



**Philippine Institute for
Development Studies**

Surian sa mga Pag-aaral
Pangkaunlaran ng Pilipinas

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Managing Urbanization

**UNDER A DECENTRALIZED
GOVERNANCE FRAMEWORK**

VOLUME 2

DRDF
Incorporated

Demographic Research
and Development Foundation, Inc.

**Managing Urbanization
Under a Decentralized
Governance Framework**

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Preface

Viewed from afar, the relentless expansion of Metropolitan Manila may look like a historical necessity that is destined to have a propitious outcome. Metro Manila has long been the country's political and economic nerve center. It is not only where the most important policy decisions are made but also the country's chief industrial and commercial hub. Its predominance is bound, sooner or later, to embrace larger areas that surround it. "Joining" Metro Manila could provide an area with a huge economic boost. Surely Metro Manila has its downside—congestion, urban sprawl, pollution, among others—but that has not deterred other urban areas in the rest of the country from holding it up as a model. Their hope is to draw level with the metropolis.

That perspective may be too complacent. Metro Manila has held together for a long time because it was able to corner all the gains of agglomeration. That has been shored up by an industrial and trade policy track chosen by the central government—as well as resource allocation decisions—that tended to funnel public investments mostly into the metropolis. Policy bias rapidly made it richer, suggesting that the Metro Manila experience will remain the deviation rather than the standard.

If other potential growth areas want a reversal of fortune, the necessary shift in policy ought to be along the lines of decentralization. Any hope of progress outside Manila means certain aspirations must be met: a bigger stake in the nation's economy, more human development (e.g., more access to health services at all levels) and more power for local governments.

Devolving development to local jurisdictions is not a new thing. In the eighties and early nineties, the central government made several attempts to achieve a less Manila-focused distribution of economic power and political authority. Halfway through the 1980s, industrial

promotion schemes explicitly sought to attract investments into other regions. In 1991, the Local Government Code—enacted to enhance the powers and responsibilities of subnational levels of government—hoped to further fuel the decentralization process.

The outcome is there for all to see: no high levels of investments surged outside Metro Manila; consequently, there has been no sensational shift in local development patterns since the decentralizing measures were introduced. This book explains why, and suggests that the prospect of economic convergence between Metro Manila and the rest of the country would be gradual rather than dramatic.

This it does by examining key trends in urbanization and regional development from the time the decentralizing measures were promoted. Do the stylized facts of the old still hold to empirical scrutiny? Is industrial dispersal still the best bet to equalize matters between leading and lagging areas? What is the impact of the movement of people, goods and services on urbanization trends across the nation? Are there key links between human development and urban growth, on the one hand, and between urbanization and decentralization, on the other? In answering these questions, or raising doubts about current government responses, the book seeks to supply insights about the best (or second best) policy environment for balanced regional growth.

This book acts as a companion piece to Volume One of *Managing Urbanization Under a Decentralized Governance Framework*. The first volume offers the institutional details of managing and delivering urban services. This volume explores the setting in which these services are being delivered—one of rapid urbanization mostly unaccompanied by balanced regional growth—and the forces that have helped shape this environment.

Chapter 1 describes the pace of urban decentralization and dispersal in the Philippines. What is driving the current process of deconcentration? What factors are behind the apparent weakening of Metro Manila's primacy? What are the rising alternative urban centers?

Chapter 2 links urbanization to economic outcomes and industrial dispersal. Has industrialization kept pace with urbanization? Has rapid urbanization led to higher household incomes and growth in various Philippine regions? Have disparities in real wages been bridged?

Chapter 3 examines how global links have contributed to the process of urban decentralization. How have exports, foreign direct investments, and remittances by overseas contract workers—the Philippines' leading export and probably its most numerous global agents today—influenced the pace and direction of deconcentration?

Chapter 4 explores how urban decentralization has affected the quality of lives of people. Has the process of urbanization been consonant with enhanced access to basic urban infrastructure and services such as water, electricity, telecommunications, roads and shelter?

Chapter 5 investigates the impact of the growth corridor strategy on urban decentralization. Has the strategy spurred regional industrial diffusion? How successful has it been in creating alternative agro-industrial hubs?

Chapter 6 tackles the challenge of managing urban deconcentration in a decentralized framework. What institutional arrangements work best in the delivery and management of local public goods?

Chapter 7, the concluding section, discusses the policy recommendations emanating from the book's analysis of the trends in urbanization, industrial dispersal and regional development.

There is no prospect of urban decentralization in the Philippines if it is meant as a straight contest in which other areas' gain is Metro Manila's loss. There is an urgent need to boost the prosperity of communities that have been left behind through encouragement for local businesses, industrial reform, and swift localization.

The Authors

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Summary

In 1995, the Philippines was estimated to be already 54 percent urban. Yet there are signs that, despite its enormous dimensions, urbanization is slowing down. Urban growth rates have peaked and, at the same time, the primacy of Metro Manila has weakened. The increase during the early decades is attributed to the government's import substitution program, which gave location advantages to historically pre-eminent urban centers. The decline, on the other hand, may have been the outcome of the exhaustion of agglomeration economies and the start of urban diseconomies—increasing congestion, rising land values, pollution—as well as the delayed effects of the industrial dispersal program initiated in the mid-70s.

Urban Deconcentration and Dispersal

The engine of urban growth—two-thirds in most cities—is the natural increase of populations already in the urban centers. Urban deconcentration has taken place in the regions adjacent to Metro Manila, especially in Southern Tagalog, which is rapidly attracting people within its available space. Urban decentralization has proceeded unevenly in the farther regions.

The other source of urban growth comes from the changing definition of settlements from rural to urban as they reach a given size, and from rural-urban migration, which has lost considerable force in recent years. Migrants have streamed randomly across the urban hierarchy, but overall, migration flows add little to urban growth, and in fact, decline across time. Fertility rates, which in the past combined with internal migration to bring about high urban growth rates, have declined in all regions, thus helping to slow down urbanization. Total fertility rates in many regions, however, are still higher than the national average.

Output and Employment Decentralization

Over half of the country's gross domestic product (GDP) comes from urban centers, but what is disturbing is the eroding connection between urbanization and industrial growth in the last few decades, pressuring the services sector to perform well if it were to sustain the gains of emerging cities and urban centers.

Industrial growth for most regions stood still or fell during much of the past 15 years for most regions even while urbanization proceeded slowly. While there was still a lull in manufacturing, the output and employment shares in the services sector grew remarkably. The segment that may have the strongest influence on urbanization trends is the nontraded personal and community services.

Overall, output and employment decentralization has advanced unevenly, with tertiary functions simultaneously being gobbled up by Metro Manila and going to poorer areas. Manufacturing decentralization is proceeding more slowly since output levels have remained the same for a long time now. These trends reinforce the industrial primacy of Metro Manila, and suggest that industrial location continues to be the key variable explaining regional growth differentials.

The growth rate of per capita income has slowed in Metro Manila and has been higher for the rest of the regions. Considering that regional dispersal acts as an equilibrating mechanism, this development will lessen the disparities in income levels between metropolitan areas and the other regions. However, real wages—a major component of income—have been on the decline in majority of the regions for much of the early 1990s, indicating net welfare losses across urban centers.

Global Influences

Global factors have important ramifications for urban decentralization as the economy moves to the current open, export-led environment. The key to sustained growth *in any region* is investment in capital, but foreign direct investment is lumped in only two regions, Metro Manila and Southern Tagalog, and thus, spurs greater primacy. Export platforms, on the other hand, have failed to advance industrial dispersal and counter the agglomeration advantage of Metro Manila. Evidence suggests that most manufacturing exports still originate from Manila and its peripheries. Nonmanufacturing exports, however, are closely linked to Visayas and Mindanao.

A third factor, overseas workers' earnings, which currently account for five percent of the GDP (exceeding foreign direct investments which account for only three percent of GDP), have expanded the growth

of the non-traded services sector. The regions that receive the highest shares of remittances—National Capital Region (NCR), Central Luzon, Southern Tagalog—are the same ones that have the highest private services output shares. In turn, they are also the most urbanized.

Urban Infrastructure

Electricity and water are basic inputs in economic production. But they are also central to enhancing the quality of life. Availability of safe water improves health and raises productivity. Improved road networks and transport conveniences reduce travel time, increase accessibility and induce people to move further from the center, a process that leads to urban deconcentration.

An important element in successful urban decentralization thus is a minimum package of electric power, telecommunications, water supply and paved roads in alternative urban locations. The per capita availability of power, water, roads and telecommunications has increased in all regions. But the biggest improvements, except in Metro Manila, have been in a number of leading, intermediate and lagging regions, such as Southern Tagalog, Central Luzon, and a few of Mindanao regions.

Telecommunications, power and access to water have higher per capita availability as urban growth strengthens. Availability of roads, however, grows inversely with urban growth, reflecting efforts to increase capital investment in roads in underurbanized regions, and therefore, induce agglomeration in these areas. To date, infrastructure represents a large share of regional economies. Its value-added accounts for at least eight percent of gross regional domestic product in highly urbanized regions.

Human Development and Shelter

Expectedly, highly urbanized regions, such as NCR, Southern Tagalog and Central Luzon, have high human development index (HDI), indicating greater levels of income, longer life expectancy and higher literacy. The more interesting finding, however, relates to the gender development index (GDI), a “discounted” HDI that reflects the extent of gender inequality. The lower the GDI, the higher the gender disparity. Domestically, urban decentralization has not adequately raised gender equality in the regions, and the gender gap remains substantial, especially in incomes.

Housing stock in the highly urbanized provinces immediately north and south of Metro Manila has grown immensely. But even if the vast majority of urban residents are housed, there are very real problems of overcrowded living quarters. While homelessness is not a problem in Philippine urban centers, unauthorized housing is. It is no accident that Metro Manila, which has one-fourth of the total urban population, also has the biggest share of households in makeshift dwellings (close to 80%).

Supply of shelter is often undercut by the lack of availability, or the high cost, of residential land, construction materials and infrastructure. Challenges on the demand side, on the other hand, are usually highlighted by many poor households swelling the ranks of urban dwellers.

