Assessing the Role of Government Institutions Supporting Industrial Adjustment in the Philippines: The Case of PEZA, CITEM and DBP

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I. INTRODUCTION

International trade has always been essential in the growth of the economy especially under globalization. Factors such as technical knowledge, skills of a country's labor force, capital (either domestic or foreign) and machineries (through transfer of technology), are all indispensable for economic growth. Likewise, exports play a vital role in economic growth. The Philippine government, which makes industrial policies, has assigned trade-related management and operation of activities to the Department of Trade and Industry (DTI), which concentrates on the following target clients: investors, exporters, small and medium scale enterprises, businessmen in general and consumers. The primary goal of this said agency is to increase investment in the country, thus, increasing aggregate output, or the gross national product (GNP) or gross domestic Product (GDP).

Export products made in the country are made available to the international markets through trade fairs and trade missions, held at the Philippine World Trade Center. The government agency that organizes such activities is the Center of International Trade Expositions and Missions (CITEM), which is under the DTI's Exporters' Assistance Group. This government agency addresses the needs and problems of the export sector and is also involved in the product development and promotion of Philippine-made goods not only domestically but also internationally.

DTI not only focuses on exporters but also investors in the countryside. Up to date, the country has been liberalizing almost all sectors in the economy to encourage foreign investments. Areas such as telecommunications, shipping, oil, banking and insurance has also been deregulated. Moreover, the government has also allowed 100% foreign ownership of enterprise. The Philippines having the General System of Payment (GSP) advantage, has a competitive edge over its neighboring countries. And thus enjoys tariff preferences in exporting to other countries.

The Department of Trade and Industry has also an Investors Assistance Group that encourages foreign direct investment and transfer of technology particularly in the countryside. The Philippine Economic Zone Authority (PEZA) is under this group. Due to the failure of the Export Processing Economic Zone Authority (EPZA) in 1986, this government agency is incorporated in response to the industrial policy in promoting exports. This agency's task is to encourage foreign direct investments through environment friendly economic zones located in the different parts of the country. Without a doubt, the Philippines is one of the best investment sites with the best investment climate especially to the foreign investors, in the Asia Pacific Region. Given its high quality education, health and care services as well as recreational facilities, the Philippines has been more competitive in the international market. Indeed, these two government supported agencies attached to the Department of Trade and Industry, have been very critical in the successful adjustments of many firms and industries in the country, not only the small and medium scale enterprises but also the foreign enterprises as well.

In industrializing countries such as the Philippines, it is important to take into consideration government interventions because these affect industrial policies. Moreover, with inappropriate industrial and economic policies as well as political instability would largely affect the industrializing process. The appropriate role of government in economic development has

always been a debate in many countries. It is evident that in the East Asian experience, particularly in China, Hong Kong and Taiwan, government played a very important role in their economic development. Similarly, in the Philippines, the government's industrial policies are marked by its supporting agencies, such as the Department of Trade and Industry (DTI), which promotes export products and commodities and the Development Bank of the Philippines (DBP), which provides credit to small and medium-scale enterprises and logistic investments.

Government plays an important role in fostering economic development thru industrial adjustments. In the Philippines, government is cautioned to concentrate on the provision of the "right" environment for the growth of the industrial sector namely (a) good governance, where public policy does not become the cause of market failure; (b) provision of adequate and competitively-priced infrastructure; and (c) creation and/or maintenance of an environment conducive to real competition (Tecson, 2001 and Rodrik, 1995)

A. Economic Development and Loans

Schumpeter (1911) describes economic development as resulting from spontaneous and discontinuous changes in factor combinations, brought about by the entrepreneurs, that would alter an otherwise, steady and identical circular flow of production and exchange, whereby the same products would be produced every year in the same way and each supply would be matched by an equal demand (vice versa).

Schumpeter thought of money creation via credit as the fundamental function through which banks enabled the entrepreneurs to adopt new factor combinations. He believed that banks play a pivotal role in economic development because they choose which firms get to use society's savings. According to this view, the banking sector alters the path of economic progress by affecting the allocation of savings and not necessarily the savings rate. Thus, Schumpeterian view of finance and development highlights the impact on banks and productivity growth and technological change.

Loans encourage private sector participation in infrastructure. Banks approve loans for financial institutions for re-lending to private projects. A bank's private sector investment facility will be utilized by the participating financial institutions to purchase long-term debt securities, such as debentures, to be issued by infrastructure projects, which can be traded in the market. Together with ongoing capital market reforms, this is expected to encourage development of a long-term debt market, crucially needed to sustain large-scale infrastructure financing for developing countries. The facility (private sector investment facility) would encourage greater private sector investment and help develop new sources of funds for infrastructure financing.

B. Productivity and Competitiveness

Porter (1990) asserts that productivity is the primary determinant of a long-term increase in the standard of living of a nation and the root growth of its per capita income. Krugman (1994) concurs that productivity is the key underlying idea that accounts for the economic growth of nations. He however stressed that capital input, rather than productivity gains, was the main reason for economic growth in Asia. Kendrick (1984) describes it as major element of economic growth and progress at national level, being so by providing a proportionate offset to increase in wages and other input prices by reducing the inflation rate of output prices.

Clavecilla (1998) asserts that for a country's industry to be competitive, productivity must be continually increased and sustained. Being it as a key measure of how well factor inputs are

utilized and how efficient the output of the economy is managed, productivity can help sustain an economy at the contraction by being a strategy for maintaining growth even when resource inputs are scaled down.

C. International Factor Movements

A Brazil-U.S. Business Council (1989) identified four (4) out of twelve (12) major criteria for movements of international factors that relate to the importance of government support services to increase competitiveness of a country:

i) Potential Market Access – centered on unrestricted local laws and regulations. The regulatory environment must allow Multinational Corporations (MNCs) to compete on equal footing against local companies (foreign firms are often monitored more closely than their local counterparts).

ii) Government Support (regulations) – an attractive regulatory climate is an important consideration in the investment-side decision. It is important to note that some degree of government regulation is essential in protecting the interests of producers and consumers, thereby ensuring smooth functioning of the marketplace. Too much regulation however can create distortions that raise cost thereby reducing firms to function less efficiently.

iii) Financial Incentives – excessive tax burdens on investments and profits will discourage firms from investing in a prospective host country. The tax burden involves not only tax rates, but also the tax treatment of dividends, royalties, remittances, and other transactions between local subsidiaries and their parent companies. The type and size of incentives offered by a country depend on the market orientation it faces from other countries in attracting the type of investment.

iv) Infrastructure/Support Services – a host country's physical resources: roads, ports, airports, telecom networks and facilities, availability and cost of energy – all have a great impact upon the cost and efficiency of production and transportation. Country with poor infrastructure may have difficulties capturing a significant amount of FDI.

v) Quality of Labor Force – labor-intensive firms (e.g. textile, apparel) firms seek to establish plants in developing countries to take advantage of their lower wage rates. It is important that apart from pay scales, investors also look at the quality of education in the host country, because better-educated workers will be easier to train and will reach their optimum output sooner than those who are not as well educated.

II. ROLE OF THE GOVERNMENT IN ECONOMIC DEVELOPMENT

Government plays an important role in fostering economic development thru industrial adjustments. In the Philippines, government is cautioned to concentrate on the provision of the "right" environment for the growth of the industrial sector namely (a) good governance, where public policy does not become the cause of market failure; (b) provision of adequate and competitively-priced infrastructure; and (c) creation and/or maintenance of an environment conducive to real competition (Tecson, 2001 and Rodrik, 1995)

Adelman (1999) classifies the three phases of optimal role of government in development as (i) Prime Mover Phase; (ii) Problem Phase and; (iii) Rehabilitating Phase.

A. Prime Mover Phase

The Prime Mover Phase (1940-1979) was the time when government was assigned a primary entrepreneurial role wherein they view economic growth as a growth process that requires the systematic reallocation of factors of production from low-productivity, traditional technology, decreasing returns, mostly primary sector to high-productivity, modern, increasing returns, mostly industrial sector. They assume that the resource reallocation process is hampered by rigidities, which are both technological and institutional in nature. Investment lumpiness, inadequate infrastructure, imperfect foresight, and missing markets impede smooth resource transfers among sectors in response to individual profit maximization and provide the bases for classical, structuralist approaches to economic development. Technological externalities in infrastructure and basic industrial projects would lead to coordination failures that would cause private agents to under invest in them.

The suggested solution to the structural and coordination failures is that government should have to engage in an active role to subsidize investment, coordinate investment activities, and undertake direct investment from government budget even though it would lead to mild inflation. Development economists argue that such action would maximize the external economies generated by investment and generate self-sustained, growth faster. Others sectors argue that "balanced growth" would reduce bottlenecks and import needs of the investment programs and thereby raise the marginal efficiency of investment.

Classical economists contend that government would have to continue to perform the entrepreneurial job in the absence of private entrepreneurship. Government can artificially increase the rates of return from private investment through direct government subsidies; by engaging in joint government-private ventures; and subsidizing management-training programs.

B. Problem Phase

The Problem Phase (1879-1996) was the time when Neo-classical trade theorists said that international trade could provide a substitute for low domestic aggregate demand. They argued that in order for government to remove barriers to international trade, government must position the economy on an autonomous, sustained growth path. Governments should also remove price distortions in domestic factor and commodity markets to induce suitable movement of factors among sectors, encourage the adoption of appropriate technology, and increase capital accumulation. It is said that domestic and international liberalization programs would suffice to bring about sustained economic growth and structural change.

However, government interventions are not needed, as trade liberalization can induce development, provide economies of scale and make industries internationally more competitive. It was argued that greater domestic marketization of goods and services, including public goods, would make development more cost-effective and efficient. Governments on the other hand are perceived as bloated and corrupt; they accept bribes for economic privileges generated by government interventions into the market; and they operate by distorting market-incentives in mostly unproductive and wasteful ways. Government interventions into the market such as regulation, tariffs, subsidies, and quotas, would increase rent-seeking activities by private entrepreneurs, which absorb large fractions of GNP and leads to significant economic

inefficiencies. As a result, reducing the role of the government in the economy would lead to more rapid and more efficient development in the economy.

They stressed that the best action that government can do to promote development is to minimize their economic roles. Liberalizing domestic and international markets both factors and a product is the recommendation of choice. Acts to promote the spread of markets and the rule of market incentives would improve the efficiency of the economy. Such acts would be taken as an indication of economic virtue, worthy of financial support by international agencies.

C. Rehabilitating Phase

Economists and policy-makers came to realize that, the growth performance of most developing countries in East Asian and some South Asian countries, in which governments continued to play an active role had been remarkably good. Despite the unfavorable international environment, Asian countries exported their way out of crisis by shifting import-substitution to export-promotion regimes; devaluated their currency to promote expenditure switching among imports and domestic goods; undertook a set of market-friendly institutional and policy reforms; continued to invest in infrastructure and human capital; and engaged in the direct and indirect promotion of selective industrial policy. These set of policies were said to have helped countries achieve economic growth.

III. ROLE OF THE GOVERNMENT IN ECONOMIC DEVELOPMENT – PHILIPPINE CASE (INTERMEDIATE GROUP)

Adelman (1999) classifies the Philippines in the Intermediate Group, a group that considers the economy as intermediate in socio-political and economic degrees of institutional development, the process of social, economic and political modernization had proceeded far enough to greatly disturb traditional customs and institutions without progressing far enough to set them on the path of self-sustaining economic development. The Asian countries listed with the Philippines include Sri-Lanka, India, Pakistan, Myanmar, Thailand and Indonesia. They are characterized by rapid and unbalanced social transformations, which led to high degrees of social tensions and political instability.

Adelman (1999) suggests that government should concentrate on providing the institutional and physical conditions and the policy environment necessary to promote the initial stages of industrialization. Particularly, it was stressed that that government should invest in transport and power systems. In summary, the following areas should be taken into account by the government under the intermediate group:

i) Raise the national investment rate, both direct investment and through subsidizing and promoting private investment.
ii) Advocate the development of modern industry
iii) Foster an increase in the variety of consumer goods produced by power driven factory methods, encourage the domestic processing of natural resource based exports, and strive to increase the proportion of manufactured goods in total exports.
iv) Substitute for imported skills and capital by promoting domestic entrepreneurs in manufacturing, and by investing in education.
v) Build up the domestic banking system and domestic credit institutions by adopting policies that boost private savings, channel them to the private

banking system, and enhance the effectiveness of the banking system in performing intermediation function between savings and investment.

vi) To avoid relying too heavily on inflationary finance, the government should build up its tax institutions by raising the ratio of government revenues to GNP and by increasing reliance on direct, rather than indirect, trade-related taxes.

vii) Create the conditions of transfer of resources from agriculture to industry by raising the productivity of agriculture.

viii) Make agriculture more responsive to economic incentives by expanding its degree of commercialization while reducing the proportion of the population engaged in subsistence agriculture.

ix) Encourage a reduction of socio-economic dualism by decreasing pervasive regional and sectoral cleavages in technology, types of economic organization and styles of life between urban and rural inhabitants, large expatriate-managed factories and domestically owned and managed ones, and between export and domestic consumer production. It should accomplish this not only through its investment patters in infrastructure and education but also through the promotion of mass-communication media.

Adelman (1999) posits that for government to achieve long-term economic growth, it must have substantial autonomy, capacity and credibility. A certain degree of autonomy is needed to implement changes in policy regimes or engineer fundamental changes in economic institutions. Increasing capacity means raising the training and professionalism of its civil service, the efficiency of its public administration and reducing the level of corruption.

A. Factors to Consider and Efficient Resource Allocation of Government in Economic Development

It is important to take into consider the three inputs available in an economy in order to increase aggregate output as well as the efficient allocation of resources in the economy.

Capital as a function of production in economics may refer to financial capital, which is money, or it may also be physical capital. In an industrializing economy, the government has to take into account fixed investment, since this fixed investment is financed from both domestic and foreign savings, as well as foreign direct and portfolio investments. Labor is another factor in the production process. It is important to take note of labor because it is very much connected to the employment generated in the country especially in the current situation, where there is a continuous growth in the population. Human capital is identified as the skills and abilities of the laborers or workers in the country as used in employment and their contribution to the economy.

B. Efficient Resource Allocation

An efficient allocation of resources is Pareto efficiency, would mean that in the allocation of resources, a gains or an increase in an industry would not result in a decrease in another industry. The welfare theorem suggests that structure of ownership can be classified into two, which are private and public ownership. In a private enterprise, it would mean that the enterprise is operated and owned privately by individuals in the country. Public enterprises, on the other hand, are those owned and operated by the government and is publicly regulated.

In a market environment, factors such as liberalization, deregulation, standardization, inspection and certification are some measures in the economy's degree of competition and participation in world markets, which are taken into consideration by investors.

Coordination as defined by Lau (1998), is where the government assures through its decision making body that economic conditions is advantageous or beneficial in the achievement of efficient economic outcome. It is where the government ensures harmonious operations in the country. On the other hand, externalities brought about by this coordination would include higher transactions cost. In considering achieving technical efficiency the government's bureaucracy is dealt with. It is whether such economic enterprises be a discretion-based system or a rule based-system. The government has the ability to create new institutions and implement new laws. They have to consider the liberalization and deregulation of some services that can help spur economic growth and development in the country. Social safety nets are taken into account to reduce the risk of the public. Moreover, it is also the duty of the government to concentrate on reducing the excessiveness of the poverty gap in its country. Moreover, social welfare programs are created to enhance the efficiency and productivity in the economy (Lau, 1998).

It is indeed important for an economy to run and grow to have infrastructures. Infrastructure problems such as problems with regards to electricity, transportation, communication facilities and industrial parks should be critically analyzed and addressed by the government. The development of the economy is also dependent in the infrastructure projects made by the government.

Consumer and environmental protection is one of the most important roles of the government in economic development and thus, should be prioritized above everything. It is a constituent duty of the state to ensure that its people are not deprived of their basic rights and that they are also protected from any possible danger. It also serves as safeguard in the condition and efficiency in the economy.

i) Efficient allocation across industries. Industrial policies as defined by Lau (1998) are policies made by the government to promote investments in targeted industries. It is the responsibility of the state to ensure that its industrial polices would be an efficient mean of allocating resources across industries.
ii) Efficient allocation across enterprises. The government offers industrial projects to specific enterprises in the industry to be undertaken by these enterprises in the early stages of their development. Moreover, government intervention here should guarantee that there would be a suitable competition among the enterprises in the industry and avoid those inefficient enterprises, which could damage the competitive setting in the industry.
iii) Efficient allocations through government coordination. Government has to guarantee the public that they are committed and are thereby responsible in its agreements with its contracts to other parties.

IV. HISTORY OF INVESTMENT CLIMATE IN THE PHILIPPINES

The Philippines throughout its history had pursued three types of industrialization strategies, namely: agri-based industrialization associated with the prewar free trade policy imposed by the United States (US); import-substituting industrialization (ISI) undertaken by the emerging industrial elite in the 1950's; and an export-oriented industrialization (EOI) policy

based on labor-intensive manufacturing, which had been pursued vigorously by various government agencies and policy-makers since the 1970's (Yu, 2004).

A. Agri-based Industrialization

When the Philippines were under the Spanish regime, the country was predominantly an exporter of agricultural commercial crops, with hardly any industry to speak of. This role of the Philippine economy even continued during the 46 years of American occupation, since the country was forced to remove its trade walls to US-manufactured goods. Thus, the country became primarily an exporter of raw materials to the United States and a dumping site for US surplus goods.

When the country had gained its independence in 1946, the relationship between these two countries was reinforced through the enactment of the Bell Trade Act. This Act had a parity provision, which granted the United States citizens equal economic rights with Filipinos in the exploitation of natural resources and operation of public utilities. Moreover, this Act had provided for the continuance of the free trade between the US and the Philippines, and pegging of the peso to the dollar.

This Act eventually led to a balance of payments crisis in 1949. This was primarily due to the influx of cheaper US goods into the country and the poor competitiveness of Filipino exports.[1]

B. Import-Substituting Industrialization (ISI)

The Philippines had started to adopt an industrialization policy of import substitution in the 1950's in response to the balance of payments crisis in 1949. During this period, the Philippine government had restricted the importation of luxury goods and imposed foreign exchange controls, thus ushering in the ISI era. Although the said restrictions were imposed to control the outflow of foreign exchange from the country, this program also paved the way for the country's so-called "industrialization".

This import-substitution era of the 1950's to the early 1960's was nostalgically remembered as the "golden age of the Philippine manufacturing industry." During this period, the country was considered as one of the leaders in Asia, being second only to Japan in terms of manufacturing output and economic growth. According to Yu (2004), the manufacturing industry was averaging 14.05% growth for the 1946-1953 period, and 11.025% for 1953-1957. As a matter of fact, the share of the manufacturing output had reached a point where it exceeded that of the agriculture's by 1960, which reflected the degree of industrial development achieved at that time.

However, although the exchange rate control and the ISI era had actually provided for the development of the local manufacturing capability and had introduced new skills to the Filipinos, it had not been successful in reducing the country's appetite for imports.

[1] This Act was replaced in 1955, through the negotiation of the United States-Philippine Trade Agreement, or more commonly known as the Laurel-Langley Agreement. This treaty had abolished the authority of the United States to control the exchange rate of the Philippine peso, made the parity privileges reciprocal for both countries, extended the sugar quota, and extended the time period for the reduction of other quotas and for the progressive application of tariffs on Philippine goods exported to the United States. Moreover, this agreement had also extended the parity privileges of the Americans to all forms of economic activities in the country.

Most industries that were put up in the country were manufacturers that filled up the demand for consumer and luxury goods. However, inputs and machineries that were needed to produce these goods were still imported. "No efforts at establishing basic heavy industries were made, except for steel integration, which up to now has not yet been achieved. So while the proportion of consumer and luxury goods being imported fell from 40% in 1950 to 14% in 1960… [the] purchase of inputs and machineries from abroad rose to 80%." (Rosello, 1989)

By 1962, the Philippines faced another BOP crisis, forcing the country to turn to the International Monetary Fund (IMF) for the first time for a $300 million loan. One of the conditions imposed for the loan was the lifting of the import and foreign exchange controls. This resulted in the country returning into its old ways of importing almost everything; thus the import substituting strategy suffered a reversal, forcing most of the country's manufacturers to close up or sell out to foreign investors. Afterwards, the government had adopted an exports-oriented program in place of the import-substitution strategy, which gave birth to the EOI strategy.

C. Export-oriented Industrialization (EOI)

During the 1960's, transnational corporations were experiencing tremendous growth in their global operations. Moreover, the American corporations' dominance as the top exporter of manufactured goods in the world was challenged by the companies from Europe and Japan. This unprecedented expansion, stiff competition, and their need to maximize profits drove these corporations to shift their global strategy, particularly on the labor-intensive aspect of their production process.

In order to become more competitive, these corporations decided to utilize the huge army of reserve cheap labor from many developing countries, including the Philippines. Thus, the TNC's production process was fragmented across many countries, with each country performing one or more processes.

This process was known as subcontracting. It was "an industrial scheme where manufacturers farm out most labor-intensive aspect of its production process, which also require lower technology, to poor countries that offer the lowest wages" ("The Deepening Crisis," 2001). The products subcontracted were usually those that were manufactured in a series of stages, as well as those that were light and could be easily transported, such as electric integrated circuits or semiconductors.

Subcontracting was also referred to as outprocessing. In this process, TNC's supplied the low-wage developing countries with raw or semi-processed materials, which would be re-imported by the foreign corporations in its final or semi-processed form.

Subcontracting became a part of the export-based development model that was prescribed by the IMF and the World Bank to developing countries asking for loans in the 1970's. This paved the way for the global subcontracting strategy of the transnational corporations to thrive.

D. The Philippines towards Export Orientation

The Marcos administration, during the late 1960's, had intensified the liberalization of the Philippine economy through the promulgation of laws such as the RA 5186 or the Investment Incentives Act of 1967 and RA 6135 or the Export Incentives Act of 1970. These two Republic Acts were the first laws aimed at streamlining and rationalizing foreign investment policies in the

Philippines. Furthermore, the two laws had guaranteed foreign investors "the rights of repatriation of investment, remittance of earnings, payment of interest and principal on foreign loans and contracts, freedom from expropriation and reacquisition, tax credit and tax exemption, net operating loss carry-over (loss of one period may be deducted against earnings in the following periods), anti-dumping protections, protection from government competition, deduction of expansion reinvestment deduction of labor training expenses, deduction of organizational and pre-operating expenses and the employment of foreign nationals" (Yu, 2004).

However, the said liberalization of the Philippine economy was opposed by the local industrialists, who primarily had benefited from tariff protection under the import-substitution scheme of the government. The only time the Export-oriented Industrialization (EOI) strategy became fully implemented was through the declaration of the martial law in 1972, when all political opposition was silenced.

The key to EOI was the founding of Export Processing Zones (EPZ's) and their variants such as free ports, free trade zones, and bonded manufacturing warehouses (BMW's), which primarily served as industrial sites for processing the transnational corporations' subcontracted goods. The first export processing zone in the country was the Bataan Processing Zone (BEPZ). This zone was established in 1969 and became fully operational by 1972. In the same year, the municipality of Mariveles, Bataan was converted into a port of entry. The Export Processing Zone Authority (EPZA) was also established in order to develop and manage the new zone. Later, three more export processing zones were founded: the Cavite Export Processing Zone in Rosario, Cavite; the Mactan Export Processing Zone in Cebu; and the Baguio City Export Processing Zone. The total production of the firms investing in these export zones should be entirely geared for exports. However, in some instances and must be subject to the approval of the EPZA, 30 percent of their production may be sold into the domestic market.

Marcos also issued the Presidential Decree (PD) 66, in order to attract more foreign investments into the country. This gave the following incentives to firms that will be exporting at least 70 percent of their products:[2]

i) Permission for 100% foreign ownership;
ii) Permission to impose a lower minimum wage than in Manila;
iii) Tax exemption privileges, including tax credits on domestic capital equipment, tax exemptions on imported raw materials and equipment, exemption from the export tax and from municipal and provincial taxes;
iv) Priority to Central Bank foreign exchange allocations for exports;
v) Low rents for land and water;
vi) Government financing of infrastructure and factory buildings, which could then be rented out or purchased by companies at a low price; and
vii) Accelerated depreciation of fixed assets

With the founding of these export processing zones, the Philippines began its integration into the transnational corporation's network of global subcontracting. Moreover, the country's export profile had shifted from traditional exports, which are primarily unprocessed or slightly processed agricultural and mineral products, to non-traditional manufactured exports, or goods that had undergone some processing (See Tables 1 and 2).

[2] Yu, Joseph S. "EPZ and Industrialization." IBON Facts and Figures, 15 and 29 February 2004.

Table 1: Top Philippine Exports, 1950-1980
(Volume in thousand kg)

Commodity	1950	1960	1970	1980
Copra	707,186	804,371	447,443	761,147
Sugar	420,475	1,089,845	1,236,215	972,217
Bananas	0	138	106,792	0
Logs and Lumber	144,247	1,515,416	4,067,555	2,055,477
Desiccated Coco.	73,050	58,775	60,241	66,245
Coco. Oil	69,806	59,965	339,241	614,387
Canned Pineapples	65,388	44,839	99,980	116,393
Gold[a]	N/A	N/A	N/A	N/A
Abaca, unmanufactured	96,312	101,152	55,228	210,694
Copper Concentrates	8,053	227,931	631,718	799,311

[a] In troy ounce
Source: Yu, (2004)

Table 2: Top Philippine Exports, 1980-2000 Based on 2000 Rankings
(FOB Value in Million USD)

Commodity	1980	1990	2000
Electronics and Components[a]	671.00	1,523.00	22,880.14
Articles of Apparel and Clothing Accessories[a]	500.00	1,776.00	2,562.62
Ignition Wiring Sets and Other Wiring Sets Used in Vehicles	e	e	576.28
Other Products Manufactured from Materials Imported on Consignment Basis[b]	e	e	369.56
Coconut Oil[c]	567.00	361.00	463.94
Woodcraft and Furniture	77.00	189.00	592.84
Metal Exports	e	e	431.52
Bananas (Fresh)	114.00	149.00	291.65
Cathodes and Sections of Cathodes (of refined copper)	0	281.00	223.79
Petroleum Products[d]	e	e	436.35

[a] Including exports on consignment basis
[b] Including diamond, precious and synthetic gemstones, machinery and equipment and prefabricated steel structures
[c] Including crude and refined
[d] Including refined petroleum products, manufactured from crude petroleum oil
[e] Not included in top ranking
Source: National Statistics Office, as published in Yu, Joseph S. "EPZ and Industrialization." IBON Facts and Figures, 15 and 29 February 2004.

During the administration of President Corazon Aquino, the government decided to establish Industrial Estates as a way to lure more foreign investments into the country. Industrial Estates, as defined by the Board of Investments, were large and suitable tracts of land, which had been subdivided and developed primarily for the use of industrial communities. These estates were to be provided with roads, water supply, electrical and communication facilities, sewerage and drainage systems, and other infrastructures.

The main difference between industrial estates and the export processing zones was that while EPZ's were to be exclusively owned and controlled by the government, the private sector was encouraged to develop, own and manage IE's. Government support for these IE's, on the other hand, would come through the construction of infrastructures, such as road

networks, telecommunications facilities, power generation facilities, and licensing facilitation services.

The Ramos Administration had continued to promote exports through the passage of the Export Development Act of 1994, which states that "the government shall champion exports as a focal strategy for sustainable agricultural development" (Yu, 1994).

The Ramos administration had further promoted foreign investments in the export processing zones by signing into law the Republic Act No. 7916 (RA 7916), also known as the Special Economic Zone Act of 1995, on February 24, 1995. This Act had expanded the incentives offered to foreign investors and had created additional types of ecozones, in order to increase the number of areas where they could invest.

President Fidel V. Ramos also signed into law the Bases Conversion and Development Act (RA 7338) in 1992. This law served as a venue for the conversion of former US bases in Clark and Subic into special economic zones and freeports. This Act also paved the way for the establishment of the Subic Bay Metropolitan Authority (SBMA) and the Clark Development Corporation (CDC) as the implementing arms of the Bases Conversion Development Authority.

The Arroyo administration, on the other hand, had enforced a policy regarding export promotion in the country through the implementation of the Philippine Export Development Plan (PEDP) 2001-2004, which was a part of the Medium-Term Philippine Development Plan. The PEDP focused on 10 sectors, which were dubbed as "revenue streams" of the country. It was also noted that most of these sectors are industries that are heavily outsourced by transnational corporations. These were[3]:

i) Food Products
ii) Home Furnishings
iii) Electronics
iv) Motor Vehicle Parts and Components
v) Wearables (Garments, etc.)
vi) Marine Products
vii) Giftware and Holiday Decor
viii) Construction Materials
ix) Organic or Natural Products
x) Information Technology (IT) Services

The Arroyo administration was also pushing the conversion of agricultural lands into agro-industrial estates in order to produce crops for export under the Agriculture and Fisheries Modernization Act.

V. ASSESSMENT OF THE PHILIPPINE ECONOMIC ZONE AUTHORITY (PEZA)

A. Background

Export Processing Zones can be defined as limited geographical areas or groups of export-oriented manufacturing or service enterprises located in any part of the country, which had been benefiting from special investment-promotion incentives, including exemptions from

[3] Ibid.

customs duties and preferential treatment with respect to various fiscal and financial regulations. (ILO, 1998)

Apart from the term "export processing zones", which was widely used, a variety of terminologies such as industrial free zones, free trade zones, special economic zones, and maquiladoras were used interchangeably through most of the literature (See Table 3).

Table 3: Terms Synonymous with Export Processing Zones (EPZs)

Term	Examples of Countries Where Used
Free Zones	Costa Rica, Honduras, Ireland, Trinidad and Tobago, Turkey, United Arab Emirates, Uruguay, Venezuela
Maquiladoras / Maquiladora (in-bond) Enterprises	Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Panama
Special Economic Zones	China
Industrial Free Zones	Cameroon, Colombia, Ghana, Madagascar, Syrian Arab Republic, and Jordan
Industrial Free Zones for Goods and Services	Colombia
Free Trade Zones	Bulgaria, Chile
Export Free Zones	Jamaica
Free Trade and Industrial Zones	Islamic Republic of Iran
Special Export Processing Zones	The Philippines
Export Processing Free Zones	Togo
Tax Free Factories	Fiji
Bonded Zone	Indonesia
Free Zones and Special Processing Zones	Peru
Free Economic Zones	Russian Federation
Industrial Estates	Thailand
"Points Francs" (Special Industrial Free Zones)	Cameroon

Source: Legislation and Publications of Governments and EPZ authorities, as posted in the International Labor Organization Website (www.ilo.org)

However, it should be noted that EPZ's were distinct from terms such as "free ports", and "free trade zones", which were normally associated with warehousing, transshipment, and other commercial activities (Aggarwal, n.d.).

In actual practice, the types of zone activities actually varied from bonded warehouse, export processing and assembling, border or port trade, and high-technology research and development (R&D), to trade-related transportation or financial services. However, despite all these variations, export-oriented manufacturing activities had been the main focus of most zones, where production was typically dominated by foreign corporations.

