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INDUSTRIAL FREE ZONE ACTIVITIES IN THE PHILIPPINES WITH PARTICULAR FOCUS ON THE BATAAN EXPORT PROCESSING ZONE

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INDUSTRIAL FREE ZONE ACTIVITIES IN THE PHILIPPINES WITH PARTICULAR FOCUS ON THE BATAAN EXPORT PROCESSING ZONE

I. INTRODUCTORY

On June 21, 1969, President Ferdinand E. Marcos signed into law what is now known as Republic Act No. 5490 converting the Port of Mariveles as a Port of Entry, making Mariveles the site of the first "foreign trade zone" in the Philippines, and creating the Foreign Trade Zone Authority (FTZA) to establish and manage the foreign trade zone.

On November 20, 1972, President Marcos promulgated Presidential Decree No. 66 amending Republic Act No. 5490 by converting the FTZA, then an ordinary government office, into the Export Processing Zone Authority (EPZA), a corporation with all the powers of a corporate entity, giving it more authority and flexibility to attain its objectives, and clearly defining the incentives and privileges that may be extended to enterprises which set up their facilities in the Zone.

As of August 31, 1974, the Bataan Export Processing Zone (BEPZ) may be considered as an operating export-oriented industrial estate with 8 factories operating, 7 of them having made several exports of their products. Fifteen more companies await completion of their factory buildings before the end of the year at which time they expect to be operational.

Before and in-between these dates are events and situations which should be described in order to appreciate the social, economic and political forces which influenced the establishment, growth and directions of the BEPZ.

The exposition and analysis of the BEPZ experience should be appreciated with the awareness that this is the first experience in the Philippines with this type of economi vehicle. While lessons could be drawn from the experience of other jurisdictions such as South Korea, Taiwan, Singapore and Malaysia, these precedents had to be applied in a completely different, and many times incendiary, political setting that prevailed in the Philippines in the late 60's and early 70's. If the narrative is detailed at some points this was done to better explain the flow of events within the context of this study.

With this study, the following objectives are sought to be achieved:

1. To identify the policies and objectives of the government in establishing the BEPZ.
2. To discuss the measures and strategies undertaken to develop, make operational and manage the operation of the Zone.

3. To make an overall assessment of the results, both positive and negative, as well as describe observations and analyses of the reasons for such success or difficulties in the implementation of the Zone project.

From this study, it is hoped that valuable lessons may be drawn by government policy-makers and administrators with respect to the development of future zones.

II. GENERAL OVERVIEW AND BACKGROUND

The conception and development of the BEPZ spans two significant periods in the history of the Philippines. Conceived and started under the Old Society before the declaration of Martial Law on September 21, 1972, the project made tremendous strides and will be completed in the post-Martial Law period under the New Society. Considering the substantial differences in conditions prevailing in the country during the two periods, it is necessary to provide a brief description of each period.

A. Pre-Martial Law: The Old Society

1. Government Organization and Politics

The old structure of the government of the Philippines was patterned after that of the United States with three major departments: the Executive Department headed by the President; the Judiciary with the Supreme Court and inferior courts; the Legislative Department, divided into the House of Representatives whose members were elected from various Congressional districts all over the country, and the Senate whose members were elected at large.

Political leadership in the Philippines follows a traditional pattern of patternalism and personalism, where the leader is "godfather" to his constituents, and loyalty is measured on a "personal basis. Ascendancy to a leadershi position was achieved through the election process. Gradually, through the years, the elective officials particularly mayors, governors and congressmen became the symbols of success and power within the system. As a result, elections became very expensive affairs. The so-called "democratic process" was many times subverted as political candidates competed for votes by lawful means, or through the instrument of "guns, goons and gold". Politicians were not beyond using their positions to obtain resources to fund their private organizations and perpetuate themselves in power.

Most often, legislation turned to local and private bills designed to provide patronage and favor their respective constituencies. It soon became extremely difficult to legislate bills of national importance because these were invariably controversial or contrary to the interests of some congressmen. The Chief Executive could not secure from Congress the legislation necessary to implement his programs for the development and progress of the country. Legislative reforms were few, inadequate and too-far-between to provide the necessary impact and impetus to desired national goals. The ills of the country could not be resolved, thus providing the fertile grounds for unrest and dissatisfaction.

The situation smoldered until it exploded in the 70's. From January 1970, Greater Manila was rocked by continuous demonstrations of student activists supported and abetted by leftist groups, and by politicians out to embarrass the government. Many times, demonstrations would deteriorate into violence which invariably resulted in loss of lives and destruction of public as well as private properties. There was anarchy in the streets. To exacerbate the situation, irresponsible elements of media deliberately fanned the flames of unrest through highly inflammatory columns and articles. Political factionalism became even more pronounced sacrificing the imperative for sobriety in the face of national problems. In the outlying towns and provinces, communist-led forces escalated their activities from subversion into outright armed rebellion.

2. The National Economy and Development Planning

The postwar years between 1945 and the 50's were devoted to reconstruction and rehabilitation work initially, and then followed by government experiments with different development programs, none of which gave the economy the boost it needed.

The decade of the sixties provided better national economic planning and direction for development. This period saw the harnessing by government of so-called "young technocrats" to assist in economic planning and implementation. In the Executive Department, the Program Implementation Agency (later changed to Presidential Economic Staff) was organized to serve as the economic arm of the President. In Congress, the Economic Legislative Advisory Group (later changed to the Congressional Economic Planning Office) was also established to House of Representatives in economic legislation. These offices were staffed by bright young men, many of whom had graduate degrees from schools abroad. But the enthusiasm of these planners and implementors were many times frustrated by the existing system - a bureaucracy which bogged down from its own weight, an inflexible civil service system, and a Congress which failed to subordinate personal and parochial concerns to the national interest.

The efforts of the young technocrats did not go fully unrewarded, however. Through sheer persistence, in 1967, they were able to push through Congress Republic Act No. 5186, the Investment Incentives Act, which laid the basis for rational and sound economic planning and created the Board of Investments (BOI) to administer the law. In turn, the BOI, also staffed by young technocrats, was able to convince Congress in 1971 to enactta complementary measure, Republic Act No. 6135, otherwise known as the Export Incentives Act.

During the 60's, the performance of the economy remained lethargic. The growth of the gross national product ranged from 4.5% to 6.5% annually. The population increment was one of the highest in the world at 3% annually. Prices of various prime commodities continued to spiral upwards; the increase in per capita income was not fast enough to offset rising living costs. Unemployment was rampant; during the decade, it averaged at 7.5% of total labor force.

Export earnings were still largely traditional products with no trend towards meaningful diversification. Except for the year 1963, the Philippines experienced negative balances in its foreign trade during the entire decade. The national balance of payments, goods and services account also showed the negative picture except for the years 1963, 1965 and 1966. It was in this economic context that Republic Act No. 5490, the charter of the Foreign Trade Zone Authority, became law in 1969.

As the 1970s began, the prospects for economic expansion were bleak, and the economic future was uncertain. The economy had been caught in a struggle against formidable problems and forces - a struggle made more difficult by an unwieldy political system, which constrained government action. Besides civil disorder and social unrest, the country had to contend with the floods of 1972, whose massive destruction to agriculture, infrastructure and industry required extensive reconstruction and rehabilitation. International demand for our major exports slackened simultaneously with unsettling monetary realignments in the world economy. GNP grew by 5.2% in 1970, 6.5% in 1971, and plunged to 4.3% in 1972.

B. Post-Martial Law: The New Society

On September 21, 1972, in the exercise of his constitutional powers, President Marcos promulgated Presidential Proclamation No. 1081, imposing martial law throughout the country. In his proclamation, the President declared that martial law was instituted in order to: 1) save the republic; and 2) develop a new society. Under the martial law regime, the President rules by decree, thereby making the existence of Congress unnecessary. Unlike the ordinary connotation of martial law, however, the civil authorities continue to exercise supremacy over the military.

1. Government Reforms.

The declaration of martial law set the stage for a massive reform program in government. The first step was to restore peace and order. the confiscation of all firearms led to the disbanding of the "private armies" of politicians; an estimated 600,000 licensed and unlicensed firearms were collected. The mass dismissal or forced resignation of all undesirables in the government brought about a new morality and efficiency in the public service. Having been freed from the need to cater to the whims of politicians, and relieved from the burden of endlessly justifying their actuations to a "Congress of kibitzers", government officials could now proceed with their tasks on the basis of what is necessary and proper.

Freed from the shackles of a partisan and shortsighted Congress, the President was able to promulgate by decree measures which are now bringing about far-reaching benefits to the national well-being. Relevant to this paper are measures to organize the government and reduce bureaucratic controls, raise administrative efficiency and minimize graft, launch a land reform program, improve the country's tax, tariff, business and investment laws, strengthen the educational system, secure the health and welfare of the people, protect the workingman, and provide an atmosphere attractive to the entry of long-term capital investments.

Two of the Presidential Decrees involve the BEPZ directly. The first is Presidential Decree No. 66, amending Republic Act No. 5490. The second is Presidential Decree No. 545, further increasing the capitalization of the Authority.

2. The New Economic Miracle of Asia.

In less than two years after the emergence of the New Society, the national economy has been redirected towards well-defined goals of development and stimulated to unprecented levels of performance. Economic indicators point to the fact that the once sluggish business tempo has given way to a more accelerated pace of activity since 1973.

Gross national product after adjustment for inflation hit the 10% growth rate mark surpassing the government target of 7%, and more than doubling the 1972 growth of 4.3%.

Aggregate investments in 1973 increased by 9%, a significant improvement from the 0.8% growth in investments in 1972. Total applications for new investments received by the BOI for the year 1973 totalled ₱1.2 B, a 121% increase in the 1972 volume of ₱545.8 M.

The 1973 balance of payments registered a record surplus of US$671 M, an increase of 600% from the US$95 M experienced in 1972. The balance of trade in 1973 was a positive US$275.5 M as against a trade deficit of US$122 M in 1972. Export receipts in 1973 amounted to US$1.8 B versus US$1.1 B in 1972, an improvement of 64%.

The Philippine international reserves rose from US$282 M by year-end 1972 to US$874 M by year-end 1973, an increase of 210%. As of the end of the first quarter of 1974, the level of international reserves reached the all-time mark of US$1 B.

In 1974, the national budget shows that planned expenditures in pursuit of economic and social objectives comprise about 64% of the total planned expenditures of the government for 1974. About half of the planned expenditures or ₱1.4 B will go to infrastructure development. Allocation for agriculture and natural resources development is ₱2.4 B.

It is anticipated that the economic gains posted so far would continue. In the words of the Director General of the National Economic and Development Authority:

"Up to 1977, GNP is expected to grow by 7.0 percent annually - in a sense consolidating the gains realized within the period of the Four-Year Development Plan. When the full impact of the New Society's reforms are felt and domestic and foreign resources are adequately generated, the economy will move toward the 10-percent growth-stage, and ultimately toward an industrial society."

III. EPZA AND BEPZ: LEGAL BASIS AND FRAMEWORK

A. Legislative History

The economic potential of freeports or free trade zones as vehicles for national development were very well known to and appreciated by policy-makers and "young technocrats" of the Philippine government in the late fifties and in the decade of the sixties. But the establishment of a zone required appropriate legislation which would embody the tax and other incentives which only Congress had the power to extend. And herein lies the reason for the delay in establishing a zone, and after its establishment, in accelerating its development.

