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Philippine Studies vol. 19, no. 4 (1971): 733–738

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Over the years, a number of Asian countries have enjoyed unusual economic growth. One of the more important factors behind this growth is the establishing of free trade zones in their major sea ports, which has attracted industrial investments and generated opportunities for manufacturing and export enterprises. There are no accurate figures available, but the evidence indicates that these zones have initiated unprecedented industrial activity in their different countries and opened new job opportunities for their labor force, with a resultant expansion of their national economies.

THE CONCEPT

The concept of a foreign free trade zone is actually one of the oldest instruments of trade and marketing, but it is in a sense new, with its present revival and adaptation to meet the contemporary requirements of modern economics, transportation and distribution. In the Philippines, it is relatively new, the first zone having been established only last June 1969, with the signing into law of Republic Act Number 5490. As envisioned by the law, a foreign trade zone is a specially designated area to be operated as a public utility in or near a port of entry, within which goods may be loaded or unloaded, repacked, mixed, cleaned, stored, processed, manufactured and re-exported without the intervention of customs authorities and the payment of tariffs or taxes.

The words "free port" and "foreign trade zone" are used interchangeably. Both are meant to facilitate the import and sale of foreign goods, either in their original or in an altered form. The government waives its right to impose taxes while goods are in the zone; but once they are moved out and brought to sectors that fall under the jurisdiction of the customs authorities, they are subject to the prevailing taxes of the country. The difference between a foreign trade zone and a free port is in this, that the former is a limited area set within a port, either for manufacture or transshipment of goods; while the latter is an entire port area which is exempt from customs duties and taxes. Thus, the Mariveles Foreign Trade Zone (MFTZ) is not intended to be a commercial or trading center similar to Hongkong or Singapore; rather, it is an export-processing zone that is being developed along the lines of an industrial estate. Under the above concept, the Foreign Trade Zone Authority, an agency of the government, enjoys jurisdiction over a total area of 1,056 hectares for the purposes of industrial development. Located in the town of Mariveles at the southern tip of the province of Bataan, the MFTZ is about two hours by boat from Manila. President Marcos had originally designated the NASSCO reservation of 556 hectares for the MFTZ, but this was increased to its present size, 388 hectares of which are allocated for low-cost housing.

DEVELOPMENT PROGRAM

220 hectares are now being developed, with work being planned in three phases. Phase I, covering 76 hectares, has been designated for light industries, and Phases II and III are for medium and/or heavy industries. Since January 21, 1971, with the assistance of Army engineers, the Authority has doggedly converted several hills, valleys and marshland into a modern industrial estate, complete with underground water and power facilities, plus a network of roads and a sewerage and drainage system. A gleaming 500,000-gallon water tank is almost complete, while plans for the construction of a 50-meter high, 1.2 billion-gallon water storage dam are being finalized for bidding before the end of 1971. Phase I is estimated to cost the government the amount of ₱30 million.

Heavy industries for Phases II and III are being encouraged by extending to them much lower rental rates in addition to the standard incentives and exemptions. Ford Asia Pacific, Delta Motors Corporation and Universal Motors, and Bay Shipyard are a few of the companies which have signified their intention to construct factories.

After two years of actual construction work since its first ground breaking on January 31, 1970, the MFTZ has now levelled about thirty hectares for industrial establishments. Despite initial hesitation and skepticism, an increasing number of letters of application have been filed by prospective investors, but only seven applicant-companies have met the requirements and have been licensed to operate within the zone. Among the approved applicants, two shoe companies are now constructing their factories, which hopefully will be in operation within a few months.

INCENTIVES

The benefits offered to investors are numerous. The enabling act provides for the grant of customs duty and tax-free import privileges for merchandise, capital goods and raw materials. Besides clearly defined operating conditions, free rental on leased industrial lots has been extended up to December 30, 1971, after which graduated long term but cheap rental fees will be charged. Financial assistance for the construction of factory buildings at low interest rates and the extension of priority in the allocation of dollars required for importation by the Central Bank are also guaranteed. Utilities, such as power and water, are available at rates lower by 10% than those prevailing in the Greater Manila Area. Housing for employees and workers is provided for in cooperation with government financial institutions. Finally, there is easy access to deepwater port, with dockside facilities for receiving and dispatching cargo, warehousing, and other ancillary services.

BENEFITS TO THE ECONOMY

It has been statistically established that the rate of export growth has a high correlation with the growth of the Gross National Product (GNP), and it is on this principle that the Zone development operates, namely, to give priority to export-oriented industries. Need it be stated that the demand for necessary foreign exchange to purchase capital equipment and concomitant technology must be satisfied to accelerate the economic growth of the Philippines?

Past economic performance, however, shows a heavy dependence on traditional primary products (See Table I).

TABLE I

	Philippine Exports		Korean Exports*	
Year	Primary	Manufactured	Primary	Manufactured
1962	50.3%	49.7%	78.0%	22.0%
1968	53.3%	46.7%	22.7%	77.3%

Source: *Philippine Progress* (2nd Quarter, 1970), Vol. IV, p. 1.
* Cited for a Comparative Study.

Thus, in 1962, primary exports were 50.3%, while the share of manufactured goods was 49.7%, compared to Korea's 78% for primary and 22% for manufactured. Six years later, there was very little change in the structure of our Philippine exports; there was just a 3 per cent increase in the export of primary products, or 53.3% in 1968, compared with Korea's decrease of 56.7%. This means that Korean exports of manufactured products grew from 22% in 1962 to 77.3% in 1968.

