

# The special economic zone act of 1995: how special is it?

Law



Cabatos 1 Lawdemhar T. Cabatos Ms. Louyzza Maria Victoria H. Vasquez  
English 10 21 March 2013 The Special Economic Zone Act of 1995: How  
Special Is It? Approved on February 24, 1995, the Special Economic Zone Act  
of 1995, the “ act providing for the legal framework and mechanisms for the  
creation, operation, administration, and coordination of special economic  
zones in the Philippines, creating for this purpose, the Philippine Economic  
Zone Authority (PEZA), and for other purposes,” took effect on the very day  
President Fidel Valdez Ramos imprinted his signature on the bill (“ Republic  
ActNo. 7916).

It is the government? s declared policy to materialize state policies and  
provisions of the 1987 Philippine Constitution. Section 20, Article II of the  
1987 Constitution states, “ The State recognizes the indispensable role of the  
private sector, encourages private enterprise, and provides incentives to  
needed investments” and Section 12 of Article XII declares that “ The State  
shall promote the preferential use of Filipino labor, domestic materials and  
locally produced goods, and adopt measures that help make them  
competitive,” (“ The 1987 Constitution of the Republic of the Philippines”).  
By virtue of Republic Act No. 916, the Philippine government hopes to fulfill  
the mandates of its constitution. Before we deal on how special Republic Act  
No. 7916 really is, what are special economic zones (SEZs)? Defined in  
Republic Act No. 7916, Special Economic Zones (SEZs) or ECOZONES are “  
selected areas with highly developed or which have the potential to be  
Cabatos 2 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. The law defines an industrial estate (IE) as “ 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. ” An export processing zone (EPZ) is “ a specialized industrial estate located physically and/or administratively outside customs territory, predominantly oriented to export production. A free trade zone is “ 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” (“ Republic Act No. 7916”). For years, industrialization has been centered in key cities - the National Capital Region for Luzon, Cebu for Visayas and Davao and Cagayan de Oro for Mindanao - leaving other regions trailing behind the Philippine industrialization scheme.

Thus, special economic zones, as stated in the objectives of the law, are created to promote rural industrialization by transforming selected areas in the country into highly developed industrial, commercial and financial centers thereby promoting flow of both foreign and local investors and generating employment opportunities for the area's labor force and ultimately supporting the government's effort to reduce unemployment (“ Republic Act No. 7916”). Economic zones are also thought to promote balanced growth by providing jobs especially to rural areas.

Employment generation by special economic zones, in theory, bridges the poverty gap among social classes and balances the regional income

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inequality among regions (Clarete and Veron). Cabatos 3 To promote the flow of local and foreign investors into special economic zones, the law provides special incentives to enterprises located in special economic zones, including exemptions from taxes under the National Internal Revenue Code. The law states that no taxes, local or national, shall be imposed on business enterprises operating within the ECOZONES.

Instead, five percent (5%) of the gross income within the ECOZONE shall be remitted to the national government. Incentives are also given to enterprises located in export processing zones (EPZs) and free trade zones. Special permits for the importation of capital equipment and raw materials that are not subject to duties, taxes and other import restrictions are given to these businesses (" Republic Act No. 7916"). Through giving prospective investors tax incentives, the government aims to reel in foreign investors and urge local investors to establish businesses in special economic zones.

Prior to the establishment of special economic zones in the Philippines, other Asian countries have already created special economic zones with the goal of attracting foreign direct investment, easing extensive unemployment, supporting a wider economic improvement policy, and as experimental laboratories and test economies for the application of new policies and approaches (Farole and Akinci). Studies have been conducted in recent years to look into the cost-to-benefit ratio and economic and social impacts of policies enacted for the creation of special economic zones in these countries.

In China, for example, the Third Plenum of the 11th Congress of the Chinese Communist Party adopted the Open Door Policy in 1978 and in 1980, four <https://assignbuster.com/the-special-economic-zone-act-of-1995-how-special-is-it/>

municipalities in two provinces were designated as special economic zones, opening China to global contact and influences. Almost immediately, the four special economic zones accounted for 59.8% of the total Foreign Direct Investment (FDI) in China. Since then, the SEZs continued to result in high rates of economic growth in China (Yeung, Lee and Kee).

Analysis on the economic statistics of Chinese municipalities from 1978 to 2007 showed how special economic zones benefit the economy of China. Special economic zones increase per capita municipal foreign direct investment by 58% in foreign-invested and export-oriented industrial enterprises. Further analysis on the statistics also showed that the special economic zones increased municipal foreign owned capital stock while keeping the domestic capital and investment at a competitive level.

Special economic zones also bring more advanced technology and increased total factor productivity by 0.6% (Wang). Despite the economic benefits special economic zones have brought to China, several cases have turned up showing unsuccessful implementation of special economic zones in several countries. Quite a number of zones have become „white elephants“, zones that resulted in an industry taking advantage of tax breaks and incentives but are unable to generate substantial employment or export returns (Farole and Akinci).

Similar to the SEZs, Industrial Development Zones (IDZs) have been established in South Africa. However, unlike the impressive performance of special economic zones in other countries which transformed their economies into tiger economies, IDZs in South Africa have failed to sufficiently attract foreign investments or compete internationally (Altbeker, <https://assignbuster.com/the-special-economic-zone-act-of-1995-how-special-is-it/>)

McKeown and Bernstein). In India, the designation of special economic zones has generated and constantly increased employment in regions where special economic zones are established. Figures may seem large, but when employment generated by special economic zones in India is analyzed on a national level, special economic zones in India accounted for only less than one percent (1%) of the total manufacturing employment since their establishment in 1966 (Aggarwal). Cabatos 5 In the Philippines, special economic zones have already been established even before the Special Economic Zone Act of 1995 became a law. It was in 1923 that the Chamber of Commerce of the Philippines first conceptualized the creation of export processing zones or special economic zones.