Like most countries in the world, under the Philippine Constitution, the members of Congress are composed of representatives from various provinces and congressional districts, each one with its special interests to promote and protect. In addition to the known benefits to the national economy, from a realistic viewpoint, it is obvious that the congressional district where the zone would be located stands to benefit the most. In the late fifties and the sixties, several bills were filed in Congress for the creation of freeports or free trade zones, but it was difficult to secure the cooperation of congressmen from other districts.

1. Republic Act No. 5490, June 21, 1969.

On February 7, 1966, Congressman Roman of the Province of Bataan filed House Bill No. 61516 entitled "An Act Declaring Mariveles in the Province of Bataan a Free Port". The bill was referred to the Committee on Ways and Means on July 25, 1967, and was debated in the floor of the House on August 7, 1967. As drafted, the bill was very short, simple and precise. It provided for the creation of a free port in Mariveles, Bataan. It defined the concept of a free port, which is, the tax-free entry of "articles, goods, wares or merchandise of any kind or class" to be "stored, assembled, sorted, cleaned, repacked or otherwise processed or manufactured and re-shipped." As proposed, the operation, management and maintenance of the free port would be placed under the control of the Commissioner of Customs who was given rule-making authority subject to the approval of the Secretary of Finance. No provision was made for appropriating funds for the project. Because of its apparently innocuous provisions, plus the excellent promotions work of its author among his fellow legislators, the bill was calendared for discussion.

During the debates, it was quite obvious that the bill as drafted was inadequate. Substantial amendments were introduced, and on June 21, 1969, the President signed the bill into law, now known as Republic Act No. 5490.

As approved, R.A. 5490 sought to amend the Tariff and Customs Code by designating Mariveles, Bataan as a principal port of entry. The same statute "established in the Mariveles Port a foreign trade zone" where foreign and domestic merchandise of every description may be brought in "without being subject to the customs and internal revenue laws and regulations of the Philippines." The law also provided for the creation of a Foreign Trade Zone Authority (consisting of a Chairman and 4 members) "to direct the management, operation and maintenance of the Zone and to provide necessary facilities and appurtenances thereof", "to determine and regulate the enterprises to be established within the Zone, to issue rules and regulations, and to appoint, fix remunerations, and remove for cause all officers and employees. The foregoing provisions summarize the entire breadth and scope of the legislation.

Obviously, the law suffered from serious deficiencies which would later, as in fact id did, impede the desired rapid development of the Zone into the industrial and manufacturing center envisioned by its proponents. Apparently, the basic idea was to start the project immediately, get the government immediately irrevocably involved, and then later secure amendatory legislation from Congress.

2. Presidential Decree No. 66, November 20, 1972.

The President, believing in the objectives of the measure, set out to provide all assistance possible, within the limits of his constitutional powers and subject to the constraints of the measure passed by Congress. The President activated the official machinery to set the project in motion; in the absence of a direct appropriation, he authorized the transfers of funds to the project, to the limited extent allowed by law; he made available support facilities like an Army Engineering Battalion, and equipment and other resources from other offices of the government.

Meanwhile, in three yearly regular and countless special sessions of Congress, attempts were made to pass amendatory legislation, but the selfishness, parochialism and shortsightedness so typical of the Old Society could not be overcome, and the amendments failed each time.

In dramatic contrast, in keeping with the imperatives of the New Society, in only two months of Martial Law, the President promulgated Presidential Decree No. 66 extending to EPZA the capability and flexibility necessary to achieve the objectives of creation of EPZA.

Presidential Decree No. 66 made up for the deficiencies of R.A. 5490. Under P.D. 66 -

a. FTZA, the old government office was converted into a corporation known as the EPZA and given the normal arsenal of powers enjoyed by a corporation;

b. EPZA was given a capitalization of ₱200 million to be released in accordance with its program of development and expenditures;

c. EPZA was given borrowing authority of up to ₱300 million in domestic loans, and up to $100 million in foreign loans;

d. The incentives necessary to attract investors to the Zone were carefully spelled out;

e. The rules governing the entry of foreign investors and technicians were defined;

f. EPZA was given "exclusive jurisdiction and sole police authority" within the Zone and all areas administered by it.

3. Objectives of the Law.

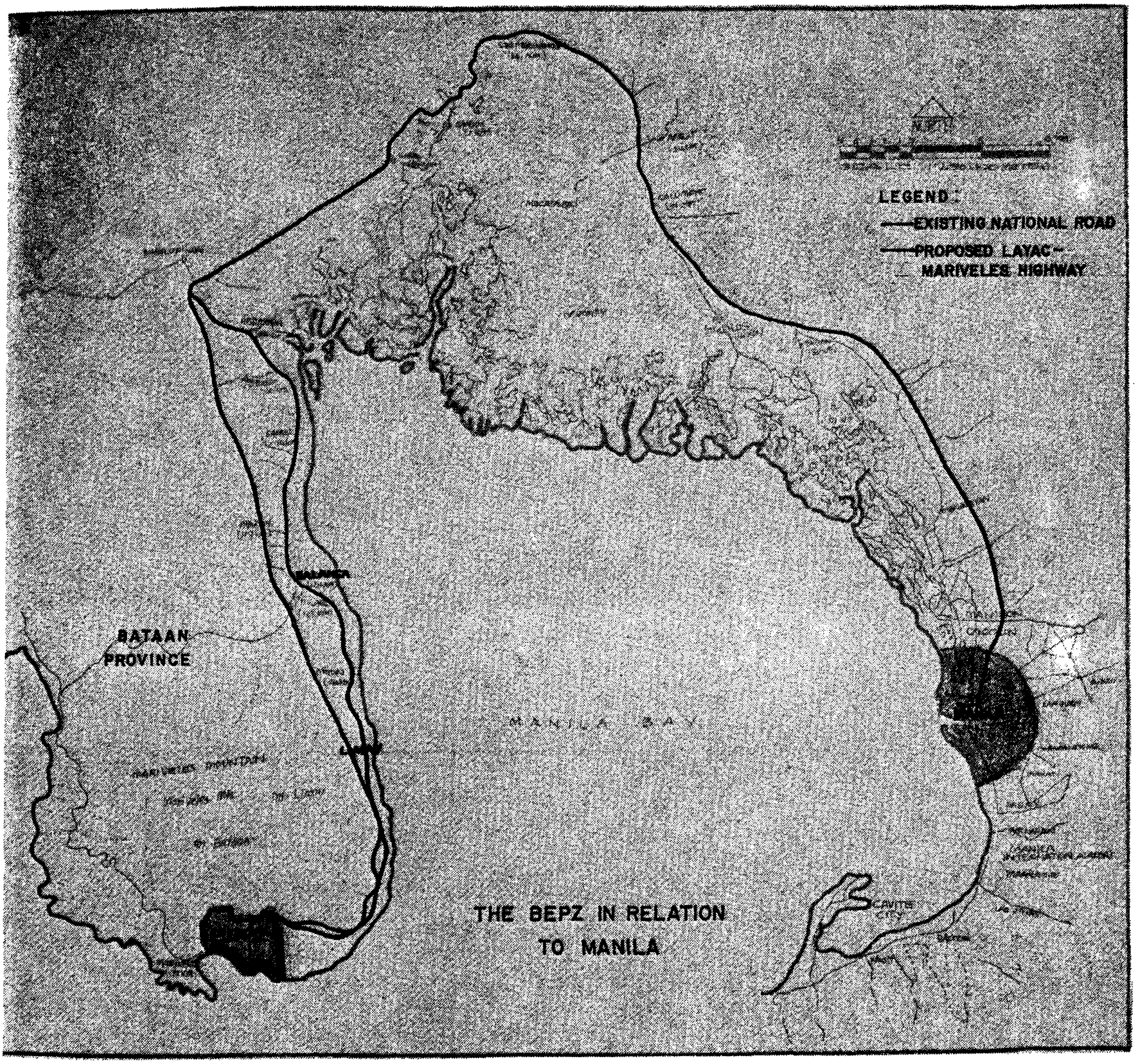
The legislation further articulated a set of objectives for setting up the Zone and these are: to stimulate and promote foreign commerce; to strengthen the foreign exchange position of the economy; to hasten industrialization of the country; to overcome domestic unemployment; and to accelerate the development of the country. Within the context of this broad statement of objectives are new economic policies which further justify the establishment of a Zone, and these include:

- a program for the dispersal of industries from the crowded urban areas and the creation of new satellite industrial cities in rural areas of the country;
- the diversification of export products from traditional raw or semi-processed indigenious materials to new exports of finished products;
- to develop living and working facilities for industrial labor consistent with international standards;
- to provide domestic and foreign investors the necessary infrastructures and customs and tax concessions to set up key manufacturing operations in the Philippines.

B. <u>The Site for the Zone</u>

1. Description of Mariveles: Socio-Economic Setting

Mariveles is located at the southern tip of Bataan province at the entrance to Manila Bay. It is 171 kilometers from Manila by land transport, 47 kilometers from the provincial capital, and 30 kilometers from the nearest town which is the site of an oil refinery, a fertilizer plant, a thermal plant, an explosives factory and the government arsenal. By sea or air, Mariveles is 55 kilometers from Manila.


LEGEND:
EXISTING NATIONAL ROAD
PROPOSED LAYAC-
MARIVELES HIGHWAY
BATAAN
PROVINCE
MANILA BAY
CAVITE
CITY
THE BEPZ IN RELATION
TO MANILA

Mariveles has a land area of 15,290 hectares, about two-fifths of which are relatively flat or rolling, and the rest are rugged and mountainous. Mariveles has been, and still is, a "village" type of community where basic community services and facilities are inadequate, substandard or even non-existent.

The 1970 census reports that Mariveles has 2,484 dwelling units for a total population of 16,157, which is 7.5% of the 215,609 population of Bataan province. Eight elementary schools accommodate over 3,000 pupils and three high schools house about 1,000 students. The population ten years old and over has a high 95.7% literacy rate.

The only hospital is a mental hospital. In addition to two clinics, the government has its usual complement of municipal health officers, nurses, midwives and sanitary inspectors. There are fifteen policemen and no fire department or firefighting equipment. Recreational facilities consist of two cockpits, three beach resorts, a bowling alley and billiard hall; there is no theatre. There are two markets, a few restaurants and a complement of small shops.

A 24-hour electric service is supplied by a cooperative. The poblacion and Barrio Nassco are supplied with water from two small dams both of which are inadequate; deepwells make up for the water deficiency.

