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# **Export processing zones in the Philippines: A review of employment, working conditions and labour relations**

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Working Papers are preliminary material  
circulated to stimulate discussion  
and critical comments

International Labour Office Geneva

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## Preface

Over the years the ILO's constituents have repeatedly called for research on the social and labour impact of export processing zones (EPZs).<sup>1</sup> In response to requests made in different industrial committees and in the Governing Body Subcommittee on Multinational Enterprises, a number of country case-studies have been commissioned, within the framework of the ILO's Programme on Multinational Enterprises. This working paper is one example of this.

The research papers provide an overview of the economic significance of EPZs in the host countries and the situation that exists with respect to employment, pay and working conditions, training and labour relations in enterprises in the zones. Particular attention is paid to difficulties arising with regard to the observance of the ILO's Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy. Where the government, employers' organizations or trade unions, either have taken or are taking steps to address the problems identified, the actual and potential effectiveness of these initiatives as well as their shortcomings, have been brought to the fore.

The main aim of working papers is to promote discussion. They may also help to shed light on issues that merit further in-depth, policy-oriented research.

At the end of this text there is an annex with the list of all working papers published to date on the subject of EPZs, under the ILO's Programme on Multinational Enterprises, including a study carried out by the ILO and the former United Nations Centre on Transnational Corporations (UNCTC). The outcome of this joint endeavour, published in 1988, remains the most comprehensive analysis of the social and labour effects of EPZs in general, and the observations and conclusions are as relevant today as they were in the last decade. In a more recent monograph on "multinationals and employment", one of the chapters (Chapter 2) contains a subsection that touches upon direct employment in EPZs, while another (Chapter 6), examines the indirect employment effects of local sourcing by enterprises operating in the *maquiladoras* in Mexico. The study containing these two chapters is therefore in the list, as are the published proceedings of tripartite, national and/or regional meetings devoted to the subject of EPZs.

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<sup>1</sup> EPZs are also known by several other names, among them: industrial free zones; free zones; special economic zones; *maquiladoras* and free economic zones.



## Contents

<b>Preface</b> .....	iii
<b>List of abbreviations</b> .....	vii
<b>Introduction</b> .....	1
Aims, methodology and structure of the study .....	1
<b>Export processing zones in the Philippines</b> .....	3
Establishment of EPZs: An overview of the background .....	3
The Export Processing Zone Authority (EPZA) .....	4
Infrastructure and fiscal policy .....	5
I. Exemptions from taxes and duties .....	6
II. Other special privileges and priorities .....	6
The significance of EPZs in the Philippines .....	7
Contributions to the national economy .....	8
Exports .....	8
Employment and wages .....	10
Investment .....	13
Contributions of EPZs to local communities .....	15
Distribution of firms by zone and industry .....	15
<b>Profiles of the four regular export processing zones</b> .....	17
Bataan Export Processing Zone .....	17
Baguio City Export Processing Zone .....	19
Mactan Export Processing Zone .....	19
The Mactan EPZ Chamber of Exporters and Manufacturers .....	21
The Human Resource Association .....	22
Mactan Export Processing Zone Traffic Association, Security Council and the Association of MEPZ Controllers and Accountants .....	22
Cavite Export Processing Zone .....	23
<b>Employment, wages and training in the EPZs</b> .....	24
Employment .....	24
Equality of opportunity and treatment .....	24
Security of employment .....	25
Wages and benefits .....	26
Training .....	28
<b>Conditions of work in the zones</b> .....	28
Hours of work .....	28
Safety and health .....	29
<b>Industrial relations</b> .....	30
Freedom of association and the right to organize .....	30
Unionization rates .....	31
Collective bargaining .....	32
Tripartite Industrial Peace Council .....	33

Social Contract for Development based on Justice and Peace, 1993 and beyond . . . . .	34
Department of Trade and Industry — Center for Labor Relations Assistance (DTI-CLARA) . . . . .	34
Employment and industrial relations issues: The point of view of a trade union leader . . . . .	35
Employment and industrial relations issues: The point of view of government and zone officials . . . . .	36
<b>Concluding remarks . . . . .</b>	<b>37</b>
<b>References . . . . .</b>	<b>39</b>
<b>List of persons interviewed . . . . .</b>	<b>42</b>
<b>Annex: List of publications on export processing zones under the ILO's Programme on Multinational Enterprises . . . . .</b>	<b>43</b>
<b>Tables</b>	
1. Value of exports from the four zones, 1980-94 (US\$ million)	
2. Balance of trade of the four zones, 1980-94 (US\$ million)	
3. Total exports, exports from manufacturing and share of exports from EPZs as percentage of manufacturing exports, 1980-91 (US\$000)	
4. Number of registered firms in the zones, 1980-95	
5. Number of firms operating in the zones, 1993-95	
6. Number of workers in the zones, 1980-94	
7. Estimated direct and indirect employment generated by the zones, 1980-94	
8. Gender composition of the workforce in the zones, April 1995	
9. Total salaries and wages paid to workers in the zones, 1980-94	
10. Value of investment in the zones, 1980-94 (million Philippine pesos)	
11. Investment in EPZs as share of total inward FDI, 1980-92 (million Philippine pesos and percentages)	
12. Foreign direct investment in the regular and special zones by country of origin or territory, 1993 (million Philippines pesos)	
13. Distribution of firms by zone and product type or industry, 1995	
14. Ownership of enterprises by country or territory, 1995	
15. Distribution of enterprises in the BEPZ by industry or product line, 1995	
16. Balance of trade of the BEPZ, 1993-95 (US\$ million)	
17. Balance of trade of the BCEPZ, 1993-95 (US\$ million)	
18. Ownership of enterprises in the MEPZ by country or territory, 1995	
19. Distribution of enterprises in the MEPZ by industry or product line, 1995	
20. Balance of trade of the MEPZ, 1993-95 (US\$ million)	
21. Balance of trade of the CEPZ, 1993-95 (US\$ million)	
22. Investment for new projects in and expansion of the CEPZ, 1993-95 (million Philippine pesos)	
23. Average monthly earnings in the zones, 1993-95 (Philippine peso: US\$1 = P25)	
24. Enterprises with unionized workers in the Bataan EPZ, 1994	

## List of abbreviations

ADLO:	Association for Democratic Labor Organization
ALU:	Associated Labor Unions
ALU-TUCP:	Associated Labor Union-Trade Union Congress of the Philippines
BCEPZ:	Baguio City Export Processing Zone
BEPZ:	Bataan Export Processing Zone
BEPZ-CEM:	Bataan Export Processing Zone-Chamber of Exporters and Manufacturers
BOI:	Board of Investments
CEPZ:	Cavite Export Processing Zone
CFW:	Confederation of Free Workers
DOLE:	Department of Labor and Employment
DTI:	Department of Trade and Industry
DTI-CLARA:	Department of Trade and Industry-Center for Labor Relations
EPZ:	export processing zone
EPZA:	Export Processing Zone Authority
EPZA-IPD:	Export Processing Zone Authority-Information and Promotions Department
FDI:	foreign direct investment
FTZ:	free trade zone
HRA:	Human Resources Association
IE:	industrial estate
ILO:	International Labour Office or International Labour Organization
IRAC:	Industrial Relations Assistance Center
MEPZ:	Mactan Export Processing Zone
MNE(s):	multinational enterprise(s)
NAFLU:	National Federation of Labor Unions
PEZA:	Philippine Economic Zone Authority
P:	Philippine pesos
PIE:	private industrial estate
RIC:	regional industrial center
SEZ:	special economic zone
TUPAS:	Trade Union of the Philippines and Allied Services





## **Introduction**

Human capital is in abundant supply in the Philippines. The massive exodus of millions of contract workers to overseas destinations over the years provides evidence of this. The abundance of labour has also been a main consideration behind the creation of free trade zones, industrial estates and export processing zones (EPZs) — all of which are expected to generate employment.

Some regard EPZs as a form of labour export. This is particularly true in contexts where they contribute relatively little other than jobs to the domestic economy (Warr, 1984). Another point of view is that, while the establishment of EPZs involves high construction and maintenance costs, the zones often have weak linkages with domestic manufacturers, generate little value added activities in the host country, employ mainly unskilled, low-cost female labour and provide jobs that do not offer security of employment (Castro, 1982; Constantino, 1985; Diokno, 1989).

However, EPZs and similar zones have evolved and become widespread since they originated in Ireland and the Territory of Puerto Rico nearly three decades ago. Today, EPZs are widely promoted as a means for creating jobs, generating foreign exchange and attracting investment primarily in manufacturing. They are expected to enhance the managerial skills of locals, expand exports and increase competitiveness (Pena, 1978; Remedio, 1994).

EPZs are often criticized if and when conditions of work and benefits are less favourable than in comparable national enterprises located outside the zones. They have also drawn criticism when the right of workers to form and join trade unions and bargain collectively are violated (van Mierhaeghe, ILO, interview). It has also been argued that while there is considerable literature on the economic effects of EPZs in many countries, little is known about the ways in which the special status of EPZs affects the labour force.

### **Aims, methodology and structure of the study**

The aim of this working paper is to examine the situation with respect to employment, conditions of work and life and labour relations in four EPZs in the Philippines: the Bataan Export Processing Zone (BEPZ); Mactan Export Processing Zone (MEPZ); Baguio City Export Processing Zone (BCEPZ) and Cavite Export Processing Zone (CEPZ).

It is based to a great extent, on available secondary sources of information, including publications, documents and files accessed from the EPZ Authority (EPZA), Department of Labor and Employment, Department of Trade and Industry, Institute of Labor Studies, libraries and certain EPZ-based enterprises. In addition, interviews and discussions were held with managers of the zones, human resources managers of different firms, trade union leaders, a random sample of workers, as well as officials of the former EPZA, the Department of Labor and Employment, and the Department of Trade and Industry.

The study begins with a background of the programme for developing EPZs in the Philippines. This is followed by a general description of each of the four EPZs. The other three chapters deal with employment, conditions of work and industrial relations, and the conclusion recapitulates the main findings.



## **Export processing zones in the Philippines**

### **Establishment of EPZs: An overview of the background**

Export processing zones are industrial enclaves established to encourage enterprises, mainly multinational enterprises (MNEs) to produce primarily for export (Warr, 1984). In principle, the zones are intended to play a critical role in promoting a country's economic development by attracting foreign (and in some cases local) investment in export-oriented industries. They are to create jobs, facilitate the transfer of technology, increase foreign exchange earnings and enhance competitiveness. In short, EPZs are expected to promote trade liberalization, efficiency and contribute to social and economic development.

Government-sponsored export processing zones were developed during the 1970s. Those zones were intended to compensate for infrastructural deficiencies throughout the country, thereby facilitating investment in manufacturing. By developing sites with readily available transportation, power and communication facilities, the four EPZs located in Bataan, Mactan, Baguio and Cavite are said to be attractive destinations for foreign direct investment (FDI).

The idea of establishing EPZs in the Philippines dates back to 1923 (Castro, 1982) when the Chamber of Commerce of the Philippines agreed on the setting up of a free port to serve as a free trade zone. In 1937, President Quezon received favourable recommendations from the committee appointed to study the plan. After the 1946 Declaration of Independence implementation of the plan was delayed for several years.

Congressman Roman of Bataan, in August 1967, proposed a bill for Congress to consider the establishment of a free port in the municipality of Mariveles, province of Bataan. On 21 June 1969 the original free port plan, with some amendments, was signed into law (Republic Act No. 5490) by President Marcos. The Law provided for the conversion of Mariveles into a port of entry, thus establishing the first free port zone in the Philippines. The Foreign Trade Zone Authority was also set up to plan, develop and manage the zone. It was the forerunner of the Export Processing Zone Authority (EPZA) and Bataan became the first EPZ in the Philippines (Castro, 1982; Diokno, 1989; Warr, 1984; Olivar, 1993).

