement with the U.S. Government and members of the private sector by the IP authorities, and commitments to continue to address remaining concerns. Significant improvements in IP protection has economy-wide implications (e.g. encouraging innovation) and is especially relevant to attracting investment and advancing trade in the retail sector and in the creative industries (including knowledge-based services).

RA 10372 enacted in 2013 introduced amendments to the Intellectual Property Code of the Philippines (RA 8293), which among other things institutionalized copyright protection by creating a Bureau of Copyright and Other Related Rights in the Intellectual Property Office (IPO Phil). The Rules and Guidelines for the Accreditation of Collective Management Organizations (CMOs) were also established in 2013 which will benefit owners of copyrights.

The government must sustain efforts to strengthen the intellectual property regime of the country to further encourage and reward the creation of original works in the country.

Immigration

Allowing the temporary movement of foreign service suppliers in the country will help augment available skills and build domestic capacities. It will also complement the movement of foreign capital into the country.

RA 8981 or "PRC Modernization Act of 2000" requires foreign professionals who intend to practice a regulated profession in the Philippines to secure a Special Temporary Permit (STP) to practice from the Professional Regulation Commission. The implementing guidelines are set out in PRC Resolution No. 2012-668 "Guidelines in Implementing Section 7, paragraphs (j), (l) and Section 16 of RA 8981, otherwise known as the PRC Modernization Act of 2000, the Pertinent Provisions of the Various Professional Regulatory Laws, the General Agreement on Trade in Services, and other International Agreements on the Practice of Foreign Professionals in the Philippines." In 2013, a total of 595 STPs were issued while in 2014 (as of September 23) 545 STPs have been issued. The period of validity of the STPs vary from less than a week to one year.

Article 40 ('Employment Permit of Non-Resident Aliens') of the Labor Code requires any foreigner "seeking admission to the Philippines for employment purposes" to obtain an employment permit. The Department of Labor and Employment (DOLE) has a mechanism in place for securing an Alien Employment Permit (AEP) and in 2012 issued the Revised Manual of Operations of Employment Permits which reduces the processing time and has simplified requirements. Although it maintains the Labor Market Test (as prescribed by the Labor Code) whereby a "determination of the non-availability of a person in the Philippines who is competent, able and willing at the time of application to perform the services for which the alien is desired" is conducted, the manual seeks to set up a standard and unified guide to program implementers.

Aside from the STP and AEP, a working visa (specifically, a Pre-arranged employee visa) is required from the Bureau of Immigration (BI) for foreign nationals who "engage in any lawful occupation, whether for wages or salary or other forms of compensation". For those who "shall engage in gainful

employment for three to six months” the BI issues Special Work Permits (SWP).¹⁹ A provisional work permit is issued to a foreign national “during the pendency of an application for pre-arranged employment visa” and this requires an AEP (a photocopy of the AEP or the official receipt of the application for an AEP). A special work permit is also available for athletes and artists, entertainers, and performers whose engagement shall be less than six months. Religious preachers are also included. Instead of an AEP, endorsement from relevant local associations (e.g. ‘Asosasyon ng Musikong Pilipino’ for musicians) is a requirement for application. In 2014, the BI has produced consolidated application forms (e.g. one general application form for non-immigrant visa, special work permit and provisional work permit).

While the necessary mechanisms are in place and each agency endeavors to streamline its requirements, there must be continuous efforts to facilitate the mobility of foreign workers. Reducing regulatory burden across the board is discussed next.

Regulatory environment

Although not mentioned by Porter as part of Factor Conditions, the quality of regulatory environment is included here because the services sector is highly regulated and service suppliers have to deal with or are affected by a number of government agencies. Thus, the regulatory environment can add to the cost of doing business and can be a source of competitive advantage or disadvantage.

Many different government agencies are involved in the services sector – formulating policy, setting and enforcing regulation, implementing programs and in some cases supplying the service as well. Services tend to be highly regulated due to a number of factors or objectives. See Table below.

Table 2. Why services are regulated

Rationale	Example of sector affected
Asymmetric Information (adverse selection, moral hazard)	Professional services Financial services
Monopolies; Oligopolies	Infrastructure services (network industries – telecommunications, transport and, energy)
Externalities/Spillovers	Transportation services
Equity/Universal service	Basic education Primary healthcare Basic telecommunications, Internet access

Annex B shows the various agencies that govern service industries. Given the different government bodies with their own set of requirements and procedures, the quality of regulations will either help or hinder the creation of a business-enabling environment. Features of high-quality regulation include²⁰:

Effectiveness and efficiency - Effective regulation is that which achieves its objective(s). Regulation is efficient if it achieves the objectives of regulation at the lowest possible cost and at a cost that is also smaller than the benefit of achieving the objective.

¹⁹ To eliminate duplication in the requirements in the issuance of work permits, there was an agreement between BI and DOLE in 2005 for the BI to issue Special Work Permits (SWP) for foreign nationals who will work in the Philippines for a period not exceeding six months (BI Memorandum Order-AFFJr. No. 05-009). This is not extendable and the foreign national must apply for an AEP with DOLE if there is an extension.

²⁰ Investment Climate Advisory Services World Bank Group, “Making it work: ‘RIA light’ for developing countries” (2010). There are other broadly similar principles of good regulation.

Transparency and accountability - Transparency in regulation-making means that interested parties have the opportunity to provide their views to government via an open consultation process while the regulation is being developed. Transparency in regulatory implementation also means that people who must comply with regulation have access to the regulations and can readily understand their requirements. Accountability means that regulatory policy development, administration and enforcement are subject to public scrutiny, so that regulators are accountable for their actions.

Proportionality - The principle of proportionality means regulation should be proportionate and targeted at addressing the specific risks and problems that have been identified as requiring government action.

Consistency - Consistency requires that regulators take account of related areas of regulation and ensure similar treatment. It also focuses on the avoidance of regulatory duplication and overlap.

In 2013, the National Economic and Development Agency (NEDA) created the Governance Staff (GovS) with two divisions to provide greater focus on emerging governance concerns that are critical to achieve socio-economic development. One of the tasks of the Administrative Governance Division under GovS is to “Evaluate and review proposed programs and projects in promoting meritocracy in the civil service, improving service delivery by cutting red tape, streamlining of regulations and providing a competitive investment/business climate in close consultation with sectoral agencies concerned.” NEDA plans to set up within the next two years a Regulatory Impact Analysis (RIA) office which will institutionalize the practice of RIA in other agencies. To date, RIAs have been piloted in DOLE and DOT with the assistance of ADB. A RIA was conducted by DOLE on the issue of employment of foreign national in the Philippines.²¹ In DOT, RIA was used in implementing the accommodation standards for hotels and in the designation of tourism enterprise zones.²² As the central economic agency of government, NEDA is well placed to champion widespread adoption of RIAs which involve a systematic and consultative approach to cost-benefit analysis of proposed (new) or changed (existing) regulations.

In the case of services there is considerable benefit in undertaking joint RIAs. Although each agency may be mindful of its own requirements and endeavor to streamline, from the perspective of the regulated entity the costs of complying with regulations add up. An individual or firm will need to deal with different agencies and submit various requirements in the course of supplying (or consuming) a service. Thus, the Governance Office may also wish to undertake a clustered approach to regulatory reform by looking at related barriers (e.g., those dealing with the movement of people would be one cluster and those dealing with the movement of goods or logistics would be another cluster) so that the relevant agencies can collectively work towards improving the regulatory climate in services. Aside from removing duplication, this will also ensure that there are no gaps or weak links in the regulatory system which could be exploited by unscrupulous individuals or firms.

