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COUNTRY PAPER ON MEASURES FOR DEVELOPMENT OF EXPORT-ORIENTED INDUSTRIES AND THE PRESENT SITUATION AND/OR PLANS ON THE ESTABLISHMENT OF INDUSTRIAL FREE ZONES[1/]

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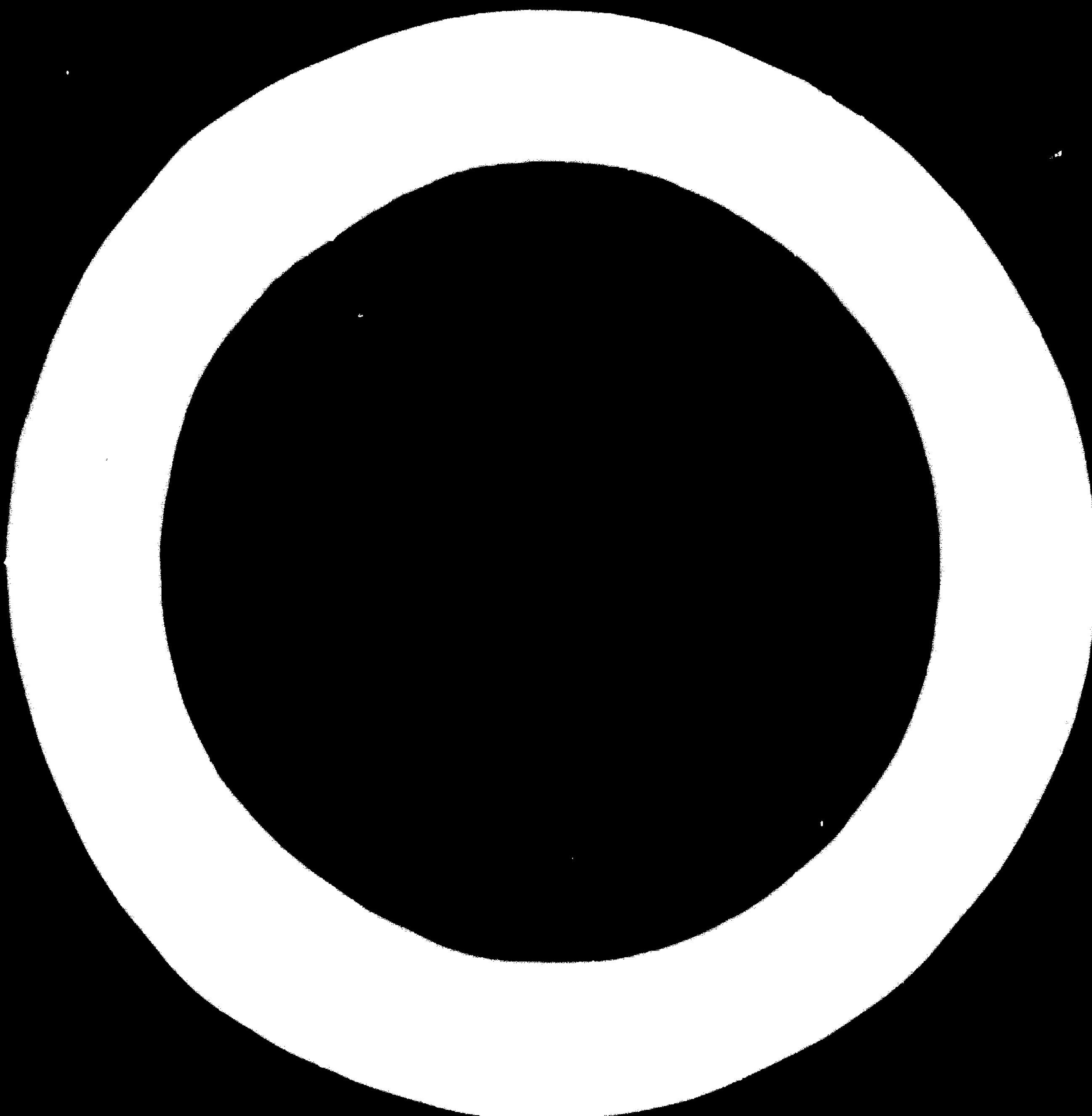

MEASURES FOR DEVELOPMENT OF EXPORT ORIENTED INDUSTRIES AND THE PRESENT SITUATION AND/OR PLANS ON THE ESTABLISHMENT OF INDUSTRIAL FREE ZONES

A hard look at the Philippine economy and policies pertinent thereto reveals the fact that only since 1970 has there been a concerted effort towards the development and promotion of exports.

