

## **Garment Industry in Cavite Export Processing Zone Working Conditions Survey**

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**One of the purpose of many developing countries in establishing export processing zone is to provide jobs to the people especially those in rural areas, to increase their productivity and their individual and family income, and thereby improve the level and quality of their living condition. This paper aims to assess the working lives and working conditions of garment industry in Cavite Export Processing Zone. The respondents were selected by multistage random sampling from Lee Outfit Corporation to be representative of the working population in the company. The results indicate that the working condition is good enough, but the wages is not enough compared to the high cost of living in the Philippines. The key stakeholders and other actors concerned must work together to develop effective national policies to promote local economy and foster productive foreign investment and trade in the EPZs to prevent or mitigate adverse effects from the primary aim of setting up EPZs.**

Key words: export processing zone (EPZ), foreign direct investments, garment industry, wages, working condition

### **INTRODUCTION**

The Philippines, with its strategic location between the East and the West and its strong historic ties to the U.S., is making a breakthrough in economic progress. Heading into the next century, with its reforms and trade liberalization, the Philippines is well equipped for growth and should be attractive to foreign investors.

Gross (1999) cited that the Philippines is known as the human resource training institute of the Far East because of its superb education system. After ten years of schooling in both English and Filipino, students at age eighteen may choose to attend one of the country's fifty-five universities. But, regardless of the fact that the Philippines enjoys a ninety percent literacy rate and more than three times the number of college graduates each year compared to the available vacancies for employment, the Philippines still faces labour and human resources problems. Each year many highly trained and resourceful Philippines professionals migrate to other countries for better employment opportunities. The Philippines needs to retain its highly trained workers by offering them good employment opportunities if it is to continue to grow and prosper.

Gross continued, there is a sense of excitement and anticipation that the steady economic growth in the Philippines holds promise for the future. Despite its history of natural disasters, political unrest and economic hardship, the Philippines' 5-6 % growth rate in Gross National Product (GNP) for 1997 is significant and offers hope of promising change.

Further, deregulation, liberalization, and privatization reforms are contributing to the country's "Philippines 2000" campaign, aimed at achieving Newly Industrialized Country (NIC) status, modernizing its agricultural sector, and revolutionizing its infrastructure by the turn of the century. Included in these reforms is an emphasis on the role of the private sector and promotion of foreign investment.

The Philippines' labor force is well equipped to work with foreign ventures and is one of the country's outstanding attributes. English is commonly spoken. The population and culture is a mixture of its Malay origins and Spanish and American influences. Furthermore, following independence, the country maintained many of its Western-flavoured institutions, particularly in law, government, and economics. This familiarity with Western practices eases Filipino integration with Western business practices and foreign ventures. Additionally, unlike many other Southeast Asian countries which must grapple with a skilled-labour shortage, the Philippines boasts a literate population that is well equipped with computer skills, advanced technological expertise, and good Western managerial skills. In fact, in some cases there is an overabundance of skilled labor; millions of Filipinos who can't find work at home live in foreign countries utilizing their technical expertise.

It is interesting to find out the reason of these issues, while government is trying hard to attract foreign investors to create jobs in the country, many skilled labours leaving the country to live and work in foreign countries. In fact, the multi national corporations with their foreign direct investment in the country employed unskilled Filipino workers. Furthermore The Foreign Direct Investments (FDIs)

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are the so-called “hot money” which can easily be extracted out of the country at a moment’s notice. mortars” investment such as the setting up of manufacturing concerns in the country that generate millions of jobs.

In his article, Rondinelli (1987) concluded that EPZs and FTZs have created new employment, generated foreign exchange, expanded national revenues and increased export flows. But not all have thus benefited. Adverse effects of these industrial enclaves, not offset by national benefits, are varied. The zones mostly have high constructions and maintenance costs, primarily employ low-wage, unskilled female labor, offer an unstable employment base, generate little domestic added value, develop few labor or managerial skills, transfer little modern technology or know-how and have weak links to domestic manufacturers.

The IBON (April 2008) survey showed that 79.3% of 1,495 respondents thought of themselves as poor, an increase from 71.7% in January 2008. 7 out of 10 can’t buy enough food and paying basic expenses. They have trouble paying electric bills, basic costs.

