



Industrial Policy in the Philippines: **The role of Special Economic Zones**

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Philippines, GDP growth rate, 1961-2014

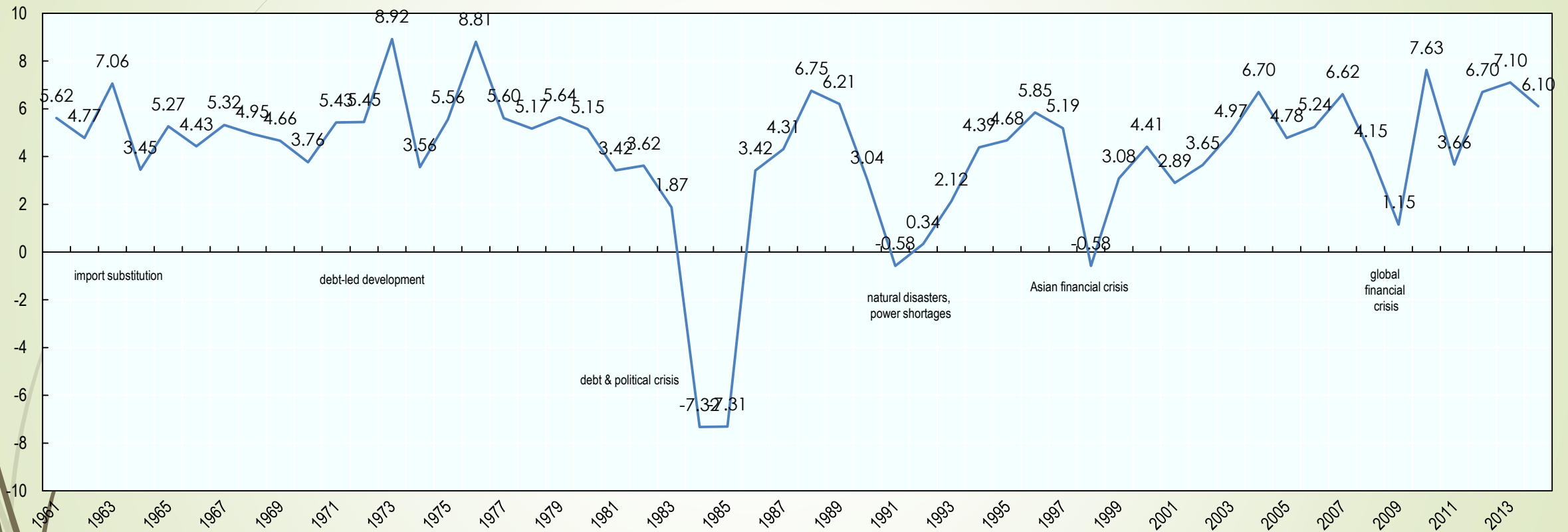


Table 1.1. GDP growth rates, 1961-2014

GDP growth (%)	1961-1970	1971-1980	1981-1990	1991-2000	2001-2010	2011-2014
Philippines	4.9	5.9	1.8	2.9	4.8	5.9
Indonesia	4.2	7.9	6.4	4.4	5.2	5.7
Malaysia	6.5	7.9	6.0	7.2	4.6	5.4
Thailand	9.2	6.9	7.9	4.6	4.4	2.5
Vietnam	na	na	4.6	7.6	6.6	5.7
China	5.0	6.3	9.3	10.5	10.5	8.1
Korea	8.7	9.1	9.7	6.6	4.4	3.0
East Asia & Pacific (developing only)	4.7	6.6	7.5	8.4	9.1	7.5
East Asia & Pacific (all income levels)	8.1	4.9	5.3	3.4	4.1	4.0

Note: Data for Thailand starts in 1966; Vietnam starts in 1985.

Source: World Development Indicators, World Bank.

