

**The Philippine Subic Special Economic and
Free Port Zone:**

A New Approach to an Old Strategy

by

Lynnda Marie B. Laraya

Submitted to the
Department of Urban Studies and Planning
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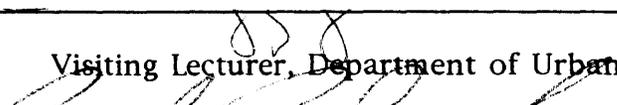
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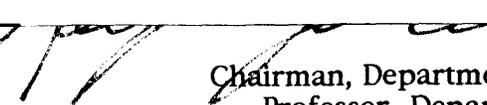
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by Lynnda Marie B. Laraya

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Abstract

In recent months, the conversion of the former US Subic Naval Base into a Special Economic and Free Port Zone (a variation of the export processing zone or EPZ) has become the focus of regional and national economic development efforts in the Philippines. The goal is to create a globally competitive region that will serve as economic development catalyst for the country. This study examines how successful the current Subic strategy will be in attaining its goals. Based on literature survey and fieldwork findings, an evaluation of the Subic plan is done against i) past EPZ experience, ii) the needs of the surrounding Olongapo community after 47 years of dependence on the former naval base, and iii) the goal of creating a globally competitive special economic and free port zone. Following are the main findings of the study:

The Philippine government, in its bid to create the former naval base into a special economic zone, has unwittingly pitted itself in direct competition against such countries as China and the former USSR, which have decided on EPZs to serve as one of their instruments for economic development. The Philippines is at a disadvantage to these giant economies because they are currently the focus of global attention, have bigger markets and the backing of various development funds.

Despite this threat, however, the Philippine government has embarked on the concept of the Subic Zone as geared towards dependence on outside sources of capital and industry, much in the tradition of the original export processing zone.

The study suggests that elements of a New Economic Paradigm - a new wave of economic thought in the development field that is recognized to create globally competitive regions that at the same time deals with problems of unevenness and inequality - might be incorporated in creating a more successful and self-sustaining Subic Zone plan. This study finds that a two-track mode of development, that pursues outside sources of capital and industries while focusing on the global role of the local framework in developing its own indigenous resources would be the most feasible strategy in the creation of the Subic Special Economic and Free Port Zone.

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This thesis represents my first step in the field of planning. I owe this achievement wholly to the following people in the department:

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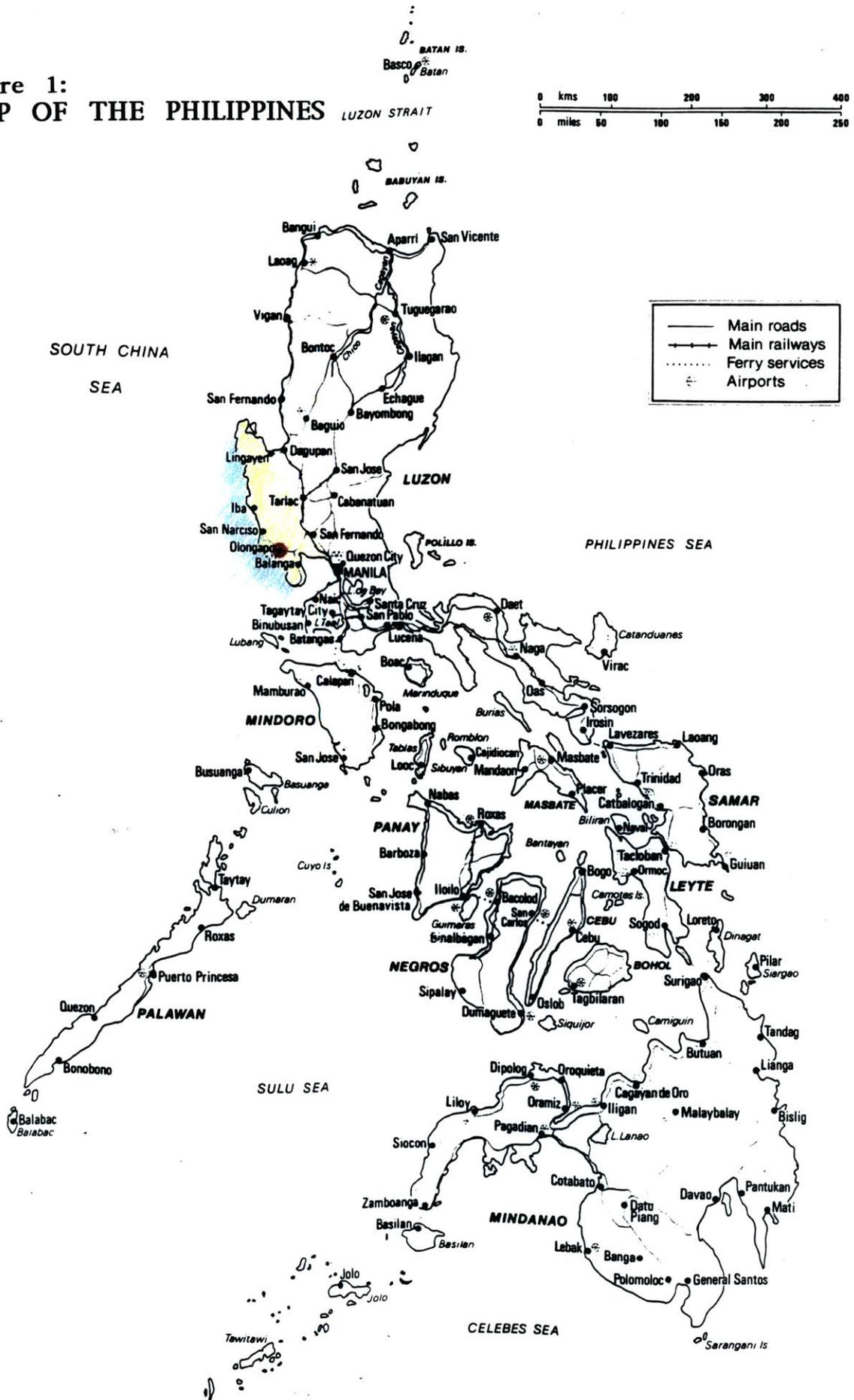
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List of Acronyms

EPZ	--	Export Processing Zone
SEZ	--	Special Economic Zone
FPZ	--	Free Port Zone
FEZ	--	Free Economic Zone
Subic SEFPZ	--	Subic Special Economic and Free Port Zone
SBMA	--	Subic Bay Metropolitan Authority
BCDA	--	Base Conversion Development Authority
LEBC	--	Legislative Executive Bases Council
LGU	--	Local Governmental Unit
WB	--	World Bank
NIC	--	Newly Industrialized Country
ASEAN	--	Association of South East Asian Nations

**Figure 1:
MAP OF THE PHILIPPINES**



I. INTRODUCTION

The Philippine government, in its search for a strategy to convert the former U.S. Naval Base, has decided on the export processing zone concept. They have decided on the Subic Special Economic and Free Port Zone as its instrument for conversion for the Subic region because of its strategic location, infrastructure, and human resources. The main goal of the proposed strategy is to develop an internationally competitive region that will spur the Philippines into economic development.

Amidst negotiations for a gradual phase-out of U.S. bases in the Philippines, the Subic Naval Base in Olongapo City closed operation in November 1992, due to the volcanic eruption of Mt. Pinatubo. This military base had been the home of the largest American facility outside of the United States for almost 50 years. Together with other U.S. installations in the Philippines, these bases constituted the second largest employer in the country. The abrupt closing of the former Subic Naval Base created economic dislocation in the Philippines, and in the Subic region. The pullout was all the more devastating because it came at a time when people had lost homes and their property to the volcanic catastrophe.

As a result of economic dislocation in the region the Filipino government decided on two overlapping development strategies: First, to develop an enterprise zone, and second, to develop a type of enterprise zone that would create a highly internationally competitive region which the Philippines could utilize as a window of opportunity and as a catalyst for economic

development. The Subic Zone, the country's free port, is to be developed into a self-sustaining industrial, commercial, financial, and investment center. It is to be managed as a separate customs territory for free flow of movement of goods and capital. The main question that still remains is the extent to which this Subic SEFPZ could help to develop a globally competitive region. The concept proposed by the Philippine government seems not to consider the many problems that have been encountered by export processing zones in the past. My central concern is that the strategy that is defined and conceptualized does not offer important characteristics that internationally competitive regions today possess.

In this thesis I will be examining the development strategy for the Subic Bay region. In particular, I will be studying the extent to which the Subic Special Economic and Free Port Zone could help to develop a globally competitive region which addresses the current needs of the local community. My main thesis argument is that the current proposal to develop the Subic Bay is not well conceived in the sense that it does not meet the criteria by which today's competitive region are defined by - human resource comparative advantages such as technology and work force rather than natural comparative advantages such as natural resources or capital (Thurow, 1992). My central argument will be analyzed by looking at some development evaluations of past enterprise zones. From those evaluations I will create a list of the advantages and disadvantages of this strategy, and examine the proposed plan with this information.

I will analyze the characteristics of the internationally competitive region from two angles. First, on the issue of international competitiveness as determined in today's economic terms. The other angle I will be dealing with

is through current development paradigms - through the lessons that many international states and regions have learned in terms of what is needed to take into consideration. I will draw to that a New Economic Paradigm of development economics to see what lessons current development processes has taught them. One interest that I consider vital in this case is the community needs, which I define to be the needs of a community undergoing an economic transition from dependence on the base, to one of diversity. The challenge of the Subic undertaking is to overcome development problem and simultaneously fulfill the needs of the host community.

SCOPE AND LIMITATION. The interest of this thesis is in the development process. Except for purposes of establishing a context, this study will stop short of fiscal and organizational details. Other aspects that I will not touch include aspects of development finance, venture capital, and the like.

Significance of the Study

The importance of this study is that it contributes to the sphere of knowledge on how a developing country like the Philippines can take hold of an instrument for economic development used in the past and conceived in a different economic and time frame, and adapt it more suitably for its purposes in the current economic realities. The significance of this study is that it will be introducing concepts of international competitiveness and the new economic role of state to the Philippine consciousness that have up to this point not been considered in the planning of development projects.

The Main Issues

The thesis is developed around three main issues: (i) What is the export processing zone, what is the special economic zone, and what are their differences? What advantages and disadvantages are there to implementing these zones as a tool for economic development? What are some conditions that would lead to its success?; (ii) What is the context in which the Subic Zone has been proposed? What are the needs of the locale? Are the goals of the Zone as perceived by government (global competitiveness) and the needs of the locale met with the way the EPZ strategy has been developed? (iii) How could the current plan for the Subic Zone be substantially altered to more readily meet the goals of global competitiveness? It is at this point that the New Paradigm is introduced and the local institutional, social, and political scene is assessed for compatibility with the challenge of the new scheme.

Structure of the Thesis

The first part of the thesis reviews existing literature on export processing and special economic zones, and distinguishes one from the other. This section looks at what has been done with these zones in the past, what adaptations have been made, and what the failures and successes have been. It looks at evaluations of the past performances of these zones, assesses them against the objectives set for these zones, and draws some conclusions on its advantages and disadvantages as a tool for economic development. A criteria is developed by which the plan for the Subic SEFPZ is to be analyzed.

The second part of the thesis establishes the context in which the special economic zone has been proposed. A brief background on the development of

events thus presents the Subic Zone as being the former site of the US Subic Naval Base - the largest outside of continental America - wherein the lives of the 300,000 community residents of Olongapo City and the surrounding baselands have been dramatically altered as a consequence of the abrupt pull-out. This chapter illustrates the condition of the local community during its era of economic dependence on the former naval base, and, drawing from interviews done with community residents last January, gives a sense of how the community is presently coping. An inventory of the strengths of the community is laid out, and its needs specified.

