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CHAPTER

7

Islands of globalisation: The rise of service-based special economic zones in Metro Manila, the Philippines

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7.1 Introduction: Services offshoring and the changing spatial division of labour

Contemporary globalisation and the “new international spatial division of service labour” (Bryson, 2007) have created opportunities for developing countries to export services to the developed world. Improvements in technology have enabled unbundling, digitisation and a spatial reorganisation of services production, allowing firms to weigh production conditions around the world in their efforts to optimise production networks. The offshore service sector has risen dramatically over the past two decades and is still expected to grow as “we have barely seen the tip of an offshoring iceberg” (Blinder, 2006: 2). Telephone calls can be taken, credit-card information provided, hotels booked, interviews transcribed, and administrative tasks outsourced to almost anywhere on the globe.

Friedman (2006) sees the combination of globalisation forces and technological revolutions creating a “flat world”, a level playing-field for individuals to enter into competition with each other independent of their geographic location. Economic geographers, however, have long noted capitalism’s inherent reproduction of spatial unevenness and existing inequalities, as well as its ability to create new inequalities (Harvey, 1982; Massey, 1984; Smith, 1990). Today, “intensified processes and patterns of uneven development are increasingly expressed in enclave spaces” (Sidaway, 2007: 332). The integration of new locales into global production circuits can be studied using the GPN framework (Coe et al., 2004; Henderson et al., 2002). Although GPN studies have focused on various aspects beyond the firm, the framework was recently criticised for neglecting the impact of spatial transformation and development in specific places (Kelly, 2013).

Since the late 1980s, services have been offshored to developing countries, most prominently to India, and more recently to the Philippines. The spatial patterns and transformations resulting from the offshoring of services to developing countries have not been explored, a lacuna this chapter aims to address. Using a case study approach, I explore the geographies of global service production to increase our conceptual understanding of contemporary global production landscapes in the ever-changing spatial division of labour. The case study primarily concerns the following question: Where do offshore service firms invest in the Philippines, which spatial transformations occur as a result, and why? Analysing the spatialities of services in the Philippines gives insights into possible local economic development outcomes for other recipient countries. This is especially relevant given that the offshore service sector is advocated as an opportunity for economic development in developing countries (Dossani & Kenney, 2007).

The Philippines has long been considered a development laggard in Asia, while its neighbouring countries industrialised at high speed (Balisacan & Hill, 2003). In the first quarter of 2013, however, the Philippines became the second-fastest growing country in Asia after China. Economic growth rates are supported by a rising services sector (Asian Development Bank, 2012). The BPO sector in the Philippines has grown to 780,000 employees over the past 15 years, contributing \$13 billion in foreign exchange to GDP in 2012 (Mitra, 2013). Despite high

GDP growth, poverty and unemployment rates in the Philippines remain high; this raises the question of who benefits from the growing BPO sector (Ubac & Remo, 2014).

This study's findings are based on secondary data on company locations and 30 interviews with key stakeholders and companies in the offshore service sector in the Philippines. The central argument developed here is that services-based SEZs are being formed around the offshore service sector in the Philippines, due to (1) the location-choice factors of foreign investors, which require skilled labour and prefer modern and secure environments modelled according to their country of origin; (2) a domination of private urban planning and oligopolistic real-estate developers; (3) changing spatial policies for export-oriented economic development, especially government policies allowing the sprouting of SEZs in central business districts and even in individual high-rise buildings.

In the following sections, I present the theoretical background of the study, give a short overview of the methodology, and explain the context of offshore service investments in the Philippines. The empirical part of the chapter addresses three connected points: First, it maps foreign offshore service sector investments in the Philippines. Second, it examines the factors that determine companies' choice of location for their investments, as well as government policies for FDI attraction, to explain the conditions enabling a spatial structure of privatised global enclave development. Third, it discusses the features of service-based SEZs, including a brief discussion on who benefits from these developments. The chapter concludes by providing guidelines for further research.

7.2 Conceptual framework: From manufacturing- to service-based SEZs

Outsourcing and offshoring have occurred since the 1960s, when companies started to relocate manufacturing tasks to lower-cost destinations. The vertical disintegration of production led to a shift of routine blue-collar jobs from developed countries to developing countries for labour arbitrage. Consequently, developing countries have become increasingly integrated into GPNs in a new international division of labour (Fröbel et al., 1980).

Manufacturing offshoring has been spatially manifested by the creation of SEZs or export processing zones (EPZs). Mezzadra and Neilson argue that SEZs “provide a privileged perspective on globalization and its accompanying tensions” (2003: 211). These economic enclave spaces are a crucial, but under-researched feature of today's world. Veltz uses the term “archipelago economy” to describe the way multinational corporations create identical environments for standardised production across the globe “which appear often as islands in their broader local environment” (2004, section 3.4). SEZs are “defined as geographically delimited areas, frequently physically secured, that are usually, but not always, outside the customs territory of the host country” (Arnold, forthcoming). Many authors have discussed the suspension of existing national laws, or application of differential legal rules within these zones, as leading to territorial exceptionalism, denationalisation of land, plurality or hybridity of legal and social order, and “graduated sovereignty” (Mezzadra & Neilson, 2013; Ong, 2006; Phelps & Wu, 2009; Sassen, 1996).

Many developing countries have implemented SEZ policies as central components of their export-oriented development, primarily for manufacturing activities (Carter & Harding, 2011; Farole & Akinci, 2011). In 40 years, the number of SEZs rose from 76 globally to approximately 3,500 zones in 135 countries (Milberg & Winkler, 2013). The strength of SEZs in attracting FDI lies not merely in their preferential laws, but in the provision of enclaves of good business environments (e.g. simplified bureaucratic procedures, good infrastructure, and fast internet connectivity) in countries generally lacking these (Engman, 2010; Yi, 2012). These economic enclaves differ in scale and size, ranking from entire city states to clusters of buildings (Sidaway, 2007).