Decentralizing Through Growth Corridors

Growth corridors are stretches of provinces, municipalities and/or cities with strong potential for complementarity and given promotional priority by the government as tourist and agri-industrial hubs. As early as 1991, the corridor development plans were already completed for CALABARZON and the Cagayan de Oro-Iligan (CIC) Corridor. These regions are among the first growth corridors and considered the two most important of their kind in the Philippines. They, plus that of a rising new corridor in the south, the South Cotabato-Davao-Zamboanga (CDZ) Crescent, were studied in detail in this report.

Preliminary trends do not yield common characteristics running through all the growth corridor provinces, although provinces within the same growth corridor tend to follow the same trends. The CALABARZON provinces, especially the ones nearer Metro Manila, share a common experience in terms of enjoying the highest per capita incomes and the highest shares of industrial employment. In the case of CIC, the record is mixed. The CDZ Crescent, meanwhile, have low-income provinces with a minimal amount of labor population in the industry sector.

To achieve urban decentralization through the establishment of growth corridors, what is needed is a combination of economies of scale, agglomeration effects, public infrastructure and high nonland-to-land substitution elasticities in industry and services. However, the primary tools of corridor development, other than infrastructure support, are the incentives offered to preferred industries. In the past, the legacy of the import-substituting regime was deeply ingrained in the tariff and

tax incentive structures. Tariffs were found to favor import-substituting industries producing consumer goods or finished goods with relatively little value-added. This led to the concentration of investments in the NCR, Central Luzon, Southern Tagalog and Central Visayas.

Meanwhile, the potential benefits to regions as a result of incentives shored up by the export sector due to tariff reforms were prejudiced by the relative concentration of said exports on garments and electronics, both of which are low-value added sectors whose base of operations have traditionally been the NCR, its peripheral regions and Central Visayas.

To de-emphasize the NCR as an investment hub is the chief purpose of the incentive structure under the liberalizing period. This was done through the promotion of special economic zones and least developed areas outside the NCR. In the Aquino years, the Investment Promotion Plan included an explicit industrial location guide and strategies to reduce the incentives to firms locating in the NCR. Various studies have shown these efforts ineffective in dispersing industries. The linking of growth centers into corridors, however, was first articulated by the Ramos government as an explicit policy for spatial development.

Majority of preferred industries in the growth corridor areas are the same industries outlined in the investment priority plans of the liberalizing years. This leaves little room for critique—the list of preferred industries looks like a wish list of industries that have forward and backward linkages within the area. One caveat, as has been stated, is the unclear articulation of links among areas in the corridor. This is especially true in the CDZ case where the three urban centers (South Cotabato, Davao and Zamboanga) appear to be nurtured on their own merits and independently of each other.

The agglomeration pull of NCR should be considered as a factor dragging away the intended benefits of the corridor plans, especially from the CIC and the CDZ Crescent. The case of the CALABARZON area is different because, as has been stated, one of its strengths is its proximity to the NCR, which for all intents and purposes, renders it part of the concept of the Greater Capital Region.

Endogenous Responses from Local Governments

The handmaid of decentralized development, articulated in part by the growth corridor strategy, is when control over local governments is loosened so that they can efficiently take care of local urban public services. Demands for local coordination of urban investments and

maintenance are in general beyond the means of central authority, which is also answerable to the rural populations. It would be far easier to carry out urban decentralization by encouraging endogenous responses from local governments.

Applying the principle of subsidiarity, urban functions (resource allocation, spending and regulation) should be exercised by local government units (LGUs) unless a strong case can be made for centralizing them. The local unit responsible over a geographical area should be the one to provide urban services and internalize the benefits and costs of such provision.

When scale economies and distributional aspects are not important, but political proximity is, and when there are no externalities, certain local services could be fully decentralized to all LGUs. These include road maintenance, refuse collection and fire/police protection. When scale economies matter somewhat, larger LGUs could take on the provisioning job. An example of a local service under this heading is land use planning.

Metropolitan governments (e.g., Metro Manila), or voluntary clusters of contiguous LGUs (e.g., Metro Cebu, Metro Davao), assume responsibility for the provision needed services when economies of scale are substantial, cost/benefit spillovers are considerable, political proximity is crucial, but distributional consequences are minor. Provisions should include public transportation, water supply, sewage, public health, electric power, air/water pollution, and urban/regional planning.

A close look at how recent instruments such as the Local Government Code affected such "assignments" reveals that the post-devolution provision record of many LGUs (at the provincial level) is a mixed one. In road building, for example, only a few embarked on a road construction binge as national effort declined. It is possible, however, that national roads could not realistically be devolved, since they are primary highway networks whose benefits are more widely spread, or they can only be cost effectively provided by jurisdictions larger than provinces.

In social housing, two housing programs directed at LGUs fared badly, reaching less than eight percent of all households seeking housing, and accounting for less than six percent of the National Shelter Program performance. One of these, the Community Mortgage Program, can still be relied on to turn the tide in decentralized shelter provision since it successfully "unbundled" the housing package (which the urban poor

could ill-afford), supplied the infrastructure piecemeal, and let the urban poor invest in gradual fashion. Also, it allowed for a competitive decentralized framework wherein LGUs deal with nongovernmental organizations.

As far as local population planning is concerned, one key integrated health and population management partnership with the Department of Health—the LGU Performance Plan (LPP)—seems to be working. That is because the LPP links financial incentives to program achievements. Central to the program design is performance-based disbursement. Local government units must attain performance benchmarks to be eligible to receive funds for the ensuing period.

Given the inevitability of localized urban management, central authorities should help LGUs achieve a balance between their revenue means and spending needs. That can be done by matching grants and transfers, and encouraging local governments to have greater access to their own taxes. In this case, nothing works better than leveraging fiscal policy and resources to facilitate diffusion and stabilization across regions.

Crucial Policy Points

All things considered, a top-down approach of developing growth corridors (national government in control of overall spatial decentralization) and a bottom-up approach of managing urban development (LGUs in command) might be just what is needed. Public policy should set up effective networks of urban centers to strengthen the economic relationships among cities. The goal of regional balance should continue to be pursued, but the policy should be supplemented by indirect economic measures encouraging regional growth. Regional balance should be in the shape of decentralized concentration rather than forcibly dispersing growth from Metro Manila. This regionalization should allow cities to have a variety of functions and development profiles. Public policy must recognize the multisectoral nature of local level development, regional resource endowments and current economic activities. The possibilities of a decentralized system of differentiated and pluralistic urban centers should be exploited.

Market-friendly directions will increasingly take over government interventions in urban areas. The national government will have fewer roles to play in influencing local urban development. Central public policymaking should thus concentrate more on “steering” implicit policies. Local governments should have significant control over the

location and timing of urban growth and development. They should likewise have sufficient autonomy in fiscal and administrative affairs, under a well-defined intergovernmental fiscal regime, to be effective in managing urban change.

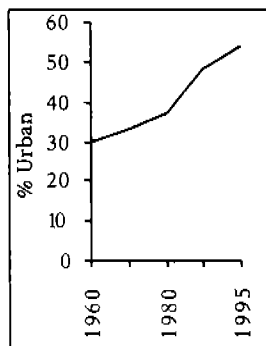
An enabling environment for housing, human development programs and urban amenities must be created to narrow the differences in quality of life between NCR and the secondary cities. With migratory flows receding, it might be necessary to refocus attention to the urban population base. Local governments should be given the widest latitude possible in managing local population growth. Because investments in human capital create economic opportunities, local governments should also promote capability-building: training professionals such as urban planners and city administrators to manage rapidly urbanizing towns and cities.

Chapter 1

Human Settlement Patterns and Trends in Urban Decentralization

The level of urbanization in the Philippines has risen spectacularly. By 1995, the country was estimated to be already 54 percent urban (Figure 1). Because of this rise during the last three decades, the number of people in urban locations rose from 12 million in 1970 to 30 million in 1990, and was estimated to be 37 million in 1995. In 1960, urban areas grew as fast as rural areas. By the 1990s, they were growing 15 to 18 times faster (Table 1), although this trend shows some signs of slackening. On the other hand, the rural population began to decline in absolute size—from 31 million in 1990 to 30.9 million in 1995—indicating an important phase in urbanization more closely associated with newly industrializing states in Asia.

Figure 1. Urban Growth in the Philippines



Basic source: National Statistics Office

Table 1. The Urban-Rural Divide (1948-1995)

Census year	Total pop'n (millions)	Overall growth rate	Urban population			Rural population		
			Number	Percent	Growth rate	Number	Percent	Growth rate
1948	19.23		5.83	29.33		13.40	70.67	
1960	27.09	2.89	8.07	29.75	2.74	19.02	70.25	2.54
1970	36.64	3.01	12.07	31.80	4.02	24.57	68.20	2.58
1975	42.07	2.80	14.04	33.37	3.02	28.03	66.63	2.62
1980	48.20	2.75	17.94	37.21	4.90	30.26	62.79	1.48
1990	60.68	2.33	29.64	48.64	5.02	31.04	51.36	0.30
1995	68.61	2.45	37.74	54.11	4.64	30.87	45.89	-0.55

Source: National Statistics Office; 1995 urban and rural figures are projections.

Urban Decentralization and Dispersal

Urban growth in the Philippines, as elsewhere in the developing countries, is spread unequally. The National Capital Region (NCR), also known as Metropolitan Manila, has been 100 percent urban since 1970 (Table 2). As the seat of primacy in the Philippines, its share of urban population is estimated at nearly half of the total urban population. The presence of factories, health and educational facilities, corporate headquarters and government offices has sustained this primacy (HUDCC/PADCCO 1992). Regions with high levels of urbanization include Central Luzon (more than 60%) and Southern Tagalog (about 50%), the two central industrial regions adjacent to NCR. They have clearly been the beneficiaries of the NCR's urban growth spillovers. Moderate urbanization (above 40%) has also occurred in Central Visayas—where the country's second metropolitan region, Cebu, is located—and in Western, Northern and Southern Mindanao. Highly urbanized cities like Davao and Cagayan de Oro are located in these Mindanao regions.