The third part of the thesis presents the Subic Zone Master Plan, and focuses on what has been proposed that would compensate for what are known to be the shortcomings of the EPZ. The Subic Plan will be assessed against the (i) evaluation of past EPZ experience presented in the first part of the thesis, (ii) against the needs of the community undergoing the economic conversion, and (iii) against the goals of creating a globally competitive region. The argument presented is that this EPZ concept of the Philippines is lacking and that additional development strategies are needed that can match what the Philippines wants to do, and that would build an internationally competitive port. Elements of the New Paradigm are discussed, and what constitutes a globally competitive region today is thus defined.

The fourth part of the thesis is an assembly of elements of the New Paradigm into an example of a new approach to the strategy for the Subic Zone. Local institutional, social, and political components are assessed against this new approach.

The concluding chapter draws from the conclusions of all the preceding chapters and presents them in perspective of what the shape of the new special economic zone should be.

Methodology

This thesis is based in part on empirical evidence gathered over three weeks of fieldwork in Olongapo City and Manila last January 1993. Nine formal interviews were conducted for purposes of the thesis: three from the academe who served as consultants to the government; two from the government authority in charge of all bases conversion in Metro Manila; three from the metropolitan authority in charge of conversion in the Subic Bay area; and one formal interview with a local resident of Olongapo city, in which the former naval base was set. Other points regarding the locale were gathered from informal conversations and interaction with the people in the community during the site visits.

The bulk of information regarding plans and strategies for the Subic Zone were taken from studies prepared by Felipe M. Mendoza & Partners, *The Philippine Baselands Development Authority (PBDA)* (Metro Manila, July 1990), Lazaro, A. & Associates and SGV Consulting, *Proposed Subic Conversion Sub-Program: Subic and Baselands Extension* (Metro Manila, July 1990), and Lim, Reuben, *Loading the Bases: The Subic Base Conversion Program* (Metro Manila: Manila, Inc., November 1992).

Sources for establishing the context of these plans were based on The Economist Intelligence Unit, *Philippines: Country Profile 1991-1992, Annual Survey of Political and Economic Background* (London: The Economist

Intelligence Unit, Ltd., 1992); National Economic Development Agency, *Medium-Term Philippine Development Plan 1993-1998* (Metro Manila: Philippines 2000, 1992); Regional Development Council, *Medium-Term Central Luzon Regional Development Plan 1993-1998* (San Fernando, Pampanga, Philippines: The National Economic and Development Authority, 1993); Provincial Development Report, *Major Development Programs and Projects 1986-1992, the Province of Zambales, Region III* (Republic of the Philippines: The Aquino Administration, 1992), and Provincial Development Report, *Major Development Programs and Projects 1986-1992, the Province of Bataan, Region III* (Republic of the Philippines: The Aquino Administration, 1992).

Aside from interview responses, the main source used for guidance in the assessment of the strategy for the Subic Zone was The World Bank East Asia & Pacific Office, Industry and Energy Operations Division, *Philippines: Subic's Industrial and Tourism Conversion Strategy and Action Program* (Washington D.C.: The World Bank, May 1992).

Two important sources frequently referred to regarding the New Economic Paradigm were *Laboratories of Democracy* by David Osborne (1990) and *The New Economic Role of States* by Scott Fosler (1988).

II. EXPORT PROCESSING ZONES

Since this study focuses on the special economic and free port zone as a tool for economic development in the Philippines, this chapter will be dedicated towards a better understanding of this concept. The basic definition of the EPZ shall be laid out and differentiated from the SEZ. Pertinent characteristics of the Zone as proposed for Subic Bay will be articulated.

The performance of the EPZ will be assessed in terms of the objectives set out by host governments. The criteria or framework against which the Subic Zone will be evaluated will be formulated from this assessment. Case studies of Chinese SEZs and the Korean EPZs will be used to examine what factors lead to the success of these zones. These concepts shall also be applied to the Subic Zone.

HISTORY AND CONCEPT OF THE EXPORT PROCESSING ZONE

The roots of the special economic zone (SEZ) are in the original concept of the export processing zone (EPZ) first developed in Ireland at the Shannon International Airport in 1956. Many developing countries such as Puerto Rico, India, Taiwan, the Dominican Republic, Mexico, Panama, Brazil, and the Philippines then followed suit.² Although the 'special zones' may be referred to by different terms, such as 'free trade zone', 'free export zone', 'duty-free

² As quoted by Chu, D.K.Y. from J. Currie, *Investment: The Growing Role of Export Processing Zones* (London, The Economist, 1979). See Jao and Leung, *China's Special Economic Zones* (Oxford University Press, 1986).

zone', 'special economic zone' and so on³, they can generally be defined as areas involved in the 'establishment of modern manufacturing plants inside an industrial estate, by offering a suitable package of investment incentives to both foreign and domestic entrepreneurs.⁴ As defined by the United Nations Industrial Development Organization (UNIDO), these 'special zones' bear many similarities. First, they operate in a market economy; second, they are basically territorial constructs, their function being confined to export processing within a well-defined territorial limit⁵; third, their special nature derives from the fact that they are 'enclaves' specializing in exporting their manufactured products to international markets under a package of incentives offered by the host country; fourth, their major objectives are primarily to attract foreign investment, to earn foreign exchange, and to generate employment, and fifth, their secondary objectives are technology transfer, development linkages, and regional development.⁶

³ Other names include Customs zone, Customs free zone, Duty free export-processing zone, Export free zone, Export processing free zone, Export processing zone, Foreign trade zone, Free trade economic zone, Free export-processing zone, Free export zone, Free production zone, Free trade zone, Free zone, Industrial export-processing zone, Industrial free zone, Investment promotion zone, Joint enterprise zone, Maquiladora, Privileged export zone, Special economic zone, Tax free trade zone, Tax free zone, Zone of joint entrepreneurship. (United Nations Centre on Transnational Corporations, *The Challenge of Free Economic Zones in Central and Eastern Europe: International Perspectives*, New York: United Nations, 1991.)

⁴ As quoted by Vittal from UNIDO, see N. Vittal, *Export Processing Zones in Asia: Some Dimensions* (Tokyo: Asian Productivity Organization, 1977), p.1.

⁵ Except in the case of enterprise zones, whose privileges and advantages are extended to other enterprises, local or foreign-owned, operating elsewhere in the country, on the premise that those privileges and advantages would have the same positive effects on exports or employment creation even outside of the confines of the original zone. (United Nations Centre on Transnational Corporations, *The Challenge of Free Economic Zones in Central and Eastern Europe: International Perspectives* (New York: United Nations, 1991), p.6.

⁶ Chu, D. "The Special Economic Zones and the Problem of Territorial Containment" in Jao and Leung, *China's Special Economic Zones* (Oxford University Press, 1986).

A discussion of the variations of these 'special zones' shall give us an idea of the diversity of adaptations that have occurred since its conception.

The *maquiladora* in Mexico is an example of an EPZ development that extended the zone's privileges and advantages to other enterprises, local or foreign-owned, operating elsewhere in the country, on the premise that those privileges and advantages would have the same positive effects on exports or employment creation even outside of the confines of the original zone.⁷

The free port zones (FPZ) or "free-zones" of Hong Kong and Singapore were a development of the EPZ that had acquired import-processing functions.⁸

The special economic zone (SEZ), first developed in China was the concept of the export processing zone as a large territory rather than a small industrial enclave.

It is the functions of these two last zones, the free port and the special economic zone, that shall be implemented in the Subic Zone.

These zones have been used widely by both developed and underdeveloped zones as a tool for economic development. Today, aside from the predictable growth of the zones in the developing world, there is the adoption and adaptation of this concept by the centrally planned economies. EPZs are now gaining momentum with the current plans of the former USSR, Poland, Hungary, Bulgaria and Viet Nam - among others - which plan to set up or

⁷ United Nations Centre on Transnational Corporations, *The Challenge of Free Economic Zones in Central and Eastern Europe: International Perspectives* (New York: United Nations, 1991), p. 6.

⁸ (Goderes, C., *A World Bank Staff Working Paper on Export Processing Zones*, (Washington, D.C.: World Bank, 1981), pp. 7-8.

expand free economic zones in several strategic economic locations.⁹ In light of the successes it has had with its program of special economic zones (SEZs) in 1979¹⁰, China has renewed its interest in SEZs as well. As recently as March of this year, it has expressed its plans of developing a free port and special economic zone with the likes of Hong Kong at the Yangpu Island. ¹¹

Case 1: CHINA'S SPECIAL ECONOMIC ZONES

Since the concept of the special economic zone (SEZ) originated in China, this discussion shall focus mainly on their experiences to give an idea of what is being proposed for the Philippine Subic Bay.

Introduced as a mere territorial entity termed a 'special export zone', the concept of the special economic zone of China has developed into a functional and territorial entity of local and regional concern. These zones function under the Ministry of Economic Affairs, a strategy which involved the creation of four such zones developed to test and ease the country into an open

⁹ United Nations Centre on Transnational Corporations, *The Challenge of Free Economic Zones in Central and Eastern Europe: International Perspectives* (New York: United Nations, 1991), p.2.

¹⁰ China, in 1979, implemented a Special Economic Zone Program that involved the establishment of four SEZs to obtain foreign exchange and advanced technologies and as laboratories in which to test new legislative initiatives and train Chinese officials in modern management techniques. (Chinese perceptions of the success of the SEZs vary.) The four SEZs were Shenzhen, Ahuhai, and Shantou in Guangdong province and Xiamen in Fujian province. (See Herbst, K. " The Regulatory Framework for Foreign Investment in the Special Economic Zones" in Jao and Leung, *China's Special Economic Zones* (Oxford University Press, 1986), p. 124.) Shenzhen, the most successful of the SEZs, shall be used in later parts of the paper to illustrate the functions and characteristics of the special economic zone.

¹¹Work on this project began as early as three years ago. For the first time, a foreign consortium is being allowed to transform an empty piece of land into a small planned city. The plan is for this giant town to have a mixture of shops, offices, factories, warehouses, gardens and apartments for 250,000 residents, all separated by a fence from the rest of the island and the rest of China. WuDunn, Sheryl, *A Mini-Hong Kong, From Scratch* (The New York Times, New York: March 23, 1993), p. D1.

market economy. Despite its many similarities in terms of various facilities and financial incentives offered to foreign investors, China's SEZs differ from the other export processing zones (EPZs) of Asia in a number of ways. The primary difference is the concept of the SEZ as a large territory rather than a small industrial enclave.

The Chinese SEZ was 'special' in the sense that it was a region to be developed autonomously on the basis of active foreign participation and to be run in ways different from the rest of the country. The special arrangements and privileges in the zone allowed China, then a closed economy, to provide local employment and earn foreign exchange for the governments concerned without upsetting or changing existing tax, labor, import-export and other laws and policies that currently applied to the rest of the country (Cohen, 1984). Open market policies could be tested out in these zones, microcosms of the Chinese society, to see what their effects on the economic system of the host country could be. These special economic zones of China were regarded as national "laboratories" of economic policy.

The case of the Shenzhen Special Economic Zone, the biggest of such zones in China, gives us a better idea of what these zones are. The Shenzhen SEZ was modelled on the EPZs in terms of its incentive package, and in the provision of a separate and privileged physical infrastructure, economic management, and legal environment to attract investments. Its difference from other Asian EPZs reflects the differences in goals as well as the likelihood of these goals being realized. First, Shenzhen is pursuing multi-sectoral development and is attempting to build a modern border city which contains modern industries as well as advanced development in science research, financing and tourism. The ultimate purpose is to provide a laboratory for the testing of new ways to

develop and reform the management of the Chinese economy. Second, Shenzhen benefits from the new policy of allowing products of its joint ventures and enterprises with foreign interests to enter the Chinese domestic market. This alone is a very attractive inducement to foreign investments since the potential of the Chinese market is becoming more and more appreciated.