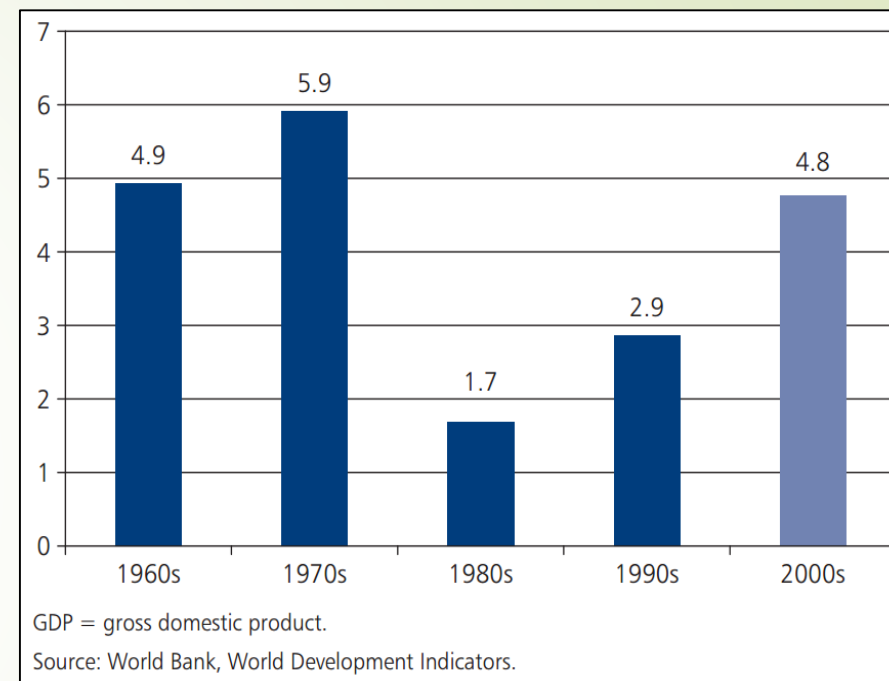


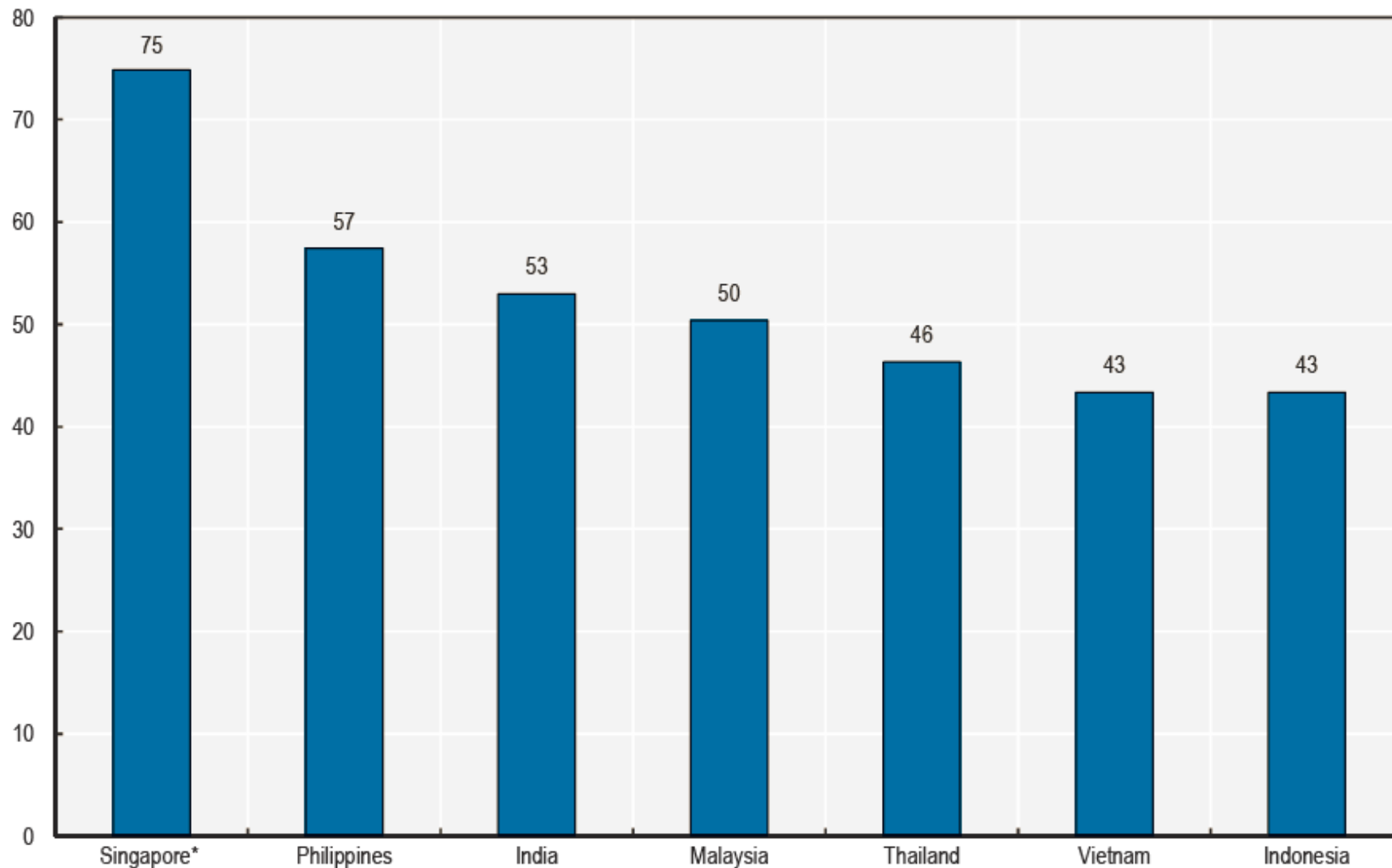
Table 1.2. Structural change between 1984 and 2014

Output Structure (% of GDP)

	Philippines			Indonesia			Malaysia			Thailand		
	1984	2014	Change	1984	2014	Change	1984	2014	Change	1984	2014	Change
Agriculture	24.8	11.3	-13.5	22.7	13.7	-9	20	9.1	-10.9	17.6	11.6	-6
Industry	37.9	31.2	-6.7	39.1	42.9	3.8	38.5	40.5	2	32	42	10
Manufacturing	24.6	20.5	-4.1	14.6	21.6	7	19.3	24.0	4.6	22.9	32.6	9.6
Services	37.3	57.5	20.1	38.2	43.3	5.2	41.5	50.4	8.9	50.5	46.3	-4.1

Source: World Development Indicators, World Bank.

Figure 1.2. ASEAN and India services value added (% GDP), 2014



*Singapore data is from 2013.

Source: World Development Indicators, World Bank.

Table 1: Major Trade and Investment Policies

Time Line	Policy Regime	Policy Description
1950s-1970s	<p>Import Substitution Phase</p> <p>Restrictive Investment Policy</p>	<ul style="list-style-type: none"> -Protectionist measures such as high tariffs, import quotas & other non-tariff barriers -Restricted foreign ownership to 40% in non-pioneer industries; 100% eligibility for foreign investment subject to Board of Investments' approval -Complicated investment incentive system
1980s-1990s	<p>Unilateral Trade Liberalization Period</p> <p>Investment Liberalization</p> <p>Multilateral/Regional Trade Liberalization</p>	<ul style="list-style-type: none"> -Trade Reform Program (TRP) I: reduced tariff range from 70-100% to 0-50% -TRP II: reduced tariff range to 3-30% -TRP III: further tariff changes towards a 5% uniform tariff -1987 Omnibus Investment Code (Board of Investments) -1991 Foreign Investment Act -Creation of Philippine Economic Zone Authority (1995), Subic Bay Metropolitan Authority (1992), & Clark Development Corporation (1993) -GATT-WTO (1995) -AFTA-CEPT (1993)
2000s	<p>Trade Facilitation</p> <p>Regionalism/Bilateralism through Free Trade Agreements</p>	<ul style="list-style-type: none"> -Customs reforms (since mid-1990s) -Revised Kyoto Convention (2009) -National Single Window (2010) -China-ASEAN (2004); ASEAN-Japan (2008); ASEAN-Korea (2006); ASEAN-Australia New Zealand; ASEAN-India -Japan Philippines Economic Partnership Agreement (2007) -ASEAN+3, ASEAN+6 Talks

Background on Special Economic Zones

“Special Economic Zones (SEZs) have been an important policy instrument for many governments seeking to attract foreign investment, promote export-oriented growth, and generate employment”, (Farole, 2011)

