

## CHAPTER 9B

# Expanding Economic Opportunities in Services

Services sector growth has been gradually recovering from the impact of the pandemic. While community quarantines, mobility restrictions, and border closures have negatively affected tourism and transportation services, emerging sectors such as e-commerce and digital transactions have expanded. Boosting the sector's growth and sustaining the recovery will require recalibration of programs and policies, institution of much needed reforms to attract investments, promotion of greater competition, and further improvement of the country's business environment with better risk management.

## ASSESSMENT

The services sector remained the largest contributor to the country's total output with a share of 60.5 percent in 2021. After a 9.1 percent contraction in 2020, the sector partially recovered, growing by 5.4 percent in 2021 albeit still short of its 5.8 percent low-end target. In terms of employment, services recorded higher-than-expected employment of more than 25 million in 2021. However, tourism performance remained weak as tourist arrivals only reached 163,879, mainly due to the continuous restrictive travel conditions. Nonetheless, the safe reopening of the economy, ramped up vaccination roll-out, and improvements in consumer and business confidence are anticipated to accelerate the sector's full recovery in 2022.

## EXPANDING ECONOMIC OPPORTUNITIES IN SERVICES ACROSS REGIONS INCLUDING THE DIGITAL ECONOMY

**The services sector grew by 5.4 percent in 2021, falling below the low-end target of 5.8 percent for the year.** All services subsectors posted positive growth with human health and social work activities registering the highest growth rate at 14.1 percent, followed by information and communication, and education at 9.2 percent and 8.3 percent, respectively.

**Services registered a net employment gain of 2.8 million in 2021, exceeding the target of 1.4 to 1.6 million for the year.** Wholesale and retail trade sector posted the largest increase in employment generation, followed by other service activities, and administrative and support activities. Meanwhile, accommodation and food services recorded a dip in employment generation along with activities of extraterritorial organizations and bodies. **Tourism performance plunged given lingering restrictions**

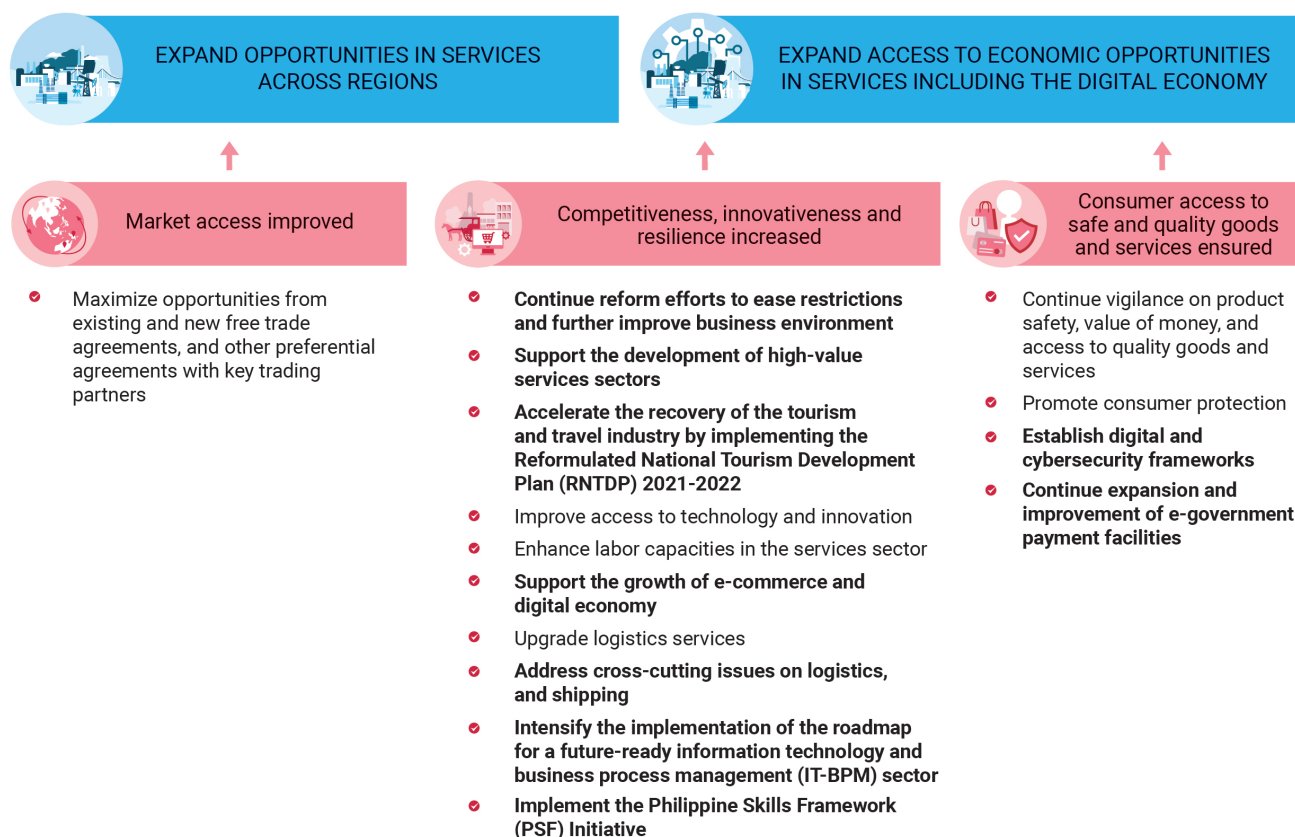
**and weak travel demand.** In 2020, tourism revenues also contracted by 78 percent while its contribution to the economy declined to 5.4 percent, the lowest recorded since the start of the Plan period in 2017. Total inbound visitors in 2021 dropped sharply by 89 percent, from 1.5 million in 2020 to 163,879 in 2021.