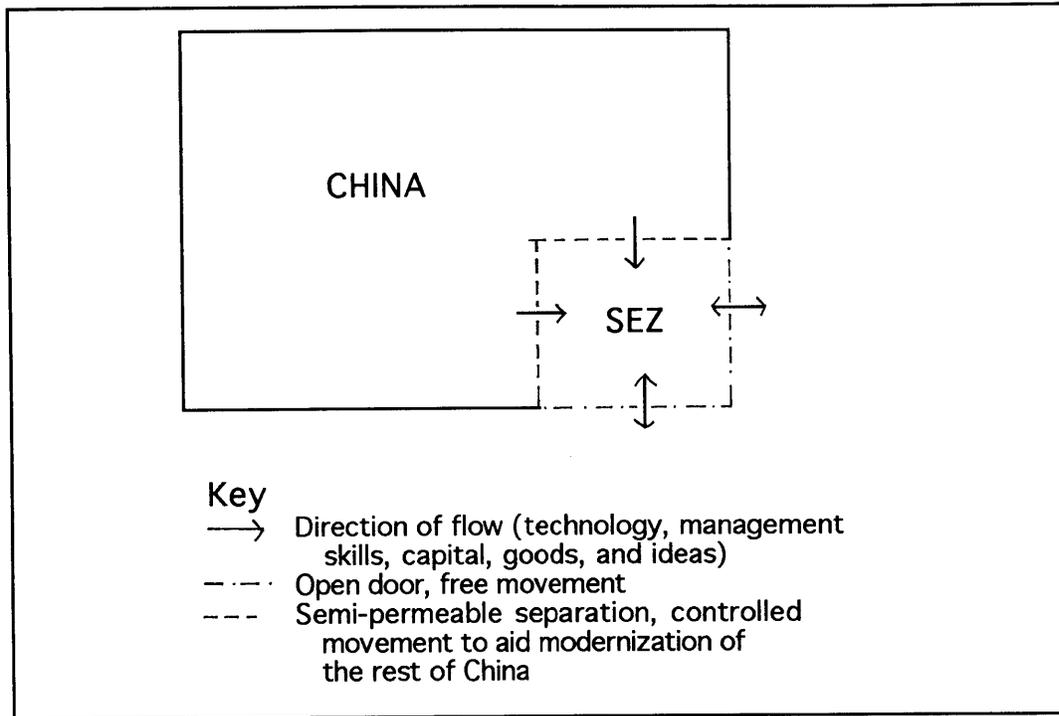
Third, the new policy to woo local Chinese enterprises to enter the SEZ and to make use of Shenzhen as one of the major locations for the transfer of technology gives a tremendous boost to industrial development there.

Thus the SEZ, in essence, is quite different from the EPZs. In the area of industrial development, Shenzhen performs a very interesting, and significant role as matchmaker between foreign partners and Chinese industrial enterprises (See Figure 1.0 below).¹² It is a variation of this SEZ concept that shall be implemented by the Philippines in the Subic Bay area.

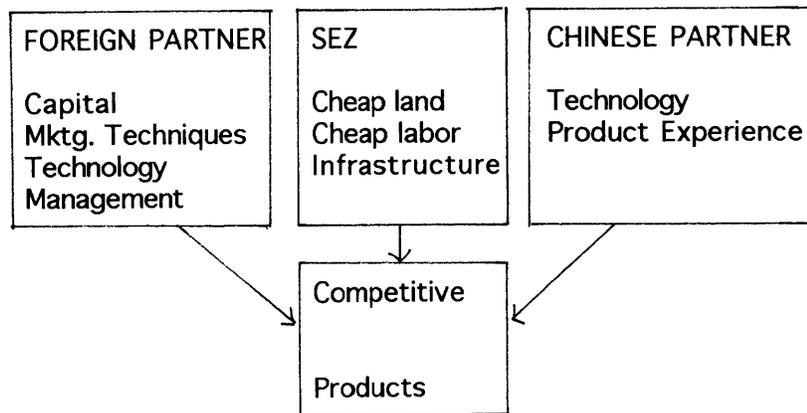
¹²Cohen, (1984), in Sit, V. "Industries in Shenzhen: An Attempt at Open-Door Industrialization", Jao, Y.C., and C.K. Leung, ed. *China's Special Economic Zones: Policies, Problems and Prospects*, (Oxford University Press, 1986), p.242.

Figure 2:

The SEZs as a Sub-system within China



THE SHENZHEN SPECIAL ECONOMIC ZONE'S MATCHMAKER ROLE



Case 2: KOREA'S FREE EXPORT ZONES

The free economic zones (FEZ) in the Republic of Korea are customs-privileged areas, established and maintained under the Free Export Zone Establishment Act, which came into effect on 1 January 1970. The creation of such zones was part of the country's policy of attracting private foreign capital into the economy. Korea at that time was facing a chronic shortage of modern technology and domestic capital. With the objective of improving the efficiency of existing resources, the government targeted labor-intensive industries, which the zones were designed to develop.¹³

The line of supervision and of command, which emanated from the Minister of Trade and Industry, directly involved existing government compartments that embodied the single Zone Control Complex. The Ministry of Finance authorized approval or cancellation of foreign investment and technology-investment contracts. The Ministry of Trade and Industry handled export/import business. The Ministry of Domestic Affairs handled acquisitions by foreigners, and the Ministry of Health and Social Affairs dealt with public nuisance issues. Integration with the existing government offices was such that the whole country could be considered a free economic zone, since all enterprises with foreign direct investment enjoyed the same tax privileges as found within the zones.

It is significant to note that although in quantitative terms the total export shares of the zones were virtually insignificant, their impact has not been

¹³United Nations Centre on Transnational Corporations, *The Challenge of Free Economic Zones in Central and Eastern Europe: International Perspectives* (New York: United Nations, 1991), p. 332-336.

negligible. The zones brought Korea to the attention of investors that used them as testing ground, before deciding that the country was a good one to invest in. These zones were directly instrumental in developing the Republic of Korea into what it is known today, one of the Newly Industrialized Countries (NICs) of Asia.

DEVELOPMENT EVALUATION

The EPZ tends to be regarded by developing countries as a necessary stage in their growth. They bank on the particular merit of these specially created free zones to attract capital which the country lacks, by stimulating exports of manufactured goods or specific services. Into this melting pot would flow foreign capital, know-how, technology, assured markets, and the like. Other more specifically target-oriented objectives stated by many host governments are: (a) generating foreign exchange earnings; (b) creating employment; (c) attracting foreign capital and advanced technology; (d) acquiring and upgrading labor and management skills; and (e) creating linkages between EPZ industries and the domestic economy.¹⁴ More ambitious objectives of host governments include (f) less foreign dependence for management expertise, technology, research and development; (g) more balanced distribution of income, geographically or among the various populations; (h) general improvement of the level of employment, quantitatively and qualitatively.¹⁵ Of these, the following criteria shall be used in evaluating the Subic Special

¹⁴ Korea currently has two free economic zones: the Masan FEZ for toys and textiles, and the Iri FEZ for the precious stone and gem industries. (United Nations Conference on Trade and Development, *Export Processing Zones in Developing Countries: Implications for Trade and Industrialization Policies* (New York, United Nations, 1985), p. 4 and p. 10..

¹⁵ Basile, Antoine and Dimitri Germidis, *Investing in Free Export Processing Zones* (Paris, Development Centre of OECD, 1984), p. 14.

Economic and Free Port Zone: technology transfer, the feminization of the work force, low-skilled jobs, and no substantial linkage with the domestic economy. These four criteria shall be further discussed in the following sections.

The interest generated by EPZs in many countries - rich or poor, developing or industrialized - is due in large part to the achievements of such zones. This is not to say that EPZs are miracle solutions. In fact, many zones never live up to the expectations of their creators, or were costly failures. The first few successful ones, that is those in Korea and Taiwan, seem to have become integrated with the industrial system of the rest of the country concerned, and the level of industrialization and the infrastructure for industrial development of the rest of the country have also been developed to the same extent as in the EPZs (Cohen, 1984). These countries are among those now known as the Newly Industrialized Countries in Asia.

Highly studied and criticized from different disciplines and literature, the EPZs' contribution to the further economic development of the host economies have so far been disappointing, measured against the objectives pursued by many developing countries with the operation of EPZs. The 1985 study of the United Nations Conference on Trade and Development (UNCTAD) on Export Processing Free Zones in Developing Countries reveal that because foreign firms have moved mainly in response to labor-cost differentials between developed and developing countries, only the labor-intensive stages of their production processes have been moved to EPZs. Technically sophisticated production processes are not normally found in EPZs. The zones have maintained their enclave character and have been found not to establish any substantive linkages with the industrial sector of the host countries. The

enclave character of EPZs and the differences between production processes in EPZs and in the domestic sectors have also greatly constrained the development of learning and demonstration effects in the host economies.

The UNCTAD study notes that the EPZ production sites offer employment predominantly for low-skilled manpower performing simple manual operations which can be learned in a comparatively short time. Their effects on raising the qualifications of the labor forces have therefore been minimal.

Basile and Dimitri in their study of EPZs for the OECD in 1984 note that the tendency of foreign firms to bring in their own management teams and only use local labor for the assembly-type production processes have effectively reduced the ability to acquire and upgrade labor and management skills. They also note that although job creation did take place, a decrease in unemployment did not usually take place because the nature of the jobs that were available led women, previously unemployed, to take on these jobs.¹⁶

The use of the zone as 'low-cost production base' by investing firms meant that they were interested in taking advantage of relatively low cost labor, low land and rental costs, ineffectual or indifferent antipollution measures, and the like.¹⁷ The most tangible results of the EPZ were that the zones were recognized to be simply a source of cheap global sub-contracting in the manufacturing world (Jao and Leung, 1986) and that explicit environmental

¹⁶ Female labor is usually preferred to male labor for relatively unskilled jobs, not only for reasons of dexterity and discipline but also because the rates of remuneration are often 50 per cent lower. (Basile, A. & Germidis, D., *Investing in Free Export Processing Zones* (Paris, France: Development Center Studies, Organization for Economic Co-operation and Development, 1984), p. 34.

¹⁷ Van, B.G. "Export Processing Zones - Some Conceptual Aspects" in Vittal, N. ed., *Export Processing Zones in Asia: Some Dimensions* (Tokyo: Asia Productivity Organization, 1977), p. 3.

issues became a concern. Criminality and corruption as well became problems.¹⁸ Rifts were caused between foreign investors and their equivalent local industry because of the special treatment foreigners were getting, and because of the competition they represented. Technology transfer did not occur first, because of the types of industries that were set up, and second, because of the traditional make-up of the work force. Because the bulk of the work force consisted of women, this implied a diminished possibility of transferring skills to other parts of the country. Female workers these women usually left the work force after six years, usually to get married. Many then retired from the economy, which meant that their skills were lost¹⁹. Because it was an enclave, problems of uneven, inequitable development took place.

The special economic zones of China, as well, had its own problems. Problems encountered by the local partners include going into arrangements that unwittingly created direct competition with similar products produced in their own country; taking on projects that were allowed by the local autonomous authorities, but which went against the country's established policies; being taken advantage of by foreign partners, for example, by the import of obsolete equipment; not being versed in international business operations and the world economic climate, and hence being at a weakened state in negotiations, and the like.

¹⁸ Reservations voiced regarding the EPZs during a 1974 Asian Productivity Organization session in Singapore included the issue of pollution. Other fears expressed included the impact of EPZs on domestic industries in the host countries and the adverse effects on domestic industries in the host countries and on domestic exporters. Vittal, N., ed., *Export Processing Zones in Asia; Some Dimensions* (Tokyo, Asian Productivity Organization, 1977), p.8.

¹⁹ United Nations Centre on Transnational Corporations, *The Challenge of Free Economic Zones in Central and Eastern Europe: International Perspectives* (New York: United Nations, 1991),p. 342.

Problems encountered by the foreign partners included a lack of a comprehensive legal framework, a complex administrative structure and inconsistent policies, the poor quality of labor and administration, the lack of management experience and understanding of international practices, the lack of planning, the lack of information, and the lack of access to the domestic market.