On 20 November 1972, Presidential Decree No. 66 amended the Code, thereby creating the EPZA. The provisions of the Code included the following:

Section 1. Declaration of policy. It is hereby declared to be the policy of government to encourage and promote commerce as a means of making the Philippines a centre of international trade, of strengthening our foreign exchange position, of hastening industrialization and of accelerating the development of the country by establishing export processing zones in strategic locations in the Philippines.

Some analysts see this historic event as having marked a shift away from the inward-looking import substitution policy of the 1950s and 1960s, to a more outward-looking, market-oriented policy in the 1970s. That move was said to hasten the development of the country.

In order to encourage the inflow of foreign private capital, laws and various incentive schemes administered by the Department of Trade and Industry through the Board of

Investments or the EPZA, were introduced. The Code relating to EPZs provides certain basic guarantees to all investors as well as a comprehensive scheme of benefits for enterprises involved in activities considered to be of high priority.

The Department of Trade and Industry (DTI) has been mandated to exercise jurisdiction over, and supervise the operations of the regional industrial centres (RICs) and private industrial estates (PIEs). This applies specifically to the Export Processing Zone Authority and the Board of Investments (BOI) for RICs and PIEs.

Today, there are four EPZs: Bataan Export Processing Zone, Mactan Export Processing Zone, Baguio City Export Processing Zone and Cavite Export Processing Zone. They are managed by the Exporting Processing Zone Authority (EPZA).

The most recent monumental event in the evolution of EPZs in the country was the establishment of *ecozones*. On 24 February 1995, Republic Act No. 7916 provided for the creation of the Philippine Economic Zone Authority (PEZA) attached to the Department of Trade and Industry. Under the new law, the responsibility of the PEZA now includes the administration of industrial estates (IEs), free trade zones (FTZs) and tourist/recreational centres referred to as special economic zones (SEZs) or *ecozones*<sup>1</sup> (Congress of the Philippines, 1995). A controversial aspect of the Act, also known as the Special Economic Zone Act of 1995, is that it makes it possible for EPZ-based enterprises to sell some of their output in the domestic market, thereby competing with local producers.

The emphasis that is being placed on the promotion of these various zones must be understood in the context of the 1993-98 Philippine Development Plan, which identifies industrialization as being critical for attaining the goals of poverty alleviation, social and economic development and global competitiveness.

### **The Export Processing Zone Authority (EPZA)**

The EPZA is a government corporation with responsibility for the operation and management of all EPZs which are to play a central role in the country's industrialization and export expansion programmes. In its advertising brochure, the EPZA claims that the organization's structure ensures comprehensive and efficient services and assistance to investors. The Information and Promotion Department handles inquiries from potential investors while the Project Evaluation and Review Department assists applicants with the preparation of their feasibility studies.

Manpower offices have also been established in each zone to help in the recruitment of workers and to coordinate with the Government's regional manpower training centres on matters concerning the training requirements of industries in the zones. Special concessions and incentives are extended to enterprises and the EPZA claims that it has reduced red tape and standardized operating procedures, thereby minimizing the costs to investors.

The emergence of special zones, coupled with the expansion of the regular EPZs, have led to increasing demands for services. However, the Authority has not been able to hire more staff to keep pace with those demands and if this shortage is not overcome, the efficacy of its work could be seriously compromised. In its 1993 annual report, it identified the need for more staff and called in particular, for the recruitment of persons with qualifications and

<sup>1</sup> The term *ecozones* has nothing to do with the environment.

experience in the fields of industrial management, economic planning and various aspects of administration, to handle the more complex aspects of the Authority's activities.

The EPZA has 25 years of experience as a developer and manager of the four fully operational zones. The zones are self-contained enclaves for various industries which use imported raw materials and intermediate inputs for the processing, assembly and manufacture of goods for export (EPZA, 1995).

### **Infrastructure and fiscal policy**

Investors often set up operations in the zones because of the wide range of advantages offered by the EPZA. The following are, according to a report by the Authority, the main reasons for which the Philippines attracts such investors.

**Strategic location.** The country's strategic location makes it an ideal point for exporting to dynamic markets in the region.

**Government's positive attitude towards foreign investment.** The increase of inward FDI is a priority of the Government.

**Favourable business climate.** With the passage of the Omnibus Investment Code of 1987 and the Foreign Investments Act of 1991, incentives for investors have been enhanced. The country's political stability is also advantageous to enterprises.

**Large supply of labour.** The labour force increases every year by an estimated 905,000 high school, vocational and college graduates. Consequently, investors have little difficulty in recruiting qualified workers.

**Competent managerial and technical personnel.** The quality of education in the Philippines, particularly at the tertiary level, is among the highest in the world.

**High labour productivity.** There is a discernible trend toward greater productivity in the Philippine zones, and this has paved the way for the expansion of many firms.

**Competitive wage rates.** While labour productivity has been increasing steadily, wage rates remain competitive.

**High standard of living at low cost.** Investors can enjoy a high standard of living at low cost. High-quality housing, hotels and recreational facilities are available in Manila and other major cities.

**Large market.** The population of the Philippines is more than 64 million which makes it a large domestic market.

**Ideal land area.** The four regular EPZs are said to be strategically located, close to the main airports, seaports and urban centres in various parts of the country. Investors therefore have a relatively wide choice of locations for setting up business.

**Adequate facilities.** Investors benefit from facilities which enable them to start operations quickly. These include: standard factory buildings for lease; a good power supply; well-paved internal road networks with drainage and modern lighting systems; and port and wharfage facilities.

**Lower investment and operating costs.** The application and registration fees amount to US\$80, while registration with the Securities and Exchange Commission (SEC) costs 1/10 of 1 per cent of the authorized capital. The minimum daily wage for non-agricultural workers is about US\$5. Monthly rental rates for industrial land starts from US\$0.25 per square metre and for standard factory buildings it is US\$0.30 per square metre.

The following is a summary of other incentives and concessions that comprise the attractive package which is offered to investors in the zones.

## **I. Exemptions from taxes and duties**

1. **Income tax holiday.** Newly registered firms are fully exempted from income taxes for six years from the start of commercial operations for pioneer firms and four years for non-pioneer firms. This can be extended for another year in any of the following cases:

- (a) the project utilizes indigenous raw materials;
- (b) the project meets the prescribed ratio of capital equipment to number of workers;
- (c) the net foreign exchange savings or earnings amount to at least US\$500,000 during the first three years of operation.

No registered pioneer firm may however obtain such incentives for a period exceeding eight years. Expanding firms will be entitled to an exemption from income taxes proportionate to their expansion for a period of three years from the start of commercial operation. They are, however, not entitled to additional deduction for incremental labour expenses during the period that the incentive is granted.

2. **Import duties and taxes.** Customs duties on imports range from 10 per cent to 100 per cent *ad valorem* based on the cost, insurance and freight value plus 10 per cent thereof. Value added tax is based on 110 per cent of the CIF value plus a 25 per cent mark up. Rates vary from 5 to 50 per cent depending on the classification of the commodity.

Enterprises in the zones, however, are exempt from paying duties and taxes for all goods to be used in the manufacturing process. These include equipment, machinery, spare parts and raw materials, on condition that they are not subsequently removed and delivered outside the zone.

3. **Export taxes and fees.** Goods transshipped through or exported from the zones are duty-free.

4. **Local taxes and fees.** Enterprises are exempt from paying municipal business licence (e.g. mayor's permit).

5. **Contractor's tax.** Enterprises are exempt from the 4 per cent contractor's tax on gross receipts.

6. **Wharfage fees.** Enterprises enjoy exemption from wharfage, storage and other duties under the Tariff and Customs Code.

7. **Branch profits remittance tax.** Profits remitted abroad by a branch to its head office are exempt from the 15 per cent branch remittance tax.

8. **Value added tax, zero rating on raw materials and supplies.** Purchases of raw materials, supplies and semi-manufactured products from local suppliers are entitled to "zero-rate" value tax.

## **II. Other special privileges and priorities**

1. **Ownership of equity.** There is no limitation on the ownership or equity of aliens in enterprises in the zones.

2. **Employment of aliens.** Aliens may be employed in supervisory, technical or advisory positions within five years from the date of registration. Spouses and unmarried minor children of aliens are allowed to reside in the Philippines. Immigration requirements for alien employees and their families are simplified.

3. **Foreign exchange allocation.** Enterprises have priority in the allocation of foreign exchange.

4. **Financial assistance from government institutions.** Enterprises in the zones are accorded the same priority as other enterprises registered with the Board of Investments, for obtaining financial assistance from government financial institutions.

5. **Simplified export procedure.** Enterprises are exempt from the following: (a) filing the Report of Foreign Sales (Central Bank form); (b) completing Export Entry (Customs) forms; and (c) Export Clearance (Bureau of Internal Revenue) forms.

6. **Simplified import procedure.** Enterprises are allowed to import under Documents against Acceptance (DA), Open Account (OA) arrangements and on a consignment basis, with prior approval from the Central Bank of the Philippines. They are exempt from BOI import clearance and Central Bank release certificate requirements. Upon favourable endorsement by the EPZA, they are allowed to import certain machinery and equipment without the required financing.

7. **SGS inspection.** Imports of the EPZA are exempted from inspection by the Société Générale de Surveillance (SGS) from the port of origin, in keeping with the amendment to paragraph 3 of the Joint Order No. 1-87, of 6 March 1987, of the Central Bank, Department of Finance and Department of Trade and Industry, implementing the Comprehensive Import Supervision Scheme (CISS).

Against this background of the wide range of concessions that are granted under the EPZ development programme, the following section provides an overview of the importance of the zones to the domestic economy.

### **The significance of EPZs in the Philippines**

The Bataan Export Processing Zone (BEPZ), being the country's first EPZ, has been the subject of almost all studies on the importance of EPZs for the national economy. Since the BEPZ was heavily funded by government and foreign loans, many of these studies inevitably conclude that there were no gains.

Warr (1984), for instance, argued that the BEPZ was used by the Government as a "show-case" for Philippine industrial development during the period following the proclamation of Martial Law 1972. The hope was that the zone would attract more export-oriented producers and eventually promote national, economic development. During the early 1980s, when the BEPZ was badly shaken by strikes, many industries closed operations. As a result, the contribution of the zone to economic development fell way below the initial expectations.

Castro (1982) also analysed the performance of the BEPZ and concluded that the zone had fallen short of its target in terms of occupancy rates, exports and foreign exchange earnings. Other researchers using economic and social indicators of performance, assessed the benefits of the zones vis-à-vis their capital inputs, and came to the conclusion that the establishment of the BEPZ was not worth the returns. Earlier studies of the BEPZ were less critical and favoured the establishment of more zones in the country.

As regards the MEPZ, Tiukinhoy and Remedio (1992) noted its positive role in achieving the host government's primary objectives of employment generation and export promotion. However, the study did not analyse the costs and benefits but dealt more with industrial relations in Mactan EPZ at that time.

While certain writers have offered objective insights into existing conditions in EPZs, there is, on the whole, a dearth of comprehensive information on the economic and welfare contributions of EPZs in the Philippines. Most studies focus on the BEPZ and it is difficult to make generalizations on the basis of a single case-study. It must also be recognized that the BEPZ had a unique history — and is regarded by some as having completed its life cycle. For instance, an official of the Bureau of Labor Relations recently spoke of the “fall and rise of Bataan” (Interview with Atty. Eugenia Fernandez, 23 May 1995).