NEDA and the Department of Interior and Local Government (DILG) should also champion the improvement in the quality of regulation at the local level. Under the Local Government Code of 1991 local governments can impose additional regulations that affect the operations of services

²¹ Jose Sandoval (Chief, Employment Service and Program Monitoring Division), interview by Ramonette B. Serafica, October 14, 2014.

²² “It’s more fun in the Philippines” *Department of Tourism*, August 03, 2012, accessed November 29, 2014, <http://www.tourism.gov.ph/Pages/20120806DOTworkingtomakedoingbusinessMoreFun.aspx>.

suppliers which then affect the efficient supply of services. For example, they can impose regulations related to land use zoning, hours of operation, the disposal of wastes, and road access.

Finally, a related assessment that should be done by the Governance Staff is an audit of the regulations to ensure that the country is in compliance with its obligations in trade agreements. While the right to regulate is upheld, there are certain obligations with respect to how services and service suppliers are regulated. This is to ensure that the benefits of the trade agreement are not diminished or negated by high transactions costs from opaque or burdensome regulations. See for example Annex C which presents briefly some of the relevant provisions in the General Agreement on Trade in Services (GATS).²³

Demand conditions

As mentioned previously, Porter considers demand conditions as the single most powerful determinant of national competitive advantage in services. Government traditionally focuses on influencing the quantity of domestic demand through government spending. However, Porter stresses that what matters for competitive advantage is the *quality of demand*. The principal aim of demand-side policies should be to improve the quality of domestic demand because it plays a central role in the process of upgrading.

Standards and Accreditation

The Tourism Act of 2009 mandates the Department of Tourism (DOT) to formulate rules and regulations governing the operation and activities of all tourism enterprises, including a national standard for licensing, accreditation and classification of tourism enterprises, prescribing minimum levels of operating quality and efficiency for their operation in accordance with recognized international standards. The Office of Tourism Standards and Regulations of the DOT is also required to develop and enforce a comprehensive system of mandatory accreditation for primary tourism enterprises, and voluntary accreditation for secondary tourism enterprises, based on prescribed guidelines and standards.

The standards and star rating system for classifying hotels, resorts, and apartment hotels were introduced with the issuance of DOT Memorandum Circular 2012-02 and an accreditation system is now in place. Benefits of accreditation include, among others, inclusion of the company profile in DOT websites and database, subsidized training, and endorsement of tourism infrastructure projects. There are now more than 2,000 accredited establishments all over the country, which are not limited to hotels, resorts, and apartment hotels but also include ecotour operators, tertiary hospitals, museums, restaurants, M.I.C.E. facilities, and others.²⁴

The initiative of the DOT should continue and be more widely adopted across all service industries.

Consumer protection

As stated in R.A. No. 7394 or the Consumer Act of the Philippines (1992) it is the policy of the State to protect the interests of the consumer, promote his general welfare and to establish standards of conduct for business and industry. Specific objectives of the Consumer Act include: (a) protection against hazards to health and safety; (b) protection against deceptive, unfair and unconscionable sales

²³ See Rudolf Adlung and Aaditya Mattoo, "The 'GATS' in A Handbook of International Trade in Services" by Aaditya Mattoo, N Stern, & Zanini, (2008):48-83 for a comprehensive explanation of GATS.

²⁴ "Accreditationonline", *Department of Tourism*, accessed November 21, 2014, <http://accreditationonline.tourism.gov.ph/Pages/Portal/PortalListEstablishments.aspx>.

acts and practices; (c) provision of information and education to facilitate sound choice and the proper exercise of rights by the consumer; (d) provision of adequate rights and means of redress; and (e) involvement of consumer representatives in the formulation of social and economic policies.

The Consumer Protection Group (CPG) of the DTI is in charge of the enforcing laws to protect consumers, consumer education (e.g. franchising scams, pyramid scams or Ponzi schemes), and formation of consumer groups. An Air Passenger Bill of Rights was introduced in 2012 based on a joint DOTC-DTI Administrative Order No. 1 Series 2012. More recently, RA No. 10642 or the Philippine Lemon Law (2014) was enacted to strengthen consumer protection in relation to the purchase of brand new motor vehicles.

National Quality Infrastructure

According to the Philippine Development Plan, a study conducted in September-December 2011 showed that elements of the national quality infrastructure (i.e., standards, metrology, accreditation, certification and testing) are fragmented and, for the most part, inadequate. Thus, the government shall set up a National Quality Infrastructure to integrate and coordinate series of activities involving metrology, standardization, testing, and accreditation and certification²⁵.

A draft bill on ‘National Quality Infrastructure Act’ has recently been prepared with the following objectives²⁶.

- a. To provide direction, order and articulate the participation of the Public and Private sector in the conformity assessment activities and promotion of quality.
- b. To promote the availability and use of the conformity assessment mechanism as a mean to show proof of compliance with voluntary and mandatory requirements.
- c. To promote the adoption of quality management practices and to provide the necessary training to those in charge of the production and commercialization of goods and services in the country.
- d. Enhance the quality of the goods available in the domestic market as well as those destined for export.
- e. Promote a culture of quality in all levels of society, both at individual and organizational level.

In addition to the draft NQI legislation, a working group under the National Competitiveness Council is involved in developing the NQI Strategy, preparing road maps for various industries and the finalizing the vision of NQI for country.²⁷

Government procurement

As Porter argues, the most direct effect of government on demand conditions is through its role as a buyer of many goods and services. In the Philippines, government (i.e. Public Administration and

²⁵ National Economic and Development Authority, “Philippine Development Plan 2011-2016 Midterm Update”, (2014).

²⁶ Available at *National Competitive Council Philippines*, www.competitive.org.ph.

²⁷ Nova Z. Navo, “National Quality Infrastructure: Key to PH industries’ competitiveness”, *University of the Philippines Institute for Small-Scale Industries*, September 23, 2014, http://entrepreneurship.org.ph/index.php?option=com_content&view=article&id=556:national-quality-infrastructure-key-to-philippine-industries-competitiveness&catid=16:infomercial.

Defense industry) is the most intensive user of services – 90 percent of intermediate inputs used by government are services. Moreover, it buys the most number of different types of services (See Box).

**BOUGHT-IN SERVICES BY THE PUBLIC ADMINISTRATION AND DEFENSE INDUSTRY
(2006)**

Agricultural, Forestry and Fishing Activities and Services; Publishing; Printing and service activities related to printing; Recycling; Bus line operation; Jeepney and other land transport services; Railway transport; Public utility cars and taxicab operation; Tourist buses and cars including chartered and rent-a-car; Road freight transport; Sea and coastal water transport; Inland water transport (including renting of ship with operator) and other water transport services; Air transport; Supporting services to transport; Storage and warehousing; Tour and travel agencies and tour operators; tourist assistance activities, n.e.c.; Activities of other transport agencies (including custom brokerage, n.e.c); Postal and courier activities; Telephone service includes telegraphs; Wireless telecommunications; Telecommunication services, n.e.c; Wholesale and retail trade; Repairs of motor vehicles, motorcycles, personal and household goods; Banking Institutions; Investment, financing and other non-banking services except pawnshops; Life insurance; Non-life and other insurance activities; Activities auxiliary to financial intermediation; Real Estate Activities; Renting of Machinery and Equipment Without Operator; Hardware consultancy; Software consultancy and supply; Maintenance and repair of office accounting and computing machinery; Other computer and related activities; Research and Development; Call center activities; Legal activities; Accounting, bookkeeping and auditing activities; tax consultancy; Market research and public opinion polling; Business and management consultancy activities; Architectural, engineering and other technical activities; Advertising; Labor recruitment and provision of personnel; Investigation and security activities; Miscellaneous business activities, n.e.c; Medical, dental and other health activities; Social Work Activities; Hotels and motels; Other accommodation services; Restaurants, bars, canteens and other eating and drinking places; Motion picture and video production and distribution; Motion picture audio and video projection; Radio and television activities; Other Recreational, Cultural and Sporting Activities; and Sewage and Refuse Disposal Sanitation and Similar Activities.