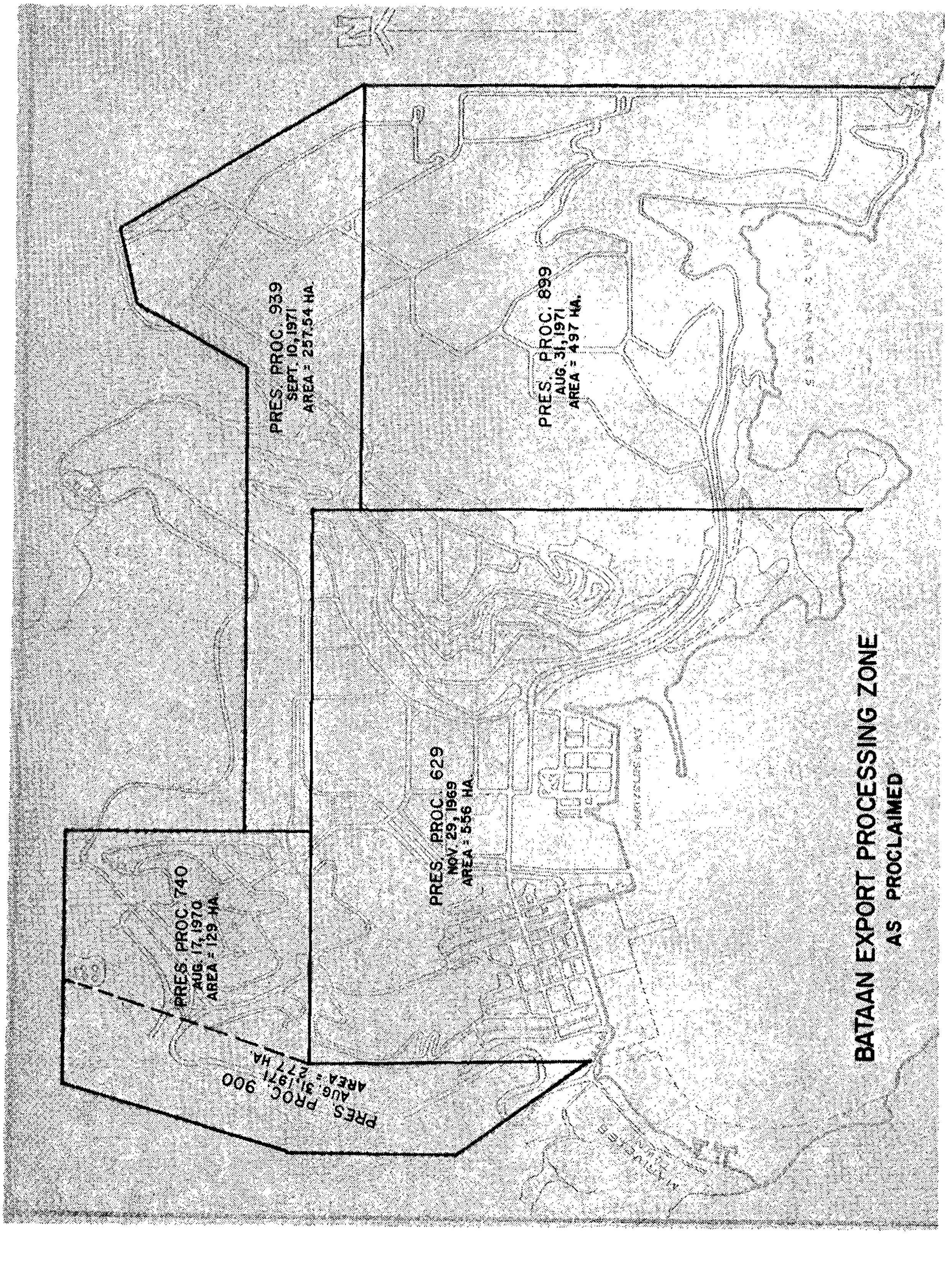
Mariveles is chiefly a farming and fishing community with 71% of its labor force engaged in these activities. However, farming and fishing activities are in the subsistence or at a small-scale level.

The only industrial activities provided in the community are the Bataan National Shipyards and the Bureau of Public Works rock quarry. BNS was established by the government in the early fifties as a ship repair facility; for this purpose, it has a graving dock, a slipway and machine shop facilities. It has a marginal wharf with a length of 590 lineal meters and three 45-ton cranes. It employs about a thousand people. The shipyard facilities occupied 30 hectares of land. Right next to it is a barrio or village of over 700 houses spread over fifty hectares of land where the BNS workers and their families stay.

The BPW quarry supplies the Greater Manila area with the rocks for seawalls and reclamation purposes. It employs about 200 people staying in a barrio of about 250 houses.

2. Delineating the Zone: Physical Setting.

Five months after signing Republic Act No. 5490, the President promulgated Proclamation No. 629 dated November 29, 1969 reserving the entire Bataan National Shipyards reservation consisting of around 556 hectares as the site of the Foreign Trade Zone. Within this area, are found the Bataan



BATAAN EXPORT PROCESSING ZONE
AS PROCLAIMED

National Shipyards occupying 30 hectares of land, Barrio Nassco which contains about 700 houses in a 15-hectare area and Barrio Camaya which had about 150 houses in a 20-hectare area. The area was a mosaic of hills, ricefields, marshlands, forested areas bisected by four rivers which overflow annually at the height of the monsoons. Concerned by the lack of expansion for the industrial area, the President reserved another 497 hectares on August 31, 1971. This time, the area consisted mostly of rolling hills, and as it was discovered later, covered by private titles and claims. On December 10, 1971, for the purpose of including within the Zone jurisdiction the site for the dam, an additional 268 hectares was included in the Zone reservation. This additional area consisted mostly of rugged hills. All told, the Zone has a proclaimed industrial site of 1,321 hectares.

It was early realized that the government would have to establish low-cost housing facilities to accommodate the expected influx of workers for Zone industries. On August 17, 1970, the President set aside 129 hectares for housing in an area contiguous to the industrial site. Subsequently, another 148 hectares was added to the previously reserved residential area in order to assure adequate land for low-cost housing and its complementary facilities. The residential area of 277 hectares is located north of the industrial area on a higher elevation of hills and valleys.

3. Rationale for the Choice of Mariveles.

At the very outset, as admitted by the author during the debate on R.A. 5490, the choice of the province of the province of Bataan, and specifically of Mariveles as the site of the Zone, is a political decision - made to fulfill an election promise and secured from Congress through the parliamentary skills of the congressman from Bataan.

But over and beyond the political exigencies, there were hard economic and geographical realities which make Mariveles an ideal site for the Zone.

a. Mariveles has a deep-water bay capable of accommodating ocean-going vessels. Mariveles is right at the entrance to Manila Bay through which passes all vessels going to and from the city of Manila. There is also an existing ship repair and pier facilities with berthing space for at least three ocean-going vessels.

b. The site is near enough to Manila, thus giving easy access to the city for purposes of commercial and financial transactions, plus conveniences and facilities which only a modern metropolis can supply. And yet, the site is far enough from Manila to encourage the creation of a new community, thereby avoiding population pressures which could further stretch to the breaking point the demands for police protection, garbage collection, school facilities and other services expected by a new community.

c. There are government reservations and public lands still available in the area to accommodate the industries and communities that would proliferate in the area. The government need not be involved in expropriation proceedings to acquire all the lands it needs for the project.

d. Development of modern and efficient port facilities in the Zone could relieve congestion at the Port of Manila only 33 miles across the bay. At the time of the creation of the Zone, considerable delays characterized the loading and unloading of ships and in moving cargo in and out of the piers. Graft was the rule of conduct, and smuggling at the piers became the norm.

C. <u>Resolving Problems of Jurisdiction</u>

1. With the Bureau of Customs.

The concept of an export processing zone eliminates the necessity for customs formalities in the movement of goods to and from the Zone. It was conceived that merchandise destined for the Zone shall be landed directly at the Port of Mariveles; by the same token, exports from the Zone would be shipped from the same Port of Mariveles. Unfortunately, at this stage, the volume of cargo coming in and out of the BEPZ is so limited as to make it uneconomic for a vessel to make the Port of Mariveles a regular port of call. Projections indicate that it will take until the end of 1975 before substantial volumes of cargo are generated by

Zone activities thereby making it attractive as a regular port of entry. Consequenlty, incoming as well as outgoing cargo are all transshipped through the Port of Manila.

Since the cargo being transshipped would be outside the Zone and moving within the Customs territory, the problem of responsibility and custody for such cargo arose. The problem was settled in a Memorandum of Agreement entered into between EPZA and the Bureau of Customs on January 5, 1973. Under the terms of said agreement, the Bureau of Customs agreed that importations to, and exportations from the Zone shall be governed by the systems, procedures and documentation prescribed by EPZA. However, while in transit, the merchandise shall be the joint responsibility of the Bureau of Customs and EPZA, requiring two sets of guards for every shipment to and from the Zone. As the volume of transshipped Zone cargo increased, the arrangement resulted in difficulties.

Considering that every shipment required that a Customs guard be away from his home base for at least 24 hours, it soon became a problem for the Bureau of Customs to provide guards to escort Zone cargo, causing delays in transshipment. In view of this difficulty and because of the efficient past performance of the EPZA guards, the EPZA-Bureau of Customs Memorandum of Agreement was amended on August 30, 1974 for the purpose of extending sole responsibility to the EPZA for transshipped Zone cargo.

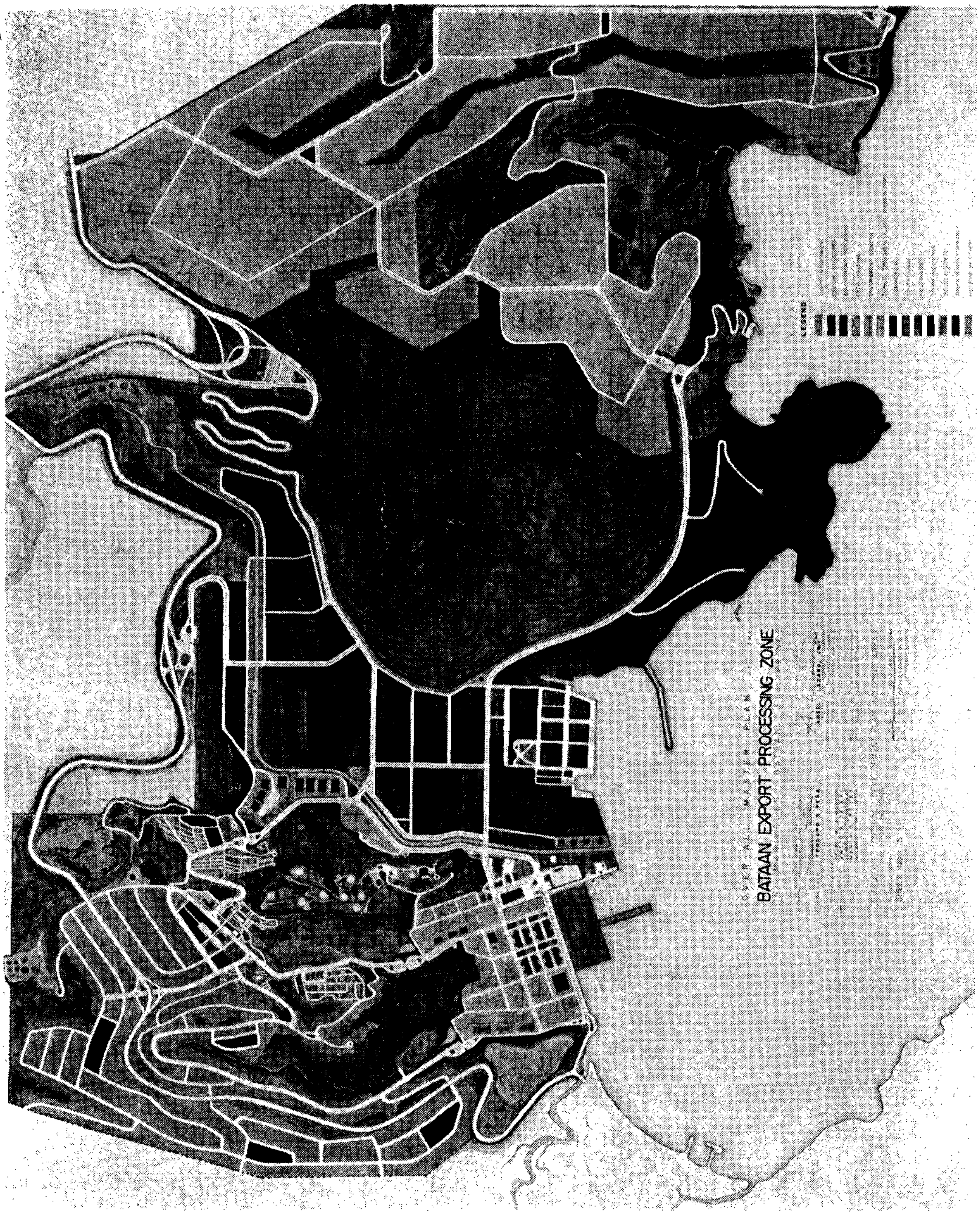
2. With Local Officials.