By creating spatially demarcated zones for foreign investors and export-oriented firms, a dual economy of advanced production for global markets co-exists with the local economy³⁵, with often limited interaction between the two. The rise of FDI in Wrocław (Poland) for example, led to “cost-oriented enclaves of foreign capital” (Hardy, 1998: 461) in which firms produced for the export-market with limited local linkages. In Guadalajara (Mexico), FDI attraction in SEZs has led to a bifurcation of the Mexican economy “into a foreign ‘enclave economy’ and a domestic economy” (Gallagher & Zarsky, 2007: 2).

Manufacturing SEZs in Southeast Asia often described as places for the unhindered exploitation of workers, characterised by poor working conditions, excessive working hours, and low wages (Arnold & Pickles, 2011; Klein, 2000). In the Philippines, the sub-urban fringe of Metro Manila became the site for manufacturing textiles and assembling electronics (Kelly, 2000; McKay, 2006). Klein described the atmosphere in a Philippine SEZ dedicated to manufacturing textiles, in the 1990s, as a “place of pure work”, dominated by female workers in low-end ‘sweatshop’ factories, patrolled by armed guards, and devoid of consumption spaces, where “not even candy and drink vending” (2000: 211-212) occurs. These ‘manufacturing-based’ SEZs are juxtaposed to ‘services-based’ enclaves, which provide office space to host foreign investors in offshore services.

7.2.1 Services offshoring and SEZs

Traditionally, services were considered non-tradable and had to be produced and consumed in the same location. With the commodification of services (Davenport, 2005) and ICT developments, the processes of production and consumption could be spatially separated, opening up possibilities to shift back-office tasks, of which Ireland became a prime destination (Breathnach, 2000; Sokol, 2007; White, 2004). In search of further cost reductions, production was shifted to regions with lower labour and office costs, and favourable tax regimes.

It could be assumed that the offshore service sector is more flexible in its location choice compared to the manufacturing sector, due to lessened physical infrastructural demands (Goswami et al., 2012). Existing studies analysing the distribution of offshore services on a national scale in developed countries have found contradictory evidence. Several studies have

³⁵ The term dual economy can refer to the distinction between a formal and an informal sector (Kanyenze & Kondo, 2011), or a traditional and modern one.

stressed an uneven distribution of offshore services in a few large cities (Bristow et al., 2000; Hardy et al., 2011b; Sokol, 2007; White, 2004). Other studies, however, found that peripheral and rural areas can benefit from employment creation through call centres (Richardson & Gillespie, 2003; Richardson & Marshall, 1996). The geography of service delivery, moreover, presents a contrasting picture of concentration of high-end services in global cities and lower-end services dispersing to more peripheral areas (Castells, 1989; Dicken, 2011; Sassen, 2001).

New production landscapes, or “territorial production complexes” (Storper & Walker, 1989), are created to match the changing requirements of capitalism. Similar to lower-end manufacturing SEZs, higher skill-intensive SEZs form enclaves with limited domestic economy linkages, except for drawing on the high-skilled labour force (Milberg & Winkler, 2013: 247). Service-based SEZs employ highly-educated labour, who perform services often in direct interaction with brands’ end-clients in developed countries (Bryson, 2007). Attracting skilled urban workers necessitates a different work environment from the manufacturing SEZs described earlier. It is important to note that these service-based SEZs do not immediately abolish or replace the manufacturing SEZ model; instead “over-lapping global divisions of labour” can co-exist within one country (Coe, 2011: 99).

In contrast to the offshoring of manufacturing work, the service sector provides employment only for a small, highly educated sector of society, thereby creating only limited opportunities for inclusive growth and potentially aggravating existing inequalities (Chandrasekhar & Ghosh, 2006; D’Costa, 2011; Dittrich, 2005; Usui, 2011). The emergence of the offshore service sector in India has led to a hierarchical integration into the global economy and the formation of an inherently unequal and segmented ‘dollar economy’ and ‘rupee economy’ (Krishna & Nederveen-Pieterse, 2008). Increased fragmentation and inequality, resulting from offshore services and SEZ development, becomes manifest in terms of rising internal frontiers of economic development, status, consumption, and cultural styles (ibid.; Mezzadra & Neilson, 2013).

The actors involved in creating service-based SEZs, and the spatiality of these developments, however, remain opaque. Nowhere in the world have service-based SEZs proliferated faster than in the Philippines. A case study on the Philippines can therefore offer insights into this contemporary phenomenon. Tracing the development of service-based SEZs in the Philippines offers a grounded analysis of the spatial dimensions of global processes, while simultaneously highlighting the role of domestic actors in mediating and translating global flows locally.

7.3 Methodology and data collection

This research is based on quantitative and qualitative data. Secondary quantitative data was used to show the spatial distribution of offshore service investments, and their concentration in maps. The maps are based on locational data stemming from the Philippine Economic Zone Authority, the registering office of all offshore service firms locating in Philippine SEZs. The data (from August 2013) include the addresses and sizes of each IT business park or business

centre (IT-SEZs)³⁶, the number of companies operating within each zone, and a separate list of planned parks. PEZA refers to the firms locating in these IT-SEZs as IT-BPO firms; I use the term IT-BPO synonymously to offshore service firms. The data is updated regularly and fairly reliable, since companies need to register to be eligible for tax exemptions and other benefits. A geographic information system was used to transform the data collected into maps.

Twenty interviews with offshore service firms' representatives in Metro Manila and three second-tier Philippine cities were conducted between April 2012 and April 2013. The interviews focused on location-choice criteria and the investment process of offshore service companies. Moreover, I interviewed ten key stakeholders of the industry to understand changing SEZ- and FDI attraction policies.