Urbanization slowdown and primacy reversal

Among the Southeast Asian nations, except the city-state of Singapore, the Philippines has a considerable headstart in urbanization (Figure 2). Only Malaysia came close to matching the country's post-war performance due to its colonial heritage and early economic surge compared to its neighbors. Malaysia and Thailand have since surpassed the Philippines economically, but the latter remains in the urbanization race notwithstanding its weaker economic advance. Yet there are signs

Table 2. Urban Growth in Philippine Regions

Region	Level of Urbanization				
	1960	1970	1980	1990	1995
Philippines	29.8	31.8	37.5	48.6	54.1
NCR	98.1	100.0	100.0	100.0	100.0
Cordillera Autonomous Region	-	-	-	31.5	38.3
Ilocos	17.6	19.4	22.9	37.8	46.9
Cagayan Valley	14.1	14.1	16.7	24.3	28.8
Central Luzon	26.5	30.2	41.8	59.8	68.2
Southern Tagalog	26.8	30.6	37.1	50.3	57.0
Bicol	21.9	19.2	21.9	31.1	36.2
Western Visayas	30.5	26.7	28.4	35.8	40.0
Central Visayas	22.2	27.9	32.1	40.4	44.8
Eastern Visayas	18.9	19.4	21.8	31.2	36.7
Western Mindanao	16.8	15.8	17.8	31.2	44.6
Northern Mindanao	20.2	20.9	25.6	44.9	55.8
Southern Mindanao	20.9	26.6	34.3	56.6	67.2
Central Mindanao	-	15.6	16.8	23.3	27.2
Autonomous Region of Muslim Mindanao	-	-	19.6	24.5	27.1
CARAGA	-	-	30.0	50.7	61.5

Sources: National Statistics Office; 1995 projections.

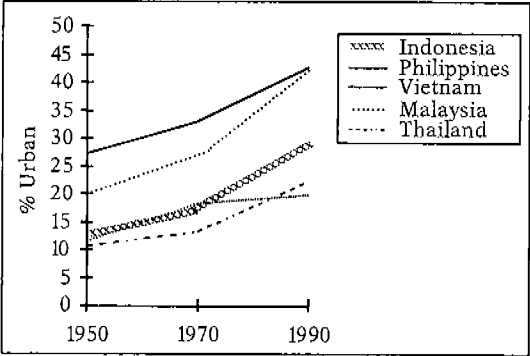
that Philippine urbanization, despite its enormous dimensions, is slowing down. At the same time, the urban primacy of Metro Manila has shown indications of weakening (Figure 3).¹

Table 3 shows the contrasts between urbanization levels and rates of change. Both urbanization rates and the primacy of Metro Manila first stepped up in the period 1948-1970, the years coinciding with the

¹Primacy reversal, however, may not be quite apparent if urban primacy includes, following a UN definition, every urban agglomeration with a population of 1 million and over. Davao in 1995 is included among these urban centers (its population has reached over 1 million in that year), resulting in a resurgence of overall primacy in the Philippines (see UN 1990).

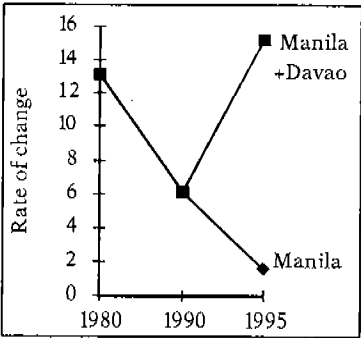
implementation of the protectionist policy of the Philippine government. Since then, however, the rate of change of urban growth has fallen from 11.2 percent in 1970 to 4.39 percent in 1990. Similarly, the rate of change of urban concentration in Metro Manila declined from 6.6 percent in 1970 to just 1.6 percent in 1990. The increase during the early decades is attributed to the government's import substitution program. The decline, on the other hand, may have been the outcome of disagglomeration economies—increasing congestion, rising land values, pollution—and the delayed effects of the industrial dispersal program initiated in the mid-70s (Pernia and Israel 1994; Solon 1996).

Figure 2. The ASEAN Picture



Basic source: Pernia and Israel (1994).

Figure 3. Primacy reversal or resurgence?



Basic source: National Statistics Office.

Table 3. Decline of Metro Manila's Primacy

Population ratio	1948	1960	1970	1980	1990
Urban/Philippines	0.199	0.215	0.239	0.258	0.270
Rate of change		8.0	11.2	7.9	4.4
Manila/Philippines	0.082	0.091	0.108	0.123	0.131
Rate of change		11.0	18.7	13.9	6.1
Manila/Urban	0.410	0.424	0.452	0.477	0.484
Rate of change		3.4	6.6	5.5	1.6

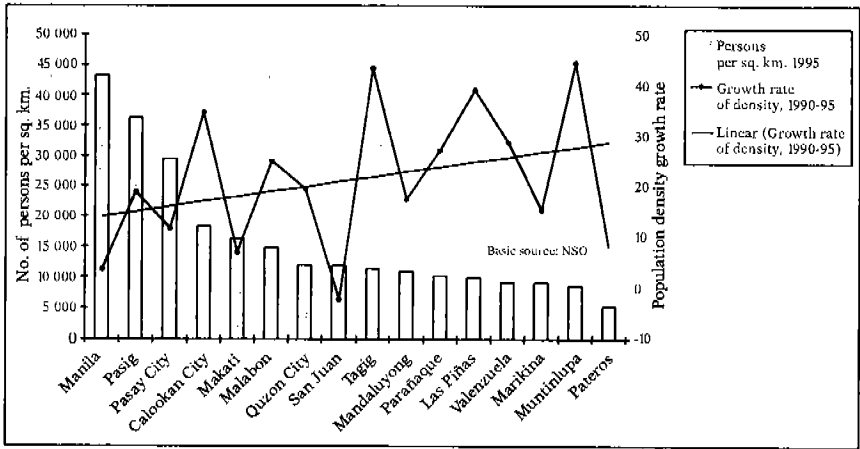
Basic source: Solon (1996).

Deconcentration of Manila

Density patterns in Metro Manila and cities in neighboring regions, if observed at different times, give a good sense of how the deconcentration process has taken place. At any given time, population density tends to fall off as one moves away from the city core (originally, the city of Manila). But the growth rate of density itself increases from the center to the periphery (the cities and towns surrounding Manila, or the rest of Metro Manila). That is to say, density is roughly inversely proportional to its growth rate. This is shown in Figure 4. Manila, as the core city, was the densest among the Metro Manila component areas, at 43,211 persons per sq. km. in 1995. Expectedly, it had one of the lowest density growth rates—3.5 percent—in the period 1990-1995. That means that the number of persons per unit area continues to increase in Manila, making it the most crowded city, but at a relatively slow pace.

In contrast, the population density in two other old cities in the metropolis, Quezon City and Caloocan, grew eight to 10 times faster, at 24.8 percent and 34.4 percent, respectively, in the same period. Their population densities in 1995 were, respectively, 3.5 and 2.3 times less (11,968 and 18,333 persons/sq. km.). Another example is Pateros, which is farther than Caloocan and Quezon City. Its density was only 8,565 persons per sq. km. in 1995—about a fifth of Manila's—but the rate at which it was filling its land area was 12 times faster, estimated at 44.4 percent in 1990-1995. With the exception of San Juan, more people are increasingly being drawn to the other parts of the metropolis, at a rate that is higher the farther the town or city is from Manila.

Figure 4. Population Density in Relation to Concentration Per Area



Concentration of people grows faster the less dense the area is.

Following a historical process of successive accretion, the periphery is typically expected to grow more rapidly than the core across time.

The growth is then propagated in the direction of farther regions. That is, the proportion of people occupying a unit area increases over time in successive rings around the center, like ripples in water. Figure 5 suggests, however, that the absorption pressures occurred *simultaneously* in the inner and outer rings of Manila. The inner ring consists of the rest of Metro Manila and the outer rings consist of major urban centers in Southern Tagalog and Central Luzon.²

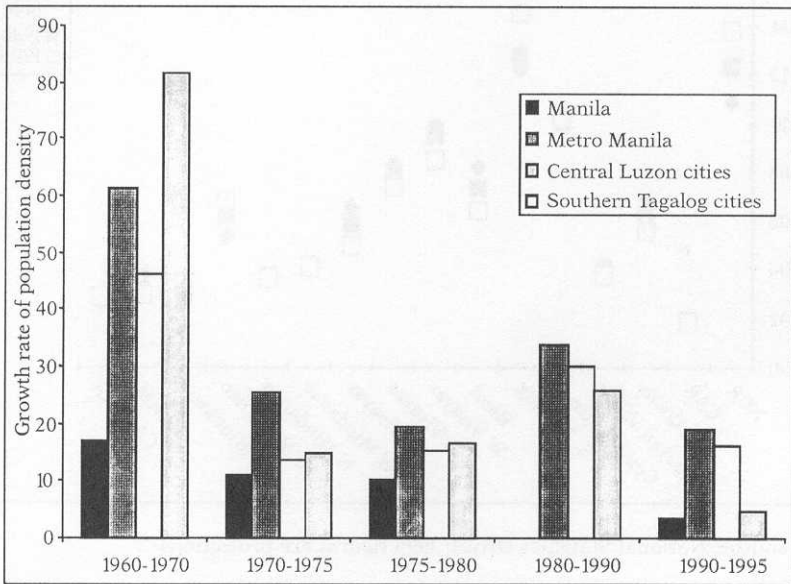
Generally, the density growth rates in Manila, the rest of the metropolis, and the cities in the neighboring regions of Southern Tagalog and Central Luzon, experienced declines from the period 1960-1970 to the period 1970-1975. The density growth rate in areas outside Manila fell in spectacular fashion: Metro Manila, from 61 percent to 25 percent, the Southern Tagalog cities from 46 percent to 14 percent, and the Central Luzon cities, from 81 percent to 15 percent. Manila's growth rate, which was (as expected) more modest, dropped from 17 percent to 11 percent.³ Yet, as Manila's density growth rate continued to fall in 1975-1980 and 1980-1990, the inner and outer rings picked up the slack

²The Southern Tagalog cities include Lipa, Lucena, San Pablo, Trece Martires, Tagaytay, Batangas City and Cavite City. The Central Luzon cities are Olongapo, Palayan, San Jose, Cabanatuan and Angeles.