Republic Act No. 5490 failed to define the boundaries of jurisdiction between EPZA on the one hand, and the municipal officials of Mariveles where the Zone is located, and the barrio officials of the three barrios inside the Zone. Under Philippine law, barrios and municipalities are political entities, each with a package of powers within their respective territorial boundaries. Thus, the barrio captain and council exercise authority over local peace and order, while the municipal mayor and council had local taxing powers and over-all responsibility for the health, welfare and safety of the community. It was within their power for instance, to require building permits for the construction of factory buildings, work permits for construction and factory workers, license fees for the operation of enterprises and the approval of subdivision plans, and to impose taxes on the products of Zone enterprises.

Thus, while EPZA was working for the development of the Zone, and encouraging enterprises to put up their factories thereat, the municipal government was at the same time insisting on requiring building construction permits and work permits, which, of course, was directly in conflict with representations made that potential investors to the Zone had to deal with only one government office, the EPZA.

The situation became so intolerable in that construction workers and Zone enterprises were being harassed by the municipal policemen under orders from the Municipal Mayor and our efforts to relocate the barrio residents away from the industrial sites were met with resistance by the barrio council. Prospective investors were also appalled by the prospect of their products being taxed by the municipal council. As a result, the relationships between EPZA officials and local officials became very strained to the point of clashes taking place between municipal police and Zone policemen before martial law.

The situation was resolved by Presidential Decree No. 66 in two provisions thereof. The first explicitly stated that the EPZA shall have "exclusive jurisdiction and sole police authority over all areas owned or administered by the Authority." The second directed that Zone enterprises shall "be exempt from the payment of any and all local government imposts, fees, licenses or taxes."


BATAAN EXPORT PROCESSING ZONE

IV. PLAN FORMULATION

Contrary to normal procedures, the start of development of the Zone preceded the adoption of a formal master plan and feasibility study. There was considerable pressure to start work on the Zone soonest. Even before an office staff was organized, an engineering battalion from the Armed Forces of the Philippines with a complement of earth-moving heavy equipment was assigned to the Zone, and it was essential that their services be utilized immediately. On the basis of preliminary studies, the engineering battalion was given the task of initial site preparation - cutting the hills and filling the low areas. While they were thus engaged, conceptualizing and planning the Zone went ahead.

It should be stated here that the tasks of preparing a master plan and the project feasibility study are continuing processes. Thus, one of the lessons learned in the development of this industrial zone is that plans and studies are guides to development subject to continuing changes depending on the realities of the situation and actual field conditions.

A. Nature and Scope of the Zone

1. Why an Export Processing Zone?

One of the earliest policy decisions which had to be resolved by the then Foreign Trade Zone Authority (FTZA) was the identification of the overall concept of the Zone. Would it be a free trade zone or trading center in its broadest sense in the manner of Hongkong or Singapore? Would it be merely a warehousing and re-packaging midway point for the distribution of products in Southeast Asia as exemplified by Colon, Panama or the New York Port Authority? Or would it be the new concept of export processing zones which have developed over the last decade in the image of the Kaohsiung Export Processing Zone in Taiwan or the Masan Export Processing Zone in Korea?

As conceived in R.A. 5490 and confirmed during the legislative debate, the Zone could be utilized in the broadest sense as a commercial and trading center like Singapore and Hongkong. And yet, considering the limitations of the site chosen for the Zone where population was small, where the area was nothing more than an agricultural and fishing village with minimal commercial activities, the idea of a trading center was a bit farfetched. Perhaps in 10 years or even 20 years, this would be a possibility. But at its inception, the goals should be limited to more practical and realistic levels.

Nor would it be particularly attractive to invest substantial amounts for a zone which would be used merely as a transshipment area - for warehousing, and repacking of goods and commodities to be distributed to other countries and regions. The returns to the economy would be minimal. Since the national orientation was to provide more employment and to help lay foundations for the industrialization of the country, industrial zone would be more in keeping with these objectives.

Four government agencies, the Presidential Economic Staff (PES), Board of Investments (BOI), the National Economic Council (NEC) and the Foreign Trade Zone Authority (FTZA) were asked to make a joint study on the matter. Their recommendation to develop an export processing zone, and which was approved by the President, follows:

> "1. It is not desirable and feasible at the present stage to develop the Foreign Trade Zone into a trading center in the concept of Hongkong because it would
>
> - create the problem of valuation for component materials of manufactured products in the Zone, thereby rendering tariff protection ineffective and injuring domestic industries outside the Zone.
> - aggravate the problem of smuggling in the country
> - take time before the area could be developed and provided with facilities to attract tourists who would avail of its duty-free advantages.
>
> 2. An export processing zone is consistent with the primary objectives of the law which are:

- to expand foreign commerce
- to generate foreign exchange for our economy
- to increase employment opportunities.

3. Foreign manufacturers are looking for low-cost processing zones for their export products in an effort to keep their prices internationally competitive. Developing Mariveles into an export processing zone with necessary incentives provides the Philippines with the vehicle for attracting these foreign investors."

2. What Types of Industries are Admissible?

The next issue to be resolved was the determination of the types of industries that would be encouraged to locate their export processing activities within the Zone. Would it be limited to light labor-intensive industries? or should it include medium or heavy industries?' Again, the matter was the subject of a joint study of four government economic planning agencies whose recommendation to concentrate initially on light labor-intensive industries was approved by the President. Their report reads:

"1. In the planning of industrial estates, it is normal to start with the development of light industries to promote labor-intensive enterprises because

- the shorter gestation period for a light industry means faster benefits to the economy.

- on a relatively lower capital investment, a high rate of return in terms of employment and foreign exchange earnings may be achieved.

- our scarce resources and facilities limit our options initially to the development of light industries.

> 2. When necessary resources and facilities are available, medium or heavy industries may be accommodated."

Consistent with the foregoing policy decision, FTZA made a listing of admissable light manufacturing, processing or assembly activities which would be accommodated in Phase I of the Zone. This listing includes: ceramics/glassware, confectioneries, cosmetics, electronics/electrical products, food manufacture, paints/oils/waxes, optical products, plastic products, pharmaceuticals, threads and yarns, furniture, garments, handicrafts, knitted goods, leather goods, light metals, woodcraft, synthetic textiles, precision instruments, rubber products, and other light, labor-intensive and export-oriented industries.

But even before the completion of the Phase I industrial estate, intervening economic developments in the country accelerated development of the medium-heavy industrial estate. The government, through the Board of Investments, in an effort to rationalize the car manufacturing industry in the Philippines imposed what is now known as the Progressive Car Manufacturing Program. Through this program, only five assemblers were chosen to continue in the assembly of motor cars with various incentives but with the condition that these assemblers would progressively increase the "local content" of the cars they would assemble. One of the five assemblers chosen was Ford Motor Company.

After detailed studies, Ford Motor Company decided to locate its car body stamping plant in the BEPZ. For this purpose, Ford needed an initial area of 16 hectares with an option for another 10 hectares as an expansion area. Since the Phase I development was intended for light industries and was divided into small lots, it became imperative that Phase II be developed immediately. The Ford car body stamping plant representing an investment of US$39 million will be operational in December, 1974. Two other plants in Phase II - a knitting plant and a wood processing mill will also be completed by year-end. It may be recalled also that Phase III had an existing ship repair facility which was going to expand into shipbuilding. Thus, Phases II and III were earmarked for medium and heavy industries: automotive plants, shipbuilding, metal and machinery works, helicopter and heavy equipment assembly, and other similar industries.

3. May Zone Products be Sold in the Customs Territory?

To what extent would a Zone enterprise be allowed to sell its products in the domestic market?

The basic jurisdiction for the creation of the BEPZ is, of course, to generate exports. R.A. 5490, however, explicitly stated that goods manufactured in the Zone may be sold in the domestic market upon payment of customs duties and import taxes. But it was not altogether desirable that an unlimited volume of Zone manufactured products should be allowed in the domestic market. Historically, the government, through a series of legislations extending various types of incentives, went out of its way to encourage the setting up of industries in the country. Obviously, goods manufactured in the Zone could provide unfair and destructive competition to products manufactured by enterprises in the domestic market which operated under the umbrella of said incentives acts. To obviate what would obviously be an inconsistency in economic policy, the four economic agencies of the government recommended that sales of Zone products in the domestic market should be prohibited except where such commodity is not manufactured in a commercial scale in the domestic market. In the words of the joint report:

> "1. It is not desirable to allow an unlimited privilege to bring goods produced in the Zone into the customs territory upon more payment of taxes and duties thereon because
>
> - new avenues for smuggling would be opened
> - domestic industries producing similar goods would be adversely affected.
> - complex administrative problems would result from the random distribution of the products of a factory into both domestic and foreign markets.

> 2. However, consistent with the objectives of the Act, Zone export enterprises shall export their entire output or production. The Authority may allow a portion of the production or output of a Zone export enterprise to enter the customs territory, subject to payment of the corresponding taxes and duties, where there is a shortage of the product in the domestic market, and where such entry will not adversely affect any domestic industry in the customs territory, subject to existing rules and regulations. This is consistent with the intent and objectives of the law."

As a matter of administrative expediency, the EPZA Board has also allowed sales in the domestic market of seconds, rejects and products of trainees. In effect, sales in the domestic market is allowed as an import substitute.

What should be the customs and tax treatment of Zone products sold in the domestic market? Except for imported machineries and raw materials, all the other components in the manufacture, assembly or processing in the Zone would already be considered as Philippine; labor would be Philippine; water, power, land or building rentals and other elements of operating costs would be Philippine. It would be incongruous to impose import taxes on the Philippine elements of the manufactured product. Hence, P.D. 66 provided that customs duties and import taxes would be levied only on the original imported materials or components of the product. The value added in the Zone, which are Philippine, are not included in the computation of import taxes and duties.

B. Targets and Projections

On the basis of the development of Phases I, II an III, the EPZA projects substantial contributions to the Philippine economy to be achieved within the next 5 year contributions whose cumulative effect would go far beyon the figures hereinafter cited.