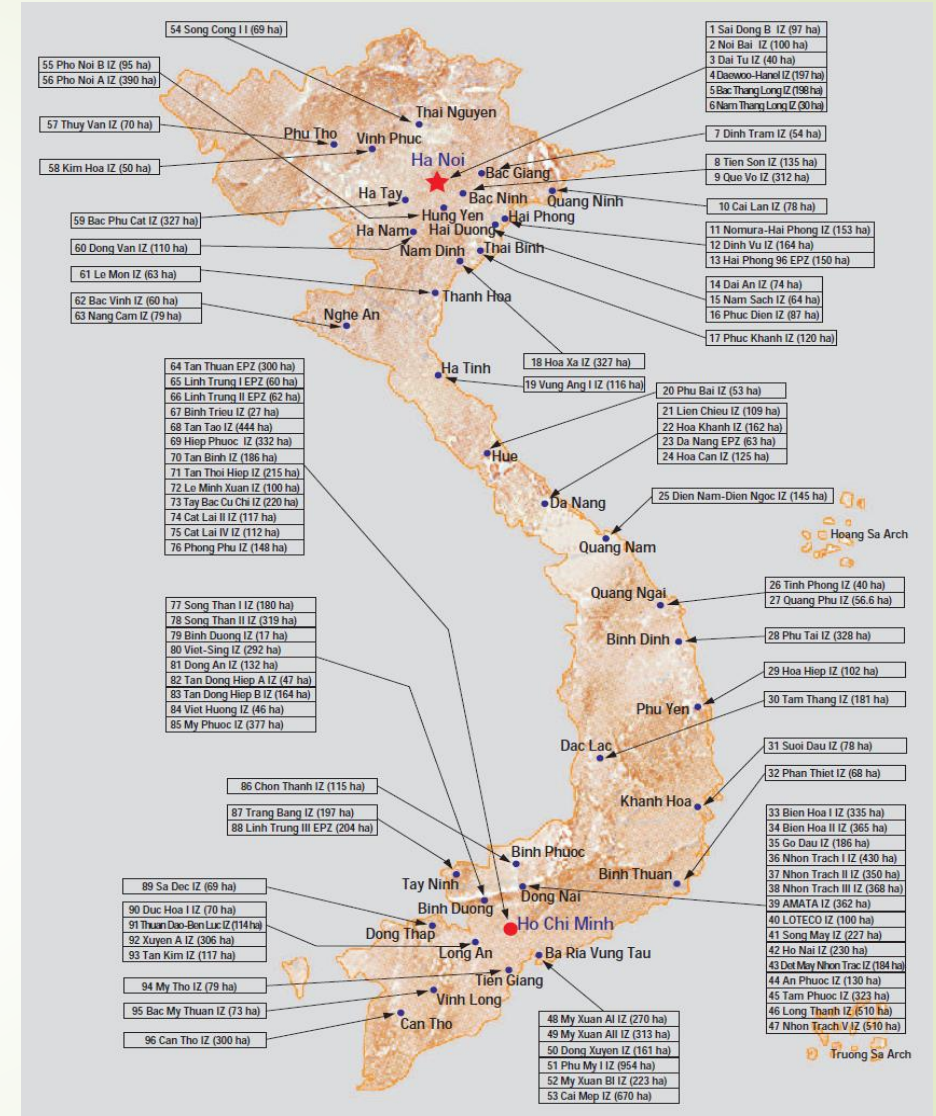
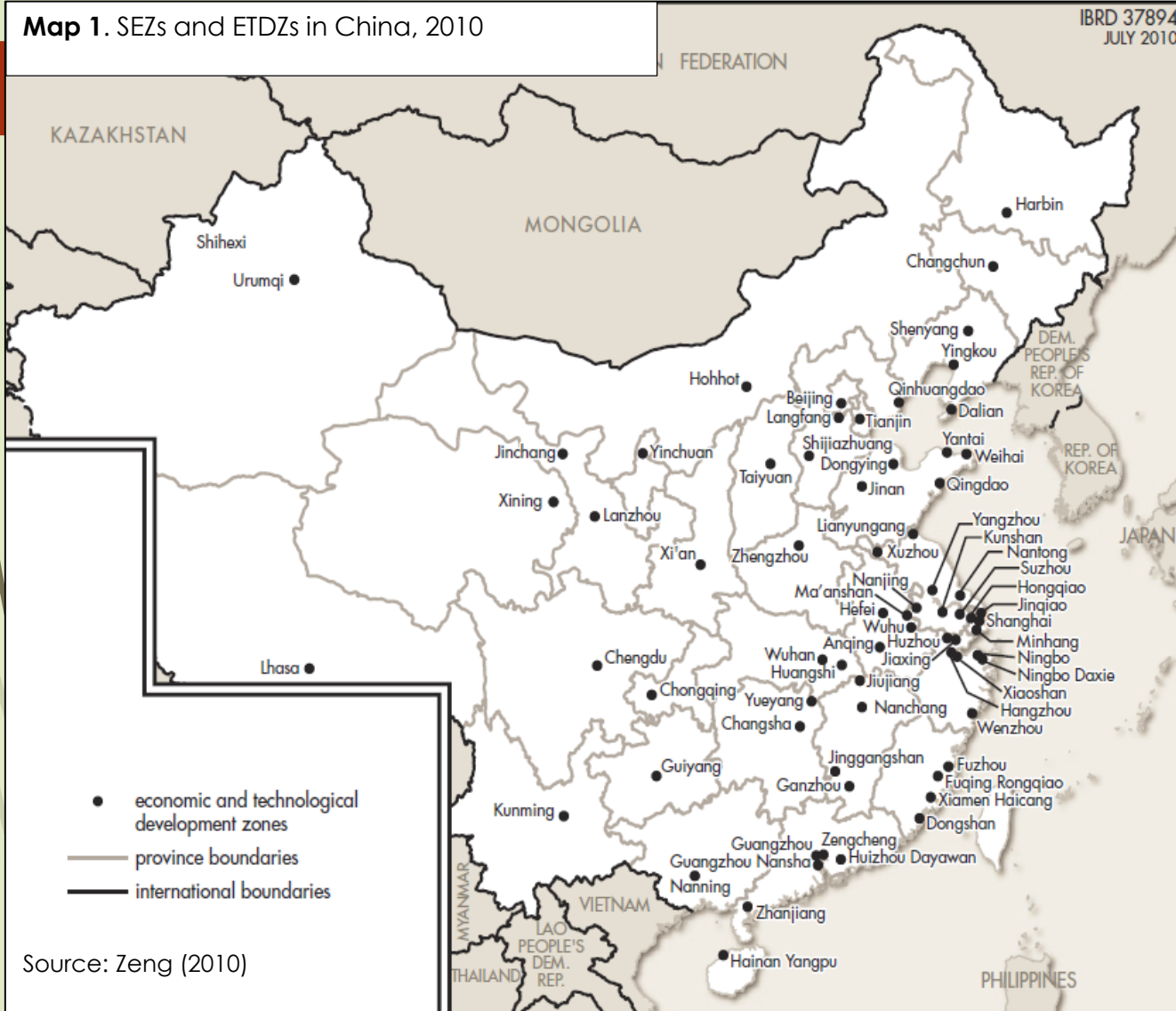
Particularly widespread in developing countries, SEZs have provided an economic stimulant to countries aiming to jumpstart their industrial sectors (Zeng, 2011; Carter and Harding, 2011), while enabling technology transfers to local economies (FIAS, 2008; and Jayanthakumaran, 2002), and overcoming barriers to investments present in the economy (Farole, 2011).

According to Moberg (2015), Boyenge (2007) and ADB(2015), the number of special economic zones in the world rose from around 500 in 1995 to as many as an estimated 4,300 zones in 2015 in 130 countries.

Table 15: Evolution of Various Types of SEZs—Selected Asian Economies¹

Economy	By linkage to domestic and global economy				By Modality		
	Enclave	GVC	Logistics/ services	Border Areas	Private ² (%)	Public ² (%)	Total ³ (no. of zones)
Bangladesh	•				11	89	8*
Cambodia	•			•	100	0	14*
India	•	•	•		74	26	615*
Kazakhstan	•		•	•	0	100	10
Malaysia	•	•		•	23	77	530
Myanmar	•			•	–	–	3*
Pakistan	•				0	100	7*
Philippines	•	•			92	8	460*
PRC	•	•	•	•	12	88	1,515*
Korea, Rep. of	•	•	•		10	90	102
Sri Lanka	•				6	94	14
Thailand	•	•		•	84	16	110
Viet Nam	•	•			89	11	411