The total number of firms in the BEPZ rose from 12 in the early 1980s to 34 in 1986, 44 in 1993 and 66 in 1995 (*Manila Times*, 21 June 1994; BEPZA-IPD, 1995). In the light of that steady increase, earlier observations that BEPZ was not worth the investment, may need to be reconsidered.

### **Contributions to the national economy**

The EPZs alone cannot realistically be expected to play the leading role in stimulating economic development. None the less they have undoubtedly made a noticeable contribution to the growth of merchandise exports, inward FDI and employment in the regions where they are located.

#### **Exports**

Export earnings from a number of products made in EPZs and SEZs have been progressively overtaking those from other traditional mineral and agricultural commodity exports. For instance, between January and August 1994, the value of exports of electrical and electronic goods and components was 52 per cent higher than that for the same period in 1993. Earnings from garments and textile exports in the first ten months of 1994 exceeded those for the corresponding period in the previous year by 4 per cent. Goods in the aforementioned product categories dominate manufacturing exports. With the exception of the BEPZ which experienced a marked decline in exports, particularly between 1984 and 1990, those from the other three zones have been rising steadily over the years and despite the import-intensive nature of their activities, the zones have registered trade surpluses between 1980 and 1994 (see tables 1 and 2). None the less, exports from the four regular zones constitute less than one-fifth of total exports of manufactures (table 3) and the national deficit in merchandise trade has persisted over the years. What the EPZs have done is to diversify the composition of merchandise exported by the Philippines.



**Table 1. Value of exports from the four zones, 1980-94 (US\$ million)**

Year	BEPZ	BCEPZ	MEPZ	CEPZ	Total
1980	134.276	23.918	4.503	-	162.697
1981	155.081	62.287	19.392	-	236.760
1982	159.572	64.027	27.347	-	250.946
1983	121.171	78.498	39.086	-	238.755
1984	75.984	117.033	52.803	-	245.820
1985	59.306	91.402	54.864	-	205.572
1986	57.600	143.156	76.922	-	277.678
1987	64.739	215.310	115.459	0.739	396.247
1988	70.600	223.198	134.089	2.838	430.725
1989	79.838	206.368	142.627	15.306	444.139
1990	94.252	251.744	184.650	48.936	579.582
1991	110.463	321.294	249.288	138.044	819.089
1992	125.540	389.508	264.054	251.855	1 030.957
1993	139.069	507.653	461.852	398.484	1 507.058
1994	181.564	674.272	621.116	517.131	1 994.083

Source: CPMO, EPZA.

**Table 2. Balance of trade of the four zones, 1980-94 (US\$ million)**

Year	BEPZ	BCEPZ	MEPZ	CEPZ	Total
1980	51.186	23.918	4.503	-	79.607
1981	46.011	17.855	3.544	-	67.410
1982	52.933	10.834	-39.556	-	24.211
1983	68.277	-6.302	16.205	-	78.180
1984	41.885	15.192	21.844	-	78.921
1985	33.695	17.411	35.874	-	86.980
1986	35.563	35.178	58.883	-	129.624
1987	-15.711	33.670	-11.621	0.027	6.365
1988	21.100	54.698	23.989	0.038	99.825
1989	40.221	50.275	82.581	3.674	176.751
1990	34.390	49.288	130.974	7.270	221.922
1991	38.088	19.462	158.934	28.320	244.804
1992	58.605	10.857	189.054	19.187	277.703
1993	67.851	60.121	355.985	134.179	618.136
1994	88.217	76.444	484.638	196.830	846.129

Source: CPMO, EPZA

**Table 3. Total exports, exports from manufacturing and share of exports from EPZs as percentage of manufacturing exports (US\$'000) 1980-91**

Year	Total exports	Total imports	Balance of trade	Exports manufacturing	Exports from EPZs	EPZ exports as % manufacturing exports
1980	5 787.79	7 728.91	-1 941.12	-	162.696	
1981	5 720.40	7 945.68	-2 225.28	-	236.760	
1982	5 020.59	7 666.92	-2 646.33	2 449	250.946	10.2
1983	5 005.29	7 486.63	-2 481.34	2 586	238.755	9.2
1984	5 390.65	6 069.61	-678.96	2 934	245.820	8.4
1985	4 628.95	5 110.67	-481.72	2 807	205.572	7.3
1986	4 841.78	5 043.60	-201.82	2 874	277.678	9.7
1987	5 720.24	6 736.97	-1 016.73	3 558	396.247	11.1
1988	7 074.20	8 159.38	-1 085.18	4 647	430.725	9.3
1989	7 821.08	10 418.82	-2 597.74	5 689	444.139	7.8
1990	8 186.03	12 206.16	-4 020.13	6 158	819.089	13.3
1991	8 839.51	12 051.36	-3 211.85	6 726	1 030.957	15.3

Source: NCSO and EPZA.

**Employment and wages**

Job creation in the Philippines is persistently lagging behind the growth of the labour force which increases by approximately 860,000 persons each year. The impact of EPZs on unemployment has been relatively negligible when considered on the national scale, but it has helped to alleviate the problem of joblessness in certain regions. In 1980, there were 22,610 workers in the zones and by April 1995, the 283 enterprises in operation had a workforce of 86,265 (tables 4-6). When indirect jobs are taken into account, the numbers rise to an estimated 56,525 in 1980 and 203,998 respectively (table 7). Indirect employment resulting from backward and forward linkages between enterprises located within and outside the zones, has been mainly in the services sector. The impact has been noticeable in subcontracting firms, trucking companies, brokers and freight forwarders, construction companies, public utility vehicle operators, drivers, retailing, including restaurants and the liberal professions (e.g. engineers, architects).

As is the case in virtually all EPZs, women constitute most of the workforce — between 73 and 82 per cent — and they are mainly production workers (table 8).

The zones contributed to the local economy, wages and salaries amounting to P161.5 million in 1980, P1,297.7 million in 1990 and P4,057 million in 1994 (see table 9).

**Table 4. Number of registered firms in the zones, 1980-95**

Year	BEPZ	BCEPZ	MEPZ	CEPZ	Total
1980	56	-	-	-	56
1981	49	3	5	-	57
1982	46	5	5	-	56
1983	48	7	6	-	61
1984	42	12	6	-	60
1985	33	12	4	1	50
1986	32	10	8	1	51
1987	31	12	12	4	59
1988	34	12	16	9	71
1989	27	12	33	38	110
1990	31	12	43	59	145
1991	35	13	42	88	178
1992	46	12	53	106	217
1993	55	13	63	124	255
1994	70	13	78	149	310

Source: CPMO, EPZA.

**Table 5. Number of firms operating in the zones, 1993-95**

Year	BEPZ	BCEPZ	MEPZ	CEPZ	Total
1993	51	12	54	108	225
1994	60	12	65	133	270
1995*	62	12	67	142	283

\* January-March only.

Source: EPZA.

**Table 6. Number of workers in the zones, 1980-94**

Year	BEPZ	BCEPZ	MEPZ	CEPZ	Total
1980	20 788	637	1 185	-	22 610
1981	19 158	753	1 135	-	21 046
1982	19 887	1 175	1 778	-	22 840
1983	19 573	1 466	2 087	-	23 126
1984	21 616	2 560	3 826	-	28 002
1985	18 068	3 229	3 243	-	24 540
1986	16 540	3 583	3 528	-	23 651
1987	14 530	4 081	4 130	96	22 837
1988	13 639	4 412	5 763	528	24 342
1989	13 802	5 114	9 395	3 294	31 605
1990	13 919	4 476	11 624	5 239	35 258
1991	14 586	3 934	12 819	11 872	43 211
1992	15 198	3 206	15 038	20 204	53 646
1993	15 649	3 066	18 901	25 924	63 540
1994	16 582	3 159	26 221	35 637	81 559
1995*	18 255	2 435	27 508	38 067	86 265

\* April 1995.

Source: CPMO, EPZA.

**Table 7. Estimated direct and indirect employment generated by the zones, 1980-94**

Year	Direct	Total direct and indirect
1980	22 610	56 525
1981	21 046	52 615
1982	22 840	57 100
1983	23 126	57 816
1984	28 002	70 005
1985	24 540	61 350
1986	23 651	59 128
1987	22 837	57 092
1988	24 342	60 855
1989	31 605	79 012
1990	35 258	88 145
1991	43 211	108 028
1992	53 646	134 115
1993	63 540	158 850
1994	81 599	203 998

Source: CPMO, EPZA.

**Table 8. Gender composition of the workforce in the zones, April 1995**

EPZ	Male		Female		Total	
	No.	%	No.	%	No.	%
BEPZ	4 921	27	13 334	73	18 255	100
BCEPZ	439	18	1 996	82	2 435	100
MEPZ	7 344	27	20 164	73	27 508	100
CEPZ	9 818	26	28 249	74	38 067	100
Total	22 522	26	63 743	74	86 265	100

Source: CPMO, EPZA.

**Table 9. Total salaries and wages paid to workers in the zones, 1980-94**  
(million Philippine pesos)

Year	BEPZ	BCEPZ	MEPZ	CEPZ	Total
1980	152.784	0.148	8.578	-	161.510
1981	195.346	5.551	18.252	-	219.149
1982	196.493	9.108	22.724	-	228.325
1983	225.572	18.215	26.378	-	270.165
1984	346.171	42.987	61.646	-	450.804
1985	306.517	80.712	77.785	-	465.014
1986	325.055	72.899	78.654	-	476.608
1987	356.991	119.319	114.261	1.110	591.681
1988	429.342	194.700	151.393	5.699	781.134
1989	491.256	241.538	250.159	43.497	1 026.450
1990	525.172	268.862	385.405	118.284	1 297.723
1991	592.714	246.367	587.596	429.920	1 856.597
1992	686.784	307.618	727.105	711.316	2 432.823
1993	726.143	335.779	948.627	1 189.110	3 199.659
1994	808.923	354.818	1 296.573	1 597.121	4 057.435

Source: CPMO, EPZA.

### Investment

Between 1980 and 1994, the export processing zones have drawn significant amounts of foreign investment (see table 10). Whereas in 1980, EPZs accounted for a negligible 0.4 per cent of total inward investment, by 1986 this had risen to 2.2 per cent and it more than doubled to reach 5.2 per cent by the end of 1992 (table 11).

The biggest investors have traditionally been from Japan, the United States, Republic of Korea, and the Philippines. For instance, in 1993, they accounted for about 77 per cent of the P22 billion invested in the four EPZs and other "special zones" (see table 12).

**Table 10. Value of investment in the zones, 1980-94 (million Philippine pesos)**

Year	BEPZ	BCEPZ	MEPZ	CEPZ	Total
1980	6.290	8.060	1.147	-	15.497
1981	29.592	4.700	-	-	34.292
1982	66.810	2.340	-	-	69.150
1983	5.000	1.656	19.788	-	26.444
1984	21.000	10.800	20.768	-	52.568
1985	21.990	24.420	22.438	-	68.848
1986	8.280	4.950	46.890	9.450	69.570
1987	-	9.000	14.470	17.700	41.170
1988	175.300	13.000	47.100	85.350	320.750
1989	45.254	-	666.549	1 334.471	2 046.274
1990	83.996	2 116.307	246.583	453.168	2 900.054
1991	122.700	-	620.097	1 158.478	1 901.275
1992	232.407	-	340.239	880.762	1 453.408
1993	245.573	19.300	321.351	426.526	1 012.750
1994	318.977	7.380	667.128	898.355	1 891.840

Source: CPMO, EPZA.

