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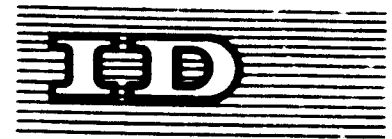
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HOW TO ORGANIZE AN INDUSTRIAL FREE ZONE^{1/}

by

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A. Introduction

My task is to discuss with you the mechanics and procedures, problems and decisions, that are involved in organizing an Industrial Free Zone (IFZ).

Over two years ago, I wrote a paper, also for UNIDO, entitled "IFZ Activities in the Philippines with Emphasis on the Bataan Export Processing Zone (BEPZ)". The paper described the numerous problems and pitfalls the BEPZ project was subjected to, and how we solved and survived them. I like to think that the assignment given me today is UNIDO's subtle and complimentary way of harnessing my experience so that other senior government officials may be assisted in setting up IFZs in their respective countries without suffering the "birth pains" the BEPZ went through.

My approach is primarily situational. I shall talk of the practical aspects of setting up an IFZ. Instead of broad principles, I intend to discuss specific problems, the measures applied to solve them, and the rationale behind such measures.

A few words of caution, however, are necessary before I embark into a full discussion of my subject.

We come from different countries, and as such, represent diverse cultures, legal systems, historical roots, experiences and development priorities. Consequently, my terms of reference may not always apply to your respective situations. However, it is quite possible that we would find a lot of common ground and situations from which valuable lessons may be derived.

A.1. The BEPZ - the Philippines' IFZ

Since I will be using my experience in organizing and managing the Philippines' IFZ for purpose of illustrating my points; it would be appropriate to give, at this stage, a brief description of the Philippine situation.

The original charter of the Philippines' IFZ was Republic Act No. 5490, dated 21 June 1969. This law created a new office known as the Foreign Trade Zone Authority (FTZA) endowed with the power to establish, manage and operate a foreign trade zone in the Philippines. By subsequent proclamations, an area was segregated at the southern tip of Bataan province for the IFZ, now known as the Bataan Export Processing Zone (BEPZ). The proclaimed area is 1,600 hectares, of which 1,209 hectares are government-owned. The Zone is located at the entrance to Manila Bay, 55 kilometres from metropolitan Manila across the bay, and 165 kilometres by land. Originally, it consisted of forests, rugged hills and marshlands. Today, it is a bustling industrial city. It is located between, and contiguous to two agricultural and fishing villages, which then had an aggregate population of 10,000-12,000 people.

On 20 November 1972, a new charter was promulgated known as Presidential Decree No. 66. It converted the then FTZA into a government corporation, now known as the Export Processing Zone Authority (EPZA). The change in status from an ordinary government office to a corporation with considerable powers and a substantial capitalization enabled EPZA to rapidly develop the BEPZ into the successful IFZ that it is today.

Aside from the usual imperatives of providing employment, expanding and diversifying exports and foreign markets, increasing foreign exchange earnings, and introducing new technology, the decision to locate the BEPZ some distance away from metropolitan Manila was influenced by two paramount government objectives:

The first is - to implement a programme for the dispersal of industries and population from the crowded urban areas and the creation of new satellite industrial cities in rural areas of the country.

The second is - to provide domestic and foreign investors the necessary infrastructures and facilities to set up manufacturing and export operations in the Philippines.

The choice of Mariveles as the exact site for the Zone took into account the 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 are also 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 provide. 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 Manila residents.

(c) There are government reservations and public lands still available in the area to accommodate the industries and communities that would proliferate in the IFZ. The government need not be involved in expensive expropriation proceedings to acquire all the land 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 moving cargo in and out of the Manila piers.

B. The Charter of the IFZ

The one indispensable instrument for organizing an IFZ is a comprehensive and adequate charter, a mandate from the government - whether by statute, decree or any other enabling act. Properly drafted, this IFZ charter could go a long way towards assuring success of the venture. To be considered "properly drafted", the charter should at the very least include the following essential features:

1. Spell out the tax, fiscal and other economic incentives offered to attract foreign and domestic investors.

2. Define the rules for the entry of foreign investors, managers and technicians. Are wholly foreign-owned companies acceptable? How many foreign managers and technicians should be allowed per company? How long can they stay? Under what conditions?
3. Describe the guarantees and rights of foreign investors particularly in relation to expropriation and nationalization of investment, and remittance of earnings and repatriation of capital.
4. Provide adequate funding for implementation all the way to completion of the project.
5. Create an implementing organization whose powers are not only sufficient, but also defines its jurisdictional boundaries and relationships with other governmental bodies.

