

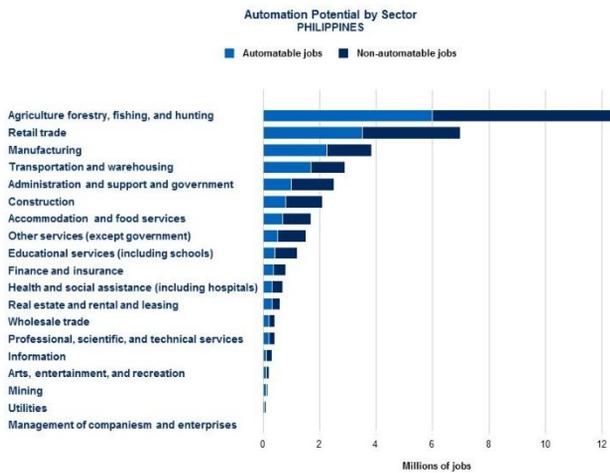
By Suraj Moraje

# Seizing the automation opportunity in the Philippines

Almost half of the activities that people are paid to do can be automated using currently available technologies. Filipino innovators can establish competitive advantage and reap superior rewards by selectively adopting these technologies.

The Philippines will face profound changes in the nature of work and jobs, even as it continues its current path of rapid growth. In a recently published report, my colleagues at the McKinsey Global Institute (MGI) asserted that almost half the activities people are paid to do globally (worth USD 16 trillion in wages) could be automated using robots, data analytics, artificial intelligence, and other existing forms of technology.

The effects of automation in the Philippines could be significant. MGI estimates that 48 percent of employees' activity, equivalent to 18.2 million jobs, could be automated. The largest share of automatable work in the Philippines, amounting to 6 million jobs, is in agriculture-related sectors, where occupations involve a large proportion of physical activities in predictable environments. Other sectors with large numbers of automatable work include retail (3.4 million jobs) and manufacturing (2.4 million jobs). Manufacturing has the highest proportion of automatable work of any sector, at 61 percent.



As the table suggests, such automation could find applications across a broad set of industries. For example, digitized processes and credit rating algorithms could help Filipino banks expand quickly and cost-effectively while better managing compliance and other risks. The retail sector similarly offers other examples: machine learning software could give employees new insights that help them make better merchandising decisions and thereby improve margins.

Some policy makers and employees worry that automation will increase unemployment. This need not be the case. History has shown that the adoption of technology leads to higher human welfare. In the United States, automation is expected to cause a change in the activities of the labor force that is roughly as large as the change that has resulted from the long-term declines in employment within the agriculture and manufacturing sectors.

For workers in the Philippines, the scale of automation may prove to be less important than the pace. Will automation displace people from existing occupations more quickly than new jobs can be created to employ them? And will employees whose jobs have been automated be able to get the training they need to obtain work in other fields?

For now, it is hard to say. Low labor costs here have historically incited companies to limit technology investments. For example, the Filipino banking industry invests 3 to 4 percent of its revenues in IT, considerably less than the 7 to 8 percent invested by banks in other countries in the region. This could mean that organizations in the Philippines will adopt automation more slowly than organizations in advanced economies.

On the other hand, automation that relies mainly on software could be applied rapidly even in the Philippines and other emerging markets, because software can be sold at low price points more easily than equipment such as robotics. If companies in the Philippines start using automation software at a relatively early stage, they could create products and services that enable them to leapfrog their competitors. For example, according to the Business World, in the Philippines the software-centric ride-hailing companies Uber and Grab needed less than two years to *each* earn more booking fees than the 5 largest domestic taxi companies *combined*. Their achievements illustrate the speed at which digital challengers can outperform traditional companies.

In our experience working across industries, players who are able to integrate new technologies more quickly will reap greater economic rewards. To capture the benefits of automation, business leaders in the Philippines will need to reconfigure entire business processes. This will mean not only investing in technology, but also transforming their organizations and rapidly retraining workers. Policy makers will need to work closely with the business community to help ease employees through this transition, to allow the economy to capture productivity gains without increasing unemployment.

*Suraj Moraje is a senior partner and managing partner in McKinsey & Company Manila.*