The problem of the study was to determine wages and the current working conditions of garment industry in Cavite Export Processing Zone to draw a picture on how the workers experience and assess their working lives and working conditions, to be used as a source of reference for policy makers and as the basis for further research.

**Literature Review.** The study begins with a background of Export Processing Zone and followed by Philippine Special Economic Zones, Cavite Export Processing Zone and general description of the company studied.

**Export Processing Zone.** War (1989), in his articles state that Export processing zones (EPZS) are economics enclaves within which manufacturing for export occurs under virtual free trade conditions. Many developing countries have established EPZS in hopes of reaping economic gains through employment, foreign exchange earnings, and technology transfer. This article studies the benefits and costs of EPZS in Indonesia, the Republic of Korea, Malaysia, and the Philippines and reviews the relationship between the welfare effects of EPZS and the host country’s economic policies. When the domestic economy is distorted, the EPZ confers limited welfare gains. Nevertheless, EPZS are far from the “engines of development” that some countries had initially hoped they would become.

**Philippine Special Economics Zones.** Referring to the Republic Act No. 7916 Chapter 1 (1995) regarding the purposes and objective; establishment and nature of special economic zones; coordination with other similar schemes section 2, b. the government shall actively encourage, promote, induce and accelerate a sound and balanced industrial, economic and social development of the country in

They do not comprise the much-needed “concrete and

order to provide jobs to the people especially those in the rural areas, increase their productivity and their individual and family income, and thereby improve the level and quality of their living condition through the establishment, among others, of special economic zones in suitable and strategic locations in the country and through measures that shall effectively attract legitimate and productive foreign investments.

The competitive incentives given to the Economic Zone Export, Tourism and IT Enterprises according to the Special Economic Zone Act of 1995: Income tax holiday (ITH) or Exemption from Corporate Income Tax for four years, extendable to a maximum of eight years;

After the ITH period, a special 5% Tax on Gross Income, in lieu of all national and local taxes;

Exemption from duties and taxes on imported capital equipment, spare parts, supplies, raw materials.

Domestic sales allowance equivalent to 30% of total sales;

Exemption from export taxes, wharfage dues, imposts and fees;

Permanent resident status for foreign investors and immediate family members;

Employment of foreign nationals;

Simplified import and export procedures;

Other incentives under Executive Order 226 (Omnibus Investment Code of 1987, as may be determined by the PEZA Board.

**Cavite Export Processing Zone.** The Cavite Export Processing Zone was created by virtue of Presidential Proclamation Nos. 1980 and 2017 issued on May 30 and September 19, 1980 respectively. It later evolved into the Cavite Economic Zone when former Philippine President Fidel V. Ramos signed into law the Special Economic Zone Act of 1995 on February 24, 1992. With an area of 276 hectares this once agricultural land has blossomed into a highly industrialized region. It is located approximately 30 kilo meters from Manila. As of now according to the list of PEZA there are 260 companies in the location. These companies employ a total of 65,000 Management and Production workers. Aside from this, an estimated 4,500 others are employed by brokers, banks, security agencies, canteens, sub-contractors and other offices doing business inside the Zone.

**Lee Outfit Corporation.** A Manufacturer of garments and wearing apparel, located in Cavite Export Processing Zone, Rosario, Cavite. It was established in 2002 with 99.99% Korean own and 00.01% Filipino. The company employed 850 workers with 60% female. All products are exported to the United States, Canada, Japan and Dubai. Most of the raw materials are imported from Korea and only small quantity which are very seldom imported from Hong Kong and China.

**Philippines Wage Standard and the Demand and Supply of Workers.** The good news to the Filipino workers as reported by Paares (2008), the minimum wage is likely to be increased to P20 up to P80 a day as the Palace seeks to balance what of P20 to P30 and assured President Arroyo that it would be more sympathetic to the plight of minimum wage earners during deliberations at the regional wage boards. Workers in the private sector in Metro Manila received a P12 increase in their daily basic pay in August last year, bringing the minimum daily wage from P350 to P362, but the TUCP (Trade Union Congress of the Philippines) is pushing for P80 increase this year.