Export Processing Zones started in 1958, when the Shannon Zone was set up in Ireland and the first to bear EPZ nomenclature. Some of the early EPZ's were founded in Puerto Rico (1962), Mexico (1964), Kandla (1965), Taiwan (1966), South Korea (1971), Philippines and Malaysia (1972). Over the last three decades, export processing zones had been very significant in the industrial development in countries such as Taiwan, China, South Korea, Singapore, Hong Kong, Malaysia, Dominican Republic, and Mauritius.

B. Goals of export processing zones

According to Madani (1999), there were four primary goals and characteristics for establishing export-processing zones. These were:

i) To provide foreign exchange earnings through promotion of non-traditional exports;
ii) To provide jobs in order to alleviate unemployment or under-employment problems in the host country and to assist in income creation;
iii) To attract foreign direct investment (FDI) to the host country; and
iv) To provide a venue for technological transfer, knowledge spillover and demonstration effects, which could act as catalysts for domestic entrepreneurs to engage in the production of non-traditional products.

C. Incentives

In order to attract foreign corporations to invest in their respective export processing zones, various policies incentives had been offered by the host countries. From the standpoint of the foreign investors, these incentives could be translated into lower production costs in the zone, and ceteris paribus, higher potential profits derived from the EPZ operation. In return the host countries could expect to benefit from the goals stated in the previous discussion. Eventually, the economies with export processing zones could be put onto an export-led growth path, thus leading to a fuller integration into the world economy, and doing so in accordance with their comparative advantages. According to Madani (1999), among the different types of export processing zones in the world, the following were the typical incentives being offered:

i) Unlimited duty-free imports of raw, intermediate input and capital goods that were necessary for the production of exports;
ii) Less governmental red-tape, which included more flexibility with labor laws for the firms in the zone than in the domestic market;
iii) Generous and long-term tax holidays and concessions to the firms;
iv) Above average (compared to the rest of the host country) communications services and infrastructure. It was also common for countries to subsidize utilities and rental rates;
v) Zone firms could be domestic, international or joint venture. In many cases there was no limitation on foreign ownership of the firms or on the repatriation of the profits. The role of FDI is prominent in EPZ activities;
vi) Some countries allowed the sale of a certain percentage of total EPZ products to the domestic market.

D. Framework

Since there were inadequate studies regarding the assessment of the performances of export processing zones, Schwellnus (2003) had set several economic arguments regarding EPZ's, which could be used for such assessment. In addition, Dorsati Madani's (n.d.) work included foreign exchange earnings potential and tax revenue or tax loss effect as possible gauge for evaluating the impact of EPZ's on a country.

E. Direct Employment Effects

Job creation was one of the primary goals of establishing export processing zones, and was considered as the most important contribution of EPZ's to the economy. Commodities produced in export processing zones were usually labor-intensive, which would allow for more employment for the country. Export processing zones might be generating a volume of manufacturing employment that is very small relative to the aggregate national manufacturing employment, however, this number might be large to urban/regional manufacturing employment (Schwellnus, 2003).

In many export processing zones in the world, the proportion of female employment was high. According to Madani (n.d.), women, particularly belonging to the 16-25 year old bracket and single were attractive prospective employees of EPZ's due to three reasons:

i) They do not stay on the job for a long time since most of them marry and leave after a few years, and therefore did not ten to get involved with labor unions;
ii) Plant managers preferred to hire women because they are more diligent and dexterous; and
iii) Women were usually paid lower wages than their male co-workers.

F. Indirect Employment Effects

Indirect employment generated by export processing zones could be done in two ways. First, indirect employment could be generated by added demand for local raw materials. However, studies had shown that this contribution was very small since foreign manufacturers were reluctant to switch to local suppliers, and only few local industries benefited from the EPZ's. Second, indirect employment could be done through the demand for physical infrastructure and supporting services. Since both the construction industry and the provision for supporting services such as janitorial services, were intensive in the use of unskilled labor, these indirect employment effects could be expected to benefit the poor (Schwellnus, 2003).

G. Skill Formation

According to Schwellnus (2003), skill formation for unskilled workers could occur through on the job trainings, learning-by-doing, and the learning of industrial work discipline. "Rather than enabling them to perform complex tasks specific to a particular manufacturing sector, working in an EPZ for a prolonged period of time enables the poor unskilled workers to perform simple and non-specific manufacturing tasks" (Schwellnus, 2003). Thus, this could increase the poor unskilled workers' welfare by increasing the range of job opportunities available to them.

H. Environmental Conditions

According to Schwellnus (2003), the environmental impact brought by firms from export processing zones could affect the welfare of the poor through two channels. First, pollution affects traditional income sources of the poor, such as fishery and agriculture. Second, the poors' quality of life could be affected due to the air and water pollution produced in the export processing zones.

I. Foreign Exchange Earnings Potential

Export processing zone were able to bring foreign exchange in two ways: through the sale of exports, and through the investments of the foreign enterprises. Foreign exchange earnings were said to be one of the main benefits of export processing zones into the destination countries. This was due to the fact that export processing zones were to provide foreign exchange earnings that allow low income economies to slacken the foreign exchange constraints regarding their import needs for the rest of the economy, and to provide the government with development funds (Madani, n.d.).

J. Tax Revenue or Tax Loss Effects

As mentioned from chapter two, governments were attracting foreign investors into their respective export processing zones through generous tax incentives, such as tax holidays, and tariff exemptions.

According to Madani (n.d.), some economists had argued that taxes from employment and foreign exchange earnings could offset the said incentives. However, the tax loss experienced by the government through export processing zones was not limited to tax incentives. It also included government investments such as transportation infrastructures, utilities and telecommunications facilities, and administrative support, which were essential in running the zones.

K. Republic Act 7916

PEZA was created by Republic Act 7916 (Special Economic Zone Act of 1995) to accelerate the creation of employment opportunities particularly in the countryside, and to spur the growth and diversification of exports, by attracting foreign investors to either develop or put up their export manufacturing plants, IT companies, or regional warehouses in world-class, environment-friendly economic zones and IT parks and IT buildings.

The creation of PEZA was in pursuant to the declared policy of the government to translate into practical realities the following State policies and mandates in the 1987 Constitution, namely:

i) "The State recognizes the indispensable role of the private sector, encourages private enterprise, and provides incentives to needed investments." (Section 20, Article II)
ii) "The State shall promote the preferential use of Filipino labor, domestic materials, and locally produced goods and adopt measures that help make them competitive." (Section 12, Article XII)

With this, the government, through PEZA, would be able to actively encourage, promote, induce, and accelerate a sound and balanced industrial, economic, and social development of the country in order to provide jobs to the people especially those in the rural areas, to increase their productivity and their individual family income, and thereby improving the level and quality of their living condition through the establishment, among others, of special economic zones in suitable and strategic locations in the country and through measures that shall effectively attract legitimate and productive foreign investments.

The goal of PEZA as a government-owned corporation is to be able to help the government achieve the target of creating six to ten million jobs for the Filipinos in the next 6 years (until 2010). In response to this, PEZA attracts foreign investments particularly export

manufacturing and IT services to come to the country. In fact, PEZA encourages growth and diversification of exports by developing world class and environment friendly economic zones. As of January 2004, PEZA had a total of 1042 firms located in the 96 economic zones in the country (See Tables 4 and 5). Out of the 1042 firms operating in the country, 430 belong to the public economic zones, 504 from private economic zones and the remaining 108 from information technology parks and buildings. In addition these export producing and IT service companies supported by PEZA are given their respective incentives.

As an important national development strategy, the government promotes the establishment of world-class, environment-friendly economic zones all over the country to respond to demands for ready-to-occupy locations for foreign investments.

Table 4: List of PEZA Firms, as of July 2004

Economic Zones	Operating Firms
A. Public Economic Zones	
Baguio City Economic Zone	12
Bataan Economic Zone	61
Cavite Economic Zone	286
Mactan Economic Zone	107
Total	**466**
B. Private Economic Zones	
Amkor Anam Technology	1
Angeles Industrial Park	6
Calamba Premiere Industrial Park	19
Carmelray Industrial Park I	22
Carmelray Industrial Park II	36
Cebu Light Industry and Science Park	3
Cocochem Agro-Industrial Park	3
Daiichi Industrial Park	4
EMI-Jolou Realty, Inc.	1
Filinvest Technology Park	2
First Cavite Industrial Estate	63
First Philippine Industrial Park	15
Gateway Business Park	19
Greenfield Automotive Park	2
Jasaan Misamis Oriental	1
Laguna International Industrial Park	23
Laguna Technopark, Inc	71
Leyte Industrial Development Estate	1
Light Industry & Science Park I	37
Light Industry & Science Park II	19
Lima Technology Center	11
Luisita Industrial Park	4
Macroasia Ecozone	1
Mactan Economic Zone II	41
Mitsumi Realty Inc.	2
New Cebu Township	2
People's Technology Complex	14
Plastic Processing Center	2
Sarangani Economic Development Zone	1
Subic Shipyard	2
Tabangao Special Economic Zone	1

	TECO-Special Economic Zone	1
	Toyota Sta. Rosa, Laguna Industrial Complex	3
	Victoria Wave	18
	West Cebu Industrial Park	5
	Yazaki Torres Manufacturing Inc.	4
	Total	**460**
C.	**Information Technology Parks and Buildings**	
	Asia Town IT Park	3
	E-Square IT Park	9
	Eastwood City Cyberpark	22
	Eugenio Lopez Jr. Communication Center	1
	Export Bank Plaza	1
	GT Tower	1
	Northgate Cyberzone	8
	PBCom Tower	6
	Philamlife IT Building	1
	RCBC Plaza	13
	Robinsons Equitable Tower	2
	SMI City	1
	Summit One Office Tower	5
	The Enterprise Center	3
	Total	**76**

Source: www.peza.gov.ph

Table 5: PEZA List of Operating / Proclaimed Special Economic Zones, as of May 2004

No.	Name of Ecozone	Location	Developer/Operator	Total Area (in hectares)
Operating				
1	Amkor Technology Special Economic Zone	Km. 22, East Service Rd., South Super Highway, Brgy. Cupang, Muntinlupa City	AAPI Realty Corp	14.08
2	Angeles Industrial Park	Calibutbut, Bacolor, Pampanga	Angeles Industrial Park Inc	32.00
3	Asia Town Information Technology Park[c]	Lahug and Apas, Cebu City	Cebu Property Ventures and Dev't. Corporation	23.70
4	Baguio City Economic Zone[a]	Loakan Road, Baguio City	Philippine Economic Zone Authority	116.25
5	Bataan Economic Zone[a]	Nassco, Mariveles, Bataan	Philippine Economic Zone Authority	1,733.37
6	Calamba Premiere International Park	Batino, Parian and Barandal, Calamba, Laguna	Starworld Corporation	65.63
7	Carmelray Industrial Park	Canlubang, Calamba, Laguna	Carmelray Industrial Corporation	50.75
8	Carmelray Industrial Park II	Punta & Tulo, Calamba, Laguna	Carmelray-JTCI Corporation	143.03
9	Cavite Economic Zone[a]	Rosario, Cavite	Philippine Economic Zone Authority	278.51
	Cavite Economic Zone (Annexation)[b]	Bacao, Gen. Trias, Cavite	Majestic Landscape Corporation	9.87
10	Cebu Light Industrial Park	Basak, Lapu-Lapu City, Mactan, Cebu	Cebu Light Industrial Park Inc	62.49
11	Cocochem Agro-Industrial	Aplaya & Danglayan,	United Coconut	42.00

	Park	Bauan, Batangas	Chemicals, Inc	
12	Daiichi Industrial Park	Maguyam, Silang, Cavite	Daiichi Property Ventures Inc.	55.02
13	Eastwood City CyberPark[c]	E Rodriguez, Jr. Avenue, Bagumbayan, Quezon City	Megaworld Properties & Holdings, Inc.	13.29
14	EMI-Special Economic Zone	Anabu II, Imus Cavite	EMI-Jolou Realty, Inc.	12.20
15	E-Square Information Technology Park[c]	Fort Bonifacio Global City, Taguig, Metro Manila	Fort Bonifacio Development Corporation	24.37
16	Eugenio Lopez Jr. Communication Center[c]	Mother Ignacia Avenue cor. Sgt. Esguerra St., Diliman. Quezon City	ABS-CBN Broadcasting Corporation	1.0
	(Building floor area = 101,608.32 square meters)			
17	Exportbank Plaza Building[c]	Exportbank Drive cor. Chino Roces Ave., Makati City	Export and Industry Bank, Inc.	0.37
	(Building floor area = 60,806.37 square meters)			
18	Filinvest Technology Park - Calamba	Punta & Burol-Bubuyan, Calamba City, Laguna	Filinvest Land Inc.	51.07
19	First Cavite Industrial Estate	Langkaan, Dasmariñas, Cavite	First Cavite Industrial Estate Inc.	59.78
20	First Oriental Business and Industrial Park	Ilang, Bunawan District, Davao City	First Oriental Property Ventures, Inc.	57.26
21	First Philippine Industrial Park	Sta Anastacia , Sto. Tomas, Batangas	First Philippine Industrial Park Inc.	72.99
22	First Philippine Industrial Park (Expansion I)	Pantay Bata & Ulango, Tanauan, Batangas	First Philippine Industrial Park Inc.	62.08
23	First Philippine Industrial Park (Expansion II)	Pantay Bata and Ulango, Tanauan, Batangas	First Philippine Industrial Park, Inc.	89.14
24	Food Terminal Incorporated Special Economic Zone	East Service Road, Taguig, Metro Manila	Food Terminal Incorporated	24.00
25	Gateway Business Park	Javalera, Gen. Trias, Cavite	Gateway Property Holdings Inc.	27.81
26	Gateway Business Park I	Javalera, Gen. Trias, Cavite	Gateway Property Holdings Inc.	82.25
27	Greenfield Automotive Park	Don Jose, Sta. Rosa, Laguna	Balibago Land Corp.	50.01
	Greenfield Automotive Park II[b]	Don Jose, Sta. Rosa, Laguna	Balibago Land Corp.	15.94
28	G.T. Tower International[c]	Ayala Ave corner H.V. Dela Costa St., Makati City	Philippine Securities Corporation	0.30
	(Building floor area = 80,000 square meters)			
29	Jasaan Misamis Oriental Ecozone	Solana & Luz Banzon, Jasaan, Misamis Oriental	Misamis Oriental Land Development Corp.	25.25
30	Laguna International Industrial Park	Ganado & Mamplasan , Biñan, Laguna	Laguna Int'l. Industrial Park Inc.	34.88
31	Laguna Technopark I	Biñan, Laguna	Laguna Technopark Inc.	75.19
32	Laguna Technopark II	Biñan, Laguna	Laguna Technopark Inc.	67.74

33	Laguna Technopark III	Loma & Timbao, Biñan, Laguna	Laguna Technopark Inc.	96.39
34	Laguna Technopark IV	Don Jose, Sta. Rosa, Laguna	Laguna Technopark Inc	50.63
35	Leyte Industrial Development Estate	Isabel, Leyte	National Development Corporation	424.70
36	Light Industry & Science Park I	Diezmo, Cabuyao, Laguna	Science Park of the Phils. Inc.	69.06
37	Light Industry & Science Park II	Real & La Mesa, Calamba, Laguna	Science Park of the Phils. Inc.	66.71
38	Lima Technology Center (Malvar)	Santiago & Payapa, Malvar, Batangas	Lima Land Inc.	109.15
	Lima Technology Center (Lipa)	San Lucas, Bugtong na Pulo & Inosluban, Lipa City, Batangas	Lima Land Inc.	171.02
39	Luisita Industrial Park	San Miguel, Tarlac	Luisita Realty Corporation	29.40
40	Macroasia Ecozone	Nichols Field, NAIA, Pasay City	MacroAsia Properties Development Corporation	22.69
41	Mactan Economic Zone[a]	Lapu-Lapu City, Mactan, Cebu	Philippine Economic Zone Authority	119.37
42	Mactan Ecozone II	Basak, Lapu-lapu City, Mactan, Cebu	Acoland Inc.	63.30
43	Manila Harbour Center	District of Tondo, Manila City	R-II Builders	79.15
44	MRI Ecozone	Sabang, Danao City, Cebu	Mitsumi Realty , Inc.	28.29
45	New Cebu Township	Cantao-an, Naga, Cebu	MRC Allied Industries Inc.	122.83
46	Northgate Cyber Zone[c]	Filinvest Corporate City, Alabang, Muntinlupa	Filinvest Alabang, Inc.	18.71
47	Pacific Information Technology Center[c]	Pascor Drive, Brgy. Sto. Niño, Paranaque City	Pacific Space International Development Corporation	0.57
48	PBCOM Tower[c]	Ayala Ave., cor. Herrera Street, Makati City	Filinvest Asia Corporation	0.30
	(Building floor area = 117,480 square meters)			
49	Philamlife I.T. Building[c]	1207 Acacia Avenue, Madrigal Business Park, Barangay Ayala Alabang, Muntinlupa City	PERF Realty Corporation (PERFRC)	0.12
50	People's Technology Complex	Maduya, Carmona, Cavite	ROHM Realty Corporation	52.99
51	Plastic Processing Center SEZ	Alion and Cabcaben, Mariveles, Bataan	Diversified Ecozone Corporation	26.02
52	RCBC Plaza[c]	Ayala Ave. cor. Gil Puyat Ave., Makati City	RCBC Realty Corporation.	1.05
	(Building floor area = 150,400 square meters)			
53	Rio Tuba Export Processing Zone	Rio Tuba, Bataraza, Palawan	Rio Tuba Nickel Mining Corporation	423.95
54	Robinsons-Equitable Tower[c]	ADB Avenue corner Poveda Street, Ortigas	Robinsons Land Corporation	0.28

		Center, Pasig City		
	(Building floor area = 82,000.00 square meters)			
55	Sarangani Economic Development Zone	Cannery, Polomolok, South Cotabato	Sarangani Resources Corporation	60.90
56	SM iCity[c]	SM Central Business Park, Bay City, Pasay City	Shoemart, Inc.	1.54
57	Subic Shipyard Special Economic Zone	Cabangaan Point, Subic, Zambales	Consort Land Inc.	71.23
58	Summit One Office Tower[c]	Shaw Boulevard, Mandaluyong City	Facilities Incorporated	0.25
	(Building floor area = 56,385 square meters)			
59	Tabangao Special Economic Zone	Tabangao, Batangas	Shellgas Philippines Inc.	86.00
60	TECO Special Economic Zone	Bundagul and Paralayunan, Mabalacat, Pampanga	TIPCO Estates Corporation	63.84
61	The Enterprise Center[c]	6766 Ayala Avenue corner Paseo de Roxas, Makati City	KSA Realty Corporation	0.61
	(Building floor area = 127,071.87 square meters)			
62	Toyota Sta. Rosa (Laguna) Special Economic Zone	Pulong Sta Cruz, Sta. Rosa, Laguna	Toyota Motor Philippines Corp.	25.00
63	Victoria Wave Special Economic Zone	Malaria, Caloocan City	Victoria Wave Ltd. Inc.	50.00
64	West Cebu Industrial Park	Arpili and Buanoy, Balamban, Cebu	Cebu Industrial Park Developers Inc.	33.86
65	YTMI Realty Special Economic Zone	Brgy. Makiling, Calamba, Laguna	YTMI Realty Corporation	20.66
Proclaimed				
66	Abra Agro-Industrial Center	Gadanni, Tayum,	Privatization & Management Office	34.29
67	Agus Industrial Estate	Bulac, Sta. Maria, Bulacan	Sta. Maria Industrial Park, Corp.	29.55
68	Allegis Information Technology Park[c]	Carmelray Industrial Park II, Brgy. Tulo, Calamba, Laguna	Allegis Realty Holdings Corporation	5.71
69	Amihan Woodlands Township	Daja Daku & Taglawigan, San Isidro & Jubay, Calubian, Leyte	MRC Allied Industries Inc.	2,312.69
70	Ayala de Zamboanga Industrial Park	Ayala, Zamboanga City	Nonito J. Bernardo Development Inc.	50.00
71	Carmelray International Business Park	Canlubang, Calamba, Laguna	Carmelray Industrial Corporation	40.00
72	Cavite Eco-Industrial Estate	Pasong Kawayan II, Gen. Trias, Cavite	Cavite Eco-Industrial Estate Corp.	104.95
73	Cavite Productivity Economic Zone	Sahud-Ulan, Tanza, Cavite	Cavite Productivity and Economic Zone Corp.	116.22
74	Central Technopark	San Miguel, Tarlac	Luisita Industrial Park Co.,	300.00
75	Eastbay Arts, Recreational and Tourism Zone	San Roque, Angono & Darangan, Binangonan, Rizal	Prime East Properties, Inc.	26.68
76	Eastern Visayas Regional	Tagpuro, San Isidro, New	City Government of	31.93

	Growth Center	Kawayan, Sto. Niño, Tacloban City, Leyte	Tacloban	
77	Fil-Estate Industrial Park	Trece Martirez & Tanza, Cavite	Fil-Estate Industrial Park Inc.	80.62
78	Filoil Special Economic Zone	Rosario, Cavite	Filoil Development & Management Corporation	50.32
79	First Batangas Industrial Park	Mang-hinao & Balayong, Bauan, Batangas	First Batangas Industrial Inc.	53.81
80	Fort Ilocandia Tourism Economic Zone	Balacad, Laoag City, Ilocos Norte	Fort Ilocandia Property Holdings and Development Corporation	77.47
81	Global Industrial / Maritime Complex	Larap, Jose Panganiban, Camarines Norte	Mun. Government of Jose Panganiban	30.00
82	Kelly Special Economic Zone	Kelly, Tuding & Gumatdang, Itogon, Benguet	Benguet Corp.	133.26
83	KRC I.T. Building[c]	Lopez Jaena Street, Subangdaku, Mandaue City, Cebu	Kimhee Realty Corporation	0.66
	(Building floor area = 9,516.72 square meters)			
84	Legaspi City Special Economic Zone	Sitio Caridad, Banquerohan, Legaspi City, Albay	City Government of Legaspi	33.13
85	Light Industry & Science Park III	San Rafael & Sta Anastacia, Sto. Tomas, Batangas	RFM-Science Park of the Phils. Inc.	79.15
86	MSE Center[c]	Ayala Triangle, Ayala Avenue, Makati City	Ayala Land Inc.	5.01
	(Building Floor Area = 30,114.32 square meters)			
87	Nasipit Agusan del Norte Industrial Estate	Camagong and Talisay, Nasipit, Agusan del Norte	Provincial Government of Agusan Del Norte/ PEA	62.07
88	Pangasinan Industrial Park II	Alos, Alaminos & Tagudin, Mabini Pangasinan	Asea One Corporation	26.50
89	Philippine Int'l Air Terminals Co. SEZ	Villamor Airbase, Pasay City	Phil. Int'l Air & Transport Co., Inc.	63.48
90	Philnico Industrial Estate	Nonoc Island, Surigao del Norte	Philnico Mining & Industrial Corp.	106.47
91	Philtown Technology Park	Trapiche, Pagaspas, & Baloc-Baloc, Tanauaun, Batangas	Philippine Townships Inc.	66.63
92	PNOC Petrochemical Industrial Estate	Batangas Dos, Mariveles, Bataan	PNOC Petrochemical Dev't. Corp.	136.97
93	Polambato-Bogo Economic Zone	Polambato, Bogo, Cebu	WenMar Development Corp.	41.71
94	Rapu-Rapu Ecozone	Malobago and Pagcolbon, Rapu-Rapu, Albay	Rapu-Rapu Minerals, Inc.	41.39
95	RLC Special Economic Zone	Simlong, Batangas City, Batangas	Robinson's Realty & Mgt. Corp.	87.43
96	Robinsons CyberPark[c]	Edsa corner Pioneer Street, Mandaluyong City	Robinson's Land Corporation	6.86
97	Samal Casino Resort	San Isidro and Libertad,	Ekran Services Inc.	215.92

		Kaputian, Island Ganden City of Samal, Davao Del Norte		
98	San Carlos Ecozone	Palampas and Punao, San Carlos City, Negros Occidental	San Julio Realty, Inc.	25.79
99	Shannalyne Technological and Environmental Park	Milagros, Esperanza, Agusan del Sur	Shannalyne, Inc.	258.05
100	South Coast Ecozone	Papaya, Nasugbu, Batangas	Manila South Coast Development Corp.	195.54
101	Subic Hermosa Cyber City	Culis and Sumalo, Hermosa, Bataan	Subic-Hermosa Cyber City Dev't. Corp.	92.88
102	SRC Calumpang Economic Development Zone	Calumpang, General Santos City	Sarangani Resources Corporation	18.67
103	Toyota Sta. Rosa (Laguna) Special Economic Zone II	Pulong Sta. Cruz, Sta. Rosa, Laguna	Toyota Motors Philippines Corporation	52.67
104	Tubay Agri-Processing Center	Doña Rosario, Tubay, Agusan del Norte	JC Agricultural Development, Inc.	237.91
105	UP Science And Technology Park (South)[c]	C.P. Garcia, Quezon City	University Of The Philippines	5.00

[a] Government -Owned Economic Zones
[b] Expansion less than 25 hectares
[c] Information Technology Parks
Source: www.peza.gov.ph

Since PEZA is attached to DTI, its Chair is the Secretary of DTI, and the Board is also composed of 12 other members which are undersecretaries of the following: Department of Finance (DOF), Department of Labor and Employment (DOLE), Department of Interior and Local Government (DILG), Department of Environment and Natural Resources (DENR), Department of Agriculture (DOA), Department of Public Works and Highways (DPWH), Department of Science and Technology (DOST), Department of Energy (DOE); Deputy Director General of the National Economic and Development Authority; one representative from the labor sector; and one representative from the investors or business sector in the economic zone.

The primary duty of this board is to formulate and implement policies, plans and programs of the Authority. It is also responsible for the establishment and enforcement of rules and regulations and standards governing the establishment and operation of the economic zones. Moreover, the Director General is the Vice Chairman of the Board and the Chief Executive Officer of PEZA, and is appointed by the country's President.

Section 12 of Republic Act No. 7916 contained the functions and powers of the Philippine Economic Zone Authority Board. These were the following:

i) The PEZA Board had the authority and function to set the general policies on the establishment and operations of the Special Economic Zones, industrial estates, export processing zones, free trade zones and the like;
ii) The Board should review proposals for the establishment of the Special Economic Zones based on the set criteria of the Act, and endorse to the President the establishments of these economic zones, industrial estates,

export processing zones, free trade zones and the like. After which, the authority shall facilitate and assist in the organization of said entities;

iii) The Board had the task of regulating and undertaking the establishment, operation and maintenance of utilities, other services and infrastructure in the ECOZONE, such as heat, light and power, water supply, telecommunication, transport, toll roads and bridges, port services, etc., and to fix just, reasonable and competitive rates, charges and fees;

iv) The Board had the task of approving the annual budget of the Authority and the ECOZONE developmental plans;

v) The Board had the responsibility of issuing rules and regulations to implement the provisions stated in the Act;

vi) The Board had the task of rendering annual reports to the President and the Congress.

L. Types of economic zones[4]

i) Industrial Estate (IE) refers to a tract of land subdivided and developed according to a comprehensive plan under a unified continuous management and with provisions for basic infrastructure and utilities, with or without pre-built standard factory buildings and community facilities for the use of a community of industries.

ii) Export Processing Zone (EPZ) refers to a specialized industrial estate located physically and/or administratively outside the customs territory and predominantly oriented to export production. Enterprises located in export processing zones are allowed to import capital equipment and raw materials free from duties, taxes and other import restrictions.

iii) Free Trade Zone refers to an isolated policed area adjacent to a port of entry (such as a seaport) and/or airport where imported goods may be unloaded for immediate transshipment or stored, repacked, sorted, mixed, or otherwise manipulated. However, movement of these imported goods from the free-trade area to a non-free trade area in the country shall be subject to customs and internal revenue rules and regulations.

iv) Tourist/Recreational Center refers to an area within the ECOZONE where tourist accommodation facilities such as hotels, apartelles, tourist inns, pension houses, resorts, sports and/or recreational facilities are provided to render tourism services for both local and foreign tourists, travelers and investors in accordance with the guidelines issued by the PEZA.

v) Agro-Industrial Economic Zone refers to a large and suitable tract of land subdivided and developed in accordance with a comprehensive plan, with provision for basic infrastructures and utilities designed to host primarily agricultural and or natural resource-based processing activities which are export-oriented. Accordingly, the industry mix of an agro-industrial ecozone should be influenced mainly by the agricultural and natural resources abundant in their surrounding areas.

vi) Information Technology (IT) Park refers to an area developed or which has the potential to be developed into a complex capable of providing the necessary infrastructure support facilities and amenities to the IT industry in order to promote the development and export of IT software products and services and other IT related activities.

[4] www.peza.gov.ph

M. Criteria for Establishing ECOZONES

Section 6 of the Act dictated the general criteria for the establishment of an ECOZONE. These criteria were set in order to ensure the viability and proper geographic dispersal of the country's economic zones.

i) The proposed area must be identified as a regional growth center in the Medium-Term Philippine Development Plan or by the Regional Development Council;
ii) The existence of required infrastructure in the proposed ECOZONE, such as roads, railways, telephones, ports, airports, etc., and the suitability and capacity of the proposed site to absorb such improvements;
iii) The availability of water source and electric power supply for the use of the ECOZONE;
iv) The extent of vacant lands available for industrial and commercial development and future expansion of the ECOZONE as well as of lands adjacent to the ECOZONE available for development of residential areas for the ECOZONE workers;
v) The availability of skilled, semi-skilled, and non-skilled trainable labor force in and around the ECOZONE;
vi) The area must have significant incremental advantage over the existing economic zones and its potential profitability can be established;
vii) The area must be strategically located; and
viii) The area must be situated where controls can easily be established to curtail smuggling activities.

Other areas, which do not meet the foregoing criteria, may still be established as ECOZONES: provided, that the said area shall be developed only through local government and/or private sector initiative under any of the schemes allowed in Republic Act No. 6957 or the Build-Operate-Transfer law, and without any financial exposure on the part of the national government.

N. Incentives

The PEZA provides incentives to respective clients who want to do business with them. In fact these incentives have made PEZA a more competitive government agency in the country and gave it a competitive edge over other economic agencies. The incentives provided by PEZA are divided into two, which are the incentives for economic zone export, tourism and information technology enterprises and incentives for economic zone developers. They are the following[5]:

For Economic Zone Export, Tourism and IT Enterprises:

i) Income Tax Holiday (ITH) or Exemption from Corporate Income Tax for four years, extendable to a maximum of eight years;
ii) After the ITH period, a special 5% Tax on Gross Income, in lieu of all national and local taxes;

[5] Ibid.

iii) Exemption from duties and taxes on imported capital equipment, spare parts, supplies, and raw materials. Also breeding stocks and/or genetic materials or the equivalent tax credit on these items, when sourced locally;
iv) Domestic sales allowance equivalent to 30% of total sales;
v) Exemption from estate taxes, wharf age dues, imposts and fees;
vi) Permanent resident status for foreign investors and immediate family members;
vii) Employment of foreign nationals
viii) Simplified import and export procedures;
ix) Other incentives under Executive Order No. 226 (Omnibus Investment Code of 1987), as may be determined by the PEZA Board.