**Table 11. Investment in EPZs as share of total inward FDI, 1980-92 (million Philippine pesos and percentages)**

Year	EPZs	Philippines	% share of EPZs
1980	15.997	4 276 439	0.4
1981	34.292	5 341 351	0.6
1982	69.150	6 661 716	1.1
1983	26.444	5 217 296	0.5
1984	52.568	6 114 279	0.9
1985	68.848	4 700 654	0.6
1986	69.570	3 146 278	2.2
1987	41.170	8 360 162	0.5
1988	320.750	18 810 246	1.7
1989	2 046.274	39 684 333	5.2
1990	2 900.054	48 033 894	6.1
1991	1 901.275	43 697 750	4.4
1992	1 453.408	27 752 729	5.2

Source: DTI and EPZA.

**Table 12. Foreign direct investment in the regular and special zones by country of origin or territory, 1993 (million Philippine pesos)**

Country/territory	Regular zones	Special zones	Total
United States	3 209.230	253.155	3 462.385
Japan	1 999.279	2 804.841	4 804.120
Republic of Korea	1 150.589	212.864	1 363.453
Philippines	1 137.645	6 537.620	7 675.265
United Kingdom	284.378	8.120	292.498
Hong Kong	279.722	117.394	397.116
Bermuda	245.300	0.000	245.300
Taiwan, China	226.893	22.129	249.022
India	92.959	0.000	92.959
China	66.308	34.720	101.028
Yemen	58.700	0.000	58.700
Germany	56.742	0.000	54.742
France	54.842	0.000	54.842
Spain	47.460	8.190	55.650
Australia	43.690	0.000	43.690
Nauru	0.000	2 521.429	2 521.429
Netherlands	0.000	598.000	598.000
Switzerland	9.600	42.200	51.800
Other	39.376	45.430	84.806
Total	9 002.713	13 206.092	22 208.805

Source: CPMO, EPZA.

### Contributions of EPZs to local communities

By virtue of their location outside the congested urban centres, EPZs have brought job opportunities and industry to outlying areas. These have led to an improvement in the quality of life of Filipinos in the provinces concerned. One study (Olivar, 1993) showed that the four regular EPZs contributed not only to an increase in the number of business establishments and construction projects around the zones, but also to a rise in incomes and property values as well as an expansion in transport services.

### Distribution of firms by zone and industry

Thirty per cent of all enterprises in the four EPZs are involved in the manufacture of garments and textiles, while 28 per cent make other industrial goods. These include chemicals, plastics, paper, iron, steel and rubber products, as well as equipment and machinery. Electrical and electronic goods are made by 18 per cent of the enterprises operating in the zones, while 13 per cent produce toys, wood products and other household

items. The remaining 11 per cent manufacture miscellaneous products and develop computer software.

To date, the Cavite EPZ is host to the largest number of enterprises (142). It is followed by the Mactan zone (67 firms), Bataan (62) and the Baguio City EPZ (12). Garment and textile manufacturers and those producing industrial goods make up 30 and 27 per cent respectively of all the enterprises in Cavite, while one-quarter of all firms are in the electronics and electrical industries. Garment and textile enterprises account for 44 per cent of all firms in Bataan, whereas 33 per cent of the establishments in the Mactan zone make industrial products (see table 13). Garment, textile and industrial products are made by ten of the 12 companies now operating at the Baguio City zone.

**Table 13. Distribution of firms by zone and product type or industry, 1995**

Product type or industry	BEPZ		BCEPZ		MEPZ		CEPZ		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%
Garments/textiles	27	43.5	05	42	11	16	42	30	85	30
Industrial products	13	21	05	42	22	33	38	27	78	28
Gifts/household items/toys	09	14.5	-	-	13	19	15	11	37	13
Electronic and electrical products	01	1.6	02	16	12	18	36	25	51	18
Others	12	19.4	-	-	9	13	11	07	32	11
Total	62	100	12	100	67	100	142	100	283	100

Source: CPMO, EPZA.

No single policy-related or other factor seems to explain the relatively high profile of a particular industry (or industries) in any of the given zones. None the less, the supply and quality of labour in areas close to the zones would appear to be critical factors that have been taken into account by many investors. For instance, the presence of available, surplus labour in communities surrounding the Bataan and Cavite EPZs seems to explain the choice of many garments/textile firms to locate in these EPZs. The washing, hemming and embroidery work can be contracted out to workers in the vicinity.

The makers of industrial products tend to set up operations in the Mactan EPZ because of the possibilities for recruiting persons with technical and engineering skills who graduate from reputable schools in Cebu. In the case of the Baguio City EPZ, the mild climate which is said to be particularly suitable for electronics, is widely expected to be one of the important factors likely to attract investment in this industry.

It has been noticed that investors from a given country, and in the same or similar branch of industrial activity, tend to locate in the same zones. One obvious explanation for this would be that since they are seeking the same or similar location-specific advantages, they would be attracted to EPZs where the success of other firms has been proven. Another reason which has been pointed out by the manager of one EPZ, is the predisposition of enterprises to encourage suppliers of intermediate inputs from their respective countries of origin to move into the same zone for the sake of proximity. As a result, all the material and processes for making the final product are grouped in the same location.



## Profiles of the four regular export processing zones

### Bataan Export Processing Zone

The once sleepy town of Mariveles in the province of Bataan is host to the country's pioneer EPZ, the Bataan Export Processing Zone. The BEPZ lies on 345 hectares of land, about 160 km from Metropolitan Manila. The Bataan Peninsula is now an industrial complex, easily accessible by land, sea and air transport. By car, it is two-and-a-half hours from Metropolitan Manila and from the Manila domestic airport, it is 25 minutes by helicopter.

The Bataan EPZ was created by Presidential Decree No. 66, two months after Martial Law was declared in 1972. Modelled after the highly successful Kaoshiung EPZ in Taiwan, China, the BEPZ was conceived by the Government as a "show-case" that would attract foreign enterprises to set up operations and provide an example for the establishment of EPZs in other parts of the country.

Many foreign investors, especially after 1992 when the political and labour relations climate in the BEPZ improved, decided to locate their offshore operations in this industrial enclave. The attractive package of fiscal incentives, other economic concessions and well-developed infrastructure were and still are widely advertised to encourage investors.

Spacious three-storey factory buildings with 3,000 m<sup>2</sup> per floor, may be leased by enterprises. Housing facilities for top executives, middle managers and production workers are also available for lease on a monthly basis. There are extensive recreational facilities and adequate hotel accommodation.

There is a dormitory that houses thousands of workers and plans to build 1,500 more units during 1995. An additional 2,000 units will be built in 1996. The goal is to provide a total of 6,000 housing units for production workers. Twenty-five housing units for executives will be completed this year, while 500 units will be built for senior managerial personnel.

Three private developers are responsible for building these housing units: Santa Monica Development Corporation; Regent Crest Corporation and the Cariñosa Housing Subdivision. Santa Monica and Cariñosa will be in charge of building accommodation on the western part of the zone, while Regent Crest will build on the northern part (interview with Zone Manager, Renato Agustin, 30 May 1995).

The BEPZ now has international direct dialling (IDD) and national direct dialling (NDD) systems, a power supply of 13 megawatts and a dam of 2.4 billion gallon capacity that provides 14 million gallons per day, through a huge treatment plant.

Up to March 1995, 21 of the 62 firms operating in the Bataan EPZ were locally owned. The other major investors were from the Republic of Korea and Taiwan, China. More than one-third of the enterprises were in the textile and garment industry (see tables 14 and 15).

**Table 14. Ownership of enterprises in the BEPZ by country or territory, 1995**

Country/territory	Number	Per cent
Republic of Korea	12	19
Philippines	21	34
Taiwan, China	11	18
Japan	6	9
United States	4	7
Other western countries	7	12
Other countries	1	1
Total	62	100

Source: EPZA-IPD.

**Table 15. Distribution of enterprises in the BEPZ by industry or product line, 1995**

Industry/product line	Number	Per cent
Garments/textiles	27	43.5
Industrial products	13	21.0
Gifts/houseware/toys	9	14.5
Electronic/electrical	1	1.6
Others	12	19.4
Total	62	100.0

Source: EPZA-IPD.

The Bataan EPZ has had a positive trade balance since 1993 and, given the performance of its exports for the first quarter of 1995, it is quite likely that the trend will continue, with the value of exports for 1995 exceeding those of the two previous years (see table 16). Investment in the zone has also grown considerably since 1993. The value of new projects registered in 1993 amounted to P245.5 million. That increased to P319 million in 1994 and, in the first quarter of 1995, it was already P291 million.

**Table 16. Balance of trade of the BEPZ, 1993-95 (US\$ million)**

	1993	1994	1995*
Exports	139.069	181.564	58.351
Imports	71.218	93.347	33.514
Net trade balance	67.851	88.217	24.837

\* January to March only.

Source: EPZA-IPD.

There are, in the Bataan EPZ, four organizations which, according to officials in the Zone Authority, largely fulfil the functions of tripartite industrial peace councils. These are the BEPZ Chamber of Exporters and Manufacturers (BEPZ-CEM), the BEPZ Association of

Trainers in Industrial Relations, the BEPZ Financial Sector and the BEPZ Multisectoral Organization.

### Baguio City Export Processing Zone

Baguio City is located 5,000 feet above sea level in the heart of the Cordillera region and is considered the main urban centre of the north and the Cordilleras. The city was created in September 1909 and has since served as an educational, employment, tourism and regional administrative centre.

Baguio City Export Processing Zone (BCEPZ) started operations in 1980. The 62 hectare zone is accessible by land and air transportation. From Manila, Baguio City is just four hours by car and 45 minutes by plane. The zone is host to mainly electronics and other high technology industries. Well-equipped factory buildings and infrastructure are readily available for firms planning immediate operations and there is easy access to housing, recreational facilities and firms providing business services.

There were only 12 enterprises in the Baguio City EPZ up to the first quarter of 1995. Four of them were locally owned, three from member countries of the Organisation of Economic Co-operation and Development (OECD) and the others from newly industrializing countries (NICs). The value of exports from this zone has been consistently higher than its imports since 1993 (see table 17).

**Table 17. Balance of trade of the BCEPZ, 1993-95 (US\$ million)**

	1993	1994	1995*
Exports	507.653	674.272	186.323
Imports	447.532	597.828	162.629
Net trade balance	60.121	76.444	23.694

\* January to March only.

Source: EPZA.

The value of new investment in the zone since 1993 has been negligible when compared with that of other EPZs in the country and existing firms have not expanded their operations. One reason for this sluggish growth of investment is the official policy of limiting new projects, in the wake of the 1990 earthquake that hit the region, causing severe damage to infrastructure. Investment amounted to P19.3 million in 1993, P7.4 million in 1994 and P26.1 million up to the first quarter of 1995. It is of interest to note that notwithstanding the relatively low level of inward investment in this zone, the value of its exports remains the highest of all the EPZs.

### Mactan Export Processing Zone

The 119 hectare Mactan Export Processing Zone is located in Lapulapu City in the island of Mactan, which is in the Province of Cebu. Cebu City is the second largest city, after Manila. The Mactan International Airport of Cebu is situated on the island and the voyage to Manila by air is only one hour.

The Mactan EPZ was established by Proclamation No. 1811. Development activities started in January 1979 and by 1981, there were approximately five companies. There are now 67 factories in operation, 15 in the pipeline and four registered, which are awaiting approval.

In 1993, 57 additional hectares were acquired from the Philippine Air Force to be used for the expansion of the MEPZ. Moreover, 47 hectares have been obtained from the Mactan-Cebu International Airport Authority for use by the Asia-Pacific Aeronautical and Maintenance Incorporated.