7.4 The spatial distribution of offshore service investments in the Philippines

The offshore service sector in the Philippines has benefited from close relations with the US, the dominant market for offshore service exports, due to a shared past of colonialism (1898 – 1946). Voice-based services, especially, such as customer-support services for American customers, have been relocated to the Philippines. Call-centre employment, a relatively low value-added process, constitutes more than two-thirds of total offshore service sector employment (DoST-ICT Office & BPAP, 2012). Most BPO firms require a minimum of two years' college education, and many employees hold a university degree. Offshore services have been identified as an investment-priority sector by the Philippine government. Firms locating in SEZs receive tax incentives and other benefits.

After a shift from import-substitution industrialisation to export-oriented industrialisation and subsequent privatisation of SEZ development in 1995, the Philippine government has encouraged SEZ-creation to attract FDI and stimulate exports. McKay refers to this as the “intensification of the ‘enclave economy’ approach” (2006: 60). The majority of all manufacturing exports in the Philippines have traditionally originated from SEZs, making their location a central decider for regional development processes (Balisacan & Hill, 2007).

Interestingly, several SEZs in the Philippines are built on the grounds of former US military bases (Casanova, 2011). In order to mitigate the negative impact of job losses resulting from closing of the bases, the Philippine government created manufacturing EPZs. One example is Mactan, which became the second-largest zone after its use as an US airbase during the Vietnam War. Likewise, the Philippine government transformed Subic Freeport into a SEZ (from where the first BPO operations of the US communications firm, AOL, started in 1997), and more recently approved Camp John Hay's (Baguio) transformation into a tourism- and offshore services SEZ. In this way, older (military) enclaves are giving way to subsequent generations of enclaves.

³⁶ Please note that the official designation of 'IT Park', given by the government, is imprecise; the majority of firms in these parks engage in business process outsourcing, especially call-centre work.

Historically, the Philippine archipelago has been characterised by an uneven distribution of industry and economic development (Clausen, 2010; Manasan & Chatterjee, 2003). Since 1995, a total of 273 SEZs have been created in the Philippines, dedicated to manufacturing (65), agro-industry (17), tourism and medical tourism (17) and IT (174), (PEZA, 2012). Information technology clearly accounts for the strongest growth; the size of IT-focused SEZs ranges from individual offices to multi-firm compounds. The spatial distribution of offshore service firms is analysed in **Figure 7.1**, which shows the number of companies registered in service-based SEZs.

Out of 802 PEZA-registered IT-BPO firms, 671 (or 84%) are in Metro Manila. 78 firms are located in the Central Visayas, 64 of which are in Cebu City, the second-largest urban agglomeration in the Philippines. BPO employment has been generated in areas with the lowest poverty rates, shunning high poverty regions (see **Figure 7.2**). The sector's direct employment constitutes only 2.1% of total employment, but is heavily concentrated in the NCR (75% of BPO employment, 82% of BPO revenue). Metro Manila attracts the largest share of investment and constitutes a global hub for offshore service delivery. Of all formal-sector employees in Metro Manila, 13% work in the offshore service sector³⁷.

7

7.5 'Islands of globalisation' in Metro Manila

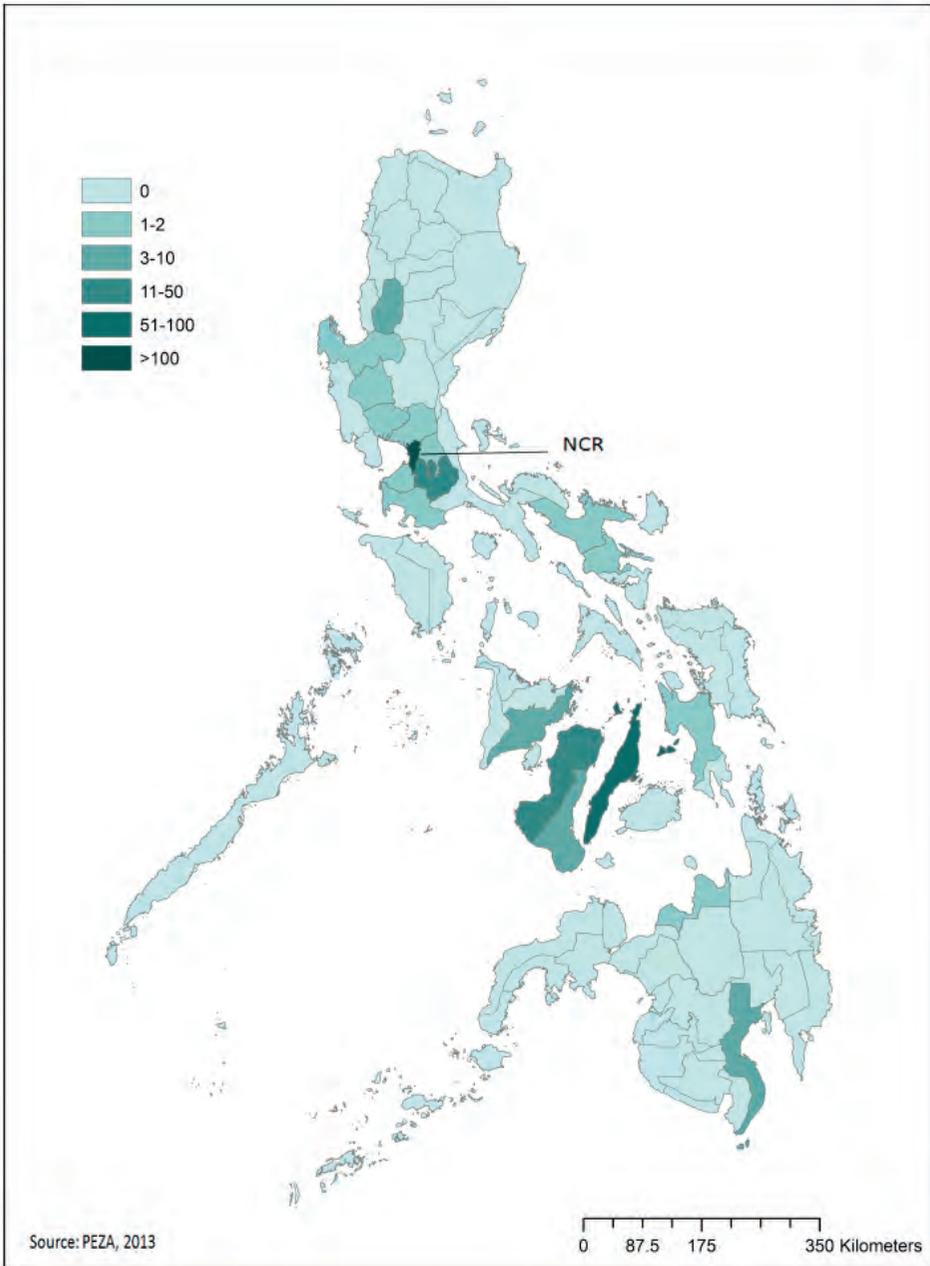
In Metro Manila offshore service firms are mainly located in the central business districts (CBDs) of Makati, Ortigas and the upcoming new financial centre Bonifacio Global City (BGC). Underfunded metropolitan government, deficient urban planning, and the fragmented political nature of the city, has led to a proliferation of private sector urban development. In a recent publication by the Urban Land Institute, it is stated that due to private-sector involvement, "some areas of Metro Manila, such as Makati CBD and BGC stand out from the rest, shaping the region and creating a distinctive identity"; both "constitute world-class destinations for multinational corporations looking for a place to locate their BPOs" (2013: 11).