## STRATEGIC FRAMEWORK

The strategic framework for Chapter 9B underlines the priority strategies to effectively address the challenges faced by the services sector and to better manage the risks associated with shocks, to achieve the overall sector outcome and targets.

To address the frustrations such as those encountered by Nico and to help him attain his goal of a sustainable and resilient business that is able to leverage on digital technology, the following strategies will be pursued: (a) improve business environment; (b) pursue the development of the country's digital infrastructure; and (c) promote digital payments and advance cybersecurity initiatives to bridge the digital divide.

*Figure 9.2 Strategic Framework to Expand Economic Opportunities in Services*



Note: Text in bold are revised/new strategies to address the challenges identified in the sector.

# STRATEGIES

## TO IMPROVE MARKET ACCESS

**Maximize opportunities from existing and new free trade agreements, other preferential agreements with key trading partners.** Regularly conduct information and promotion campaigns and make information materials available online to raise awareness on existing and new free trade agreements (FTAs), particularly on how firms can benefit from them. The Philippines' participation in the Regional Comprehensive Economic Partnership (RCEP) agreement will open new opportunities and markets for Filipino firms, and attract foreign investments.

## TO INCREASE COMPETITIVENESS, INNOVATIVENESS, AND RESILIENCE

**Continue reform efforts to ease restrictions and further improve the business environment.** Reforms that focus on relaxing restrictions and promoting a conducive business environment are critical to support the development of services sectors and encourage more foreign investments. These include the swift implementation of recently approved amendments to the Public Service Act, Foreign Investment Act and Retail Trade Liberalization Act.

**Support the growth of e-commerce and digital economy.** Strengthen the country's digital infrastructure to ensure quality, reliable, affordable broadband and internet services. In addition, fast-track the development of digital financial infrastructure to support digital payments and to make digital financial services more accessible, available, and affordable for Filipinos.

**Address cross-cutting issues on logistics, and shipping.** Automate, streamline, and decentralize permit issuance processes and requirements across government agencies dealing with trade facilitation, transport and logistics. Review conflicting functions and interests within government (including port operations and regulation) and amend unreasonable or outdated laws. Rationalize fees, rates, and/or charges of international and domestic shipping lines. Sustain investments in transport and logistics infrastructure.

**Support the development of high-value services sectors.** Promote innovation and technological improvement to enable the seamless shift towards knowledge-based and higher value-added services. Increased protection for intellectual property rights and enforcement of competition laws are also needed to support the growth of these high-value services.

**Intensify the implementation of the roadmap for a future-ready information technology and business process management (IT-BPM) sector.** Increase talent development programs, especially future skills for contact center and the BPO sub-sector, information technology services, health information management, animation and game development, and global in-house center (GIC) subsector.<sup>1</sup> Improve telecommunication infrastructure to establish a robust remote working environment for the sector.