Extra care should be taken in drafting the charter because in effect, it becomes part of the contract between the government and the investor. The Charter is the basic document which a potential investor, his lawyer, banker or auditor, would initially read and later cite in defence of his rights or privileges.

B.1. Incentives to investors

Several kinds of incentives may be offered to potential investors. The first are tax and fiscal incentives which are normally the only ones included in the charter. These incentives may include: income tax holidays; exemption from other forms of taxes, including export taxes, municipal taxes, real estate taxes; devices to lower income tax liability such as loss carry-over provisions, accelerated depreciation, double deduction of training expenses; fiscal incentives such as guarantees for foreign loans or availability of liberal credit facilities from government financial institutions.

Because of intense competition for investments, host countries understandably compete with each other in offering incentives. And there is a tendency to go overboard in giving tax incentives.

For instance, in the matter of income tax holidays, different countries offer 5, 10, even 20 years complete exemption from income taxes. Our experience in the Philippines is that investors are willing to pay

income taxes if they make money. They are willing to share a part of their profits with the host country if other conditions of work and the accounting system assure them of a reasonable opportunity to earn profits. Consequently, the Philippines does not income tax exemptions in any of its package of incentives.

However, economic policy makers in the Philippines are aware that the most critical period in a company's history are the first 2 or 3 years of its operations. This is the period when it normally expects assistance. For this reason, the EPZA charter includes two tax incentives designed to assist a company in its initial years of operation. These are the loss carry-over and the accelerated depreciation provisions.

Over and above tax and fiscal incentives, the incentive investors really look for is the over-all investment climate of the host country. Investors are seriously concerned about the political and economic stability of the country, its peace and order situation, the attitudes to property and individual liberty. They look for an abundant supply of literate, easily-trained, relatively inexpensive labour. They will inquire into the quality of unionism and the mechanics for settling labour disputes. Investors want to know whether the government has a positive attitude towards business and capital, whether foreign or domestic. As the Philippines has happily rediscovered since the massive government reforms of 1972-1973, a favourable over-all investment climate is more persuasive and meaningful to a prospective investor than any legislated incentive.

The availability of physical facilities and social amenities provided by management in the Zone is another powerful incentive to investors. It is, of course, expected that all the infrastructures necessary are available. But in addition, many companies look for pre-constructed factory buildings which they can immediately buy or lease. The prospect of having to be bothered by the myriad details and problems of construction could be a disincentive to potential investors, especially foreigners. In the case of the BEPZ, the entry of industries accelerated only after EPZA constructed standard factory buildings which were leased to zone

enterprises. A standard factory building at the BEPZ is a three-storey structure with an area of about 3,000 square metres per floor. The building has been so designed as to allow the lease of one-fourth, one-half, three-fourths, or an entire, floor to one company without impairing the efficiency and utility of the rented space. Thus, zone enterprises need only lease the space needed for their operations.

Zone enterprises are also concerned about the facilities for their managers, employees and their families who would relocate in and around the zone. Are there medical facilities, schools, shops, recreational facilities which would assure them of the same or even a better quality of life? Is the place attractive and congenial? At the BEPZ, aside from apartments and dormitories, EPZA had to provide all the amenities and conveniences normally found in a community, plus more. The entire area is landscaped, neat and attractive. There are basketball, volleyball, tennis and pelta courts and parks all over the zone. Our two-year old elementary and high schools were joined by a junior college this school year. A 14-bed medical clinic has been operating for two years, and will be replaced by a 200-bed hospital by the end of 1978. Two cinemas with capacity of 1,000 seats each, 14-lanes bowling alley, a commercial centre, an ecumenical chapel, and a 9-hole golf course will be completed by July of this year. The elegant Bataan Hilltop Hotel which opened its doors in late 1974 with 42 rooms, will have an additional 40 rooms in May. Truly, the BEPZ is developing into a model industrial city.

Finally, another very important incentive is the quality of service provided by the IFZ administration. How simple are documentations and procedures? How many signatures are required in an import or export permit? How long does it take to release cargo for import and export purposes? How easy is it to bring in foreign managers and technicians? And to hire workers? To what extent can they expect assistance from the IFZ management? The foregoing questions are critical; they involve vital day-to-day operations which directly affect the profitability of a company. Having anticipated the questions, EPZA has been able to respond to them to the satisfaction of BEPZ industries. And the EPZA staff has been trained and oriented to extend with efficiency and goodwill, all assistance and services necessary to enable every zone enterprise to maximize its operations.

B.2. Foreign investors and managers

There is no uniformity of opinion on the question of whether wholly foreign-owned companies should be allowed or not. The divergence of opinion exists among both host countries and investors.