Figure 7.3 shows the locations of IT-BPO firms in Metro Manila. These 'islands of globalisation' feature pre-existing business districts (Makati and Ortigas); a newly created business district (Bonifacio Global City/McKinley Hill; Alabang/Filinvest); one of the largest shopping centres on the continent (Mall of Asia Business Hub); a mixed-zone development on the area of a former textile plant (Eastwood City); and a business park on land of the University of the Philippines (UP-Ayala Technohub)³⁸. A key difference from earlier manufacturing SEZs is that this new generation of SEZs is largely developed by private developers, sometimes in cooperation with the public sector. Together these seven zones host 94 % of all registered BPO firms in the NCR.

³⁷ Based on 4.5 million employed workers in the NCR, according to the National Statistics Office.

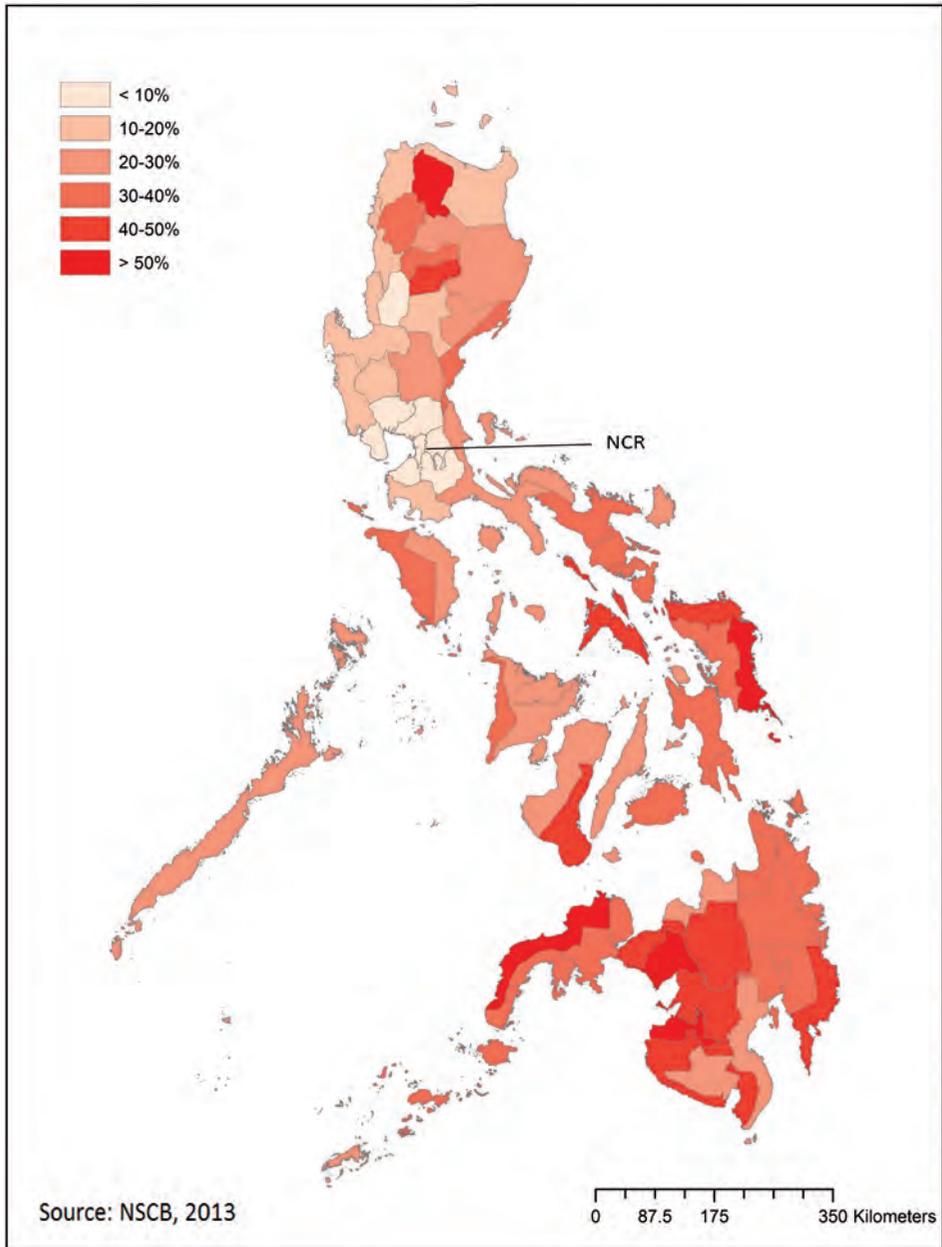
³⁸ There is considerable overlap of these areas with the integrated urban megaprojects and "bypass urbanism" in Metro Manila discussed by Shatkin (2008), which also include residential and consumption-oriented enclave spaces.