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<sup>1</sup> Accelerate PH: Future Ready Roadmap 2022 of the Philippine IT-BPM

**Accelerate the recovery of the tourism and travel industry by implementing the Reformulated National Tourism Development Plan (RNTDP) 2021-2022.** Maintain the promotion of domestic tourism and support the safe return of international tourism. To restore traveler confidence, ensure the application of uniform safe travel protocols to facilitate domestic and international mobility and promote the adoption of Safe Travels Stamp to Department of Tourism (DOT)-accredited establishments and destinations.

**Implement the Philippine Skills Framework (PSF) Initiative.** Hasten the development of sector-specific skills frameworks, particularly in the services sector, to develop a competitive and future-ready workforce. Priorities will include construction, creatives, food (agriculture and fishery), health and wellness, IT-BPM, logistics and supply chain, manufacturing, and tourism sectors. *(Cross-refer to [Chapters 9A, 10](#))*

## TO ENSURE CONSUMER ACCESS TO SAFE AND QUALITY GOODS AND SERVICES

**Establish digital and cybersecurity frameworks.** Ensure security and integrity of online transactions by promoting and investing in state-of-the-art digital and cybersecurity systems, including skills development training of cybersecurity professionals in the country. Build financial institutions' capacity to implement better cybersecurity measures and develop regulations for online transactions.

**Continue expansion and improvement of E-government payment facilities.** Expand acceptance of digital payments to include all income-generating government agencies to promote easier and faster payment schemes that could maximize revenues and adapt to the increasing preference of Filipinos for online transactions. *(Cross-refer to [Chapter 15](#))*

# RESULTS MATRIX

**Table 9.2 Results Matrix**

INDICATOR	BASELINE (YEAR)	TARGETS			ACTUAL		
		2020	2021	2022	2019	2020	2021
Sector Outcome: Economic opportunities in services across regions including the digital economy expanded							
GVA growth rate in the services sector improved (%) <sup>a</sup>	8.2 <sup>b</sup> (2016)	6.3-7.3	5.8-6.8	7.3-8.3	7.2	-9.2	5.4
Tourism GVA as proportion of GDP increased (%)	10.7 <sup>g</sup> (2016)	9.5	9.9	10.1	12.8	5.4	TBD <sup>c</sup>
Employment generated from the services sector increased ('000s) <sup>d</sup>	578 (2015)	499	1,400-1,600	600-700	1305.8 <sup>e</sup>	-2,103	2,815 <sup>f</sup>
Tourism employment as a proportion to total employment (%)	12.8 (2016)	13.8	14.1	14.4	13.6	11.9	TBD <sup>c</sup>
Subsector Outcome 1: Competitiveness, innovativeness, and resilience increased							
Number of inbound visitors increased (millions)	5.4 (2015)	9.2	10.4	12.0	8.3	1.5	0.16
Tourism inbound revenue increased (PHP billion)	314.6 <sup>g</sup> (2016)	661.1	776.4	921.9	600.1	132.6	TBD <sup>c</sup>

<sup>a</sup> GVA at constant 2018 prices. GVA growth rate target for 2020 is based on the original DBCC target last July 2019. Meanwhile, GVA growth rate targets for 2021-2022 are in line with the revised DBCC-approved GDP estimates last 28 July 2020.

<sup>b</sup> National Income Accounts as of August 2020.

<sup>c</sup> Data will be available by June 2022.

<sup>d</sup> Employment generated refers to additional employment generated from the preceding year. Revision of target employment generation in services for 2021 and 2022 is consistent with the revision of target total employment generation (see Chapter 4) and revision of labor productivity in Services (see Chapter 10) in the same period.

<sup>e</sup> Based on the 2010 Census of Population and Housing population projections (comparable with 2018 LFS)

<sup>f</sup> Preliminary data from NPPS.

<sup>g</sup> Updated baseline figure is based on the revision in the Philippine Tourism Satellite Accounts (PTSA). For the Tourism GVA as proportion of GDP indicator, revision is mainly from revised indicators from the 2018-based Philippine System of National Accounts (PSNA).