By 1967 the first export processing zone, the Bataan Export Processing Zone (BEPZ) was established by virtue of Presidential Decree No. 66 of then-President Ferdinand Marcos. Since then, several others have been established including two of the country's major special economic zones - the Clark Special Economic Zone and the Subic Bay Freeport Zone (Mallari and Padilla). The Special Economic Zone Act of 1995 was the government's response to the call of rural industrialization of the 1993-1998 Medium Term Philippine Development Plan.

In pursuit for the aim of dispersing the industrialization scheme outside the National Capital Region, the government developed special economic zones through its Philippines 2000 program (Mallari and Padilla). With the SEZs' goal of promoting the flow of investments and generation of employment, studies have been conducted focusing on three of the major special economic zones in the country, the Bataan Export Processing Zone (BEPZ), <https://assignbuster.com/the-special-economic-zone-act-of-1995-how-special-is-it/>

the Clark Special Economic Zone (CSEZ) and the Subic Bay Freeport Zone, to look into the benefits and drawbacks of creating these special economic zones to Philippine economy and society.

Looking into the working conditions of the Bataan Export Processing Zone, survey results have shown that majority of the labor force was composed of female workers, accounting for seventy-four percent (74%) of the total workforce, 67% of which are young or are 24 years old and below. Moreover, workers have been found to be well-educated relative to the job they have been hired for in the Bataan Export Processing Zone. Sixty percent (60%) had finished high schooleducationand 16% pursued a post-secondary education (Mallari and Padilla). Cabatos 6 Significant difference in the wage of male and female workers was Iso observed. Female workers were given a lower basic wage relative to that of male workers. Furthermore, one-third of the employees were paid below theminimum wagefor the Bataan region. Despite the uneven and insufficient wages of workers, laborers sill work six days per week. A quarter of the labor force worked for 60 hours and 5% worked for more than 70 hours per week, where 46% worked overtime. The study reported that the working hours of workers per week in the Bataan Export Processing Zone were greater than the standard working hours of 8 hours per day and 48 hours per week (Mallari and Padilla).

In conclusion, the Bataan Export Processing Zone was observed to have failed in creating sufficient opportunities of employment for the labor force in Mariveles, Bataan because of the limited capacity of enterprises to absorb the ever-increasing supply of labor in the area. The BEPZ, despite being momentarily able to generate adequate employment opportunities, has not

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catalyzed the growth of other economic activities in the region (Mallari and Padilla). The Clark Special Economic Zone (CSEZ) and the Subic Bay Freeport Zone were created by virtue of Republic Act No. 227, otherwise known as the Bases Conversion and Development Act of 1992. The act aimed to convert Clark and Subic U. S. military bases, together with their extensions and substations, into productive civilian and economic use of lands through the establishment of special economic zones (" Republic Act No. 7227). Similar to the performance of the Bataan Export Processing Zone, the Clark Special Economic Zone, despite having been able to continuously expand employment opportunities in Pampanga and increased the value of exports, has not proven to have generated substantial employment.

The thousands of job opportunities provided for the labor supply in Pampanga is not significant in proportion with total employment of Pampanga (Mallari and Padilla). Cabatos 7 A study on the decisive factors in establishing enterprises in Subic concludes that investors opt to create businesses in Subic because of competitively-priced raw materials and the abundance of skilled and literate labor force (Go and Tatad). Add the incentives given to these enterprises and you get a multi-million dollar business enterprise booming in profit while compromising the benefits and quality of their labor force.

How special then is the Special Economic Zone Act of 1995 and its SEZs? We recall that the goal for the enactment of this law and the creation of special economic zones is to take the Philippine industrialization scheme outside of Metro Manila, promote rural industrialization and the spur of economic activity in less urbanized regions, generate employment and ease the

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regional income inequality and the poverty gap among social classes. However, there seems to be a mishap, not on the law but on the implementation of the law.

In policy, special economic zones promote balanced growth by spreading the industrialization in rural regions and SEZs are indisputably effective in promoting foreign and local investments in areas where they are located. Although SEZs have been established outside the National Capital Region, it is evident that a large number of these SEZs, especially the largest and most dynamic ones have been established in areas proximate to NCR and still leaving behind Visayas and Mindanao in the economic progress of Luzon.

There have been improvements in the national regional income inequality but are largely due to changes in inequality between top ranking regions in Luzon (Clarete and Veron). Just how special is it then? Cabatos 8 China and other Asian countries have done it. Why haven't we? Is it because of the law? No. It is because of the poor system that we have, a system driven by money and stained by corruption. And unless we start the change to a cleaner, more efficient and a better system, „ special? would only be in the name of Republic Act No. 7916, not on Philippine society. Cabatos 9 Works Cited Aggarwal, Aradhna. Impact of Special Economic Zones on Employment, Poverty and Human Development. " Working Paper. Indian Council for Reserch on International Economic Relations. May 2007. Web. 15 March 2013 Alejandro, Ethel P. and Roselie B. Tubeo. Clark Special Economic Zone: An Assessment of Costs and Benefits. Quezon City: University of the Philippines Diliman - School of Economics, October 1998. Print. Altbeker, Antony, Katie McKeown and Ann Bernstein. " Special Economic Zones: <https://assignbuster.com/the-special-economic-zone-act-of-1995-how-special-is-it/>

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