In the Philippines national legislation on foreign investments, joint ventures with Philippine citizens are required. Where a company engages in a "pioneer industry", it may be initially wholly foreign-owned, but must allow Philippine equity participation in 15-20 years. However, in recognition of the idea that an IFZ may be considered in some ways as foreign territory, the amended charter of EPZA has allowed a zone enterprise to be a 100 per cent foreign company.

As a matter of practice, we inform prospective investors that joint ventures are encouraged, but if for whatever reason the investor prefers no local equity participation, we respect their decision and register them without any discrimination in treatment or privilege. There are at least six wholly foreign companies in the BEPZ; the substantial majority are joint ventures.

With respect to foreign managers and technicians, it is always the better decision to allow their entry to a limited extent. At the BEPZ, foreign technicians may be employed within five years from date of registration and up to 5 per cent of the firms personnel complement. Foreign managers may continuously stay as representatives of the owner. The grant of the privilege could even be more liberal during the start-up operations. Companies normally feel more concerned at the beginning and it would be advisable to give them greater latitude at that stage.

After a successful start-up, the companies themselves would be rushing to send home their foreign staff. It is quite expensive for a company to maintain foreign personnel; they require much higher pay, more allowances and privileges. An excellent case in point is the Ford car body stamping plant at the BEPZ. During the initial stage of their operations in late 1974 early 1975, they had about 50 - 60 foreign technicians and managers. Today, only two years later, they are down to only 8 foreign personnel. Philippine trainees have taken over the rest of the jobs.

C. The site for the IFZ

C.1. Who chooses and how

The congressman, legislator or member of parliament who authors the charter of the IFZ would understandably be tempted to specify the precise location of the IFZ. This approach could be an error. It could lead to problems in enactment of the charter. Since members of parliament or legislature represent different districts, there would be a natural inclination on their part to favour their respective districts as the site of the Zone without considering the feasibility of such a location. Furthermore, it denies national planners the opportunity to choose the most appropriate location consistent with national planning objectives and priorities.

The better approach would be for the charter to confer on the IFZ administration or some planning agency, or both, the authority to make studies on various possible locations. Thereafter, their recommendations are submitted to a final decision-maker who could be either a cabinet member or minister, or perhaps the head of government himself. In this manner, better co-ordination between planning and implementation is achieved. And, the best possible location for the IFZ, in the light of national priorities, could be chosen.

C.2. Factors to consider

We come to the next question: What would be the best possible location for an IFZ? The answer, of course, depends upon the priorities and objectives which the national planners intend to achieve. If the primary purpose is to create additional employment, and maximize the utilization of existing infrastructures and community facilities, then the location could be adjacent to an existing community with an excess labour pool. In this situation, the exercise would be less expensive. What would be required is merely the segregation of an industrial area, the installation of all utilities thereat, and then connecting these facilities - power, water, communications, roads - to the existing community. These are basic facilities which a planning engineer could easily design.

However, if the setting up of an IFZ is tied up with the policy imperative to disperse population and industries from over-crowded areas, then we are in effect, planning a completely new industrial community. An area will have to be segregated a distance away from the existing population centres. The IFZ here would be a catalyst in the development of the new region. The expense in this exercise would, of course, be considerable. It is not limited to merely preparing the industrial sites and facilities per se. It includes planning for housing and for community amenities such as commercial centres, recreational centres, schools, medical facilities, parks, in effect providing for all the requirements and conveniences of a new community.

One of the primary objectives of the Bataan Export Processing Zones is the dispersal of industries and population. Hence, the greater magnitude of the tasks involved. Jurong Town in Singapore is another example of this type of approach. On the other hand, Kaohsiung Export Processing Zone in Taiwan and the Sta. Cruz Electronics Park in India are all small parts of bustling cities; hence, the development programmes for these two IFZs were less expensive because they are lesser in magnitude.

Whatever the site may be, it is basic that at the time the IFZ is made available for occupancy by investors, all the life-giving facilities - power, water, housing, community facilities -- should be in place and ready for use.

And most important of all, considering the concept of an IPZ, there should be easy and convenient access to transport facilities for bringing in all components of production such as machines and raw materials from abroad to the Zone, and for shipping finished products for export to their ultimate markets. This could be a seaport, an airport or a highway. Whichever it is, it should be adequate and accessible.

C.3. Size of the IFZ

Existing industrial free zones come in various sizes. Among the small industrial areas are: Masan, in Korea - 92 hectares; Kaohsiung in Taiwan - 67 hectares; Sta. Cruz in Bombay, India - 41 hectares. The bigger zones which cover housing and other facilities are: Bataan in the Philippines - 1,209 hectares; Shannon, Ireland - 750 hectares; Jurong in Singapore - 3,000 hectares.