The zone is ideal for light manufacturing industries and medium-sized enterprises. The two-storey factory buildings have an area of 3,292 m<sup>2</sup> per floor and are very well-equipped. Because of the proximity of the zone to Metro Cebu, accommodation in different price ranges as well as dormitories are available almost anywhere in the metropolis. Access to recreational facilities and shopping centres is relatively easy. Since there are a number of technical and tertiary level educational institutions in the province, the supply of skilled and professional workers constitutes an important "pull factor" for investors.

According to businessmen in Mandaue City, the success of the zone may be attributed to two factors: the peaceful environment in the province and the work ethic. To date, there are no unions. When, three years ago, workers in one of the enterprises called for an election for trade union recognition, less than 5 per cent of the workers voted in favour of setting up a union.

Half of the 67 enterprises at the Mactan EPZ are owned by Japanese, while local entrepreneurs account for 22 per cent of all firms, followed by those originating from other OECD countries (see table 18).

One-third of all establishments manufacture industrial products, while the percentage of enterprises that produce goods in each of the other three main product groups ranges between 16 and 19 per cent (see table 19).

Of the four regular zones, Mactan registered the highest trade surpluses for 1993 and 1994, and its balance of trade for the first quarter of 1995 is already 13 per cent more than that for the corresponding period in 1994 (see table 20).

There are, in the Mactan EPZ, five well-coordinated and active organizations that contribute to a climate of industrial peace in the zone. These are the Mactan EPZ Chamber of Exports and Manufacturers, the Human Resource Association, the Association of MEPZ Controllers and Accountants, the Mactan EPZ Traffic Association and the Mactan EPZ Security Council.

**Table 18. Ownership of enterprises in the MEPZ by country or territory, 1995**

Country	Number	Per cent
Japan	34	50.7
Philippines	15	22.4
Other western countries	10	14.9
United States	5	7.5
NICs	3	4.5
Total	67	100.0
Source: EPZA-IPD.		

**Table 19. Distribution of enterprises in the MEPZ by industry or product line, 1995**

Industry/product line	Number	Per cent
Industrial products	22	32.8
Gifts/houseware/toys	13	19.5
Electronic/electrical	12	17.9
Garments/textiles	11	16.4
Others	9	13.4
Total	67	100.0

Source: EPZA-IPD.

**Table 20. Balance of trade of the MEPZ, 1993-95 (US\$ million)**

	1993	1994	1995*
Exports	461.852	621.116	104.570
Imports	105.867	135.480	40.459
Net trade balance	355.985	484.636	64.111

\* January to March only.

Source: EPZA-IPD.

### **The Mactan EPZ Chamber of Exporters and Manufacturers**

The Mactan EPZ Chamber of Exporters and Manufacturers (MEPZ-CEM) was established in 1987 with five founder members. It now has a membership of 48 and the number is steadily increasing as new investors seek to enjoy the benefits and amenities available in the zone. Application forms for membership are given to the management of companies who are invited to pay membership dues and attend monthly meetings if they wish to join the Chamber (interview with Mr. Graham Maitland-Smith, 29 June 1995). Among the services provided to new investors is the provision of information. At present, the major thrust of the Chamber's activities is the development of infrastructure, e.g. water, transport, power and telecommunications facilities and roads.

The corporate council of the Chamber is in the process of elaborating the by-laws of the MEPZ-CEM, and according to the President of the Chamber, these initiatives are being undertaken to continue the successful operation of the zone and maintain industrial peace.

The Chamber sees to it that all companies in the zone comply with the labour standards as prescribed by the national legislation. It is particularly vigilant when it comes to the question of wages. However, since salaries and wages within the zone differ among enterprises, the Chamber allows a degree of flexibility, leaving its members to set their own wage rates as long as they conform to the legal minimum requirements. The MEPZ-CEM tries to keep companies informed of developments both within and outside the zone. For instance, surveys of salaries and benefits both outside and within the zone are carried out and the results are made known to employers.

It is not usual for member companies to find themselves entangled in labour problems. However, according to the Chamber President, if a problem were to arise, the MEPZ-CEM would try to assist the company by meeting with management to discuss ways in which the matter could be resolved. Attempts by the organization to resolve a dispute that had

degenerated to a strike in one of the MEPZ enterprises in the early 1990s, did not yield the result expected. Industrial peace was not restored in the enterprise. Instead it ceased operations. One explanation is that since it was not prepared to respect the standards required by the MEPZ-CEM and the Department of Labour and Employment, it had to discontinue its operations in the zone.

#### **The Human Resource Association**

The Human Resource Association (HRA), established in 1989, is an organization composed of personnel managers of different member companies of the MEPZ-CEM. Like the Chamber, it has a membership of 48 EPZ-based enterprises. This group meets once a month and the officers are elected on an annual basis. It should be noted that among the MEPZ organizations, the HRA is the most dynamic. It keeps track of developments and the implications of changes relating to human resources in enterprises in the zone. One of its primary aims is to maintain industrial peace within the zone. All matters pertaining to workers and workers' welfare are discussed and the HRA does its utmost to ensure that labour disputes are avoided and that labour laws are respected by its members. Enterprises that are found to have violated the labour legislation are reprimanded. Officials of the HRA are of the view that the Association's main accomplishment is the attainment of industrial peace (interview with HRA officers, 13 and 29 June 1995).

#### **Mactan Export Processing Zone Traffic Association, Security Council and the Association of MEPZ Controllers and Accountants**

Apart from the MEPZ-CEM and the HRA, there are three other recently established organizations which have more limited functions but are equally important. They are the Mactan EPZ Traffic Association (1989), the Mactan EPZ Security Council (1995) and the Association of MEPZ Controllers and Accountants (1993).

The Mactan EPZ Traffic Association which was established in 1989 deals with the movement of exports and imports of member enterprises. Through this Association, members are better informed about national laws, regulations and procedures relating to exports and imports. Information about economic incentives for investors and the procedure for obtaining them are also circulated among members.

The Mactan EPZ Security Council is a very new organization which was launched early in 1995. Its aims are to provide enterprises in general and members in particular, with a well-coordinated and reliable security system. The MEPZ Police serves as the advisory body to, and coordinating agency for, the MEPZ Security Council.

The application of fiscal and financial regulations is facilitated through the Association of MEPZ Controllers and Accountants which enables member enterprises to discuss matters pertaining to fiscal laws and regulations.

Of the 67 establishments in the zone, 72 per cent are members of the MEPZ-CEM and associates of the other four organizations. Membership brings certain privileges that are not granted to non-members.

## Cavite Export Processing Zone

The 275-hectare Cavite EPZ is about 45 km south of Manila — the country's major business, trade and educational centre. On average, it takes 45 minutes from the Ninoy Aquino International Airport and one hour from the Manila South Harbor to reach the zone, which has the advanced infrastructure that is characteristic of EPZs. Housing and recreational facilities, as well as a supply of well-trained and skilled labour, are readily available in the surrounding areas. Development of the zone was initiated in 1981. Manufacturing activities began in 1987 and there are now 142 firms in operation. The majority are involved in manufacturing. As a result of growing demand to locate in the zone, some 50 more hectares have been earmarked for its expansion. Both exports and the value of new investment grew appreciably over the last two years and there are promising indications that this record is likely to be maintained in 1995 (see tables 21 and 22).

**Table 21. Balance of trade of the CEPZ, 1993-95 (US\$ million)**

	1993	1994	1995*
Exports	398.484	517.131	174.819
Imports	264.307	320.301	98.384
Net trade balance	134.177	196.830	76.435

\* January to March only.

Source: EPZA.

**Table 22. Investment for new projects in and expansion of the CEPZ, 1993-95 (million Philippine pesos)**

	1993	1994	1995*
Investments (project cost of companies which registered during the year)	426.256	898.355	924.973
Expansion of existing establishments	72.660	34.005	0.000

\* January to March only.

Source: EPZA.

The CEPZ is attractive to investors because, according to one employer, there is industrial peace (*Malaya*, 21 June 1993). There has never been a strike in any firm in the zone and, moreover, a Council of Industrial Peace and Productivity has been set up to handle labour issues. There is, however, another point of view in this regard.

One professor from Nagoya University recently noted that there was repression of unions, low wages and insecurity of employment in the CEPZ (*Manila Bulletin*, 4 April 1995). Similar observations as well as complaints in this regard have also been made over the years, by international trade secretariats such as the International Confederation of Free Trade Unions (ICFTU) and the International Textile, Garment and Leather Workers' Federation (ITGLWF).

## **Employment, wages and training in the EPZs**

Employment and industrial relations in the EPZs are governed by the Labor Code of the Philippines (Presidential Decree No. 442 as amended) and its implementing rules and regulations. According to article 3 of the Declaration of Basic Policy “the State shall afford protection to labour, promote full employment, ensure equal work opportunities regardless of sex, race or creed, and regulate the relations between workers and employers. The State shall assure the rights of workers to self-organization, collective bargaining, security to tenure and just and human conditions of work”.

Rule II, section 1, of the Omnibus Rules implementing the Labor Code gives the Department of Labor and Employment, authority to carry out the following: (1) organize and establish, as the need arises, new public employment offices in addition to or in place of existing ones, for the efficient, systematic and coordinated recruitment and placement of workers for local and overseas employment; (2) organize and establish a nationwide job clearance and information employment office, to make known job opportunities in other parts of the country as well as overseas; (3) develop and organize programmes that will facilitate industrial and geographical mobility of labour and provide assistance in the relocation of workers from one area to another; and (4) issue such rules and regulations as may be necessary to regulate and supervise private sector participation in the recruitment and placement of workers, locally or overseas, in the context of a comprehensive national employment programme.

### **Employment**

Job creation is one of the primary objectives of establishing EPZs which are to complement other initiatives to create employment. The Government is committed to pursuing economic policies that promote “industrialization and full employment” and has promised to create a million new jobs a year. Increased private sector participation is therefore indispensable for realizing these goals.

The EPZs have been successful in encouraging massive inflows of foreign investment primarily in labour-intensive activities. The size of the EPZ workforce has grown steadily and, up to April 1995, there were 86,265 direct jobs in the zones. However, between 1992 and 1994 the number of workers in the zones only constituted between 2.1 and 3.2 per cent of the total workforce, while manufacturing enterprises outside the zones accounted for approximately 10 per cent.

### **Equality of opportunity and treatment**

The principle of equality of opportunity and treatment in employment is enunciated in the Labor Code which recognizes the right to equal employment opportunities regardless of sex, race, religious and political beliefs, or cultural affiliation. Republic Act No. 6725 — the law strengthening the prohibition against discrimination of women, which amends article 135 of the Labor Code — also addresses this question. Republic Act No. 7877, also known as the Anti-sexual Harassment Act of 1995, provides for the imposition of sanctions in cases of harassment at the workplace. One observer (Bernabe, 1994) noted however, that the emphasis



has so far been on protecting workers while less attention has been given to the question of ensuring equal opportunities with regard to recruitment and career advancement.

Early studies of the Bataan zone (Castro, 1982) concluded that there were significant wage disparities in favour of male workers. With respect to the Mactan EPZ, Tiukinhoy and Remedio (1992) observed that there was a tendency for the sexual division of labour, with men assigned to supervisory work, while women were concentrated in assembly line production. The trend is reportedly changing (Remedio, 1993) with a number of Japanese and American enterprises assigning women to supervisory positions. Moreover, of the 16 firms surveyed, only one, of Japanese ownership, was found to pay men higher wages than women because, as one human resources manager said during an interview, men were "the main breadwinners".

### Security of employment

Article 279 of the Labor Code protects regular workers against arbitrary and unjustified dismissal, while article 281 stipulates that the duration of probation periods must not exceed six months from the date that the employee started working, unless other arrangements are permitted by law. After six months, an employee who continues working shall be considered a regular employee.