Compiled from NSCB 2006 Input-Output Tables (240 sectors)

The potential for using public procurement as an instrument for innovation is considerable. Studies indicate that procurement policy has been more powerful than R&D subsidies in stimulating innovation. There are three main ways by which innovation could be stimulated.²⁸

1. When government purchasers specifically look for innovative or alternative solutions to meet their needs and thus enhance public service delivery. Innovative solutions can be promoted by using clear and robust output specifications and by setting functional or performance criteria, thereby leaving tendering companies room to propose solutions. Another way to encourage innovative solutions is to hold project-based competition and design contests.
2. When public entities procure for goods or services for which R&D still needs to be done. The objective of *Precommercial Procurement* or *Technology Procurement* is to create innovative solutions in areas for which solutions are not currently available. This requires the contracting authority to be aware of its long-term needs and the skills to conduct a development process that involves several possible suppliers. Technological innovations such as the Internet Protocol or the Global Positioning System (GPS) were developed in this way.

²⁸ Jakob Edler and Luke Georghiou, "Public Procurement and Innovation: Resurrecting the Demand Side" *Research Policy*, no. 36 (2007): 949-963 and World Bank, *Innovation Policy: A Guide for Developing Countries*, (Washington, DC: World Bank, 2010).

3. When the government acts as launch customer for goods intended to be diffused more widely. *Catalytic Procurement* is conducted on behalf of end users other than the public authority. An example would be programs in the energy sector which aim to accelerate the diffusion of energy-efficient technologies (among households) by aggregating demand and initiating a technology procurement process.

Porter adds that for public procurement to be a positive force for upgrading competitive advantage, government must ensure a strong element of competition, set stringent specification and sophisticated product varieties, provide early demand for advance new products or services, make the procurement process easier for innovation to occur, and anticipate international needs rather than consider only the nation's idiosyncratic needs.

Given its potential, the government should utilize public procurement as one way to drive demand for innovative services.

Related and supporting industries

Services depend on other services. Business and professional services, financial services, insurance services, real estate services are examples of services that are used as intermediate inputs for production by other service firms. Distribution services, transport services, and communications are consumed by firms as well to move goods, information, and people. Services also rely on equipment or machines and infrastructure as discussed previously. To create competitive advantage in service industries the ecosystem of related and supporting industries must also be competitive.

Formation of clusters and networks

As mentioned previously, a nation's success is achieved not in isolated industries but in *clusters* of industries linked through vertical and horizontal relationships. The presence of globally competitive buyer, supplier, and related industries generates self-reinforcing benefits for upgrading competitive advantage. Although clusters often emerge and begin to grow naturally, Porter stressed that once a cluster begins to form, government policy has an important role in nurturing and reinforcing clusters. It is also possible for governments to create new clusters but these are most effective if they are built around a concentration of specialized expertise (e.g. university department or group of sophisticated hospitals). He adds that industrial zones that place no restrictions on the types of locators will offer limited benefits. In general however, the chances of success is higher if government contributes to reinforcing an existing or nascent industry cluster than in trying to promote an entirely new one since the presence of an established cluster signals the presence of some favorable determinants of competitive advantage.

Evidence in other countries show that both employment growth and productivity are higher in clusters than elsewhere. Firms that are part of industrial districts also tend to have rates of return to investment and equity that are higher by 2 percent and 4 percent higher, respectively compared to isolated firms. They are also more innovative.²⁹

In the Philippines, the National Industry Cluster Capacity Enhancement Project (NICCEP) is a project of the Department of Trade and Industry (DTI) that is funded with the assistance of Japan International Cooperation Agency (JICA). The service industries included in NICCEP are Tourism, ICT, and Health & Wellness. These are being piloted in the following regions:

- Region 4 A – ICT

²⁹ World Bank, *Innovation Policy: A Guide for Developing Countries*

- Region 4 B – tourism
- National Capital Region - health and wellness
- Regions 6, 7 and 8 – ICT, tourism and, health and wellness
- Region 11 – tourism and ICT

The pilot industry clusters are supported by the respective Regional Development Councils (RDCs) for development and promotion.³⁰

Next Wave Cities is a Philippine-specific term that identifies ICT hubs beyond Manila, based on criteria such as worker supply, telecom infrastructure and other factors necessary to sustain the BPO industry³¹. The IT & Business Process Association of the Philippines (IBPAP) and the Information and Communications Technology Office (ICTO) of the Department of Science and Technology (DOST) identify the list of ‘Next Wave Cities’.

Another way to support innovation in industry is through *networks*.³² Unlike clusters, which do not require membership in an association or a collective entity, members in networks work in cooperation, though not necessarily in the same place or linked by some type of agreements. Networks can be bound by formal agreements (“hard” networks) or have more flexible internal relationships (“soft” networks). Delivering business services (e.g. R&D and joint marketing) through networks is acknowledged as an efficient way to encourage innovation. Although cooperation is favored by geographical proximity, institutional coordination, and physical opportunities (shared space and facilities), the scope of possible links have been broadened by international communication. Moreover, networking is increasingly understood in a wider sense, that is, in the context of productive chains that include small firms, large companies, and multinationals. Increased participation in networks especially for SMEs will help integrate them into Global Value Chains (GVCs).

Government policy to create competitive advantage in services should include providing incentives to nurture the growth of services clusters and networks. Design of specific assistance to support clusters and networks will need input from industry as value chains differ across services.

Firm strategy, structure, and rivalry

There are many factors that affect how firms are created, managed, and how they compete. Policies that focus on creating a level playing field and sustaining competitive advantage by having a global approach are the focus of this section.

Competition policy and law

As Porter stressed, few roles of government are more crucial to the upgrading of an economy than ensuring vigorous domestic rivalry. In the absence of competition, a dominant domestic firm will rely on local factor costs instead of upgrading competitive advantage. He adds that a strong antitrust policy, especially in the area of horizontal mergers, alliances, and collusive behavior, is necessary to the rate of upgrading in an economy.

The interaction between services and competition policy is especially significant. In key markets for services relatively few firms dominate. The state think tank, the Philippine Institute for Development

³⁰ NICCEP Accomplishment Report CY 2013

³¹ *Department of Science and Technology Information and Communications Technology Office*, <http://icto.dost.gov.ph/next-wave-cities-2012-report/>.

³² World Bank, *Innovation Policy: A Guide for Developing Countries*

Studies (PIDS), has long advocated the enactment of a comprehensive competition law and the adoption of a national competition policy. One of the earlier studies on the state of competition in the Philippines included services industries such as telecommunications, air transport and banking and insurance.³³ Even today, services are among the industries that are perceived to be most affected by unfair trade practices.³⁴

Passage of the Fair Competition Act currently being deliberated in Congress is a critical element of creating competitive advantage in services.