Map 1. SEZs and ETDZs in China, 2010



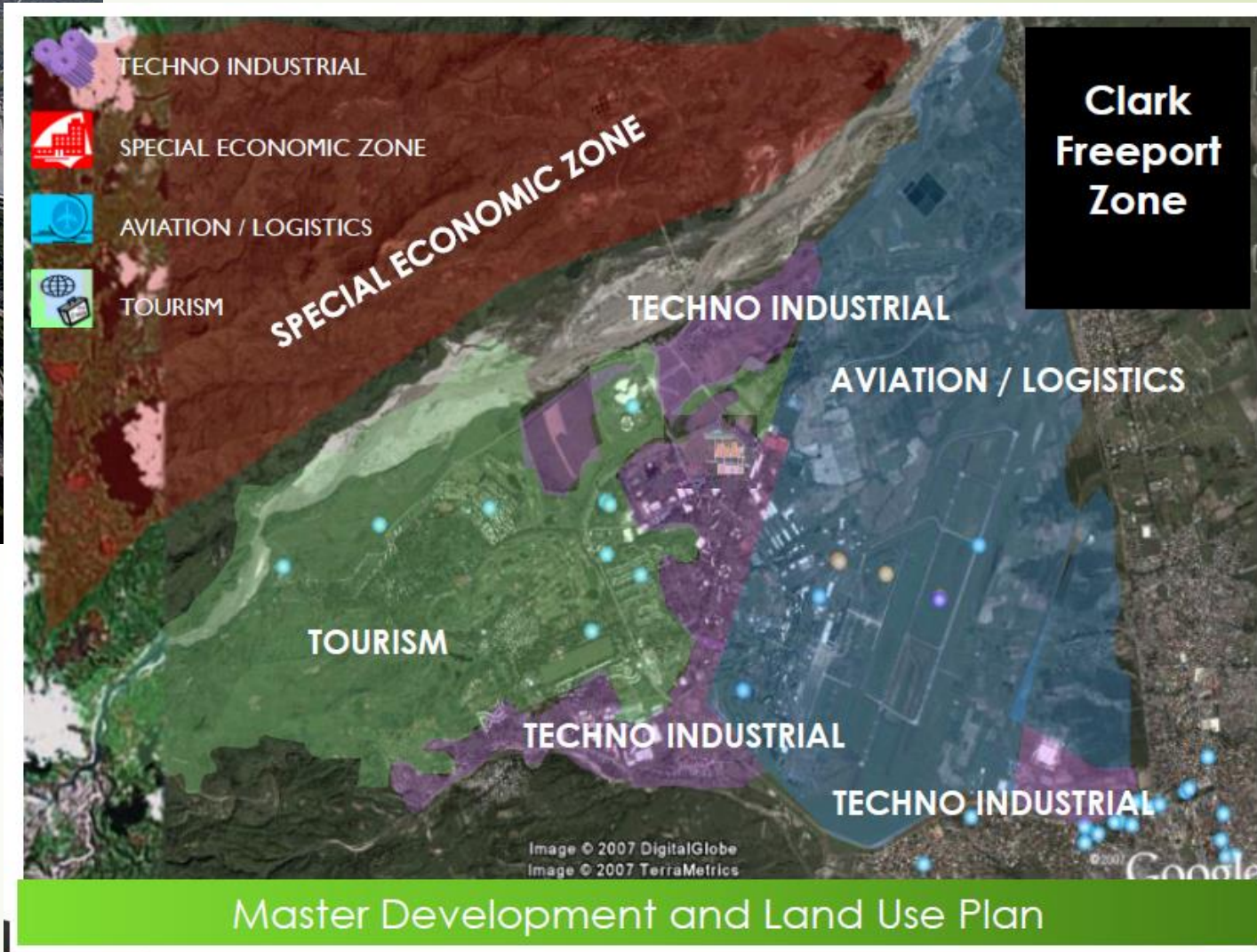


Definition of Special Economic Zones

“demarcated geographic areas contained within a country’s national boundaries where the rules of business are different from those that prevail in the national territory. These differential rules principally deal with investment conditions, international trade and customs, taxation, and the regulatory environment; whereby the zone is given a business environment that is intended to be more liberal from a policy perspective and more effective from an administrative perspective than that of the national territory.” (Farole and Akinci, 2011: pp. 3)

“are selected areas with highly developed or which have the potential to be developed into agro-industrial, industrial, tourist/recreational, commercial, banking, investment and financial centers. An ECOZONE may contain any or all of the following: industrial estates (IEs), export processing zones (EPZs), free trade zones, and tourist/recreational centers”

-Special Economic Zone Act of 1995



	<i>Direct benefits</i>	<i>Indirect benefits</i>
Foreign exchange earnings	■	
Foreign direct investment	■	
Government revenue	■	
Export growth	■	
Skills upgrading		■
Testing field for wider economic reform		■
Technology transfer		■
Demonstration effect		■
Export diversification		■
Enhancing trade efficiency of domestic firms		■

Source: Zheng (2010)

Box. 2

Common obstacles to zone success

- Poor site locations, entailing heavy capital expenditures
- Uncompetitive policies-reliance on tax holidays, rigid performance requirements, poor labor policies and practices
- Poor zone development practices – inappropriately designed or over-designed facilities, inadequate maintenance and promotion practices
- Subsidized rent and other services
- Cumbersome procedures and controls
- Inadequate administrative structures or too many bodies involved in zone administration
- Weak coordination between private developers and governments in infrastructure provision.

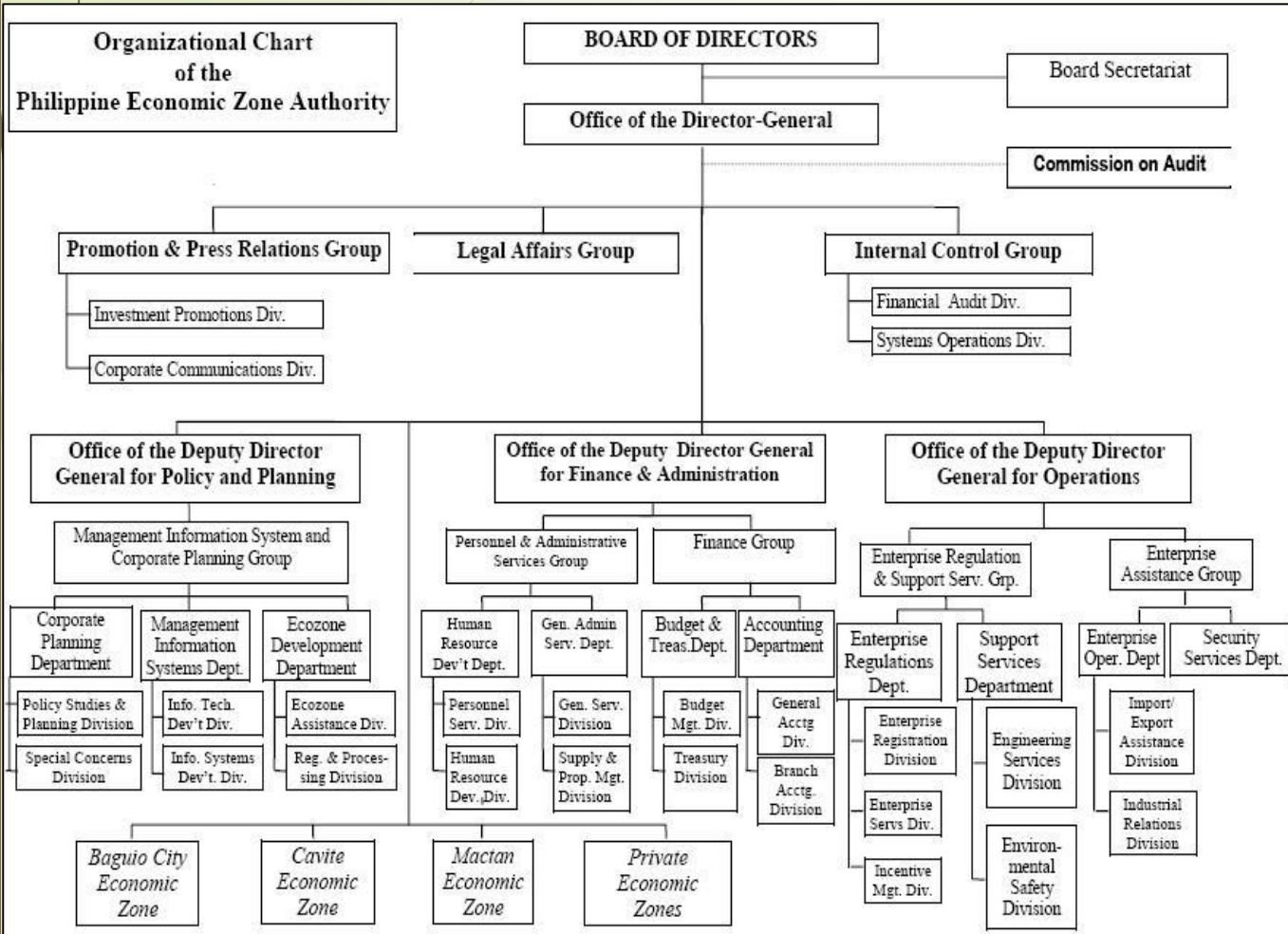
Source: FIAS (2008, p.50-51)