³In 1960-1970, urban growth was at an all-time high, explaining upsurges in density growth rates.

at the same time, reversing the previous patterns of decline. As the city of Manila literally became less dense in 1980-1990 (the growth rate was negative), population concentrations per square kilometer in the rest of Metro Manila grew from 19 percent to 33 percent; those in Southern Tagalog cities, from 15 percent to 29 percent, and those in Central Luzon cities, from 16 percent to 26 percent. The 1990-1995 period appears to be a countertrend, but Metro Manila and Southern Luzon were still accommodating more people within their available spaces. Overall, deconcentration has taken place over an area wider than the periphery of Manila.

Figure 5. Deconcentration in Luzon



Basic source: National Statistics Office.

Deconcentration has taken place concurrently in the periphery and in the neighboring regions.

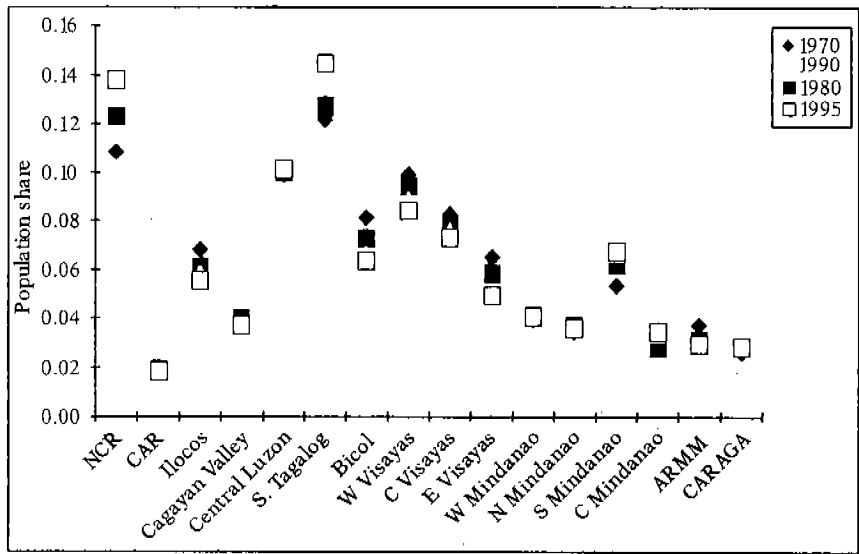
Diffusion across regions and cities

Changes in the rates of both urbanization and primacy have an impact on trends in population shares. Figure 6 shows that while Metro Manila's population share has been increasing at a decreasing rate, that of Southern Tagalog has been rising rapidly⁴. Another peripheral region, Central Luzon, has maintained a relatively constant proportion.

⁴The 1995 urbanization levels used in this report are projections. The projections were constructed using the URGD (urban-rural growth difference) method. See UN (1970).

Other regions characterized by an increase in their regional population shares from 1970 levels are Southern and Central Mindanao. Although Western and Central Visayas include Cebu and Bacolod, the main urban hubs in these regions, their total population shares have been falling steadily. Expectedly, Bicol and Eastern Visayas, long considered the economic basketcases in the Philippines, are marked by dipping population shares.

Figure 6. Regional Population Shares in the Philippines

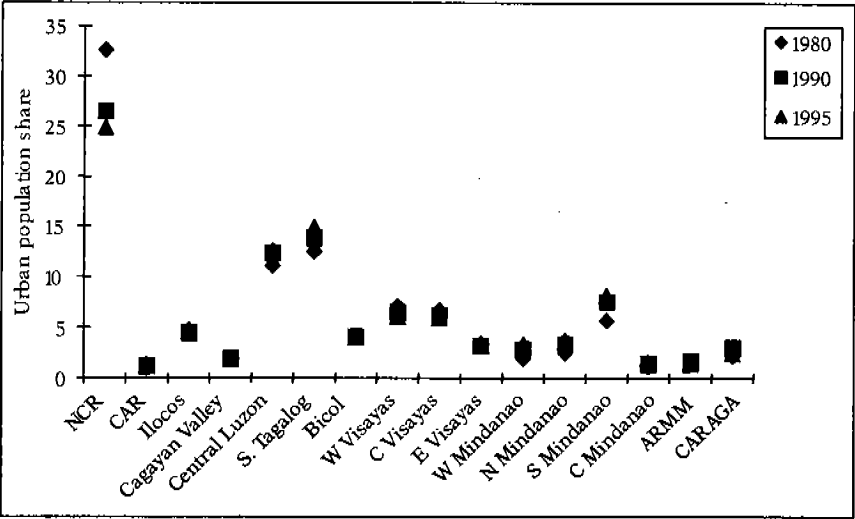


Basic source: National Statistics Office; 1995 figures are projections.

The NCR’s urban population shares decreased by about six percent between 1980 and 1990 and continue to drop (Figure 7). The rest either experienced a slight increase or had relatively constant urban increase.

The highest increase, albeit at only two percent, was attained by Southern Tagalog, which also had the second highest proportion of urban population. Next to Southern Tagalog in rank was Central Luzon. Hence, the trend supports the view the growth in Metro Manila has spilled over to the adjacent regions. Southern Mindanao remains as the foremost urban center in Mindanao, although Northern Mindanao is rapidly catching up.

Figure 7. Urban Population Shares of Philippine Regions



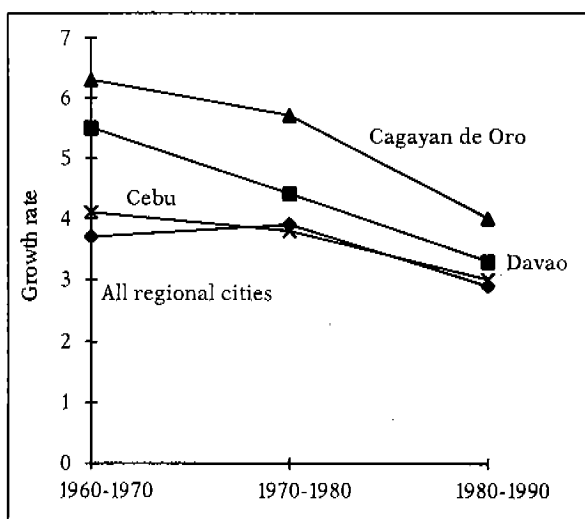
Basic source: National Statistics Office; 1995 figures are projections.

Manila’s urban growth has spilled over to other regions.

The general slowdown in the speed of urbanization is likewise reflected in the growth performance of Philippine urban centers outside of Metro Manila. Figure 8, for example, shows that the main regional centers⁵, which include the key cities of Cebu, Davao and Cagayan de Oro, have as a group experienced a decline in urban growth rate from 4.1 percent in 1960 to 3 percent in 1990. The descent has been more pronounced in the three key cities. The slowdown, however, is not confined to the main regional centers. In Table 4, a sampling of subregional centers, secondary cities and tertiary cities reveals widespread sagging urban growth rates.

There are exceptions to the general trend, however, and these are shown in Table 5. Most of these urban places, except San Fernando and Iloilo, belong to the lower tiers of the urban hierarchy, and suggest the emergence of a distinct urban category called rapidly urbanizing cities and municipalities.

⁵ Following Pernia and Israel (1994), the classification of urban centers into regional centers, subregional centers, secondary cities and tertiary cities is taken from the 1993 National Urban Development Housing Framework and the 1976 Physical Perspective Plan for the Philippines.

Figure 8. Speed of Urbanization of Selected Cities

Basic source: Pernia and Israel (1994).

Table 4. Slowdown in Growth of Secondary and Tertiary Cities

Cities	Growth rates (%)		
	1960-1970	1970-1980	1980-1990
Zamboanga City	4.2	5.4	2.5
Olongapo	8.8	3.7	2.1
Angeles	5.7	3.4	2.3
Iligan	5.8	4.7	3.1
General Santos	4.8	5.5	5.2
San Pablo	4.0	2.2	2.0
Puerto Princesa	5.5	4.6	4.3
Cavite City	3.2	1.5	0.4
Cadiz	3.3	0.5	-0.8
Palayan	9.8	6.3	2.9

Basic source: Pernia and Israel (1994).

Table 5. Growth of Old Growth Centers and Rapidly Urbanizing Cities

Cities	Growth rates (%)		
	1960-1970	1970-1980	1980-1990
San Fernando	3.9	2.8	3.5
Iloilo	3.3	1.5	2.4
Baguio	5.3	3.4	4.3
Naga	3.6	1.3	2.3
Dagupan	2.9	1.5	2.2
General Santos	4.8	5.5	5.2
Roxas	3.3	1.7	2.4
Puerto Princesa	5.5	4.6	4.3
Trece Martires	5.6	2.5	5.8
San Jose	6.1	-0.9	3.2

Basic source: Pernia and Israel (1994).

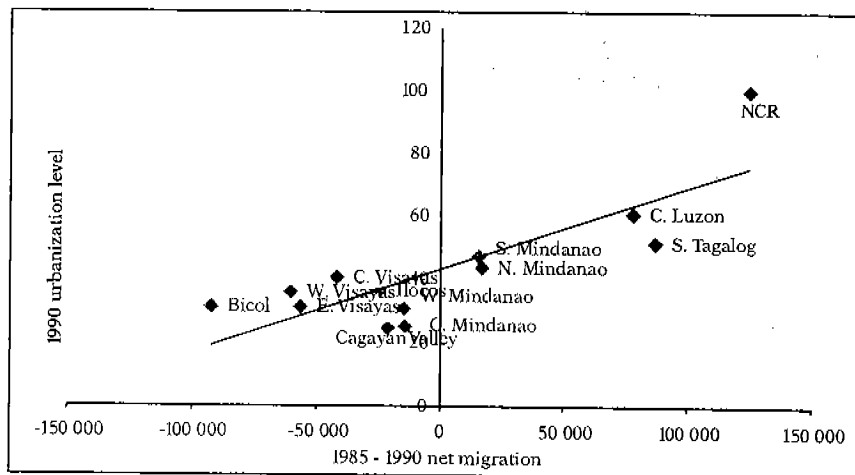
Internal Migration and Urbanization

Between 1985 and 1990, nearly 1.5 million Filipinos left their own regions to seek new havens elsewhere in the country. They accounted for about 2.5 percent of the total 1990 population. In the succeeding period (1990-1995), the number of migrants was estimated to have increased to 2.2 million, which comprised some 3.3 percent of the total 1995 population. In part, because of these numbers, migration has consistently been regarded as a possible policy instrument that could help divert population and employment growth to regions of emerging economic opportunity.