The granting of special incentives to foreign industries within the zone were questioned by local industry because it gave the foreigners an advantage in their own land, and thus created unfair competition in filling out quotas in the export market destinies. (This fear is said to be unfounded because the norm is that industries that do decide to invest in settling in a special economic zone usually already have their own markets staked.²⁰)

The language and cultural barrier, as well, usually created some problems between parties.

Guskind, in an article for the *Journal of Housing* in 1990 questions whether the enterprise zones work at all.²¹ Basile and Germidis, on the other hand argue that aside from the inflow of capital and the offshoot of supporting industries to the zone, the EPZ may, in certain cases, have "substantial "demonstration effect" for both the local labor force and for the relevant authorities in the domestic economy, that can happen in several levels: discipline in production, respect of deadlines, striving for quality, spirit of

²⁰ Vital, N., ed. *Export Processing Zones in Asia: Some Dimensions* (Tokyo, Japan: Asian Productivity Organization, 1977).

²¹ Shortcomings found in enterprise zones have prompted the article of Guskind, R., "*Enterprise Zones: Do They Work?*," *Journal of Housing*, (January/February 1990), pp. 47-54.

enterprise and innovation. Their rationale is that the technological, managerial and other practices employed in the investor's country of origin are demonstrated through the EPZ. They argue that the "demonstration effect" exercised by industries within the zone on enterprises operating in the domestic economy may be a significant factor in stimulating local firms to look to foreign markets.²²

The success stories of China, as well as the externally oriented economies of Korea, Taiwan and Singapore in the implementation of the EPZ, have made the attraction of EPZs stronger for those still in their development stage. These countries, among others now recognized to be the Newly Industrialized Countries of Asia, had their roots in the first-generation export processing zones of Asia. Their success is such that they themselves are now establishing in the second-generation EPZs (Basile and Germidis, 1984). Hong Kong and Japan, the wealthiest nations in the ASEAN region, as well, had their roots in the EPZ.²³

The Philippines hopes to follow this same path of economic development that her ASEAN neighbors have taken, by implementing the same instrument, the Special Economic and Free Port Zone, for the conversion of the former Subic Naval Base.

²² This catalyst role played by the EPZ in the rise of the Irish industry is very instructive from this standpoint: in 1966, the firms established in EPZ exported 30% of Ireland's industrial production; in 1972, they exported only 12.9%, even though in absolute figures their exports had increased substantially. Basile, Antoine and Dimitri Germidis, *Investing in Free Export Processing Zones* (Paris, Development Centre of OECD, 1984), p.51.

²³ Hong Kong was established as a free port area, to and from which unrestricted trade is permitted with the rest of the world.(Goderes, C., *A World Bank Staff Working Paper on Export Processing Zones*, (Washington, D.C.: World Bank, 1981), pp. 7-8.

CONCLUSION

From this chapter, the following criteria has been established. (1) The zones were not found to have formed substantial linkages with the industrial sector of the host countries. (2) Its effects on raising the qualifications of labor forces and of improving managerial skills of the locale have been minimal. (3) Feminization of the work force, paid half the cost of men, led to an increase in employment, but did not decrease the level of unemployment within the locale. (4) Technology transfer did not occur first, because of the types of industries that were set up, and second, because of the traditional make-up of the work force of women implied a diminished possibility of transferring skills to other parts of the country, and their early retirement from the economy meant a loss of their skills.

The components of success for these zones were noted to include the fact that these zones were implemented with the utmost involvement of the national government.

It is against these criteria that the current plan of the Philippine government for the Subic SEFPZ shall be assessed.

III. THE PHILIPPINES, THE REGION, THE LOCALE

After understanding the concept of the export processing zone, its evolution, adaptations and the resulting terminological variations, we now turn to an understanding of the location in which the SEZ has been proposed. The Subic Zone lies within the provinces of Zambales and Bataan; the City of Olongapo is the urban community that immediately surrounds it. We are going to study the conditions present, so that we may have an idea of the conditions on which a special economic zone has been proposed. An inventory of the strengths of the locale will be laid out, and tallied against its needs. It is based on these unmet needs that the strategy of the Subic Zone will be evaluated.

THE US NAVAL BASE CLOSING

Ushered by the volcanic eruption of Mount Pinatubo in July 1991, Olongapo City brought down for the last time the American Flag from the Subic Naval Base on November 24, 1992. The 24,415-hectare territory was the home of the largest American facility outside of continental United States for almost fifty years. (The land area covers 13,790 ha in the Subic proper and 1,100 ha in San Miguel, while the water area accounts for 9,525 hectares)²⁴ Before the US military pullout, the complex employed some 36,650 Filipinos, 12,650 of which

²⁴ Source: Fact Sheet, Department of National Defense, 1989.

The Subic Baseland is a subregion of Central Luzon. It boasts of a sheltered deep water natural harbor which provides the basis for industrialization and urban development. The Subic Baseland lies within the Zambales-Bataan provinces, nestled between Mt. Natib and Mt. Balakibok. The South China Sea and Subic Bay define the western boundaries of the Baseland.

The total land area of the Subic Baseland is placed at 1,810 square kilometers or 181,000 hectares, while a total population is estimated at a little over six hundred thousand for a population density of 3.75 persons/ha.

held such highly-skilled jobs as ship and aircraft maintenance and repair. Now, with the government-appointed Subic Base Metropolitan Authority, there is the task of completing the take-over of the Subic baselands from the US Navy, and the building up of its structure to cope with the "monstrous task of the turnover, administration, the security, and maintenance of a multi-billion dollar (\$ 2.7 billion)²⁵ facility" and converting it into the Subic Special Economic and Free Port Zone.

These conversion efforts, however, could not have come at a worse time for the Philippine government. With efforts targeted towards the regions (mostly agricultural) whose towns and fields were buried in volcanic ash, the government is presently heavily burdened with the rehabilitation, relocation, and subsistence of these constituents. Funds that could have gone into the development of the Zone have instead to go towards the regions hit harder by the volcano.

In terms of the national strategy, the abruptness of the need to convert the Zone has thrown off balance some goals that the government had set for itself in its Medium-Term Development Plan 1993-1998. The plan was to create a triad of concentrated areas of growth, to serve as foundations for the gradual development of the region. The national capital region (Manila), and the provinces south of it (CALABARZON) would serve as the first two points; the Subic Zone counts as the third of the crucial points of concentrated growth and wealth that the government had plans of developing. The plan was that

²⁵In its budget plan submitted to Congress, the SBMA has valued Subic Base's total fixed assets at P67.056 billion (Currency: Philippine Peso), or some \$2.7 billion, comprising P54.38 billion in land, P5.35 billion in forest land of 10,700 hectares, P5.645 billion in improvements and equipment, P1.5 billion for the POL farm, and P181.9 million in acquired assets from the US Navy.

government efforts would first focus on the development of the CALABARZON into an area of industrial estates and tourism projects while the Subic Base was slowly phased out over a period of several years. With the abrupt pulling out of the bases, however, a competition for the scarce funds from government is inevitable.²⁶

The pulling out of the military bases represented a heavy loss to the National Government. The military bases generated substantial income and employment for Filipinos. US sources put the figure of direct US military expenditure at \$350 million per year, and of direct employment of Filipinos on the bases at end 1985 at over 42,000. A 1982 Rand Corporation study estimated the impact of US spending on the bases at almost 4 per cent of the Philippines' GDP. Up to 80% of businesses in towns surrounding the bases were said to be base-related. 'After-hours spending' by Americans on the bases were estimated at \$100 million per year.²⁷ A number of economic spin-offs and overall beneficial impacts of the facilities are said to include a \$180 million-a-year program related to the facilities, a large portion of the "regular" developmental economic aid program (e.g. \$40 million in development assistance in FY 1988 plus \$50 million for land redistribution); a minimum of \$1 million a day put into the Philippine economy by the Clark Air Base and Subic Naval Base ; the employment of 45,000 Philippine nationals; taxes paid by these employees amounting to about \$5.17 million annually. As the second largest employer in the country (after the government itself) the facilities indirectly generated additional income beneficial to economic growth. Secondary sources and their

²⁶ National Economic Development Agency, *Medium-Term Philippine Development Plan 1993-1998* (Metro Manila: Philippines 2000, 1992).

²⁷ Ball, D. (1988). *US Bases in the Philippines: Issues and Implications*. Canberra, Australia : Strategic and Defense Studies Centre, Research School of Pacific Studies & The Australian National University.

multiplier effects were estimated to run two or three to one and thus to have had a massive positive impact on the Philippine economy as a whole.²⁸

THE COMMUNITY: OLONGAPO CITY AND SURROUNDING BASELANDS

Nationwide, there were mixed feelings about the pulling out of the bases. The radicals wanted them out, a symbol of American imperialism. The more conservative technocrats were concerned with the repercussions of an abrupt pullout. Proponents of a new base treaty led by Mayor Gordon of Olongapo City highlighted the lack of employment alternatives that would arise from the US pullout. In the City of Olongapo, opinions were so much more intertwined with emotions. Over the years, the city had become a melting pot of the two cultures.

Before: Base-Dependent Community

Filipino civilian employees in Subic Naval Base as of February of 1992 totaled 36,650. Among these, 12,650 were direct hires and 24,000 were contractors, domestic, and concessionaires. Direct hires were mostly skilled -- machinists, tool repairers, welders, ship engineers, and computer professionals. The average base worker, whether technical or non-technical, enjoyed higher pay than his counterpart outside the base.

As the main community surrounding the former naval base, the economy of Olongapo had been dependent on the base. Formerly an agricultural-based economy, the attraction of higher wages for less hours of work, with more dignity ascribed to the individual (as opposed to the more class-conscious working relations of local working conditions) pulled in more and more of the

²⁸ Greene, F. (1988). *The Philippine Bases: Negotiating for the Future*. New York : Council on Foreign Relations.

community residents to work in various capacities at the base. Outside of the base, various related services grew - bars, nightclubs, concessions, tourist resorts. Olongapo City was said to be 92% related to the entertainment business.²⁹

After: Adjusting to the Economic Vacuum

At the height of their operation, the US bases contributed 1.4 percent of the Philippines' GNP. Now, business is down by 70 percent and for some sectors, even more; a recent World Bank report pronounced Olongapo City "economically dead" after the pullout.³⁰ At the time of the pullout, the estimated population of Olongapo City was 300,000.

Interviews done in January 1993 revealed that those who could sell their technical skills abroad have already done so, primarily to Saudi Arabia, and to the United States. Those that have decided to stay on longer fill their time by helping out other family members in their endeavors: farming, fishing, tending the "sari-sari stores" (concession stores), and the like. Industrial activity in the Subic Baselands is mainly cottage and small-scale like shellcraft, basket weaving, garments, motor repair, vehicle body repair, concrete products, and small ironworks. Agricultural activities concentrate on rice and yellow corn and on cash crops like mangoes, sweet potatoes, yam, cassava, and vegetables. Aquaculture, fishing, and fish processing abound to a considerable degree along the Subic Bay shores and the coastal towns.

²⁹Lazaro, A. & SGV Consulting, *Subic Bay Special Economic Zone* (Metro Manila: 1990).

³⁰Lim, Reuben *Loading the Subic Base Conversion Program* (Metro Manila: Manila Inc., 1992) p. 28.

Those families that depended solely on the base for livelihood, have followed up closely their petitions for citizenship in the United States, a number of their children and relatives having married American soldiers stationed at the former naval base.

The 1980 NSO Census estimates placed workers in the entertainment industry at about 32,000 unregistered and 16,000 registered. Of these, a number have gone into "home service" in the national capital region.

A more isolated segment of the community, the indigenous tribe of the Aetas, have not fared too well. Having grown used to the scavenging lifestyle sustained by the former naval base, the forest-dwellers have to once again learn to survive on their own.