We could say that the living cost in the Philippines is relatively high compared to other developing countries in South East Asia but people have different lifestyles so it is not possible to say how much per month it cost to live.

Gay (2005) in this article has pointed out the necessity of job creation. Without employment, primary education is a trap and a dead end. Without employment, people cannot afford to feed themselves, and trying to return to subsistence agriculture only makes the problem worse. Without employment, people will not have the money to pay for maintenance of water and sanitation systems.

The result of the study of Chu, Hasan, Lee (2002) states that the thrust of which is focused on determining the role of demand and supply shift factors on wages, are both interesting and important.

First, their analysis makes clear that the expansion of education can be an important factor in driving wage inequalities down – or at least in putting downward pressure on them if they are tending to rise for other reasons. In the case of the Philippines, the results indicate that the expansion of education – as witnessed through a steady decline in the fraction of the labor force composed of workers with primary education or less and a corresponding increase in the fraction of workers with high school degrees or greater levels of education – has played an important role in putting downward pressure on wage inequality, especially in the 1988 – 1994 period. Second, they find some evidence consistent with the notion that trade has led to an increase in the relative demand for unskilled workers.

Referring to the above literatures, it gives a clear view that having the Philippines Economic Zone in the country should actually attract foreign investment and thus create job opportunity for Filipino as well as promote economic growth. But the massive exodus of Filipino workers abroad indicates that there are more qualified employees in the Philippines than there are adequate employment opportunities. Another possibility is the wages paid is not enough for the educated and skilled workers. The study by Chu et al find some evidence that trade or multinational corporations relatively demand for unskilled workers for low wages.

employers are willing to grant and what workers are hoping to get.

The Employers Confederation of the Philippines yesterday said it was amenable to a daily wage increase

## SURVEY METHODOLOGY

The research method used in this study was descriptive survey. Researcher visited the office of Philippine Economic Zone Authority in Pasay City, Metro Manila and in Rosario, Cavite to gather some information about the Cavite Export Processing Zone. Fieldwork took place in April 2008

Interviews were carried out face-to-face with five workers and the Human Resources Officer of Lee Outfit Corporation in Cavite Export Processing Zone, Philippines.

Respondents were selected by multistage random sampling, to be representative of the working population in the company.

The questionnaire was formulated in cooperation with experts in the field of working conditions and survey methodology.

In addition to the interviews the available secondary sources of information including official publications of Philippine Economic Zone Authority, official website of Philippine Economic Zone Authority, company profile, books, journal articles, and newspaper were used.

**Main Findings, Respondent's profile.** Data were derived from the five workers of the Lee Outfit Corporation. All workers are in productive age and mature to do their job and 40% high school graduates, another 40% college level and 20% college graduate. 100% workers say that they are working to earn money for living and for the family. All of them are permanent workers in the production department. 80% of the workers have working experience before joining the company.

Income and gender Average income per worker is PhP 8,467 and consumption PhP 7,900 per month excludes housing and education expense. The balance of income after expense is only PhP 567 indicates that it will not be enough to rent a house as well as for education. 100% workers receive 13<sup>th</sup> month wages and insurance. Free meal is given to workers who work five over time hours a day. All workers perceived that there is no difference between male and female workers in terms of wage and benefits they get.

Working hours. Eight normal working hours with regular overtime of two hours with payment condition of 1.25 x regular payment for every overtime hour is practiced by the company. Usually Sewing

department must work with quota to be finished. The company provides canteen that the workers can buy their food inside.

**Job satisfaction.** In terms of wages and benefits compared to other companies the workers say the same or even better because this company always pay not enough.

**Maternity benefit** is given by the Social Security System based on the contributions. Regarding maternity leave, not all respondents know the procedures because they have not had experience on that. The human resources officer gave the information that 60 days leave is given to the female workers for normal delivery and 78 days for caesarean. Male workers are given paternity leave of seven days when the wife gives birth with paternity allowance for seven days.

**Work intensity.** 80% workers say the job is interesting and requires high speed and tight deadlines. Usually sewing department must work with quota to be finished. The workers say that they do not have many activities at home because of fatigue and no spare money to spend for other activities. They usually do house work, recreation, and others during holidays only.