Before that, there were laws and policy pronouncements geared towards the stimulation of investments in industries through various incentives like tax exemptions. By and large, however, such policies and statutes were geared more towards controlling imports and developing import substitute manufacturing industries.

This tenor of past economic policies resulted, among others, in difficulties concerning the foreign currency reserves of the country. Heavy importation of capital equipment involved in industries that sought to produce consumer goods that until then had been continously imported did not contribute to the building up of the country's dollar reserves.

Hence, drastic physical and monetary measures were adopted in late 1969 through 1970. These include the freeing of the par value of the peso in a free floating market. Primarily, this measure was to have a net effect of maximizing peso values of traditional Philippine exports. On the other hand, this measure further inhibits indiscriminate importation of consumer goods, specially those of the non-essential category. On top of this, the Central Bank has slapped outright prohibitions on importation of certain commodities.

In large measure, however, these moves, if at all, were incomplete attempts at overall promotion of the manufacture of exportable commodities. Thus, the Export Incentives Act (R.A. 6135) was passed in Congress and signed into Law by the President to give vigor to the export promotions drive of the Philippines. This was on August 31, 1970. This statute was enacted mainly to invigorate the country's export trade and accelerate its growth rather than rely on exportation of traditional primary products. Republic Act No. 6135 encourages the exportation of manufactured products, especially those that are labor-intensive. Aside from incentives that are mostly in the form of tax holidays, a definite funding scheme to implement programs designed to diversify Philippine export products and markets is also provided for by the law. The Board of Investments was charged with the responsibility of implementing the measure.

Based on reactions from the investing public since its enactment, the law proved to be a milestone in the export drive of the government.

On top of this, a law which was earlier signed by the President in June, 1969 was expected to give direct incentives to export-oriented industries. This statute is Republic Act. No. 5490, more popularly known as the Foreign Trade Zone Law. It establishes the country's first foreign trade zone in Mariveles, Bataan, a peninsula that guards the entrance to Manila Bay. Industries allowed to operate within the Zone were given the incentive of bringing in needed capital equipment, machinery, parts and raw materials, for purposes of processing, manufacturing, or assembling of exportable goods free from customs duties and taxes.

These two laws passed within a span of 14 months actually ushered in a period of accelerating export promotion and development.

The Foreign Trade Zone project in Mariveles, Bataan, is still in its developmental state. It is actually the first such free zone project although there have been earlier industrial estates projects, both government and privately-initiated. Such industrial estates do not provide incentives, however, that are extended to industries which would be allowed to operate in a free or foreign trade zone.

The Foreign Trade Zone has an aggregate industrial area of 1,320 hectares. Of this area, only some 560 hectares are utilizable. Development of the Zone is on a phase-by-phase basis, and initial targets involve three phases for light, medium, and heavy industries. The light industrial portion has net factory area of around 31 hectares out of a gross 65 hectares. Some 10 hectares of the 65 are alloted for administrative and service installations. The medium industrial area has an aggregate of 70 hectares with net factory area totalling some 64 hectares. Phase III, which is reserved for heavy industries like machinery and metal works, has a total hectarage of 150 with net factory area of some 134 hectares.

Once fully developed, these three phases alone would accomodate around 100 light and medium industries and some

10-15 heavy industrial installations. Five years from now, it is projected that these three phases would have employment totalling around 50-60,000 direct workers and annual exports in excess of $200M.

There are no immediate plans to establish other foreign trade zones in the country. However, this is due more to the constraints embodied in the Act establishing the foreign trade zone in Mariveles. To correct this limitation, an amendatory bill is now pending action in Congress, and once approved, the Foreign Trade Zone Authority, which is charged with the establishment, administration, and maintenance of free zones, would feel more free with respect to future planning. It is envisioned that within the next ten years, at least two more free trade zones would be established in other parts of the Philippines.

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