Three important factors should be considered in the determination of the size of the IFZ. The first is whether to include housing and community facilities in the planning particularly if one of the objectives is to disperse population and industry. The second is concerned with the extent of resources available in the area such as the availability of land, water and power. And the third has to do with the consequences of a rapid and substantial increase in population in and around the IFZ.

In the situation where housing and community services have to be provided, the area for such housing and community services should at least be twice that of the area allocated for industries. Economists say that for every one person directly employed in a factory, 2.6 times that number are necessary to service that one direct factory worker. This may not be a very serious problem considering that the new industrial city would be located away from existing population centres.

In the case of the Bataan Export Processing Zones, an area of 1,600 hectares was proclaimed as the site of the Zone. However, a substantial portion of about 400 hectares is privately owned. What EPZA did was to expropriate only such portions of the privately owned land as may be absolutely necessary in our development programme. We then entered into an agreement with the private landowners for them to develop their respective areas into support facilities for the Zone in accordance with our master plan.

Of the remaining 1,200 hectares, 345 hectares have been allocated for industrial purposes and the rest for housing and community amenities. It is, of course, impossible for the Zone Authority to provide all of the housing and services necessary for the community. The progress of development at the Zone has, however, encouraged landowners outside the Zone to develop their areas for housing, commercial and recreational facilities for Zone workers and their families.

Constraints of land, power and water availability will have to be seriously considered in planning the size of the Zone. As in the case of the BEPZ, we were fortunate in that there was substantial government land available and therefore, our resources were not expended on expropriation of private lands. The cost of expropriation could be quite substantial as to deplete the financial resources of the Zone resources which could otherwise be spent in industrial development.

The water and power resources of the area might be limited. Hence, appropriate studies would have to be made to be sure that the eventual industrial and worker population of the Zone would not exceed the power and water resources available. Such projections will have to be made over a 20, 30, 50-year period taking into consideration, of course, the possibility of developing additional power and water resources in the future.

Finally, the size of the Zone will have to be delimited by the density of population desired. As we are all aware, in many big cities and metropolitan centres, the pressure of population has been such as to lead to breakdown in services. A very high density could mean traffic jams, lack of parks and open spaces, shortage of schools, breakdown in police protection, problems in garbage collection.

In the Bataan Export Processing Zone, because public lands are still available, it could have been easy to double the space allocated for industries. But, the present industrial area would already generate a new population of, about 300,000 to 500,000 people in southern Bataan. Doubling the industrial area would have meant practically doubling the new population. Our studies showed that the unlimited industrial growth would lead to serious problems of providing essential services for the new population. We have, therefore, recommended against expanding the industrial area of the Zone. If additional industrial areas are considered necessary or desirable, then a new Zone should be created at a different area consistent with the programme of dispersal of industries and population. Besides, whatever gains that may have been achieved by government in the BEPZ may already be improved upon and expanded by private initiative.

C.4. Development strategy

Whatever the size of the industrial free zone, and irrespective of the time frame for the development of the project, a master plan is absolutely necessary. The master plan identifies the land use for the entire area: allocating spaces for light, medium and heavy industries, the areas earmarked for housing, the location of facilities and amenities, the green areas, the road networks, power and water distribution systems, storm drain and sewage collection systems. In other words, the master plan becomes the guide for the development of the Zone.

We have been engaged in the development of the Bataan Export Processing Zone over the last six to seven years. To this date, we have not made substantial deviations from the master plan. In fact, the master plan has even enabled us to hop, skip and jump in our development programme depending on current priorities. Critics who have examined the master plan of the Zone have commented favourably on its efficient use of land and space.

Armed with the master plan, the implementor can decide what aspects of the plan he may wish to develop ahead of the others. Based on our experience at the Bataan Processing Zone, it is impossible to develop an entire area simultaneously. We thus programmed a phase-by-phase development. We divided the industrial area into three phases, each phase we developed in succession. This development technique lends itself the advantage of being able to develop areas for immediate occupancy by investors.

After the development of Phase I of the industrial area and as workers started to come in, we started the development of Phase A of our housing area. Thereafter, we attended to the construction of various conveniences and facilities for the residents. Thus, today, recreational facilities, parks, a commercial centre, a chapel, a club house are being constructed in the Zone. Because of this phase-by-phase development, we maximize benefits flowing from investment of funds since every developed area, every project finished is fully utilized.