In the case of EPZs where labour turnover is high, Shoesmith's (1986) research on the BEPZ found that this was because women left to marry and have children while older workers either left voluntarily due to health problems or were replaced by younger workers after they retired. Most workers at the Bataan EPZ were reported to have permanent status. Only 5 per cent were casual workers, 5 per cent were apprentices and 1 per cent trainees. Those figures were higher than those reported by Constantino (1985) who found that only 60 per cent of workers in the BEPZ had "regular" status.

Castro (1982) on the other hand found that there was a high rate of bankruptcies, closures, layoffs, production slow-downs and temporary shutdowns in the BEPZ during the early 1980s. As a result, job security could not be guaranteed (Diokno, 1989). Companies in the zones were said to be particularly vulnerable to changes in the demand for their products and their extreme dependence on imported raw materials further increased their vulnerability.

Today, the situation at the Bataan EPZ is quite different and in the words of the manager of one zone, "now both employers and workers have changed their attitudes and most workers have permanent jobs". He went on to state that the period of apprenticeship was three months and the status of "temporary worker" was for a maximum of six months. After that period, those who met the requirements became permanent workers. Research has shown that officials of the EPZ administration discourage the use of contract labour, although such practices exist in the zone because of the seasonal nature of production. They believe that the widespread use of contract labour is not conducive to industrial peace. Consequently, they ask employers to choose after the six-month period, those workers whom they want to hire, and make them regular staff members. While the majority of employers are said to respect that policy, the use of contract labour is still evident.

Tiukinhoy and Remedio (1992) found that retrenchments and lay-offs were common in export-oriented enterprises both within and outside the zones because of their susceptibility to the vagaries of export markets. A random survey of workers from ten firms in the MEPZ

in May 1995 showed that about 20 per cent were contract workers. Earlier studies have also found that as many as 11 per cent of workers were not aware of their employment status. While the relatively small sample does not permit the drawing of firm conclusions, it can be argued that contract labour remains a salient feature of EPZs. A survey of selected manufacturing firms in the Metropolitan Manila region found that 55 per cent of all enterprises resorted to the hiring of contract workers and subcontracting during peak periods (Bernabe, 1994). The same situation exists at the Bataan EPZ. Work is farmed out to persons in the vicinity of the zone, the Metro Manila area or the provinces, and pay and other job-related matters are agreed by both parties (interview with Bataan Zone Manager, 30 May 1995).

In the case of the Mactan EPZ, only one furniture manufacturing enterprise disclosed that it subcontracted carving work to some wood and furniture shops in Lapulapu City. Although the company has a carving division, there are times when it is constrained to subcontract work in order to meet delivery deadlines (interview with the President of the MEPZ-Chamber of Exporters and Manufacturers, 29 June 1995).

### Wages and benefits

Articles 97 to 129 of the Labor Code of the Philippines concern wages and these provisions apply to all enterprises including those in EPZs. At present, minimum wage rates for agricultural workers and non-agricultural employees and workers in each region of the country are determined through regional, tripartite and productivity boards. This is in keeping with Republic Act No. 6727 and the Wage Rationalization Act of 1989. Bernabe (1994) is of the view that this system does not allow for the granting of equal pay for work of equal value. Also, wage rates are not determined on an industry basis.

Average monthly wages ranged from US\$161 in the CEPZ to as much as US\$428 in the BCEPZ (see table 23) in 1995. According to officials of the EPZ Authority and the Department of Labor, overtime pay may be largely responsible for the high level of pay in this zone, which has a "history" of long hours of work. In 1982, Castro noted that "... about 50 per cent of the workers worked longer than the standard 48-hour week ... a high intensity of work was also indicated by the fact that total earnings were significantly higher than basic wages". While most enterprises in EPZs comply with minimum wage legislation, there have been a number of cases in which wages were found to be lower than the prescribed minimum.

**Table 23. Average monthly earnings in the zones, 1993-95 (Philippine peso: US\$1 = P25)**

Name of EPZ	1993	1994	1995
BEPZ	3 866	4 065	4 303
BCEPZ	9 126	9 359	10 700
MEPZ	4 182	4 120	4 620
CEPZ	3 822	3 734	4 033

Source: EPZA-IPD.

Take the case of the Bataan EPZ. A 1982 survey by Castro revealed that a significant percentage of the workforce earned wages that were either less than or just equal to the statutory minimum. A 1984 Ministry of Labor and Employment survey found that while

management reported that wages were either equal to or higher than the minimum, some 6.6 per cent of the workers covered by the survey responded that their wages were below the minimum. The cost-of-living allowance and overtime pay were also found to be lower than required by law. In 1986, Shoemith noted that wages in the BEPZ differed significantly among enterprises and that they were 6 per cent below the legal minimum prescribed for non-agricultural workers outside Metro Manila.

On the whole, the situation has improved in the 1990s. Almost all enterprises in the Bataan EPZ respect the prescribed minimum wage and overtime pay rates, while some firms pay more than the minimum (Tiukinhoy and Remedio, 1992). Officials of the EPZ Authority can impose sanctions on those enterprises that violate the law and there have been cases in which officials have had to call on employers to bring their wage policies into line with the provisions of the law.

In the case of the Mactan EPZ, the Chamber of Exporters and Manufacturers tries its utmost to ensure that its members comply with the labour legislation. Where there are violations, the Chamber finds ways of raising the matter with the company concerned (interview with the President of MEPZ-CEM, 29 June 1995). The CEM has also carried out surveys of wages and benefits in different enterprises in the zone, with a view to keeping employers informed of developments in this regard.

However, as regards the Cavite EPZ, research has shown (Kimura, 1995) that the daily wage of some contract workers is P96 instead of the set minimum of P128. Kimura also noted that while the daily wage of regular workers was P140 and that was in keeping with the legal minimum, there were still complaints that the rates were very low. He therefore concluded that because of low wages, many people would not be satisfied with jobs created in the zones and the qualitative aspects of employment in EPZs would be increasingly called into question.

With respect to benefits, a 1984 study by the Ministry of Labor and Employment found that most workers in the Bataan EPZ were covered by social security and Medicare. In addition, employers provided allowances other than the cost-of-living allowance, fringe benefits, free medicine (mainly for the treatment of minor ailments), paid vacation leave and sick leave in excess of five days. Uniforms were given in about one-third of the firms surveyed. There were also canteen facilities. Interviews with a random sample of workers and trade union leaders confirmed statements made by officials of the EPZ Authority, according to which workers in the BEPZ received medical care, paid vacation as well as sick leave and maternity leave. Canteen facilities, free uniforms and adequate protective gear were also provided.

A 1992 study showed that employers in the Mactan zone provided benefits as required by law, while a few large enterprises exceeded the statutory requirements. Paid sick leave and holidays, social security benefits, uniforms and canteen facilities comprised the main benefits. This is apparently still the case today. The transporting of workers to the zones has been cited as yet another benefit which is being provided by employers in the EPZs (interview with officials of the Human Resource Association, 13 and 29 June 1995).

Moreover, all workers covered by the social security system are eligible by law for housing loans under the *Pag-ibig* Expanded Housing Loan Programme (Republic Act No. 7742) as well as small, short-term loans which are also made available to members.

## Training

Articles 43 to 52 of the Labor Code deal with various facets of training. They provided for the creation of the National Manpower and Youth Council, which was subsequently attached to the Department of Labor and Employment. Its main responsibilities are policy and programme coordination. Under the law the establishment of a National Manpower Skills Center as well as the setting up of regional and local training centres, were also made possible.

As regards enterprises in the EPZs, they are engaged essentially in assembly line production which requires little training under the programmes of the National Manpower and Youth Council. The tasks can be learnt in short periods of between one day and a few weeks (Castro, 1982; Shoesmith, 1986). Previous training or work experience is often not necessary, since the type of industries in the zones are low-skilled (Diokno, 1989).

It is of interest to note that changing production methods require a degree of flexibility in order to be able to adjust to new designs, processes and products. At the Mactan EPZ, for instance, this development has given an impetus to skill formation. Enterprises in the zones may be grouped into two categories: those that assign production workers to one or two fixed tasks and those that allow them to handle between ten and 18 interrelated jobs. Enterprises from the United Kingdom and Taiwan, China, belong to the first group, while those from the United States fall into the latter (Remedio, 1994).

All enterprises reportedly encourage production workers to develop multiple skills and they use different methods for attaining this objective. Job rotations, promotions and interdepartmental transfers open up opportunities for acquiring new skills and assuming different responsibilities. Job rotation is widely practised by Japanese enterprises in the MEPZ. In some, the rotation is on a three-month basis, while in others, it is every six months. The duration depends on the policies of the companies concerned.

## Conditions of work in the zones

### Hours of work

Working conditions in the zones are governed by the provisions of Book III of the Labor Code. On the whole, all establishments in the four regular EPZs have a working week of six days and the normal working day is made up of eight hours. Overtime, when required, is compensated at the pay rates prescribed by law. While there have been enterprises in which problems have arisen because of non-observance of the law, there is recent evidence that the situation is improving in a number of cases. Research in the early 1980s showed that 50 per cent of the workforce in the BEPZ worked longer than the standard 48-hour week (Castro, 1982). The average was 54 hours, with a significant number of workers spending considerably longer hours at work. It has also been observed that mandatory overtime became excessive when production runs were increased (Shoesmith, 1986).

However, that was not supported by the results of a 1984 survey of the same zone by the Ministry of Labor and Employment. The statutory working time was found to be generally respected and only seven firms were reported to have had no rest day at all. The survey also found that there were certain enterprises in which work on two or three

consecutive shifts was carried out, though not on a regular basis. Forty-six per cent of the 231 workers sampled, reported that they worked two successive shifts, and 85 per cent of those workers were allowed rest periods in between shifts. Eleven per cent were not given rest periods and only 12 workers reported that they worked three successive shifts.

According to recent research, the standard 48-hour working week and the prescribed rest periods are fully respected (interview with Renato Agustin, 30 May 1995). The seven-day working week is required only occasionally in response to the exigencies of production at peak periods. It is also worth noting that some workers, particularly those who are paid at a piece-rate, volunteer to work overtime because they need the extra pay.

According to one human resources manager at the BEPZ, Sunday working at the company where she is employed is rare, and required only when production targets must be met (interview with Edith Gabriel, 30 May 1995). In general, workers get a 15-minute break every four hours, one-hour lunch break and Sunday is a rest day.

The aforementioned situation with regard to normal hours of work and overtime is the same at the Mactan Zone (interviews with MEPZ Industrial Relations Officer, May 1995; Human Resource Association, 29 June 1995; random sample of workers, May-June 1995). Claims that overtime was obligatory were dismissed by the President of the MEPZ Chamber of Exporters and Manufacturers who argued that "a coerced worker is not a productive worker", and noted that workers in the zone were well-trained, satisfied with their jobs and in good health (interview of 29 June 1995).

The 35 workers interviewed stated that they were on occasion asked to work extra hours in order to clear up backlogs and/or meet delivery targets. They were always paid the appropriate rates for overtime work. However, four workers from three different firms disclosed that there had been occasions on which they would have preferred not to work overtime, but felt that they had to. Two respondents from another enterprise stated that they had in the past worked overtime of two to three hours each time, for four or five days per week. However, such work has not been necessary since the beginning of 1995. This may be due to a slow-down of activities in the enterprise, which, according to unconfirmed reports, is likely to cease operations.

## Safety and health

Occupational safety and health in all enterprises, including those in EPZs, is regulated by Book IV of the Labor Code of the Philippines. The Occupational Safety and Health Center of the Department of Labor and Employment conducts research, disseminates information and provides technical assistance and training. Its aims are to prevent work-related accidents and diseases, thereby contributing to an increase in productivity.