More detailed impact studies have not yet been put out by the concerned agencies, the bases having only pulled out last November 1992.³¹

THE MORALE

Site visits and interviews that I did last January revealed that despite the bleak picture, however, the community of Subic is in surprisingly high spirits. Well kept houses and trim roads greet the traveler as he comes into the community, known as the cleanest city in the nation, an honor retained because of the efforts it took to get the city back into working order despite the tremendous pile-up caused by the ashfall. Slogans of "Stay Clean, Olongapo!", "Fight On, Olongapo!", "Bawal and tamad sa Olongapo" (Lazy people are banned in Olongapo) and "Keep Olongapo City Clean" line the well-maintained roads and

³¹ Studies of this sort are usually carried out by the National Economic Development Agency (NEDA).

public places; the reciprocation of the citizens are evident of the good rapport that exists between the community and the local government.

Key to this rapport is in the person of the City Mayor, Richard Gordon. Mayor Gordon has been with the community through the best and worst of times over a span of two generations. Both his father and then his mother, before him, served as mayor of the city. He is godfather to countless children in the community, sponsor to numerous weddings, and lobbyist and fighter for the community. Throughout the volcanic ashfall following the Mount Pinatubo eruption, Olongapo never ceased to hear his voice in the radio, telling people to sweep the ash off their roofs so that these didn't cave in. He personally led the rally for Olongapo to get back on its feet. He was the one who called on the people to sweep ash off their property, and distributed sacks in which they could put them. He was the one who instructed them to line these sacks along the roads facing their houses, for the trucks he had sent to pick them up. He was the one who instituted the clean-up at Subic, wherein everyone, himself included, helped sweep the place. Over the years, he has successfully fulfilled the role of champion of the community. He has successfully made them feel that they have a role in the destiny of their own community. He has their loyalty, and their support.

Mayor Gordon's appointment as authority in charge of the transfer and conversion of the former naval base effectively put the stewardship of the Zone into the hands of the community. Because funds to see the transition and the maintenance of the Zone were inadequate, volunteerism inspired by Mayor Gordon took shape. Knowing how crucial the success of the zone is to the life of the community, the Mayor, as head of the Subic Bay Metropolitan Authority spearheading the conversion, works fourteen hours a day, seven

days a week as a volunteer. The major bulk of his duties as Mayor have been designated to his Deputy Delfin Juico. The entire staff, as well, composed primarily of former base workers, works on a volunteer basis while living on the pensions given by the US navy upon their departure. To secure the baselands, the SBMA has enlisted over 3,800 security personnel, none of whom have been paid salaries yet.³² Their only hope is a priority status when the SBMA is making an income, and is able to hire. To help maintain the bases, two or three busloads of informal volunteers are brought in from the city each day. In exchange for this, they are provided with a free lunch.

The former base workers and informal volunteers are putting in their time as volunteers because they feel that it is an investment they are making for their children and grandchildren; that the success of the Zone will only mean good jobs for them and their region. Rather than just sit around and wait until the jobs do come pouring out of the zone, they have decided to use their time productively.

But for how long can these people go on working for free? Right now, the people in Olongapo are lamenting the quiet streets and speak enviously of the neighbors who have gone on and gotten jobs in Saudi and the United States. A lot of them have applied as well, and are just waiting for their applications to be approved. They feel that although there will be jobs in the Zone for them in the future, it will be at least a five year wait, a wait that they feel they will not be able to afford.

³² Lim, Reuben *Loading the Subic Base Conversion Program* (Metro Manila: Manila Inc., 1992) p. 28.

THE NEW STRATEGY FOR THE FORMER US NAVAL BASE: A SPECIAL ECONOMIC AND FREE PORT ZONE

Three years prior to the pull-out, discussion had already begun in the senate regarding the conversion of the bases. Coordination with the key people in the architecture and regional planning practice and academia (Felipe M. Mendoza & Partners, as well as former Dean Manahan, Professors Hong, Luis, and Espina, among others) as well as with a top business consulting firm (SGV Consulting) through the Legislative-Executive Bases Council (LEBC) resulted in a studies that looked at how the institutional, physical and fiscal arrangements of the conversion efforts would be most viable.³³ The recommendation was that after a five year period of gradual withdrawal, the former US Subic Naval Base was to be converted into a special economic and free port zone. The World Bank has supported this decision with a Bank-prepared plan (a grant) for the base conversion and guidelines for setting investment rules and regulations. The final approved plan was submitted to President Ramos in December 1992. This study now serves as a guide to the decisions made regarding the former base. The Asian Development Bank is presently prepared to release a grant to finance another master plan for areas outside the base.

With the abrupt pullout due to the volcanic eruption of Mt. Pinatubo, things were hastened. "What would have been ideal was a three-year phase-in, phase-out period. As it stands now, we've had to plan in three months what we should have in three years," Mr. Gordon says. Olongapo Mayor Gordon, popular among

³³ Felipe M. Mendoza & Partners, *The Philippine Baselands Development Authority (PBDA)* (Metro Manila, July 1990). and Lazaro, A. & Associates and SGV Consulting, *Proposed Subic Conversion Sub-Program: Subic and Baselands Extension* (Metro Manila, July 1990).

the people, is the head of the team that is supposed to oversee the transition of the former bases into a Special Economic and Free Port Zone. This position is good for one year, renewable upon reappointment by the government.

The SUBIC SPECIAL ECONOMIC AND FREE PORT ZONE

San Miguel

San Narciso

San Marcelino

San Antonio

Castillejos

Subic

Olongapo

Dinalupihan

TO FLORIDABLANCA

TO MANILA

SUBIC BAY

FORMER U.S. FACILITIES

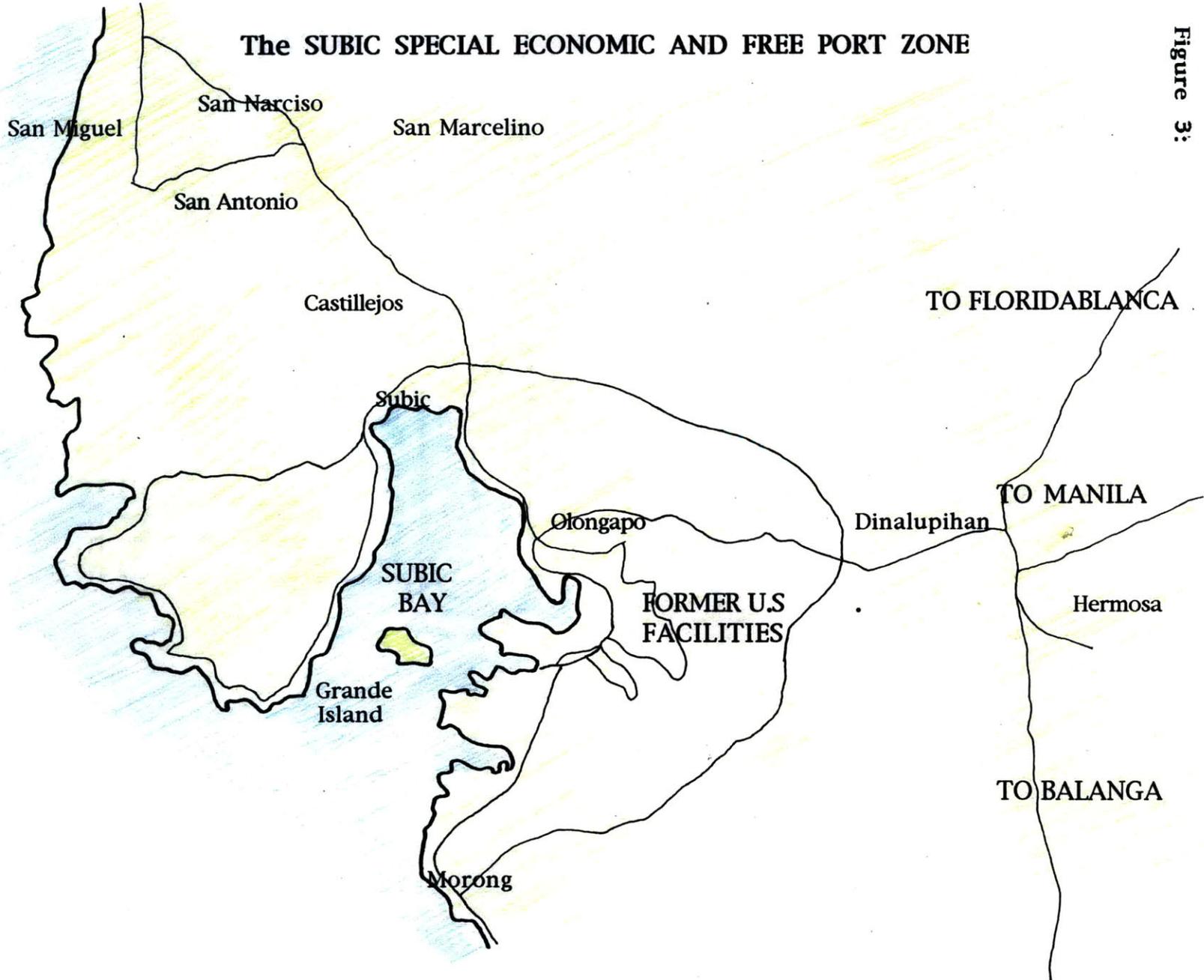
Hermosa

Grande Island

TO BALANGA

Morong

Figure 3:



IV. THE SPECIAL ECONOMIC ZONE AS PROPOSED FOR SUBIC BAY

In this chapter, I will present the plan as proposed for the Subic Special Economic and Free Port Zone. Assessing the Subic plan against past EPZ experience, against the current community needs, and against its own goals of creating a globally competitive region, I will argue that (1) the Philippines will not be able to meet that challenge because the strategy that it has undertaken does not address the shortcomings of past EPZ experience, and that (2) the Philippines is not taking into consideration how other regions that are trying to compete internationally are dealing with the problem of unevenness and inequality in their region.

In this chapter, I will explain the characteristics of EPZs that are drawn from the New Paradigm on economic development. This development paradigm is trying to find innovative strategies and ideas to overcome inequalities and unevenness to make regions more attractive, productive, and more capable of competing globally (Osborne, 1990). I will be drawing from this development paradigm to evaluate the development strategy of the Subic Zone. I will examine the New Paradigm in terms of its transferability to the Subic Zone and its surrounding communities. I will finalize this chapter by showing why a new approach to the Subic Zone could work in the political and institutional context.

I would like to make it clear that I am not challenging the use of the special economic zone as a tool for economic development but the strategy that has

been set to implement it. I would also like to make clear that my interest here is in the development process, and not in the process of implementation.

THE NEW PARADIGM: ELEMENTS OF TODAY'S GLOBALLY COMPETITIVE REGION

A New Economic Paradigm currently being applied in various local states in developed countries has been proven to be effective in creating regions that are highly productive and globally competitive. This New Paradigm subscribes to the notion of looking at global competitiveness from the framework of the local system. This method of taking the perspective of global challenges via the microsystem is reflective of the trend of a growing importance in the global role of the local state. Under this New Paradime, the role of the state in economic development is redefined. No longer involved in the planning of economic development, the state role is conceived to be that of facilitator and catalyst of economic development, a partner of the private sector (Osborne, 1990). The role of the state is to promote the overall process of economic development. This role carries with it responsibilities that include establishing an effective legal, regulatory, and policy framework; providing basic infrastructure such as skilled labor, sound physical infrastructure, and balanced fiscal policy; and the development of institutions (Fosler, 1988). I shall be using this New Paradigm in line with the new economic development theory of man-made comparative advantages in defining what constitutes a region that is highly productive and internationally competitive in today's economic trends.

The New Economic Paradigm is described by both Scott Fosler(New Economic Role of American States, 1988) and David Osborne (Laboratories of Democracy, 1988) in their books, as being identifiable by some common denominators

found among the various states studied: the strategies are largely "*market driven*", and rely mainly on "*investments*" rather than "spending". This is to heighten the awareness of *risk-sharing* among the participants. The state, in its bid to involve the private sector deeper into the welfare of the state, engages in *leveraging* (that is, for example, enjoining the private sector to undertake certain training programs for a targeted number of people in exchange for favorable tax conditions for an agreed period of time). Any party engaged has a stake in the outcome of the undertaking, and thus greater *involvement, accountability, and efficiency* is ensured. A *performance-based government* is the thrust of the New Paradigm (Fosler, 1988).