Figure 7.1: Offshore service firm locations in the Philippines



(Source: PEZA data, 2013)

Figure 7.2: Percentage of families below the poverty line



(Source: NSCB data, 2013)

Call centres, and other BPO providers, are located in high-rise buildings in the most expensive districts of the city. Ayala Avenue alone, Manila's equivalent of Wall Street, hosts 135 BPO companies. The findings show that location patterns for back-office and call-centre work change when relocated across countries: from peripheral areas in the Global North they migrate towards the most prestigious addresses in developing countries, as shown by the office-rental rates in **Table 7.1**. This is counter-intuitive to the underlying rationale of offshoring as cost-saving, vertical investments (Hardy et al., 2011b; Milberg & Winkler, 2013).

7.6 The rationale for enclave development

What explains these spatial dynamics of BPO firms' concentration in high-end areas of the city? Who drives and enables this process of urban enclave creation? The following discussion presents three explanations for services-based SEZ development: First, offshore service investors' location-choice factors; second, the dominance of private actors in urban planning and development; and third, changing government-zoning policies.

7.6.1 Offshore service firms' location-choice factors

Agglomeration economies and the benefits of clustering for BPO companies are mainly realised in the shape of urbanisation economies, such as reduced costs for (electronic) infrastructure, security, and a skilled workforce. Traded and un-traded interdependencies, such as face-to-face contacts, often crucial for high-end services, are less relevant for offshore services. Simultaneously, agglomeration diseconomies exist, such as a high labour turnover due to competitor's poaching.

The most important location-choice criterion is the proximity to 'talent', which means readily employable graduates with English-language communication skills. More than 30% of all students are enrolled in Metro Manila; this geographic concentration of skilled labour partially explains investors' choice of the metropolis as a preferred location. The relatively advanced position of call-centre workers, compared to the national Filipino labour market, gives experienced workers higher bargaining powers and increased remuneration opportunities, thereby leading to job-hopping (James & Vira, 2012). Firms thus engage in competition for skilled labour, a key difference to sectors requiring less-educated labour. In order to attract well-educated urban youth, firms have to create a conducive working environment, a modern work place in a convenient and secure location. Many graduates see Makati as an aspirational district for their first job; therefore, the location in itself offers important benefits for firms recruiting staff.

Moreover, BPO firms require internet connectivity and secure office spaces. The general manager of a European-based BPO firm in Makati tells me: "You can see, this building is like a fortress, that's the same with all BPO offices here. We want to make sure our stakeholders are satisfied with what they see here in terms of security" (Interview 120608a). In an insecure business environment and a chaotic megacity, foreign investors, who are likely to receive international client visits at their local branches, seem inclined to invest in the most trusted, high-end office space. Finally, clustering can result from the advice of management

Figure 7.3: Islands of globalisation: Offshore service enclaves in Metro Manila



Table 7.1: Islands of globalisation in Metro Manila: office space and consumption

	Developments (NCR)	Developer	Supply of office (in million sqm)	Rental price per sqm (\$ ¹)	No. of BPO firms	No. of BPO seats ²	No. of Starbucks Coffee outlets
1	UP-Ayala Technohub	Ayala Land	ca. 0.30	9-14	27	17,000	3
2	Eastwood City	Megaworld Corporation	0.31	9-14	74	32,000	4
3	Ortigas CBD	Ortigas Group	1.43	13-16	151	32,000	24
4	Makati CBD	Ayala Land	3.04	14-22	220	70,000	30
5	Bonifacio Global City / McKinley Hill	Ayala Land / Megaworld Corporation	1.00	15-18	113	53,000	15
6	Mall of Asia Business Hub	SM Land	0.20	11-13	9	12,000	5
7	Alabang/ Filinvest Cyberzone	Ayala Land / Filinvest Corporation	0.32	9-14	38	11,000	7

(Sources: PEZA, 2013; Jones Lang LaSalle, 2013; Colliers International, 2012; Starbucks, 2014)

¹ Based on exchange rates on www.oanda.com (on 20 July 2014).

² Number of work-spaces. Note that this figure is lower than number of FTEs, as one seat can host up to three employees over several shifts.

consultants, who compile the same statistics and reports for various companies, or herding behaviour, as many companies follow an initial leader to the same location (Milberg & Winkler, 2013). Costly and laborious due-diligence research on location choice leads to incumbency advantages for specific places (Majluf, 2007).

7.6.2 Privatised urban planning and real estate development

Enclaves and the segregation of the urban rich and upper-middle classes from the urban poor have long existed in the Philippines in the form of gated communities, or so-called 'subdivisions' or 'villages' (Berner, 2001; Connell, 1999; Michel, 2010). Private planning has been the dominant mode of urban development in the country, from the Ayala family's development of large sections of City of Makati since the 1950s, to more recent high-end residential and mixed-use enclaves, such as Rockwell Center (Michel, 2010; Shatkin, 2008).

Traditionally, land conversion and re-zoning of land have been contentious political issues in the Philippines, where land ownership remains concentrated in the hands of elites (Kelly, 1998; Krinks, 2002). The close connection between economic elites and the state apparatus has historically inhibited economic development efforts (Hutchcroft, 1998). Concurrent with the rise of the BPO sector, real-estate owners and developers have advocated a change of SEZ policy to be able to benefit from new income opportunities: "A lot of building owners wanted to have reinterpretation of the minimum zone from a horizontal to a vertical space. This was granted, making many high-rise buildings eligible for a special economic zone" (Interview 120424).