For Economic Zone Developers:

i) Income Tax Holiday;
ii) Incentives under the Build-Operate-Transfer Law, which includes government support for accessing Official Developmental Assistance and other sources of financing;
iii) Provision of vital off-site infrastructure facilities;
iv) Special 5% Gross Income Tax, in lieu of all national and local taxes;
v) Permanent resident status for foreign investors and immediate family members;
vi) Employment of foreign nationals;
vii) Assistance in the promotion of economic zones to local and foreign locator enterprises;
viii) Other incentives under Executive Order No. 226 (Omnibus Investment Code of 1987), as may be determined by the PEZA Board.

O. Services

In line with PEZA's vision, mission and goals, PEZA is to provide a suitable environment of workplace for foreign investors through its ready-to-occupy economic zones located in the every region of the country (See Table 5).

Aside from providing incentives for zone locators and developers, PEZA registers local and foreign investors as: export enterprise; domestic market enterprise; pioneer enterprise; free trade enterprise; zone facilities enterprise; zone utilities enterprise; service enterprise; tourism enterprise; ecozone developers; or regional warehouse operators. This is to allow PEZA to regulate and supervise the enterprises in the ECOZONE in an efficient and decentralized manner, as well to concentrate on the common needs of the firms listed under each category. It also administers the use of zone facilities in public ecozones such as power and water, communication, standard factory buildings and recreational areas. It also assists in maintaining industrial harmony in the zones by providing effective mechanisms for early settlement of disputes between the laborers and the management in order to eliminate unnecessary conflicts (Chapter IV, RA 7916) and resolving ecozone-related problems. PEZA is also responsible for the defense and security of the economic zones, such as internal security and firefighting services (Section 9, RA 7916). PEZA is also tasked to establish one stop shop centers for the purpose of facilitating the registration of new enterprises in the ECOZONES, as well as other needs of existing enterprises. In these one stop shop centers, all appropriate government agencies that were involved in registering, licensing or issuing permits to investors should assign their representatives to attend to investors' requirements (Section 36, RA 7916).

Lastly, it provides information on investment prospects in economic zones; tax incentives, privileges and requirements, rules and regulations; availability of standard factory buildings and areas in the ecozones; general business conditions prevailing in the country; and functions and roles of ecozones in economic development.

P. Economic Impact

PEZA has made significant impact on the economy in terms of investments, employment, and export earnings. Investments registered with PEZA have been increasing for the past few years. For the year 2004, PEZA recorded an investment of P46.138 billion. This represents an increase of 46.138% compared to year 2003 where PEZA had a total investment of P28.395 billion. In terms of employment, ecozone employment grew by 12.10% from 907,127 in 2003 to 1,016,880 in 2004 (See Table 6). Total number of approved projects for 2004 was 308 compared to 244 in 2003 representing an increase of 26.23%.

Table 6: Employment in the Economic Zones, 1994–2005

Year	Ecozone Employment	Growth Rate
1994	229,650	-
1995	304,557	32.62 %
1996	380,625	24.97 %
1997	562,085	47.67 %
1998	609,044	8.35 %
1999	617,690	1.42 %
2000	696,035	12.68 %
2001	708,657	1.81 %
2002	820,960	15.84 %
2003	907,127	10.50 %
2004	1,016,880	12.10%

Source: www.peza.gov.ph

Q. The Philippines and its Investment Strengths [6]

PEZA has earmarked several advantages of investing in the Philippines. The following are perceived to be its strengths compared to other countries:

i) It has a continuing economic and financial reform program to be more competitive in the international market. It has rid itself of excessive government regulations and has liberalized all sectors of its economy

ii) Telecommunications, shipping, oil, banking, and insurance industries have been deregulated. Strategically located, the Philippines provide a natural gateway to other Asia-Pacific economies. It has flourishing trade links with its Asian neighbors due to shared history, cultures, and tradition.

iii) Democracy is at its best with true checks and balances in the Executive, Legislative, and Judicial branches of government. Freedom of speech is upheld at all times and the Philippine press remains the freest and most open in Asia if not in the world.

iv) Economic reforms are in place and continue to be improved. Business is liberalized, promotional and less regulatory, and attuned for global competition.

[6] http://www.peza.gov.ph

v) Basic rights and guarantees of investors include repatriation of investments, remittance of earnings, access to foreign loans and contracts, freedom from expropriation and non-requisition of investments.
vi) Full (100%) foreign ownership of enterprises.
vii) Facilitative assistance and simplified investment procedures.
viii) Priority investment projects are in export-oriented industries, among others
ix) Abundant supply of quality labor with a large pool of knowledge-based, multi-skilled, highly-educated, highly-trainable, literate, English-speaking workforce. Low employment turnover (less than 1%), high productivity yields, highly adaptable to model changes, and familiar to quality work needs.
x) Foreigner-friendly people. Culturally adaptable people. World-renowned for their hospitality.
xi) Ideal place for expatriates and their families. Availability of quality primary, secondary and tertiary education. Housing facilities meet western standards at very reasonable rates. Availability of quality health care services. Best sporting and recreational facilities.
xii) A market composed of 80 million Filipino consumers.
xiii) Under the Generalized System of Preferences (GSP), the Philippines continue to enjoy tariff preferences when exporting various products to developed countries such as the United States and those in Europe. In contrast, many of the neighboring countries in Asia no longer enjoy this advantage, thus giving the Philippines an edge in competing for the export market. What is also significant is that the country is still a long way from being graduated from these GSP privileges, so investors can look forward to enjoying them for some time to come.

VI. THE EXPORT PROCESSING ZONE AUTHORITY (EPZA)

A. History of EPZA

On June 21, 1969, President Ferdinand E. Marcos signed the Republic Act No. 5490, which created the Foreign Trade Zone Authority. This government agency was tasked to manage and operate all Philippine export processing zones. However, its mandate was amended in November 20, 1972 through the issuance of the Presidential Decree No. 66, creating a new entity, the Export Processing Zone Authority. This government corporation was given the mission to help make the Philippines a center for international trade, strengthen its export trade and foreign exchange position, hasten industrialization, reduce domestic unemployment and accelerate the country's development.

The building of export processing zones in the country was in accordance with the economic platform of President Marcos, which pushed for an "export-oriented industrialization." Through these zones, the government was able to provide very attractive incentives so that foreign investors engaged in the production of intermediate goods (semi-processed material inputs) and capital goods (equipment and machinery) would come into the country.

The first export processing zone (EPZ) in the country was established in Mariveles, Bataan in 1972. Within a year, 56 local and foreign firms had registered to set up shop in the Bataan Export Processing Zone (BEPZ). Eventually, these firms had directly employed 20,788 Filipinos.

In 1979, the Baguio City Export Processing Zone (BCEPZ) and the Mactan Export Processing Zone (MEPZ) in Cebu were set up within a few months of each other. The Cavite Export Processing Zone (CEPZ), on the other hand, was put up in 1986.

B. Comparison of EPZA vis-à-vis PEZA

1. Jurisdiction

EPZA's main authority was to operate, administer, and manage the export processing zone in the Port of Mariveles, Bataan, and other export processing zones that would be established.

PEZA's jurisdiction, on the other hand, was to establish the legal framework and mechanism for the integration, coordination, planning and monitoring of special economic zones, industrial estates or parks, export processing zones, and other economic zones.

2. Composition of the Governing Board

The Board of EPZA was composed of the following: the Deputy Governor of the Central Bank of the Philippines (presently, the Banko Sentral ng Pilipinas); the Undersecretary of Finance (DOF); the Vice-Chairman of the Board of Investments (BOI); and the Undersecretary of the Department of Trade and Tourism, while the remaining members were to be appointed by the President, with the consent of the Commission on Appointments. Moreover, the President was the one with the power to designate its Chairman, from among the members of the Board. The Chairman of the Board of EPZA was also the Administrator of the Authority.

The Board of PEZA, on the other hand, was to be headed by the Secretary of the Department of Trade and Industry (DTI). Its members were composed of the undersecretaries of the following: Department of Finance (DOF), Department of Labor and Employment (DOLE), Department of Interior and Local Government (DILG), Department of Environment and Natural Resources (DENR), Department of Agriculture (DOA), Department of Public Works and Highways (DPWH), Department of Science and Technology (DOST), Department of Energy (DOE); Deputy Director General of the National Economic and Development Authority; one representative from the labor sector; and one representative from the investors or business sector in the economic zone. The Director General of PEZA was only given the position of Vice-Chairman of the Board, and would be appointed by the President.

3. Incentives

Investors of EPZA had enjoyed the following privileges: all merchandise, raw materials, supplies, equipment, machinery, etc, within the zone were not subjected to customs and internal revenue laws and regulations; net operating loss carryover accelerated depreciation; exemption from export tax; foreign exchange assistance; and exemption from local taxes and licenses.

Business enterprises registered in PEZA were also entitled to the same fiscal incentives provided under EPZA. Moreover, tax credits for exporters using local materials as inputs were to receive the same treatment provided under the Export Development Act of 1994.

C. Exemption from Taxes

Business enterprises registered under EPZA were exempted from payment of any and all local government imposts, fees, licenses, or taxes, except real estate taxes, as imposed under Commonwealth Act No. 470 and Republic Act No. 5447.

No taxes, whether local or national, was imposed on business establishments of PEZA. In lieu of paying taxes, 5% of gross income was to be remitted to the government: 3% to the national government, 1% to the local government unites affected by the declaration of the ECOZONE, and 1% for the establishment of a development fund that was used to develop municipalities outside of and contiguous to each ECOZONE.

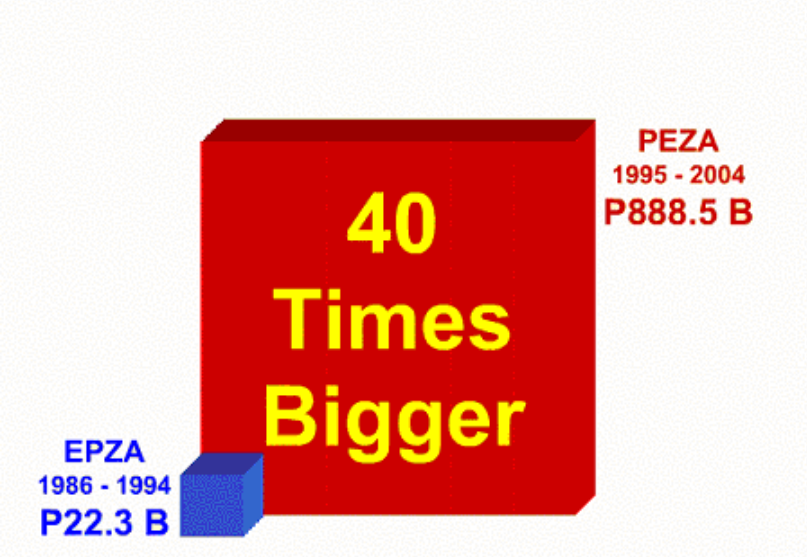
D. One-stop Shop Center

As compared to EPZA, only PEZA was able to establish a one-stop shop center, which was to facilitate the registration, permits, and licensing needs of its investors.

E. Economic Contributions

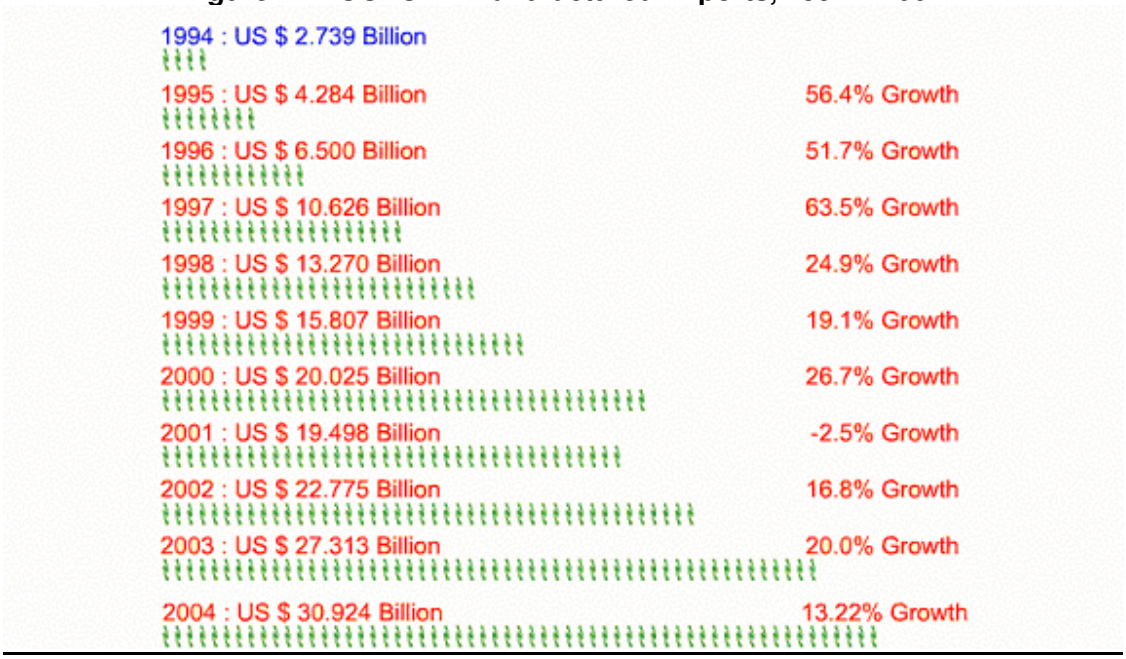
In 1994, PEZA had 16 registered public and private economic zones. From this figure, PEZA was able to balloon this number to 105 approved economic zones as of May 2004. Of this number, 40 had been proclaimed by the President and 65 economic zones were operating. Moreover, investments in the economic zones had been growing rapidly since PEZA took reins in 1995. According to PEZA, a total of 22.3 billion pesos were invested in the economic zone. From 1995 to 2004, on the other hand, the figure grew to P888.5 billion, which was 40 times bigger than investments during the time of PEZA. (See Figure 1) From US$2.739 billion in 1994, manufactured exports in the economic zones also grew to $30.924 billion in 2004. (See Figure 2) PEZA also was successful in generating employment. Economic zone employment ballooned from 229,650 in 1994 under EPZA to 1,016,880 in 2004. (See Figure 3) And last, PEZA had also been earning from the lease of public economic zones. From 1995 to July 2002, PEZA was able to remit at total of P4.5 billion to government coffers, as compared to the P145 million remitted by PEZA in a span of 25 years.

Figure 1: Economic Zone Investments, 1995 – 2004



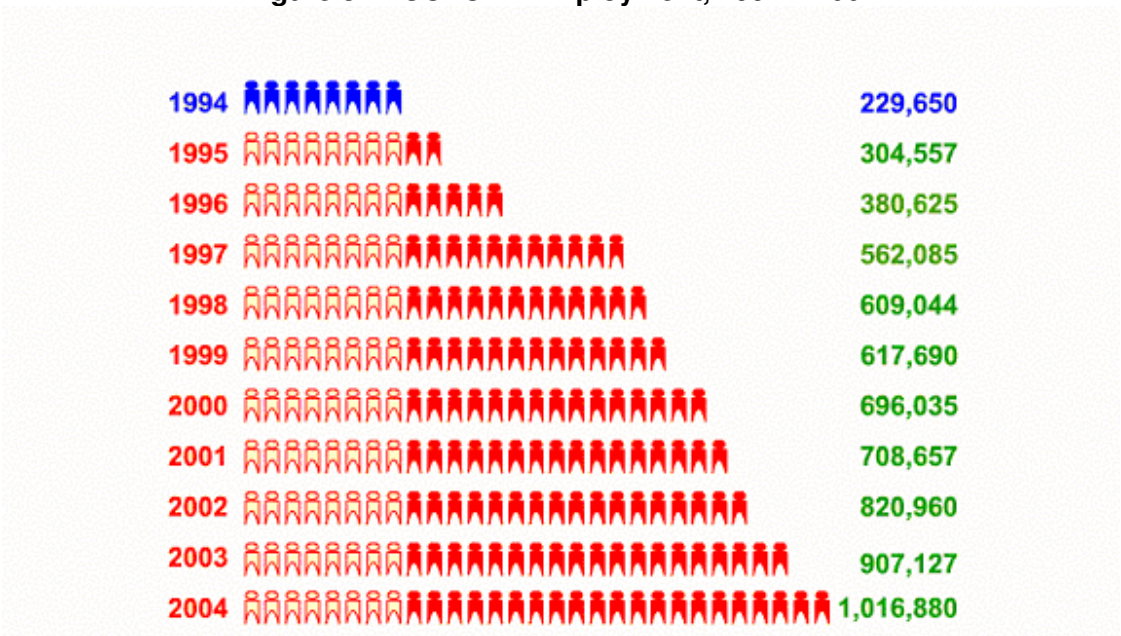
Source: www.peza.org

Figure 2: ECOZONE Manufactured Exports, 1994 – 2004



Source: www.peza.org

Figure 3: ECOZONE Employment, 1994 – 2004



Source: www.peza.org

VII. OTHER GOVERNMENT AGENCIES PROVIDING INVESTMENT INCENTIVES

A. Board of Investments

The Philippine Board of Investments (BOI) is an attached agency of the Department of Trade and Industry (DTI). It is the lead government agency responsible for the promotion of investments in the Philippines. BOI's mission was to generate local and foreign investments and develop globally competitive industries. BOI had expected that this would increase employment through the responsible use of the country's resources, guided by the principles of private initiative and government cooperation. In order to achieve this goal, BOI's primary function is to assist both Filipino and foreign investors to venture and prosper in desirable areas of economic activities in the country, such as food processing, construction, metal products, telecommunications, power and infrastructure projects among others.

1. Services

In order to provide the investors' diverse requirements, BOI offers specialized services, which includes the following[7]:

i) Information assistance to local and foreign investors
ii) Timely investment advice and facilitation regarding investor's business transactions
iii) Assistance in the selection of ideal investment location
iv) Joint Venture Matching Services for international local and foreign entrepreneurs
v) Investment advice and facilitation for Small and Medium Entrepreneur (SMEs)
vi) Business linkages with public and private sector
vii) Evaluation and supervision of investment applications
viii) Training on Investment Promotion
ix) Seminar on Investment Networking for Local Executives
x) Facilitation of Environmental Clearance Certificate and advocacy for environment-related projects
xi) Investment briefings, inbound and outbound missions, seminars and conferences for local and foreign investors
xii) After-sales service through the Investment Promotion Network (IPN), a system of hotlines connecting Investment Promotion Units (IPUs) across 24 related government agencies
xiii) Entrepreneurial assistance to Overseas Filipino Workers
xiv) Industry sectors planning and preparation of Industry sector profiles

2. Operating Groups

In order to ensure competent and efficient services for investors, BOI is divided into four (4) operating groups: Investments Promotion Group, Technical Services Group, Industry Development Group, and Project Assessment Group.[8]

Investment Promotions Group (IPG) is tasked to generate investments and improve the image of the country as a viable investment destination through the formulation and implementation of investment promotion strategy for synchronized investment promotion efforts including the generation of investment opportunities, conduct of inbound and outbound

[7] www.boi.gov.ph
[8] Ibid.

missions, enhancement of investor servicing including the facilitation of investor's transactions and requirements and the implementation of special projects and other investment promotion related activities.

Technical Services Group (TSG) is primarily responsible in providing support services to the Board and its clientele through the enhancement of management processes, efficient dispensation of incentives, design and implementation of information systems, rendering of legal support on investment-related issues, and conduct of human resource development programs.

Industry Development Group (IDG) is in-charge of preparing the annual Investment Priorities Plan. It is also tasked to formulate policies and develop programs/business plans/roadmaps that would hasten and sustain the development of key industry and service sectors with emphasis on human resources development, technology acquisition, industry linkaging and commercialization. It also monitors and coordinates with relevant units/agencies/institutions in the implementation of the above programs/business plans/roadmaps. It also develops and monitors strategies and measures to deal with the country's international trade and environmental commitments; and provides technical industry expertise on tariff and related concerns and on international trade negotiations.

Project Assessment Group (PAG) is in charge of evaluating, registering, supervising, monitoring and giving project assistance to registered firms. Its goal is to give total investor satisfaction from the time the investor seeks registration, through the infancy stage of operations, and up to the time that the firms are fully operational. It is fully accountable in all aspects of project registration, supervision and monitoring of all registered projects, including those based in the regions.

3. Incentives

As stated in Book I of the Omnibus Investments Code, an investor can enjoy certain benefits and incentives, provided that he invested in preferred areas of investments found in the current Investment Priorities Plan (IPP)[9]. An enterprise could still be entitled to incentives even if the activity was not listed in the IPP so long as: at least 50% of production is for exports, if Filipino-owned enterprise; and at least 70% of production is for exports, if majority foreign-owned enterprise (more than 40% foreign equity). BOI-registered enterprises are given a number of incentives in the form of tax exemptions and concessions listed below. These are incentives may be classified as fiscal incentives; non-fiscal incentives; and incentives for regional headquarters and regional operating headquarters in the Philippines.

The following are the fiscal Incentives

i) Income Tax Holiday;
ii) Exemption From Taxes and Duties on Imported Spare Parts;
iii) Exemption From Wharfage Dues and Export Tax, Duty, Imports and Fees;
iv) Tax Exemption on Breeding Stocks and Genetic Materials;
v) Tax Credits;
vi) Additional Deductions From Taxable Income

The following are the non-fiscal Incentives

[9] The IPP, which is issued annually by the Board of Investments, was a list of promoted areas of investments eligible for government incentives in consultation with related government agencies and the private sector.

i) Employment of Foreign Nationals;
ii) Simplification of customs procedures for the importation of equipment, spare parts, raw materials and supplies and exports of processed products;
iii) Importation of consigned equipment for a period of 10 years from date of registration, subject to posting of a re-export bond;
iv) The privilege to operate a bonded manufacturing/trading warehouse subject to Customs rules and regulations.

Incentives for Regional Headquarters (RHQ) and Regional Operating Headquarters in the Philippines (ROHQ)

i) RHQ's are entitled to the following incentives:
- Exemption on the Payment of Corporate Income Tax;
- Exemption on the Payment of Value-Added Tax (VAT)

ii) ROHQ could avail of the following incentives:
- Income derived by the ROHQ from performing qualifying activities were to be subjected to a preferential rate of 10% corporate income tax on taxable income;
- Any income derived from the Philippines, when remitted to the parent company, were to be subjected to the tax on branch profit remittances;
- ROHQ would be subjected to the ten percent value-added tax, unless otherwise provided under the National Internal Revenue Code

iii) Exemptions common for both RHQ and ROHQ:
- Exemption on the payment of all kinds of local taxes, fees or charges, except for real property tax on land improvements and equipment;
- Tax and duty free importation of training materials and equipment not locally available;
- Entitlement to the importation of new motor vehicles (however, importation would be subjected to the payment of corresponding taxes and duties)

iv) Incentives given to the expatriates of a registered RHQ or ROHQ (RA 8756):
- Multiple entry visa, issued to the expatriates, their respective spouses and unmarried children under 21 years old;
- Withholding tax of 15% on compensation income for both alien and Filipino executives holding managerial or technical positions;
- Tax and duty free importation of personal and household effects;
- Travel tax exemption

B. BOI vis-à-vis PEZA

The Board of Investments and the Philippine Economic Zone Authority were primarily different in two ways. First, they differed in the incentives that they offered to their respective investors, and second, they also were different through the services that they rendered.

1. Incentives

Although both PEZA and BOI were offering income tax holidays for their investors, only PEZA could offer a special 5% tax rate on the gross income of the corporation after the income

tax holiday period had elapsed. This could give PEZA an advantage over BOI since the regular tax rate on the gross income was 10%, and eventually would translate to more tax savings for the firms.

Second, PEZA was offering exemptions from duties and taxes on imported capital equipment, spare parts, supplies, and raw materials, while BOI's exemptions only covered the taxes imposed on imported spare parts. This offer would be very attractive for corporations, especially those involved in the manufacturing and information technology sectors, since the purchasing of machineries and raw materials was a major component of their expenses.

2. Services

One of the major differences between the two agencies' services was that BOI could only act as a consultant for the investors, through its information assistance and investment advice programs, and assistance in the selection of the firm's most ideal location. BOI had also been offering seminars and trainings for the executives of its investors. PEZA's main function, on the other hand, was to provide its investors with ready-to-occupy environment friendly economic zones, IT parks and buildings. This implied that PEZA was more concentrated on the physical means of attracting investments, which could foster more investment activities.

PEZA had also been offering better investment innovations for its prospective and current investors. First, PEZA had been establishing one-stop shop centers in its economic zones. These shops were to house several representatives from different government agencies, which facilitated the registration needs of its investors, thus, lessening the red tape problems being faced by the corporations. Second, PEZA had also been simplifying its registration requirements. In its previous operations, aspiring PEZA investors had to present detailed feasibility studies as one of its registration requirements. Currently, investors only had to answer a step-by-step fill-in-the-blank type of application form, which would be attached by projected operations statements, and other requirements mandated by different government agencies (i.e. environment impact statements for DENR).

C. Subic Bay Metropolitan Authority

1. Background

The Subic Bay Freeport was created under the promulgation of Republic Act 7227 in March 13, 1992. This was an act, which aimed to accelerate the conversion of military bases into other productive uses, thus creating the Bases Conversion and Development Authority. Then, on the same year, Olangapo City Mayor Richard J. Gordon was appointed as the first chairman of the Subic Bay Metropolitan Authority (SBMA).

SBMA was authorized to manage and develop the ship repair and shipbuilding facilities, container port, as well as the oil storage and refueling stations; to attract and maintain local and foreign investments; to promote the economic and social development of the country primarily in Central Luzon; to establish and regulate the operation and maintenance of utilities, services and infrastructure; to operate directly and indirectly tourism-related activities; and to protect the Freeport's forests.

2. Incentives

Subic Bay Freeport investors were entitled to the following incentives[10]:

i) Right to freely engage in any business, Right to freely engage in any business, trade, manufacturing, financial or service activity and to import and export freely all types of goods into and out of SBF, subject to certain laws and regulations;
ii) Right to employ foreign nationals subject to evidence of unavailability of comparably-skilled Filipinos within the Philippines;
iii) Exemption from all national and local taxes, in lieu of which a final tax of 5% of gross income must be paid;
iv) Visas for foreign nationals;
v) Unlimited entry to foreign direct investments.

An SBF Enterprise which operates facilities or services within the SBF (SBF Facilities Operator) was entitled to the following additional incentives (www.itcilo.it):

i) Right to manage the facilities on the real property it owns, has acquired or has leased within the SBF;
ii) Right to lease out real property it owns or has leased within the SBF, and to acquire and lease land and sell or lease out facilities to *SBF Enterprises*, subject to certain guidelines;
iii) Right to make improvements on buildings and other facilities, and develop infrastructure necessary to enhance the SBF's efficient operation, or grants contracts or concessions to other private or public parties for the construction or provision of any of the said facilities, subject to certain guidelines.

D. SBMA vis-à-vis PEZA

Although the Subic Bay Metropolitan Authority and the Philippine Economic Zone Authority were the same in terms of their operations and set of incentives, the two investment promotions agencies were different in several aspects. First, PEZA had the authority to operate, administer, and manage the different export processing zones in the country, while SBMA's jurisdiction was restricted within the 67,000 hectare area of Subic Bay Freeport (SBF). Second, PEZA could give income tax holidays for its registered firms, while SBMA could only offer a special 5% final tax in lieu of the national and local taxes. Thus, PEZA could have an advantage over SBMA in terms of attracting foreign investors, as evidenced in Table 7.

Table 7: Total Approved Foreign Direct Investments by Promotion Agency, 2000–2003
(in million PHP)

Agency	2000	2001	2002	2003	Total
Board of Investments	15,529.4	29,042.9	8,815.1	8,348.5	61,735.9
Philippine Economic Zone Authority	61,089.2	28,371.4	22,796.1	24,922.8	137,179.5
Subic Bay Metropolitan Authority	1,998.0	287.7	746.7	365.3	3,397.7
Clark Development Corporation	17,867.6	705.8	13,690.7	373.8	32,637.9

Source: www.boi.gov.ph

E. Impact of PEZA on Firms

Listed below are the firms interviewed to determine the impact of PEZA on firms:

[10] www.itcilo.it

The Enterprise Center

i) Convergys Philippine Services Corporation (IT/Call Center)
ii) Innodigital Philippines Incorporated (IT/Call Center)
iii) ROHM LSI Design Philippines (Circuit Design)

Eastwood City Cyberpark

iv) Astec International Ltd. (Power Conversion)
v) Call Asia Incorporated (IT/Call Center)

Laguna Technopark

vi) Cirtek Electronics Corporation (Transistors & Custom Assembly)

Cavite Economic Zone

vii) Hye Sung Digital Incorporated (IT)
viii) Nihon Garter Philippines Incorporated (Garters)
ix) Maxon Philippines (Telecom products)

RCBC Plaza

x) eData Services Phils., Inc. (Medical transcription)
xi) Reach Networks Phil., Inc. [formerly HKT Network Services (Phils.), Inc.) (IT)
xii) Philippine Cosmo Computer Business, Inc. (IT)

PBCom Tower

xiii) Diversified Technology Solutions International, Inc. (IT and Security equipments and applications)

F. Highlights of Firm Interview

The PEZA needed the company profile itself, i.e. who were the shareholders, who were the clients, what were the basic services. Information asked in the requirements were mainly the firm's market or operations plan for three years, which would cover the three year life of the income tax holiday. Questions included were how much income they expected for the year. How much products were they going to sell, in their case, how many reports were they going to sell. How many personnel were they going to employ. Basically, requirements during the applications were needed by PEZA to justify its existence. Other questions were based on the projections, how much infrastructure were they going to build locally or foreign and how much equipment will they purchase locally or imported.

1. Post-reports

As said by the interviewed firms, PEZA required monthly reports, quarterly and annual reports. The monthly report was relatively the simplest among the reports. It included the revenues that the firm was able to produce during the month, the number of their employees, the firm's current bank account, and the breakdown of their salaries.

The quarterly report, on the other hand, was more detailed. This included the breakdown of the employees with regards to gender. The quarterly report was more concentrated with regard to their operating expenditures, for example, their expenditures on internet services. The quarterly report was more geared towards manufacturing companies, and the firm did not fill out many pages of the monthly report due to inapplicability, like waste reports and work-in-progress reports.

The annual reports submitted to PEZA consisted only of the audited financial statements of the firm.

i) Did PEZA still help them after its establishment or did they let go afterwards?

The PEZA let go of the firm after its establishment, except if the local government units stir a little bit of trouble. For example, in the city of Makati, the LGU had yet to sign a MOA with regards to the PEZA law. The Makati government wanted to collect taxes, and disregard their tax incentive, but PEZA was there to intervene and help the firms. PEZA also helped in processing of the forms required by the government agencies, like import and shipping permits. For example if the working permit of their CEO expires, then they would just go to PEZA instead of the bureau of immigration and other agencies.

ii) Many senators blamed the PEZA for its low tax collections mainly because of the tax incentive. What was your position regarding the matter?

Definitely people would complain that there's a lot of money not remitted to the government whether national or local mainly due to the tax incentive. However, it was more of a give and take situation of the government. For the government, they would lose money for a certain period of time, for eData's case, 3 years. But companies investing in the country would still be giving money to the government in terms of other means like employment for direct labor. In case of the firm, there were 301 employees remitting income taxes. Of course, it was small relatively to the income tax of the company itself, but there would be additional employment, in their case medical professionals. The companies could also give income to suppliers, through their purchases. It was a give and take relationship. Would the government want lower investments coming in but higher unemployment, or the government would want the current situation where there is higher investments and higher employment.