DTI-PEZA

PHILIPPINE ECONOMIC ZONE AUTHORITY

"providing a globally competitive environment for investments"



➤ **Philippine Economic Zone Authority** is the Philippine government agency tasked to promote investments, extend assistance, register, grant incentives to and facilitate the business operations of investors in export-oriented manufacturing and service facilities inside selected areas throughout the country proclaimed by the President of the Philippines as PEZA Special Economic Zones.

➤ It oversees and administers incentives to developers/operators of and locators in world-class, ready-to-occupy, environment-friendly, secured and competitively priced Special Economic Zones.

BY THE PRESIDENT OF THE PHILIPPINES

PROCLAMATION NO. 1164

CREATING AND DESIGNATING A PARCEL OF LAND, LOCATED WITHIN THE UPLB COMPOUND, LOS BAÑOS, LAGUNA, AS AN AGRO-INDUSTRIAL ECONOMIC ZONE, PURSUANT TO REPUBLIC ACT NO. 7916, AS AMENDED BY REPUBLIC ACT NO. 8748

Pursuant to the powers vested in me under Republic Act (RA) No. 7916, or the "Special Economic Zone Act of 1995," as amended by RA No. 8748, and upon recommendation of the Board of Directors of the Philippine Economic Zone Authority (PEZA), I, **BENIGNO S. AQUINO III**, President of the Philippines, do hereby create and designate a parcel of land, subject to the provisions of RA No. 7916, as amended, its Implementing Rules and Regulations, Resolution No. 07-232 (s. 2007) and Resolution No. 09-193 (s. 2009), as amended by Resolution No. 11-423 (s. 2011), as amended, of the PEZA Board of Directors, as an **Agro-Industrial Economic Zone**, to be known as the **UPLB Agro-Industrial Park**, located within the UPLB Compound, Los Baños, Laguna, with an area of **Six Hundred Eight Thousand Four Hundred Ninety-Eight (608,498) square meters**, more or less, as defined by the following technical description:

**Lot D-1-B
Psd-227910
TCT No. 45714**

A parcel of land Lot D-1-B, (Portion) (LRC) Psd-227910, being a portion of Lot D-1, Psd-24950, situated in Barangay Tuntungin, Los Baños, Laguna.

- **"Industrial Estate (IE)"** – refers to a tract of land subdivided and developed according to a comprehensive plan under a unified continuous management and with provisions for basic infrastructure and utilities, with or without pre-built standard factory buildings and community facilities for the use of the community of industries.
- **"Export Processing Zone (EPZ)"** – a specialized industrial estate located physically and/or administratively outside customs territory, predominantly oriented to export production. Enterprises located in export processing zones are allowed to import capital equipment and raw materials free from duties, taxes and other import restrictions.
- **"Free Trade Zone"** - an isolated policed area adjacent to a port of entry (as a seaport) and/or airport where imported goods may be unloaded for immediate transshipment or stored, repacked, sorted, mixed, or otherwise manipulated without being subject to import duties. However, movement of these imported goods from the free-trade area to a non-free-trade area in the country shall be subject to import duties.

Fiscal and Non-fiscal incentives

- Income tax holiday of specific duration (4 years, 6 years, 3 years), and subject to extension under certain conditions. Under this, the PEZA registered company will not be liable to 30% income tax;
- 5% special income tax upon expiration of the income tax holiday. 5% is based on the defined gross income where only specific enumerated expenses are deductible from gross sales or gross receipts;
- Tax and duty free importation;
- Zero percent (0%) value added tax (VAT) on purchases of goods and services for use in the registered activity;
- Exemption from withholding taxes on payments of local buyers from customs territory;
- Exemption from payment of any and all local government fees, imposes, licenses, or taxes;

On the other hand, non-fiscal incentives would include the following:

- Simplified import – export procedures;
- Employment of non-resident foreign nationals in supervisory, technical or advisory positions; and,
- Special non-immigrant VISA to certain officers and employees

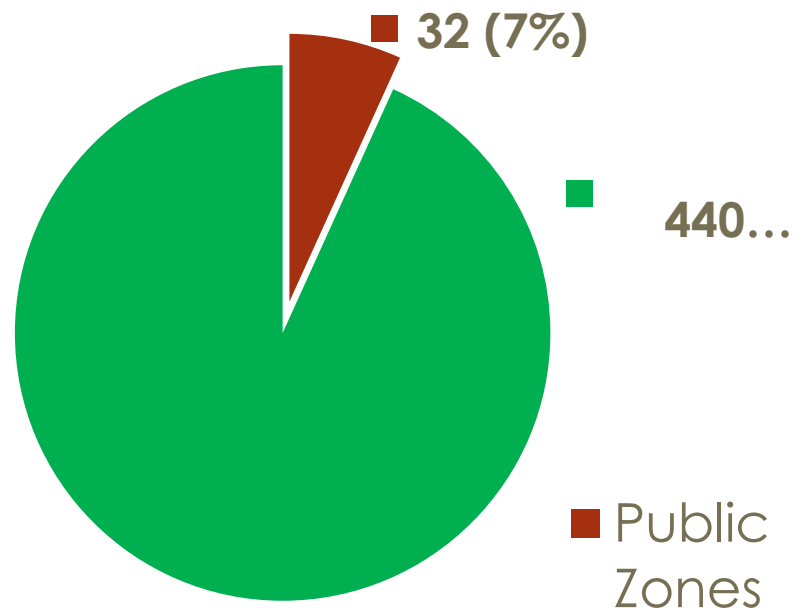
The success of special economic zones will likely be debated for many years, but SEZs remain an attractive policy instrument for trade, spatial policy and investments (Farole and Akinci, 2011)

- 1. How did Special Economic Zones contribute to the development of the industry and services sector in the Philippines?**
- 2. What is the industrial composition and spatial distribution of special economic zones in the Philippines?**
- 3. Are special economic zones successful in generating employment, attracting FDI, and raising exports in the Philippines?**
- 4. Do private-owned and managed special economic zones perform better than public SEZs?**

Special Economic Zones in the Philippines, by category and administrating agency (as of 2015)