Some key characteristics identified as crucial to the success of the New Economic Role include the ability to innovate, to be flexible, the ability to redefine existing resources and institutions, *networking*, and the *ability to target areas of growth*.

Both the ability to innovate and to redefine existing resources and institutions come under the larger umbrella of a *broadening of vision* required by the New Role. For example, "business climate", once understood to only include factors that affect business (e.g. availability of capital and technology), now include quality of life that can attract and retain employees. The *ability to innovate* (and the required flexibility for this to occur) allows for the promoting of indigenous strengths by making do and reinventing what we have, instead of always looking at the outside for solutions.

The ability to redefine allows the perception of values that would otherwise have been seen as separable or antagonistic as being capable of synthesis or of being mutually supportive (e.g. environmental protection can be seen as a

burden to economic growth, but at the same time, can be seen as a magnet to attract and retain firms.) It also allows for a more sensible geographical imperative to be observed. Instead of defining boundaries by virtue of spatial territorial markings, a recognition of mutual interests with surrounding communities. A recognition of boundaries by economic region makes more sense in the bid for local economic development. Osborne³⁴ lists the elements of innovation to include intellectual infrastructure, industry modernization, human capital development, a fostering of the entrepreneurial climate, the access to risk capital, an industrial culture of flexibility, a realigned social organization, and quality of life of the locale.

As Fosler³⁵ points out, economic regions are more than simply the sum of their parts. Wealth is generated not just through solitary actions of manufacturing firms, business services, individual workers, financial institutions, universities, or entrepreneurs, but by the *interaction and synergy* among them. Significantly, in the states under study, a dynamic head of state, as well as strong social backing and community support, backed by powerful marketing strategies were crucial to the success of the New Economic Roles.

These key elements of the New Role are summed up by Fosler to include (1) responsibility for a wide range of actions that affect the economy, (2) a strategy to assure those actions will have the most beneficial effect in the context of a changing economic environment, and (3) institutional arrangements suitable to the new responsibilities and strategic orientation.

³⁴ Osborne, David *Laboratories of Democracy* (Boston, Massachusetts: Harvard Business School Press, 1990).

³⁵Fosler, R. Scott, ed., *The New Economic Role of American States* (New York: Oxford University Press, 1988).

Robert Reich³⁶ ("The Next American Frontier") states that competitive advantage lies not in one time breakthroughs but in continual improvements. He states that keeping a technology requires elaborating upon it continuously, developing variations and small improvements in it that better meet particular needs..."Instead of a handful of lone entrepreneurs producing a few industry-making Big Ideas, innovation must be more continuous and collective". Reich labels this process "*collective entrepreneurialism*".

Michael Porter³⁷ (Towards a Shared Economic Vision for Massachusetts, 1992) stresses the *need for an economic vision* to align institutions and policies.

It is these elements that I propose the Subic Zone incorporate in the challenge to create a globally competitive region that will address the problem of uneven development so prevalent in special economic zones in the past.

THE SUBIC SPECIAL ECONOMIC AND FREE PORT ZONE

A Republic Act (RA 7227) otherwise known as the "Bases Conversion Act of 1992" created the Subic Base Management Authority which is to operate, administer, manage and develop the former U.S. Subic Naval Base into a Special Economic and Free Port Zone (Subic SEFPZ). Hopes are that the converted naval base will serve as the "engine of growth" and turn the Philippines into the next "economic tiger" of Asia. President Fidel Ramos pushes these hopes further and vows to turn Subic into a prosperous port to rival Singapore and

³⁶ Reich, R. as quoted in Osborne, David *Laboratories of Democracy* (Boston, Massachusetts: Harvard Business School Press, 1988).

³⁷Porter, Michael E. et. al., *Toward a Shared Economic Vision for Massachusetts* (Boston, MA: Office of the Secretary of State, December 1992).

Hong Kong. He has proclaimed the Subic base conversion as a priority national program.

The program aims to lease out for 25 years (plus 25 years renewable) some US\$ 2.7 billion worth of fixed assets, including port facilities, runways capable of servicing big aircraft, buildings, medical and educational facilities, shopping centers, recreational facilities such as golf courses, tennis courts, football fields, restaurants, top class hotels, and at least 1,800 residential houses. A portion of the asset are virgin forests and white sand beaches. Support infrastructure facilities inside the special economic and free port zone are already in place - such as good roads, telecommunications system, power supply and sewerage system, airstrip, helipads, fuel depots, piers and berthing areas; all the more make available big land spaces ideal for commercial property development and establishment of light to medium industries. Around 35,000 English-speaking Filipinos formerly employed by the U.S. Navy purveys a ready resource of highly trained, highly skilled and highly motivated work force.

Elements of the Special Economic Zone as Proposed

As the country's first free port, the Subic Zone is to be developed into a self-sustaining industrial, commercial, financial and investment center. It is to be managed as separate customs territory for free flow of movements of goods and capital. Significant incentives are provided to investors: There is to be tax and duty free importation of raw materials, capital, and equipment. No local and national taxes are to be imposed within the zone - in lieu of taxes, there is to be a 5% gross income earned within the zone (3% for national government, 1% for local government, 1% for development fund). It is to be a free market with

no exchange controls for foreign exchange, gold, securities and futures; free flow of goods and currency. Permanent resident status within the zone is to be granted to foreign investors for a \$250,000 minimum investment.

The SEZ Rationale

The former Subic Naval Base was deemed to be best converted into a Special Economic and Free Port Zone because of a number of reasons. (1) It is strategically located in the Pacific basin, with short air commute routes to Japan, South Korea, China, Thailand, Malaysia, among others. The Subic Bay is likewise strategically situated along the South China Sea and frequently traveled shipping routes in the region. (2) It boasts of a natural, deep water, sheltered harbor from where the Americans had docked and repaired their various types of seafare ware. (3) It has an international airport that was designed to take the largest of aircrafts.

(4) Ready-made infrastructure (pier, airport, warehouse, utilities, etc.) left behind by the Americans permit short start-up period; these are available under long-term lease. (5) The territory has readily-available support facilities (housing, hospital, parks, golf course, other recreational facilities). (6) It is located beside a friendly, peaceful, and fairly-developed community (Olongapo City and Subic). (7) The base community has a large pool of skilled, highly-motivated, English-speaking workforce with experience in technical English.

The Subic area is a self-contained community. The complex comes with its own power, water, and sewerage, and telecommunications facilities. A web of well-

maintained roads connects over 3,000 improvements and facilities for industrial, commercial, institutional, residential, and recreational use.³⁸

EVALUATING THE SUBIC PLAN VERSUS PAST EPZ EXPERIENCE

The Subic SEZ, just as the ones found in China, is 'special' in the sense that it is the first region in the Philippines to be developed autonomously, on the basis of active foreign participation and to be run in ways different from the rest of the country. It has been largely patterned after the EPZ concept, the difference being that it encompasses a much larger territory. It carries with it the same functions as any free port zone. Another marked difference of the Subic Zone is that this territory used to be the site of a US Naval Base, and the surrounding baseland communities are now struggling to cope with the economic vacuum caused by the abrupt pullout. This aspect of the base shall be addressed in the following section of this chapter.

The Subic Zone has defined itself to be a self-sustaining industrial, commercial, financial and investment center. It is an enclave in the sense that its enterprises within the zone, local and foreign, are geared towards exports. It is described as being self-sustaining, to be managed as a separate customs territory, geographically defined. A package of incentives and privileges have been drawn to pull in investors.

Although the concept for the Subic SEZ reflects a more diversified approach as compared to the other EPZs developed in the past, the Subic Plan does not

³⁸A twin objective of developing a portion of the former baselands into a tourist and vacation resort site developed because of the sheer natural beauty of the site. The 3,700 hectares of virgin forests surrounding the base had preserved nature such that wild animals still could be seen darting through the streets at night. This virgin forest allows for the watershed that supplies the water for the community.

show that it has addressed the shortcomings that were exposed by previous Asian EPZ experiences³⁹. The Zone could become a case of a repetition of the past problems and of uneven and inequitable development in the use of a zone as a 'low-cost production base' by investing firms interested in taking advantage of relatively low cost labor, low land and rental costs, where linkages with the local economy, transfer of technology, and the improvement of quality in the workforce was not given much attention.

Subic, in fact, has more problems than its counterparts before it. What contributed to the failures of some EPZs in the 1970s was the fact that most of them possessed the same objectives, aimed at the same clients, and used the same approach.⁴⁰ They created among themselves a field of intense competition, a situation which, unfortunately, the Philippines may have replicated. (1) The Philippines, in its move towards converting the former Subic Naval Base into a Special Economic and Free Port Zone, has unwittingly pitted itself against green field SEZs in the budding open markets of such countries as China and the former USSR, which have decided to implement the SEZ as their instrument for economic development. The Subic Zone, hailed as the great hope to spark economic development within the country, is in danger of having its potential investors siphoned off by these giant economies. This situation calls for a re-evaluation of the current strategy of the Zone.

(2) Although slated as a national priority, the implementation of the Zone comes at a most inopportune moment for the fiscal budget. The Subic Zone does

³⁹ See Chapter 2 Section 3 of this thesis for development evaluation of EPZs.

⁴⁰ Cohen, (1984), in Sit, V. "Industries in Shenzhen: An Attempt at Open-Door Industrialization", Jao, Y.C., and C.K. Leung, *China's Special Economic Zones: Policies, Problems and Prospects*, (Oxford University Press, 1986), p. 242.

not have the funds appropriate to fully support and ensure its proper development. As mentioned earlier, the Philippine government currently has its limited funds tied to efforts to rehabilitate the victims of Mt. Pinatubo, among other previous commitments. The funds allocated for the development of the zone are to be given out in parcelled amounts, over time.⁴¹

Koreans, in their experiences with EPZs, succeeded because they targeted a niche in industry that they speculated would be the new wave of the future, and aligned infrastructure and national programs towards it. Their gamble paid off. Singapore succeeded because their government had the wealth enough to purchase whatever cutting edge technology and ware was necessary to make their zone successful. (3) Having neither the wealth or the technology level to target the knowledge- and technology-based industries that are now considered to be the wave of the future, the risks of the zone not living up to our expectations are high. A new strategy for the development of the zone is called for.

EVALUATING THE SUBIC PLAN IN TERMS OF INTERNATIONAL COMPETITIVITY

By evaluating the Subic plan against its goal of creating a globally competitive international special economic and free port zone, I would argue that the plan as it stands might not be the best strategy to build an internationally competitive region. The question to consider at this moment is: What is it that constitutes a region to some form of productivity and competitiveness globally?

⁴¹ The most heavy capital requirements come at the beginning stage of an EPZ, and not during its operational stage. The lack of funds at this infancy stage of the Subic Zone, therefore, is a critical factor to determine its chances of success.

Touting global competitiveness via its strategic location and world class infrastructure, the Subic Zone does not have an edge. The proximity of China's future zones and the worldwide attention and aid it is receiving from various groups interested in this budding giant's market economy makes its presence too threatening. Although Subic Zone can boast of a large pool of skilled, highly motivated English-speaking workforce, I would argue that the plan for Subic has not addressed this critical aspect of what components make up a globally competitive region today. Although not lacking in economic vision, the criteria by which they have considered global competitiveness needs re-evaluation. There is a pressing need to address problems of uneven development and global competition that is not regarded by Subic Zone plan.