**Skills and training.** Workers with a higher educational level and higher position receive more training. 60% of survey respondents are very interested to have other skills for future employment. They are interested in learning computer skills and typing.

**Health and safety at work.** The most related health effect symptoms are backache and muscular pains followed by fatigue. Health problem at the end of the work day depends on the working position whether standing or sitting position. There is a clinic in the factory location for emergency and whatever kind of sickness for all workers.

100% workers say that there is no problem with ventilation and temperature in the work place and the house keeping. Room, corridors, stairways and restrooms are well lighted. Surveys and inspections to ascertain that the work place is safe against fire, earthquake, termites and other sanitary measures are being done regularly. Inspection for safety against the fire, earthquake, and others is being done twice a year from outside and monthly from internal. The restroom and lavatory equipment are maintained regularly and inspected during break time. Water supply condition is good. Thorough cleaning of all rooms, furniture, fixtures and other facilities are done regularly three times a day and as required. Toilet rooms and lavatories are separated for men and women as well as dressing rooms.

The relationship with co-workers is good and respectful. Conflict between superior and subordinate usually solves between the two parties but in case it cannot be solved by them, human resources department will help to handle it.

**Job contribution.** The workers perceived that the

on time or no delay. Most of the workers are not sure whether they could get a better pay if they do their job well. Overall, work appears to be a positive and satisfying experience with the pay and benefits they earn in relation to the minimum wage regulation but compared to the cost of living in the Philippines it is job contributes to the immediate municipality, province and country through income tax & technology transfer. To the world economy the workers perceive that the job contributes to cheap product price and growth. 80% respondents comment that the company is really concern about environmental impact by practicing good house keeping and waste management.

## CONCLUSIONS

Majority of the workers are female, unskilled or semi-skilled and are mostly employed as production workers. Female workers account for as high as 60 per cent of total labor force in the company. From the findings it is proved that there is no discrimination of wages paid between male and female workers.

The working condition is good enough, but the wages is not enough compared to the high cost of living currently in the Philippines. With current wages condition, the workers can not afford to rent a convenient place to stay. It will not be enough to support them to get a better or higher education as they expect and moreover they cannot afford to send their children for schooling. They are not able to have another job for additional income due to fatigue and loss of strength.

The successful performance of export processing zones when compared to other sectors of the local economy has a lot to do with the advantages that are accorded to the zones usually in terms of improved infrastructure, fiscal and legal incentives. These in turn attract foreign investment and technology. While the primary aim of setting up export processing zones is not technology transfer, but the generation of employment and the boosting exports of manufactures, however invisible benefits resulting from production technology, have accrued to the advantage of the host country.

**Recommendations.** Transnational corporations invest mainly in garment and electronics firms in export processing zones. These sectors being labor-intensive are able to benefit from abundant and cheap labor in the country. However, it should be pointed out that the cost of labor is not the only determinant for investing in export processing zones. For maximum benefits to be transmitted to the local economy, the authorities in the export processing zones should come up with policies that compel minimum standards regarding forward and backward linkages between the zones and the local economy.

Transnational companies willing to invest in export processing zones must ensure that they also comply with minimum labor standards as specified by

the International Labor Organization not only by the government of the host country. Governments must also ensure that the rights of the workers are protected through the promulgation of relevant domestic legislation to augment the ILO conventions. The authorities in these zones also have a responsibility of ensuring that the regulations are enforced against export processing zone location where the workers can obtain it for free.

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- erring companies.
- It would be useful for workers to have additional technical knowledge apart from their work knowledge or skills such as training in computer use, typing and the like as expected by the workers for a better future and promotion. This could be achieved by the support of government to provide the facilities around the [a\\_philippines1.pdf](#)
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- The limitations of DEA as stated by Coelli *et al.*, (1998) are the following: measurement error and other noise may influence the shape and position of the frontier; the exclusion of an important input or output can result in biased results; and the addition of extra input or output cannot result in a reduction in the TE scores.
- The principal disadvantage of DEA is that it assumes data to be free of measurement error (Mester, 1996). When the integrity of data has been violated.