Real-estate developers benefit from SEZs through tax exemptions, above all from the exemption of land- and property taxes, explains the president of a real-estate conglomerate:

We find that if we put up the buildings with [tax] incentives, the biggest thing for us as developers is 12% VAT [value-added tax]. [...] So immediately when you buy land, you have [a] 12% initial cost that you do not have to incur. And when we start to put up the building, again it is zero VAT (Interview 130322).

In addition to incentivising the construction of new buildings, owners of existing buildings in Manila's CBDs were exempted from value-added tax, essentially subsidising existing commercial-property owners. The same developer expounds: "Incentives are going to those who have already built, and don't need to be incentivised!" The developer concedes, however, that "the market is large enough for all", showing the protected nature of the oligopolistic real-estate sector from new entrants and foreign competition. A handful of large conglomerates dominate the sector (Michel, 2010). These domestic actors are the main enablers but also local beneficiaries of SEZ development, as will be discussed in more detail below.

7.6.3 Changing government SEZ policies: from horizontal to vertical space

After the Asian financial crisis in 1997 brought down property prices and led to high vacancy rates for office spaces in central business districts, PEZA, under the leadership of its general director, Lilia de Lima, changed its policies. The redefinition of space from a previously horizontal concept to include vertical spaces to fulfil minimum size restrictions, led to a re-classification of existing high-rise buildings (and even individual floors within buildings) as SEZs. A member of the Foreign Trade Service Corp explains:

The government took it upon itself to incentivise it [the BPO sector] in a big way. I think the idea of putting up what we call IT Parks is a stroke of genius. Before it was horizontal, now we are talking of vertical (Interview 120607).

PEZA was inspired by Indian policies for software-technology parks.

It was the management of PEZA, who went to India to see the possibility to replicate this in the Philippines. We crafted the guidelines and presented them to the board of PEZA. So the very first information technology park that we declared as an economic zone is an existing commercial district in Metro Manila (Interview 120525c).

This contrasted with the initial purpose of SEZs, but a loophole in the legislation allowed the creation of private SEZs even in CBDs, reversing earlier policies of suburban employment generation.

The preceding discussion shows that enclave development has been driven by foreign investors, the Philippines government, and domestic real-estate actors; an alliance of global and local, private- and public sector actors. Global processes and a changing spatial international division of labour are enabled, mediated, and translated through local actors and processes, to take the shape of service-based SEZs, which are not only characterised by global production but also as places of consumption.

7.7 Enclaves and the dual economy: SEZs as spaces of production and consumption

Service-based SEZs differ in shape and function from earlier enclaves. Bonifacio Global City is an example of a development, which hosts not only office space for call centres and back offices of international banks, but also entertainment, shopping, and residential spaces. Service-based SEZs go beyond simply segregated spaces of living and consumption, but constitute globally-oriented 24-hour enclaves engaging in export-service delivery. The privately owned, highly securitised and sanitised spaces, are shaped according to a highly Americanised model of modernity, in which call-centre agents take calls during US working hours (Filipino night-time), speak with American accents, and pay dollar-equivalent prices for a breakfast at McDonald's, or a coffee at Starbucks. Entertainment opportunities abound in these space, which almost resemble theme parks. Options range from bowling, to watching the newest Hollywood blockbusters, to buying American-branded goods in the air-conditioned shopping malls.

This form of development should not be read as a convergence with a Western model of development (Shatkin, 2006). Instead, we can observe a process of enclave creation. While Americanised upper-middle classes have existed in the Philippines for a long time, the 'virtual migration' of workers³⁹ and adoption of American working hours to service clients overseas is a direct consequence of the offshoring of services. Though enclaves are not a new phenomenon, the emergence of offshore service FDI has led to an amplified process of enclave creation.

BPO workers' above-average earnings and discretionary spending power also changes consumption habits (Bautista, 2011; Murphy, 2011).

The retail outlets are booming thanks to the well-paid young people. They are the ones who go eat in the restaurants, etcetera. In Eastwood [SEZ], at three o'clock in the morning, it's like Broadway at 12 noon, because of the tremendous spending power (Interview 130404).

According to calculations of the Fort Bonifacio Development Corporation (n.d.), BPO workers spend the largest share of their income (41%) on food, creating a need for (international) food chains in proximity to BPO offices.

An industry expert argues that the offshoring of services leads to increased consumption of US products and services, thereby creating benefits for offshoring countries, as locally created value partially flows back:

Filipinos are consuming more non-Filipino products. [...] the Starbucks is a good example. And many US businesses know that it is to their advantage that there is a growth in terms of domestic consumption.[...] It's about increasing economic activity, markets for their products (Interview 130227b).

³⁹ See Aneesh (2006) for a discussion of the concept of 'virtual migration' by Indian software specialists.

As a way of illustrating the argument of a spatially demarcated dual economy, one of globally linked production and consumption in the ‘dollar economy’, in contrast to a traditional, locally oriented ‘peso-economy’, the location patterns of the high-priced US-based coffee chain, Starbucks, are collated with the locations of offshore service firms. The difference between the dollar economy and the peso economy becomes clear when juxtaposing a Starbucks ice-blended coffee, costing up to ₱175 (almost \$4) to the daily minimum wage of ₱429 to ₱466⁴⁰ (about \$10)⁴¹.

In Asia, Starbucks first entered the markets of Japan and Singapore, both significantly richer than the Philippines. Low income-levels suggested limited business opportunities for the Philippine market. The intervention of a local business group, nonetheless, brought in the coffee chain as a joint-venture to the Philippines. Starbucks opened its first store in December 1997 on Ayala Avenue in Makati and expanded rapidly to 221 stores in the country. This rise occurred over the same period as the inflow of investment in offshore service and shows a strikingly similar location pattern as the offshore service firms: 156 of all Starbucks coffee shops are located in Metro Manila. An analysis of coffee-shop locations (see Table 7.1) reveals that 56% of Starbucks outlets are located within the seven ‘islands of globalisation’ in Figure 7.3. Expansion plans to open another hundred stores by 2017 were announced in April 2013 (Carpio, 2013).