Foreign Direct Investment

Foreign investment can be part of the process by which an economy upgrades productivity. Foreign Direct Investment (FDI) in particular constitutes a major channel for technology and knowledge transfer. Foreign firms can offer a package of mobile, tangible, and intangible assets that include capital, technology, know-how, skills, brand names, organizational and managerial practices, access to markets, competitive pressures that stimulate innovation, and environmentally sound technologies.³⁵

The economy benefits from FDI in services directly as enumerated above and via its impact on productivity in manufacturing and agriculture by increasing the availability and quality of production-related services. Almost all countries now welcome foreign investment in manufacturing especially export-oriented manufacturing. The service sector, however, tends to be subject to more restrictions. Services are subject to economic or prudential regulation because of tendencies towards natural monopoly or other market failures (as discussed earlier) although such market failures do not in themselves provide a clear-cut rationale for discrimination between local and foreign investors. The main reasons for limiting foreign ownership in services are non-economic, relating to national security or economic nationalism.³⁶

The policy objectives behind nationalization (i.e. at least 60 percent Filipino-owned) in key service sectors in the Philippines appear in Annex D. ‘National economy and patrimony’ is the stated reason for limiting foreign equity in the operation of a public utility which affects the communication and transport sectors. The same seems to be the case for domestic shipping considered an infrastructure. The policy objective behind full nationalization of mass media is not evident but the rationale may be similar to advertising which allows limited foreign ownership presumably because it is ‘impressed with public interest.’ Education is also nationalized although institutions owned by religious groups are exempt from this restriction. The case of retail sector and non-bank financial intermediation is interesting because the ‘declaration of policy’ of their respective laws do not provide any basis for limiting foreign participation. In fact, the need to liberalize in order to be competitive is acknowledged.

³³ Erlinda M. Medalla, ed., *Toward a National Competition Policy for the Philippines*, (Makati: Philippine APEC Study Center Network ‘PASCN’ and Philippine Institute for Development Studies ‘PIDS’, 2002).

³⁴ A. Abad, K. Gonzales, M. Rosellon, and J. Yap, “Unfair Trade Practices in the Philippines” *Philippine Institute for Development Studies ‘PIDS’ Discussion Paper Series*, (2012).

³⁵ World Bank, *Innovation Policy: A Guide for Developing Countries*

³⁶ Stephen Golub, "Openness to Foreign Direct Investment in Services: An International Comparative Analysis", *World Economy* Blackwell Publishing Ltd 32, no. 8 (2009): 1245-1268

The table below groups the service sectors with FDI limitations according to the stated policy objective. Indicators of economic contribution and performance are also included.

Table 3. Service industries with foreign equity restriction

Stated policy objective	Affected services	Foreign equity restriction (maximum % allowed)	% of GDP (2012)	Labor productivity growth (2008 to 2011)
National Economy and Patrimony	Postal & Telecommunications	40	4.8	Low
	Transport services	40	Land – 1.6 Water – 0.2 Air – 0.3	Land - Negative Water - Negative Air - High
Public interest	Advertising	30	N/A	N/A
Not stated/clear	Mass media	0	N/A	N/A
	Education	40	4.4	Low
	Retail sector	Less than US\$2.5 million paid-up capital – 0 At least US\$2.5 million paid-up capital and other requirements – 100	Retail trade – 13.37 Hotels and restaurants – 1.8	Retail trade – Low Hotels and restaurants – Low
	Non-bank financial intermediation	Lending companies – 49 Financing companies – 60 Investment houses – 60	2.2	Negative

Note: For labor productivity growth see Serafica 2014.

Lack of corporate control acts as a disincentive to transfer the tangible and intangible assets described above. Thus, apart from lower FDI levels, the economic cost of the nationalization of industries is the missed opportunity for upgrading which affect the productivity not only of the industry itself but of many downstream users. Other policy options to protect legitimate national interest must be explored.³⁷

International trade

Services exporters do international business differently than goods exporters with respect to the following.³⁸

1. Exporting services involves the performance of solutions to international customer problems; these problems are not static; building services export capacity is about building international relationships a culture of customer focus and client confidence, as well as developing aptitudes to recognize emerging opportunities and respond rapidly with new solutions.

³⁷ Fernando Mistura, "Techniques and rationale to assess investment proposals with a focus on screening, quantitative thresholds, national interests tests and other arrangements" (conference proceeding, Enhancing the Investment Environment in APEC and ASEAN, Capacity Building Training Programme, Melbourne, 2014).

³⁸ Jane Drake-Brockman, "Developing Export Competitiveness in Services" (presentation in the National Workshop on Services, Advancing Philippine Services Sector in the Asia-Pacific Region and the 21st Century Global Economy. Makati, Metro Manila, June 2-4, 2014).

2. Services exporters tend to have clients rather than geographic markets; clients often take them into different geographic destinations.
3. Clients often require a long term relationship, services exports cannot be examined on the spot for quality, this lack of tangibility requires that mutual trust is built between buyers and sellers.
4. Services exporters tend to be project-based.
5. Each export project tends to require a slightly different services offering; this means services firms can rarely find new export markets without innovating; they need to promote their capacity to create new services offerings for new international clients.
6. Each export project is similarly likely to require a slightly different implementing team of talent and ideas; so service firms often need to move people around quickly, including across borders.
7. Service exporters may need, or may be required by the client's regulatory environment, to set up a commercial presence offshore: the process of setting up offshore often looks like "investment" rather than "export" and rarely receives proper official export promotion assistance.

The design of export promotion activities such as participation in international shows, trade missions, business matching, and market intelligence and other activities will have to take into account the special nature of services. Appropriate assistance may differ depending on various factors such as the unique needs of the service subsector, the mode of supply, the size of the firm (SME or LE), and the stage of internationalization.

The International Services Division under the Export Marketing Bureau (EMB) of the DTI is charged with services export promotion. Overseas posts of government agencies (the DTI and the Department of Foreign Affairs or DFA) are also instrumental.

It is recommended that export promotion program for services be significantly scaled up.³⁹ A survey should be conducted to better understand the situation and needs of service exporters especially of SMEs in service industries. This activity could be jointly supported by the Export Development Council and the Small and Medium Enterprise Development (SMED) Council given the preponderance of SMEs in certain industries.⁴⁰

In terms of market access, the types of barriers encountered by service suppliers take the form of regulations and differ by sector and by mode of supply. The country can utilize trade agreements as a

³⁹ APEC Small and Medium Enterprises Working Group, "Supporting APEC SME Service Exporters: A Handbook of Best Practices", (2004) and Adam Smith International, "ASEAN Awareness Strategy for Services Liberalisation" (2013) discuss best practices in services export promotion for SMEs and in ASEAN, respectively. See also Angel L. Lazaro III, "A strategy for the promotion of Philippine engineering and technical services abroad", *Philippine Star*, July 25, 2013, <http://www.philstar.com/science-and-technology/2013/07/25/1008201/strategy-promotion-philippine-engineering-and> presents a proposed strategy by the Engineering Sciences and Technology Division of the National Academy of Science and Technology (ESTD-NAST) to promote engineering and technological services by Filipino professional firms in other countries with the help of commercial attaches.

⁴⁰ UNCTAD, "The Creative Economy Report 2010", (2010) reports that SMEs — many of which are micro or sole trader businesses — predominantly populate the various stages of the supply chains of creative products in many countries, both developed and developing economies. In the Philippines, a number of the firms in the Animation and Game Development Industries are SMEs. Professionals are also being encouraged to start their own business. For the 2nd Philippine Professional Summit Resolution (2013), one of the Key Result Areas identified was Entrepreneurship Development among Professionals.

strategy to remove barriers to services trade especially for SMEs. But to do this effectively, the government must strengthen its trade negotiations capacity and mechanisms for obtaining inputs from industry in order to maximize the commercial benefits to be derived from various trade agreements. Unlike trade in goods where data on trade flows and tariffs are available, the situation is quite different for services trade. More deliberate efforts are required to obtain information on market access interests and barriers to internationalization directly from service suppliers.