D. Organizing the Industrial Free Zone Office

D.1. Identifying the type of office

There are two approaches to the organization of the Industrial Free Zone Office. Both approaches were experienced by the EPZA.

Under the earlier legislation enacted in 1969, EPZA was just an ordinary government office or agency. It had no power to enter into contracts with the different developers of the Zone. It had to refer to the Office of the President the various applications for the entry of investors into the Zone. It had no fixed capitalization. Thus, EPZA had to rely on the national budget for its annual appropriation of funds. This required an annual pilgrimage to Congress to work for the approval of the budget allocation for the Zone. The hiring and firing of employees of the Authority were covered by civil service regulations. In effect, we had neither flexibility nor rapid decision-making powers.

By an amendment in 1972, EPZA was converted into a government-owned corporation. As such, it was endowed with the normal complement of corporate powers: to enter into contracts, to sue and be sued, to own property, to borrow money. More important, it was given a fixed capitalization which now stands at P500 million. And it was up to EPZA to advise the Budget Commission before the end of the fiscal year on the amount EPZA would draw from its capitalization in the succeeding year, thereby allowing EPZA appropriate planning and programming of its projects.

The corporate or commercial type of organization has given EPZA tremendous powers to plan and implement its projects and also to programme disbursement of funds for development and promotional purposes in order to attract investors into the Zone. From my viewpoint, whether as a corporation or a government office or agency, what is critical is the delegation of authority that is given to the implementing office. Where within the framework of government, it is possible to delegate adequate authority to a government office or agency similar to the powers enjoyed by a corporation, then it is possible for such an agency or office to attain similar efficiency and flexibility as a corporation. In the ultimate analysis, it is up to the charter of the IFZ to spell out the arsenal of powers necessary for the successful administration of the IFZ.

D.2. Policy-making

EPZA is run by a Board of Commissioners composed of six (6) members and a chairman. The Chairman is at the same time Administrator of the Zone. To achieve co-ordination between the interacting government offices, and also the private sector, it was thought wise to appoint ex-officio members of the Board. Today, the ex-officio members of the EPZA Board are: the Senior Deputy Governor of the Central Bank, the Vice-Chairman of the Board of Investments, the Under-Secretary of Trade, the Under-Secretary of Finance and the President of the Export Processing Zone Chamber of Exporters and Manufacturers; the other member is a Presidential appointee representing the private sector. For rapid decision, the Board meets once a week.

The composition of the Board has worked out very well for the Authority. It has helped to facilitate co-ordination between EPZA and the government agencies represented in the Board. The inclusion of the EPZCEM President in the Board provides Zone enterprises access to the policy-making level.

Under the original charter (RA 5490), all the members of the Board were on a full-time basis with the positions of Chairman and Administrator split between two separate individuals. The fact that Board members were on a full-time basis led to very awkward results. They had to be in the office very day and therefore, went beyond the mere policy-making aspect. The Board members became involved in management which created and compounded problems for the Administrator. The new charter of EPZA has settled these problems.

D.3. Management services

The management structure of any IFZ should be organized to provide services required by the organization and the industrial community it administers.

In the Philippines, we have found the following organization structure convenient and efficient.

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 staff assistance on legal matters and on public information. These staff units are directly under the Administrator so as to enable him to secure direct staff advice for his immediate guidance in decision-making.

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

The Office of the Deputy Administrator for Administration is responsible for the three service and/or auxiliary departments, namely: the Administrative Financial, and Project Planning and Evaluation.

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

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

The Office of the Zone Manager was created in order to provide for an administrative head within the Zone. In addition, the Zone Manager has supervision over all "housekeeping" activities in the Zone including police protection, medical services, garbage collection, overall maintenance and landscaping. As envisaged, 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 Enterprise Operations Department does not only co-ordinate with Zone enterprises, but also services them in all ways necessary for their efficient performance. It operates a manpower recruitment office, import-export documentation and 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 maximum assistance to zone enterprise through this department.

The Housing and Community Services Department was the latest to be organized, and is a direct product of the peculiar circumstances under which the BEPZ exists. The existence of communities in the Zone and in its immediate vicinity required the creation of an office to handle community services and relations. The department handles housing placement and manages the new apartments and dormitories.

E. Resolving problems of jurisdiction

To ensure proper co-ordination between and among government bodies whose functions are pertinent to the operations of enterprises located in the IFZ, problems of jurisdiction must be clarified and resolved at the very onset in order to avoid confusion and unnecessary delays.