Anecdotal evidence shows that BPO workers are the main customers of Starbucks: night-time opening hours, vouchers as performance incentives (Interview 130306d), and conspicuous consumption of expensive coffee “as a treat, a just-affordable luxury” (Simmons, 2005: 143). Another influencing factor might be cultural. By being connected and embedded in American culture through conversing with US clients all night, and by adopting American lifestyle choices, workers distance themselves from their local environment. The consumption choices and patterns of the so-called ‘new middle classes’, especially workers in offshore services, in developing countries are beyond the scope of this chapter. Here, it suffices to illustrate the emerging dual economy, whose dichotomies separate local/global, peso/dollar, manufacturing/services, poor/wealthy, day/night economies, which are spatially segregated.

It is important to realise that these changes to the built environment do not occur automatically or coincidentally, but are carefully crafted by foreign investors, who actively construct and develop the enclave economy. The country manager of one of the largest BPO companies in the Philippines, with more than 30,000 employees nationwide, explains the company’s site-selection strategy. Next to access to talent, transportation and security, *convenience* for their employees is an important criterion:

Because we have a 24-hour lifestyle so we need to make sure that there’s a Starbucks, there’s a 7-Eleven [convenience store]; there’s a bank for them to be used any time of the day. For this building [...], because we signed up for this already while it was being constructed, and again that’s part of our

⁴⁰ For non-agricultural labour in the NCR (Department of Labor and Employment, 2013).

⁴¹ Exchange rates based on www.oanda.com on 6 January 2014.

philosophy, we had an agreement, a tie-up with [a property developer] that the ground floor would be all retail and then all the shops on the ground floor should be open at least 18 hours a day so that they can provide for our hours. Because if we don't do that they'll open the regular [hours], they'll open at 7[am] and they'll close at, let's say, 9 in the evening. But 9 in the evening is when people are coming to work, that's very critical (Interview 120606b).

Through collaborations with local real-estate actors, foreign firms are able to create a modern environment with international brands operating along their requirements of the 24-hour economy.

7.8 Who are local beneficiaries of SEZ development?

The rise of global enclaves in conjunction with the foreign-investment-driven offshore service sector allows local value capture. Apart from educated urban workers, other domestic beneficiaries of the offshoring of services are the actors building and servicing these enclave spaces. Above all, the real-estate sector has been the prime beneficiary of the changing SEZ policy (Raquiza, 2012). The Philippine Department of Trade and Industry estimates that 20% of a BPO firm's operating costs (the second-largest share after salaries) flow to real estate (Rodolfo, 2006: 31). The recent real-estate boom has been fuelled by the BPO sector, which accounts for approximately 60% of all commercial real-estate projects (Cordero quoted in Salazar, 2013). The existing oligarchic elites of the country profit from these developments, as illustrated by the fact that nine out of ten Philippine billionaires on the 2014 Forbes Magazine list of world billionaires are involved in real-estate (Cardenas, 2014).

Real-estate owners have been granted incentives, originally intended for the construction of new office spaces, simply for converting their buildings into SEZs. Only established business conglomerates are able to compete in the market, as they have access to large plots of land, financial resources, as well as an insider's knowledge of developments. Moreover, utilities and telecommunication providers are able to reap benefits from servicing foreign investors in the enclave, as are mall developers, retailers and local joint-venture partners of global consumption outlets. Existing Philippine conglomerates have chosen to diversify into these rent-generating sectors (Gutierrez & Rodriguez, 2013). Other scholars have argued that government policies focusing on FDI attraction and real-estate development in the Philippines leave existing economic power structures intact and reinforce exclusions (Andriessse, Beerepoet, Van Helvoirt & Van Westen, 2011).

7.9 Dynamic spatial divisions of labour: An outlook on the future

The spatial division of labour within the Philippines is not fixed but is continuously changing. One direction of change discernible so far is the active encouragement of FDI attraction in second-tier cities (BPAP, 2011). The reasons are agglomeration diseconomies of traffic, high labour-turnover, and rising costs within Metro Manila. Depending on several

pull factors, including the role of local institutional actors, several cities have managed to attract expansionary FDI (see Chapter three). **Figure 7.4** shows that service-based SEZs are planned in a limited number of provinces outside of Metro Manila.

While increasing employment opportunities outside the NCR, it is likely that the same enclave-based format of real-estate development will be adopted in the provinces. Expanding BPO firms usually contract the same real-estate developers who built their offices in Manila to construct office spaces in second-tier cities (Interview 130417). One example of this strategy is a 70-hectare business park in the city of Iloilo, developed by Megaworld Corporation and built on the site of a former airport.

It is important to realise that spatial divisions of labour are continuously evolving and may continue to change the spatial dynamics of the Philippine offshore service sector. Given low sunk costs, foreign investors may be able to relocate service production. They can either offshore to new destinations, in case cheaper (but equally skilled labour pools) can be accessed elsewhere, or re-shore operations back to their home countries, in case offshoring benefits do not materialise.