On of the firms said that the Bureau of Customs (BoC) and PEZA was not in good terms since BOC was formed primarily to make revenues for the government, and PEZA, on the other hand, offered duty free importation. Moreover, the local government units also could not get any revenues from the PEZA firms. However, many people could realize the benefits that PEZA was able to bring to the economy. One of the benefits was through employment. Convergys, for example, employed hundreds of workers, and majority of which were graduates. The economy could not generate such employment opportunity, and PEZA was responsible for producing the said employment.

Other firms indicated that it was really unfair to blame the PEZA alone, since the government could also gain revenues through other government agencies. They should consider the benefits that the economy was getting from PEZA, especially through the generation of employment.

iii) Did PEZA still help them after its establishment or did they let go afterwards?

PEZA had been very supportive of their operations. For example, if their imports had been harassed in the customs, then PEZA would be the ones to help them, or bail them out. Moreover, PEZA also made the requirements of local governments and other government agencies easy for them since PEZA was the one to process these requirements.

2. Factors that contributed to registration with PEZA[11]

The following are considered as factors that contributed to the decision of firms to invest in the country:

a. Philippine Setting

The Philippines is fast becoming a very good investment haven because of the many economic zones developed and made available by the Philippine government to foreign investors. As of May 2004, PEZA has 105 (65 operating and 40 proclaimed) special economic zones (*See table 2*) situated all over the country with over 1,002 firms operating in the economic zones. Secondly, the country is strategically located as it is within 4 hours flying time to major capitals of the region. Lastly, the country serves as a critical entry point to over 500 million people in the ASEAN market.

b. Workforce

The Philippines has a solid potential workforce that makes it easier for the company to invest in the country. Filipino workers have significant differences with other workers in other countries. Filipino workers are known for their competent skills and ability in the workforce. Aside from that Filipino workers are easy to train. It would usually take a Filipino worker 8 weeks to train, unlike other Asian workers, which could take 4 to 6 months to train. Aside from that Filipino workers are friendly in nature. High literacy rate of about 94% plus the abundance of labor force of about 380,000 college graduates per year made the company invest in the country. The Philippines is also labeled as the third largest English-speaking country with solid potential workers in the workforce. Moreover, due to the abundant resource of labor in the country or human capital, Companies find the Philippines to be a very good investment setting to put up its operations because of its very high potential growth. Most of the firms chose to expand also because of the availability of target markets and clients. Convergys, for instance foresees that the Philippines would be like India where it was able to employ more than 6000 workers from about 200 employees in its first year of operation.

Also, there were many Japanese firms investing in PEZA already and thus there were positive comments from firms already operating in the area particularly Japanese firms who were satisfied with PEZA.

c. Incentives

Companies continue to enjoy the incentives which PEZA provides. This includes: four to eight years income tax holiday (ITH), special 5% tax rate after the lapse of ITH for economic locators, tax and duty exemption on imported capital equipment, unrestricted use of consigned equipment, additional deduction for labor expense up to 150 percent, additional deductions for training up to 150%, exemption from wharfage dues. Because of the incentives and the suitable locations for their business operations, companies also benefits from 0% value-added tax from sales. It was also noted that tax incentives were on a per activity basis and were dependent upon certain parameters. A firm for instance was currently doing an activity on medical transcription, which was tax free for three years, but it could still be extended for two to three years, depending upon certain conditions. For example, when the three-year income tax incentive expired, and the firm engaged in a call center activity, which was also tax free for three

[11] Based on the interview with the twelve (12) firms

years; then, the firm would enjoy a three-year incentive for the call center portion only. Most companies avail of the tax free importation on equipments which allows firms to save money from their operations.

Another incentive they get from registering with PEZA is the affordable lease rates specifically for public industrial lots. Lease rates for public economic zones ranges from P10.77 to P17.55 per square meter/month. However, rates were adjusted starting January 1, 2005 from P16.15 to P26.33 per square meter/month. Even with the adjustment in lease rates, most firms indicated that the rates are still affordable compared to commercial areas.

d. Transaction cost and convenience

PEZA's economic zones are strategically located in various parts of the country whereby companies have easy access to the different business districts. In addition, PEZA has made dealings with foreign investors as easy as possible. Before, they would usually ask for a feasibility study from these corporations who want to invest but now PEZA has changed the format and made the registration document as a fill-in-the-blank type. Likewise, the office of PEZA houses different government agencies that are related in transacting with these foreign investors. Hence, that made it easier for these foreign investors to deal with them for they no longer have to transfer to other government offices in registering their business proposals. Thus, PEZA has been the most attractive agency that will assist these foreign investors when investing in the Philippines. Not only did PEZA provide friendly and attractive economic zones in the country, but also made transacting business with them as easy as possible.

Most of the firms chose PEZA because of convenience. PEZA prided itself of having a one-stop shop. Firms operating at PEZA claim that they didn't have to talk to other government agencies, like LGU's, in order to make transactions like visas, import permits, and other transaction requirements. In other words, everything was localized at PEZA.

VIII. ASSESSMENT OF THE IMPACT OF PEZA

In order to assess the implications of PEZA to the country, the paper will look into the rationale in the establishment of economic zones. According to a speech delivered by former Deputy Minister of Trade Gerardo Espina before the Makati Business Club in 1982, the rationales for the establishment of export processing zones in the Philippines were the following: to generate employment, to earn additional foreign exchange, to transfer technology, and to develop the rural or provincial sector. Yu (2004) added a fifth goal, which is to attract foreign investors.

A. Employment Generation

PEZA had been successful in generating employment since it took over EPZA's operations in 1995. For the past ten years, employment in the economic zones had been growing by an average of 16% (See Table 6). This figure was not surprising since majority of the commodities produced by the industries in the zones were labor-intensive in nature.

However, the government had allowed contractualization in the economic zones in order to maintain the country's attractiveness to foreign investments. This movement had allowed the corporations to pay the contractual workers on amounts less than the legislated minimum wage. Some contractual workers also had to endure forced overtime with to little or no compensation,

and may even be required to work on Sundays and holidays. Moreover, majority of these contractual workers were often fired before they could become regular employees.

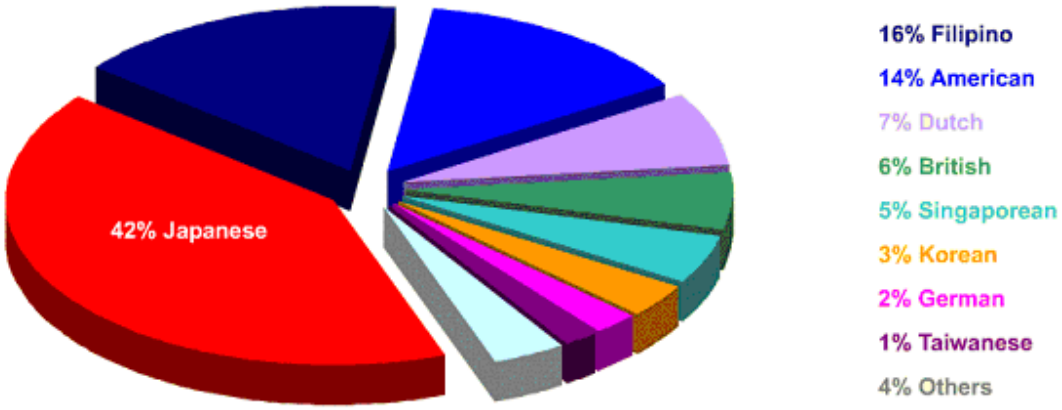
In 2001, the Center for Women's Resources conducted interviews with two garment firms in the Baguio City Economic Zone (BEPZ) namely Adriste, Philippines and Dae-Gu Apparel Corp. According to the interviews, only 147 out of 700 employees in Adriste were regular employees. Contractual workers also had to undergo several non-regular statuses before they could become regular workers. Moreover, some of these contractual workers receive inadequate benefits or none at all, from their companies.

B. Attracting foreign investment

BOI figures had shown that PEZA had been attracting the largest share of the total foreign direct investments entering the country (See Table 7).

This was very advantageous for the economy since it would allow pioneer industries to come into the country, thus increasing the variety of commodities and services that were being provided by the business sector. However, it also could bring a crowding-out effect to our domestic capital. As shown in Figure 4, Filipino investments accounted for only 16% of total PEZA approved locator investments from 1995-2004. Japanese and American corporations already accounted for more than half (56 percent) of total PEZA investments. The percentage of local investments could even be understated since some joint ventures with foreign corporations might be registered as Filipino investments.

Figure 4: PEZA Approved Locator Investments by Nationality, 1995-2004



Source: www.peza.gov.ph

C. Generating Foreign Exchange

Government figures also indicated that the economic zones attract foreign direct investment inflows into the country. However, foreign capital might not be entering country since foreign investors registering with investment agencies, such as PEZA and BOI, could commit to a certain level of investment, and afterwards borrow heavily from local financial institutions to finance this.

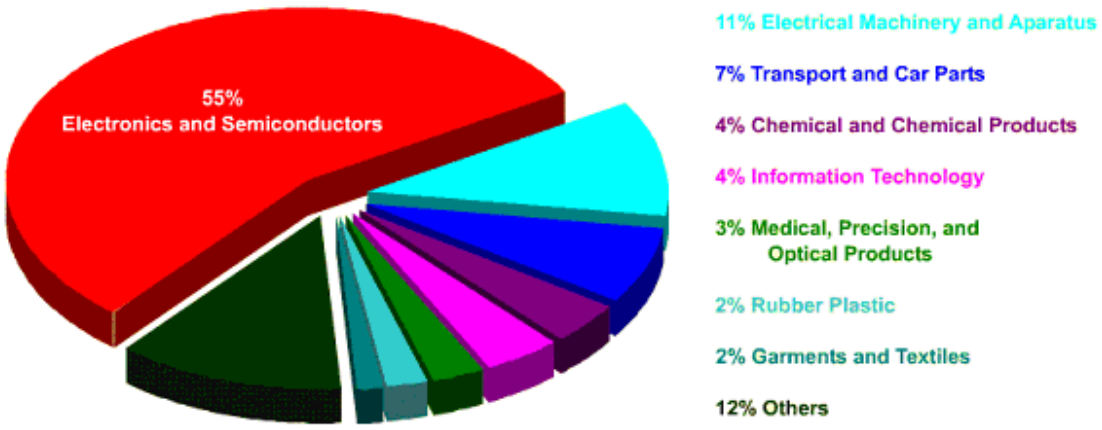
Moreover, according to Yu (2004), a 1993 UNCTAD report revealed that the Bataan Export Processing Zone (BEPZ) was registering a net foreign exchange outflow due to subsidized domestic borrowings and infrastructure. 'While employment, foreign exchange conversion, and domestic raw materials generated (at 1982 prices) $145 million, it was outweighed by a loss of $147 million on subsidized domestic borrowings, $196 million on subsidies for infrastructure, $23 million on administrative costs and $4 million on electricity use, resulting in a total net loss of $224 million."

D. Technology Transfer

One of the ways wherein foreign enterprises could facilitate technology transfer was through training of their personnel. However, according to Hipolito and Reyes (1990), a survey of foreign firms in the export processing zones showed that of the 80% firms that held training programs, only 7% of the workers were involved, thus providing only minimal diffusion of knowledge.

Another evidence of the technology transfer failure was the fact that the country could not produce final goods through the use of the country's own resources. As shown in Figure 5, 55% of the investments in the economic zones belonged to the electronics and semiconductors industry. However, these were products that were heavily outsourced by transnational corporations. Thus, the Philippine economy could not produce these products without importing inputs like raw materials and semi-processed products.

Figure 5: PEZA Approved Locator Investments by Industry, 1995-2004



E. Rural or Provincial Development

One of the benefits of the establishment of economic zones was to help the underdeveloped regions of the country. However, the case of Rosario, the town adjoining the Cavite Export Processing Zone (CEPZ), showed that this was not happening. (Yu, 2004)

Yu (2004) reported that even though Rosario had the highest per capita investment in the Philippines because of the zone, the town only received little income from the CEPZ

because of the fact that the many tax incentives the government had given to its locators. Thus, the local government had no money to deal with the many social and environmental problems brought by the zone, such as increased sewage and pollution from the factories, and crime. Moreover, they also could not afford to provide transfer payments such as education, medical care, and water for the residents.

F. Possible improvements for PEZA

1. Imbalanced Distribution of Firms in Public vis-à-vis Private Economic Zones and IT Parks and Buildings

There seems to be an imbalance in the distribution of firms operating in public vis-à-vis private economic zones and IT parks and buildings. Most of the firms have established their firms in public economic zones. As we can see from the table below, private economic zones and IT parks and buildings have 57 economic zones with 612 firms operating in the area. This accounts for about 58.73% of the total number of firms operating in the economic zones. However, it should be noted that although private economic zones have more firms operating, there seems to be a high concentration of firms operating in the public economic zone with 430 firms operating or about 41.27%. This may seem smaller compared to private economic zone but one must consider that there are only 4 public economic zones (Baguio, Bataan, Cavite and Mactan). The largest concentration of firms is in Cavite with 259 firms and 110 firms for Mactan.

The distribution is as follows:

Table 8: Distribution of Firms across Types of Zones

Type of Zone	No. of Economic Zones	No. of Firms	Percentage Share
Public	4	430	41.27%
Private	40	504	48.37%
IT Parks & Buildings	17	108	10.36%
Total	**61**	**1,042**	**100%**

2. Underutilized Private Economic Zones and IT Parks and Buildings

It can be observed that there are too many established private economic zones and IT parks and buildings but have very few operating firms in the area. This indicates that most of the private economic zones and IT parks and buildings are underutilized and are established only to obtain incentives from the government. For private economic zone, 26 out of 40 (about 65%) economic zones have five or less firms with 9 of them having only one firm operating in the economic zone. A table below summarizes the private economic zones with five or less firms operating:

Table 9: Private Economic Zones with Five or Less Operating Firms

Name of Economic Zone	Number of operating firms
Amkor Technology	1
Angeles Industrial Park	4
Cebu Light Industrial Park	5
CocoChem Agro-Industrial Park	3
Daiichi Industrial Park	4
EMI Special Economic Zone	1
Filinvest Technology Park	3
Food Terminal Incorporated	5
Greenfield Automotive Park	3

Jasaan Misamis Oriental Ecozone	1
Leyte Industrial Development Estate	1
Luisita Industrial Park	4
Macroasia Economic Zone	2
Manila Harbour Center	1
MRI Ecozone	3
New Cebu Township	2
Plastic Processing Center SEZ	2
Rapu-Rapu Ecozone	1
Rio Tuba Export Processing Zone	1
Sarangani Economic Development Zone	1
Subic Shipyard Special Economic Zone	2
Tabangao Special Economic Zone	1
TECO Special Economic Zone	2
Toyota Sta. Rosa Special Economic Zone	4
West Cebu Industrial Park	5
YTMI Realty Special Economic Zone	4

On the other hand, the IT parks and buildings have 10 out of 17 (59%) with five or less firms operating in the economic zone. A table below summarizes the IT parks and buildings economic zones with five or less firms operating:

Table 10: IT Parks and Buildings Economic Zones with Five or Less Operating Firms

Name of Economic Zone	Number of operating firms
Diliman IT Building	1
Eugenio Lopez Jr. Communication Center	1
Export Plaza Building	5
GT Tower International	1
JY Square IT Center	1
Pacific IT Center	5
Philamlife IT Building	1
Robinsons-Equitable Tower	4
SM iCity	1
Summit One Office Tower	5

3. More Aggressive Promotion of Economic Zones to Local and Foreign Locator Enterprise

Currently, there are four (4) public and forty nine (49) private economic zones. In the public economic zones, there are 466 firms operating while in the private economic zone, there are 536 firms operating. Though these investments have helped the economy improve, there is a need for government agencies such as PEZA to be more aggressive in promoting investments in the country.

IX. ASSESSMENT OF THE CENTER FOR INTERNATIONAL TRADE EXPOSITIONS AND MISSIONS (CITEM)

A. The Importance of Exporting

In macroeconomic terms, exports provide the means to pay for imports and so are the key to people's degree of choice and standard of living (Boston Consultancy Group, 2004). In trade deficit countries like the Philippines, exports relieve the deficit. Exports also create high rates of employment. A study of the Australian economy has found that export firms comprise

only 4 percent of businesses but employ 16 percent of the workforce (AusTrade, 2000), while in the United States, US$1 billion2 of exports has been shown to result in an average of 15,500 jobs (Czinkota, 2002).

The Boston Consultancy Group (2004) has found that exporting firms has a better quality of employment than their domestic counterparts. Since innovation and high-quality human capital are often critical to exporters' competitiveness, exporters are likely to pay higher wages and provide better working conditions than firms that produce for the domestic market only. In addition, positions in exporting companies are more likely to be permanent (AusTrade, 2000).

Numerous studies show that firms who export outperform firms who serve only the domestic market. Czinkota (2002) cites US research that found that exporters of all sizes and in all industries outperform their strictly domestic counterparts – they grow more than twice as fast in sales and earn significantly higher returns on equity and assets. Knuckey (2002) reports that New Zealand firms who export outperform non-exporters on seven of eight different indices of firm capability.

Less clear, though, is whether exporting is cause or effect of exceptional performance (Boston Consultancy Group, 2004). In order to compete in the global market, firms are compelled to specialize, innovate, and exploit economies of scale, as well as to adopt the latest technologies and managerial practices. This results in driving the firm to boost efficiency and competitiveness.

Studies in the US (Bernard and Jensen, 1999) and the UK (Girma, 2002) have found that firms are high performers even before they enter into exporting. In the US study, firms did not become any more productive after they have begun exporting. In the UK, though, productivity did increase further after exporting began. The explanation for this difference may lie in the size difference and the competitive gap between the domestic and export markets (Boston Consultancy Group, 2004). For a US firm, the competitive intensity from serving the domestic market to serving international markets is likely to be much smaller than for a UK firm. In addition, the US sets best practice and has technological leadership in many areas so that a US firm has the least to learn from the rest of the world. The situation facing New Zealand firms will likely be more challenging than that of UK firms, so entering exporting is likely to lead to a significant lift in their performance.

Countries are increasingly focusing on exports to boost their overall economic development. Two reasons for this are regularly quoted by the Boston Consultancy Group (2004). They are that:

i) Businesses that export are more competitive than those that do not, and the desire to succeed internationally is a major drive to lift performance
ii) Businesses increasingly need to export to survive because their markets are under attack from competing companies (often exporters from competing nations). Standing still will erode their performance and ultimately threaten their viability.

B. Role of Government in Export Promotion

Governments in developed and developing countries alike provide a range of export promotion services. Proponents of government-sponsored export promotion argue that

governments can effectively lower the barriers that stop firms from exporting. These barriers include internal capability failings and difficulties in gaining access to international markets. The argument is that many firms are discouraged from exporting because of the cost to them of lowering these barriers, but that government can use its institutional strength to provide services that do so. Governments can realize benefits of scale and scope by providing services across a large number of exporters.

Many businesses lack the procedural knowledge, functional expertise and/or financial resources needed to meet the increased challenges and risks that exporting represents. Furthermore, such firms may be unable to assess the benefits of exporting that can offset those risks. Decision-making in small firms is highly informal and relies heavily on individuals and personal contacts.

Also, entry into the export market is a big risk for businesses. In the early stages of exporting, the risks a firm faces will rise sharply as it encounters new factors such as exchange rate exposure, long distances and time zone differences, new modes of transport, new government regulations, new legal and financial systems, and different customers and competitors. At the same time as the risks are rising, profitability is likely to fall as the firm invests in areas such as market research and development and working capital (Czinkota, 2002). Eventually risks can be expected to fall and profitability may rise again, but that can appear distant. The combined effect is that, unaided, many firms are unlikely to take the large step into exporting, or if they do, then exit too early. Here, advocates see a useful role for government as an educator, raising awareness of the benefits of exporting and developing businesses' skills and strategies (and possibly providing some financial assistance) to enable them to overcome real and perceived obstacles to export success and to make the initial transition.

On the issue of international market access, supporters of government-sponsored export promotion argue that government can reduce regulatory and information barriers relatively simply and cost effectively (Boston Consultancy Group, 2004). For a firm acting alone, however, the high cost of doing this is likely to outweigh the potential benefits, if it is indeed possible for a private firm to do. The more unfamiliar a destination country is, or the more rudimentary its institutions, or the greater the role of government in its economy, then the more helpful it is for exporters (including large firms and well-established exporters) if their own government has a trade presence there. Government involvement may, in some circumstances, add to the exporting firm's credibility in the destination country.

A study by Seringhaus and Rosson (1998), comparing government export promotion with private sector promotion strengthened the conclusion on the overall positive impact of government export promotion strategies. They have compared government export promotion based on sales-related activities, information-gathering activities, image or brand development activities, personnel development activities and customer service activities. They have observed that sales-related activities, specifically on-site sales and contact-making were much better for the private sector promotion agencies than the government export promotion agencies. Image or brand development activities namely market knowledge and skill, marketing capability and market strategy favored the government-sponsored agencies.

Opponents of government involvement in export promotion point to the fact that, rather than correct market shortcomings, it may worsen the situation. Although an advocate of government-sponsored export promotion, Czinkota (2002) observes that it appears to many that export promotion organizations over time have become bureaucratized and politicized. Export

promotion authorities have often become the grazing grounds for retired officials and have served as havens for job generation. Governments are accused of using export promotion events such as trade missions merely as tools to reward political friends. Goals have become blurred and efficiency is low. Just like the creation of state-controlled firms, export promotion institutions, in many instances, are said to have become a good idea gone bad.

The study by the Boston Consultancy Group (2004) found that government-sponsored export promotion in Denmark, Malaysia, Chile and the United Kingdom displays some of these or other flaws. Among the underlying problems are insufficient resources which hinder the execution of programs; rudimentary, generic and poorly executed services which result to a decrease in the number of potential participants who will avail of the services; variable quality of human resources which through lack of coordination leads to inefficiency; insufficient understanding of the private sector and its needs; and excessive bureaucracy due to government influence which decreases trust from potential participants and leads to less participation.

C. Impact of Government-Sponsored Export Promotion Programs

Studies assessing the impact of government-sponsored export promotion programs suggest that these have only a small effect upon a country's export performance. Studies attempting to explain differences in export performance among countries attribute limited significance to export promotion activities. The Boston Consultancy Group (2004) found that the following factors (compared to export promotion programs) are more important to export performance:

1. Cost Competitiveness

In accord with trade theory, relative unit labor costs comprising the exchange rate, wages and labor productivity are a major determinant of export performance. In a study by Carlin (2001), a 10 percent improvement in cost competitiveness leads to a nearly 3 percent improvement in export market share. Many governments seek to maintain a relatively stable real exchange rate, in order to keep exporting profitable and to reduce excess demand for imports. At times a real depreciating exchange rate is pursued in order to solve external debt problems and/or to reboot economic growth, but ultimately it signifies a lack of fundamental competitiveness. Wage restraint improves cost competitiveness but may be at odds with the goal of increasing per capita income.

Productivity gains that allow wage increases are the desired path to cost competitiveness. Among the drivers of productivity are the degree of openness to trade (import competition) and investment, and supply-side conditions such as labor market relations and regulations, educational attainment, physical and services infrastructure, and the efficiency of government spending.

2. Quality

Cost (or price) differences are one key cross-country determinant of exports; another is quality differences arising from different technological capabilities across countries. The faster the improvement in the quality of a country's manufactured products, the higher its export share. The fastest export growth is in high-technology products and it is there that quality differences are most important. High-technology exports differ among countries according to their accumulated human capital and production capabilities (Seyoum, 2004). Among the underlying

conditions are private and public education institutions, apprenticeship programs, private and public research activities, and infrastructure such as science parks and business incubation centers.

3. Foreign Direct Investment

Foreign direct investment (FDI) is the main channel for the growth of multinational corporations (MNCs). The increasing role of MNCs in the world economy has led to major changes in trade patterns and the export performance of many countries. The changes in the international location of production brought about through FDI have a significant impact on countries' export performance (Pain and Wakelin, 1998). Outward investment has been found to have a negative impact on the home country's export performance, and there is a positive impact from inward investment on host country export performance. FDI can also influence export performance indirectly by lifting productivity and innovation capacity (Potter, 2002). FDI means that a country's external account balance is tied less to export performance than in the past. If it is more profitable to locate overseas than in the home country, export performance will be adversely impacted, but national income may still rise due to the repatriation of profit earned abroad.

4. Product Mix

In the short-to-medium term, the product mix that a country exports cannot change greatly. Thus a country will be advantaged, to the extent that world demand for its exports is growing fast. A country's cost and quality competitiveness will determine whether it over- or under-performs competing countries to meet world demand in a given export segment (Boston Consultancy Group, 2004).

5. Market Access

Market access encompasses physical distance, cultural distance, border controls and trade policies. A country will be advantaged to the extent that it has more favorable access to fast-growing and high-income markets. An important feature of the past decade has been the growth of regional trade blocs that alter trade patterns and lift trade performance for some of the member countries (Boston Consultancy Group, 2004).

6. Subsidies for Exports

Many developing countries, particularly in East Asia and parts of Latin America, have pursued export-led economic growth to lift per capita income and transform their economic base. Rapid growth and development, sustained for a long period, has been associated with a strong export orientation (Kokko, 2002). Among the instruments that developing countries have used to support exporters (and at times, domestic suppliers to exporters) are the provision of credit at favorable interest rates, preferential prices for inputs like electricity and transport, lower tax rates, tariff exemptions, and preferential access to foreign currency. Almost all of these measures are defined by the World Trade Organization (WTO) as subsidies. Subsidies fall outside the scope of export promotion programs because the WTO Agreement on Subsidies and Countervailing Measures (the SCM Agreement) prohibits them. The SCM Agreement bans developed countries from providing financial assistance that distorts trade in non-primary products by increasing a country's exports (or reducing its imports) above (below) what they would otherwise be. Countries may take action against the adverse effects of subsidies through the WTO dispute settlement procedures or by imposing unilateral countervailing duties. The

restrictions on subsidies for primary product exports are much looser than those for non-primary products. Under GATT, the predecessor to the WTO, the Subsidies Code allowed developing countries to offer subsidies consistent with their competitive and development needs. The SCM Agreement of 1994 still provided for special and differential treatment of developing countries, but brought them closer in line with developed countries. Specifically the Agreement provides that, once a developing country's per capita income is above US$1,000 a year, then that country has eight years within which to phase out export subsidies (Laird, 1997). Many developing countries have reached the end of that transition period in the past year or so, though extensions have been sought often.

Given the dominance of the above factors, the potential impact of export promotion activities is somewhat narrowly circumscribed (Boston Consultancy Group, 2004). Export promotion programs cannot change the economic conditions or market forces that largely shape export performance; they can at best supplement market forces and are certain to be ineffectual if they work against them (Czinkota, 2002). Even within the sphere of government policy, export promotion will be of minor influence compared to the macroeconomic policies of both the country and its trading partners (GAO, 1995).

It is not surprising, then, that there is little direct relationship between the level of exports and the level of export promotion. Large export promotion expenditures tend not to show linkage to export success. Among industrialized countries, those with particularly large exports typically are not the leaders in relative or even absolute promotion expenditures (Czinkota, 2002),

This conclusion also holds at the firm level. From a large survey of US firms using state-level export promotion assistance, Gencturk and Kotabe (2001) report that the relationship between export assistance usage and effectiveness in terms of expected growth in export shares is non-significant. Thus, export promotion programs, irrespective of the extent to which they are used, are found not to be instrumental in increasing export sales.

What they are saying is that export promotion programs do not automatically culminate in sales. They may be necessary but not sufficient on their own. Certain capabilities have to be present for a firm to realize increased exports. However, on measures other than export sales, Gencturk and Kotabe (2001) find that the direct contribution of export promotion programs to a firm's competitive position and the indirect contribution to its profitability present a strong policy argument in favor of these programs, suggesting they can provide an important platform for export success.

Greater awareness of the limits to export promotion programs has seen some countries reduce the resources devoted to them. Numerous efforts have been made to improve program targeting and otherwise lift effectiveness. There has also been a shift in focus in some countries from offshore activities, concerned largely with increasing the demand for a country's exports, to onshore activities concerned with improving the ability of firms to compete internationally. There is a growing recognition too that export performance is inseparable from the overall performance of the economy and that the productivity of firms serving the domestic market is crucial to international competitiveness.

Accordingly export promotion, when done well, can provide the 'icing on the cake' of efforts to enhance a country's export performance (Boston Consultancy Group, 2004). Well-targeted, well-designed, well-resourced, and well-executed programs can be effective. But they are not a cure-all, rather they provide one element in a much more extensive prescription for

export success. Gencturk and Kotabe (2001) sum it up when they conclude that export promotion programs are neither a panacea nor a complete waste of resources.

X. PHILIPPINE EXPORT PERFORMANCE

To ascertain the importance of export promotion agencies for the Philippines, the Philippine export performance in 2003 shall be briefly reviewed. Data were taken from the websites of the National Statistical Coordination Board and the National Statistical Office.

A. Trade Performance

Table 11: Foreign Trade of the Philippines, 1999-2003
(FOB Value in million USD)

Year	Total Trade	Exports	Imports	Balance of Trade Favorable/(Unfavorable)
1999	65,779.35	35,036.89	30,741.46	4,294.43
2000	72,569.13	38,078.25	34,490.87	3,587.38
2001	65,207.00	32,150.00	33,057.00	(907.00)
2002	70,634.68	35,208.17	35,426.51	(218.34)
2003	73,197.96	36,231.21	37,496.50	(1,265.30)

Source: www.nscb.gov.ph

As shown in Table 11, the Philippine trade performance from 1999 to 2003 has been dismal with a worsening balance of trade. From a favorable trade balance in 1999-2000, years 2001-2003 experienced a negative balance of trade.

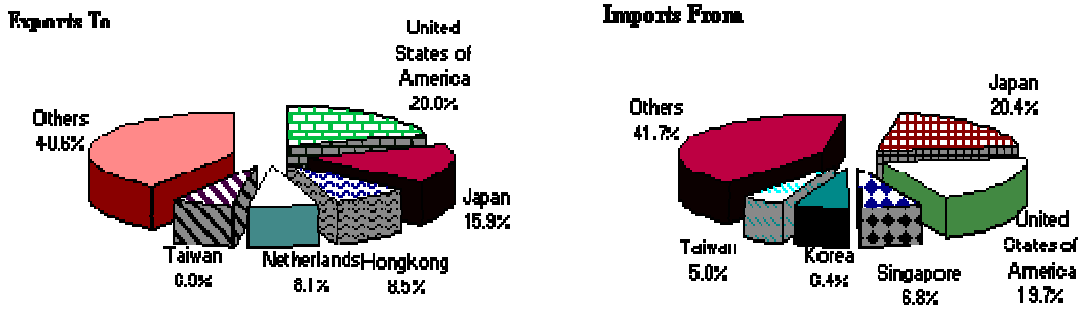
Though year 2000 had a favorable trade balance of 3,587.38 million dollars, it was less than that in year 1999. In year 1999, a favorable trade balance of 4,294.43 million dollars was recorded. It was in year 2001 were a negative trade balance was recorded at the amount of 907 million dollars. There was a large drop in exports valued at approximately 6 million dollars while imports decreased at approximately 1.5 million dollars. This resulted in a decrease in total trade of approximately 7 million dollars. Fortunately total trade in year 2002 increased to 70,634.68 million dollars. However this increase in total trade did not reap positive results in the trade balance. 2002 had a negative trade balance of 218.34 million dollars. The increase in exports was less than the increase in imports. This is also the case for year 2003. Exports increased to 36,231.21 million dollars while imports increased to 37,496.50 million dollars. Thus, year 2003 recorded an unfavorable trade balance of 1,265.30 million dollars.

