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# TRANSFORMATION OF SPECIAL ECONOMIC ZONES (SEZS) IN THE PHILIPPINES

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A Special Economic Zone (SEZ) is commonly defined as a specific geographical area within a country with an advantageous business and investment environment. SEZs may vary in type or scale, but they are often used as a policy tool for economic development. These economic zones have not only significantly increased in number over recent decades but have also evolved in different respects, such as objectives, zone configuration, ownership, incentives, and economic activities.

The Philippines is one of the many countries in Southeast Asia that have extensively pursued economic zone development. In January 2020, there were 407 operating zones and an additional 144 zones were being developed. As in the experiences of many countries, economic zones in the Philippines have undergone significant transformation since their inception. The evolution of economic zones in the Philippines can be classified into three phases: government-led (1970–1994); private-sector-driven (1995–1999); and IT-industry-centred (2000–present).

The first phase of economic zone development (1970–1994) was characterized by government-led Export Processing Zones (EPZs), which had begun in the late 1960s. Two key government decrees paved the way for the creation of EPZs: the Republic Act No. 5490 of 1969, which established the Bataan Export Processing Zone (BEPZ), the first EPZ in the Philippines; and Presidential Decree No. 66 of 1972, which created the Export Processing Zone Authority (EPZA), the government agency in charge of managing the zones. Additional public zones were created in the 1980s: the Baguio City Export Processing Zone (BCEPZ), the Cavite Export Processing Zone (CEPZ) and the Mactan Export Processing Zone (MEPZ). Production within these EPZs is mainly for export; however, given the special permissions from the EPZA, 30% of total production can be sold to the domestic market. Like many first-generation EPZs, the EPZs in the Philippines were heavily funded by the government and foreign loans. Unfortunately, in some cases these zones generated more costs than benefits. The BEPZ was widely considered a disappointment as massive investments failed to deliver the projected

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The Republic Act No. 7916, also known as the Special Economic Zone Act of 1995, enabled the private sector to participate in the development and management of economic zones. This marked the advent of massive economic zone development.
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gains. Meanwhile, government efforts towards export-oriented industrialization intensified in the 1990s. Under the Medium-Term Regional Development Plan for Region IV (1989–1992), massive infrastructure projects such as superhighways, ports and industrial estates were constructed in the five Southern Luzon provinces of Cavite, Laguna, Batangas, Rizal and Quezon (CALABARZON). This project enabled these provinces to attract the bulk of the economic zone investment and eventually to become one of the biggest industrial clusters in the country. In the same period, US military bases were closed, and those in Subic, Clark and Fort Bonifacio were converted into SEZs through the Republic Act No. 7227 or the Bases Conversion and Development Act (BCDA) of 1992.

The second phase of economic zone development (1995–1999) focused on liberalization and the involvement of the private sector. The Republic Act No. 7916, also known as the Special Economic Zone Act of 1995, enabled the private sector to participate in the development and management of economic zones. The Act also expanded incentives to firms engaging in non-export activities such as commercial/trade services, utilities and facilities, and real estate. The Act also established the Philippine Economic Zone Authority (PEZA), a government agency tasked with promoting investment, providing assistance and facilitating incentives for investors or firms within the SEZs. The participation of the private sector and the provision of incentives to non-export activities marked the advent of massive economic zone development, which would further intensify in subsequent decades. In this period, the number of economic zones increased to thirty-two and, consequently, the number of firms rose from 38 to 382. Furthermore, this period also redefined the role of government in economic zone development from primary developer and operator to overseer and regulator.

The third phase of economic zone development (2000–present) has been anchored in the development of the IT industry. Since the turn of the millennium, the potential of the IT industry, particularly the business process outsourcing (BPO) industry, has become noticeable. Private sector actors, mostly real estate developers, have actively ventured into the BPO industry and campaigned for government support. In 2000 the government promptly responded by amending the Special Economic Zone Act to provide incentives to IT parks and centres, firms, and facilities providers. Many of these IT parks and centres began to cluster in Metro Manila, which has well-developed business centres and an abundant supply of educated workers. Subsequent board resolutions were also approved to establish additional types of economic zones and activities: Tourism Economic Zones (2002), Medical Tourism Parks/Centers (2006), Retirement Ecozone Parks/Centers (2006) and Agro-Industrial Economic Zones (2007). The expansion of incentives to the IT services industry led to an unprecedented growth in economic zone development. The number of economic zones almost doubled from the 207 zones developed in the period 2000–2009 to 407 zones in 2020. The number of firms surged to more than 3,700 firms in 2020. The inclusion of the IT industry also triggered a remarkable shift in economic activity within economic zones. Up until the 1990s, firms were mostly engaged in manufacturing activities and the production of intermediate goods. From 2000 onwards, the majority of firms have been involved in service-based and knowledge-based activities such as BPO, software development, call centres, real estate, and warehousing. This change in the industrial composition of activities within economic zones reflects the overall structural transformation that has occurred in the Philippine economy. The service sector has consistently accounted for around 50% of total economic output since the 1990s.

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It is clear that economic zones in the Philippines have continuously evolved over time, and these changes are evident in specific areas such as configuration, objectives, management, and some types of economic activities. The first generation of economic zones are EPZs that are managed exclusively by the government. The new generation of economic zones have varying configurations, but the huge majority are involved with the IT industry and are operated by the private sector. The shift from government-controlled and export-oriented EPZs to private-led zones with a wide spectrum of activities has two significant consequences: a rapid increase in the number of economic zones and firms; and a change in industrial composition from manufacturing-based activities to service-based activities.

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