Korea, of course, had earlier realized the significance of exporting manufactured items (despite the protectionist cloak of developed countries regarding finished products) because of the higher income elasticity for these products and less susceptibility to nature's onslaughts.

Thus, from 1962-1969 the following statistical data compare the Philippine performance with that of Korea:

TABLE II

Year	Philippines Export Value (FOB) (In Million US$)	Percent Annual Increase	Korea Export Value (FOB) (In Million US$)	Percent Annual Increase
1962	556.0	—	56.7	—
1963	727.1	30.77	84.4	48.85
1964	742.0	2.05	120.9	43.25
1965	768.5	3.57	180.5	49.30
1966	828.2	7.77	255.8	41.70
1967	821.5	(0.81)	358.6	40.19
1968	848.3	3.26	500.5	39.57
1969	851.5	0.38	700.0	40.00

Source: *Philippine Progress,* (2nd Quarter, 1970), Vol. IV, page 1.

For the decade 1961-1970, the Philippines showed an average overall GNP growth rate of only 5%. From an export value of US$556 million in 1962, it rose to US$851.5 million in 1969, or an average annual export growth of 6.7%. On the other hand, Korea's exports rose from US$56.7 million in 1962 to a US$700 million in 1969. From their export earnings of 10% (compared to our 1962 export), Korea earned about 85% of our exports in 1969. This is phenomenal increase. In other words, Korean economic growth averaged approximately 40%, or an all-time high GNP growth rate of 38%.

The sluggish growth of the local economy can be attributed to the minimal increase in the export of Philippine manufactures and an over-dependence on only a few primary items for export. Where the Philippines failed Korea has suceeded. Fortunately, something concrete is now being done about it. The Board of Investments is trying to restructure the country's basically agricultural economy into a self-sustaining industrial economy, which means the exploitation of indigenous raw materials for export. To complement the free trade zone, Republic Act Number 6135, otherwise known as the Export Incentives Act of 1970, has extended the applicable benefits and incentives embodied therein to export producers within the Mariveles Foreign Trade Zone. As planned, and while it is not a panacea to the national economic ills, the free trade zone is expected to contribute significantly and boost our foreign exchange earnings. Thus, its success will mean a major economic break-through for the country. With the projected establishment of 100 factories in the Zone within the next five years, job openings for 40,000 workers or .3% of the 1.1 million unemployed (there is a total of 14.5 million in the labor force) seem possible.

In the projections made by the Zone Authority, the export potential of these industries is as follows:

TABLE III

Projected FTZ Exports (Light Industries)

1973	$ 49.644 Million
1974	110.320 "
1975	173.754 "
1976	248.220 "
1977	281.316 "

TABLE IV

Projected FTZ Exports (Heavy Industries)

1974	$ 20.000 Million
1975	29.000 "
1976	41.000 "
1977	50.000 "
1978	50.000 "

These figures indicate that for light industries alone (Phase I), the free trade zone can generate an average annual export of US$175 million. This does not include Phases II and III for heavy industries, whose projected earnings are US$38 million.

Despite all the foreign cost items, like raw materials, amortization of equipment and machinery, costs of foreign technicians as well as remittances of dividends for foreign investments, it is estimated that 50% of the Gross Export Value will benefit the domestic economy.

In terms of corporate income taxes it is estimated that the zone enterprises will be paying a yearly average of ₱150,000,000, excluding income tax payments of workers.

Other benefits will include the training of unskilled labor for skilled jobs. With the influx of foreign companies into the zone, local workers will be introduced to modern manufacturing labor techniques. Our present pool of professional managers will learn new managerial techniques in production and international marketing, which can put the Philippines in a better position to compete in the world market.

The full operation of the foreign trade zone will also mean the acceleration of the government program of dispersal of industries. There has been too much concentration of industries in the Greater Manila Area, and the shift to the Zone would benefit the Central Luzon Region.

As the future metropolis, Mariveles can very well absorb substantial unemployed labor from other parts of the country, since local labor supply alone cannot possibly satisfy the future needs of zone enterprises. Individual problems of the Greater Manila Area, like the housing shortage, will likely also be alleviated by this project.

The objectives of Republic Act No. 5490, which are to promote foreign trade, to augment our foreign exchange earnings, to accelerate our industrialization program, to increase domestic employment and generally, to hasten the development of our country will hopefully be achieved in the present decade.

CONCLUSION

The experience of the world's foreign or free trade zone shows how they can help national economic development. One of the factors common among the successful international free trade zones is geographical proximity to expanding markets. These are only a few free trade zones as well located geographically as the Mariveles Free Trade Zone. Mariveles, if one looks at the map, is located at the center of the Asian-Pacific region. Furthermore, the Philippine government has carefully respected the freedom of private business, and this has allowed many investment groups to make substantial profits in their economic ventures. And there is in the country a surplus of trained clerical and labor force, experienced managerial and supervisory personnel. Finally, the Zone Authority has been entrusted to competent and enlightened officials. It is felt that with these initial advantages, the Mariveles Foreign Trade Zone can ultimately be an effective instrument for the industrialization and economic growth of the Philippines.