The worsening trade balance may be relieved either through increasing exports or decreasing imports. Imports constantly increase from 1999 to 2003 while exports vary irregularly. Since imports may continue to increase in the following years, there is a need to improve exports to cope up with such increases. A way to improve exports is through export promotion programs such as those delivered by CITEM. In this regard, CITEM's export promotion programs play a crucial role in the Philippine trade performance.

B. Major Trading Partners

The country's top ten trading partners recorded a total trade of $59.396 billion or 80.6 percent share to total trade. Receipts from exports amounted to $31.125 billion or 85.9 percent of the total income while imports totaled $28.271 billion or 75.4 percent of the total expenditure.

Figure 6: Major Trading Partners of the Philippines



Source: National Statistical Office

Figure 6 shows the country's top trading partners. As shown in Figure 6, the United States cornered 19.9 percent of the country's total trade. Exports to the US recorded an income of $7.263 billion while imports from the US cost $7.400 billion, yielding a trade deficit of $136.94 million. Of the total exports to the United States, Electronic Products contributed the highest at $3.481 billion or 47.9 percent, followed by Articles of Apparel and Clothing Accessories at $1.696 billion or 23.3 percent. Majority of imported products from United States was Electronic Products billed at $5.708 billion or 77.1 percent of the total imports from US. Cereals and Cereal Preparations was next at $231.59 million or 3.1 percent.

The country's second largest trading partner was Japan with total trade amounting to $13.408 billion. Total exports stood at $5.768 billion while payments for imports were valued at $7.640 billion, resulting to a $1.872 billion trade deficit. The biggest receipt came from payments of Electronic Products at $3.641 billion or 63.1 percent of the country's exports to Japan. Ignition Wiring Sets and Other Wiring Sets used in Vehicles followed with total receipts of $203.40 million or 3.5 percent. Imported goods purchased consisted of Electronic Products worth $4.434 billion or 58.0 percent of the total imports from the country. Transport Equipment was next at $624.91 million or 8.2 percent.

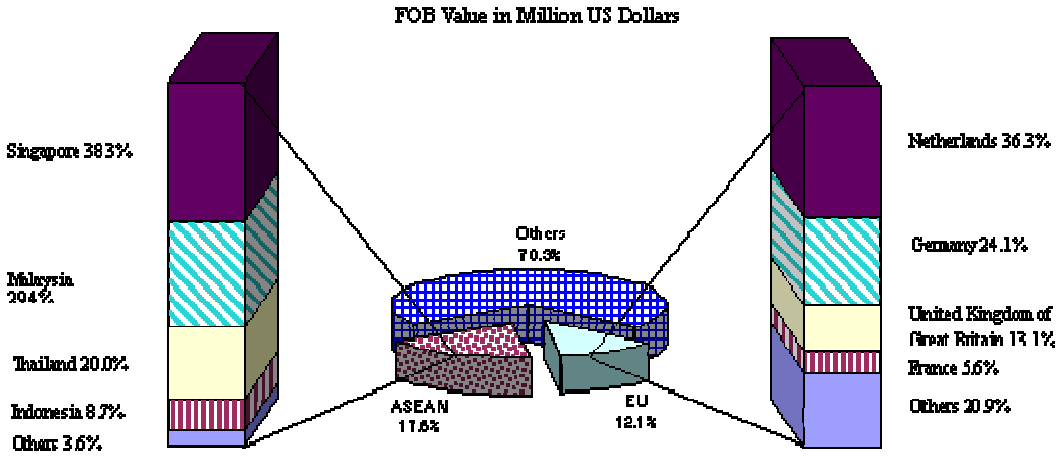
Singapore's share to total trade reached $4.973 billion or 6.8 percent. Receipts from exports to Singapore were placed at $2.431 billion while payments to imports totaled $2.542 billion, showing a deficit of $110.87 million. The bulk of exports to Singapore were Electronic Products worth $2.021 billion or 83.1 percent of the total exports to that country and Petroleum Products at $142.00 million or 5.8 percent. The major imports from Singapore were Electronic Products with purchases of $1.205 billion or 47.4 percent and Mineral Fuels, Lubricants and Related Materials with expenditures of $441.84 million or 17.4 percent.

The total trade share of Hong Kong to the country was worth $4.695 billion or 6.4 percent. Exports registered receipts of $3.094 billion while payments to imports totaled $1.601 billion, resulting to a surplus of $1.492 billion. Electronic Products was the country's major export to Hong Kong with earnings of $2.677 billion or 86.5 percent. Gold was next at $70.61 million or 2.3 percent. Majority of imported items were Electronic Products which stood at $908.50 million or 56.7 percent followed by Textile Yarn, Fabrics, Made-up Articles and Related Products worth $224.63 million or 14.0 percent.

C. Philippine Trade with EU and ASEAN

Figure B shows the Philippine trade with EU and ASEAN. The year 2003's total trade with the European Union (EU) grossed $8.896 billion or 12.1 percent of the country's total trade. Exports to EU were valued at $5.880 billion or 16.2 percent while imports reached $3.016 billion or 8.0 percent, resulting to BOT-G surplus of $2.864 billion. Among the EU member-countries, Netherlands was RP's top trading partner with a total trade of $3.232 billion or 4.4 percent of EU's total trade. Receipts from exports to Netherlands were worth $2.922 billion while payments for imports were $309.87 million, resulting to a trade surplus of $2.612 billion.

Figure 7: Philippine Trade with EU and ASEAN



Source: National Statistical Office

The major export to EU was Electronic Products amounting to $4.315 billion or 73.4 percent. The other top exports were Articles of Apparel and Clothing Accessories ($274.51 million), Coconut Oil ($214.26 million), Other Products Manufactured from Materials Imported on Consignment Basis ($160.84 million), and Woodcraft and Furniture ($51.78 million). Among the country's imports from the EU, Electronic Products was highest at $1.326 billion or 44.0 percent. Other top imports were Industrial Machinery and Equipment ($296.96 million), Medicinal and Pharmaceutical Products ($187.75 million), Transport Equipment ($90.77 million), and Metal Products ($89.13 million).

Total trade with countries of the ASEAN reached $12.980 billion or 17.6 percent of the country's total trade. Exports to ASEAN countries were worth $6.582 billion while imports accounted $6.398 billion, resulting to a surplus of BOT-G at $183.54 million. Singapore emerged as the country's top trading partner among the ASEAN countries with total trade valued at $4.973 billion or 6.8 percent of the total trade with ASEAN. Exports to Singapore recorded earnings of $2.431 billion while imports payment was $2.542 billion, resulting to a trade deficit of $110.87 million. The bulk of export to the ASEAN countries was Electronic Products with receipts placed at $4.809 billion or 73.1 percent. The other top exports were Petroleum Products ($191.26 million), Metal Components ($143.05 million), Coconut Oil ($60.20 million), and Fertilizers, Manufactured ($42.97 million).

Leading the imports from the ASEAN countries was Electronic Products with purchases charged at $2.254 billion. Other top imports were Mineral Fuels, Lubricants and Related Materials ($765.97 million), Transport Equipment ($296.11 million), Plastics in Primary and Non-Primary Forms ($262.47 million), and Industrial Machinery and Equipment ($232.03 million).

XI. CENTER FOR INTERNATIONAL TRADE EXPOSITIONS AND MISSIONS (CITEM)

A. Background

CITEM was established in 1983 under Executive Order 939, which is attached to the Department of Trade and Industry (DTI) as an answer to the absence of more determined and systematic export promotion programs in the country during the 1960's and 1970's. Its main function is to promote Philippine products through promotion activities. These promotion activities were designed to improve the government export programs and establish a high-quality standard reputation of Philippine-made products and services.

The main function of CITEM is to plan, organize and implement trade promotion activities such as sending selling missions, participation in international trade fairs, industrial expositions with its main goal of promoting Philippine made products and services here and abroad. Sub goals would include the improvement of government export promotional programs and enhancement of the quality image of Philippine made products and services.

Furthermore, there are five objectives that CITEM wishes to attain. The first is to substantially increase the country's overseas trade with the emphasis on non-traditional exports. Second is to maximize the results obtained in participation in fairs and missions through a more professional product and presentation of exhibits. Third, to coordinate with all local and international government agencies and private sector associations involved in trade promotions. Another is to upgrade Philippine products through a continual product development and adaptation activities. And lastly, is to facilitate exchange among international buyers and local suppliers (Lim, 1991).

Over the years, CITEM has substantially helped in the development of the following areas: (a) increased the country's overseas trade through emphasis on non-traditional exports; (b) maximized the results obtained in participation in fairs and missions thru more professional products and exhibit presentations; (c) coordinated with all local and international government agencies and private sector associations involved in trade promotions; (d) continuous product development and upgrading of Philippine products; and (e) facilitated exchange among international buyers and local suppliers.

CITEM's services include trade mission, trade fairs, enterprise, and market development programs, merchandise or technical consultancy program and in-store promotions.

B. Organizational Set-up

This government agency is divided into four major divisions. The first major division is the Operations Group. The Operations Group is the group that plans, organizes and implements participation in both local and international trade exhibition for buyers of specific products. The division is subdivided to the following: hard goods division (furniture, gifts and toys and house wares), soft goods division, (garments, footwear, leather goods, fashion accessories and other wearable), agri-marine division, (food and plants), industrial goods and services division (construction materials, computer services, soft wares, metal manufacturers, electronics), natural products division and lastly, special projects division.

The second major division is the Corporate Services Group, which handles the legal aspect of trade and the development and maintenance of a system of policies and programs that will ensure professionalism, integrity and competence and creating an organization climate

in which employees' talents are recognized and well compensated. Moreover, it also administers the cash inflows and outflows, and other financial aspect. This group is subdivided to the following: human resource development, budget and cash, controllership, general services, and shipping, travel, records and documentations.

The third major division is the Information Services Management Group, which is composed of the corporate planning division, system management division, multimedia services division and the library and resource center division. This group manages all trade related information that is needed in the company.

And the last major division is the Communication and Design Group, which is comprised of the following subdivisions: creative services, publicity services, print and publications and exhibition and design. The primary function of this group is to support export promotion activities with promotional materials and media exposure that will project the quality image of Philippine export products to target markets and to institutionalize in-house exhibition design capability in order to expiate design and execution of projects.

C. Services[12]

The services made available by CITEM is in line with the priority sectors of the Department of Trade and Industry which includes construction materials, electronics, food, giftware and holiday décor, home furnishings, IT and IT- enabled services, marine products, motor vehicle parts and components, organic and natural products and wearable. These services can also be seen at the website of CITEM for easier access to interested enterprises.

D. Trade Missions

CITEM conducts and organizes trade mission activities together with trade fairs, to open various export opportunities to Philippine exporters not only in the country but also to potential markets abroad. It is also the agency which assists incoming foreign trade missions in order to emphasize the Philippine's export potential and to directly introduce high quality and superior Philippine-made products to foreign investors and buyers. It also arranges outgoing sell missions and incoming trade missions.

CITEM organizes the Manila F.A.M.E. International, Asian Ethnic Food Festival, Bio-Search and Industry Search.

E. Trade Fairs

CITEM organizes local and international trade fairs to promote Philippine made products here and abroad. It also participates in international trade fairs in target export markets, focusing on the country's finest products and services.

F. Enterprise and Market Development Program

CITEM coordinates integrated technical and export marketing assistance programs to foster the growth of emerging export industries.

1. Brand Development

[12] http://www.citem.com.ph/services.htm

CITEM was given credit for launching country branding in food labels. Philippine fruits and juices such as *banaba* and *lambanog* were labeled “Philippines Naturally” and for the national fruit, mango “Philippine Super Mango”

2. Development of the Philippine Animation Industry

CITEM also promotes the country as one of the major providers of animation and medical transcription services.

3. Transformation Project

CITEM believed that native materials such as abaca fiber, banana fiber, capiz, coco wood shell, lahar, oyster shell, piña, bamboo, seagrass, and nito can be transformed to something different and more useful products. Hence, CITEM promoted these materials for architectural and industrial purposes. Today, many designers have submitted design concepts wherein these materials were used, such as wall panels, ceiling ties and injection molding and are now being exported around the world.

4. Promotion of Design Services

It was in 1999, that Movement 8, a promotional program for pioneering designers was introduced. Movement 8 aspired in giving Philippine design its name in the international market.

5. Organic Industry Development Program

Natural and organic products became known worldwide for its value. CITEM, in response to this increasing demand for these products, has set an Organic Certification and Inspection Program to set standards for these products. A representative from the organic sector was tasked to have farm visits as part of environmental scanning and inventory monitoring.

6. Partner Region Program

This program is designed to present the mainstream homegrown products of particular regions in the country. In addition to these products are newly developed products and raw materials are also presented in special displays. Top exhibit curators also assist the producers of these products in its product development.

G. Merchandise/ Technical Consultancy Programs

CITEM aims for the steady growth of manufacturers in merchandise development by having local and foreign consultants to ensure this. Thus, CITEM continues its cooperation and networking with other relevant and government agencies and private institutions.

It provides assistance in matching buyers and exporters (through its catalog online) and merchandise development. It also provides information services through multi-media library facilities, database and publication.

H. In-Store Promotion

To generate consumer-level awareness of and demand for Philippine products, CITEM mounts in-store promotions, in cooperation with leading retail outlets abroad. Cultural and

tourism presentations in coordination with the Department of Tourism (DOT) complement promotional activities and provide consumers with a total Philippine lifestyle experience.

I. Buyer Assistance

CITEM provides an exclusive virtual showroom of firms that have qualified in CITEM-organized trade fairs and missions using the Catalog Online (COL), which provides a link between exporters and buyers worldwide. CITEM also has the Trade Opportunities Program (CTOP), which acts as a trade referral system for foreign buyers and Philippine exporters.

J. **Priority Sectors**

CITEM has identified 10 priority sectors that are considered as having competitive advantage in the international market in terms of its development and growth. The following are:

1. Construction Materials

CITEM sees the construction materials sector (see listing in Appendix A) as having the potential to win in materials supply contracts to local and international markets since they are perceived to have an advantage in terms of price and quality, environment-friendly operations, customer orientation, sales and delivery reliability and post-sales service commitment. As of 2000, the sector covers 135 Philippine Standard Commodity Classification (PSCC) categories. Exports from 1996 to 2000 increased at an average rate of 16.5% but mainly due to the surge in exports in 2000 where the construction materials sector increased exports by 79.7% or $ 149.5 million (See Table 12). In 2001, the sector accounted for 0.9% of the total Philippine exports (See Table 13). Table 14 shows the value of merchandise exports for construction materials and it growth from 1997 to 2001.

Table 12: Exports of Construction Materials, 1996-2000

Year	Value (million USD)	Increase/Decrease (Percent)
1996	228.2	
1997	185.8	(18.6)
1998	153.8	(17.2)
1999	187.7	22
2000	337.2	79.7

Source: http://www.dti.gov.ph/

Table 13: Construction Materials Product Scope

Classification	Products
A. Wood-based products	Doors
	Windows
	Joineries/moldings
	Door and window frames
	Plywood and veneer
	Parquet panels/wood tiles
	Panels/boards of waste wood
B. Metal-based products	
Iron and steel products	Doors, windows and frames
	Stapes
	Nails
	Screws, hooks and rings
	Chain parts
	Bars, rods and profiles
	Washers
	Rails
	Junction boxes
	Tubes and pipes
	Sheets
	Others such as electrical parts used in buildings
C. Other metal products	
Aluminum products	Rods, bars and profiles
	Plates, sheets and strips
	Ingots and pigs
	Doors, windows and frames
	Tube/pipe fittings
	Hollow profiles
Copper products	Wires and cables
	Screws
	Bolts and nuts
	Plumbing fittings
Base metals / metal carbides	Wires
	Mountings/fittings
Lead products	Tubes and pipes
D. Non-metallic, mineral-based products	
Marble and other stone products	Tiles and slabs
	Kitchen and bathroom countertops
	Columns
	Fireplaces
	Mosaic for floorings, walls and borders
Clay and ceramic products	Chimney-pots
	Liners
	Cornices
	Roofing tiles
	Floor tiles
	Insulators
	Bricks
	Sanitary wares
Glass materials	Laminated glass
	Float/surface glass
	Cast and rolled glass
	Paving block slabs, art-pressed/molded glass
	Insulators

	Multi-cellular glass
	Foam glass
Cement products	Building blocks and bricks
	Refractory pipes
	Pozzolan cement
	Portland cement
	White cement
	Cement fiberboard
Asbestos	Sheets/panels
	Tiles
	Gaskets
	Tubes, pipes and fittings
	Electrical parts used in buildings
E. Chemical-based products	PVC/plastic and vinyl products
	Lavatory covers
	Shutters, blinds
	Boards, panels, consoles
	Moldings
	Switches
	Electrical parts used in buildings
	Insulators
	Doors
	Windows
	Door and window frames
	Baths
	Wash basins and sinks
	Floor coverings
	Faucets
	Junction boxes
Paints and varnishes	
F. Other resource-based products	Pre-fabricated buildings and modular-type structures of materials other than metal
	Fiber-based products
	Shell products
	Rubber products

Table 14: Merchandise Exports for Construction Materials, 1997-2001
(in US Dollars)

Product	1997	1998	1999	2000	2001	Annual Growth Rate (%)
Total exports of construction products	193,965,672	159,962,628	195,051,642	337,559,797	224,407,354	10.99
Metal-based products	45,513,574	27,137,608	31,716,144	41,113,401	32,449,230	-3.74
Iron and steel	26,606,175	11,002,043	14,663,441	21,373,348	15,113,983	-2.22
Aluminum	4,310,170	2,355,430	5,656,598	8,095,735	4,686,518	23.95
Copper	4,702,831	5,643,737	2,325,236	2,570,378	3,628,172	3.23
Base	1,545,799	1,747,168	1,630,371	2,741,675	2,738,047	18.59
Lead	178,217	66,015	300	0	158,247	-65.63
Prefabricated building	8,170,382	6,323,215	7,440,198	6,332,265	6,124,263	-5.78
Other metal-based products	0	0	0	0	0	0
Non-metallic mineral	33,318,016	35,348,484	58,815,768	97,873,421	85,922,224	31.67

based						
Glass materials	13,000,599	10,721,114	13,197,096	19,918,945	17,043,459	10.51
Cement	18,901	1,199,996	8,995,068	27,969,648	36,418,946	1,784.90
Asbestos	226,654	688,410	292,248	3,712,210	4,343,072	333.35
Clay and ceramic	757,320	688,270	1,603,230	5,245,353	1,202,769	68.48
Marble	7,119,102	7,327,548	8,571,321	5,124,794	3,693,301	-12.06
Sanitary wares and fixtures	12,195,440	14,723,146	26,156,805	35,902,471	23,220,677	25.08
Wood-based	91,960,498	73,933,905	82,691,675	176,425,305	89,879,107	14.14
Plywood and veneer	21,318,375	13,986,507	6,905,658	7,316,117	4,916,273	-27.97
Builders' woodwork	70,642,123	59,947,398	75,786,017	169,109,188	84,962,834	21.17
Chemical-based products	7,858,317	9,835,048	9,947,456	9,972,623	5,864,740	-3.66
PVC/Plastics/Vinyl	4,702,833	6,690,762	6,873,307	7,134,754	3,309,573	-1.20
Paints and varnishes	3,155,538	3,144,286	3,074,149	2,867,869	2,555,167	-5.06
Other resource-based products	7,326,401	5,494,693	5,668,847	6,741,928	6,699,055	-0.88
Pebbles, gravel and sands	7,318,918	5,457,097	5,622,053	6,709,116	6,648,653	-1.00
Others	7,483	37,596	46,794	32,812	50,402	112.65
Other construction materials	7,988,812	8,212,890	6,211,752	5,433,119	3,592,998	112.65

While exports of construction materials have increased, the level of imports has decreased by an average rate of 8% from 1996 to 2000 as shown in Table 15. The import component of the sector covers 374 Philippine Standard Commodity Classification (PSCC) categories. The imports of construction materials totaled US$660.2 million for year 2000.

Table 15: Imports of Construction Materials, 2000

Year	Value (million USD)	Increase/Decrease (Percent)
1996	1,016.90	
1997	1,069.80	5.2
1998	635.20	(41.0)
1999	620.40	(2.3)
2000	660.20	6.4

Source: http://www.dti.gov.ph/

2. Electronics

The electronics industry has about 728 electronic firms, which is dominated by multinational firms mostly owned by foreign firms. Foreign firms own about 72% of the electronic firms industry while only about 28% are owned by local residents. As of 2002, the industry employs about 335,000 workers. The industry includes sub-sectors such as semiconductors, electronic data processing equipment, office and telecommunication equipment, communications and radar, control and instrumentation, medical and industrial, automotive and consumer electronics. As shown in Table 16, electronics industry accounts for 69% of the total Philippine exports with United States, Japan, Netherlands, Singapore and Taiwan as the top export markets for the electronics industry. In 2001 alone, the industry earned a total of US$24 billion in export revenues. On the average, total electronic exports increased annually by 21% from 1996 to 2000.

Table 16: Summary of Philippine Merchandise Exports, by Major Product Grouping

(in USD Million)

Group	2001	2002	% of Change
Total exports to all countries	32.15	35.07	9.07
Electronics	21.62	24.22	12.03
Semiconductors	14.91	16.81	12.80
Electronic Data Processing	5.07	5.87	15.81
Office Equipment	0.18	0.13	(30.71)
Medical and Industrial	0.001	0.002	70.09
Control and Instrumentation	0.02	0.01	(29.11)
Communication and Radar	0.39	0.38	(2.97)
Telecommunications	0.22	0.20	(5.83)
Automotive Electronics	0.37	0.32	(13.18)
Consumer Electronics	0.47	0.49	5.31

Source: http://www.dti.gov.ph/

3. Food

The focus of CITEM with regards to the food industry can be classified as (a) fresh foods and; (b) processed foods (See Table 17 for product coverage).

Table 17: Food Industry

Classification	Product Coverage
Fresh Foods	Bananas Pineapple Mango Coconut (young) Papaya Watermelons Melons Pomelo Jackfruit Calamansi Lanzones Guavas Chicos Santol
Processed Foods	Meat and Meat Preparations Dairy Products and birds' eggs (processed) Margarine, Shortening, and Vegetable Fats and Oils Cereal and Flour Preparations Processed Fruits Processed Vegetables Sugar and Sugar Preparations, Confectionery and Honey Confectionery and Other Sugar-based Products (chewing gum, soft/hard candies, gelatin and other sugar-based products) Coffee (processed) Cocoa, tea and mate Beverages Sauces, condiments, mixed seasoning, spices, flavorings, soups and broth preparations Animal feeding stuff Miscellaneous edible preparations (food preparations for infants, pasta, stuffed with food, etc.)

The fresh foods have four main products: banana, mango, pineapple and papaya. There are 23 banana producers/exporters registered with BOI and produces an aggregate capacity of 27.04 million metric tons. Majority of fresh bananas are grown in Mindanao. It is composed of some 5.9 million farmers and farm households, who provide raw materials for the banana processing industry.

The Mango industry on the other hand has 6 BOI-registered fresh mango producers/exporters based in Manila and Mindanao. The aggregate annual capacity for mango is about 47,232 metric tons. The fresh mango industry has some 2.5 million farmers and farm family members who provide raw materials for the varied product lines of the mango processing industry.

As for the pineapple industry, only two BOI-registered companies operate and are based in Davao. The two firms produce 17,650 metric tons per year. The fresh papaya industry is supported by 420,000 farmers nationwide. The Papaya industry also only has 2 BOI-registered producers/exporters and produces an aggregate annual capacity of 1.4 million metric tons.

As shown in Table 18, exports of fresh fruits decreased in 1997 but have since recovered with an FOB value of US $354.143 million in 2000. Export of bananas continues to dominate the fresh fruits sector which comprises 82.3% of the total exports for 2000. As for its market, Japan continues to be the biggest market of the country for fresh fruits with 60.5% in 2000. (See Table 19)

Table 18: Philippine Exports of Fresh Fruits, 1996-2000
(FOB Value in Thousand US Dollars)

Fresh Fruit	1996	1997	1998	1999	2000
Total	303,240	286,490	281,190	298,130	354,143
Bananas	236,420	216,560	217,040	240,700	291,629
Mangoes	39,760	40,490	41,740	32,340	34,331
Pineapples	24,600	26,950	20,720	22,510	24,594
Papayas	400	120	90	1,610	3,297
Others	2,060	2,370	1,600	970	290

Table 19: Philippine Exports of Fresh Fruits, 1996-2000
(FOB Value in Thousand US Dollars)

Country	1996	1997	1998	1999	2000
Total	303,200	285,680	279,580	297,150	354,143
Japan	172,180	176,970	165,230	187,740	214,520
Korea	19,550	16,670	11,460	24,580	47,764
China	36,030	25,640	39,360	23,840	28,789
HKSAR	29,380	29,710	29,870	19,960	20,888
Taiwan	2,060	3,820	9,830	16,360	18,084
Others	44,000	32,870	23,830	24,670	24,098

4. Giftware and Holiday Décor

The Philippine-made giftware and holiday décor have gained the acceptance of discriminating markets around the globe for innovativeness, trend-setting and excellent interpretations of designs and concepts. The giftware sector includes desk accessories,

greeting cards and stationeries, picture frames and other materials made of animal shell and articles. As of year 2000, world market for giftware was estimated to be at US $ 5.7 billion and the world market has an average growth rate of 4.6% from 1996-2000. As of 2000, the country was ranked 14th among the top global exporters of giftware in the world and had a 2.8% growth rate from 1995-1999 (See Table 20). Though there was a drop in the value of exports, the value of imports have also dropped making the giftware sector a net exporter. Although the sector has not yet fully developed, the government remains confident that the sector will improve its earning for the succeeding years**.** Figure 8 provides a summary of the export and import performance of the country on giftwares.

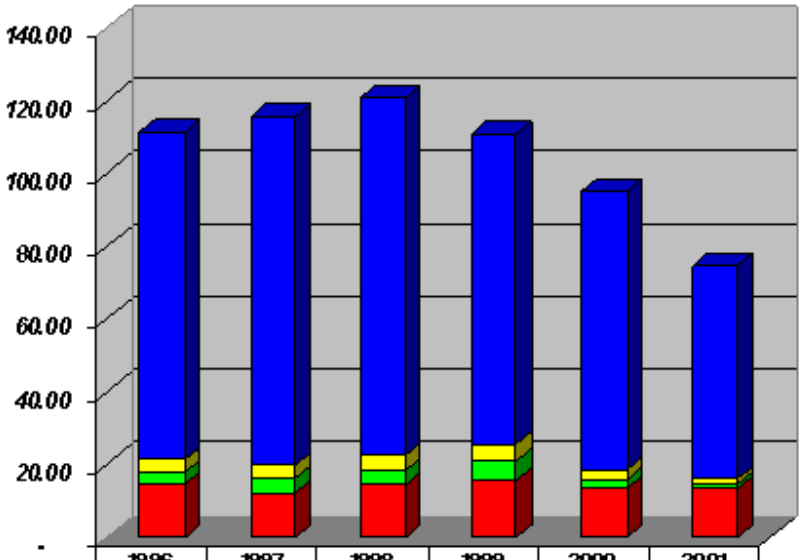
Table 20: Top Global Exporters of Giftware

Country	Growth of Market Share to Total Exports				Rate %
	1997	1998	1999	2000	1995-1999
China	32.7	34.9	39.0	25.1	10.8
United States	5.6	4.7	5.0	6.8	(7.5)
Italy	6.0	5.6	4.8	6.7	1.02
Thailand	5.0	4.5	4.5	5.3	17.3
Mexico	3.7	4.2	4.0	5.2	(13.8)
U.K.	4.2	3.9	3.4	4.5	5.1
Indonesia	2.5	2.5	2.5	3.9	(3.4)
Spain	2.6	2.6	2.5	3.8	(4.1)
Germany	3.9	4.2	3.9	3.8	(2.2)
India	2.8	3.0	2.9	3.1	1.9
Netherlands	3.0	3.0	2.6	2.8	6.9
Vietnam	1.1	1.3	1.7	2.7	23.3
Taiwan	4.2	3.6	3.0	2.6	(7.1)
Philippines	2.0	1.8	1.7	2.0	2.8
Malaysia	1.4	1.2	1.1	1.4	(5.5)
Total	**69.0**	**70.1**	**72.5**	**68.0**	

Source: 1995-1999 statistics: PC-TAS
2000 statistics: TradeMAP

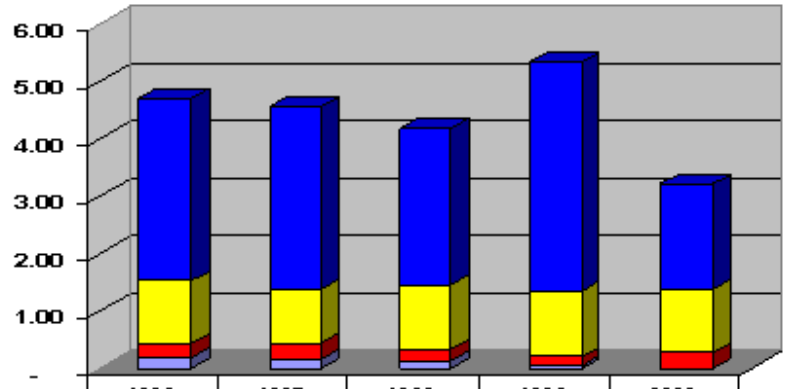
Figure 8: Philippine Exports and Imports of Giftware

Philippine Exports of Giftware, 1996-2000
(in Million US$)



	1996	1997	1998	1999	2000	2001
Desk Accessories	90.16	95.68	98.12	85.11	76.57	58.58
Picture Frames	3.42	3.82	4.23	4.67	2.87	1.34
Greeting Cards & Stationeries	3.03	4.10	3.80	5.44	2.52	1.29
Others	14.73	12.00	14.52	15.60	13.32	13.40

Philippine Imports of Giftware,1996-2000
(CIF Value in Million US Dollars)



	1996	1997	1998	1999	2000
Desk Accessories	3.18	3.18	2.73	3.98	1.84
Picture Frames	1.09	0.94	1.12	1.16	1.10
Greeting Cards & Stationeries	0.24	0.28	0.19	0.15	0.26
Others	0.19	0.16	0.14	0.05	0.01

The holiday décor sector on the other hand includes Christmas tree bulbs, lighting sets for Christmas trees, Christmas trimmings, Easter activities articles and other festive articles. There are about 180 firms in the industry, 19 of which are registered with the Board of Investments (BOI) and employs about 250,000 workers. As of 2000, the world market for

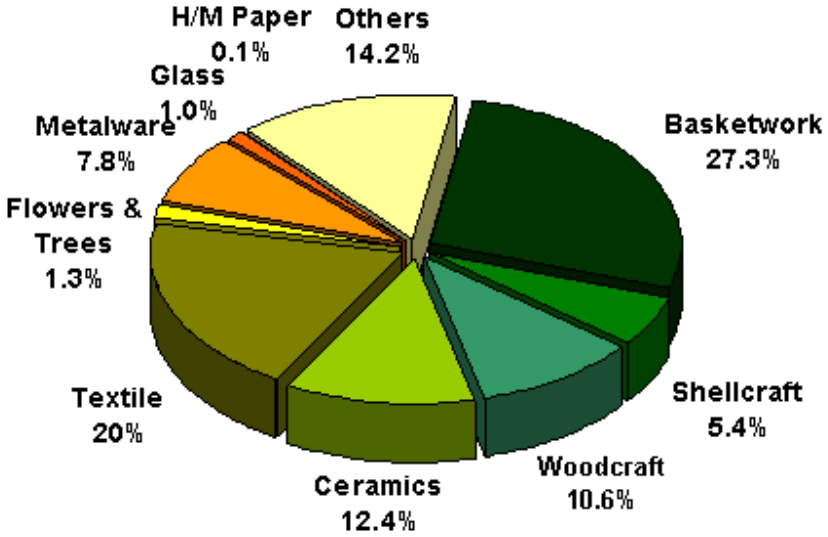
holiday décor was estimated to be about US $ 5.8 billion while the world market has a steady growth with an average growth rate of 8% for the period 1996-2000. As of 2000, the country was ranked 2nd in the world in terms of export market share. Table 21 provides the list of top exporters of holiday decors while Figure 9 presents the export and import performance of holiday decors.