Conclusion

A key message from the National Workshop on Services⁴¹ was the need for a comprehensive national strategy for services to ensure consistency and coherence of policy settings. It was also highlighted that to develop a services strategy for development, the country needs to be aware of where it wants to go. Any particular sector, industry or institution, their objective of where they want to go should be in line with where the whole economy wants to go.

There is consensus that the Philippines should aim to have a globally competitive services sector. Applying Porter's framework on creating national competitive advantage (the diamond), this paper identified the necessary actions that the government must pursue, recognizing that it has an important albeit partial role in attaining the national vision for services.

There are four interdependent sets of policies that create national advantage in industry: policies to enhance a country's position in the factors of production relevant to the industry, policies that raise the quality of domestic demand necessary for constant upgrading, policies to ensure the presence of supporting and related industries, and policies to influence competitive behavior among firms. Together, these actions if pursued will produce the environment where firms are able create and more importantly, sustain competitive advantage in services. The policies will have varying importance to different industries depending on the source of competitive advantage relevant to them.

With these policy actions, government itself becomes a source of national competitive advantage for all industries. Thus, as a source of competitive advantage, the need to upgrade and innovate must also apply to government. An important issue that has been raised in various fora (including policy research done at the PIDS) is the need for bureaucratic reform. This would include for example, creating a dedicated agency for key sectors or policy areas (e.g. ICT, Culture, and Competition); separating regulatory functions from development functions (e.g. Philippine Ports Authority); and strengthening regulatory capacities and resources, among others. How the bureaucracy is structured is important for effectiveness and efficiency. It must be reviewed in light of the national vision of creating globally competitive service industries.

Pursuing a comprehensive services strategy is a big challenge because services span a wide range of activities and government agencies. A key lesson from the experience of other countries presented at the National Workshop was the need to strengthen inter-institutional coordination for policy-making and implementation. Moreover, to create an enabling environment for the services sector, build a climate of trust among stakeholders, and achieve integrative policy making, government support at the highest level is necessary.

⁴¹ National Workshop on Services: Advancing Philippine Services Sector in the Asia-Pacific Region and the 21st Century Global Economy. Makati, Metro Manila, June 2-4, 2014.

Bibliography

- Abad, A., K. Gonzales, M. Rosellon, and J. Yap. *Unfair Trade Practices in the Philippines*. PIDS Discussion Paper 2012-29, Makati: Philippine Institute for Development Studies, 2012.
- Adam Smith International. *ASEAN Awareness Strategy for Services Liberalisation*. Jakarta: ASEAN Australia Development Cooperation Phase II, 2013.
- Adlung, Rudolf, and Aaditya Mattoo. "The GATS." In *A Handbook of International Trade in Services*, by Aaditya Mattoo, N Stern, & Zanini, 48-83. Oxford: Oxford University Press, 2008.
- Aldaba, Rafaelita M. Aldaba. "Strengthening Competitiveness, Facilitating Industrial Upgrading: Key elements & processes in crafting a strategic industry roadmap" *Presentation in the Philippine Services Coalition Services Industries Roadmap Training Workshop*. SGV Hall, Makati City (20 August 2014).
- APEC Small and Medium Enterprises Working Group. *Supporting APEC SME Service Exporters: A Handbook of Best Practices*. Singapore: APEC Business Advisory Council, 2004.
- Bautista, Maria Cynthia Rose Banzon. "International alignment of education." *3rd Philippine Professional Summit*. Manila, October 16-17, 2014.
- Cueto, Jose Y. Jr. "The Philippine Qualifications Framework (PQF) in relation to International Qualifications Frameworks." *3rd Philippine Professional Summit*. Manila, October 16-17, 2014.
- Drake-Brockman, Jane. "Developing Export Competitiveness in Services." *Presentation in the National Workshop on Services: Advancing Philippine Services Sector in the Asia-Pacific Region and the 21st Century Global Economy*. Makati, Metro Manila, June 2-4, 2014.
- Eidler, Jakob, and Luke Georghiou. "Public Procurement and Innovation: Resurrecting the Demand Side." *Research Policy*, no. 36 (2007): 949-963.
- Golub, Stephen. "Openness to Foreign Direct Investment in Services: An International Comparative Analysis." *World Economy* (Blackwell Publishing Ltd) 32, no. 8 (2009): 1245-1268.
- Goswami, A., A Mattoo, and S. Saez. *Exporting services: a developing country perspective*. Washington, D.C.: The World Bank, 2011.
- Hiong, Tan Tai. "ASEAN Integration in Trade in Services: Development, Challenges and Way Forward." *Conference on Trade and Investment in Services*. Hong Kong: ADBI-PECC, June 1-3, 2011.
- Investment Climate Advisory Services of the World Bank Group. *Making it work: 'RIA light' for developing countries*. Washington, D.C.: The World Bank Group, 2010.
- ITU. *Measuring Information Society 2013*. Geneva: International Telecommunication Union, 2013.

- Lazaro, Angel L. III. *A strategy for the promotion of Philippine engineering and technical services abroad*. July 25, 2013. <http://www.philstar.com/science-and-technology/2013/07/25/1008201/strategy-promotion-philippine-engineering-and->
- McKinsey Global Institute. *Ten IT-enabled business trends for the decade ahead*. McKinsey & Company, 2013.
- Medalla, Erlinda M., ed. *Toward a National Competition Policy for the Philippines*. Makati: Philippine APEC Study Center Network (PASCN) and Philippine Institute for Development Studies (PIDS), 2002.
- Mistura, Fernando. "Techniques and rationale to assess investment proposals with a focus on screening, quantitative thresholds, national interests tests and other arrangements." *Enhancing the Investment Environment in APEC and ASEAN, Capacity Building Training Programme*. Melbourne, 2014.
- National Economic and Development Authority. *Philippine Development Plan 2011-2016 Midterm Update*. Pasig City: National Economic and Development Authority, 2014.
- Picazo, Oscar F. *Medical Tourism in the Philippines: Market Profile, Benchmarking Exercise, and S.W.O.T. Analysis DP No. 2013-45*. Discussion Paper Series No. 2013-45, Makati: Philippine Institute for Development Studies, 2013.
- Porter, Michael E. *The Competitive Advantage of Nations*. New York: The Free Press, 1990.
- Serafica, Ramonette. *Formulating the Philippine Services Strategy for Inclusive Growth*. Discussion Paper 2014-22 Makati: Philippine Institute for Development Studies, 2014.
- UNCTAD. *The Creative Economy Report 2010*. Geneva: United Nations, 2010.
- WEF. *The Global Information Technology Report 2014*. Geneva: WEF and INSEAD, 2014.
- World Bank. *Innovation Policy: A Guide for Developing Countries*. Washington, DC: World Bank, 2010.
- WTO Secretariat. *Background Note on Financial Services (S/C/W/312S/Fin/W/73)*. Geneva: World Trade Organization, 2010.