EVALUATING THE SUBIC PLAN IN TERMS OF THE COMMUNITY NEEDS

The Subic Zone rather than simply being a SEZ, is primarily a community undergoing the difficulties of a conversion. Formerly constituting the bulk of the work force dependent on the US Subic Naval Base, the community is basically a disoriented one, facing the difficult transition from the US Subic Naval Base-economic dependence to one of a diversified economy. Simultaneously, they are facing a problem of out-migration of skilled workers, the lack of a means of livelihood, and the lack of a populace to sustain what were in the past conceived as prosperous service-oriented enterprises.⁴²

⁴² Lazaro, A. & SGV Consulting, *Subic Bay Special Economic Zone* (Metro Manila: 1990). As laid out in the previous chapter, the community surrounding the former Naval Base had developed into a service-oriented economy from its agriculture-based economy. Outside of the base, various service related services grew - bars, nightclubs, concessions & tourist resorts. Olongapo City was said to be 92% related to the entertainment bars.

The plan for the Subic Zone should serve the purpose of a local economic diversification and conversion strategy and should reflect the needs of the locale's firms, workers and communities. By evaluating Subic plan against the needs of the community at present, I argue that the plan does not address this issue of conversion, and the problem of uneven development that ensued.

To maintain the high morale that still pervades the community, a sense of commitment from both local and federal government is needed. Before a sense of disinvestment and unsustainability sets in, it is important that efforts be directed towards the development of the community into a globally competitive region. As emphasized earlier, what constitutes the edge that these regions have are man-made rather than natural comparative advantages. Efforts should be made towards developing the technology level and skills of the work force. Towards this more globally competitive region, the need for growth from within constitutes endeavors that are enabling, entrepreneurial, and that focus on education and training.

Marian Clarke, in her piece "The Governor's Guide to Economic Conversion", outlines some principles that a state diversification or economic conversion strategy should incorporate. According to Clarke, the success of any economic conversion effort will depend on the ability of local communities to diversify their economies. A state diversification or conversion strategy should try to build on and support local initiatives. States should assist local community efforts where they exist and mobilize efforts where they do not exist. States should take a comprehensive approach that integrates programs and services to help workers obtain jobs, and help communities diversify their economies. The SBMA, having jurisdiction over the 63,000-acre territory and the 300,000

people within it, should play the role of a local government, facilitating the process of innovation with the involvement of the private sector.

Clarke argues for a state diversification or conversion strategy that makes use of existing indigenous resources. She is for programs that support new business development, improve the competitiveness of existing firms, and enhance worker skills. What is considered essential is for the state effort to coordinate and integrate business assistance and worker training services.

To date, the strategy for development of the zone has been of a singular dimensional nature: the maintenance and improvement of the facilities of the former Subic Base. Although in proposed reports there is the move to address the needs of the community by incorporating other organizations and the private sector into the development efforts, the implementation process in its rush to bring in much needed jobs and capital has prioritized the infrastructure for the SEZ above the immediate needs of the community. The end result up to this point has been the community left passively waiting for the promised jobs, squandering precious time and resources on unrooted activities⁴³ in the hope of getting a job when it comes, a perpetuation of the mindset of economic dependence. What would be extremely helpful at this point would be to direct all this energy, time, and resources into programs aimed towards building some foundation for self-reliance and enabling the community to move towards self-sufficiency. These programs would at the same time be essential in building the foundations of a globally competitive

⁴³ By unrooted activities I mean filling time with odd jobs and errands that do not build towards a means of livelihood. I do not mean this statement to include the volunteers of the SBMA and the Zone.

region. A discussion of prospects for programs aimed towards global competitiveness will be discussed in the following chapter.

Given the multidimensional nature of the economic conversion issue, a mechanism is needed to bring together a variety of actors, including the individuals who will be affected, the organizations that can provide services, and local community interests. This mechanism is the Subic Bay Metropolitan Authority (SBMA), charged with the authority of seeing the conversion of the Subic Zone.

V. A NEW STRATEGY FOR THE SUBIC ZONE

To give the Subic Zone a competitive edge, two strategies, the building up of indigenous resources from within, and the attraction of resources into the region is needed. The objective is to bring into the community outside resources, either foreign or local, while generating positive development activities internally. To foster development from within, enabling processes and the cultivation of an entrepreneurial climate are what is needed. These same processes towards the development of man-made comparative advantages with the incorporation of the New Paradigm are what will lead the region into the standards of global competitiveness. Training of manpower with programs tied to industry and improving the quality of education, will both ensure a work force of higher calibre and attract industries into the region. The efforts of the local government in partnership with the federal government should be geared towards these.

Need for Outside Funds to Spark Economic Development

In an area that has no monetary resources or industrial base of its own, trying to spark a culture of economic innovation from an original base of incapacity is simply untenable.⁴⁴ The Subic Zone, a service-oriented region lacking an industrial base and allotted with funds that are felt to be insufficient, is in dire need of outside resources to serve as catalyst of its economic development. It is

⁴⁴ Only a highly efficient, highly competent base would be able to make this leap to an environment and culture of innovation. (Harry Spence, Receiver of Chelsea, Massachusetts, in a talk given in MIT on Implementation of Community Development policies, last 2 May, 1993.)

the job of the Subic Bay Metropolitan Authority (SBMA) to pull in foreign as well as local capital into the zone.⁴⁵

SEZ: A Whole Network of Relationships

The implementation of a special economic zone is not merely a two-way relationship between the foreign (or local) investor and the authority in charge of the zone (SBMA). It is crucial that the people feel the development is their own.⁴⁶ As established in previous sections, the uneven development between the zone and the host community, as reinforced by the traditional ways of implementing the special economic zone (enclave of concentrated wealth and advantages/incentives located in a community which is to be a base for cheap labor) led to various problems between labor and foreign employment, between foreign and local partners, between labor within and labor outside of the zone.⁴⁷ By having the foreigners come in with the incentive of having the ability to take advantage of the locale, of "using" cheap labor and coming into a zone because the country does not enforce

⁴⁵ As the country's first free port, significant incentives are provided to investors; namely - tax and duty free importation of raw materials, goods and equipments; no national and local taxes except for a minimal 5% gross profit income; as well as free markets and no controls for foreign exchange, gold, securities and futures.

⁴⁶ (As a receiver) it is easy to come up with an economic vision for a community, bring in the right people, the right industries, pull in the funds, and implement the vision successfully. The only way to make this growth sustainable, however, is if you make the people feel that it is their own, that they are a part of it. How do you do this? By getting the community involved. (Harry Spence, Receiver of Chelsea, Massachusetts, in a talk given in MIT on Implementation of Community Development policies, last 2 May, 1993.)

⁴⁷Wage differentials have caused complicated political problems especially in the case of the Chinese SEZs where foreign enterprises are allowed to fix their own wages and are not obliged to follow the unified wage-rate system used in the rest of China. (Cohen, 1984, as quoted in Chan, T., E. Chen and S. Chin, "Bureaucracy and Modernization: A Case Study of the Special Economic Zones in China" in Jao and Leung, ed. *China's Special Economic Zones: Policies, Problems and Prospects*, (Oxford University Press, 1986), p. 116.

environmental laws, we are reinforcing this sense of inequity. It is increasingly difficult for countries to obtain transfer of technology, improved quality of workforce and management, and skilled labor through such unfavorable bargaining conditions.

An Argument for the New Strategy

Studies of the investor's perspectives on the matter of special economic zones reveal that tax incentives are not seen by foreign investors as an attraction. More important to them are the "invisible" benefits from an efficient administrative authority as well as the benefits from a region that is politically and economically stable. These are seen as crucial in enabling the locale to provide a continuity of the factors that make the zone efficiently productive (Basile and Germidis, 1984).⁴⁸

The foreign and local investors themselves can provide this ability to the locale. They can provide the means for a mutually beneficial environment to be fostered. It is within the power of the zone authority to make the SEZ more instrumental in the economic development of the community, rather than adhere to the traditional concept of the trickling of concentrated wealth of the zone into the surrounding locale.

Towards the objective of creating a globally competitive region, the goal of the development effort is to generate jobs and wealth in the region, as well as to prevent the decline of the community surrounding the former naval base. The problems they face, however, are the limitations on the availability of credit and capital, education and training, and market access in a locale that is

⁴⁸ See also Osborne, D., *Laboratories of Democracy* (Boston, Massachusetts: Harvard Business School Press, 1990), p. 255.

increasingly finding its operations to be unsustainable by the population of the community. It is here that the role of an external catalyst is most needed.

The creation of a system of sustainable development towards the goal of global competitiveness is what is necessary. The Subic Zone can set in motion such a cycle of sustained development. Targeting the host community of Olongapo City, linkages can be forged from the Subic Zone investments that could be targeted towards community development, focusing on the need for technology, education, and training of the workforce. These training programs could be oriented towards job skill training, management training, international practices, and the like. So as not to be shortsighted, these funds can be channeled towards the general educational system from primary grades onwards, to ensure a base of educated and well-skilled workers in the long run. A recognition of this regional asset of a well educated and trained workforce in the national and international scene, in addition to the world class infrastructure i.e. the presence of an international airport and harbor, could serve as magnets for industries to locate there.

Bringing the Poor into the Growth Process

The special economic zone has always represented the rights, duties, and privileges of three main actors: the investor, the authority in charge, and the national government. In addition to this, I would argue that the host community/region, as well, has rights, duties, and privileges to the zone that rightly are to be recognized. The host community has in the past only been recognized as the recipient of the "benefits" of a job-creating entity that has chosen to locate there. The myths of some of these "benefits" have not been closely examined. No efforts have been made targeting the condition of

uneven development that usually occurs around these areas of concentrated wealth.

In order to bring the poor into the growth process, the fostering of an entrepreneurial climate much like the strategy of the development of the Zone is suggested (Osborne, 1990). This can be done through projects that would break the barriers of entry for small enterprise, bridge gaps where the market has cut off access to essential funds for progress in endeavors, and the like. In meeting the needs of the community towards its goal of self-sufficiency, entrepreneurial training, management and technical assistance, and financial assistance are targeted⁴⁹: Entrepreneurial training to identify a market and funding sources and training young people how to run a business; Management and Technical Assistance to improve business practices, adapt it to the current local economic scene, and to increase the business' chance of survival and growth. Components of this program may include basic entrepreneurial skills or technical training; and Financial Assistance, to improve access to capital either through capital formation activities or by providing links to private capital sources. These programs are shaped to meet several objectives including reducing the borrower's cost of financing, improving the borrower's repayment capacity by priding flexible payment terms, reducing the lender's risk, and providing equity capital. SBMA's role would be as facilitator of these projects. These enabling efforts would allow the community to act on initiatives that could improve their own conditions.

⁴⁹Winick, B. *Economic Development and Employment/Training Linkages* (Washington, D.C.: National Council for Urban Economic Development, No. 33, October 1985), pp. 1-20; McCrea, N. *Minority Enterprise Development*, (Washington D. C. National Council for Urban Economic Development, No. 60, December 1989), pp. 1-46; and Poole, K and C. Patrylick and M. Fitz *Entrepreneurial Development* (Washington, D.C.: National Council for Urban Economic Development, No. 40, July 1987), pp. 1-39.

In his book, Osborne states that effective development efforts build the capacity of local institutions and actors. He states that economic development is a *local* phenomena, generated by local actors: businesses, banks, universities, governments, labor unions. The role of government is to get these actors to interact in new ways. He states:

The best way to mobilize local leaders is often to bring them together to create a new program. The process of creation kicks off many sparks. It fosters new ideas. It creates new relationships - between workers and managers, between financiers and manufacturers, between academics and business people. It creates a climate in which people begin to see that change is possible, and that government is willing to support change. And it puts ownership of the program in local hands.⁵⁰

A sense of progress and control over their own development would cultivate the seeds for stability of the region - the ability of the locale to provide a continuity of the factors that make the zone efficiently productive. From the community's standpoint, the incorporation of enabling programs into the plan for the Subic Zone makes them feel that they are part of the process of development. From an investors' perspective, the competitiveness of the Subic Zone globally will have been improved. A dynamic cycle of reinforcing benefits is thus put in place.

⁵⁰ Osborne, David *Laboratories of Democracy* (Boston, Massachusetts: Harvard Business School Press, 1990) p. 259.