Table 21: Top Exporters of Holiday Decors

Country	Market Share				Exports Growth Rate		
	1997	1998	1999	2000	1993-1997	1994-1998	1995-1999
China	68.9	76.0	77.0	57.7	14.9	15.4	9.7
Philippines	2.4	1.7	1.3	4.9	1.8	0.02	(10.3)
Taiwan	-	2.8	2.5	4.8	-	(13.3)	12.8
USA	-	-	1.4	3.9	-	-	3.8
Germany	2.3	2.2	2.1	3.3	4.9	8.3	4.1
Thailand	2.8	-	1.4	2.9	-	(2.5)	(10.6)
Belgium	-	-	-	2.5			
Netherlands	-	-	-	2.2			
Poland	-	-	-	2.0			
Mexico	-	-	-	1.9			
Total	**71.3**	**80.5**	**82.2**	**71.2**			

Source: PC-TAS for Market shares, 2000
Trade-MAP for Export growth rates 1995-1999

Figure 9: Total Philippine Trade of Holiday Decor, 1996-2001



Source: Bureau of Export Trade Promotions (BETP)

5. Home furnishings

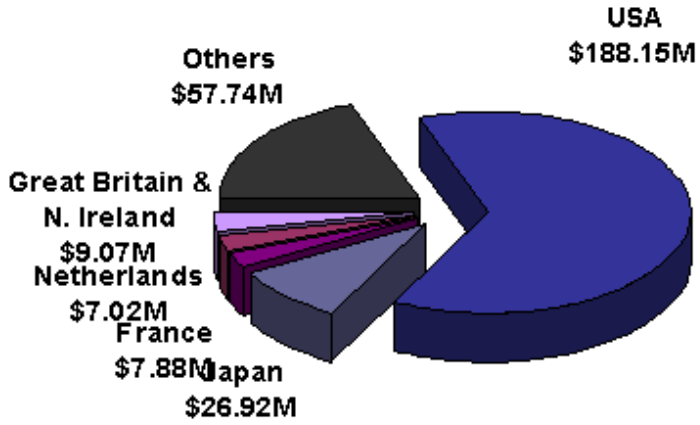
The Home furnishings sector is another sector classified as priority due to its export potentials. It is made up of the furniture industry and house wares. The furniture industry includes products such as leg items (chairs, tables, beds & setters), case goods (cabinet desks, chest of drawers, kitchen storage units, and related products) and combination (building/home fittings, shelves and ornaments). The house ware industry on the other hand includes product

lines such as basketwork, shell craft, woodcraft, ceramics, textiles, flowers & trees, metal ware, glass, H/M paper and others.

The furniture industry is perceived to have an advantage in human capital as it has highly skilled English speaking workers and produces quality craftsmanship. Also the industry have the availability of some indigenous materials such as bamboo, buri, metal, plastic, rattan, stone, wood, parts and others. The industry has three main production centers namely Metro Manila, Pampanga and Cebu where there are an estimated 15,000 establishments dominated by SMEs (at 90% of total). The cottage-small category covers about 65% (9,750 establishments), medium about 25% (3,750 establishments) and large about 10% (1,500 establishments). The furniture industry also employs about 500,000 direct workers, 300,000 indirect workers. (Source: Bureau of Domestic Trade). As of 2001, the top export markets of the industry are USA and Japan, which comprises 72.5% of the total export market. For the period 1996-2001, the furniture industry showed increasing export market except in 2001 where the industry experienced a drop in export earnings to US $ 296.77 million. (See Figure 10)

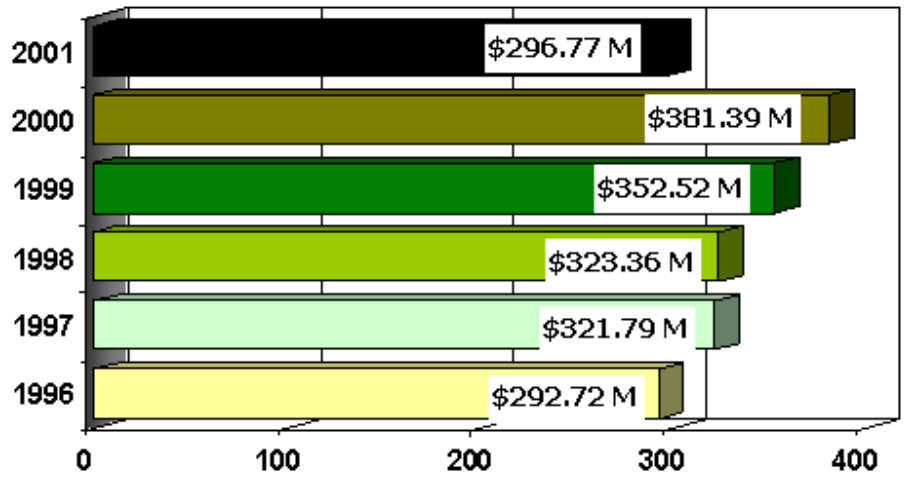
Figure 10: Top Export Markets and Export Performance of the Furniture Industry, 2001

Top Export Markets of Furniture 2001



Source : BETP

Furniture Export Performance (1996-2001)

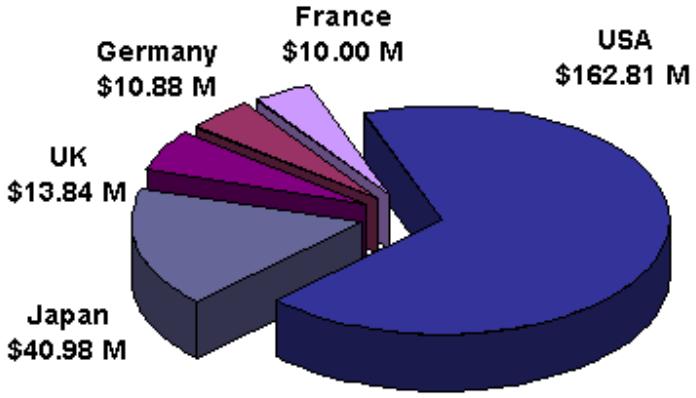


Source:BETP

The house ware industry on the other hand has six (6) main production centers namely National Capital Region, Region 3 (Pampanga and Angeles), Region 4 (Laguna, Rizal, Quezon, Cavite), Region 5 (Albay), Region 6 (Bacolod, Iloilo, Aklan) and Region 7 (Cebu). For period 1996-2001, the house ware industry showed an increase in export earnings from 1996-1998 but experienced a drop from 1998-2001. As of 2001, the industry earned US $ 268.38 million with 85.4% of the export earnings coming from USA and Japan. Of the product lines in the house ware industry, basketwork (27.3%), textile (20%), ceramics (12.4%), and woodcraft (10.6%) achieved the highest percentage share in the industry**.** (See Figure 11)

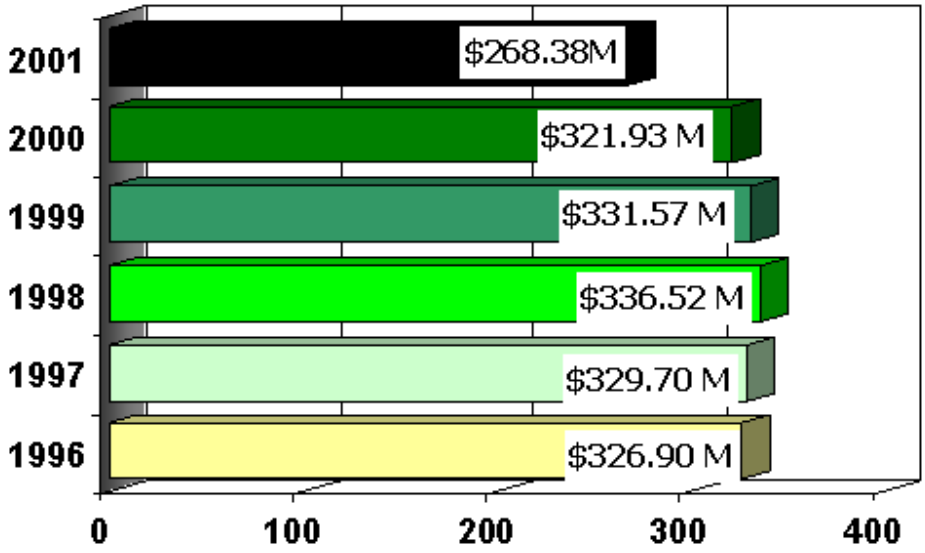
Figure 11: Top Export Markets and Export Performance of the House ware Industry

Top Markets: House ware



Source: BETP

House ware: Export Performance (1996-2001)



Source : BETP

Table 22 below shows the improvement of personal consumption for household furnishings in the domestic market from 1998-2000. Growth rate for 1999 and 2000 was at 8.1 and 7.0% respectively. This only shows that the sector has potential not only in international market but also in the local market.

Table 22: Personal Consumption of Expenditure for Household Furnishings in the Domestic Market, 1998-2000

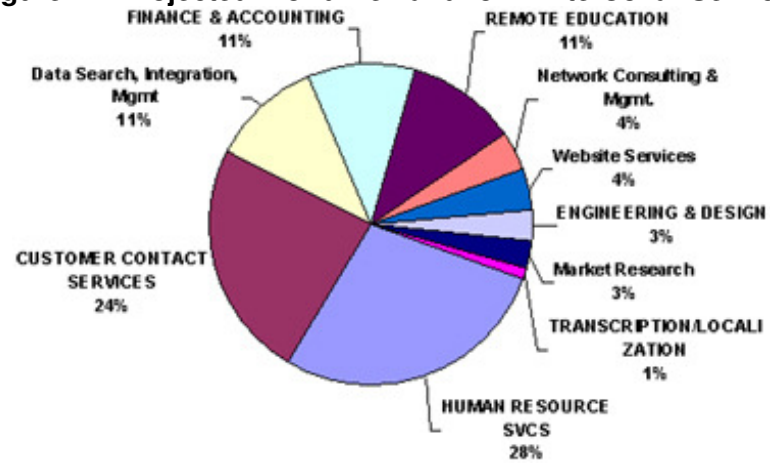
Items	1998	1999	2000
Total (at current prices)	39.34	42.54	45.52
Furniture	16.52	17.87	19.12
Other Furnishings	22.82	24.67	26.4
Growth Rate		8.1%	7.0%

6. IT and IT-enabled services

The increased demands for provision of quality services in low cost countries and regions had made Asia a source of significant outsource service operations for USA and Europe. The Philippines is emerging as a specific alternative to India due to historical and cultural factors (Source: IDC Call Center Services Forecast and Analysis, 2001-2005)

The McKinsey & Co. projects a bigger demand for outsourcing services that will reach US$ 180 billion in 2010. Figure 12 shows the projected world demand for white-collar services:

Figure 12: Projected World Demand for White-Collar Services



The Philippines is considered as an affordable quality human resource country with over 29 million skilled labor force with a literacy rate of 94%. It is also considered the 3rd largest English-speaking nation with about 380,000 graduates per year. Its location is said to be strategic since it serves as a gateway of international shipping and airlines and a critical entry point to over 500 million ASEAN market. Also the country is accessible by air within four hours from any Asian capital (Japan, Korea, Singapore, Taiwan). Lastly, the presence of IT parks with fiscal incentives offer with availability of IT-enabled floor area makes the country a good investment site for IT and IT-enabled services.

7. Marine products

The fishing industry contributed 3.9% to the country's Gross Domestic Product (GDP) in 2001. Its share to the country's Gross Value Added (GVA) in Agriculture, Fisheries and Forestry Group were 14.5% (P76.3 million, current prices) or 18.8% (P35.8 million, constant prices), respectively. The sector employs 10% of the active labor force in agriculture and 5% of total labor force.

The Philippines ranked 11th among the 30 top fish-producing countries in the world, contributing a total of 387,680 metric tons in 2000. It came 2nd in world production of aquatic plants including seaweeds. The country currently produces 5.7% or 0.66 million metric tons of the world total production of 10.13 million metric tons.

Preservation technologies improved in recent years, extending the "fresh" line of marine products. This resulted in a corresponding growth in the value of marine products in the domestic and international markets. Demand is expected to continually rise due to an increasingly health-conscious public.

Local demand also outpaces supply for many marine products. Filipinos are also consuming big amounts of octopus, crabs, lapu-lapu, cuttlefish/squid and lobster. Also in short supplies are cultured pearls and ornamental fish. The country has hundreds of processors of marine products. But most of them are small-scale operators engaged in drying/smoking of fish. Presently, there are about 33 major firms (+ 14 BOI-registered firms for seaweeds). Tuna, prawns/ shrimps and seaweeds are high-value marine products in the world market. Demand for these is growing both in absolute terms and in rates of consumption. Europe, Japan and United States are our major markets.

The tuna industry employs at least 18,600 people, inclusive of allied and support industries. About 773,000 are engaged in municipal operations and 51,000 in commercial fisheries. Tuna exports in 2001 were valued at US$ 118.6 million. This contributed about 25.8% to the total marine products exports. From 1996-2001, tuna exports exhibited a decline with an average of about 5.9%. One of the reasons for the decline is the increasing demand for fresh tuna in the local markets. Tuna is used as raw material for the booming canning industry in the country. The recorded decline was also a result of the strict competition with other tuna-producing countries in the export market. The shrimps and prawns industry employs over 120,000 people and contributed a total value in export of about US$ 125.7 million in 2001. This commodity was recorded to be the highest earner during the said period, contributing about 27.4% to total marine exports.

The seaweed industry on the other hand employs about 80,000 farmers and their families or over 350,000 people. Seaweed farming families are widely distributed in the coastal areas in Mindanao, mainly in Bohol, Leyte, Samar, Palawan, Zamboanga del Norte and Sur, Sulu, Jolo and Tawi-tawi.About 70% to 80% of seaweed raw material requirements of the industry are sourced from Mindanao.The processing industry directly employs 6,500 workers and is expected to grow with seaweed industry. The growth in seaweed industry is expected to contribute to the growth of support industries such as shipping, stevedoring, hauling, trucking, and plastic manufacturing. In 1997, the financial crisis that hit Asia slowed down the growth in export of seaweed because of scarce capital and high interest rate. This resulted to the lower demand by foreign buyers. Also, it was affected by the seaweed production decline brought about by the El Nino and La Nina weather phenomena. Seaweed exports in 2001 totaled US$71.5 million. According to 2000 FAO Statistics Database, the Philippines is the 2nd top producer of seaweeds. It produced 656,631 metric ton or 6.5% to the total world seaweed aquaculture production. (See Table 23)

Table 23: Exports of Shrimps/Prawns, Tuna and Seaweed, 1996-2001
(in million US dollar)

Year	Shrimps/Prawn	Tuna	Seaweed / Carrageenan	Other marine products	Total Exports
1996	153.35	174.39	94.19	71.72	493.65
1997	129.04	171.72	95.09	97.85	493.70
1998	130.30	204.70	64.87	77.17	477.04
1999	127.60	137.38	86.50	80.22	479.87
2000	144.69	128.31	85.12	148.68	506.80
2001	125.73	118.56	71.49	143.07	458.85

8. Motor vehicle parts and components

The automotive industry represents a significant portion of global economic activity with extensive upstream and downstream linkages to many diverse industries and sectors. In the past decade, the motor vehicle industry's contribution in output, employment, investments and exports have been increasing. Moreover, the synergy within the industry has strengthened the linkages between the motor vehicle assemblers and the motor vehicle parts and components manufacturers.

The Philippine motor vehicle industry is comprised of two sectors: the motor vehicle assembly and the motor vehicle parts and components manufacturing. Table 24 shows the motor vehicle assembly sector is grouped based on the type of motor vehicles, such as passenger cars, commercial vehicles (utility vehicles, pick-ups, vans, trucks, buses, special purpose vehicles) and motorcycles. The Philippines is a left-hand drive market. Table 24 shows the number of participants and total capacity of the motor vehicle assembly sector. At present, the industry is operating only at 40% of its total capacity due to the Asian Financial Crisis.

Table 24: Number of Participants and Total Capacity of Motor Vehicle Assembly Sector, as of February 28, 2003

Sector	No. of Participants	Total Capacity
Passenger Car Assembly	14	221,450 units/yr.
Commercial Vehicle Assembly	21	145,950 units/yr.
Motorcycle Assembly	21	462,100 units/yr.

Table 25 shows the major players' ownership structure, investment and employment in the motor vehicle industry. It is principally dominated by Japanese automobile manufacturers: Toyota Motor Phils., Inc., Honda Cars Phils., Inc., Mitsubishi Motors Phils., Corp., Nissan Motor Phils., Inc. and Honda Phils., Inc. Other principal motor vehicle manufacturers are Ford Motor Co. Phils.; Columbian Autocar Corp., Pilipinas Hino Inc. and Norkis Trading Company. Toyota Motor Philippines had the biggest investment with P4.9 billion followed by Honda Cars Phils. with P3.8 billion. Toyota Motor Philippines generated the highest employment with about 1,435 followed by Mitsubishi Motors Phils. with 1,338.

Table 25: Ownership Structure, Investment & Employment of Major Players

Assemblers	Ownership	Investments	Employment
Toyota Motor Philippines	Filipino 60% Japanese 40%	P4.9 Billion	1,435
Honda Cars Philippines, Inc.	Japanese 74.2%	P3.8 Billion	1,014

	Filipino 25.8%		
Mitsubishi Motors Phils.	Japanese 100%	P1.2 Billion	1,338
Isuzu Motor	Japanese 70% Filipino 30%	P2.0 Billion	900
Nissan Motor Phils.	Filipino 60% Taiwanese 30.8% Japanese 9.2%	P1.9 Billion	541

The year 1996 was the banner year of the industry reaching industry sales of 88,977 units of passenger cars, 73,118 units of commercial vehicles and 178,095 units of motorcycles (including imported CBUs). With an average industry sales growth of 20%, estimated investments in parts manufacturing grew by P5.4 billion in 1996 alone. Expansions were made in anticipation for the continuing domestic vehicle demand as the purchasing power has surpassed the US$1,000 GDP per capita income.

The 1997-1998 financial crisis had a drastic impact on the local automotive market. From a peak of 162,095 (4-wheel) vehicle sales in 1996, market sales declined by 10.56% in 1997 and further by 44.65% in the following year. The industry started showing signs of recovery in the last semester of 1999. The downtrend in auto sales in the Philippines was finally arrested in 2000, with prospects for long-term recovery. The top markets for Philippine merchandise exports of motor vehicles are Japan, Thailand, Singapore, Vietnam, Republic of South Africa and Taiwan.

The parts and components manufacturing sector comprises of 256 companies producing various parts and components made of metals, plastic, rubber and composite materials for both the OEM and replacement markets. The principal components manufacturers are Yazaki-Torres Manufacturing Corp. (wiring harness), United Technologies Automotive Phils. (wiring harness), Temic Automotive (Phils.) Inc. (anti-brake lock system), Honda Engine Manufacturing Phils., Inc. (engines), Asian Transmission Corp. (automotive transmissions), Toyota Autoparts Phils. (automotive transmission), Fujitsu Ten corp. of the Phils. (car stereos) and Aichi Forging Co., Inc. (forged parts). By end of 1999, the parts industry contributed investments of approximately P27 billion, employment of 45,000 and export of over US$1.1 billion, which has increased more than ten-fold from 1988 level.

Japan remains the top market for Philippine-made motorcycle parts and components, followed by USA and Germany. Exports of motor vehicle parts and components for the past six (6) years were as follows:

Table 26: Exports of Motor Vehicle Parts & Components, 1996-2002

(in US dollars)

Year	Automotive Parts	Motorcycle Parts	Total
1996	830,821492	141,112,357	971,338,849
1997	759,692,953	157,281,711	916,974,664
1998	375,387,641	87,705,470	463,093,111
1999	515,863,458	109,707,212	625,570,670
2000	1,012,143,721	34,000	1,012,177,721
2001	954,686,354	203,288	954,889,642
2002	1,166,590,681	96,028	1,166,686,709

Source: BETP

Table 27: Number of Locally Assembled Vehicles by Type, 1995- 2002

Year	Passenger Cars	Commercial Vehicles	Motorcycles	Total
1995	65,808	53,392	126,956	246,156
1996	79,673	58,815	126,956	316,337
1997	69,070	51,418	225,138	345,626
1998	32,134	35,769	170,571	238,474
1999	25,130	39,505	168,254	232,899
2001	23,684	52,968	230,000	306,670
2002	21,728	63,858	226,959	312,545

Source: Chamber of Automotive Manufacturers in the Philippines Inc.

9. Organic and Natural Products

Global sales for organic and natural products are expected to reach US$ 100 billion in 2008. At an annual growth rate of 20 to 30%, demand for organic products outstrips supply. In Asia for instance, no country reached 1% organic (of its total agricultural land area) and so this is one industry where Philippines can focus its production. The major markets for this industry include European Union (Germany, United Kingdom and France), USA, Canada, Japan and other developed countries. The industry only has 9 organic farms and covers only about 95 hectares (out of 11,2800,000 has. of total agricultural land).

The domestic market on the other hand has a relatively small market. Out of the US $6.2 million retail sales for 2000 (forecast), only about US $2.5 million comes from domestic production (source: ITC '99 and SOL Survey). The major organic products produced in the country are rice, fresh vegetables and sugar while the country imports organic products such as honey, tea, coffee, spices and food mostly processed in the United States.

The country currently exports organic products such as muscovado sugar (to Germany and Japan), fresh bananas (to Japan), and coconut oil and chips (to USA and Europe). Table 28 below presents the current level of exports of organic products where we see that fresh banana obtained the highest level with USD 1,101,178.

Table 28: Current Level of Exports of Organic and Natural Products

Certified Organic Products	Quantity	Value (USD)
Coconut oil (crude)	111.34 mt	50,103
Coconut chips	2,200 ctns	17,160
Banana chips	104,150 kg	35,102
Fresh banana		1,001,178
Muscovado sugar		242,342

10. Wearable

The wearable sector is comprised of products such as leather goods, footwear, costume jewelry, fine jewelry, other fashion accessories and hats & headgear. The industry is comprised of about 6,000 manufacturers mostly cottage to small-and-medium enterprises (SMEs) which generates about 500,000 direct and indirect employment. The major production sites are PEZA centers and geographically dispersed in Bulacan, Metro Manila, Laguna, Quezon, Bicol, and Cebu. Table 29 shows that the wearable sector is one of the fastest growing product sectors from 1996-2000 with costume jewelry, other fashion accessories, fine jewelry and hats & headgear experiencing double-digit growth rate. For the wearable sector, leather goods have the highest contribution to exports with 65% followed by footwear with 18%. Table 30 on the

other hand shows the export performance of wearable sector. The export level increased from 1999 to 2000 but decreased slightly in 2001.

Table 29: Fastest Growing Product Sectors
(in million US Dollars)

Product Sector	Total exports for the year 2000	% share to Philippines exports	Growth rate (5-yr average) 1996-2000
Leathergoods	272	0.072	5.7
Footwear	76	0.020	(15)
Costume Jewelry	28	0.020	20
Other fashion accessories	25	0.007	23
Fine jewelry	20	0.005	16
Hats & headgear	16	0.004	14
Total	437	0.13	

Table 30: Export Performance of Wearable Sector

Items	1999	2000	2001	3-Yr Growth Rate (%)
Garments	2,173,014	2,463,161	2,337,620	4
Other wearables	407,197	440,094	454,412	15
Leathergoods	238,100	272,720	292,814	11
Footwear	86,117	76,184	76,949	(5)
Costume jewelry	28,659	28,750	24,725	(6)
Other fashion accessories	23,682	25,016	28,733	10
Hats & headgear	12,407	16,538	12,045	3
Fine jewelry	18,232	20,886	19,146	3
Total	**2,580,211**	**2,903,255**	**2,792,032**	**19**

K. Budget of CITEM

CITEM gets its funds from the government and external trade organizations. In year 2002, CITEM received from the government a budget of Php90 million and more than Php14 million donated capital from international trade organizations. The government budget allotted for CITEM increases annually but not enough for its operation to be efficient. In year 2003, CITEM received a government budget of Php93 million and Php14.4 million donated capital from international trade organizations. In year 2004, CITEM received a government budget of Php94 million (estimates for donated capital have not been recorded). However, CITEM spends more than the allocated budget from the government. In year 2002 CITEM's operating expenses amounted to more than Php153 million. In year 2003, it amounted to more than Php163.6 million.

Although CITEM is a government owned, it is not prevented from conducting income-generating activities. Through its various services, especially through local trade fairs and exhibits, CITEM is able to gain profit which was be used to address their deficit. It is a fact that donations from international trade organizations do not come on a regular basis which means that CITEM does not have control upon them. Fortunately, the generous donations were more than enough for CITEM to cover its deficit. With the profits earned from their services and

donations received from international trade organizations CITEM was able to have a net income in years 2002 and 2003. In year 2002, CITEM recorded a net income of Php10.2 million. In year 2003, CITEM has a net income of Php6 million.

Because of the deficit from the government allocation and uncertainty in the receipt of donation, CITEM's services, especially international trade fairs and missions, are not fully-subsidized. Exporters share in the burden of expenses such as transportation, registration, marketing and booth set-up fees. For international trade fairs, CITEM shoulders 80% of the expenses while exporters pay the remaining 20%. Since their services are not rendered for free, SMEs who cannot afford to pay the subsidies may be discouraged to avail of these. With this, there is a need for the government to allocate an adequate budget to CITEM so that more firms can enjoy its services. Increasing the budget allocation for CITEM will mean that more services will be delivered for SMEs.

L. Awards given to SMEs

1. Katha Awards

Katha Awards is the award given to companies recognized for unique product innovation and creative booth displays during trade fairs. The award upholds product development and design competitiveness in the manufacture of Philippine furniture, gifts and house ware, jewelry and fashion accessories, and holiday décor. It also honors the skillful and quality workmanship of the Filipino artisan.

2. Golden Shell Awards

The Golden Shell Award was launched in 1982 and is considered as the highest award or recognition given by CITEM to Filipino exporting companies as a salute for excellence in development of export entrepreneurship among small, medium and large-scale industries in the manufacture of traditional and non-traditional products. Criteria would include the following: over-all efficiency in exports specifically the company's quality management, manufacturing, research and development, product quality, marketing and, the firms' respective financial viability.[13]

The award highlights three areas of excellence: Design, Manufacturing and Marketing. Two special awards are also handed out. The Rising Star Award goes to a company with a unique product that shows great potential in the international market. The Special Citation is given to entities or personalities with valuable contributions to the growth and development of the Philippine export industry.

M. Impact of CITEM on Firms

Listed below are the firms interviewed to determine the impact of CITEM on firms:

i) Lara's Gift and Decors (1996 Golden Shell Awardee for Design Excellence)
ii) Asia Ceramics Corporation (1997 Golden Shell Awardee for Marketing and Manufacturing Excellence)
iii) Pacific Arts and Décor International Inc. (1997 Golden Shell Awardee for Manufacturing Excellence)

[13] http://citem.com.ph/gsa_background.htm

iv) Riviera Clay Incorporated (1998 Golden Shell Awardee for Design and Marketing Excellence)
v) Buena Mano Crafts Incorporated (2000 Golden Shell Awardee for Design Excellence)
vi) Castleberry Collections, Inc. (2000 Golden Shell Awardee for Manufacturing Excellence)
vii) Ching's Handicrafts Inc. (Manila F.A.M.E. participant)
viii) Manila Designs Inc. (Manila F.A.M.E. participant)
ix) Jupiter Systems Inc. (2002 Golden Shell Rising Star Citation)
x) Speculum Corporation [formerly Jo-Liza International] (Manila F.A.M.E. participant)

N. CITEM's contribution to success/failure of firms

1. Awareness of CITEM

Most of the firms that participated in CITEM programs at first did not have any idea about CITEM. Most of them found out about CITEM only through word of mouth and from other participants in CITEM programs. There were other firms which discovered CITEM only through its website. Firms which received Golden Shell awards on the other hand apparently also didn't have knowledge about CITEM until they got nominated for the award. There seems to be lack of public awareness about the existence of CITEM.

2. Utilization of the Services offered by CITEM

Based on the survey result, one can determine whether exporters utilize the services offered by CITEM.. Whether the provision of each specific service is satisfactory or not is also assessed. Six broad categories of services are identified: product development, technical assistance, marketing assistance and financial assistance.

a. Product Development

CITEM provides exporting firms product development assistance to able to identify whether their products meet the standards of the international market. By coordinating with other relevant public and private institutions, CITEM helps exporting firms expose their products to an interim market where they could test its potential. CITEM also assists exporting firms in identifying sources of raw materials for their products.

All the firms interviewed indicated that they utilized the product development assistance provided by CITEM. However, most of them found the program to be applicable to large companies only and do not cater to the needs of SMEs.

b. Technical Assistance

Technical assistance is particularly useful for exporters. Technical assistance may be provided for production and/or processing, management, training, marketing and the like. For training, CITEM coordinates with the Philippine Trade Training Center (PTTC).

All of the firms found little demand for CITEM's technical assistance service. They also noted that the service is not done on a regular basis. It was also reported that firms didn't have the initiative to attend these trainings but rather CITEM representatives were the ones who

asked them to participate. Firms also reported that they conduct their own technical assistance trainings and have usually asked private companies to conduct the trainings.

c. Marketing Assistance

Market information (i.e., market prices, market trends, quality of goods/standards, supply competitors, etc.) is the most useful information among exporters. All the surveyed firms conformed that they seek market information regularly. Through trade fairs, missions and exhibits, CITEM matches target buyers to exporters. CITEM helps exporting firms tap new markets and increase their sales. Tapping new markets is perhaps the most challenging task for exporters in developing countries. CITEM also promotes export products through publicity materials such as catalogs.