ANNEX A. TOP 10 IT ENABLED TRENDS FOR THE NEXT TEN YEARS

Trend and definition	Applications of the trend	Key sectors impacted
<p>The social matrix</p> <p>Harnessing the ability to make any interaction or activity social—to influence actions, solve problems, and innovate, potentially creating new types of organizations that are not constrained by traditional boundaries</p>	<ul style="list-style-type: none"> ▪ Crowdsourcing answers to difficult problems ▪ Using internal and external social networks to improve collaboration and knowledge sharing ▪ Using “social” as a feature to engage customers and co-create new products and services ▪ Reimagining organizational structures for a highly networked world 	<ul style="list-style-type: none"> ▪ Retail ▪ Education ▪ Manufacturing ▪ Health care ▪ Finance ▪ Media and communications ▪ Government and social sectors
<p>The Internet of All Things</p> <p>Linking machinery, equipment, and other physical assets with networked sensors and actuators to capture data and manage performance, enabling machines to collaborate and even act on new information independently</p>	<ul style="list-style-type: none"> ▪ Remote monitoring of assets, systems, and even people ▪ Improving preventive maintenance and performance management using real-time data ▪ Optimizing performance of complex systems, including through closed-loop (autonomous) decision making ▪ Providing “Quantified Self” applications for people to monitor their physical states 	<ul style="list-style-type: none"> ▪ Manufacturing ▪ Mining and natural resources ▪ Infrastructure and utilities ▪ Transportation ▪ Agriculture ▪ Health care ▪ Retail ▪ Government and social sectors
<p>Big data, advanced analytics</p> <p>Growing ability to collect, analyze, experiment with, and act on ever-larger and more complex data sets; harnessing real-time data flows (e.g., from the Internet of Things and the social matrix) for nuanced insights that improve decision making and results</p>	<ul style="list-style-type: none"> ▪ Improving performance management through access to timely data ▪ Using advanced analytics of massive data sets for experimentation and research ▪ Using behavioral data for unprecedented consumer micro-segmentation ▪ Enabling closed-loop systems that make decisions by considering a multitude of factors, at speeds impossible for humans to match ▪ Automating knowledge work, such as analyzing thousands of law cases or millions of medical records ▪ Creating new business models that monetize “exhaust” data from core operations 	<ul style="list-style-type: none"> ▪ Media and communications ▪ Manufacturing ▪ Finance ▪ Government and social sectors ▪ Health care ▪ Retail ▪ Education. ▪ Transportation ▪ Mining and natural resources
<p>Realizing anything as a</p>	<ul style="list-style-type: none"> ▪ Continuing growth and 	<ul style="list-style-type: none"> ▪ Media and communications

<p>service</p> <p>Sharing services accessed or arranged over the Internet, including use of infrastructure, products, and other assets as “services,” enabling new asset-light business models</p>	<p>sophistication of cloud software, storage, and processing services, reducing need for installed software and large storage on consumer and office computers and Internet devices</p> <ul style="list-style-type: none"> ▪ Providing online services enabling rentals of vehicles, lodging, even hours of labor 	<ul style="list-style-type: none"> ▪ Retail ▪ Travel ▪ Transportation ▪ Finance ▪ Government and social sectors
<p>Automation of knowledge work</p> <p>Using advances in artificial intelligence, deep learning, big data, and natural user interfaces to automate knowledge work tasks</p>	<ul style="list-style-type: none"> ▪ Automating routine tasks such as answering customer calls or dispatching assistance ▪ Extending capabilities of professionals (e.g., physicians and lawyers) with machine-learning systems that can spot connections humans would miss ▪ Expanding access to advanced IT tools and other information systems through natural language interfaces ▪ Providing automatic content creation and synthesis ▪ Raising productivity and efficiency by increasing consistency of tasks such as searching and analyzing information 	<ul style="list-style-type: none"> ▪ Finance ▪ Education ▪ Health care ▪ Media and communications ▪ Government and social sectors ▪ Infrastructure and utilities ▪ Transportation ▪ Retail
<p>Integrated digital/physical experiences</p> <p>Blending digital interactions with physical experiences such as shopping, often by providing data and information to mobile Internet devices</p>	<ul style="list-style-type: none"> ▪ Digitally enhancing consumer experiences across touch points, in particular for advertising and retail ▪ Improving workforce productivity through the use of tactile, mobile devices ▪ Increasing interaction of digital content with everyday physical experiences through next-generation devices, user interfaces, and connectivity 	<ul style="list-style-type: none"> ▪ Media and communications ▪ Retail ▪ Education ▪ Finance ▪ Transportation
<p>Me + free + ease</p> <p>Rising consumer expectations for instant access to information, transparency, customization, low prices, and ease of use, based on the model of Internet services, now being applied offline as well</p>	<ul style="list-style-type: none"> ▪ Responding to increased pressure from consumers to provide services for free and creating the need for companies to search for alternate revenue pools ▪ Personalizing customer service, often through customization at scale ▪ Growing expectation of extreme ease of use and instantaneous results 	<ul style="list-style-type: none"> ▪ Media and communications ▪ Retail ▪ Education ▪ Manufacturing ▪ Finance ▪ Health care
<p>The e-volution of commerce</p>	<ul style="list-style-type: none"> ▪ Spurring growth of new 	<ul style="list-style-type: none"> ▪ Retail

<p>Low-cost, high-speed, seamless exchange of information enables new types of online markets, payment systems, and business models</p>	<p>marketplaces, enabled by the “sharing economy,” providing a platform for individuals to monetize their unused assets and offer services to a wide pool of consumers</p> <ul style="list-style-type: none"> ▪ Using advancements in IT to enable faster, cheaper, secure, and less intrusive financial transactions in developed and developing markets ▪ Changing consumer preferences and expectations driving development of new business models like “multisided” and “freemium” 	<ul style="list-style-type: none"> ▪ Finance ▪ Transportation ▪ Media and communications
<p>The next three billion digital citizens</p> <p>Emerging opportunities as three billion people join the digital economy using the mobile Internet—driving financial inclusion, entrepreneurship, and the development of new business models</p>	<ul style="list-style-type: none"> ▪ Extending financial inclusion to the “unbanked,” often through deployment of mobile payment and banking services ▪ Encouraging economic development through the growth of local entrepreneurship, driven by expanding access to digital services ▪ Customizing products and services to markets by local and multinational companies alike 	<ul style="list-style-type: none"> ▪ Retail ▪ Finance ▪ Health care ▪ Government and social sectors ▪ Agriculture ▪ Education
<p>Transformation of government, health care, and education</p> <p>Using the growing power and reach of IT to boost productivity in government, health care, and education—sectors that have not benefited fully from previous waves of IT—to improve service delivery and increase transparency</p>	<ul style="list-style-type: none"> ▪ Government: using IT to provide more “e-services,” optimize resources and save costs, and engage citizens ▪ Health care: improving access to basic health care, as well as developing innovative solutions to tough problems ▪ Education: adopting new pedagogies that make learning more accessible, anytime and anyplace, and modular and engaging, often driven by the growth of new platforms for delivery and applied to areas like employee training 	<ul style="list-style-type: none"> ▪ Government and social sectors ▪ Health care ▪ Education ▪ Infrastructure and utilities

Source: McKinsey Global Institute 2013

ANNEX B. GOVERNANCE OF SERVICE INDUSTRIES

General Policy Area	National Government Bodies
Investment Promotion	Board of Investments (BOI)
Export Promotion	Export Development Council International Services Division under the Export Marketing Bureau (EMB) of the Department of Trade and Industry (DTI)
Labor	Inward/Domestic - Bureau of Labor Employment (BLE) of the Department of Labor and Employment (DOLE) Outward - Philippine Overseas Employment Administration (POEA) and Overseas Workers Welfare Administration (OWWA)
Immigration	Bureau of Immigration (BI)
Business Registration	Department of Trade and Industry (DTI) – single proprietorships Securities and Exchange Commission (SEC) – partnerships and corporations
Competition Policy	Office for Competition of the Department of Justice (DOJ)
Intellectual Property	Intellectual Property Office (IPO) an attached agency of the Department of Trade and Industry (DTI)
Small and Medium Scale Enterprises	Small and Medium Enterprise Development (SMED) Council Bureau of Small and Medium Scale Enterprises Development (BSMED)