1. Zone Occupancy: Number and Types of Industries

The 5-year projection for the occupancy of the Zon shows that by June 30, 1978, the Zone would have at leas 84 factories classified thus:

PROJECTED BEPZ INDUSTRY MIX AND OCCUPANCY TIMETABLE

Phase		Industry	73-74	74-75	75-76	76-77	77-78
I	1.	Wearing Apparel	5	11	9		
	2.	Handicraft	-	2	8		
	3.	Electronics and Electrical Products	-	3	4		
	4.	Chemical Products	-	2	4		
	5.	Light Metal Fabrication	-	4	2		
	6.	Plastic Products	-	1	2		
	7.	Leather Products	2	3	1		
	8.	Optical Products	-	1	2		
	9.	Food Products	-	1	2		
		Sub-Total	7	28	34		

II	1.	Automotive	-	1	2			3
	2.	Metal Works	-	1	2			3
	3.	Woodcraft	-	1	1			2
		Sub-Total	-	3	5			8
III.	1.	Textile Mills (Integrated)	-	1	1	1		3
	2.	Machinery	-	-	1	1	1	3
	3.	Shipyard	1	-	-	-	-	1
		Sub-Total	1	1	2	2	1	7
		GRAND TOTAL	8	32	41	2	1	84

2. Direct and Indirect Employment

The enterprises within the BEPZ are projected to employ a total of 40,940 factory workers by June 30, 1978. It would be in FY 1974-1975 and FY 1975-1976 when the Zone would be most active with the entry of thousands and thousands of factory workers as more industries become operational. The categories of projected employment are:

PROJECTED BEPZ FULL EMPLOYMENT

Phase		Industry Category	Aver. No. of Employees Per Company*	Employment
I	1.	Wearing Apparel	450	13,120
	2.	Handicraft	365	3,650
	3.	Electronics and Electrical Products	390	2,890
	4.	Chemical Products	280	1,680

	5.	Light Metal Products	350	2,450
	6.	Plastic Products	300	900
	7.	Leather Products	425	2,047
	8.	Optical Products	415	1,245
	9.	Food Products	430	1,290
		Sub-Total		29,272
II	1.	Automotive	700	2,100
	2.	Metal Works	500	1,500
	3.	Woodcraft	284	568
		Sub-Total		4,168
III	1.	Textile Mills (Integrated)	1,000	3,000
	2.	Machinery	1,000	3,000
	3.	Shipyard	1,500	1,500
		Sub-Total		7,500
		TOTAL FACTORY WORKERS		40,940

*Based on employment requirement supplied by Zone enterprises.

The multiplier effect of this magnitude of direct employment would, in turn, generate a considerable number of employment opportunities for other people who would be rendering services to the direct workers and their families. The service workers would include every conceivable service and convenience found within a modern community including barbers, beauticians, salesgirls in commercial centers, service personnel of recreational facilities, drivers, food producers and suppliers, waiters and waitresses in restaurants, doctors, nurses, nutritionists, architects, engineers, lawyers, schoolteachers, business executives, etc. Using a factor of 2.6 indirect employees for every direct employee, the indirect workers of the Zone could number 106,444. This would mean a total direct and indirect employment of 147,384 generated by the Zone. If this number were multiplied by 6 which is the typical number of members in a Filipino family, then it may be claimed that the BEPZ by June 30, 1978, would be benefiting about 884,304 Filipinos.

3. Investment Magnitudes

Capital investment in the Zone may be classified into government investment as well as private sector investment. As of mid-year 1972, the capital expenditure of the government for the development of the Zone industrial as well as the housing area was estimated at about ₱500 M. By March, 1973, this estimate had escalated to about ₱700 M. Today, as a result of inflationary pressures and the oil crisis, the costs of development are now estimated at ₱1 B.

The high government capital investment is more than adequately compensated by a bigger contribution from the private sector in terms of factory buildings constructed, machineries and equipment installed and operating capital.

Already in terms of actual figures taken from the project studies of registered Zone enterprises for the fiscal years 1973-1974, 1974-1975, investments of the private sector have reached a magnitude of almost a billion pesos. By the time it is fully occupied by June 30, 1978, additional project costs of Zone enterprises would be in the magnitude of about ₱1.5 B, thereby bringing the investment of the private sector in the Zone to an aggregate of ₱2.5 B.

4. Exports.

In terms of export earnings, on a conservative estimate of an annual average of US$3 M exports from each factory, the total annual foreign exchange earnings of the Zone by June 30, 1978 would reach the magnitude of about US$250 M. It will be recalled that total export proceeds in 1973 amounted to US$1.8 M. The operation of the Zone would mean an addition of ten (10%) per cent to the export earnings of the country when Zone enterprises become fully operational.

C. <u>How Big an Area Should be Developed?</u>

As originally planned, the development of the industrial Zone would be done in 2 stages: Stage I, consisting of 250 hectares covered by Phases I, II and III, and Stage II, consisting of about 280 hectares included in Phases IV, V and VI.

On the basis of the employment generated by Stage I alone, a new population of 300,000-500,000 people would developed in southern Bataan within the next 5-10 years. The task of housing these people, and providing them with all the community amenities would be considerable. In addition, there is a primary constraint of water. The dam being constructed would have capabilities just about equal to the demand of the industrial facilities and housing inside the Zone; the communities that would be developed outside the Zone would have to be provided with independent sources of water.

Developing the additional 280 hectares in Stage II into factory sites would mean virtually doubling the projected population increase generated by Stage I. Conceivably, there would be overcrowding and a possible breakdown in community services involving police protection, garbage collection, provision for schools, recreational and medical facilities and all the other myriad conveniences normally expected in a modern community. It is also doubtful whether additional substantial sources of water could be tapped for the area. Over and beyond this would be the serious policy question of whether it would be wise for the government to continue investing substantial sums in the same area where the initial gains could be expanded by private sector initiatives.

Consequently, the EPZA Board of Commissioners had adopted a policy decision and had recommended to the President:

- That the development of the BEPZ should stop with the completion of Phases I, II and III providing an industrial area of 250 hectares;
- Consistent with the program of dispersal of industries, additional zones should be developed in other areas of the Philippines where benefits therefrom could still be maximized.

D. Funding the Project

The biggest problem of the Authority was the non-availability of funds for the project. It will be recalled that R.A. 5490 did not provide an appropriation for the development of the Zone. Until P.D. 66, which provided a fixed capitalisation for the Zone, it was virtually impossible to formulate a development program because we could never anticipate how much funds would be released and when these would be released. And this was because the Authority could only rely on the limited power of the President to transfer for Zone development the "savings" of other government agencies. Thus, during fiscal year 1969-1970, the first year of operations of the Authority, the Zone had only ₱780,000 which were contributed: ₱500,000 from the Bureau of Public Works, ₱80,000 from the Bureau of Customs, and borrowings of ₱100,000 each from the Philippine National Bank and the Development Bank of the Philippines.

For purposes of the study, the funding of the Zone may be classified into the pre-Martial Law period and the post-Martial Law period. In the three years before Martial Law, total releases for the project amounted to a mere ₱24.86 M. for a ₱500 M project. The releases were made at the rate of ₱0.780 M for FY 1969-1970, ₱17.52 M for FY 1970-1971, and ₱6.64 M for FY 1971-1972.

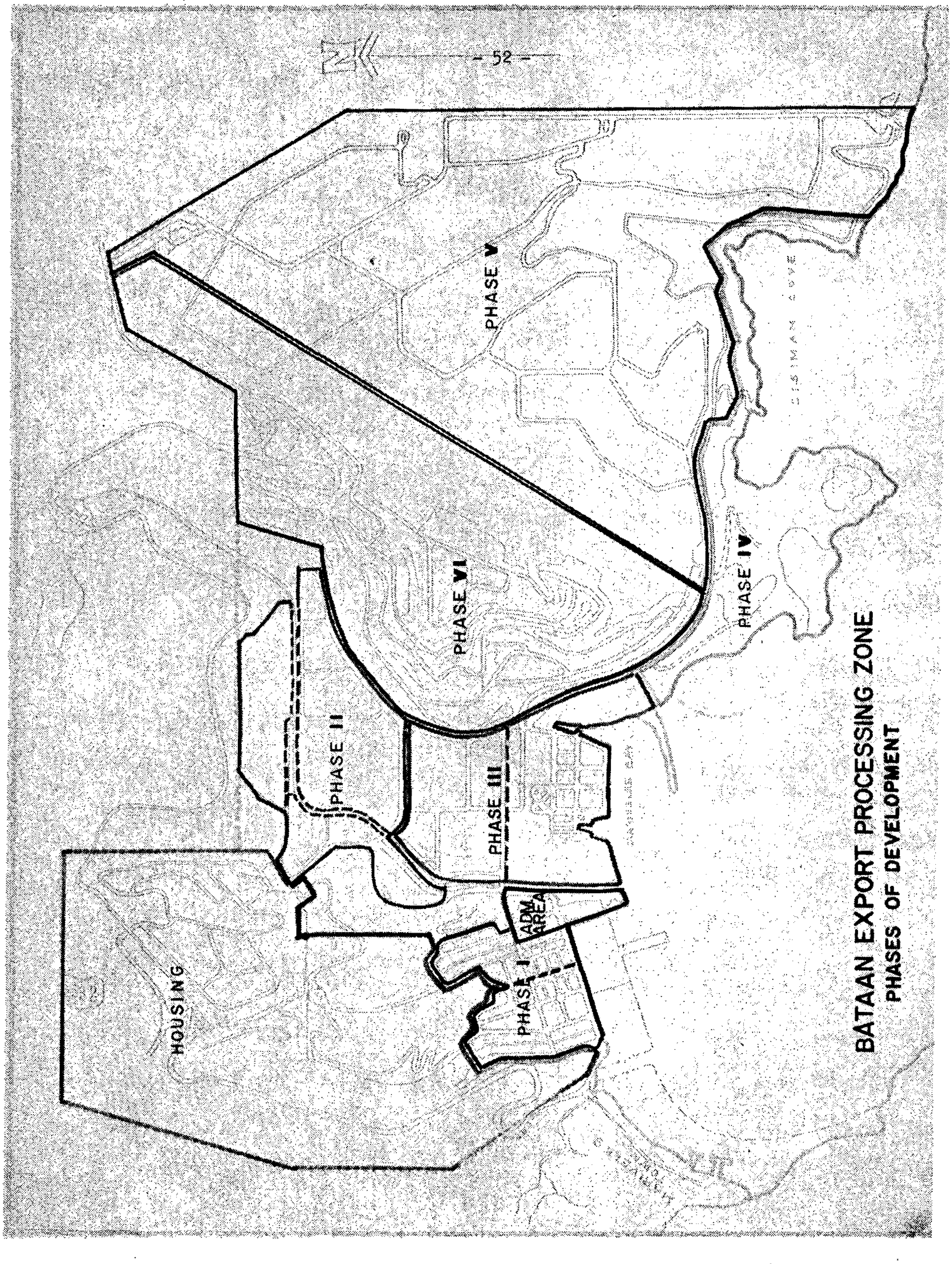
The post-Martial Law period brought about a radical change with the promulgation of P.D. 66 which provided the EPZA with the fixed capitalization of ₱200 M, plus domestic borrowing authority of ₱300 M and foreign borrowing authority of US$100 M. With this fixed capitalization, the releases of funds had been: ₱49.15 M for FY 1972-1973; ₱74.39 M for FY 1973-1974; and a programmed amount of ₱76.46 M for FY 1974-1975. EPZA has also borrowed ₱20 M, and is negotiating for additional loans of ₱104 M and US$15 M.

Furthermore, to increase the capabilities of the EPZA for achieving its objectives and to assure the continued development of the Bataan Export Processing Zone, the President promulgated Presidential Decree No. 545 on August 28, 1974, increasing the capitalization of the EPZA by 100% to a total amount of ₱400 M. With this capitalization, complemented by domestic and foreign borrowings, the EPZA would have adequate funds for the completion of the Bataan Export Processing Zone.

V. PROGRAM IMPLEMENTATION

The over-all objective is to convert the Zone into an industrial park with all the conveniences and facilities required by modern factories. This requires site preparation, construction of roads, installation of storm drains and sewer lines, installation of water distribution systems and power distribution systems, laying of communications lines and providing facilities like workers' cafeteria, medical clinics, firefighting equipment, recreation areas and other support facilities. Obviously, all of these could not be done simultaneously.

