<u>The Regional Impact of Special Economic Zone in the Philippines</u>

By

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In the mid 1990's the Filipino government adopted a new development policy in an attempt to attract new investments and lower the unemployment rates throughout the country. The central idea was to provide foreign investors more access to Filipino labor markets by creating Special Economic Zones (SEZ's) that gave investors tax breaks and lowered or eliminated trade tariffs. In return, the government hoped that investors would bring large amounts of capital into designated SEZ's which would create new jobs and stimulate the domestic economy. The Filipino Government expected that peripheral and support economies would also benefit from the presence of the SEZ's. To implement this new strategy the Filipino government created a new ministry to help attract foreign investors as well as locate areas inside the Philippines suitable for SEZ's.

In 1995, under Republic Act No. 7916 (R.A. No. 7916 or the "Act") otherwise known as the Special Economic Zone Act of 1995, the Filipino government created the Philippine Economic Zone Authority (PEZA). PEZA's main duties included managing the operation of the Special Economic Zones (SEZ) throughout the country and helping to attract business and foreign direct investments to SEZ. Between 1995 and 2005 PEZA approved over 200 new SEZ's which have directly created over three million jobs throughout the Philippines. However, the areas with high numbers of job created within SEZ's have also reported a dramatic increase in unemployment rates.

The most successful region in both attracting investors to and creating jobs within its SEZ's was Region 4, located south of the Metro Manila Area. Region 4 contains 69 of the roughly 200 SEZ's created between 1995 and 2005, and received two of the three million jobs created within all the SEZ's combined. However, at the same time Region 4 reported an increase in the unemployment rate from just over 8% in 1995 to over 13% in 2005. The rising unemployment rate coupled with an increase in total population in these areas suggests that migration is occurring, and that the number of migrants is greater than the number of jobs created.

This paper uses a modified Harris-Todaro migration model, ArcMap GIS software and Tobler's Flow Mapper to identify and map predicted migration flows throughout the Philippines in 1995, 2000 and 2005. The model shows that there is a significant increase of migration flows to regions with a high number of SEZ's between 1995 and 2005. Cluster analysis shows high population changes in communities with SEZ's and spatial regression results indicate that there is a significant correlation between the presence of an SEZ and increased population in communities within Region 4. The model also predicts locations within the Philippines where the creation of SEZ's would decrease the propensity for migration and lower unemployment rates.