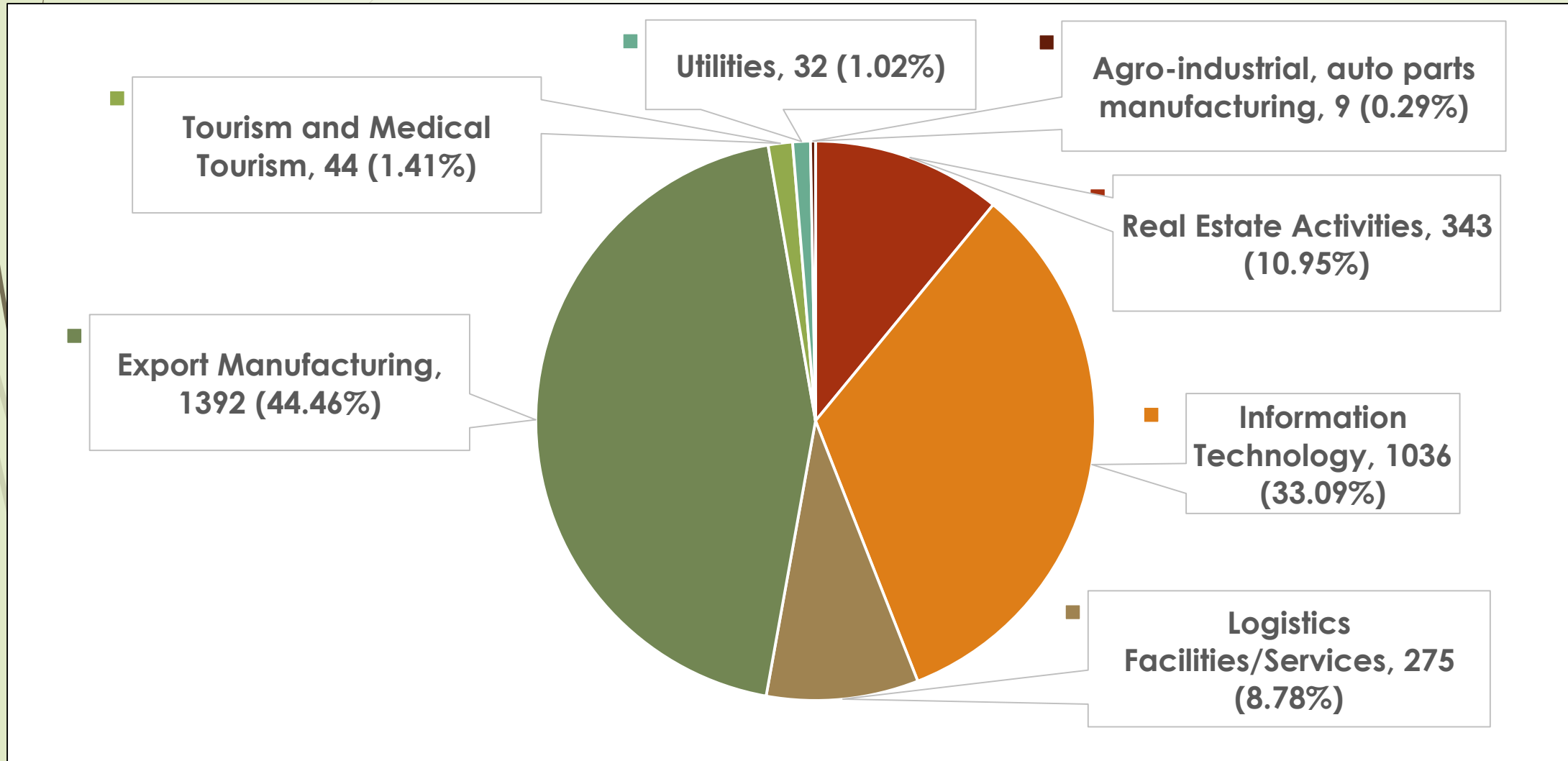
Agency	Public Zones	Private Zones	Total (Zones)	No. of Firms/Locators	Employment
PEZA	21	440	461	3,103 *	1,243,000
BCDA	4	-	4	960	87,635
SBMA	1	-	1	1,536	101,651
AFAB	1	-	1	80	25,803
CEZA	1	-	1	217	18,098
ZamboEcozone	1	-	1	30	1,301
Phividec	1	-	1	98	12,787
ARMM-REZA	1	-	1	No data	no data
APECO	1	-	1	0	0
Grand Total	32	440	472	6,024	1,490,275 Or 3.85 percent of total employment

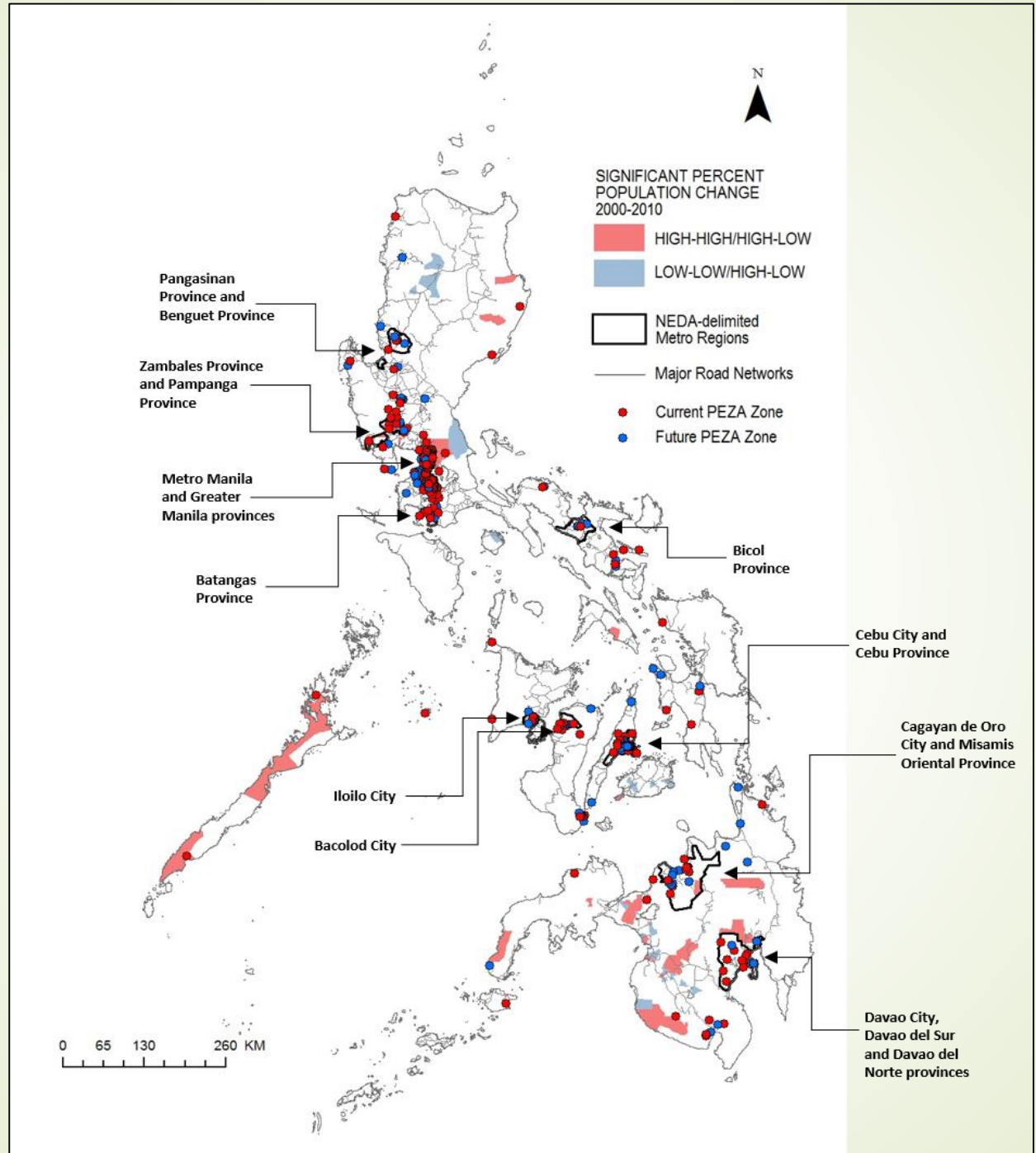
PEZA-registered zones, by type of industry (2015)