The meager resources available made it necessary to divide the development program into phases, each phase being further subdivided into scopes. The strategy was to provide each scope with all the facilities and utilities that would assure the viability of a factory that would locate within such area; development work would shift to another scope or phase only when completion of a previous scope is assured by resources available. Where funds are available and the project so required, utilities and facilities common to the different phases and scopes would be developed. The planners and implementors of the program were guided by the need to maximize utilization of funds made available from time to time.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PHASE V
PHASE VI
PHASE IV
PHASE II
PHASE III
ADM. AREA
PHASE I
HOUSING
BATAAN EXPORT PROCESSING ZONE
PHASES OF DEVELOPMENT

A. Three-Phase Development

1. Phase I - 63 Hectares

Phase I consists of Scope 1: 19 hectares; Scope 2: 25 hectares; and the Administration area: 19 hectares.

Phase I was chosen as the site for the initial development because it posed the least number of sociological problems. In Phase I, Scope 1, only ten houses were relocated; in Phase I, Scope 2, about seventy houses had to be transferred. But the terrain on Phase I was the most difficult. It was broken by three ridges with two ricefields and a marshland in-between which were invariably flooded during the monsoons. The center hill was levelled, the sides of the other hills were cut and all of the earth spread into the lower areas, raising the elevation by as much as four to eight meters as protection against floods. The rivers which meandered around the area were straightened, widened, and deepened to function as main storm drain canals.

On January 31, 1974, the Army engineers broke ground for the development of what is now identified as Phase I, Scope 1. It took a year to prepare the site and provide all of the facilities required. By February 1971, the first Zone registered enterprise started construction of its factory building. Attention shifted to Phase I, Scope 2 in early 1971, and development in this location was completed in mid-1972.

A centrally located area of 19 hectares has been reserved for the administration building and other support facilities for the Zone, including space for three bank buildings, a post office, communications center, firefighting facilities, a clinic, police headquarters, and a warehouse. Site preparation of the area has been completed and construction of the administration building will commence before year-end. Construction of the other structures will follow thereafter.

2. Phase II - 91 Hectares

In early 1972, the Army engineers started the site preparation of Phase II, Scope 1 consisting of 14 hectares. The area was forested; the terrain was rolling land and rivers, and again, a cut-and-fill type operation was used to make the area suitable for industrial purposes. The importance of development of Phase II, Scope 1 lies in the fact that it leads to the area earmarked for low-cost housing; in effect, the idea was to pave the way for the development of the housing area and the construction of apartments and dormitories. The laying of utilities in Phase II, Scope 1 was completed in early 1974.

Phase II, Scope 2, consisting of 55 hectares, is a relatively flat area. This area was chosen by Ford Motor Company for the location of its car body stamping plant.

Unfortunately, there were 170 residential houses located therein, the residents of whom were so hostile to the EPZA to the point that we could not even send a survey party to the area. The other difficulty was the fact that a big river flowed right through the Ford plant site. The Authority constructed a huge canal at the foothills north of the Ford area to act as an interceptor canal for floodwaters from the hills and as diversion canal for the river.

Two days after the declaration of Martial Law, the Authority was able to penetrate the area, started site preparation thereat and relocated the 170 houses to a new residential area. Ford started the construction of its factory before the end of 1973, which factory would be operational by the end of 1974. The utilities in Phase II, Scope 2 are being laid and would be completed by the end of 1974.

Phase II, Scope 3 located north of and across the interceptor canal from Phase II, Scope 2 is being reserved for expansion purposes. It will not be developed until the need for such expansion arises.

3. Phase III - 99 Hectares

Phase III, Scope 1 consisting of 49 hectares poses the biggest problem to the Authority. It is the location of a substantial village of about 700 houses. Plans had been completed for the relocation of these houses during the last quarter of this year. Site preparation, laying of the road network and the placing of utilities in Phase III, Scope 1 will begin in early 1975 and should be completed by the end of the year.

Phase III, Scope 2 consists of 30 hectares now occupied by a shipyard plus an additional 20 hectares for its expansion. The further development of the shipyard and its expansion area is the responsibility of the owners of the shipyard, the Bataan Shipyard and Engineering Co., Inc.

4. Water Supply

On the basis of the projections on the population of the industrial as well as the housing areas, it was obvious that a very substantial amount of water would be required to make the Zone viable. To this end, plans were immediately laid for the designing and construction of dams and reservoir Work on the design and construction of Dam No. 1 has been going on since last year, and on the basis of present schedules, the storing of water in the reservoir could commence in June 1975 with the dam scheduled for completion in Decembe 1975. The earth-fill dam would have a reservoir capacity of 1.8 B gallons and would be constructed at the cost of ₱84 M. It is 70 meters high, 370 meters long and 11.25 meters wide at the crest to accommodate a 4-lane highway.

At present, the water requirements of Zone enterprises and construction workers are being supplied from several springs and deepwells which were developed. The combined capacity of these springs and deepwells is 740 gallons per minute and considered to be adequate until early 1975.

Meanwhile, seven rigs are in the Zone digging wells for water. It is anticipated that substantical water would be generated from these deepwells - sufficient to meet the requirements of future enterprises until the dam is completed.

5. Power

Power in the Zone is supplied by the National Power Corporation from its Bataan Thermal Plant, 55 kilometers northeast of the Zone through a 69 KV line. By next year, the National Power Corporation has to change this 69 KV line to a 230 KV transmission line.

The Zone is now supplied by two 10,000 KVA substations plus an 8,000 KVA substation for the Ford plant and another 5,000 KVA substation for the shipyard. Two new 10,000 KVA substations would be installed in February 1975. The forecast is that when fully operational, the Zone and the housing area would require 120,000 KVA of power.

B. Support Facilities

It is not enough for the EPZA to be concerned with the industrial estate per se and the basic facilities necessary for manufacturing operations. Support facilities are essential. And this could be provided either directly by EPZA or through related government agencies and/or the private sector. The concern of the EPZA for support facilities was made more imperative by the relative isolation of the Zone and the socio-economic setting of its surrounding areas.

1. Administration Building

Before the end of this year, the EPZA would commence construction of its administration building. Initially, it would have three storeys and a basement for utilities with a total floor area of about 7,000 square meters. When and if necessary, the administration building would not only house the offices of EPZA, but would also accommodate other government offices whose functions are related to the operations of the Zone, such as the Bureau of Customs, the Bureau of Internal Revenue, the Bureau of Immigration, and the Central Bank of the Philippines, and perhaps a travel and tourist office. For the convenience of the Zone enterprises, it will have a theater and convention hall to accommodate about 450 people. The building is expected to be completed by November, 1975. At present, the offices of the BEPZ are located temporarily at prefabricated school-buildings.

2. Banks

In preparing the master plan for the Zone, space was allocated for the construction of three bank buildings. The Monetary Board has just named the three banks that would be allowed to locate in the Zone, and these are expected to operate by October 1974. As a condition to their location in the Zone, the EPZA has required each bank to construct a building of 3-5 storeys, with a floor area of 600 square meters on each floor. The bank would occupy the first floor and the rest of the office spaces would be leased to other companies whose service may be essential to the operation of Zone enterprises, such as auditing firms, insurance companies, brokerage and other service-oriented offices. The banks are expected to start the construction of their buildings in early 1975.

3. Communications

Very basic are facilities for rapid communications, such as telegraph, telephones, telex and post office facilities. The Bureau of Posts and Telecommunications has set up a post office and telegraphic facilities in the administrative area of the BEPZ. ITT designed and is now laying the internal telephone communications network. The telephone system in the Zone has been interfaced with the system in Greater Manila covered by the Philippine Long Distance

Telephone Company. With this, a direct-dial system between the Zone, Greater Manil and points beyond has been established The different telex companies have also been authorized to set up facilities in the Zone.

4. Medical Facilities

Medical facilities are also indispensable especially in a huge construction and industrial complex. Initially, the Authority attempted to set up its own medical facilities. However, constraints of the civil service plus the lower level of government wages as compared to private medical practitioners have made it difficult to retain qualified physicians and nurses. Consequently, the Authority decided to retain the services of a private medical team which had specialized in the practice of industrial medicine. From an existing clinic manned by four physicians and their complement of laboratory and X-ray technicians, the next step would be the construction of a 50-bed hospital programmed for March 1975.

5. Hotel, Clubhouse and Recreational Facilities

Recalling the rural conditions of the town of Mariveles, it was imperative for the EPZA to construct a hotel, to provide at least overnight facilities for transient visitors, potential investors, buyers and foreign technicians. The 42-room first-class hotel has just been completed; it is located on top of a hill overlooking the Zone and the bay. Already, many companies operating in the Zone have reserved rooms on a semi-permanent basis.

Complementary to the hotel are recreational facilities which are being constructed. A swimming pool is almost ready; two tennis courts and two pelota courts would be available in two months. A 9-hole golf course is also being constructed, a hundred meters north of the hotel.

6. Parks and Picnic Grounds

The fact that the Zone is in a valley surrounded by hills provides excellent opportunities for maintaining the balance of nature. The EPZA has pinpointed several areas to be developed as parks and picnic grounds. All the hills will be reforested, so that anyone in the Zone need only look up, and he will see nothing but greenery. For this purpose, a nursery has been established for propagating ornamental plants, trees and flowers of all kinds which will be used to transform the Bataan Zone into one huge garden.

C. Access to the Zone

The problem of accessibility of the Bataan Zone to Greater Manila and the rest of the world required immediate resolution. And since accessibility is a matter which goes beyond the boundaries of the Zone, it required coordination with other government offices.

1. Land Transportation and Highways

As earlier described, the overland route covers 170 kilometers starting with a 4-lane highway from the City of Manila moving into excellent asphalt roads and, at the last 70 kilometers of the journey into narrow 2-lane country roads built for light vehicles. The trip normally takes 3-4 hours depending upon traffic conditions. It was obvious that a new highway was necessary. To this end, since last year, the Department of Public Highways has been constructing a 4-lane highway extending from the Zone through the length of Bataan province away from towns and population centers. Target for completion of the highway is early 1976. The drive would not only be comfortable but could be cut down to 2-3 hours. The new concrete highway is programmed to take the loads of heavy cargo trucks moving to and from the Zone.

2. A Ferry System and Port Facilities

Travel by sea from Manila to the Zone is, of course, faster. By hydrofoil it takes only one hour, by fast Navy patrol boats, it takes about 1½ hours. The problem is that no hydrofoil nor fast boats were available for regular daily trips to the Zone. The reason for the absence of a regular ferry service is economic; there is not enough passenger traffic to make the venture worthwhile for an entrepreneur. Consequently, since the development of the Zone started, the Authority has been relying primarily on an at least once-a-week trip by a Navy boat for the purpose of ferrying prospective investors, officials of the Authority and personnel of the factories being constructed or operating. The once-a-week trip of the Navy boat was supplemented by the Authority with an as-needed charter of a fast boat to ferry visitors to the Zone. The volume has grown in the meantime, and it became attractive to a private entrepreneur to order a 60-passenger hydrofoil to run from Manila to the Zone nearby tourist areas. The hydrofoil has just been delivered and is now on three daily runs to and from the Zone.

Of greater importance, however, is the availability of modern pier facilities in the Zone for the purpose of accommodating ocean-going vessels and the loading and unloading of cargo. For present purposes, thepier facilities of the Bataan Shipyard & Engineering Co., Inc. (BASECO) are adequate. It has a 1,280-feet marginal wharf, a 480-feet lateral wharf, and is equipped with six 45-ton cranes. It can accommodate three ocean-going vessels simultaneously.