Has the migrant population been an important factor in urban growth? Figure 9 shows that there is a positive correlation between net migration and urban growth in the late 1980s. That is, the direction of migration is toward the more highly urbanized regions and away from underurbanized regions. Yet, the size of migration tells a different story. First, a close look at Metro Manila indicates that the flow is ebbing over time. In each of two five-year periods, 1975-1980 and 1985-

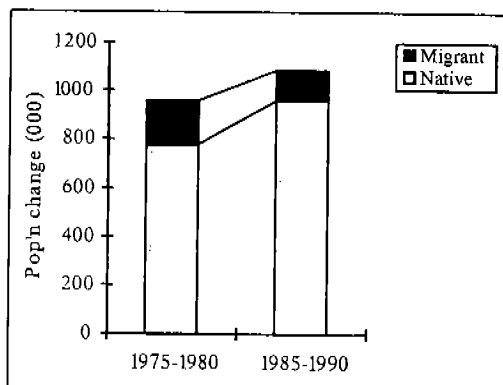
1990, NCR gained more or less 1 million inhabitants (Figure 10). The proportion of migrants in Metro Manila's population during 1975-1980 was 18.2 percent; in 1985-1990, however, it dropped to 11.5 percent. The decline suggests that net migration is diminishing in weight as an element of metropolitan growth, and is thus helping the cause of primacy reversal.

Figure 9. Directions of Net Migration and Urbanization



Basic source: National Statistics Office.

Figure 10. Migration to Metro Manila, 1975-1980 and 1985-1990



Basic source: National Statistics Office.

Flow of migrants to the metropolis has diminished.

Second, inter-regional mobility data also show that migration flows add little to urban growth, and also decline across time. Table 6 shows the extent of net migration as a proportion of the 1975-1980 and 1985-1990 population losses of out-migration areas. Table 6 shows a similar picture for in-migration areas, excluding NCR, in terms of population gains. Several regions consistently lost a high proportion of migrants, particularly Bicol (41.3% in 1985-1990) and Eastern Visayas (42.9%). Yet the net outflow from losing regions as a group was only 16.4 percent of their population changes in 1975-1980 and declined to 13.8 percent in 1985-1990.

Much of this net outflow was absorbed in a relatively few highly or moderately urbanized regions such as Central Luzon, Southern Tagalog, Northern Mindanao and Southern Mindanao. To begin with, they added proportionately fewer numbers to the populations of these gainers, as the small percentages in Table 7 show. Likewise, the share of migrants in the population of this group of regions slipped from 9.7 percent in 1975-1980 to 8.6 percent in 1985-1990. This decline would apply regionwide even if all of the migrants went to urban centers, indirectly strengthening the evidence that overall, net migration is slowly becoming less important as a generator of urban growth. Conversely, it may have helped slow down urban growth (as discussed earlier).

Third, the view at the provincial level—immediately below the regions—is very much the same. Of the top 20 provinces that registered net gains in migration in 1985-1990 (Figure 11), majority experienced low inflows (below 40 migrants per thousand), regardless of their level of urbanization⁶. Rizal, a highly urbanized area with a high inflow of migrants, was clearly the exception.

Where net migration made a big difference is shown in Table 8, which Pernia and Israel (1994) constructed using shift analysis.⁷ This group of cities belong to different tiers: regional/subregional centers (San Fernando, Baguio, General Santos), secondary cities (Lucena, Marawi, Puerto Princesa, Trece Martires) and tertiary cities (San Jose,

⁶ It is worth noting that all the highly urbanized provinces shown in the figure—Pampanga, Bataan, Bulacan, Laguna, Cavite, Rizal, Misamis Oriental, Davao del Norte—belong to the highly urbanized regions of Central Luzon, Southern Tagalog, Northern Mindanao and Southern Mindanao.

⁷ This analytical framework maps the distributional shifts among cities (and provinces) by comparing actual population changes (using actual two-period population counts) with "what should have been" has each city (province) grown at the rate the whole country has grown. A positive shift for a city (province) indicates a net gain of migrants. A negative shift indicates a net loss. Shift analysis does not yield actual mobility information, but it does provide a good picture of which city or province is gaining (losing) residents.

Table 6. Net Migration Flows Across Regions

Region	Net pop'n gain (000)	1975-1980		Net pop'n gain (000)	1985-1990	
		Net migration (000)	Net migr'n as % of net pop'n gain		Net migration (000)	Net migr'n as % of net pop'n gain
Ilocos	197	52.0	26.4	329	24.3	7.4
Cagayan Valley	254	2.9	1.2	221	20.8	9.4
Bicol	283	62.3	22.0	223	92.0	41.3
W Visayas	380	72.0	19.0	452	60.2	13.3
C Visayas	400	63.2	15.8	423	41.7	9.9
E Visayas	200	70.9	35.4	131	55.9	42.9
W Mindanao	308	9.1	2.94	257	14.1	5.5
C Mindanao	-	-	-	305	13.8	4.5

Basic sources: National Statistics Office; Pernia and Israel (1994).

Net migration outflow remains high in Bicol and Eastern Visayas—the traditional out-migration regions.

Table 7. Contribution of Net Migration to Urban Growth

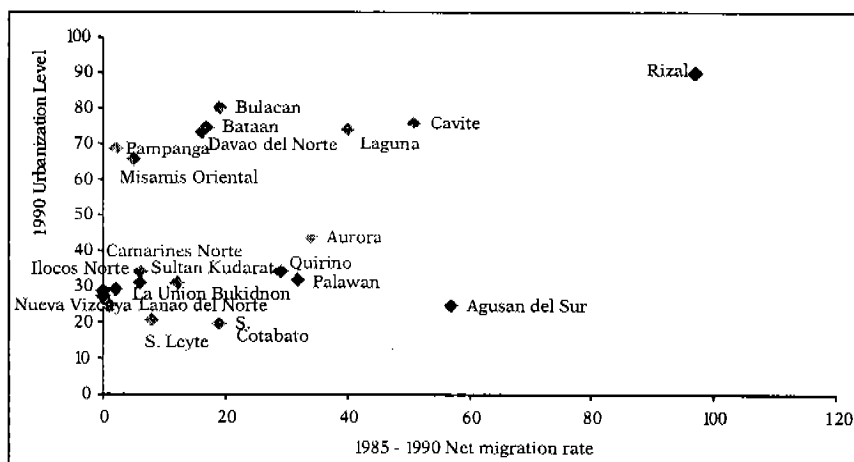
Region	Net pop'n gain (000)	1975-1980		Net pop'n gain (000)	1985-1990	
		Net migration (000)	Net migr'n as % of net pop'n gain		Net migration (000)	Net migr'n as % of net pop'n gain
Central Luzon	593	9.6	1.6	742	77.9	9.5
Southern Tagalog	815	68.4	8.4	1,152	87.1	7.6
N Mindanao	263	35.7	13.6	228	17.1	7.5
S Mindanao	557	26.9	4.8	558	15.6	2.8
C Mindanao	246	17.7	7.2	-	-	-

Basic sources: National Statistics Office; Pernia and Israel (1994).

Net migration has added little to urban growth.

Tagaytay), indicating that migrants have streamed randomly across the urban hierarchy. San Fernando, Baguio and Tagaytay stand out among the rest as areas experiencing a relatively large influx of migrants between 1980 and 1990 from lower levels in 1970-1980. The urban growth of General Santos and Puerto Princesa was clearly migration-driven, with migrants contributing about half of the two cities' population gains between 1970 and 1990. San Jose City experienced a phenomenal surge of migrants between 1970 and 1980; since then, the inflow tapered off to a quarter of the city's population gain in 1980-1990. Marawi provides an interesting example of a refugee-driven growth. In the 1970s, it became host to a huge influx of internal refugees fleeing war-torn areas in Mindanao. The flow somewhat subsided in the 1980s, but was still more than half of the city's population gain.

Figure 11. Comparison of Inflows to Provinces vis-à-vis Urbanization Levels



Basic source: Cabegin and Kabamalan (1999).

Most of the top 20 “catchment” provinces had low net inflows of migrants, regardless of urbanization level, in 1980-1990.

Note that, with the exception of Baguio and Marawi, these “migrant” cities belong to the high urban growth regions of Central Luzon and Southern Tagalog, which are adjacent to Metro Manila, and Northern and Southern Mindanao. Likewise, except for General Santos and Puerto Princesa, whose urban growth rates remain high anyway (Table 8), many of these cities have also been growing at a steady rate.

Migration and urban growth patterns after 1990⁸

After 1990, the tendencies observed in earlier periods have not had any dramatic change. Figure 12 is a remake of Figure 9, but made for the years 1990-1995 and broken down by sex. The trend line suggests that migration and urbanization still move in the same direction, but the relationship between the two variables is weaker. Instead of several regions disputing the influx of migrants, Southern Tagalog is clearly shown to have accommodated most of the migrants of both sexes. Central Luzon was far behind. Although it absorbed a number of male

⁸ The analysis in this section is based on 1990-1995 migration estimates, disaggregated by sex, and by region and province, made jointly by the National Statistics Office and the UP Population Institute.

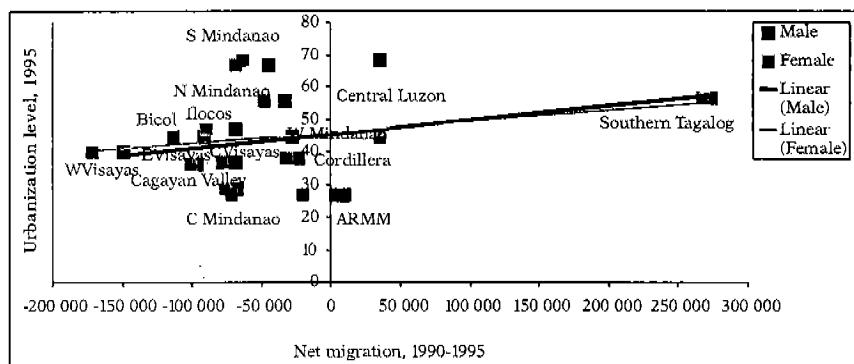
in-migrants, it experienced a net outflow of women. Other regions with high urban levels, notably Southern Mindanao and Northern Mindanao, were surprisingly out-migration points in 1990-1995—a reversal of their previous role as population magnets. What emerges is a picture of an unusually high concentration of in-migrants in Southern Tagalog, and the shift of many highly urbanized regions from in-migration areas to out-migration places.