E.1. With local municipal officials

As proclaimed, the BEPZ area was within the territorial boundaries of the municipality of Mariveles. Under Philippine law, municipalities are political entities with a package of powers within their boundaries. The municipal mayor and council exercise 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, licence fees for the operation of enterprises, and to impose taxes on the products of zone enterprises.

The municipal authorities really tried to exercise their powers within the zone. As a result, relations between Zone and local officials became very strained. Confrontations between Zone police and municipal police occurred. And prospective investors were appalled by the prospect of their products being taxed by the local officials, besides having to deal with one more government office.

The problem was resolved by EPZA's amendatory decree in two provisions. The first explicitly stated that 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, licences or taxes."

E.2. 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 still limited volume of cargo coming in and out of the BEPZ makes it uneconomical for a vessel to make the Port of Mariveles a regular port of call. Projections indicate that it will take until early 1978 before substantial volumes of cargo are generated by Zone activities thereby making it attractive as a regular port of entry. Consequently, incoming as well as outgoing cargoes are all trans-shipped through the Port of Manila.

Since the cargo being trans-shipped 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 5 January 1973. Under the terms of said agreement, the Bureau of Customs agreed that imports to, and exports 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 trans-shipped Zone cargo increased, the arrangement resulted in difficulties.

Considering that every shipment required that a Customs guard be away from his home base for about 24 hours, it soon became a problem for the Bureau of Customs to provide guards to escort Zone cargo, causing delays in trans-shipment. 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 for the purpose of extending sole responsibility to the EPZA for trans-shipped Zone cargo.

Another problem which had to be resolved with Customs was the matter of inspection of imported cargo as it arrived at the piers and of export products before being loaded on ships. While Customs allowed the use of simplified EPZA import-export documents, they insisted on inspecting cargo at the piers to assure that the goods moving in and out were as declared in the import-export permit. But because of huge volumes of cargo at the piers, cargo for and from the Zone had to wait in line for inspection resulting in considerable delays. Again, in a commendable display of co-operation by Customs Authorities, they agreed that Zone cargo shall be inspected at the BEPZ and not at the piers. Thus, as soon as crates or packages are identified at the piers as destined for the Zone, these are immediately released to Zone authorities for trans-shipment to the Zone, and finished products for export are inspected at the factory premises before the crates or containers are sealed. The flow of goods, in and out of the Zone was expedited.

F. Admission and operation of Zone Enterprises

F.1. Types of admissible industries

Where the basic industrial requirements of land, water and power are adequate to meet the needs of all types of industries, then by all means, the IFZ may be planned to absorb all types of industries, whether light, medium or heavy. Otherwise, it is wiser to concentrate on light industries in the beginning, and later on extend the coverage to other industry types as more facilities and utilities are made available.

A joint study conducted by economic planning agencies in the Philippines recommended to the President that EPZA should concentrate on light labour intensive industries for the following reasons: 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; and our scarce resources and facilities limit our options initially to the development of light industries. The study recommended inclusion of medium and heavy industries when the necessary resources and facilities are available.

Consistent with the foregoing policy decision, EPZA made a listing of admissible 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, toys/handicrafts, knitted goods, leather goods, light metals, woodcraft, synthetic textiles, precision instruments, rubber products, and other light, labour-intensive and export-oriented industries.

But even before the completion of the Phase I light industrial estate, intervening economic developments in the country accelerated development of the medium-heavy industrial estates. 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 Programme. Through this programme, 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 started operations in December 1974. Another firm has started production in Phase II - an integrated knitting plant. Other firms in this area include a wood processing mill, an aluminium reinforced steel cable firm and a synthetic leather firm. It may be recalled also that Phase III had an existing ship repair facility which has since expanded into shipbuilding. Thus, Phases II and III are earmarked for medium and heavy industries: automotive plants, shipbuilding, metal and machinery works, helicopter and heavy equipment assembly, and other similar industries.

F.2 Export, service and storage operations

For purposes of registration, zone enterprises are classed by the EPZA into export and service enterprises. Export enterprises are firms who manufacture, process or assemble products for export. Export enterprises enjoy all the incentives and privileges provided by law. Service enterprises, by definition, provide services to other zone enterprises; they include banks, accounting firms, telecommunications, customs brokers, insurance companies, shipping firms, etc. Service firms do not enjoy any of the tax and other incentives provided in the EPZA charter; however, once registered, they are allowed to maintain offices in the Zone and enjoy the systems and facilities provided by EPZA. The entry of service enterprises into the BEPZ was dictated by the fact that the Zone is located far from metropolitan centres where these services are normally available.