For the future, however, a new and modern pier complex is being constructed in a reclaimed foreshore area fronting Phase I of the Zone. A private corporation, the Asiatic Integrated Corporation, was given the legislative franchise in 1968 to construct, manage and operate pier facilities in the Port of Mariveles. To this date, the development of the pier has completely lagged behind. Lately, the President has authorized the take-over by the EPZA of the construction, management, operation and ownership of the piers. As conceived, the pier would be equipped to handle both container and non-container cargo, and should take at least one year to complete.

At present, all incoming and outgoing cargo are shipped through the Port of Manila. And the reason is not the absence of pier facilities in the Zone; it is the lack of volume. Unless there is adequate volume to make it economic for a vessel to drop at the BEPZ, then no ships will call, and incoming and outgoing cargo will continue to be transshipped through the Port of Manila. It is projected that by mid-1975, at which time at least 30 factories will be operating, sufficient cargo volume will be generated to justify an ocean-going ship's calling directly at the Port of the BEPZ. It has also been observed that the source of most raw materials as well as the destination of finished products are concentrated on a few ports in Australia, United States, Canada, Japan and Western Europe; consequently, it would be easy to collate cargoes bound for the same ports.

3. Airport Service

A decision has also been made to construct an airport at a site 10 kilometers outside of the Zone. As conceived, the airport would have a 1,600-meter long runway, adequate for light passenger and cargo craft. The site of the airport is only 40 miles from the Manila International Airport; hence, it was not deemed appropriate to construct an airport of that magnitude near the Zone.

Another means of access to the Zone is by helicopters. There are three helipads in the Zone and a considerable number of helicopters available for charter at the Manila International Airport. The Authority has found it very convenient to bring prospective investors and guests to the Zone via chartered helicopters. Travel time is only about 20-30 minutes.

D. <u>Housing and Community Facilities</u>

As earlier described, housing and community facilities in the town of Mariveles are inadequate for the purposes of a new industrial community. The development of self-contained satellite communities around the Zone would require the cooperative efforts of the EPZA and private land owners and developers. Thus, a tacit understanding was reached to the effect that EPZA would provide the low-cost housing facilities for the lower echelon workers in industries within the Zone and the private sector would provide for the middle and upper level echelon in the suburbs of the industrial sectors.

1. EPZA Housing and Facilities

The EPZA Board and Management early realized that EPZA neither had the competence nor the resources to design and construct housing and support facilities for Zone workers. Two government financial institutions - the Government Service Insurance System (GSIS) and the Social Security System (SSS) - had the capabilities and funds for the purpose; in fact, low-cost mass housing on long-term, soft payment terms has been a major activity of these institutions.

Consequently, P.D. 66 explicitly directed that SSS and GSIS would design, finance and construct the low-cost housing facilities for Zone workers. In fact, it was always assumed they would undertake this task; for one year before P.D. 66 was promulgated, the architects and engineers of the GSIS and SSS were already deeply involved in planning the Zone housing area. It was, therefore, a deep shock and great source of consternation when the SSS Administrator and GSIS General Manager announced in mid-1973 that they would not undertake the Zone housing program.

Abandoned by the GSIS and SSS, but faced with a real problem of housing, the EPZA had no alternative but to embark on a low-cost housing program on its own. Starting from a scratch, we had to make up for the delay; designs had to be rushed, the site hastily prepared, and a crash program of construction of apartments and dormitories commenced within the first 100 hectares reserved by the President for housing.

Apartment houses are being constructed at a feverish pace. Last August, an apartment building of 16 family units was ready for occupancy; every month thereafter, about 50 family units will be available, so that by December 31, 1974, a total of 184 units will be ready to accommodate families of Zone workers. By March 1975, 200 more low-cost apartments will be ready for occupancy.

Dormitories are being constructed north of Phase I. Spcae for 450 lodgers is now available. We have programmed construction which would make more bedspace available every month until we have room for 2,500 workers at the end of the year. By mid-1975, an additional 2,500 bedspaces would be ready for occupancy.

At the same time, site preparation is now going on for a community center that would service the residents of the dormitories and apartments. Within this site are facilities for: a primary and elementary school, two churches, a hospital, a civic center and library, playgrounds, a theater, a recreational hall to accommodate bowling alleys and billiard tables and a shopping center. The income-generating facilities would be offered by the EPZA to private concessionaires who would rent the spaces from the EPZA and put up their buildings, furnishings and equipment at their own expense. In this way, the capital outlay of the EPZA would be minimized. The spaces would be let out before the year-end, and construction of the facilities should commence early next year.

2. Private Land Developers

There are at least ten privately-owned housing subdivisions around the Zone. About one-half of them has already developed their subdivisions in terms of site preparation, laying the road network and the utility distribution systems. Unfortunately, actual construction of residential houses and other facilities has been kept to a minimum. While there was a high and definite projected demand for the middle level and upper level type of housing, the high costs of construction have discouraged the land developers from directly engaging in building construction without a firm purchase contract from prospective buyers.

Two subdivisions have gone forward with construction of houses contracted for expatriate executives of the Ford stamping plant; the other has for its clients the middle echelon group of executives. Only one subdivision has moved forward with the construction of a hotel, in this case, a 100-suite hotel; the master planning of the surrounding areas includes a commercial center, a hospital, a schoolhouse and an 18-hole golf course.

Of late, private land developers, seeing the rapid development of the Zone and the acute housing situation have embarked upon their own construction. Their programs cover the entire spectrum of housing from low-cost through middle echelon to upper level, including support facilities thereby relieving the Authority of further direct involvement in this matter in the future.

VI. MARKETING THE ZONE: HOW TO ATTRACT INVESTORS

Inviting or attracting potential investors into the new Zone presented especially difficult problems. As indicated earlier, Mariveles was nothing more than an agricultural and fishing village where modern conveniences and facilities were minimal, if not nil. Regular transportation to the area was through a limited bus system which took four hours from Manila over mostly two-lane asphalt roads. Water transportation was available only through special arrangements with the Philippine Navy or with private entrepreneurs.

It was obvious from the very beginning that the biggest attraction to a prospective investor would be a demonstration of the seriousness of purpose of the government manifested through the development of the Zone into a modern industrial estate with all the basic facilities necessary, and a complementary development of lands around the Zone for community and other support facilities. And to this task, the EPZA immediately addressed itself with the formal start of development of the Zone on January 31, 1970.

Beyond the basic facilities, incentives and benefits were also desirable to speed the flow of investment into the area. These "sweeteners" were provided through a combination of legislative and administrative action. But most important of all to a prospective investor would be an assessment of the potentials of the country for investment.

A. The Philippines as an Investment Area

Largely on the basis of its exemplary record of performance since martial law, the Philippines may now be considered as one of the best investment areas in Southeast Asia. There are considerable advantages in locating an investment in the Philippines.

1. The Philippines at the Hub of Southeast Asia

The Philippines is located at just about the center of Southeast Asia, midway between Japan and South Korea to the north and Australia to the south. This was the primary reason cited by the executives of Ford for their decision in locating their car body stamping plant in the Philippines. We might add that the location of the Philippines away from the mainland of Asia has given the country a convenient buffer from the political upheavals and uncertainties of the mainland.

2. English is the Medium for Communication

The Philippines is the third largest English-speaking country in the world. English is an official language and is the medium of instruction in all levels of education from primary grades through high school to college. A foreign manager and his employees can communicate directly with each other without difficulty.

3. Availability of Highly-Trained and Low-Cost Manpower

The Philippines has a substantial pool of professionals - accounting, business, arts, engineering graduates - who are highly trained for middle and higher management levels. Many have graduate degrees to qualify them for the delicate tasks of management. Salaries of Filipino managers and professionals are lower comparatively than that prevailing in Japan, Hongkong, Taiwan and Singapore.

At the lower echelons, it should be stated that Filipinos have been known to be easily trained for various manual and mechanical skills required for factory operations. The cost of Philippine labor is rather low. Minimum wage plus other benefits would be equivalent to about ₱10.00 a day.

4. Political Stability in the Country

Ever since the declaration of martial law, the Philippines has been enjoying unprecedented political stability. The divisive political forces of the past had been eliminated and the country is now moving forward under one leadership towards the goal of national progress.

5. Favorable Investment Climate

The state of Philippine economy is strong. Since martial law, the President has introduced reforms in our economic and legal structures which have made it easier for foreign investors to invest in the country. Foreign investors are protected from expropriation of their properties without just cause and only after due compensation. The rules on repatriation and remittance of earnings had been liberalized. Entry and exit procedures for investors and travelers are simpler. A foreigner who invests at least US$100,000 in the Philippines could reside in the country with multiple entry and exit privileges.

B. Incentives and Advantages Offered by the BEPZ

1. Tax Benefits

- Tax-free and customs duty-free importation of machineries, equipment, raw materials and supplies.
- Exemption from the payment of export tax.
- Exemption from the payment of municipal and provincial taxes.
- Net-operating loss incurred in the first five years of operation may be carried over as a deduction from taxable income

during the succeeding five years.

- Accelerated depreciation of fixed assets.

2. Foreign Exchange and Financing

- Priority in the allocation of foreign exchange for the importation of merchandise, equipment, and raw materials.
- Zone enterprises qualify for loans from financial institutions whose foreign loans are guaranteed by the Philippine Government.

3. Foreign Investors and Technicians

- Fully foreign-owned or controlled enterprises are admissible into the Zone.
- Foreigners investing at least US$100,000 in a Zone enterprise may reside in the Philippines for as long as their investments remain thereat.
- Foreign technicians may be employed in supervisory, technical or advisory post within five (5) years from registration of a Zone enterprise and up to 5% of the firm's total personnel in each category.

They may reside in the country with their spouses and unmarried children under 21 years of age.

4. Guarantees on Foreign Investments

- Repatriation of foreign investments and remittance of profits and dividends at any time in full is allowed at prevailing exchange rates.
- No expropriation and regulation of property represented by foreign investment except in the interest of national welfare and defense; in which case, payment of just compensation shall apply.

5. Labor and Manpower

- Adequate labor is available around the Zone area. The minimum employable age is fourteen years.
- The law provides for a seven-day work week with one day rest period for every employee.
- Minimum wage is ₱8.00 or US$1.20 per day. In the manufacturing sector, the average labor cost per person per month is around ₱245 of US$36.30. Unskilled workers

receive the minimum rate; semi-skilled workers receive ₱10-₱12 or US$1.48-$1.77; skilled labor rate ranges from ₱12-₱15 or US$1.77-$2.22 and above.

- Assistance in manpower recruitment for specific skills required by Zone enterprises is extended by the Authority.
- Strikes are banned funder the New Society. Labor disputes are referred to the National Labor Relations Commission for immediate arbitration.

6. Simplified Administrative Methods Include:
   - Simplified import-export documentation and procedures under an EPZA system that assures release of all imports and exports within forty-eight (48) hours.
   - Simplified billing procedures for all services and charges, integrating all charges in a centralized billing system for power, water, and rental fees.
7. Standard Factory Buildings (SFB)
   - EPZA-built SFBs are offered for lease to small-scale, light, labor-intensive

industries on a first-come, first-served basis. These are of the 3-storey type with a workshop area of 2,784 square meters per floor.

- SFB Nos. 1 and 2 now completed and SFB Nos. 3 and 4 almost completed have already been leased out to 12 Zone enterprises. SFB Nos. 5 and 6 now under construction for completion in November are still available for lease.
- The SFBs are leased for a period of 15 years renewable, upon option of the lessee.

8. Land Lease Terms

All the industrial lots in the Zone are for lease. The rental rates are as follows:

From July 1, 1974 up to June 30, 1977	₱4.00/sq.m./yr.
Up to June 30, 1980	5.00/sq.m./yr.
Up to June 30, 1983	6.00/sq.m./yr.
Up to June 30, 1986	7.00/sq.m./yr.
Up to June 30, 1989	8.00/sq.m./yr.