Table 8. Migration as a Percentage of Population Growth

City/urban center	Migration as % of Population change	
	1970-1980	1980-1990
San Fernando	3.2	33.2
Cagayan de Oro	59.8	43.2
Davao	44.1	28.1
Cotabato City	17.5	44.7
Baguio	22.2	47.4
Lucena	22.7	29.0
General Santos	57.5	58.3
Marawi	971.2	59.8
Puerto Princesa	46.3	47.0
Trece Martires	-8.9	63.6
San Jose City	463.0	24.6
Tagaytay	31.5	43.4

Basic source: Pernia and Israel (1994).

Figure 12. Migration and Urbanization, by Sex



Basic source: 1990-95 net migration projections made jointly by National Statistics Office and UP Population Institute.

Figure 13 updates the migration situation in the leading catchment provinces. The 1990-1995 grouping retains many of the highly urbanized provinces in 1985-1990, and includes several newcomers (Tawi-tawi, Sulu, ARMM, Nueva Ecija, Northern Samar, Cagayan, Basilan, Occidental Mindoro and Batangas). Net inflows have obviously subsided further in 1990-1995. Cavite led all others, but its share of 43 migrants per thousand was less than half of Rizal's haul in 1985-1990. Rizal itself picked up below 40 migrants per thousand. The rest of the provinces had 20 migrants/thousand or lower. Noticeably absent in 1990-1995 was Pampanga, where continuing lahar flows from Mt. Pinatubo have made its towns unattractive to migrants.

Most of the men made their way in Cavite, Rizal, Basilan, Sulu and Palawan while most women settled in Cavite, Rizal, Basilan, Laguna, Palawan and Bulacan.⁹ That Cavite and Rizal figure consistently as in-migration areas probably owes much to their continuing attractiveness to itinerants who are thrown off by the diseconomies associated with Metro Manila. Even if these provinces remain socially, physically and economically linked to the metropolis, their broad appeal as catchment areas is a gain for deconcentration.

It has to be stressed that, despite the low turnout of migrants in destination regions, the influx has been continuing. At the level of cities, in the absence of migration statistics after 1990, shift analysis is used to chart the direction of migration in the 1990-1995 period. The result is displayed in Figure 14. Notice that most cities (**in bold letters**) that experienced inflows in 1985-1990 have positive net shifts in 1990-1995, indicating that migrants are still trickling into these areas¹⁰.

Reclassification and Net Natural Increase: Engines of Urban Growth and Decentralization

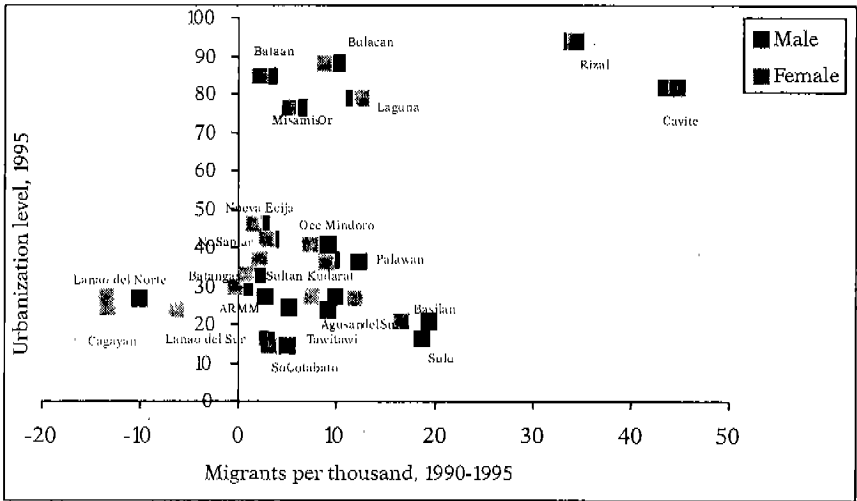
If migration was not a crucial element of urbanization and deconcentration, at least in the period 1980-1990, how did the urban areas grow? Preliminary evidence supplied by a new study (Cabegin

⁹ As a rule, there were about the same number of male and female migrants (whether outmigrants or immigrants). Discrepancy between the sexes ranged only between 1 and 3 percentage points. An exceptionally large "gender gap" exists, however, in the Muslim dominated areas of Lanao del Sur, Tawi-tawi and Maguindanao. All three provinces had high outflows of women, a pattern that is likewise noted of the whole ARMM. There were 14 women leaving—most likely as overseas domestics—for every two men moving into the region.

¹⁰ Cagayan de Oro and Davao City seem to have regained their attractiveness to migrants in the 1990-1995 period (note the high net positive shifts), an indication of their growing role in the nationwide network of regional centers.

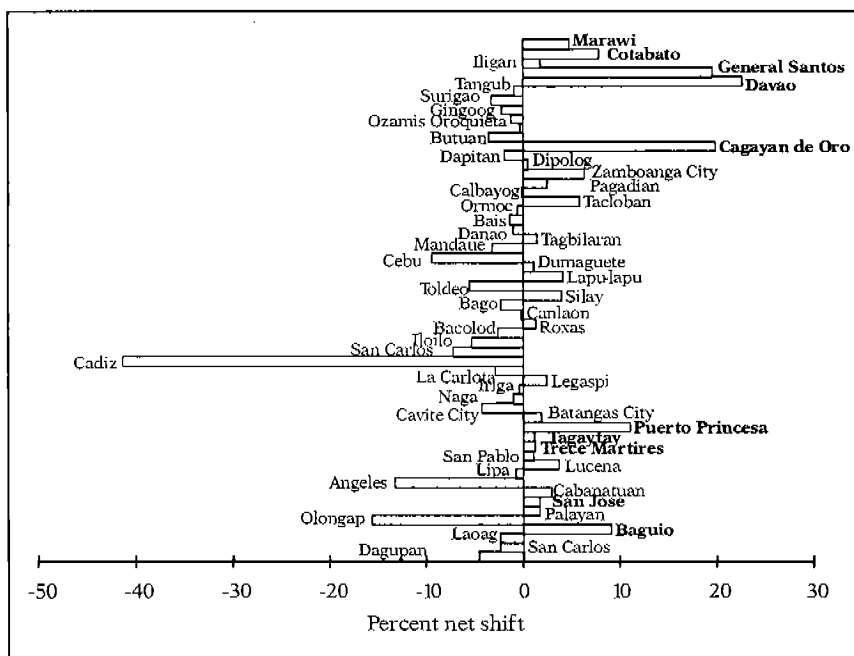
and Arguillas 1997) indicates that most of the growth came from the reclassification of formerly rural areas into urban areas—once they satisfied the 1970 National Statistical Office’s definition of an urban area. Censuses conducted after 1970 adopted this definition, resulting in a wholesale inclusion of big chunks of rural population into the urban stream. Conceivably, this “administrative” procedure also masked migration trends between formerly excluded areas and older urban nuclei, once they constituted a single urban entity.

Figure 13. The Top Catchment Provinces in 1990-1995

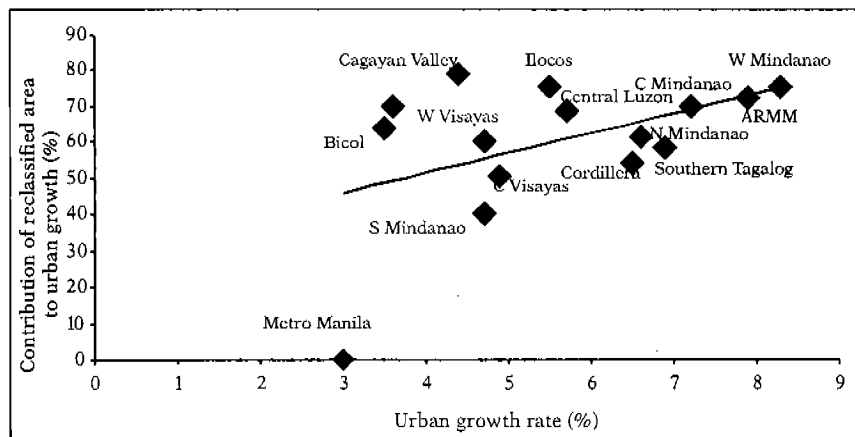


Basic source: National Statistics Office-UP Population Institute migration projections.

Figure 15 illustrates a dramatic shift in urban growth patterns of the regions in the 1980s, when reclassification is taken into account. Except for Metro Manila (which has been 100% urban since 1970, and hence was no longer subject to statistical re-sorting), all regions tremendously gained ground as a result of the reclassification process, regardless of the speed of their urbanization. Many out-migration regions managed to register positive urban growth because of reclassification. The reclassified domains contributed to as much as three-fourths of urban growth in Ilocos, Cagayan Valley, Western Mindanao and ARMM and more than half in most of the other regions. Reclassification contributed the least in Southern Mindanao (40%) and Western Visayas (55%). All regions posted high urban growth rates of more than 3.5 percent, which suggests that reclassification propelled

Figure 14. Direction of Migration, 1990-1995

Basic sources: National Statistics Office; 1995 figures are projections.