One of the earlier policy decisions which the EPZA Board of Commissioners had to make was on the possible use of the BEPZ for purely storage and/or packaging operations. Quite a number of applicants wanted to store various types of commodities in the Zone to make it easier to service their markets in Southeast Asia. They were willing to pay storage fees, plus employ a number of people for repackaging activities, if necessary. After studying the economics of the operation, the EPZA Board disapproved the proposals. The employment would be small, the transfer of technology would be nil, and the over-all benefits would be minimal in comparison to the expense of developing the BEPZ.

This is not to say, however, that storage and repacking operations should be banned from all IFZs. Depending on the geographical position, size and objectives of the particular IFZ, excellent justification could be cited for allowing these operations. Thus, Colon, in Panama, may be cited as a good example of an IFZ which encouraged warehousing and repacking operations because of its peculiar location as a distribution centre for Central and South America.

F.3 Extent to which Zone products may be sold in the domestic market

Not only must IFZ enterprises keep their prices competitive. They must also maintain a standard of export quality in their products. While the concept of an export processing zone means that a firm located in the Zone must process or manufacture its goods there and export its finished products, for certain practical reasons, some firms may propose to sell a portion of their production to the domestic territory.

Should such a situation arise, certain guidelines have to be followed. In the Philippines, again the joint report submitted by government economic planning bodies, enumerated three reasons why unlimited privilege should not be granted to Zone enterprises desiring to sell a portion of their zone products in the customs territory. The reasons cited are: the practice would open new avenues for smuggling; domestic industries producing similar goods would be adversely affected; and complex administrative problems would result from the random distribution of the products of a factory into both domestic and foreign markets.

Consistent with the objectives of the Act creating our IFZ, Zone export enterprises, as a general rule, are required to export their entire output or production. However, the Authority may allow a portion of the production or output of a Zone export enterprise to enter the customs territory where there is a shortage of the product in the domestic market, in other words, as an import substitute. As a matter of administrative expediency, the EPZA Board has also allowed sales in the domestic market of seconds, rejects and products of trainees.

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. Labour would be Philippine; water, power and land or building rentals and other elements of operating costs would be Philippine. It would be incongruous to impose 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.

G. Availability and quality of labour.

One of the attractions of IFZs in developing countries is the availability of lower cost labour as a means of lowering cost of production and remaining competitive in the international markets.

G.1 The recruiting process

The process of hiring workers is not easy especially for foreign companies. Many times faced with language barriers, it may be difficult for them to find workers of the age and literacy levels, and the physical qualities and skills, desired. Local partners or senior employees may be able to handle this process. But it may be better to institutionalize and formalize the process within the IFZ organization if possible.

At the BEPZ, we have a Manpower office. This office maintains on a continuing basis, a register or listing of available manpower, their sex, educational attainment, special skills, height and age. Whenever any zone enterprise wants to hire workers, it has the option to request the manpower office for assistance. The manpower office consults its list for the most suitable people, notifies them, and, on the agreed date and time, makes available more than the number required for interview and selection by the company representative.

At least ninety per cent of the hiring at the BEPZ is done through the manpower office. The candidates are not only pre-screened for their qualifications, but also for police or criminal records. The candidates chosen by the company representative must then pass a pre-employment medical and physical examination before actual employment. The whole system is quite convenient and efficient.

G.2 Manpower training

Low-cost labour is not necessarily cheap labour. Unless equated with acceptable standards of productivity, or a potential for such productivity, low-cost labour could be expensive labour. To maximize benefits from low-cost labour, workers have to be trained for efficient production. The question is - who should bear responsibility for such training.

At the Bataan Zone, even before the first company started operations, the government organized a manpower training programme for garment and shoe workers. Trainers were hired, equipment and tools were made available, and fabrics and leather were bought for the purpose. It was an exciting time for all of us.

But when the garment and shoemaking companies came, they expressed a preference for training their own workers. Mass production requires assembly line type of operations so the workers had to be trained only for specialized aspects of the production process. It appears that different companies have developed their own techniques for high level productivity. In the words of the company managers, "it becomes more difficult to teach workers new methods and techniques after they have been pre-trained to do things differently". Thus, at the BEPZ today all training is done by the companies themselves within their respective factories.

It should be recognized, however, that manpower training has its costs which will have to be recovered by the company. To assist in the recovery of training costs, the EPZA Board has allowed the products of trainees to be sold in the domestic market. Furthermore, for enterprises who qualify under the investment incentives act, double deduction of training expenses is allowed for income tax purposes.

H. Promoting the Zone

The process of promoting the zone, of attracting potential investors, commences as development of the site starts. Ideally, a promotion office in two or three key cities in the world would provide convenient access to home offices of foreign companies who are the targets of the promotions drive. This is, however, an expensive approach. EPZA did not have a big budget so we did the next best thing.