Sector	National Government Bodies
Business Services	
- Professional Services	Professional Regulation Commission (PRC) attached to Department of Labor and Employment (DOLE) 46 Professional Regulatory Boards Supreme Court of the Philippines (for legal services)
- Computer and Related Services	Information and Communications Technology Office (ICTO) under the Department of Science and Technology (DOST) Bureau of Product Standards (BPS) of the Department of Trade and Industry (DTI)
- Research and Development Services	Department of Science and Technology (DOST)
- Real Estate Services	Board of Real Estate Service
- Rental/Leasing Services without Operators	Maritime Industry Authority (MARINA)
-Other Business Services	
Advertising services	
Market research and public opinion polling services	

Management consulting service	
Services related to management consulting	
Technical testing and analysis services	
Services incidental to agriculture, hunting and forestry	Department of Agriculture (DA)
Services incidental to fishing	Department of Agriculture (DA)
Services incidental to mining	Department of Environment and Natural Resources (DENR)
Services incidental to manufacturing	
Services incidental to energy distribution	Energy Regulatory Commission (ERC)
Placement and supply services of Personnel	Bureau of Labor Employment (BLE) of the Department of Labor and Employment (DOLE) for domestic employment Philippine Overseas Employment Administration (POEA) for overseas employment
Investigation and security	Security Agencies Guards Supervision Division (SAGSD) of the Philippine National Police (PNP)
Related scientific and technical consulting services	
Maintenance and repair of equipment (not including maritime vessels, aircraft or other transport equipment)	
Building-cleaning services	
Photographic services	
Packaging services	
Printing, publishing	National Book Development Board (NBDB) attached to the Department of Education (DepEd)
Convention services	Tourism Promotions Board
Communication Services	
- Postal Service - Courier	Philippine Postal Corporation (PhilPost) attached to the Office of the President
- Telecommunication Services	Information and Communications Technology Office (ICTO) under the Department of Science and Technology (DOST) The National Telecommunications Commission (NTC) attached to the Office of the President
- Audiovisual Services	The National Telecommunications Commission (NTC) attached to the Office of the President Film Development Council of the Philippines attached to the Office of the President Optical Media Board (OMB) The Movie and Television Review and Classification Board (MTRCB)
Construction and Related Engineering Services	

- General construction work for buildings - General construction work for civil engineering - Installation and assembly work - Building completion and finishing work	Construction Industry Authority of the Philippines (CIAP) Department of Public Works and Highways (DPWH) Housing and Land Use Regulatory Board (HLURB) Relevant Professional Regulatory Board
Distribution Services	
- Commission agents' services - Wholesale trade services - Retailing services	Consumer Protection Group (CPG) of the Department of Trade and Industry (DTI) Food and Drug Administration (FDA) attached to the Department of Health (DOH)
Educational Services	
- Primary education services - Secondary education services - Higher education services - Adult education - Other education services	The Department of Education (DepEd) Commission on Higher Education (CHED) attached to the Office of the President Technical Education and Skills Development Authority (TESDA) attached to the Department of Labor and Employment Relevant Professional Regulatory Boards
Environmental Services	
- Sewage services - Refuse disposal services - Sanitation and similar services	Environmental Management Bureau (EMB) of the Department of Environment and Natural Resources (DENR)
Financial Services	
- Insurance	The Insurance Commission (IC) attached to the Department of Finance
- Banking	The Banko Sentral ng Pilipinas (BSP)
- Other Financial Services	Securities and Exchange Commission (SEC)
Health Related and Social Services	
- Hospital services - Other Human Health Services - Social Services	Bureau of Health Facilities and Services (BHFS) of the Department of Health (DOH) Department of Social Welfare and Development (DSWD) Relevant Professional Regulatory Boards
Tourism and Travel Related Services	
- Hotels and restaurants (incl. catering) - Travel agencies and tour operators services - Tourist guides services	Department of Tourism (DOT) and attached agencies - Philippine Tourism Promotions Board (PTPB) Tourism Infrastructure and Enterprise Zone Authority (TIEZA) Department of Trade and Industry (DTI)
Recreational, Cultural and Sporting services (other than audiovisual services)	
- Entertainment services (including theatre, live bands and circus services) - News agency services - Libraries, archives, museums and other cultural services - Sporting and other recreational services	Attached to the Office of the President - National Commission for Culture and Arts (NCCA) Philippine Amusement and Gaming Corporation (PAGCOR) Attached to the Department of Tourism (DOT) - Intramuros Administration (IA) National Parks Development Committee (NPDC) Nayong Pilipino Foundation (NPF)

	Philippine Retirement Authority (PRA) Philippine Commission on Sports Scuba Diving (PCSSD) National Historical Commission of the Philippines (NHCP) Department of Environment and Natural Resources (DENR)
Transport	
- Maritime Transport	
Passenger transportation Freight transportation Pushing and towing services Maintenance and repair of transport equipment Supporting services for transport services	Attached to the Department of Transport and Communications (DOTC) – Maritime Industry Authority (MARINA) Philippine Ports Authority (PPA) Cebu Ports Authority (CPA)
- Air Transport	
Passenger transportation Freight transportation Pushing and towing services Maintenance and repair of transport equipment Supporting services for transport services	Attached to the Department of Transport and Communications (DOTC) – The Civil Aeronautics Board (CAB) The Civil Aviation Authority of the Philippines (CAAP)
- Rail Transport Services	
Passenger transportation Freight transportation Pushing and towing services Maintenance and repair of transport equipment Supporting services for transport services	Attached to the Department of Transport and Communications (DOTC) – Philippine National Railways (PNR) Light Rail Transit Authority (LRTA) North Luzon Railways Corporation (NLRC / Northrail) Metro Rail Transit (MRT)
- Road Transport Services	
Passenger transportation Freight transportation Pushing and towing services Maintenance and repair of transport equipment Supporting services for transport services	Attached to the Department of Transport and Communications (DOTC) – Land Transportation Franchising and Regulatory Board (LTFRB) Land Transportation Office (LTO) Toll Regulatory Board (TRB)
- Pipeline Transport	
Transportation of fuels Transportation of other goods	
- Services Auxiliary to All Modes of Transport	
Cargo-handling services Storage and warehouse services Freight transport agency services	Attached to the Department of Transport and Communications (DOTC) – Philippine Ports Authority (PPA) Cebu Ports Authority (CPA) Department of Agriculture Bureau of Customs (BoC) of the Department of Finance (DoF)
Other Services	

Washing, cleaning and dyeing
services; hairdressing and other
beauty services

Consumer Protection Group (CPG) of the
Department of Trade and Industry (DTI)

ANNEX C. GATS ON REGULATION

GATS covers measures by Members affecting trade in services where:

“Measure” means any measure by a Member, whether in the form of a law, regulation, rule, procedure, decision, administrative action, or any other form.

“Measures by Members” means measures taken by: (i) central, regional or local governments and authorities; and (ii) non-governmental bodies in the exercise of powers delegated by central, regional or local governments or authorities.