A 1984 study by the Ministry of Labor and Employment on health and safety conditions at the Bataan EPZ revealed that workers complained of fatigue, inadequate ventilation, dust, fumes and unpleasant odours. However, workplace accidents resulting in disabilities were rare and most accidents in the zone required only first aid or other minor medical treatment.

Other research (Warr, 1984; Shoesmith, 1986) also concluded that "long overtime and pressure of meeting quotas affected workers' health. Fatigue left workers vulnerable to illnesses such as colds and fever. Headaches were reported to be a problem by 53 per cent of sampled workers, eyesight problems by 27 per cent, stomach pains by 20 per cent and a variety of other complaints".

Conditions have changed to some extent at the Bataan EPZ. According to the manager of the zone, officials monitor health and safety standards of enterprises and for this purpose a safety and health monitoring office has been set up within the BEPZA.

The manager's statement was supported by those workers and union leaders with whom interviews were held. All the workers found their work environment to be generally acceptable and they noted that physicians and nurses were available on a daily basis in some enterprises. They did however point out the need to improve ventilation, reduce the level of fumes and dust, and increase the factory space in some companies.

While medicines and first-aid treatment were generally provided, some respondents complained that medicines were sometimes out of stock. Protective gear and equipment were reportedly also supplied by employers. However, research has found that they were not used by some workers who claimed that they were "inconvenient".

As regards the Mactan EPZ, a survey carried out in 1992 revealed that on the whole, working conditions were considered to be acceptable. Between 88 and 96 per cent of the respondents were of the view that lighting was adequate and that the working environment was free from hazards due to air pollution (Tiukinhoy and Remedio, 1992). Further interviews carried out in May and June 1995 have shown that the situation has improved significantly. The lack of air-conditioning was the only problem identified and there were only two respondents who expressed dissatisfaction with the amount of factory space available.

## **Industrial relations**

### **Freedom of association and the right to organize**

The right of workers to organize for furthering and defending their interests is guaranteed under articles 247 to 249 of the Labor Code. Any form of interference, restraint or coercion which restricts the exercise of that right constitutes a violation for which there are sanctions.

Unlike certain other EPZ host countries in Asia, the national legislation relating to freedom of association and the right to organize and bargain collectively applies to all enterprises including those in the zones. However, while trade union rights are fully exercised in the Bataan zone, this is not the case in all EPZs in the Philippines.

On 1 March 1994, a Memorandum of Agreement between the Department of Labor and Employment and the Export Processing Zone Authority was signed, with a view to improving labour education programmes and promoting sound labour relations. Under the programme, both workers and employers are to be made aware of their rights and obligations, as well as the mutual advantages to be derived from their exercise of the right to form and join organizations of their choice. Some 200 participants from both sides of industry took part in activities to launch the programme in the zones.

Under the Labour and Management Education Programmes, there is to be an orientation seminar for foreign employers, a joint labour-management education programme, and a training programme for the trainers themselves.

The orientation seminar for foreign investors is an outstanding initiative of the Bureau of Labor Relations of the Department of Labor and Employment, designed to acquaint foreign employers with the values, culture and traditions of the host country and to inform them of the national labour laws and regulations. The aim is to help employers understand Filipino workers and the regulatory environment, thereby laying the foundations for stable and harmonious labour relations. In 1994, there were seven seminars, involving 105 establishments and 305 foreign employers and their staff (interview with Bitonio, 1995).

Up to the time of writing (mid-1995), orientation seminars for foreign employers had been conducted in the Bataan, Cavite and Baguio City Export Processing Zones. There were 42 participants at the seminar on industrial relations in Bataan while a total of 164 representatives of labour and management took part in one seminar in Cavite and two in the Baguio City zone. Basic courses for the training of trainers were conducted for representatives of both sides of industry at the Cavite, Bataan and Mactan EPZs.

### Unionization rates

The Bataan EPZ is highly unionized. Of the 62 enterprises in operation, 19 have unions (see table 24). There are 22 unions representing workers in these 19 enterprises. Total union membership in these establishments in the BEPZ is 7,462 (Fact Sheet for the Secretary, 24 February 1995). More than half of the unions are affiliates of the following organizations: the Association of Democratic Labor Organization; Associated Labor Unions, Confederation of Free Workers; National Federation of Labor Unions and the Trade Union of the Philippines and Allied Services.

At the Cavite EPZ, workers in three of the 142 establishments joined unions as of May 1995. In February 1995, two of the three unions became affiliated with *Alyansa ng mga Malayang Obrero* (AMO), a registered federation. At that time, the two unions had 367 members.

In contrast, there are no unions in the Mactan and Baguio City EPZs, even though in principle the right of workers to form or join unions can be exercised. Some reasons for this situation were advanced by an industrial relations officer of the EPZA. He noted that more than 70 per cent of the workers were females and, in his view, women were by nature, "peaceful". Also, in certain cases, prospective workers were forewarned not to form or join unions, and told that "they were there to work, not to fight". He added that the Zone Authority did not interfere in trade union certification elections. It was only an observer.

**Table 24. Enterprises with unionized workers in the Bataan EPZ, 1994**

Establishments	Products made	No. of unionized workers
Accessories Specialist, Inc.*	Fashion bags/accessories	87
Accessories Specialist, Inc.**	Fashion bags/accessories	12
Bataan International Garments, Inc.	Men's wear	413
Clement Textile International Corporation	Hospital linens	61
Dunlop Slazenger Phils., Inc.	Tennis balls and other sports goods	210
Eastern Dragon Textile Mills, Inc.	Knitting	166
Essilor Manufacturing, Phils., Inc.	Synthetic optical lenses	834
Filpak Industries, Inc.	Polythene plastic packaging	100
Iwahori Phils., Inc.	Disposable lighters	450
Kyung Kee Colors, Inc.	Colour pigments	32
L & L Lawrence Footwear	Rubber shoes	140
Manila Glove Manufacturing, Inc.	Industrial gloves	506
Ocean Composite Yachts	Yachts	79
Mikuni International, Inc.	Ladies' dresses, caps, bags	524
Mitsumi Phils., Inc.	Electronic components	1 910
Pasig Textile Industries, Inc.*	Gloves/sunglasses	850
Pasig Textile Industries, Inc.**	Gloves/sunglasses	32
Prince Footwear, Inc.	Rubber shoes	800
Supreme Packaging, Inc.*	Corrugated cartons	69
Supreme Packaging, Inc.**	Corrugated cartons	24
Yusung Phils., Inc.	Backpacks	110
Yeong Ah Braid Phils., Inc.	Hair wigs, hair pieces	53
<b>Total</b>		<b>7 462</b>

\*Production workers; \*\* Office personnel.  
Source: DTI-CLARA based on information provided by DOLE.

It has also been argued that workers are so busy that they have neither the time nor opportunity to meet and discuss matters relating to trade unionism. Another argument is that since many of the workers enjoy better benefits and privileges than those available in companies outside the zone, they have little interest in organizing.

### Collective bargaining

Procedures governing collective bargaining are contained in articles 250 to 258 of the Labor Code while those relating to the examination of grievances and the settlement of labour disputes are set out in article 261 of the Labor Code as well as in article 13(3) of the Constitution of the Philippines (1987).

Labour disputes arising in EPZs are brought to the industrial relations department of the EPZ Authority before they are submitted to the Department of Labor and Employment. Enterprises in the zones are encouraged to settle their disputes internally, with the assistance



of the industrial relations officer of the EPZ Authority. The rules, regulations and procedures for dispute settlement must not be in conflict with those stipulated in the national labour laws.

When a dispute reaches the Department of Labor and Employment, the procedure for handling it is as follows: If there is still an employer-worker relationship, the complaint is referred to the Labor Standards Enforcement Department. An official gathers the facts of the case and the complainant is required to sign an affidavit. In cases where complainants wish to withhold their identity, the Department of Labor and Employment may act on their behalf, thereby ensuring confidentiality.

After the filing of the complaint, a surprise inspection of the company is carried out. The inspector examines working conditions, the payroll of the enterprise in question and other pertinent sources of information. Random interviews may be held with workers to collect more facts. A copy of the inspector's findings and recommendations is provided to the employer and representatives of the enterprises are then summoned to a hearing. Where violations are found to exist, employers are asked to take the necessary measures to rectify the situation.

The Department's approach is not to "police" the companies as it did in the past. It now places the emphasis on encouraging dialogue between employers and workers with the view to reaching acceptable compromises.

If the employer-worker relationship no longer exists, complaints are handled by the Industrial Relations Division of the Department of Labor and Employment. These cases usually involve retrenchment, termination of contracts of employment and restrictions on the exercise of the right to join and form unions. The Division also examines the provisions of collective agreements to ensure that they are in line with the national labour standards. If the matter concerns the payment of wages due to workers, the Division can appoint a sheriff to seize the company's property in order to pay the wages, if all other measures to resolve the dispute fail.

Labour problems arising in EPZs may be handled by the following: the Bureau of Labor Relations and the Labor Relations divisions of regional offices of the Department of Labor; the National Labor Relations Commission and the National Conciliation and Mediation Board.

### **Tripartite Industrial Peace Council**

One initiative designed to promote tripartism and better industrial relations is the Tripartite Industrial Peace Council. Established by Executive Order No. 403 on 30 May 1990, the Council was born out of the recommendations of the National Tripartite Conference for Industrial Relations (11-12 May 1990, Tagaytay City). The Council is national in scope and it is intended to foster tripartite consultations for the elaboration and implementation of social and labour policies in all economic sectors.

It is responsible for monitoring the implementation of the Industrial Peace Accord and assisting in the preparation and conduct of national tripartite conferences convened to review existing labour and social policies and to evaluate local and international developments affecting them. The Council also prepares for submission to Congress, information reflecting tripartite views on labour and social concerns and proposed legislation. It also advises the Secretary of Labor and Employment on major policies affecting labour and employment.

### **Social Contract for Development based on Justice and Peace, 1993 and beyond**

Another noteworthy development at the national level is the Social Contract for Development based on Justice and Peace which was signed on 15 December 1992 by workers and employers through their respective organizations, among them, the Trade Union Congress of the Philippines and the Federation of Free Workers Labor Advisory and Consultative Council.

The parties agreed to pursue the following goals. First, to share equitably the fruits of production, through negotiation, collective bargaining, cooperatives and similar projects. Secondly, to influence socio-economic policy and investment-related developments, through effective participation in policy formulation and decision-making. Thirdly, to increase productivity and efficiency through bipartite committees at plant level and other arrangements. Fourthly, to settle disputes using the dispute settlement procedures available at the enterprise-level as well as through bipartite and tripartite committees.

### **Department of Trade and Industry — Center for Labor Relations Assistance (DTI-CLARA)**

With specific reference to EPZs, there is the Industrial Relations Assistance Center (IRAC) which was set up by Ministerial Order No. 16 (1983 series). Located in what has since become the Department of Trade and Industry, it assists companies, especially those in export-oriented industries, in their dealings with the government agencies that handle labour-related matters.

In the early years of its existence the IRAC analysed complaints, recommended proper action and worked closely with the Ministry of Labor and Employment and other agencies, with a view to preventing labour problems from developing into serious disputes and work stoppages. It provided advisory services for the implementation of agreements or decisions relating to labour disputes and also assisted in the dissemination of information on wages, labour laws, policies, rules and procedures.

Under Ministerial Order No. 18 (1985 series) which amended Ministerial Order No. 16, IRAC was strengthened and renamed the Center for Labor Relations Assistance (CLARA). Executive Order 133 reorganized the Department of Trade and Industry (DTI) and mandated the Center to work closely with the Department of Labor and Employment. By virtue of these changes, DTI-CLARA is expected to work even more efficiently. It serves employers and workers in small, medium and large enterprises and especially those in export-oriented and labour-intensive establishments in industrial centres and EPZs.