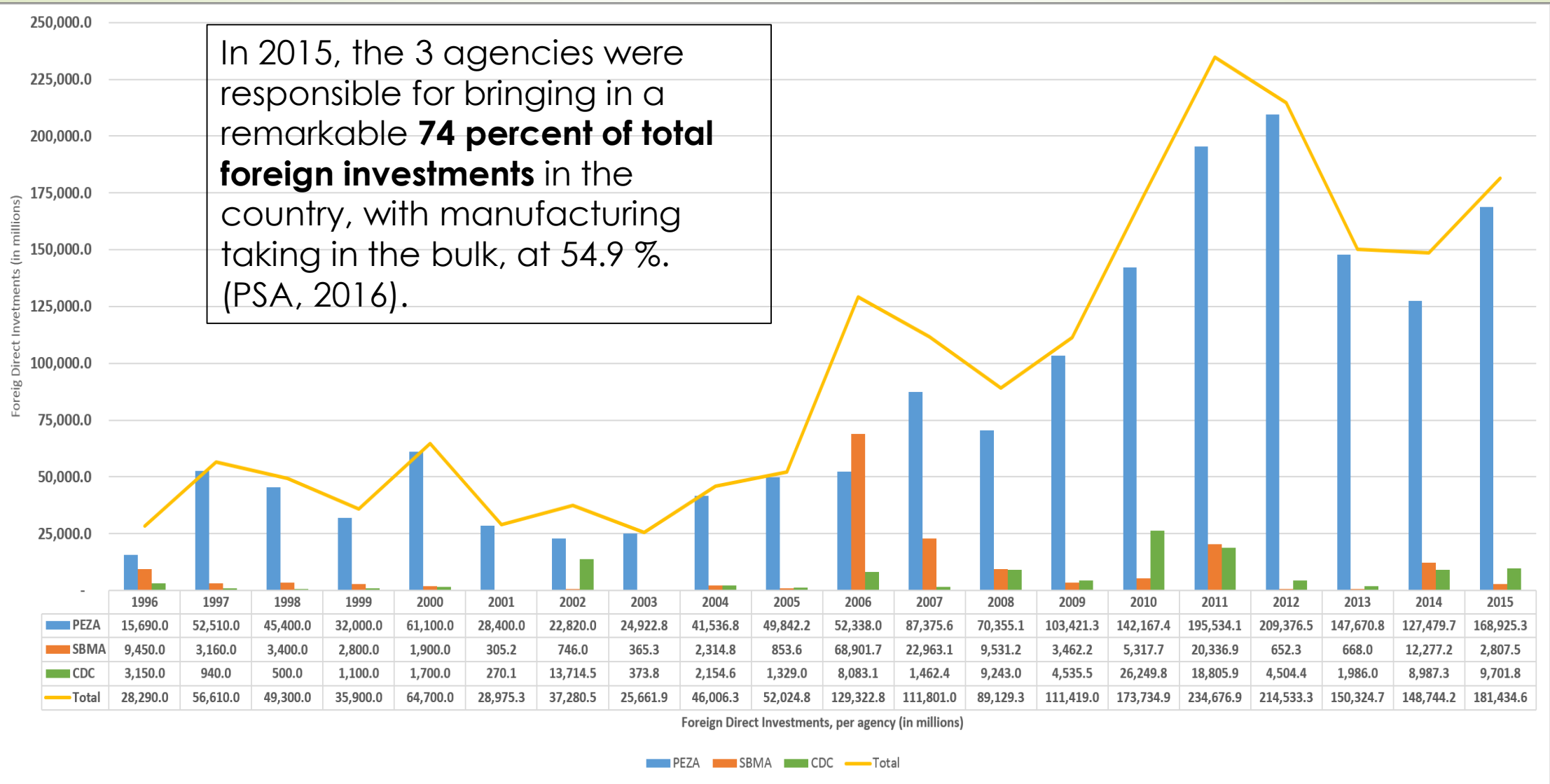
Type of Industry	Number of SEZs	Percent to Total
Information Technology	315	68.3%
Manufacturing	93	20.1%
Tourism	24	5.2%
Agro-Industrial	27	5.8%
Medical	2	.43%
Total	461	100%

PEZA-registered locators/firms, by type of business (2015)

