

The Return of the Expatriate: **And other Emerging Stories about Philippines**

The Return of the Expat

For the past number of years, the expatriate in the Philippines has been a species in decline. Companies that employed 50 or 60 expatriates 4 years ago, now have only a handful. This has been the trend for most countries in the region — with the notable exception of China.

Boyden Manila is once again receiving requests for expatriates. The demand is coming from the fast growing sunrise industries as well as a few traditional ones. Trend is reversing.

To get some idea of the numbers involved let's look at some simple figures. The outsourcing sector alone will add roughly 2500 to 3500 new local positions per month over the next year. Each 1000 call center agents require one senior manager with 7 to 10 years experience. For sectors entailing higher skill levels like IT, design engineering, and sometimes HR and accounting, the numbers of senior people required are often 3 to 5 times higher per thousand people. Given the current growth rates, there will not be enough time to develop adequate numbers of senior management talent locally. Many will have to be brought from offshore. Further, in some traditional sectors we should see a moderate increase in demand for expatriates. This is the typical situation in an improving economic environment such as we have today. We have already seen some de-localization occurring in the IT sector lately. Others will follow.

All of these developments indicate that roughly 15 to 25 new senior level expatriates will be needed on a monthly basis over the next 12 months.

Philippines Still Better Than India

There are now strong positive comments from senior outsourcing management people comparing the Philippines to India. They say "If we had known what we now know about the Philippines, we would never have gone to India first."

According to John Crews of ICT Group, both countries have advantages but the Philippines was the hands-down overall winner. Some of the key advantages of the Philippines were said to be:

1. Its people - English communication skills, cultural affinity and customer service mind-set are all superior.
2. Its infrastructure - telecommunications, office space and (surprisingly) electrical power supplies are more reliable and technologically current.
3. Its expatriate life-style — India is a hell-hole compared the to Philippines.

The Philippines is currently perceived to be a minor player in the global outsourcing industry. Logically, this perception should change over time as the truth is slowly uncovered.

Bigger is Better in Outsourcing

Over the past few years, many people founded outsourcing companies in Philippines. Many of these investor-owned companies have remained small and unprofitable, not being able to maintain or attract quality relationships with blue-chip clients. Many will sell out, close down or otherwise disappear over the next year or so.

The future of the industry will be in the hands of the large multinational organizations that already have developed quality processes, experienced management and solid client relationships over many years in the industry.

Moving Up (or Moving Out) of the Value Chain

For a nation to improve or maintain its standard of living, its

industries must constantly work to increase the value of the products and services they provide to the rest of the world.

There are more than a few people in the region who feel the semiconductor industry is beginning to slip away from Philippines. Assembly is most at risk since it employs large numbers of low skilled workers. Today, this work can be done in China at lower cost, and production has started to drift in that direction.

Companies in the Philippines have been increasing their test capacity (higher value work) to compensate and attempting to move into other more skill intensive areas as well. If the industry is successful with this transformation up the value chain, then it will maintain (and maybe improve) its relative position. But we should not forget that the Chinese are also quickly improving the value of their services and they have a reputation for being relentless competitors.

Business Process Outsourcing is the current sunrise industry in the Philippines and it is providing a good foundation on which to build higher-value services. But, a bewildering number of developing countries are now clamoring to offer the same back-office services to multinational companies that we are. All of this will mean that the movement to higher value services will resemble a frantic stampede rather than the leisurely progressions we have seen in the past. The Philippines will soon find itself under serious threat from lower cost competitors.

Richard Mills CFA, Vice President
Boyden Global Executive Search
Tel # : (632) 812 9829 Fax# : (632) 813 0097
Cell# : 0917-873 3562 email : richard.mills@boyden.com

Boyden has 16 offices in Asia and over 70 offices in more than 40 countries globally.