Firms report that they have not taken advantage of the marketing assistance provided by CITEM. They usually conduct their market researches on their own without assistance from CITEM. Although firms indicated that the project of CITEM of providing a directory of potential buyers has helped them a lot in terms of marketing their products to different markets. Most of the firms believe that CITEM has helped provide marketing assistance indirectly through the inclusion of their company in catalogs. It should be noted that the interviewed firms have not considered seeking marketing assistance from CITEM.

d. Financial Assistance

Financial assistance through availability of export credit and insurance is one of the major constraints that particularly new comers into the trade often face. It involves assistance for preparation of letters of credit, documentary collection, foreign currency and efficient remittance services, availability of offshore finance, international guarantees, etc. CITEM through the Small Business Guarantee and Finance Corporation (SBGFC) provides exporters with financial assistance. The SBGFC is a government corporate body created in 1991 by virtue of Republic Act 6977, as amended by RA 8289, otherwise known as the Magna Carta for Small Enterprises. It supports the development of small and medium scale enterprises by promoting various forms of financing and credit delivery systems including short-term fast loans.

All firms have not tried availing financial assistance services from CITEM since they are not aware of such financial service. They all report that there are better credit institutions available in the market compared to CITEM. Firms state that private credit institutions are faster in the delivery of loans.

e. Increase in sales and clients

Firms have indicated that their participation in CITEM trade fairs and missions have increased sales by at least 25% while the number of customers increased by at least 30 %.

O. The Case of Ceramics Manufacturers Association

One industry that CITEM has made a significant impact is the Ceramic Manufacturers Association (CREMA), a group association of ceramic manufacturers in the country. It was from 1984 to the 1990's that CITEM was able to help the growth of infant industries. These industries included ceramics, Christmas decors, household linens, wooden décor and handmade papers. It was also during these years that CITEM had made available the integrated

technical assistance to support local entrepreneurs who wanted to export. This technical assistance includes two phases and lasted for six years. This program consists of technical assistance in the areas of raw material preparation, quality improvement, design, marketing and energy saving (Citem 1993).

CITEM basically assisted these companies through product marketing and promotion. Aside from that, CITEM through its 3 to 5 year program of integrated technical assistance has encouraged production capability as well as improvement of product quality. Furthermore, it was in 1984 that CREMA, a new ceramic manufacturers association asked for help from CITEM to source foreign technical assistance. The potentials of the industry of ceramics were recognizable given the ample availability of raw materials and creative craft skills. Hence, CITEM did not have a hard time in getting integrated project assistance from the European community. With the start of such assistance, the companies under CREMA, started to grow. With this growth, the ceramics industry has been very significant in the increase in exports, employment as well as productivity.

In the years 1985 to 1992, CREMA's exports grew from $1M to $12M. Its employment in the overall company factories, from 700 workers has increased to 3,500. The average productivity on the other hand has also raised the P33,000 average per worker to P80,000-P120,000.

This growth of CREMA is indeed a success. Companies who did not ask assistance from CITEM had a 584% growth from $4.67M in 1983 to $31.98M in 1992 from exports. On the other hand, CREMA's overall exports from 1983 to 1992 had a 1100% increase from the time they sought help from CITEM.

CITEM has helped CREMA through the following:

i) Marketing and Promotions.

Most of the CREMA companies were relatively new in the industry when they joined the Manila F.A.M.E furniture show, an international trade fair. CITEM suggested that the company should attend seminars in exports sponsored by the Philippine Trade Training Center. It was also during this time that CITEM was able to issue hand outs to its approved exhibitors on proper decorum during trade fairs such as what to answer for frequently asked questions; proper attire; and tools needed to be equipped when joining trade fairs.

ii) Designs and Export.

CITEM assisted most of the CREMA members through designs by providing consultants assigned to specific fairs. CITEM made it possible that companies could hire the services of these consultants. The consultants from CITEM helped companies in such a way that the company could design products that would have an appeal or impact to the export market.

iii) Employment Generated and Productivity.

CITEM helped in the promotion of products through the International Trades that it organizes and conducts. With this, sales of the industry increased tremendously. Due to the increase of sales, employment increased from thirty (30) workers to more than four hundred (450) workers per company. Hence, with the increase in manpower, output and efficiency in production also increased.

P. Recommendations for CITEM

i) The worsening trade balance is a signal that there is need to improve export performance of industries. A way to improve exports is through more aggressive export promotion programs such as those delivered by CITEM. CITEM's export promotion programs play an essential role in the improvement of the Philippine trade performance.

ii) CITEM's prioritization of small and medium-scale enterprises is a good practice as SME's face the highest hurdles to export success. Also, CITEM's identification of target or priority sectors is beneficial as this builds the necessary expertise in industries where most firms wish to be internationally successful and complements its the budget constraints.

iii) The services offered by CITEM lack publicity as firms report that they aren't aware of most of its programs, and worse the government agency itself. Most of the firms interviewed did not have knowledge about the services that CITEM provides, especially in market information and technical assistance where companies can take advantage of such services.

iv) There is a need to increase the budget of CITEM. In 2003 for instance, government allocated only P90 million for its operation while it's operating expenses amounted to more than P163.6 million. This shows the need to increase the budget for CITEM to provide better service to its clients. Although CITEM receives donations from international organizations, it is still not enough to at least cover its operational expenses. Also, this is one reason why CITEM has to ask firms joining its trade fairs to shoulder about 20% of the expenses in transportation, registration, marketing and booth set-up fees. This fee usually discourages small firms in joining CITEM's programs since most of them cannot afford to pay the subsidies. One option is for the government to loan from either IMF or World Bank to finance the operation of CITEM and use the annual budget allocated to pay the loan. In this way, CITEM can start using the money at an earlier time without the worry of finding way to pay the loan since it has a budget allocation from the government.

v) The challenge for CITEM is to find ways to sustain the growth of SMEs. This can be done by finding ways to introduce the product to the market during its first few years of operation and later on find ways for the company to establish and survive in the market.

vi) Privatize the operation of CITEM. It can be observed that about 70% of the Golden Shell Awardees have folded up already. This indicates that CITEM lacks resources (financial and support) to help exporters. Since government has problems with its budget, one possible option is to privatize the operation of CITEM. Organizations such as PHILEXPORT can be asked to promote Philippine products though promotion activities. The successful framework used by the furniture industry can be looked into with trade fairs being organized by private companies.

XII. DEVELOPMENT BANK OF THE PHILIPPINES (DBP)

A. Background

DBP is a 100% government-owned financial institution that was created under Republic Act 2081 in 1958 in order to succeed the Rehabilitation Finance Corporation (RFC, R.A. 85). Its primary purpose is to provide credit facilities for the rehabilitation, development and expansion of agriculture and industry, the broadening and diversification of the national economy, and to promote the establishment of private development banks in provinces and cities. Executive Order (EO) No. 81 issued on December 3, 1986 revised the DBP charter giving the Bank a new development mandate. Under the new Charter, the Bank's primary objective is to provide banking services principally to cater to the medium and long-term financing needs of agricultural and industrial enterprises particularly in the countryside with emphasis on small and medium scale industries. The establishment and evolution of DBP parallel those of the International Bank for Reconstruction and Development (IBRD or World Bank), a development financial institution with worldwide operations.

DBP's role is to promote economic progress through efficient allocation of credit to industries and projects, which stand to gain a lot of benefits to be shared by the maximum number of people. DBP avails some of its loanable funds through multilateral development banks such as the World Bank (WB), International Bank for Reconstruction and Development (IBRD), Japan Bank for International Cooperation (JBIC), Kreditanstalt fur Wiederaufbau (KFW), Asian Development Bank (ADB) and the like.

It is able to fund its lending activities for widespread economic development through its internal and external bank funds. Internal funds are bank deposits and annual income while external funds come from commercial sources such as bond issuance, and borrowing from bilateral and multilateral development banks [more commonly known as Official Development Assistance (ODA)]. Clients of DBP are normally classified into two: Wholesale and Retail lending. Wholesale lending is usually granted to Participating Financial Institutions (PFI's), which consists of banks, investment houses and finance companies. Retail lending on the other hand consists of Window I (industries which allow for better credit risks and greater potential to grow such as telecommunications and technology), Window II (lending for small to medium scale enterprises or SME's) and Window III (for socialized lending).

DBP's plays an important role in the government's pump-priming activities through retail and wholesale lending facilities to strategic sectors. It offers investment opportunities, business, financial and lending products and services for foreign and local investors, thus serving as a channel for sectoral development in industries such as transportation, telecommunications, power and energy, agriculture, education and health care.

B. Types of Projects Financed

i) Industrial
- Large manufacturing and non-manufacturing industries
- Small and medium manufacturing and non-manufacturing industries
- Industrial Estate Projects

ii) Public Utilities
- Land, air and water transportation
- Telecommunications
- Power generation and distribution
- Water supply and distribution

iii) Community Development
- Housing
- Hospitals
- Schools
- Infrastructure
- Eco-Tourism

iv) Agro-industrial
- Post harvest-facility
- Agri-business

v) Focused Lending Programs
- Pollution control and abatement
- Waste minimization and recycling
- Efficient use and/or management of natural resources
- Occupational health & safety
- Establishment of Environmental Management System (EMS) and certification under ISO 14000
- Micro-financing
- Lending program for franchises
- Program towards obtaining ISO 9000 certification
- New and renewable energy (NRE) projects
- Technology development and commercialization
- LGU financing program
- Road/RORO Ferry Network
- Grains Bulk

vi) Other Programs
- Factoring
- Loans Against Hold Out on Deposit

The DBP, under its new charter, is classified as a development bank and may perform all other functions of a thrift bank. Its primary objective is to provide banking services principally to cater to the medium and long-term needs of agricultural and industrial enterprises with emphasis on small and medium-scale industries

DBP supports the growth of domestic capital markets and is the country's major conduit of international funds from multilateral and bilateral institutions for official development assistance (ODA) programs and grants. The bank also continues its developmental thrusts on economic pump-priming and program-type lending to strategic sectors like infrastructure, transportation, telecommunications, power and energy, SME's, agriculture and food security, education, health care, housing, micro-finance, and environment. It also undertakes continuous institutional strengthening efforts to ensure its viability and strategic positioning towards globally competitive operations

Recently, DBP was recognized as the first Philippine bank to be ISO 14001 certified by SGS Switzerland SA for its successful establishment and implementation of an Environmental Management System (EMS).

XIII. THE SUSTATINED LOGISTICS DEVELOPMENT PROGRAM (SLDP)

A. Rationale

A 1993 USAID study revealed that transporting fruits and vegetables from farmlands to end-users produces about 40% spoilage due to inadequate and inappropriate use of technology which would amount to roughly P30 billion of spoilage per year. Another study in 1994 by NFA asserts that about 20% of national corn production amounting to about P4.5 billion per year come from spillage and spoilage.

Thus, an efficient transport of goods from production areas to consumption sites are needed that would create:

i) Zero or minimum wastage or spoilage
ii) Lower freight and handling cost per unit of cargo
iii) Adequate ports and supporting systems
iv) Just-in-time (JIT) loading and delivery of cargo; and
v) Safety in transport

The critical weakness of the traditional way of providing transport facilities and services has been the absence of any structure of incentives to align the private interests of the supplier with the public interest. The absence of competition (especially in ports) has enabled management, favored customers and organized labor interests to appropriate part of the potential monopoly profit. It is now widely felt that the potential loss of patronage, earnings and ultimately, employment resulting from a failure to respond to consumer demand in competitive markets is the utmost powerful means to force suppliers to respond to consumer requirements.

B. Sustained Logistics Development Program

The Sustained Logistics Development Program (SLDP) is an investment-financing program for a comprehensive and integrated transport as well as related infrastructure and support services. It is a program, which is anchored on the understanding that freight transport demand is derived from economic activities that are expected to grow in the future; and in improving the efficiency in the various sectors of the distribution of goods and services in the country.

Sustainable logistics is the process of designing and managing a supply chain. It involves movement of people, goods and information of materials as well. It is the process, which ensures that the resources needed for work and production are positioned in the right places, at the right times, in the quantity and quality required and at the right price.

This program addresses the needs of the logistics or distribution of goods and services within the context of the government's goal of having the capacity and capabilities for global competitiveness, provision for the alleviation of poverty and attainment of food sufficiency at the local, regional and national levels. SLDP is focused on the physical requirements of a sustainable distribution system inherent to maritime transport and related transport by land. It is geared towards the development of progressive long haul shipping to constitute the country's backbone in the transport of bulk agricultural products and the development of a RORO network to link islands to the growth centers of the country. Also included in the program are vital components of sustainable logistics such as shipyards, post-harvest facilities and institutional support services such as maritime schools and technical/vocational training institutes).

SLDP is a collaboration between the government and private sector to bring about cost-effective ways of moving goods and people. Its main objective is to improve infrastructure, which will have direct impact on the prices of basic commodities, as an anti-poverty strategy and spur economic activity in the countryside. Its focus is moving people faster and safer, and transporting in a cost effective way goods particularly grains and perishables such as fish, meat, fruits, and vegetables. The SLDP has three components namely: the Grains Highway, Road RORO Terminal System, and the Cold Chain.

The basic idea of the SLDP is to replace traditional and inefficient storage, handling, transport and support systems and replace them with the introduction of modern storage handling and transport system under proper quality control management. They aim to minimize wastage/spoilage, lower freight and handling costs per unit of cargo, provide adequate ports, practice Just-In-Time loading and delivery of cargo, and assure safety in transport. All of these objectives have one major goal of lowering transport costs with the effect of lowering the goods' prices for the end-consumers.

The SLDP is accessible through DBP marketing units/branches and its participating financial institutions such as private/government banks, financing, and leasing companies. Applicable wholesale /retail facilities shall be used to fund SLDP projects. It aims to encourage private-sector participation in the development of the countryside.

C. SLDP Budget

The SLDP budget primarily comes from the Japan Bank for International Construction (JBIC) as an Official Development Assistance (ODA) fund. The total amount provided for SLDP was 19.999 billion Yen. The project started in December 1999 and envisaged at appraisal that the loan would be disbursed by December 2004. However, the five-year project was not able to loan out the whole amount due to the following conditions and reactions:

i) Appreciation of Yen vis-à-vis Philippine Peso, which increased the total budget denominated in Pesos.
ii) Postponement of projects not yet fully committed, due to the risk associated with the volatile exchange rate.
iii) Increased cost of imported goods, due to the depreciation of Philippine Peso which dampened the enthusiasm of businessmen and firms.
iv) Uncertain political situation.
v) More prudent loan approval standards by DBP to safeguard portfolio quality from further degradation.
vi) There are a number of pending (about 36 as of January 2005) applications and prospective (about 22 as of January 2005) applicants for the project.

Due to the market condition, DBP requested for a three (3) year extension for the loan to be fully disbursed. The request was subsequently approved by JBIC and the extension will end on December 2007.

D. Developmental Quotient System

SLDP adopts a Developmental Quotient System formulated against the backdrop of experiences gained in the duration of the implementation of the Domestic Shipping Modernization Program of the DBP. It uses a scale of preference for financing projects that will

have a catalytic effect on the country's development and with distinct social benefits defined as follows:

i) Catalytic effect on RP economic growth and development:
   - Global competitiveness in agri-industry, food production and services sectors
   - Regional/rural area development

ii) Distinct social benefits with wide multiplier effects:
   - Poverty alleviation
   - Employment generation
   - Environmental protection
   - Efficient delivery of basic goods and services
   - Food security

SLDP gives special preference to projects, which will have broader development impact and multiplier effect specially in addressing the following national concerns:

i) Poverty alleviation
ii) Employment generation
iii) Capital formation both at regional and national scale
iv) Creation of a wide range of small and medium enterprises within the sphere of influence of the Road-RORO Ferry Network subprogram
v) Environmental protection

The program gives special preference to:

i) Standard Banking Criteria (1st Level Project Evaluation)
   - Proponents of good credit standing
   - Sound management
   - Satisfactory financing and marketing plans
   - Adequate financial/economic rates of return
   - Technical soundness

ii) Criteria for Socio-Economic Projects (2nd Level Project Evaluation)
   - Hastens the growth and development of an area, industry or sector;
   - Generates collective benefits to a community, specially the improvement of the quality of life or the standard of living of the people in the rural countryside which constitute 2/3 of total population;
   - Facilitates the delivery of basic services which is crucial insofar as they influence the rate or trend of development in the area; and
   - Enhances global competitiveness and social equity in agriculture, industry and services sectors of the economy.

E. Who are eligible under the SLDP?

The following are eligible to borrow under the SLSD program:

i) Filipino citizen
ii) Private enterprises (at least 70% Filipino owned)
iii) Local government units (LGUs)
iv) Government owned and controlled corporation (GOCCs)

Eligible loan purposes must be of project related expenditures. It shall include but not limited to acquisition of equipment, upgrading of equipment/facilities and civil works. Reimbursement of expenditures maybe allowed provided such were incurred 180 days from DBP's formal acceptance of loan application.

F. What are the terms and conditions under the SLDP?

The maximum amount of loan should not exceed 80% of the total project cost. Project funds shall be re-lent in pesos to end-users and may be effected in one or more draw downs depending on the nature of the project. The loans made through the SLDP program are payable in Philippine pesos on amortization due dates which shall at least on a quarterly basis. The maximum repayment term of the loan is 15 years with an allowable grace period from one (1) to three (3) years

The interest rate may be prime fixed or variable rates depending on the terms and conditions of the loan usually from 8.5% to 10.75%. For missionary areas, DBP sets an interest rate of 8.5% for the 1st three years and 9.7% thereafter until the maturity of the loan.

G. What are the eligible projects under the SLDP?

The role of DBP with the actualization of all the goals of SLDP is to provide development loans to the private sector and local government units (LGUs) to support SLDP-related investments. SLDP provides investment portfolio such as development loans, lease-purchase financing, equity participation, technical and training assistance and financial management advisory to concerned sub sectors. The said services are focused on the sustainable distribution system such as (a) Regular shipping; (b) Road RORO Ferry Network; (c) Post-harvest facilities; (d) Shipyard; and (e) Institutional support services.

The three components of the SLPD are broken down as follows:

1. Bulk grains highway

The Bulk grains highway focuses on the production and distribution of agricultural products with special consideration for rice and corn. This includes:

i) Grains Processing Centers (with mechanical shelling, drying, and bulk storage)
ii) Bulk Trucking
iii) Grains Terminals (including ports, silos, and bulk handling equipment)
iv) Bulk Carriers
v) Other Post Harvest Facilities

Post-production activities are considered as an important part of the production system, which includes a series of operations from the producer through distribution system to the consumer. These include harvesting, handling, storage and processing, and warehousing and distribution infrastructures.

SLDP's contribution in the post harvest sector are focused on ensuring superior quality of food and agricultural products through the cost-efficient and environmentally-sound post-harvest techniques, particularly those which enhance reducing losses and increasing the

efficiency of the post-production system as well as ensuring fully-integrated approach to sustainable logistics development with close links to agro-industries, agricultural engineering, marketing and farm storage management sectors.

As of the end of January 2005 a total of 110 applications from proponents in different parts of the country worth P 696,059.00 million were approved. Also there are 8 applications yet to be approved worth P 1.017.3 billion. About 4 prospective firms (with possible loan application worth P 47 million) may be invited to use the SLDP funds. Some companies who applied for the loan[14] are as follows:

Table 31: List of Companies that Applied for DBP Loan, Road RORO Terminal System Pipeline Projects

Proponent	Nature of Project	Project Location	Investment Cost (Proposed)
Mindanao Grains Processing Company Inc.	Corn Processing Center	Aglayan, Malaybalay, Bukidnon	P 220.0 M
Quedan & Rural Credit Guarantee Corp.	Post Harvest Facility	Various Corn Farm in Mindanao and Luzon	P 1.0 B
SBFP Bulk Terminal	Grains Terminal	Subic Bay Free Port, Zambales	P340.0 M
ZDMC Bulk Terminal	Grains Terminal	Mabini, Batangas	P150.0 M
Cebu Port Bulk Terminal	Grains Terminal	Cebu City	P 350.0 M
Oro Port Bulk Terminal	Grains Terminal	Cagayan de Oro City	P350.0 M
Lim Ket Kai	Corn Processing Center	Aglayan, Malaybalay, Bukidnon	P 150.0 M
Lim Ket Kai	Corn Processing Complex	Phividec Industrial Park, Misamis Oriental	P 2.0 B
LGU – Province of Isabela	Grains Processing Center	Isabela Province	P 100.0 M
General Santos Bulk Terminal	Grains Terminal	General Santos City	P 200.0 M
ZDMC Bulk Terminal	Grains Terminal	Dapitan, Zamboanga del Norte	P 150.0 M
Port Irene Bulk Terminal	Grains Terminal	Port Irene, Cagayan Agro-Intustrial Processing Zone	P 350.0 M
Bagumbayan Grains Processing Center	Corn Processing Center	Tacurong, South Cotabato	P 32.0 M
CASTECH Grains Processing Center	Corn Processing Center	Cabanglasan, Bukidnon	P 30.0 M

2. Cold Chain

The objective of the cold chain approach is to ensure that farm products will reach the market in the freshest harvest condition. Listed below are the components of the Cold Chain:

i) Processing and marketing centers
ii) Aggregating centers
iii) Reefer vans/ transport equipment
iv) Other cold storage facilities

[14] It should be noted that not all companies listed were able to acquire a loan from DBP

The traditional problem with agricultural products such as fruits and vegetables is that they are sensitive and highly perishable. The quality and freshness deteriorate after harvest, as they are being packed, stored and transported to different markets. As for meat products, live animals shipped on vessels lose as much as 5% of their weight during the trip from farm to the destination ports. Also, port and vessel operators prefer that livestock be slaughtered and shipped as frozen to maintain sanitation and prevent fast deterioration of their ports and vessels.

The cold chain approach uses facilities that ensure that farm products will reach the market in a fresh harvest condition. They require a controlled environment so as not to lose their content and preserve their freshness and quality. They require careful handling and appropriate packaging to protect them from compression, vibration and impacts from rough handling during loading and unloading. The cold chain approach can be set-up at off-port area centers in the production areas, and haul the commodities to the consolidation center at the port area. From there it will be stored, sorted and kept under appropriate controlled temperature until the scheduled time of shipment or distribution. This kind of approach will maintain the freshness of the fruits and vegetables and lengthen their shell life, which allows more time for the marketing of the commodities. High value temperate vegetables grown in Mindanao are normally air freighted but the costs are too expensive and so water transport can be an alternative if the cold system is adopted.

SLDP can support all efforts aimed at improving traditional technologies and introducing new techniques in the post harvest handling, packaging and storage of agricultural products for the progress and development of the agricultural sector.

As of the end of January 2005 a total of 25 applications from proponents in different parts of the country worth Php714.339 million were approved. Also there are 20 pending applications yet to be approved worth Php1.193 billion. About 10 prospective firms (with possible loan worth Php530 million) may be invited to use the SLDP funds.

3. Road-RORO Ferry Network (RRFN)

Integrating distribution into a network is a crucial issue, not only between modes in intermodal transport, for the successful operation and development of shipping but also within the road transport. The road transport industry has responded effectively and efficiently to increasingly complex and demanding distribution requirements by introducing “just in time” system. Greater integration of transport services, covering a wider range of activities and requirements has in many cases helped counterbalance trends which otherwise might have lead to a significant worsening of transport utilization. Water transport for instance has been integrated partly because of private sector initiatives. Private sector on the other hand has lagged behind for greater integration of ports and shipping to the well-developed land transport distribution of goods and services.

The objective of the Roll-On Roll-Off Ferry Network is to provide continuity for land transports to travel from one landmass to another. Listed below are the components of RORO Ferry Network:

i) RORO Terminal Facilities
ii) RORO Vessels

RORO shipping routes or linkages is categorized into (a) long-distance RORO links, and (b) ferry-distance RORO link. Long distance link means a shipping link with more than 100 nautical miles link distance. Vessels plying on a long-distance link cannot make more than one-round trip in a day under normal conditions of vessel operation. A ferry-distance link on the other hand refers to those pairs of ports located at two neighboring islands, which are accessible to each other within a sailing time of two to three hours. Presently, the Maharlika Highway (Pan-Philippine Highway) with a total length of 2,100 km is the single most important trunk line of the country. There are two RORO ferry links operating between the main island of Luzon to Samar and Leyte is linked to Mindanao.

H. Road RORO Terminal System Pipeline Projects

As of the end of January 2005 a total of 11 applications from proponents in different parts of the country worth Php1.627 billion were approved. Also there are 8 pending applications yet to be approved worth Php482 million. About 8 prospective firms (with possible loan worth Php350 million) may be invited to use the SLDP funds. Some companies who applied for the loan[15] are as follows:

Table 32: List of Companies and their Identified Routes for the Road RORO Terminal System

Company	Route	Project Description	Estimated Investment (Cost in Million Pesos)
Philippine Nippon Kyoei Corp	Boac, Marinduque to Lucena Cit	Vessel Acquisition (1)	80
Almeda Star Ferry Corp	Real, Quezon to Polillo Islands	Vessel Acquisition	50
E. B. Aznar Shipping	Toledo City, Cebu to San Carlos, Tabuelan, Cebu to Bantayan Island, Cebu	Vessel Acquisition (2)	120
Grand Wega Ferry Corporation	Santander, Cebu to Sibulan, Negros Oriental	Vessel Acquisition (2) Terminal Construction (2)	80
Millennium Shipping	Guihulngan, Negros Oriental to Dumajug, Cebu Bacolod City to Dumangas, Iloilo	Vessel Acquisition (1)	40
Engr. Victor Lerias	Maasin, Leyte to Ubay, Bohol	Terminal Construction Vessel Acquisition	80
President Manuel Roxas – LGU	Zamboanga del Norte	Terminal Improvement	40
Placer, Masbate / Other Proponent	Masbate	Terminal Construction	30
Viva Shipping Lines	San Narciso, Quezon to Pasacao,	Vessel Acquisition (2) units	P300

[15] It should be noted that not all companies listed were able to acquire a loan from DBP

Donsol of Pilar LGU	Camarines Sur Donsol, Sorsogon to Aroroy, Masbate	Terminal Acquisition (1) Terminal construction (1) Vessel Acquisition (2)	P70

I. Status of Road RORO Terminal System

The tables below shows the 49 routes within the country identified by DBP that needs to be linked using the Road-RORO terminal system:

Table 33: Existing RORO Connections

RRTS Link No.	Route
1	Bogo (Cebu) – Palompon (Leyte)
2	Calapan – Batangas
3	Kinobatan (Misamis Oriental) – Guinsiliban (Camiguin)
4	Kolambugan (Lanao del Norte) – Ozamis City (Misamis Occidental)
5	Rizal (Agusan Norte) – Liloan (Panaon Island)
6	San Isidro – Matnog – Allen
7	Toledo City – San Carlos (Negros Occidental)
8	Tabaco (Albay) – Virac (Catanduanes)

Table 34: Existing RORO Connections Developed Markets

RRTS Link No.	Route
9	Carmen – Isabel (Leyte)
10	Dumaguete City – Santander (Cebu)
11	Jordan – Iloilo City
12	Tabaco (Albay) – San Andres (Catanduanes)
13	Tabuelan – Escalante (Negros Occidental)
14	Tubigon (Bohol) – Cebu City
15	Zamboanga City – Isabela (Basilan)

Table 35: New RORO Connections – High Priority

RRTS Link No.	Route
16	Bacolod City – Dumangas
17	Boac (Marinduque) – Lucena City
18	Abra de Ilog (Occidental Mindoro) – Batangas
19	Bogo (Cebu) – Placer (Masbate)
20	Dapitan City (Misamis Occidental) – Dumaguete City (Negros Oriental)
21	Donsol (Sorsogon) – Aroroy (Masbate)
22	Escalante – Sta. Fe (Bantayan Island) – San Remigio (Cebu)
23	Looc (Bohol) – Argao (Cebu)
24	Maasin (southern Leyte) – Ubay (Bohol)
25	Manapla (Negros Occidental) – Ajuy (Iloilo)
26	Masbate – Talisay (Ticao Island) – Jacinto (Ticao Island) – Bulan (Sorsogon)
27	Navotas – Orion (Bataan)
28	Pulupandan (Negros Occidental) – Barcelona (Guimaras)
29	Real (Quezon) – Polilio Island
30	Samal Island – Davao City
31	Santander – Siquijor
32	Ternante (Cavite) – Mariveles (Bataan)

Table 36: New RORO Connections with Good Market Potentials

RRTS Link No.	Route
33	Atimonan (Quezon) – Alabat (Alabat Island)
34	Aroroy (Masbate) – Boca Engano (Burias Island)
35	Calatagan – Abra de Ilog
36	Catanauan – Sta. Cruz (Marinduque)
37	Del Carmen (Surigao Island) – Caglanao (Dinagat Island) – Surigao City
38	Lupon (Davao Oriental) – Samal Island
39	Magdiwang (Sibuyan Island) – Romblon – Carmen – Pinamalayan (Mindoro Oriental)
40	Mambajao (Camiguin Island) – Jagna (Bohol)
41	Naval (Biliran Province) – Binalayan – Cataingan (Masbate) – Calbayog
42	Pascual (Burias Island) – San Narciso (Quezon) – Pasacao (Camarines Sur)
43	Pio Duran (Sorsogon) – Claveria (Burias Island)
44	Roxas City (Capiz) – Balud (Masbate)
45	Taytay (Palawan) – Sibaltan – Binalan (Linapacan Island) – Cultan – Coron – San Jose (Mindoro Occidental)
46	aticlan (Aklan) – Semirara Island – Bulalacao (Mindoro Oriental)
47	Union – Sta. Fe (Romblon) – Roxas (Oriental Mindoro)
48	n (Negros Oriental) – Dumanjug (Cebu)

Table 37: Eastern Luzon Coastal Service

RRTS Link No.	Route
00	Real (Quezon Province) – Dingalan (Aurora) – Baler (Aurora) – Dinalongan – Palanan (Isabela) – Divilacan (Isabela) – San Vicente (Cagayan Province)

DBP also identified Missionary Connections or Routes, which means that there are no regular vessels serving the RRFN connection, but only serviced by pump boats or *bancas*. Included in the 48 pre-identified RRFN connections are the following:

i) Bogo (Cebu) – Placer (Masbate)
ii) Donsol (Sorsogon) – Aroroy (Masbate)
iii) Maasin (southern Leyte) – Ubay (Bohol)
iv) Masbate – Talisay (Ticao Island) – Jacinto (Ticao Island) – Bulan (Sorsogon)
v) Navotas – Orion (Bataan)
vi) Ternante (Cavite) – Mariveles (Bataan)
vii) Atimonan (Quezon) – Alabat (Alabat Island)
viii) Aroroy (Masbate) – Boca Engano (Burias Island)
ix) Calatagan – Abra de Ilog
x) Catanauan – Sta. Cruz (Marinduque)
xi) Del Carmen (Surigao Island) – Caglanao (Dinagat Island) – Surigao City
xii) Lupon (Davao Oriental) – Samal Island
xiii) Magdiwang (Sibuyan Island) – Romblon – Carmen – Pinamalayan (Mindoro Oriental)
xiv) Mambajao (Camiguin Island) – Jagna (Bohol)
xv) Naval (Biliran Province) – Binalayan – Cataingan (Masbate) – Calbayog
xvi) Pascual (Burias Island) – San Narciso (Quezon) – Pasacao (Camarines Sur)
xvii) Pio Duran (Sorsogon) – Claveria (Burias Island)
xviii) Roxas City (Capiz) – Balud (Masbate)
xix) Taytay (Palawan) – Sibaltan – Binalan (Linapacan Island) – Cultan – Coron – San Jose (Mindoro Occidental)

xx) Caticlan (Aklan) – Semirara Island – Bulalacao (Mindoro Oriental)
xxi) Union – Sta. Fe (Romblon) – Roxas (Oriental Mindoro)
xxii) Coastal Service for Northeastern Luzon coastal towns
xxiii) Other connections that will be identified or proposed later