The period of lease is for fifteen years, renewable at the option of the lessee.

At the beginning, to encourage early entry of investors, a rent-free privilege was extended to "pioneers". Pioneers are Zone enterprises who construct their buildings and are operational on or before December 31, 1974. These pioneers enjoy free rentals on land until June 30, 1977, after which the regular rental rates are applicable.

9. Other Facilities

- All services like banking, insurance, cargo handling and transportation.
- Modern clinic with emergency facilities and equipment for detecting unhealthy working conditions in a factory.
- Strategically located restaurants and recreation areas.
- Manpower center to recruit factory workers.
- Direct dial telephone system, postal services, telex, and cablegram facilities.

C. Public Information Service

All the advantages and benefits that could be enjoyed by enterprises in the BEPZ would be useless unless these are known to industrialists, investors and entrepreneurs.

To this end, the EPZA organized its Office of Promotions and Information (OPI) which has primary responsibility for the dissemination of information about the Zone. The tools used for this dissemination of information are:

- Preparation of brochures and other information materials which are distributed among the different chambers of commerce and industries in the Philippines, the various commercial and trade attaches of foreign countries in the Philippines and the embassies and commercial attaches of the Philippines in other countries.
- A special briefing service in the EPZA office where updated slides of the Zone are shown to interested parties.
- Trips to the Zone are arranged by OPI either by bus, by Navy or chartered commercial vessels or by helicopter; as a matter of practice, we make it a point to bring prospective investors for a visit to the Zone.
- Periodic press releases are published in newspapers of general circulation in order to apprise the general public of the progress of development of the Zone.
- The EPZA sent a team which conducted seminars on the Zone in Tokyo, Nagoya, Osaka and Hongkong.

These seminars were sponsored by the Chambers of Commerce of these cities.

VII. MANAGEMENT STRUCTURE OF THE EPZA AND BEPZ

A. Policy-Making Level

R.A. 5490, the original charter, and P.D. 66, the revised charter, provided for different management structure at the policy and top management levels. Having operated within the framework provided by R.A. 5490 for almost three years, and given the opportunity to assist in the drafting of P.D. 66, it was inevitable that improvements would be introduced in P.D. 66.

Under R.A. 5490, the Authority was composed of a Chairman and four full-time members appointed from the private sector. The Chairman was both head of the policy-making body and chief executive and operating officer; the members participated at Board meetings where policy decisions were made, and because of the full-time nature of their appointments, it was necessary that they be given operating functions and duties. The situation was rather awkward and difficult for the Chairman. While the members were supposedly subordinate to the Chairman in the day-to-day operations of the Authority, the same members could, by their united stand, outvote and overrule the Chairman at Board meetings. In effect, the members were in the position of being able to scrutinize the actuations of the Chairman day-in and day-out;

the daily contact provided what, in effect, amounted to daily consultations with Board members. Which certainly is not the proper way to operate an office or enterprise.

Under P.D. 66, the Authority is composed of a Chairman and six part-time Board members. Of the six members, two represent the private sector, and four come from the departments of government whose functions affect the operations of the Zone - the Undersecretary of Finance, the Undersecretary of Trade, theVice Chairman of the Board of Investments, and the Deputy Governor of the Central Bank. The Board members attend Board meetings only where reports are submitted and policy questions decided. The presence of the ex-officio Board members from key government offices has made it so much easier for EPZA to achieve lateral coordination and cooperation with these offices.

B. Management Level

The operation and management of the Authority is left to the Chairman, who is concurrently Administrator thereof. Assisting the Administrator are two Deputy Administrators, one for administration, the other for operations.

The Office of the Administrator is provided with immediate staff assistance on legal matters, on intelligence, and on public information. These staff units are directly under the Administrator so as to enable him to secure direct staff adivce for his immediate guidance in decision-making.

The Office of the Deputy Administrator for Operations is given the three departments on Enterprise Operations, Engineering and Maintenance, and Housing and Community Affairs for the reason that these are primarily oriented towards the management and regulation of activities in the Zone.

The Office of the Deputy Administrator for Administration is given the three service and/or auxiliary departments, namely: the Administrative, Financial, and Project Planning and Evaluation. These departments are primarily operating in the Manila (main) office.

The Bataan Export Processing Zone, headed by a Zone Manager is being constituted as a semi-autonomous field operating unit and is directly under the Office of the Administrator. This is designed to facilitate the flow of policy decisions for immediate implementation in the Zone.

The various departments of the EPZA are:

The Legal and Policy Research Office provides legal counselling services, conducts legal researches to serve as bases for the formulation of policies, programs, rules and regulations.

The Enterprise Operations Department recommends and implements policies, plans and programs concerning the exercise of police authority in the Zone the inflow and outflow of goods, and the administration of warehouse and transport systems and enforce rules and regulations.

The Engineering and Maintenance Department recommends and executes plans and programs for the development, construction and maintenance of the physical facilities of the Zone.

The Housing and Community Affairs Department recommends and executes policies, plans and programs affecting the administration of housing and community affairs in the Zone and enforces rules and regulations.

The Administrative Services Department recommends and implements policies, plans and programs concerning personnel administration, supply and property management, records and communications services, and buildings and grounds administrative matters, and enforces pertinent rules and regulations.

The Financial Services Department recommends and implements policies, plans and programs to ensure effective handling and utilization and accounting of financial resources and enforces pertinent rules and regulations; takes custody of and secures all accountable documents.

The Project Planning and Evaluation Department recommends policies, plans and programs and implements rules and regulations concerning development of the Zone. It evaluates industrial project feasibility studies, conducts business and financial research, and takes charge of data computerization.

Most of the offices above-named are rather standard in many organizations. Amplification is, however, necessary with respect to the existence of these offices.

The Office of the Zone Manager was created in order to provide for an administrative head within the Zone. As envisioned, the BEPZ is only the first of hopefully three or four more zones in the future. The main office of the Authority being located in Greater Manila, and the zones conceivably located in various parts of the country, it was necessary that the Office of the Zone Manager be created.

The Enteprprise Operations Department does not only directly oversee the operations of Zone enterprises, but also actively assists them in all ways necessary for their efficient performance. It has a manpower recruitment program for the benefit of Zone enterprises; it handles import-export procedures, transportation and warehousing; it provides liaison work with government offices for expeditious action on their pending papers; in short, the Authority is committed to provide assistance to Zone enterprises through this department.

The Housing and Community Affairs Department was the latest to be organized, and is a direct product of the peculiar circumstances under which the Zone exists. The shortage of accommodations has compelled the Authority to engage in the construction and management of apartments and dormitories. The existence of communities in the Zone and in its immediate vicinity required the creation of an office to handle community relations. The department handles housing placement, the relocation of houses and villages pending their relocation. Since the Authority has "exclusive jurisdiction" within the Zone, it provides the community with amenities and facilities in the Zone which are normally provided by a municipal or city government.

VIII. REVIEW AND EVALUATION

A. The BEPZ Performance

The government has earmarked, spent and will still spend a small fortune in the development of the Zone. But the investment is overlyyjustified in the light of the present policy imperatives:

- to expand and strengthen the industrial base of the economy
- to increase our foreign trade and diversify the country's export products, thereby strengthening the foreign currency situation and the balance of trade position of the country.
- to create more job opportunities and labor skills as a positive step towards solution of unemployment problems.
- to introduce the latest or more sophisticated manufacturing techniques as a means for ensuring stable industrialization
- to encourage the entry of foreign capital into the country to augment scarce domestic resources for investments
- to develop marginal areas, like southern Bataan, into productive centers of industrial activity.

As of August 31, 1974, 8 factories are operating in the Zone. On the basis of the companies actually engaged in preparatory work and awaiting completion of their buildings, 18 more companies will be operational at the end of 1974; 9 of these will be operational in September-October and the rest towards the end of the year. Another 6 companies will start construction of their buildings before the end of the year and would, therefore, be operational by mid-1975. Two more SFBs will be available for occupancy by at least 6 companies by January 1975; we are now evaluating applications for occupancy of these buildings.

Total exports from the Zone so far amount to US$1.9 million as of August 31, 1974. The export operations started only about 6 months ago and has been gradually increasing. In the months of July and August, exports have been averaging at US$485,000. As the companies operating attain full production, and as more companies start operations, we expect a dramatic increase in exports. In six months, exports should reach a magnitude of US$2 million monthly.

Direct employment in factories operating has reached 3,358. Meanwhile, training programs are going on among factories which expect to be operational before the end of this year. By year-end, we anticipate an additional 5,000 direct workers in factories in the Zone.

In addition, the construction work of both private investors and the government inside and around the Zone has generated additional employment of about 5,000 using every type of construction skill. The town of Mariveles and the province of Bataan are now enjoying a business boom supplying the day-to-day requirements of factories, constructionffirms and their workers in the BEPZ.

The progress the BEPZ has made so far proves the wisdom of the strategy of developing the Zone on a phase-by-phase basis. Even before complete development of the entire Zone, factories are operating and benefits are being reaped by the national economy. Because of the unstinting support of the President of the Philippines, the BEPZ could be declared as completed on December 31, 1975.

B. The Benefit of Hindsight

Developing the BEPZ is a unique experience. It was both a challenge and an opportunity to the participants in the venture. The implementors had to learn to adjust, initiate, innovate, compromise in order to accomplish their mission.

Where the legislative policy-makers were equivocal about the precise type or nature of the Zone they were creating, on the recommendation of his economic advisers, President Marcos decided to develop an export processing or industrial free zone. Considering the progress and projected performance of the BEPZ, it may be said that the decision was most appropriate. Between enactment of the law and the classification of objectives, however, a considerable amount of time was spent in studies and researches - time which could have been spent in the implementing process.

The exigencies of partisan politics resulted initially in the sacrifice of performance to expediency. Work on development of the Zone was considerably delayed because of various deficiencies in the original enabling act - no appropriation or capital for development, no incentives for Zone enterprises, no management flexibility for the implementors. Only the full and continuing support of the President who appreciated the economic potentials of the BEPZ made it possible for the EPZA to pursue its development program.

In the desire to secure legislation without too much delay, there was very little study on the proposed location of the Zone. Within the same general location, perhaps better sites could have been chosen with less expense and difficulties. A project feasibility study would have provided the legislators with alternative choices of sites for the BEPZ. Or better still, the legislature should have left to the Chief Executive the task of pinpointing the exact location of the Zone.

C. Guidelines for the Future

Undoubtedly, more industrial zones would be developed in the Philippines. There have been serious talk of another two or three zones, especially where it is now apparent that the BEPZ experiment would be a success. The New Society is involved in a continuing program of improving the economy for the benefit of the people. And industrial free zones are convenient tools for this task.

However, serious studies should precede any development project. Relative accessibility of the Zone to major airports, shipping points and population centers is very crucial in terms of attracting investors and movement of cargo.

The types and mix of industries intended to be located in future zones will have to be carefully defined. Complementation rather than destructive competition, among the different zones will have to be the norm.

The package of incentives and advantages should be well conceived and defined. A tendency to provide too many "sweeteners" would have to be avoided. Oftentimes, the quality of the over-all investment climate is more persuasive and meaningful.

To assure systematic development of a future zone, sources of capital funds should be pre-determined; funds and resources for the project should be allocated and released on a programmed basis. The efforts of implementing and involved agencies should be coordinated.

The number of zones established is not important. What is critical is the success of any zone that may be established. Results and not numbers would be the test.