The right of countries to regulate is enshrined in the preamble of GATS:

“*Recognizing* the right of Members of regulate, and to introduce new regulations, on the supply of services within their territories in order to meet national policy objectives and, given asymmetries existing with respect to the degree of development of services regulations in different countries, the particular need of developing countries to exercise this right;”

However there are certain obligations that govern ‘how’ regulations are administered.

An unconditional obligation in the use of measures is to ensure **transparency**. This requires prompt publication of all relevant measures of general application; notification of any new, or any changes to existing, laws, regulations or administrative guidelines which significantly affect trade in services covered by its specific commitments; and establishment of enquiry points.

A conditional obligation applying only to sectors and modes where specific commitments are made relate to **domestic regulation**:

- To ensure that all measures of general application affecting trade in services are administered in a reasonable, objective and impartial manner.
- To maintain or institute judicial, arbitral or administrative tribunals or procedures which provide, at the request of an affected service supplier, for the prompt review of, and where justified, appropriate remedies for, administrative decisions affecting trade in services.
- For the competent authorities to inform the applicant of the decision within a reasonable period of time after the submission of an application considered complete under domestic laws and regulations.
- While disciplines are being developed, to refrain from applying licensing and qualification requirements and technical standards that would nullify or impair a specific commitment in a manner incompatible with several criteria (based on objective and transparent criteria, not more burdensome than necessary to ensure the quality of the services, and in the case of licensing procedures, not in themselves a restriction on the supply of a service) and that could not reasonably have been expected of them at the time when they made the commitment.

ANNEX D. POLICY BASIS OF FOREIGN EQUITY RESTRICTION

Postal & Telecommunications; Transport services

Constitution Article XII National Economy and Patrimony Sec 11. No franchise, certificate, or any other form of authorization for the operation of a public utility shall be granted except to citizens of the Philippines or to corporations or associations organized under the laws of the Philippines, at least sixty per centum of whose capital is owned by such citizens; nor shall such franchise, certificate, or authorization be exclusive in character or for a longer period than fifty years. Neither shall any such franchise or right be granted except under the condition that it shall be subject to amendment, alteration, or repeal by the Congress when the common good so requires. The State shall encourage equity participation in public utilities by the general public. The participation of foreign investors in the governing body of any public utility enterprise shall be limited to their proportionate share in its capital, and all the executive and managing officers of such corporation or association must be citizens of the Philippines.

Shipping

RA 9295 "Domestic Shipping Development Act of 2004" Sec 2. Declaration of Policy. – The State recognizes that shipping is a necessary infrastructure, which is vital to the economic development of our country. The Philippines needs a strong and competitive domestic merchant fleet owned and controlled by Filipinos or by corporations at least sixty percent (60%) of the capital of which is owned by Filipinos and manned by qualified Filipino officers and crew, which shall: (a) bridge our islands by ensuring safe, reliable, efficient, adequate and economic passenger and cargo service; (b) encourage the dispersal of industry and the economic development of our regional communities by ensuring the availability of regular, reliable and efficient shipping services; (c) ensure the growth of exports by providing necessary, competitive and economical domestic sea linkages, (d) serve as a naval and military auxiliary in times of war and other national emergencies; and (e) function as an employment support base for our Filipino seafarers.

To attain these objectives, it is hereby declared to be the policy of the State to: (a) promote Filipino ownership of vessels operated under the Philippine flag; (b) attract private capital to invest in the shipping industry by creating a healthy and competitive investment and operating environment; (c) provide necessary assistance and incentives for the continued growth of the Philippine domestic merchant marine fleet; (d) encourage the improvement and upgrading of the existing domestic merchant marine fleet and Filipino crew to meet international standards; (e) ensure the continued viability of domestic shipping operations; and (f) encourage the development of a viable shipbuilding and ship repair industry to support the expansion and modernization of the Philippine domestic merchant marine fleet and its strict adherence to safety standards which will ensure the seaworthiness of all sea-borne structures.

Advertising

Constitution Article XVI General Provisions Sec 11. (2) The advertising industry is impressed with public interest, and shall be regulated by law for the protection of consumers and the promotion of the general welfare. Only Filipino citizens or corporations or associations at least seventy per centum of the capital of which is owned by such citizens shall be allowed to engage in the advertising industry.

The participation of foreign investors in the governing body of entities in such industry shall be limited to their proportionate share in the capital thereof, and all the executive and managing officers of such entities must be citizens of the Philippines.

Mass media

Constitution Article XVI General Provisions Sec 11. (1) The ownership and management of mass media shall be limited to citizens of the Philippines, or to corporations, cooperatives or associations, wholly owned and managed by such citizens.

The Congress shall regulate or prohibit monopolies in commercial mass media when the public interest so requires. No combinations in restraint of trade or unfair competition therein shall be allowed.

Education

Constitution Article XIV Education, Science and Technology, Arts, Culture and Sports Sec. 4 (2) Educational institutions, other than those established by religious groups and mission boards, shall be owned solely by citizens of the Philippines or corporations or associations at least sixty per centum of the capital of which is owned by such citizens.

The Congress may, however, require increased Filipino equity participation in all educational institutions.

The control and administration of educational institutions shall be vested in citizens of the Philippines. No educational institution shall be established exclusively for aliens and no group of aliens shall comprise more than one-third of the enrollment in any school. The provisions of this subsection shall not apply to schools established for foreign diplomatic personnel and their dependents and, unless otherwise provided by law, for other foreign temporary residents.

Retail Sector

RA 8762 "Retail Trade Liberalization Act of 2000" Sec. 2. Declaration of Policy. – It is the policy of the State to promote consumer welfare in attracting, promoting and welcoming productive investments that will bring down prices for the Filipino consumer, create more jobs, promote tourism, assist small manufacturers, stimulate economic growth and enable Philippine goods and services to become globally competitive through the liberalization of the retail trade sector.

Pursuant to this policy, the Philippine retail industry is hereby liberalized to encourage Filipino and foreign investors to forge an efficient and competitive retail trade section in the interest of empowering the Filipino consumer through lower prices, higher quality goods, better services and wider choices.

Non-bank Financial Intermediation

RA 9474 "Lending Company Regulation Act of 2007" Sec. 2. Declaration of Policy. - It is hereby declared the policy of the State to regulate the establishment of lending companies and to place their operation on a sound, efficient and stable condition to derive the optimum advantages from them as an additional source of credit; to prevent and mitigate, as far as practicable, practices prejudicial to public

interest; and to lay down the minimum requirements and standards under which they may be established and do business.

RA 8556 "Financing Company Act of 1998."Sec. 2. Declaration of Policy. — It is hereby declared to be the policy of the State to regulate and promote the activities of financing and leasing companies to place their operations on a sound, competitive, stable and efficient basis as other financial institutions, to recognize and strengthen their critical role in providing medium and long-term credit for investments in capital goods and equipment especially by small and medium enterprises particularly in the countryside and to curtail and prevent acts or practices prejudicial to the public interest so that they may be in a better position to extend efficient service in a fair manner to the general public and to industry, commerce and agriculture and thereby more fully contribute to the sound development of the national economy.

RA 8366 An Act Liberalizing the Philippine Investment House Industry, amending certain sections of Presidential Decree No. 129, As Amended, Otherwise Known As The Investment Houses Law. Sec. 1. Declaration of Policy. – It is the policy of the State to expand and strengthen the capital base of the economy in order to ensure sustained economic growth and development. Toward this end, the Philippine investment house industry is hereby liberalized, increasing foreign equity participation and raising the minimum capitalization of investment houses to enable them to meet the present and future demands of the market.