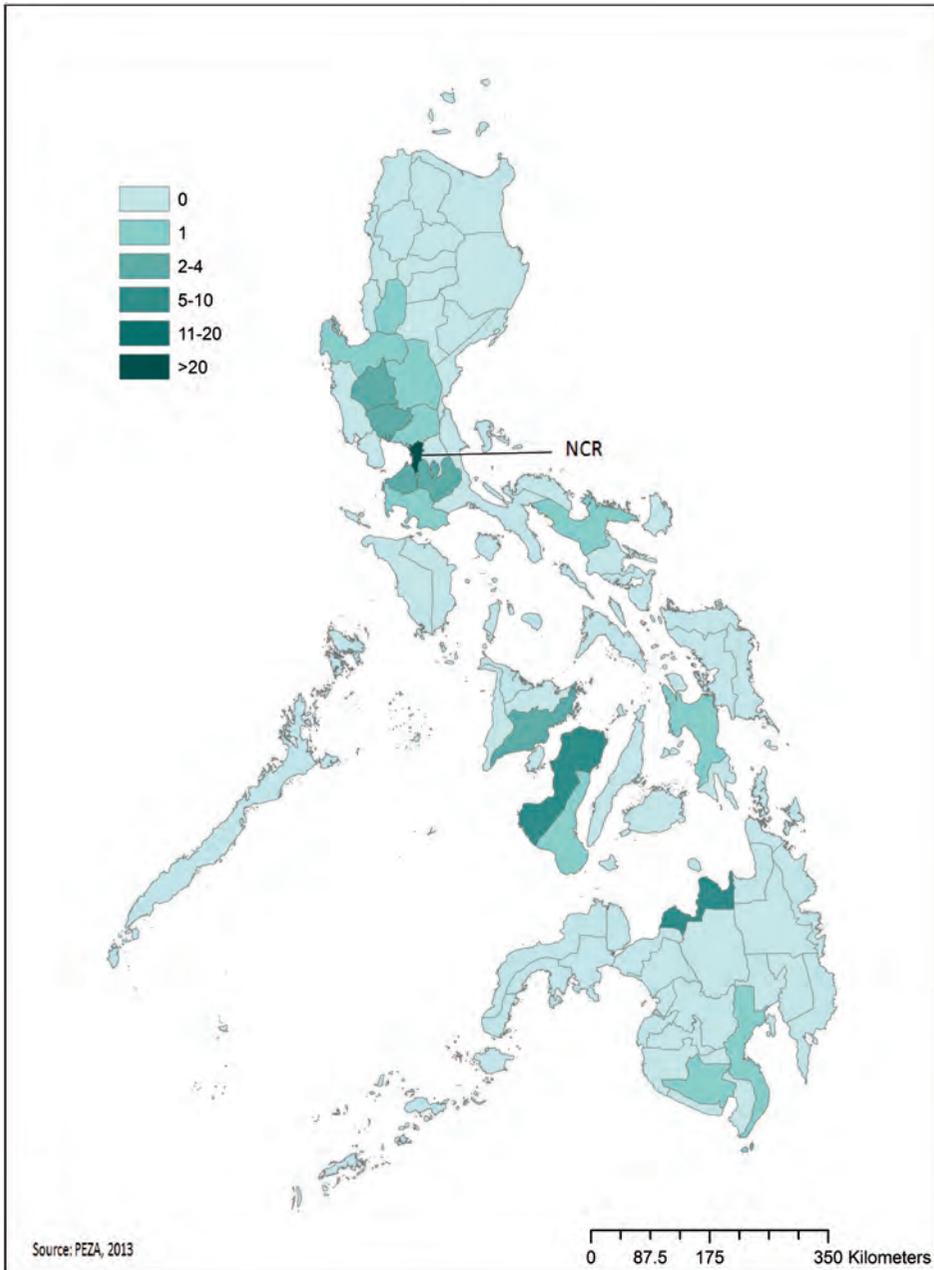
7.10 Conclusion: Islands of globalisation and socio-spatial inequalities

Contrary to the idea that service delivery is freed from geography and can take place from anywhere, the offshore service sector exhibits strong concentration in Metro Manila. Instead of a flat world, it is rather a “spikey world” (Florida, 2005); however, one in which multiple fault lines intersect even *within* cities and regions. While industrial complexes in the Philippines have moved outside of the mega-city region to adjacent provinces, investment in the offshore service sector is highly concentrated in existing CBDs and in recently created private enclave developments. ‘Islands of globalisation’ resembling first-world environs are created within the megacity of Metro Manila. Simultaneously, Metro Manila itself can also be conceptualised as one larger-scale island of Scott’s “islands of relative prosperity” within the “emerging mosaic of global city-regions” (2012: 61).

The creation of service-based SEZs, in conjunction with conspicuous consumption outlets, adds a spatial analysis to Krishna and Nederveen-Pieterse’s (2008) earlier findings of uneven development in India. This case study concurs that enclave spaces are powerful shapers of the spatial contours of globalisation and development (Sidaway, 2007). It highlights the transformations of the built environment and urban form resulting from integration into global networks of services, which remain hidden in most GPN analysis (Kelly, 2013). Moreover, it explains the role of foreign investors, government, and real-estate actors in creating these urban enclaves in the specific context of the Philippines.

In many ways, service-based SEZs continue to fulfil the same role as manufacturing SEZs in the Philippines by creating spaces for foreign investors’ profit accumulation. Key features of service-based SEZs are the substitution of factory workshops for office floors, the urban shape in horizontal office spaces, a mostly privatised ownership structure, and the combination with conspicuous consumption outlets. Several of the observed features are likely to be inherent to a global service-production model driven by international investors’ location requirements.

Figure 7.4: Planned service-based SEZs in the Philippines



(Source: PEZA data, 2013)

Future research could extend to other cases to assess the importance of context-specific features of globalised enclaves. Ethnographic research and case studies of production and consumption spaces could provide an increased understanding of the internal workings of enclave spaces, stressing the inclusions and exclusions resulting from SEZ development.

The role of local elites in facilitating and benefiting from contemporary globalisation deserves more attention, as this study has shown that locally captured value has occurred primarily in sectors in which powerful family conglomerates dominate. Scepticism ensues about the ability of a new phase of globalisation to change existing structures of inequality in the context of rentier capitalism in the Philippines. If our aim is to understand local territorial development outcomes of FDI flows and changing spatial divisions of labour, future GPN studies should include an investigation of related sectors, which, albeit not directly linked in the production process, are dependent on each other, such as the nexus of real-estate and offshore services.