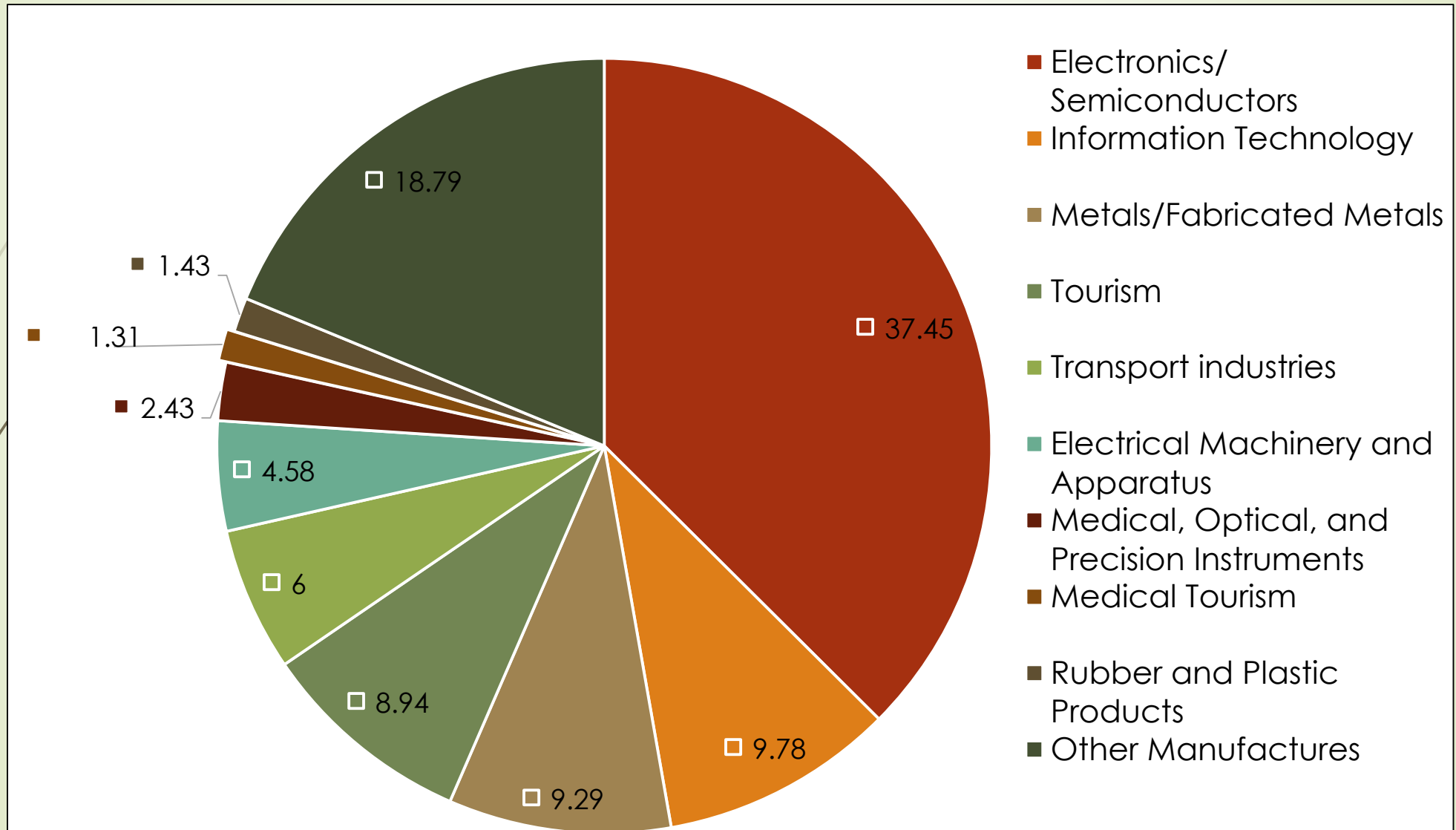




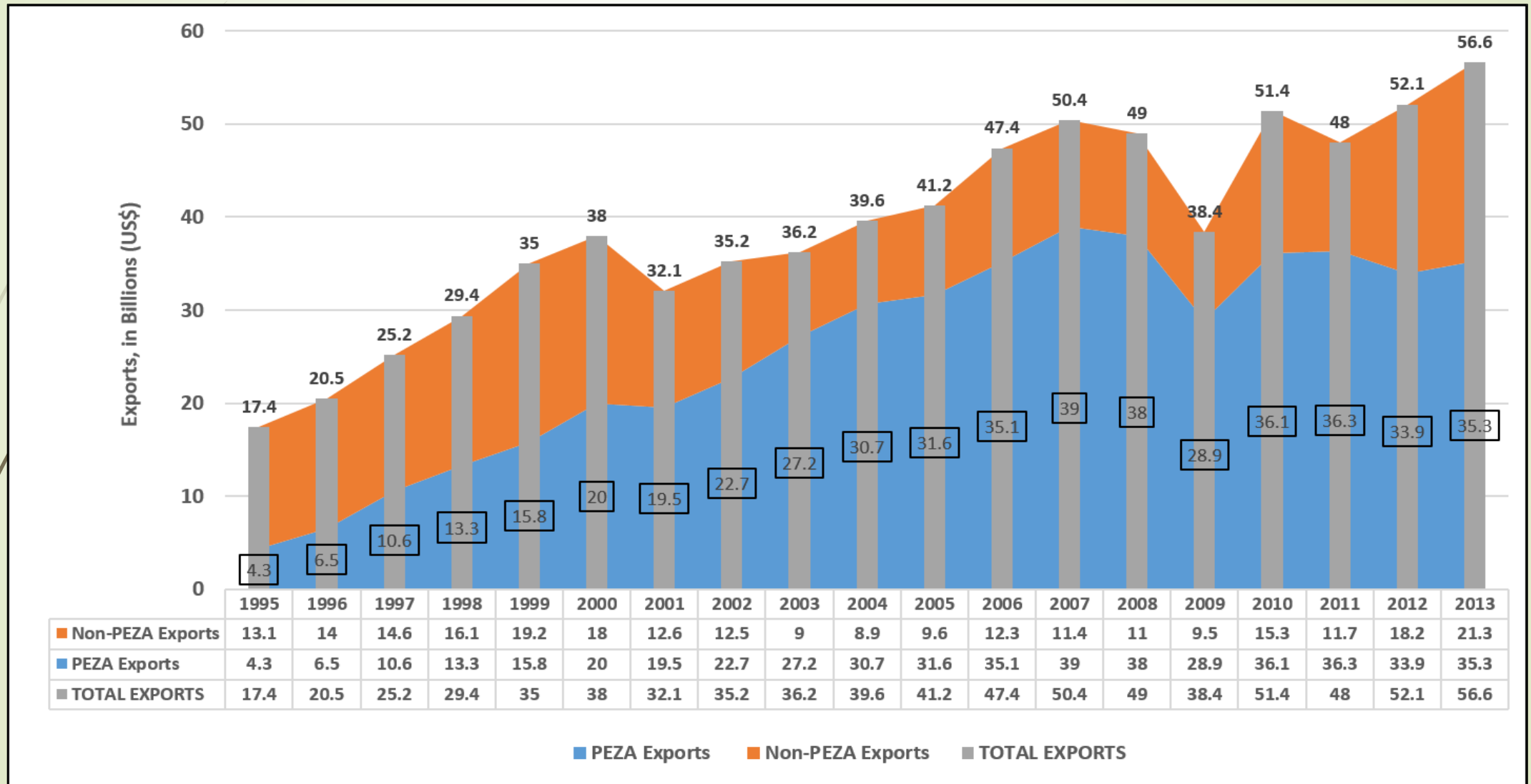
Foreign Direct Investments, by agency, from 1996-2015 (in millions, PhP)



Investments in PEZA zones by industry, (1994-2014)



Philippines exports, by PEZA and non-PEZA exports, from 1995-2013 (in billion, US\$)



Summary and Conclusion

- Special Economic Zones are most private-owned and managed;
- SEZs are concentrated in ICT and Manufacturing, especially in electronics;
- The Philippines has the most number of SEZ that are in the ICT sector;
 - Currently, Philippines is #1 in voice-based ICT-BPO; #2 non-voice complex services (after India)
- Most SEZs are clustered in and around cities throughout the country;
- Both private and public special economic zones in the Philippines perform well in FDI, employment, and exports. There are exceptions though.
- The incentives framework are highly similar across special economic zones.
- There are 8 different government offices that manage and supervise special economic zones.
- SEZs contributed to the growth of services and manufacturing by offering a better investment climate.



Policy Recommendations

- Need for more and better incentive policies for industrial upgrading and scaling up of products and services in firms within the special economic zones, beyond tax incentives;
- Need for better and stronger university-industry linkage to spur innovation within firms in SEZs;
- Need for building capacities and enhancing capabilities for local governments, state universities, and others, in zone management;
- Need for a more integrated system of monitoring, coordinating and managing special economic zones throughout the country;
- Need for higher quality data on SEZs, both at the zone and firm-levels;
- Need for timely and better metrics to assess SEZ performance, beyond static indicators;
- Need for a highly empirical cost-benefit analysis of the Philippine SEZ programs, to determine if more zones or less zones are better, and to determine objectively whether the zone programs have been beneficial to government and society at large.