Figure 15. Urban Growth After the Reclassification

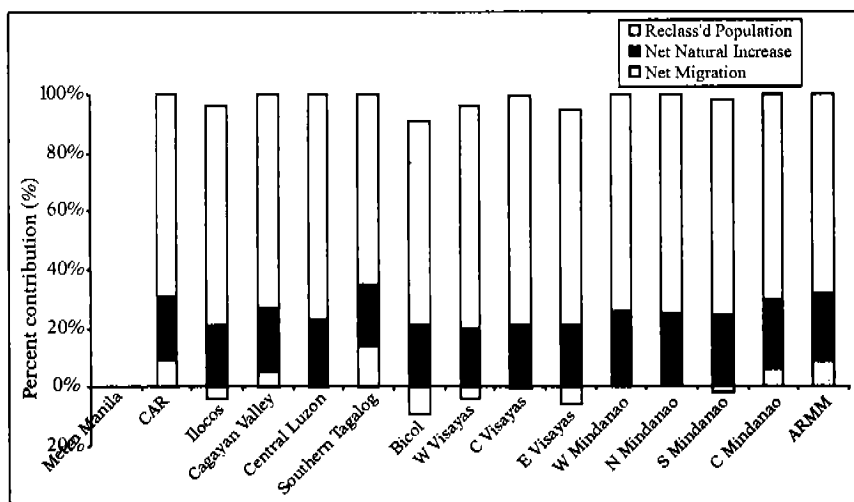
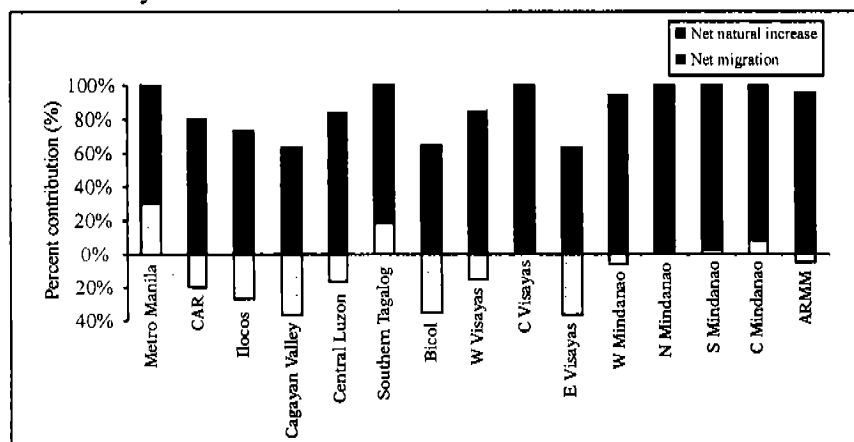
Basic source: Cabegin and Arguillas (1997).

the large strides in urban growth in the last decade. Western Mindanao, ARMM and Central Mindanao—regions still dominated by rural landscapes—led the pack with rates of over 7 percent. Southern Tagalog and Northern Mindanao were not far behind, registering more than 6 percent growth rate. The evidence suggests that reclassification in part induced deconcentration by accelerating the growth rates of key regions outside NCR.

A breakdown of the reclassified areas by demographic component is depicted in Figure 16. As the chart amply shows, the engine of urban growth in the newly defined urban areas is a combination of net natural increase and reclassified populations. Net migration was not an important factor, corroborating the earlier findings. On average, net migration accounted for only 1.5 percent of urban growth. Net natural increase, on the other hand, contributed 11.3 percent to urban growth, but it was the reclassified population which took the lion's share at 37.4 percent. However, both reclassified population and net natural increase were least in highly urbanized areas that house key metropolitan centers or suburbs. These include Southern Tagalog, Western Visayas and Southern Mindanao.

To complete the urban growth picture, it is helpful to take a close look at the different regions' consistently urban areas; that is, those which needed no rural-urban reclassification. Net natural increase tended to occupy centerstage in the urbanization process, producing nearly half (47.2%, on average) of the recorded growth. The average share of net migration was a skimpy 2.6 percent, most of it being captured by Southern Tagalog. Note that traditional out-migration regions posted high negative rates (Bicol, -41.7%; Eastern Visayas, -8.6%). Equally high net natural increase rates (77.6% and 68.5%, respectively) tended to neutralize the losses from migration. Again, what is apparent here is that even in historically established urban areas, net migration as a whole did not necessarily produce the desired impact on urban decentralization.

A city-level analysis of reclassification, moreover, reveals that even cities identified as migration hubs did not grow due to migration but largely on account of reclassification. Table 9 lines up the urban centers shaped mainly by administrative means. The favored destination areas are the ones in **bold letters**. Regardless of source, however, these hubs have been the more successful ones in sustaining their growth momentum over the years.

Figure 16. Effect of Reclassification and Net Natural Increase on Urban Decentralization**Reclassified Areas****Consistently Urban Areas**

Basic source: Cabegin and Arguillas (1997).

Fertility Decline and Urbanization

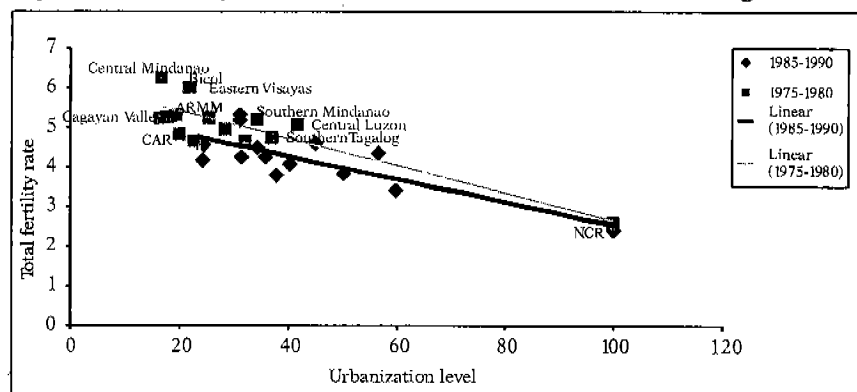
The rapid domestic urbanization in the past evolved in part from demographic trends. High fertility rates combined with rural-urban migration to induce high levels of urban growth. But beginning in the 1970s, fertility rates—using the Gunasekaran-Palmore estimates¹¹—have

¹¹ See Palmore et al. (1995).

Table 9. Effect of Rural-Urban Reclassification on Favored Destination Areas

City	Net Rclass'n/ Total Urban Growth (%)	City	Net Rclass'n/ Total Urban Growth (%)
Tagaytay	510	Danao	77
Silay	129	Cadiz	65
Cabanatuan	116	San Carlos (R6)	62
Tangub City	106	La Carlota	61
Batangas	99	Toledo	61
Roxas	99	Dipolog	55
Oroquieta	98	Puerto Princesa	52
Iriga	97	Butuan	51
Lipa	94	Gen Santos	51
Ormoc	94	Legaspi	50
Bais	93	Cagayan de Oro	50
San Jose	91	Surigao City	49
Calbayog	90	Laoag	33
Zamboanga City	86	Gingoog	29
Iligan	86	San Carlos (R3)	25
Bago	84	Davao City	17
Ozamis	81	Pagadian	15
Trece Martires	79		

Basic source: Cabegin and Arguillas (1997).

Figure 17. Fertility Rates in Relation to Urban Growths of Regions

Basic source: National Statistics Office; Palmore et al. (1995).

declined, which is also helping to slow urban growth rates. Indeed, as shown in Figure 17, fertility seems to fall much faster in regions that are fast urbanizing, giving rise to a positive correlation between fertility decline and urban growth. Two regions that have gone past the 50

percent urban-level mark—Southern Tagalog and Central Luzon—have also breached the 4 percent total fertility rate (TFR) line. They are still falling short of NCR's performance, however. Metro Manila's TFR of 2.4 is way below the national average of 3.9.

All regions have experienced fertility decline in the last two decades, although there have been uneven growth patterns. In Southern Mindanao, the fertility rate is still above 4 percent, although the region has undergone tremendous strides in urban growth. Central Mindanao and ARMM have done well in reducing fertility—their TFRs went down faster than their rates of urbanization—but it remains at a high level (above 4 percent). Bicol and Eastern Visayas, the traditional sources of migration, have the worst showing: low fertility declines along with low urban growth. In 1990, they were the only regions left with unacceptably high TFRs (higher than 5 %).

Chapter

2

Links Between Economic Growth and Urban Decentralization

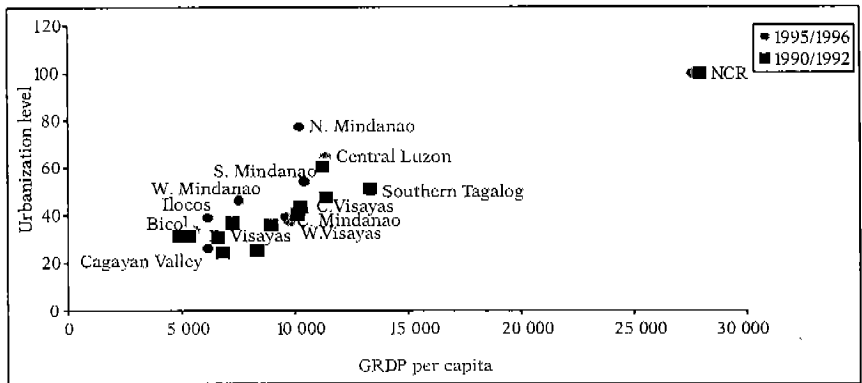
A high concentration of people and resources imparts scale economies and synergy, and yields opportunities for the decentralization of economic growth and human development. This section explores the character and strength of the links between urbanization and economic growth in the Philippines. A disturbing finding is the eroding connection between urbanization and industrial growth in the last few decades, putting severe pressure on the services sector to perform well so as sustain the gains of emerging cities and urban centers.

High Urbanization Levels, Stagnant Industrial Output

An overview of the urbanization-growth nexus in the Philippines is illustrated in Figure 18. Where high levels of urbanization (upwards of 50%) have taken place and continue to do so—notably in Central Luzon, Southern Tagalog, Northern Mindanao and Southern Mindanao—the gross regional domestic product (GRDP) per capita, already less than half that in Metro Manila, has remained generally unchanged for each region between 1990 and 1996. Philippine urbanization thus proceeded alongside little economic growth. Regions with levels of urbanization between 25 percent and 40 percent are associated with even less growth, regardless of the period.