The Center facilitates the expeditious settlement of industrial disputes and implementation of agreements (i.e. decisions and orders of the DOLE, and other agencies). It promotes the establishment of the Labour-Management Councils, collects and disseminates vital information for use in dispute settlement, collective bargaining and policy-making, and also encourages and helps companies to interact in a positive way with their host communities. The long-term goals are to improve working conditions, living standards and competitiveness.

According to the Center for Labor Relations Assistance of the Department of Trade and Industry, the record of non-observance of labour standards is worse in enterprises outside the

EPZs than in those located in the zones. A 1994 survey of 14,578 non-EPZ-based establishments found that 34 per cent did not respect the national labour standards that applied to security of employment, wages and benefits and trade union rights. The most common violations concerned the non-payment of bonuses, overtime pay, allowances and social security entitlements, the failure to grant vacation and paid sick leave, discriminatory employment practices and in certain cases, physical aggression by employers. Of the 257 enterprises located in the four zones and SEZs in Cavite, that were covered by the survey, an estimated 22 per cent were found to have violated national and international labour standards in the aforementioned areas. Of the 32 factories inspected at the Bataan zone, 16 per cent were found to have disregarded the standards. Their actions included the non-payment of social security benefits, arbitrary dismissals, illegal lockouts and obstruction of the exercise of the right to organize. Physical confrontation with employers was a common complaint among workers in the Cavite EPZ, while at Mactan and Baguio City EPZs there were mainly reports of unfair labour practices. Since the sample of enterprises in the Cavite region included some from the special economic zones, this must be borne in mind when considering the fact that the largest number of violations were found to be in Cavite — 38 per cent of the enterprises surveyed.

#### **Employment and industrial relations issues: The point of view of a trade union leader**

The weak enforcement of labour laws, particularly those concerning working conditions, wages and labour relations are largely responsible for the problems that exist in the EPZs, according to the national President of the Associated Labour Union — Trade Union Congress of the Philippines (ALU-TUCP).

In a recent interview, the labour leader referred to the industrial peace in the zones as an "artificial peace". In his opinion, the situation of workers had not improved over the years, notwithstanding the many tax exemptions and incentives from which enterprises had benefited and the profitable businesses that had developed. Workers were being exploited, with many firms not even paying the minimum wage which, in his view, was already rather low.

As an example, he cited the case the Cavite EPZ where some investors, particularly those from the Republic of Korea, were not paying the prescribed minimum wage. In contrast, most investors from Japan and the United States complied with the legal requirements regarding wages. He added that certain employers from Japan had complained to the Government arguing that those from the Republic of Korea were paying less than the statutory minimum, even though their enterprises were involved in the same types of industrial activities.

Apart from being paid wages lower than the minimum prescribed by law, workers in EPZs did not have security of employment, according to the President of the ALU-TUCP. Moreover, since workers who spoke out about their unsatisfactory working conditions faced the threat of dismissal, many preferred to remain silent.

Labour is of the view that the Government is not doing enough to address the labour problems in EPZs and in certain quarters it is even seen as tolerating or indirectly supporting the restriction of unions in the zones. For example, attempts to organize workers in the Mactan EPZ were reportedly hindered by the Zone Authority and some government officials

made it difficult for union officials to move freely in the zone where elections for the certification of a union were being held.

In the Bataan EPZ, enterprises were reportedly constrained to allow workers to join unions because strikes had been organized by a labour confederation, the *Kilusang Mayo Uno* (KMU). In the Cavite EPZ, where groups are reportedly hired to break up strikes, the degree of anti-union action far exceeds that which exists in other EPZs in the Philippines. In short, opportunities for exercising trade union rights in EPZs appear to be severely limited.

Moreover, the tripartite industrial peace councils are considered to be anti-union, because the labour representatives are said to be chosen not by the workers but with the approval of management and government.

Notwithstanding the many obstacles, which are by no means peculiar to EPZs in the Philippines, efforts to organize workers in the zones will continue, and there are various forms of assistance from unions in industrialized countries, which are intent on helping organizations fight the adverse social and labour consequences of EPZs.

### **Employment and industrial relations issues:**

#### **The point of view of government and zone officials**

Government and EPZ officials identify four sources of problems that are common to all the zones; underpayment or late payment of wages, abuse of apprenticeship agreements, subcontracting and cultural differences between employers and workers.

They contend that the payment of wages that are less than the legal minimum and/or the delay in payment of wages concern less than 5 per cent of all enterprises in each of the four zones. More often than not, the employers concerned are either newcomers to the zone or not aware of the national labour laws. The problems either do not arise or they cease when the employers become members of the Chamber of Exports and Manufacturers, which provides them with information on wage-related matters. Moreover, after the EPZ Authority and the Department of Labor and Employment inspect enterprises, employers usually take steps to bring their labour practices and working conditions into line with the law.

Apprenticeship agreements have been abused by some firms, to keep wages low. During the training period, which is usually of six-months' duration, trainees receive an allowance which is set at 75 per cent of the statutory minimum wage. None the less, there are isolated cases of enterprises unjustifiably extending the training period. These are generally firms that have not been adequately monitored by the Zone Authority or the Department of Labor and Employment.

Subcontracting, which many employers resort to during peak production periods, has also provoked certain problems in the Bataan and Cavite EPZs, with many regular workers complaining that this practice tends to keep wages low and lessens the total volume of work in the plant. Moreover, those working under subcontracting arrangements are paid very low wages, work under unsatisfactory conditions and cannot organize in order to protect their interests.

Both government officials and those from the EPZ Authority recognize that cultural differences have in some instances caused misunderstandings and labour disputes in certain enterprises in the EPZs. For instance, employers from the Republic of Korea are described as "militaristic" and inclined to use physical force when dealing with workers and particularly when there are differences of opinion. In an endeavour to minimize such misunderstandings,

one-day orientation seminars are organized for foreign investors before they begin operating in the zones. The Filipino work culture and attitudes are explained to entrepreneurs during those sessions.

Other problems that have emerged in isolated cases stemmed from the non-remittance of social security benefits, illegal dismissal, anti-union activities and lockouts. These, and other undesirable practices, are supposed to be stamped out by initiatives being taken by the Government and EPZ Authorities to encourage social dialogue and observance of the national labour laws in the zones.

### Concluding remarks

Since their inception in 1972, export processing zones (EPZs) in the Philippines have been a success in terms of attracting FDI, diversifying exports and creating direct and indirect employment in the regions where they are located. Today, there are four EPZs in the country: Bataan, Baguio City, Mactan and Cavite EPZs. Up to March 1995 a total of 283 firms were operating in these zones which have been experiencing phenomenal growth especially since the start of the 1990s.

The Government of the Philippines provides both fiscal and non-fiscal incentives to attract foreign investors to the zones. The EPZs have contributed to national as well as local economic growth and they have had a positive impact on the performance of exports, the value of inward investment and, more importantly, employment. There were, up to the first quarter of 1995, 86,265 persons employed in the zones and women made up 70 per cent of the workforce. The rapid growth of industry in the zones has also opened up considerable opportunities for indirect employment.

There are inter-zonal and inter-industry differences in the distribution of firms. The Bataan and Cavite EPZs attract mainly garment and textile enterprises which draw on the large pool of labour in surrounding communities. In contrast, industries requiring relatively higher skill levels are predominant in the Mactan EPZ, which is located in the province of Cebu where skilled manpower is known to be available.

The Labour Code of the Philippines applies to the zones. By and large, employers respect the provisions of the labour legislation with respect to equality of opportunity and treatment, security of employment, subcontracting, training, wages, benefits, conditions of work, safety and health, and all aspects of industrial relations.

Unionization rates are low. While workers in the Bataan and Cavite EPZs are unionized, those in the Mactan and Baguio City EPZs are not. It is worth noting that the problem of relatively low union membership also exists at the national level. Of the 27 million workers in the Philippines, only 26 per cent were unionized up to the time of writing.

Government institutions such as the Department of Trade and Industry and the Department of Labor and Employment work closely with the Export Processing Zone Authority in the management and administration of the regular zones. In the areas of employment, working conditions and industrial relations, agencies such as the Bureau of Labor Relations, the National Labor Relations Commission, the National Conciliation and Mediation Board, the Tripartite Industrial Peace Councils and the Center for Labor Relations Assistance, coordinate with the Zone Authority's Industrial Relations Division.

According to the trade unions, there are in the EPZs, problems relating to employment, working conditions and labour relations. Low unionization rates, low wages, insecurity of employment and indifference on the part of the Government to address these issues, have become sources of great concern. According to the Government, the difficulties arising in the zones include the following: non-payment, under-payment or delay in the payment of salaries and benefits; increased use of subcontracting arrangements; abuse of apprenticeship contracts and conflicts arising from cultural differences between employers and workers. Research has shown that while these problems occur in some enterprises, they are by no means widespread, and in fact, certain difficulties have emerged in isolated cases only.

Industrial peace prevails in all the zones and on the whole, employment and working conditions are much better within the zones, than outside. The Government has been able to achieve the primary goals of creating jobs as well as increasing exports, foreign exchange earnings and foreign direct investment (FDI). Between 1993 and 1994, new investment in the EPZs and SEZs increased almost fourfold — from P2.6 billion to P9.6 billion. The bulk of that capital, P6.8 billion, went to the relatively new SEZs. For the first quarter of 1995, inward FDI in all zones totalled P6.4 billion, which was almost ten times the amount for the same period in the previous year.

All indications are that EPZs and special economic zones will continue to be an important part of the investment-promotion and regional industrialization strategies of the Philippines. However, if their positive effects are to be maximized, it is imperative that Government and the social partners work together to ensure that national labour laws and the international labour standards which the country has ratified, are fully respected in enterprises in the zones.

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## Annex

### List of publications on export processing zones under the ILO's Programme on Multinational Enterprises

#### Monographs

*The economic and social effects of multinational enterprises in export processing zones.* A joint ILO/UNCTC study (Geneva, ILO, 1988), 169 pp.

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ISBN 92-2-107105-7

#### Working papers<sup>1, 2</sup>

*Employment and multinationals in Asian export processing zones* (Working Paper No. 26, 1983), 82 pp.

by R. Maex

ISBN 92-2-103404-6 (2nd impr. 1985)

ISBN 92-2-203404-X (French version)

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*Employment and multinational enterprises in export processing zones: The cases of Liberia and Ghana* (Working Paper No. 30, 1984), 74 pp.

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ISBN 92-2-105520-5

*Export processing zones in developing countries: Results of a new survey* (Working Paper No. 43, 1987), 33 pp.

by Otto Kreye, Jürgen Heinrichs, Folker Fröbel

ISBN 92-2-105642-2

<sup>1</sup> The case-studies on Latin American and Caribbean countries were undertaken together with the former UNCTC.

<sup>2</sup> The Working Papers published between 1980 and 1986 are available on microfiche. Price: Sw.frs. 500; US\$450; (including a special binder with wallets permitting quick retrieval and systematic filing of microfiches).

*Las zonas francas industriales y las empresas multinacionales: Efectos económicos e impacto sobre el empleo en la República Dominicana* (Documento de trabajo núm. 46, 1986), 51 pp.  
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by Mario L. Possas, Joao E.P. Furtado and Enéas G. Carvalho  
ISBN 92-2-105801-8

*Industrias de maquila, zonas procesadoras de exportación y empresas multinacionales en Costa Rica y El Salvador* (Documento de trabajo núm. 48, 1987), x + 94 pp.  
by Guillermo Pavez Hermosilla  
ISBN 92-2-305841-4

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