POLITICAL AND INSTITUTIONAL CONTEXT

History of Authorities Involved

Both the Base Conversion Development Authority (BCDA) and the Subic Bay Metropolitan Authority (SBMA) were created last July upon the passage of Republic Act no. 7227, or the Bases Conversion and Development Act of 1992. With authorized capital of P100 billion, the BCDA will oversee "the sound and balanced conversion into alternative productive uses of the Clark and Subic military reservations and their extensions (John Hay Station, O'Donnell Transmitter Station, San Miguel Naval Communications Station, and Capas Relay Station)."

Though the SBMA is actually an attached agency of the BCDA, the former has been given almost-complete autonomy to set up the Subic Special Economic and Free Port Zone (Subic SEFPZ), consisting of Olongapo City and the municipality of Subic in Zambales, Subic Base, and portions of the Hermosa and Morong municipalities in Bataan province. A memorandum Order No. 32 issued last August certified the SBMA's role "as the lead agency for the turnover of the Subic Naval Base and its facilities."

SBMA Powers

The two laws give SBMA enormous powers over the Subic SEFPZ area. For instance, local government units (LGUs) located in and around the Zone now have to defer to the new agency in matters (outside defense and security) affecting the SEZ.

In a budget paper prepared for Congress last October, the SBMA has set for itself six objectives:

- 1) The initial task of preserving and maintaining the base assets.
- 2) The promotion of Subic Bay as "an attractive and competitive investment and tourism opportunity for international and domestic investors".
- 3) From October 1992 to March 1993, the completion of the takeover of the Subic baselands from the US Navy, and the building up of its structure to cope with the turnover, administration, the security, and maintenance of the former base.
- 4) By end of 1992, the finalization and publication of the master plan, land use and development policies, implementing rules, regulations, and procedures for the commercialization of assets and privatization of operations by government.
- 5) The further reorganization of SBMA to take on the implementation of the free port development's first phase, lasting until the end of 1993. This phase covers the fast-track commercialization of designated assets, and the privatization of the base's major operations - the petroleum, oil, and lubricant (POL) farm, telecommunications, port, airport, power, and water and sewerage facilities.
- 6) A second and final reorganization of the SBMA, from the middle of 1994 till the end of 1995, that should result in "a leaner structure. The SBMA will become a primary administrative government entity".

Existing Financial Arrangements

Although a grant has been made by the federal government for the conversion process, the amount, nonetheless, is considered by the Deputy Administrator Steve Legasto as insufficient. The federal government has authorized capital amounting to P100 billion for the conversion of all former US military bases in the country. This has been handed to the Base Conversion Development Authority (BCDA) for handling. Of this, an initial P 300 million has been set aside to cover initial costs related to its organization and Government's takeover of Subic. Presently, an initial working capital of P 70

million has been budgeted by the BCDA for the Subic Bay Metropolitan Authority. This has been used for the purchase of equipment from the US, for equipment for maintaining the bases, and for marketing purposes as they advertise the SEZ abroad.

SBMA Institutional Advantages

SBMA, although not homegrown in the sense that it was imposed on the area by the national government, is nonetheless a "native" in the sense that its head is a well-recognized figure of authority in the region. Staffed predominantly by local residents and former base workers, the organization is thus closely integrated with Olongapo City. Well linked to the locale, SBMA knows their community, and will easily learn how to mobilize resources within it. They will know the successful investors and know what is politically viable.

The administrator Mayor Gordon, well established as an effective public servant, is a dynamic personality, a popular political head. The Zone has captured in Gordon extensive networking abilities, a good publicity and marketing persona at the national and international levels.

SBMA is a young organization, capable of reshaping, of innovating a new structure. There are enough dynamic personnel in key positions, not involved in government or conditioned to the workings of bureaucracies. All have been selected for their excellent work in their respective fields. Either recruited from firms at the national capital region or abroad, with advanced learning from US, or former workers in the former US naval base, they have had exposure to having things run in more liberal ways; seeing problems from different perspectives and perceiving them in new light would be an asset.

A CHALLENGE TO CURRENT INSTITUTIONAL ARRANGEMENTS

The institutional challenge consists of the need for versatile and flexible institutional arrangements that enable the each institution to anticipate change while pursuing the objectives. The SBMA is directly under the jurisdiction of the BCDA but nonetheless is given autonomy over the conversion of the Subic Zone outside of foreign customs and national security. It therefore has the ability to redefine its role towards the locale in terms of the New Economic Paradigm.

Undertaking a socio-economic development responsibility for the host community would require some alteration in current institutional arrangements. As stated earlier, the special economic zone has always represented the rights, duties, and privileges of three main actors: the investor, the authority in charge, and the national government. The host community/region should number as the fourth actor with rights, duties, and privileges to the zone. Its needs should be considered, and efforts should be made targeting the condition of uneven development that usually occurs.

Rather than have the old Filipino political system that is top heavy, a more broad-based horizontal organizational format with greater integration into the empowered community and local industry is urged. There is a need to face the challenges of the coming century. Maybe this development process will move things forward as the old ways have not done for the Philippines.

CONCLUSION

In practice, the creation of a favorable climate for investment in special economic zones calls for considerably more than the provision of services, infrastructure, incentives, and cheap labor. It requires an active policy that reflects an awareness of what constitutes today's globally competitive region. The Philippines, in its move towards converting the former Subic Naval Base into a special economic and free port zone, has unwittingly pitted itself against green field SEZs in the budding open markets of such countries as China and the former USSR. The Subic SEFPZ, the great hope to spark economic development within the country, is in danger of having its potential investors siphoned off by these giant economies.

The argument for protecting the Subic SEFPZ - and hence its chances for igniting economic development - can only precipitate the emergence of a new thinking of development policy. In addition to the the need of outside funds to serve as economic development catalysts, equal emphasis must be placed on the need for the locale to create its own catalyst of economic development. More important than natural comparative advantages, the development of today's globally competitive region requires a focus on such man-made advantages as technology and a high quality work force. A focus on the locale will consequently benefit the surrounding community, and more leeway is made towards meeting its needs as a society undergoing the difficult transition from economic dependence towards diversity.

This study of the plan for the Subic SEFPZ suggests that although the concept of the SEZ as applied to Subic Bay is significantly altered to include a more diverse array of economic activities, the problems of technology transfer, linkages with the local economy, improvement of the quality of workforce and management skills and the like are not addressed. The root of these shortcomings can be traced to the type of industries that are drawn by the incentive of the zones as sites for cheap global sub-contracting. It is significant to note the even China's SEZs, with their stipulated policies for transfer of technology and well screened investors fell short of the expected benefits (Jao and Leung, 1986). It is towards bridging these gaps and easing these transfers that points of the New Paradigm are suggested.

Rather than being the site of cheap labor and cheap rent for foreign investors, the development of the site as a globally competitive region on its own will pull in a different breed of investors, foreign and local. The New Paradigm is especially suitable for this objective because it rejects the old development notion of providing incentives (in form of cheap labor or tax breaks) to target industries, in favor of the nourishment of elements that make innovation possible. It is the targeting of this process of innovation that would ensure global competitiveness. These elements of innovation would include the intellectual infrastructure, a highly skilled and educated work force, the quality of life, an entrepreneurial climate, and the supply of risk capitalism (Osborne, 1990). It is the role of the SBMA as local government to nourish these elements that make innovation possible.

Rather than have the Olongapo community remain passively unproductive or actively migratory until the time that jobs are sustainably created in the zone,

the nurturing of a culture of innovation would help create a more self-sufficient region. Attention should be given to the existing organizations and institutions that could aid in training and educating a prospective work force. Funding for these programs could come in the form of linkages with the private sector, homegrown, and foreign industries which would then be supplied with a quality work force. Any allowances the Philippine government makes with regard to allowing foreign banks to locate within the zone could be used as a leverage to require a portion of the funds to go into a financing/credit program targeting those that have been left out by the market.

Attention should again be given to the successes of the zones of China and Korea, due largely to the fact that the development of these zones were highly supported by national policies, and were closely tied to existing high governmental offices. As illustrated in the Korean example, the power of the local government has its limits, and there are tasks that the federal government can do best. These include aspects of finance, trade, acquisitions, customs, and the like. The SBMA, as a "one-stop-shopping" operation incorporates this feature to an extent.

The concern for productivity from the standpoint of the occupant firms deserves equal attention. By providing funding for education and training, a quality work force is ensured in what increasingly becomes a globally competitive region.

The New Economic Paradigm, in line with the new economic trends of thoughts of developing man-made comparative advantages, focuses on the development of indigenous resources from the perspective of looking at global

problems from the structure, from the framework of the locale. Some essential points are raised in the conception of a new shape for the special economic zone:

The host community/region is to be considered a main actor in the development of the zone, its rights, duties, and privileges given as much attention as the other players, the investor, the national government and the authority in charge of the zone. The development of the Zone determined to be most feasible with linkages to socio-economic development rights of the host community.

Elements of the New Economic Paradigm are greatly instrumental in the reshaping of the current concept of the zone: Looking beyond the jurisdiction of the zone proper, recognizing and targeting a goal of local economic development of the host community as having two-fold benefits: the assurance of stable, continuous factors for efficient productivity of the zone, and the attainment of sustainable economic development of the host community. Both goals enhance the national goal of global competitiveness of the zone.

The new shape of the special economic zone actively pursues that role of easing the host community from an initial phase of near-total dependence towards self-sufficiency. It no longer represents an area of concentrated growth from which wealth would trickle from; rather, it takes the form of an active catalyst of economic development, more instrumental in guiding the host community and region into its own sustainable development.

Granted that the Zone currently at its developmental stage when the greatest pressures are encountered, where hasty decisions, the availability of facilities in attracting investment, the lack of finance to provide adequate facilities, the

marketing problems of promotions overseas are all bundled together. This is not the best time to start introducing new concepts and a new ways of doing things, when even the implementation of the zone itself is totally new to the country. However, the community's future is at stake. Priorities have to be set. The cost of losing a trained work force cannot be offset by the securing of jobs 5 years from now because a knowledge and skills gap will then have to be bridged.

It is good to recognize at this point that whatever movements we take, the Zone is still likely to be slow moving and faced with the same problems. The difference will lie in the type of community that will be on hand when the Zone does take off. It will be at least 5 years before any substantial job creation and semblance of self-sustaining development will surface in Subic Zone. By spurring efforts towards an innovative, self-sufficient and globally competitive region, chances of the success of the Zone are higher than if we allow the community at this point to perpetuate a sense of dependence on the former naval base, fend for itself with its dwindling resources, succumb to its migratory tendencies. The infancy stage of the Subic Zone still at hand, it is important to be aware that external sources of funding that could aid in the rehabilitation of the Zone are available, and should be taken advantage of.

Areas that would require further research would include institutional arrangements, the new role of the state and federal government, and the effects of this type of zone to the overall domestic economy of the nation.

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- Prof. Prosperidad C. Luis, current faculty at the College of Architecture, University of the Philippines (U.P.), involved with the administrative studies of the proposed Subic conversion
- Prof. Froilan Hong, current faculty at the College of Architecture, University of the Philippines, involved with the final report for the conversion of the former Subic Naval Base for the Legislative-Executive Bases Council.
- Francis Elum, Subic Bay Project Coordinator, Base Conversion Development Authority (BCDA).
- Rex Chan, Subic Bay Assistant Project Coordinator, Base Conversion Development Authority (BCDA).
- Steve Legasto, Senior Deputy Administrator, Subic Bay Metropolitan Authority (SBMA).
- Julius Estrada, administrative volunteer at the SBMA, former Base employee.
- Marlene Alcaraz, administrative volunteer at the SBMA, former Base employee.
- Rosalina Aratea, long-time resident at Olongapo City.

Lectures

- Harry Spence, Receiver of Chelsea, Massachusetts, Guest Speaker at MIT on Implementation of Community Development policies. 2 May, 1993.