H.1 Promotional materials and mailing lists

The first step is to prepare brochures and information materials. The language in these materials should be simple and clear. Taken together, they should cover all the data a prospective investor would want to know about the Zone and the economics of operating thereat. Pictures, preferably in colour, should be used liberally to show the site and facilities.

The basic information material on the BEPZ is a four-page mailer which provides basic information and data designed to arouse the interest of a potential investor. This includes information on location, accessibility, incentives, rules on foreign investors and technicians, facilities and utilities, availability of standard factory buildings, rental rates for building and for land, information on manpower, labour relations and wage rates, list of industries admissible, application procedures, and instructions on how to obtain additional information.

If after reading the introductory material, a party writes for more information, then we send: excerpts from the EPZA charter, the rules and regulations, application forms, guidelines for the preparation of a feasibility study and the latest annual report of EPZA. An accompanying letter is sent inviting the party to visit the Zone.

The second step is to determine to whom the introductory materials are to be sent initially with the hope that these would eventually find their way to the hands of investors. The EPZA mailing list includes parties in the Philippines to whom prospective zone tenants would normally go for advice or information. These are: law, accounting and management firms; domestic bank and foreign bank representatives; all foreign embassies, consular offices and commercial attaches or trade commissions; chambers of commerce or industries; and government offices involved in industry, trade and foreign investments. All Philippine embassies, consulates, commercial attaches and representatives of Philippine financial institutions abroad are also in our mailing list.

Zone officials should take every opportunity to disseminate information about the Zone. Speaking engagements before business and civic organizations such as the Rotary and Lions Clubs or Chambers of Commerce should always be availed of to inform entrepreneurs of developments in the Zone. The media - newspapers, magazines, TV and radio - should be used to publicize significant events in the Zone. Visits to the Zone by business leaders and media representatives should be encouraged.

H.2 Zone visits

A visit by a prospective investor shows that he is deeply interested. Such a visit should be received with an awareness that he probably already has visited, or will thereafter visit, other competing sites whether in the domestic territory or in foreign countries or zones. Of course, the zone official should take the opportunity to make a sales pitch for his zone. But under no circumstances should there be an attempt at deception. Information or answers given should be as precise, honest and candid as possible. If there are shortcomings or problems, the same should be admitted with an explanation of what is being done about the situation.

At the EPZA, as a matter of practice, a prospective investor is taken on a tour of the zone to show what facilities are already available and what are still being constructed. Visits to factories are the best evidence of a viable, operating and successful industrial zone. Dialogues with factory managers are encouraged and arranged, especially with managers of the same citizenship or nationality as the visitor. A happy, enthusiastic and successful manager or entrepreneur is perhaps the best promoter or propagandist for the zone.

H.3 Application procedures

When a prospective investor has decided to locate his operations in the IFZ, the question arises - how does he apply, and how long will it take to secure an approval?

Again on this point, we speak of our Philippine experience. Normally it takes at least a month, sometimes less, for an investor to know whether his application for registration as a Zone enterprise with EPZA is approved or not.

To retain the interest of a prospective investor, he is advised to file a one or two-page letter of intent - describing briefly the nature of the project he intends to engage in the Zone. If such venture is among those we encourage, at the next Friday meeting, the EPZA Board issues an Approval in Principle. This means that the Company can now start and complete work on its Project Feasibility Study for submission to EPZA's Project Planning and Evaluation Department. Evaluation work on the project takes about two weeks. The EPZA may approve within two weeks or less after the submission of the evaluation report.

The criteria for approval of applications are: the feasibility based on management, marketing, technical and financial studies of the proposed project, and economic desirability weighed on the project's dollar earning capacity, employment potential, tax and export potential and introduction of new technology.

A Registration Agreement is thereafter signed between the applicant and EPZA, and a Registration Certificate is issued to the new Zone enterprise.

I. Concluding remarks

I have spoken at length about my experiences in organizing and managing the BEPZ. I hope that you may find some of that experience useful in setting up your own IFZs.

Looking back now, I can say, and this I would like to pass on to you, that there are two primary ingredients for the success of any IFZ. The first is the political decision of the national leadership to set up the Zone and to support such decision with the resources necessary to make it work. The second is the quality of the officials charged with the responsibility for organizing the Zone - their sincerity and will, their dedication and capacity to initiate, innovate and adjust in order to accomplish their mission. Without these, the BEPZ would have been a failure. With these, your own IFZs have a better chance of success.



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