As of December 2004, out of the 49 identified areas, 26 areas have established connections with service while the 23 remaining connections are still without service. The remaining 23 routes without RORO service/port facilities are as follows:

Table 38: Routes without RORO Services

RRTS Link No.	Route	Proposed Projects
1	Bogo (Cebu) – Palompon (Leyte)	Vessel
19	Bogo (Cebu) – Placer (Masbate)	RORO Port/Vessel
21	Donsol (Sorsogon) – Aroroy (Masbate)	RORO Port/Vessel
24	Maasin (southern Leyte) – Ubay (Bohol)	Vessel
25	Manapla (Negros Occidental) – Ajuy (Iloilo)	RORO Port/Vessel
26	Masbate – Talisay (Ticao Island) – Jacinto (Ticao Island) – Bulan (Sorsogon)	RORO Port/Vessel
27	Navotas – Orion (Bataan)	Vessel
31	Santander – Siquijor	Vessel
32	Ternante (Cavite) – Mariveles (Bataan)	RORO Port/Vessel
34	Aroroy (Masbate) – Boca Engano (Burias Island)	RORO Port/Vessel
35	Calatagan – Abra de Ilog	RORO Port/Vessel
36	Catanauan – Sta. Cruz (Marinduque)	Vessel
37	Del Carmen (Surigao Island) – Caglanao (Dinagat Island) – Surigao City	Vessel
38	Lupon (Davao Oriental) – Samal Island	RORO Port/Vessel
39	Magdiwang (Sibuyan Island) – Romblon – Carmen – Pinamalayan (Mindoro Oriental)	RORO Port/Vessel
40	Mambajao (Camiguin Island) – Jagna (Bohol)	RORO Port/Vessel
41	Naval (Biliran Province) – Binalayan – Cataingan (Masbate) – Calbayog	Vessel
42	Pascual (Burias Island) – San Narciso (Quezon) – Pasacao (Camarines Sur)	RORO Port/Vessel
43	Pio Duran (Sorsogon) – Claveria (Burias Island)	RORO Port/Vessel
44	Roxas City (Capiz) – Balud (Masbate)	Vessel
45	Taytay (Palawan) – Sibaltan – Binalan (Linapacan Island) – Cultan – Coron – San Jose (Mindoro Occidental)	RORO Port/Vessel
46	Caticlan (Aklan) – Semirara Island – Bulalacao (Mindoro Oriental)	RORO Port/Vessel
48	Guihulngan (Negros Oriental) – Dumanjug (Cebu)	Vessel
00	Sta. Ana (Cagayan) – Maconacon (Isabela) – Casiguran (Aurora) – Baler (Aurora) – Real (Quezon)	RORO Port/Vessel

DBP has identified three major seaboards for its RORO operation namely the Western Seaboard, Central Seaboard and Eastern Seaboard. So far the developments for each seaboard are as follows:

i) Western Seaboard (From Manila to Zamboanga del Norte Route):
   - Manila to Batangas City – By Land
   - Batangas City to Calapan, Oriental Mindoro – By RORO
   - Calapan to Roxas – By Land
   - Roxas, Oriental Mindoro to Caticlan, Malay, Aklan – By RORO
   - Caticlan to Iloilo City – By Land
   - Iloilo City to Bacolod City – By RORO
   - Bacolod City to Dumaguete – By Land
   - Dumaguete City, Negros Oriental to Dapitan, Zamboanga del Norte – By RORO

ii) Central Seaboard (From Manila to Misamis Oriental):
   - Manila to Pilar – By Land
   - Pilar/Donsol, Sorsogon to Masbate City – By RORO (No Existing Operator)
   - Masbate City to Placer – By Land
   - Placer, Masbate to Hagnaya, San Remigio, Cebu – By RORO (No Existing Operator; Placer – No Port; vessel acquisition)
   - Hagnaya to Cebu City – By Land
   - Cebu City to Tubigon, Bohol – By RORO
   - Tubigon to Jagna, Bohol – By Land
   - Jagna, Bohol to Mambajao, Camiguin – By RORO (No Existing Operator; Jagna Port needs improvement; vessel acquisiton)
   - Mambajao to Guinsiliban/Benoni – By Land
   - Guinsiliban/Benoni, Camiguin to Balingaoan, Misamis Oriental – By RORO

iii) Eastern Seaboard (From Manila to Surigao City)
   - Matnog, Sorsogon to Allen, Northern Samar – By RORO
   - Allen to Liloan – By Land
   - Liloan, Southern Leyte to Lipata, Surigao City – By RORO

So far, the Western Seaboard is the only route that has been completed from Luzon to Mindanao. The Central and Eastern Seaboard has yet to be fully established. In line with this, DBP's has established its goal for 2005 to make all three seaboards operational. Specifically, DBP has set its priority on the completion of the following projects by the end of the year:

i) Dumaguete City to Santander, Cebu (Vessel acquisition; Santander RORO Ramp for construction; Dedicated vessel)
ii) Hagnaya, San Remigio, Cebu to Placer, Masbate (Placer has no port; Vessel acquisition)
iii) Dumaguete City to Dapitan, Zamboanga del Norte (Vessel acquisition)
iv) Donsol/Pilar, Sorsogon to Aroroy/Masbate (Vessel acquisition and RRTS terminal in Donsol/Pilar)
v) Maasin, Southern Leyte to Ubay, Bohol (Vessel acquisition)
vi) Mambajao to Jagna, Bohol (Vessel acquisition/RRTS terminal in Jagna)

Some of the technological developments needed for a successful RORO operation are the following:

i) Increasing capital requirements in the construction of RORO terminals and warehouses;
ii) Utilization of RORO ferries, in particular, could produce significant reductions in the costs of cargo handling, which may need significant capital financing requirements and subsidies to promote the economic viability of the operation in remote areas;
iii) Building increasingly appropriate port area facilities that require substantial port investment in new infrastructure and equipment in order to realize the potential economies of scale available in the transport of cargoes;
iv) Developing integrated transport chains and hinterland transport infrastructure will reduce trans-shipment costs such that it may be preferable for a shipper to use freight trucks to reach target markets directly;
v) Adoption of an economic subsidy support system under the supervision of the local RRFN Regulator in the duration of the developmental stage of the RRFN until full privatization is attained.

The Road Network-RORO Ferry System in Norway is a good model, which the Philippines might want to use. The Norway model system operates as follows: Statens Vegvessen (SVV) manages the road network ferry system (Road Ferry Operation) in Norway for the national roads, the provincial governments for the provincial roads and the local government units for the municipal roads.

SVV is responsible for more than 100 ferry connections. These are serviced by more than 150 RORO ferries owned and operated by 20 private companies. For political and practical purposes, each and every ferry connections are regarded as forming part of the road. There is a distinction however under the Road Act that ferries are not included as part of the road but is covered by the Transport Act, which falls under the rules for passenger vessels in domestic service. There are very few road ferry connections that are commercially viable and thus most are dependent on the financial support provided by the government.

How the Road Ferry Operation operates is described as follows:

i) Ferries operate under a contract between SVV and the individual ferry companies
ii) SVV approves all investments in ferries and equipment
iii) Ferry franchises are normally for 10 years (minimum of 5 years) and awarded through public bidding; awarded companies received a negotiated amount of money annually as its revenues while operational costs are for the account of the operators
iv) SVV has the responsibility of constructing and maintaining the ferry terminals; in this case SVV does not charge anything from the ferry operators
v) At times, SVV leases the ferry terminal from the local port authority, in which case the ferry operators pay tolls for cars and passengers to the leasing authority
vi) Travelers pay according to a nationwide rate and fare regulation
vii) Fares set for vehicles (cars, trucks, buses) is the cost of driving the same distance on land as the ferry crossing plus 40% (other cost elements are sometimes added)
viii) Ferry rates are set per kilometer and may be subject to discounts as in the case of prepayment of tickets

ix) SVV decides on the standards involving frequency and size of ferries on the basis of expected volume of cars and passengers; for local connections ferries normally operate for 15-hours and 18-hours for the main connections with scheduled departures every 30 minutes

J. RRFN Regulator

There are two problems that arise in the adoption of the Norway model. First, common carrier in coastal waterway services bear much higher fixed costs and may lead to the abandonment of the route in favor of more profitable route, thus adversely contravening the very purpose of the program. Second, because of economies of scale, endeavoring to cover total costs may lead to a divergence between price and marginal cost. This problem is most marked in the case of infrastructure costs, if charged for, particularly where certain services regularly have spare capacity in order to meet peak demand or maintain service quality.

There are three possible solutions to the problems of the RORO operator:

i) The operator could base prices on marginal cost, with the resulting deficit being financed by government subsidy though this is unlikely under current economic condition, but may be justified to compensate for the economic development of the area. In this cast, the government needs to be able to estimate the volumes and corresponding marginal costs conforming to the optimal allocation of traffic in order to determine the appropriate subsidy. If it does not do so, then it will revert to deficit financing with no real ability to exert financial discipline on the operator. The financial deficit will have to be met either by taxation or by diverting other forms of government expenditures. The opportunity cost of this expenditure will need to be assessed RRFN system will need to be evaluated using social cost-benefit analysis.

ii) The operator could base prices on average cost, but this could only be sustained with a degree of protection from other modes. In this case, the government will need to be involved in the day-to-day administration of the freight service and will have to employ arbitrary methods to allocate vessels to traffic and to establish priorities. Again, investment in the waterway system will need to be evaluated using social cost-benefit analysis.

iii) The operator may seek to discriminate between traffic flows according to the shipper's willingness to pay in order to cover the difference between average and marginal cost. This approach largely eliminates the regulatory role of government. This is because the allocation of freight is determined by the market and long-term planning and investment can be made on the grounds of profitability. The basis for discrimination usually is class of freight determined by value and the extent of competition from alternative modes of transport.

K. Government Support Needed for Actualization of RRFN

President Arroyo signed Executive Order No. 170 providing greater private sector participation in the RO-RO terminal system. The basic idea is to let the traffic flow through without delay along the land and nautical highway. DBP for its part will pour P20 billion to finance storage, ferry boat and port facilities all over the country.

The following government agencies are involved in the actualization of the RRFN terminal system:

1. Department of Transportation and Communication (DOTC)

The Department of Transportation and Communications (DOTC) is the biggest government agency committed to the maintenance and expansion of viable, efficient, and dependable transportation and communications systems as effective instruments for national recovery and economic progress.

It exercises general supervision over all its sectoral offices – Air Transportation Office, Land Transportation Office, Land Transportation Franchising and Regulatory Board, Telecommunications Office and Philippine Coast Guard, all of which are responsible for the delivery of front line services of the Department. Part of its mandate is to develop, promote, implement or cause to implement and maintained integrated and strategic transportation and communications systems that will ensure safe, reliable, responsive and viable services to enhance the socio-political integration and to help accelerate the economic development of the country.

Its mission is to lead in the creation of an environment for the establishment and development of an integrated transportation and communications system that will foster the attainment of national development goals. Its vision is a transport master plan in place that has taken into consideration efficient, adequate, dependable, intermodal/intramodal complementation.

To help the SLDP program, the DBP requested the assistance of the DOTC in preparing a conducive regulatory environment for RRTS. It is important to have a ready environment where the operations of RRTS will be securely monitored and taken care of.

2. Department of Public Works and Highways (DPWH)

The Department of Public Works and Highways (DPWH) is one of the three departments of the government undertaking major infrastructure projects. The DPWH is mandated to undertake (a) the planning of infrastructure, such as roads and bridges, flood control, water resources projects and other public works, and (b) the design, construction, and maintenance of national roads and bridges, and major flood control systems. These activities are undertaken in support of the national objectives of (a) alleviating rural poverty and attaining food security, and (b) expanding industries for greater productivity and global competitiveness as envisioned in the Medium-term Philippine Development Plan for 1999-2004.

DPWH also functions as the engineering and construction arm of the Government tasked to continuously develop its technology for the purpose of ensuring the safety of all infrastructure facilities and securing for all public works and highways the highest efficiency and quality in construction. It is also responsible for the planning, design, construction and maintenance of infrastructure, especially the national highways, flood control and water resources development system, and other public works in accordance with national development objectives.

Its role is to efficiently maintain and manage quality infrastructure facilities and services in accordance with appropriate international standards through optimized use of resources and technology, responsive to the needs and aspirations of the Filipino people, in pursuit of the

National development objectives of Philippines 2000 and beyond. Its vision, on the other hand, is to become a model agency in the infrastructure development of the country. It is a strong partner in strengthening the national economy and improving the life of every Filipino.

Part of its mandate is to plan, design, and construct infrastructure that will help alleviate poverty and develop the countryside. This is very appropriate because the SLDP needs their support have access roads to the ports that are part of the RRTS. For the constructed vessels of RORO to be useful, there must me an adequate road system that will transport the goods from the farms to the ports. The role of the DPWH in constructing this road system is vital because it is the first step in the efficient and cheap way of transporting goods.

3. Department of Agriculture (DA)

The Department of Agriculture (DA) is the principal agency of the Philippine government responsible for the promotion of agricultural development growth. In pursuit of this, it provides the policy framework, helps direct public investments, and in partnership with local government units (LGUs) provides the support services necessary to make agriculture and agri-based enterprises profitable and to help spread the benefits of development to the poor, particularly those in rural areas. Its main contribution to the development of the SLDP program is to assist in post harvest operations. It can begin by assisting the small farmers and producers in taking take of their produce right after harvest and before they are shipped out to the other parts of the country.

This role is fulfilled by their Republic Act 8435, otherwise known as the Agriculture and Fisheries Modernization Act (AFMA), aims to strengthen the agriculture and fishery sectors through modernization, greater participation of small-holders (or small stakeholders), food security and food self-sufficiency, private sector participation and people empowerment. Ginintuang Masaganang Ani (GMA) (Makapagpabagong Programa Tungo sa Masagana at Maunlad na Agrikultura at Pangisdaan) will be the banner program for agricultural development, a transitional blueprint for putting AFMA to work. As such, it will focus on achieving food security and poverty alleviation, with the LGUs (local government units) and other stakeholders developing their own plans and programs suitable to their respective localities. Such plans and programs should be able to ensure food security by increasing productivity in irrigated areas, while addressing poverty alleviation by providing support to marginal areas to empower those who have the least.

The program envisions a modernized and productive agriculture and fishery sector, being able to provide food at prices affordable to all, especially the marginalized sectors, which will eventually be empowered as the benefit from responsive support services provided them. To attain security and competitive self-sufficiency in rice, the agriculture sector should modernize productivity in corn and other feed crops, promote diversification in resource-poor; lowland and upland ecosystems without access to irrigation, promote livestock enterprise development, and foster the recovery and eventual growth of the fisheries sector through stratified targeting; this way, interventions that will be introduced will be more responsive to farmer' needs.

The immediate concern is to specifically address direct investments in support of the following: protection and development of watersheds; proper management of agricultural land and water resources; establishments and rehabilitation of irrigation systems; providing marginalized sectors preferential access to productive assets; and providing other essential

measures and support services. Providing affordable, available, adequate and accessible food supplies at all times is of course, paramount.

4. Department of Finance (DOF)

The Department of Finance (DOF) is needed in the SLDP project to help fund sourcing. Part of its mission is to mobilize of adequate resources on most advantageous terms to meet budgetary requirements and a strong economic growth with equity and productivity. The present budget need not be changed to accommodate its role in the SLDP. What is needed is its cooperation and willingness to extend loans and/or assistance to producers and farmers in the production of their goods. They also need the DOF's help in proposing programs that will supplement the loans that the DBP is offering to interested investors.

5. Landbank of the Philippines (LBP)

As a Government Universal Bank, LBP shall be a dominant financial institution in the countryside leading the nation to economic prosperity. As a partner for the SLDP program, the land Bank of the Philippines is needed to co-finance post harvest facilities and to finance agricultural production. Much similar to the role of the Department of Agriculture, they are needed to finance both the production of agricultural products and to assist in its handling right after harvest. This role is important because without the help to the producers, there will be no goods to transport using the RRFN. Post production assistance is also required because the goods need to stay fresh and of quality before they reach their ports and be shipped out into the different markets.

6. Department of Environment and Natural Resources (DENR)

The DENR is the primary government agency responsible for the conservation, management, development and proper use of the country's environment and natural resources, including those in reservations, watershed areas and lands of the public domain, as well as the licensing and regulation of all natural resources utilization as may be provided by law in order to ensure equitable sharing of the benefits derived there from for the welfare of the present and future generations of Filipinos.

As provided for under Section 4 of E.O. 192, the DENR is mandated to be the primary government agency responsible for the conservation, management, development and proper use of the country's environment and natural resources, including those in reservations, watershed areas and lands of the public domain, as well as the licensing and regulation of all natural resources utilization as may be provided by law in order to ensure equitable sharing of the benefits derived there from for the welfare of the present and future generations of Filipinos.

The DENR's mission is to be the dynamic force behind people's initiatives in the protection, conservation, development and management of the environment through strategic alliances and partnerships, participate in processes, relevant policies and programs and appropriate information technology towards sustainable development.

The DENR can help in the operations of the SLDP by facilitating environmental clearances needed by the RRTS. Before the RRTS can fully operate, it must secure licenses and certain clearances to ensure that its operation will not disrupt the local wildlife where it is operating in. Although the RRTS is unlikely to negatively affect the wildlife of the rural areas, the

cooperation of the DENR is needed to assure that all clearances will be issued on time and without much difficulty.

7. Department of Trade and Industry (DTI)

The Department of Trade and Industry (DTI) aims to serve the needs of both business and consumers. Specifically, its services are aimed at creating a business-friendly environment that promotes and facilitates the growth of investments, trade and industry in the country. At the same time, by promoting competition and enforcing fair trade laws, DTI protects the welfare of consumers and enables them to get value for their money.

L. Present condition of RRNF

The SLDP continues to be aligned with the government's top priorities of building the Strong Republic Nautical Highway through its three components, the RRFN, Cold Chain, and Bulk Grains Highway. Under the RRFN, DBP has released P1.25 billion in loans for the purchase and upgrade of eight shipping vessels to serve the Ozamiz – Mukas, Lucena – Marinduque, Batangas – Calapan, Cagayan – Cebu, and Mindanao – Luzon routes. In addition, loans amounting to a total of Php275.2 million have been approved for the acquisition of three shipping vessels to serve the Real – Polilo, Tabuelan, Escalante and Quezon – Aurora – Isabela – Cagayan routes, RORO terminal port development, and the development of a multi-purpose port.

Under the cold chain highway component 19 projects amounting to P568.3 million have been approved for financing. These involve ice plants, seafood processing, cold storage facilities, tin can manufacturing, meat processing, fruit juice manufacturing, and fish food processing located in Cagayan de Oro, Iloilo, General Santos, Zamboanga, Tagbilaran, Pateros, Davao City, Bulacan, Ilocos Norte, Pagadian, and Dagupan.

Under the Grains Bulk Highway, loan approvals have reached P460 million for 74 projects involving grain processing, rice milling, noodles production, coconut oil manufacturing, feed milling, corn processing, and palay trading. These projects are located in Zamboanga del Sur, Ilocos Norte, Davao, Bulacan, Oriental Mindoro, Cotabato, Occidental Mindoro, Isabela, Batangas, Surigao and Tagum.

M. Assessment of SLDP

The SLDP started in December 1999 as an ODA fund provided by JBIC for 19.999 billion Yen. The project was a five year plan to provide for a comprehensive and integrated transport as well as related infrastructure and support services. It is a program, which is anchored on the understanding that freight transport demand is derived from economic activities that are expected to grow in the future; and in improving the efficiency in the various sectors of the distribution of goods and services in the country.

However, after five years, the fund provided by JBIC has yet to be fully disbursed due to different reasons. As such the program was extended until December 2007. The following reasons were cited for DBP's failure to exhaust the fund:

1. **Appreciation of Yen vis-à-vis Philippine Peso, which increased the total budget denominated in Pesos.**

The appreciation of the Japanese Yen vis-à-vis Philippine Peso in a way has helped increase the budget being exhausted by DBP. This can increase the number of firms which can borrow using the SLDP project.

2. Postponement of projects not yet fully committed, due to the risk associated with the volatile exchange rate.

This reason is the downside of the effect brought about by the appreciation of the Yen vis-à-vis Philippine Peso. The volatile exchange rate has forced firms not to fully commit to the loans as this might prove to be detrimental to the company. There were a number of cases where DBP has already approved a loan for a company only to be withdrawn due to the risk associated with the volatility of the exchange rate.

3. Increased cost of imported goods, due to the depreciation of Philippine Peso which dampened the enthusiasm of businessmen and firms.

Most of the process involved in SLDP has a direct effect on the cost of importation. Firms often cite increasing cost of importation as a cause of concern for them thus, decreasing chances of firms applying for loans.

4. Uncertain political situation.

The period when the SLDP started coincided with the political uncertainty in the country. This was the time when former President Joseph Estrada was impeached and eventually ousted in office. This created political uncertainty as to the legitimacy of the Arroyo administration. This lead to capital outflow and eventually decline in investor confidence

5. More prudent loan approval standards by DBP to safeguard portfolio quality from further degradation.

Another reason for the inability to fully exhaust the fund promptly was due to the more prudent standards set by DBP to ensure portfolio quality. Also, DBP uses the 80%-20% loan equity ratio to ensure that those who borrow have the capability to pay the loan.

To attest to its very prudent standards is the fact that as of January 2005, there are 36 pending applications and about 22 prospective applications to the project.

N. Recommendations for the DBP

1. More aggressive promotion of SLDP

DBP must find ways to promote SLDP and provide the benefits of investing in it such as its return on investment, lower interest rate, longer repayment scheme and allowable grace periods.

2. Faster loan approval from DBP

DBP must find ways to approve loans much faster but at the same time applying more prudent standards to safeguard portfolio quality from further degradation. As of January 2005, there were 36 pending applications which seem to be a small number for DBP not finish them in a short time.

3. Ask government to establish more ports/terminals/docking areas especially in Missionary Routes

DBP has identified 22 missionary routes or connections which have no regular vessel serving the areas but only serviced by pump boats or bancas. This means that most of these areas have only improvised ports, terminals and docking areas. Asking companies to establish their own ports, terminals or docking area would lessen the chances of getting investors. Companies who may be willing to invest in the identified missionary routes/connections would at least want to have the port area developed by the local government. Investors would not invest in areas where there is no development projects being provided by the government.

XIII. SUMMARY

This paper provides an assessment of the performance of three government institutions that are critical in the industrial adjustment policies of the country. These are the Philippine Economic Zone Authority's (PEZA), The Center of International Trade Expositions and Missions (CITEM) and The Development Bank of the Philippines (DBP).

PEZA's mission is to contribute to the accelerated creation of employment and other economic opportunities, particularly in the countryside, and to spur the growth and diversification of exports, by encouraging and supporting investments in the development and operation of viable, world-class and environment-friendly economic zones.

Indeed, the Philippine Economic Zone Authority (PEZA) has been successful in attracting entrepreneurs to invest into the different economic zones situated in various regions of the country through its fiscal and non-fiscal incentives. This industrial strategy of the government had brought many advantages into the domestic economy. First, because of the PEZA firms, a million jobs were made available for the Filipino labor force. It also had indirectly created employment through the construction of various infrastructures, and the increased demand of Filipino products as raw materials for these PEZA firms. Second, the economic zones paved the way for increasing the foreign direct investments into the country. Clearly, the domestic business sector could not afford to make additional investments for the purchase of new machineries and business expansions; nor could they allocate sufficient funds for research and development. Thus, the Philippines could not compete in the international market if the country would just rely on the domestic investments. Through foreign direct investments, new industries could be made available for the country, which could exploit our comparative advantage, such as call centers and other businesses. It also had enabled the country to be more efficient in production through the various skills and technologies that were brought by the foreign enterprises. And last, the economic zones had also contributed to the foreign exchange earnings of the country. This was made possible through the exports and various capital contributions of the PEZA firms.

However, the establishment of the economic zones had its own set of disadvantages. First, Filipino employees were often exploited, especially those that were working in the production lines of the manufacturing sector (Yu, 2004). As discussed in the previous chapters, some Filipino workers were working in health-hazard, low income, and long hour type of jobs, due to the permission of the government to "contractualize" employees. Second, the government had to forego millions in foregone revenues in order to provide the many generous incentives that were being granted to foreign investors. According to a study conducted by the Philippine Institute of Development Studies (PIDS), the foregone revenue from fiscal incentives

reached to $3.22 billion for the period 1998-2000 only (Yu, 2004) This figure did not even include the exemption from taxes and duties on the importation of inputs, such as raw materials and machineries, export taxes, and costs of infrastructures. Third, aside from the cheap labor that the country offered to the foreign investors, some PEZA firms also benefit from the absence of any government ecological protection measure. According to Hipolito and Reyes (1990), environmental groups in Leyte had demanded the closure of the Leyte Industrial Developmental Estate for being hazardous to the health of its employees and the nearby residents. Toxic wastes were reported to come from three companies operating in the zones: the Philippine Associated Smelting and Refining Corporation, the Lepanto Mining Company, and Philphos (a fertilizer manufacturing company).

Truly, the government cannot remove the economic zones in order to prevent such disadvantages, since it would cost the Filipinos their employment. What the government could do was the strict monitoring of the PEZA firms' operations and the implementation of the law, such as the labor code and environmental laws by PEZA, in cooperation with the appropriate government agency. For example, PEZA, together with the Department of Labor and Employment (DOLE), should ensure that the laborers' rights were observed, such as humane labor environment and they were proper compensation would be met. On the other hand, with the cooperation of the Department of Environment and Natural Resources (DENR), PEZA would be able to monitor the environmental impacts of the operations of PEZA-registered firms, and then impose fines if the situation called for such action.

In the end, the government has to study the benefits and costs of operating export processing zones, and eventually make necessary adjustments to address the said problems in the operation of PEZA firms in order to protect the interests of the different stakeholders of PEZA.

CITEM on the other hand is an agency attached to the Department of Trade and Industry (DTI) whose role is to promote Philippine products through promotion activities. These promotion activities were designed to improve the government export programs and establish a high-quality standard reputation of Philippine-made products and services. Similar to other developing countries in South East Asia, the Philippines is determined to provide export promotion services as part of its export-oriented growth strategy especially in these times where the country's trade performance is challenged by a negative trade balance.

CITEM's portfolio of export promotion programs, though relatively conventional or traditional, has built strong relationships overseas, which are very important in trying to attract a greater share in the international market. CITEM's prioritization of SMEs seems to be a good practice as SME's face the highest hurdles to export success. Also, CITEM's identification of target or priority sectors is beneficial as this builds the necessary expertise in industries where most firms wish to be internationally successful. These 10 priority sectors are considered as having competitive advantage in the international market in terms of its development and growth. These are: construction materials, electronics, food, giftware and holiday décor, home furnishings, IT and IT-enabled services, marine products, motor vehicle parts and components, organic and natural products, and wearable.

Unfortunately, CITEM has been perceived to be not performing well with its function. For one, in the interviews conducted, most of the exporting firms are not fully aware of CITEM and the services it provides. There were even instances when firms would discover CITEM only after they get nominated for the Golden Shell Award. This may be the reason why exporting firms do not fully take advantage of the support services and in-market activities offered by

CITEM. Secondly, CITEM has not been getting its fair share in the budget allocation. In 2004, CITEM only got P94 million budget, an amount not even enough for its operating expenses for the year which amounted to about P163.6 million in year 2003. CITEM has been relying on donated capital from international trade organizations. The inadequate budget has forced CITEM to ask firms joining trade fairs to subsidies about 20% of the cost of the expenses in transportation, registration, marketing and booth set-up fees. This fee usually discourages small firms to join CITEM's programs since most of them cannot afford to pay the subsidies. Lastly, it can be observed that about 70% of the Golden Shell Awardees have folded up already. This indicates that CITEM lacks resources (financial and support) to help exporters to sustain its growth.

In the end, the challenge for CITEM is to find ways to sustain the growth of SMEs. This can be done by finding ways to introduce the product to the market during its first few years of operation and later on find ways for the company to establish and survive in the market.

The Development Bank of the Philippines (DBP) on the other hand is a 100% government-owned financial institution created in 1958 to provide credit facilities for the rehabilitation, development and expansion of agriculture and industry, the broadening and diversification of the national economy, and to promote the establishment of private development banks in provinces and cities. DBP's role is to promote economic progress through efficient allocation of credit to industries and projects, which stand to gain a lot of benefits to be shared by the maximum number of people.

The Sustained Logistics Development Program (SLDP) is one of the programs introduced by DBP as an investment-financing program for a comprehensive and integrated transport as well as related infrastructure and support services. The program addresses the needs of the logistics or distribution of goods and services within the context of the government's goal of having the capacity and capabilities for global competitiveness, provision for the alleviation of poverty and attainment of food sufficiency at the local, regional and national levels. SLDP is focused on the physical requirements of a sustainable distribution system inherent to maritime transport and related transport by land. It is geared towards the development of progressive long haul shipping to constitute the country's backbone in the transport of bulk agricultural products and the development of a RORO network to link islands to the growth centers of the country. The three main components of SLDP are the Bulk Grains Highway, Cold Chain and the RORO Ferry Network (RRFN).

The basic idea of the SLDP is to replace traditional and inefficient storage, handling, transport and support systems and replace them with the introduction of modern storage handling and transport system under proper quality control management. It aims to minimize wastage/spoilage, lower freight and handling costs per unit of cargo, provide adequate ports, practice Just-In-Time loading and delivery of cargo, and assure safety in transport. All of these objectives have one major goal of lowering transport costs with the effect of lowering the goods' prices for the end-consumers.

The SLDP budget (19.999 billion Yen) primarily comes from the Japan Bank for International Construction (JBIC) as an Official Development Assistance (ODA) fund. Although the SLDP program is a key ingredient to the development of rural areas through integrated transport and infrastructure and support services, it has not been successful in generating a lot of investors into the program. In fact the budget was not fully disbursed at the end of the five year program. This was the reason why DBP had to ask for an extension of three more years to fully disburse the fund. As of January 2005, a total of P3, 037,598,000 billion worth of loans has

been approved. The breakdown is as follows: P1.627 billion (11 accounts) for RRFN, P696 million (110 accounts) for Grains Highway and P714 million (25 accounts) for Cold Chain. The approved loans were equivalent to only about 30% of the whole fund. Several factors were cited for this are: (a) Appreciation of Yen vis-à-vis Philippine Peso, (b) Postponement of projects not yet fully committed, (c) Increased cost of imported goods, (d) Uncertain political situation and (e) More prudent loan approval standards by DBP.

Most of the problems mentioned seem to be more of a macro problem. Most of the problems are not due to DBP inabilities but associated with the problems of the economy. Thus, unless government does something about these problems, the SLDP project which was envisioned to address the needs of the logistics and distribution of goods and services, a noble program such as the SLDP might just go to waste.

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