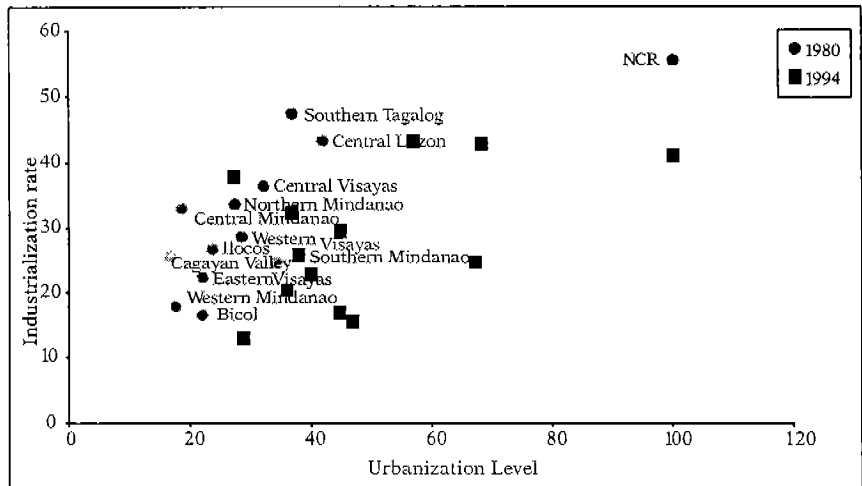
Figure 19 demonstrates why growth does not accompany urbanization (that is, urbanization is pushing on with a stagnant or declining pace of industrialization). The rate of industrialization, following Kojiman (1996), is indicated by the percentage of GRDP for industry (consisting of manufacturing, mining, construction, and electricity, water and gas). When the speed of industrialization is compared with the pace of urbanization in 1980 with that in 1994-1995, industrial growth has stood still or has fallen over much of the past 15 years for most regions, even while urbanization proceeded slowly.

Figure 18. Relationship Between Urbanization Levels and Economic Growth



Basic source: National Statistical Coordination Board.

Figure 19. Urbanization in Relation to Industrialization



Basic source: National Statistical Coordination Board.

Urbanization has advanced but industrialization has remained largely stagnant in most regions.

A lopsided development seems to have taken place in some regions such as Northern Mindanao, where a vigorous urbanization pace is matched by a slowly fading industrial growth rate. Southern Tagalog and Central Luzon are also enduring a modest industrial decline, although the absolute size of their industry remains at a high level. On the other hand, underurbanized regions like Bicol, Eastern Visayas,

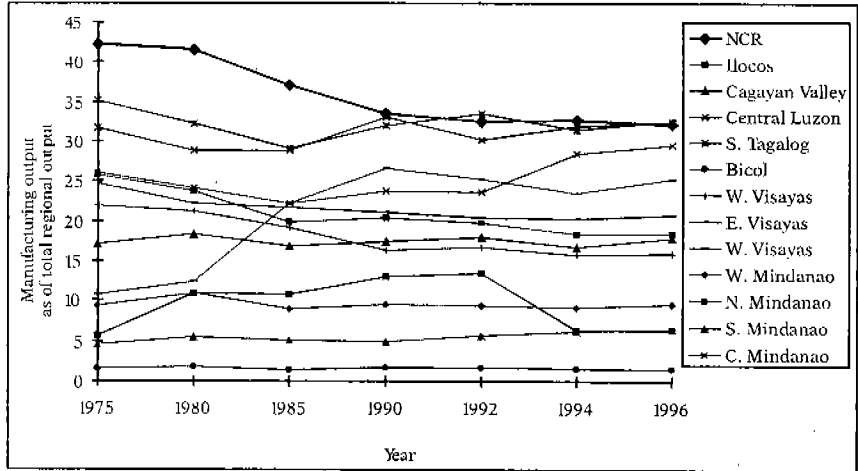
and Central Mindanao have better industrial performance in the last decade or so, but this is due likely to the almost singular strength of their mining and/or power subsectors. It can be seen, in general, that while urbanization advanced in the Philippines, it left behind a sluggish industrial sector.

Between 1975 and 1996, industrial production shares declined in many of the regions. Figure 20, an update of findings in Pernia and Israel (1994), shows the track record in manufacturing—the core of the industrial sector—of regions that are leading (such as NCR, Southern Tagalog and Central Luzon) and those that are struggling to catch up. In Metro Manila alone, the proportion of manufacturing output fell progressively from 42.3 percent in 1975 to 32 percent in 1996, a drop of almost 24 percent in two decades. Other regions likewise show a gradual decline in their manufacturing output share over time, although many bounced back beginning 1994. Manufacturing employment tells the same story. The country's industrial bases have been unable to sustain their own employment shares since 1975, owing to the prolonged setbacks in the sector. Figure 21 shows how employment in manufacturing turned sour in most regions for a decade and a half, before making a comeback in the 1990s.

In Manila, the manufacturing sector's slice of the employment pie has shrunk, but remained the largest among the regions at 19.3 percent in 1995. Central Luzon and Southern Tagalog have more or less stabilized their manufacturing employment shares, consistent with manufacturing output shares that have plateaued to about 32 percent. A few of the regions with skimpy industrial footholds show interesting contrasts. Northern Mindanao, for example, shows a continuous slump in manufacturing output shares, but its proportion of employed persons in the sector rose fivefold from 3.7 percent in 1975 to 13.8 percent in 1995—implying the growth of labor intensity. In Central Mindanao, on the other hand, manufacturing output shares improved over time as employment shares dropped, suggesting the presence of capital-intensive production.

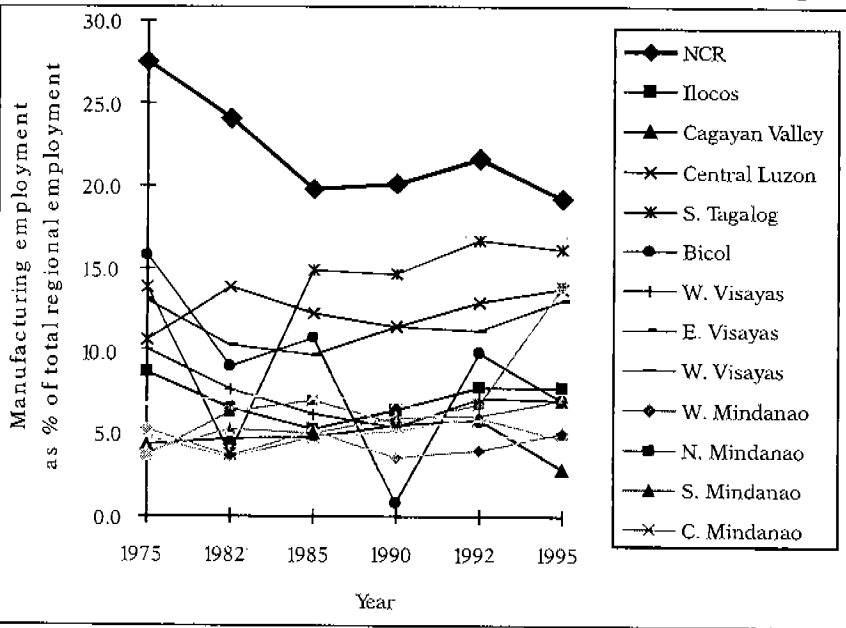
The recent turnaround in both manufacturing output and employment is apparently occasioned by the modest economic surge that has occurred from 1994 and onward. Note the uneven pattern, however, where some key industrial hubs like Metro Manila and Southern Luzon are unable to equal the 1975 output levels, while others such as Eastern Visayas and Central Mindanao have begun to enlarge their manufacturing bases.

Figure 20. Decline in Manufacturing Output Shares in Most Regions



Basic source: National Statistical Coordination Board.

Figure 21. Trends in Manufacturing Employment Shares Across Regions



Basic source: National Statistical Coordination Board.

Manufacturing employment shares are likewise falling or at a standstill.

The Urbanization-Services Sector Connection

In contrast to the lull in manufacturing is the remarkable growth of output and employment shares in the services sector. With a few exception, each region's production share in services has grown from year 1975 to 1996, as shown in Figure 22. Metro Manila, not surprisingly, led all regions with a 45 percent to 59 percent share. Western Visayas was not far behind. Southern Tagalog and Central Luzon, on the other hand, managed to keep their share of services output at par with their share of manufacturing output (30-35%), suggesting more room for further expansion of services in Metro Manila's periphery.

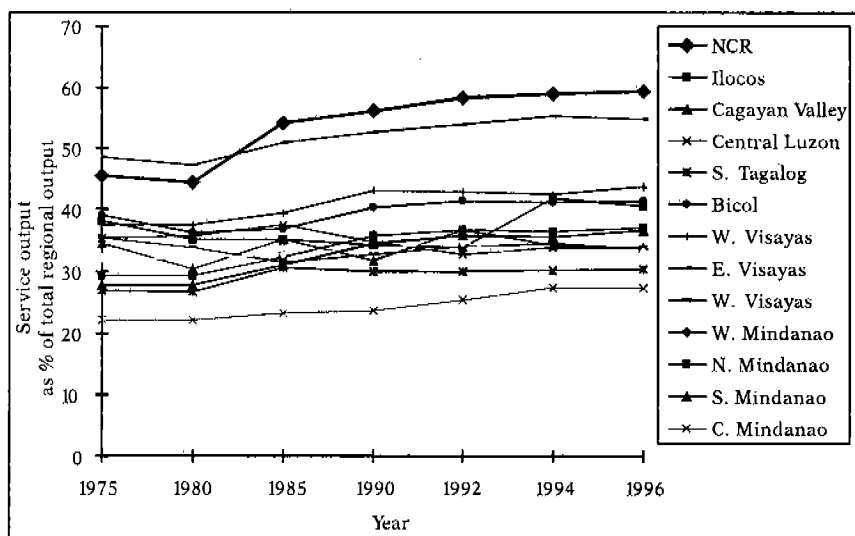
Even more spectacular are the ballooning shares of services employment across regions (Figure 23). The NCR's share has grown disproportionately huge over the years, accounting for almost three-fourths of its total employment in 1996. Regions that lagged behind in 1975 such as Cagayan Valley, Northern Mindanao, Southern Mindanao and Central Mindanao managed to catch up tremendously over the next two decades—improving their capacity to provide more jobs by expanding their services sector. Overall, these broad snapshots suggest that urbanization (and thus, urban decentralization) is more closely associated with the services sector, a point already stressed in previous studies (e.g., Pernia and Israel 1994).

The services sector is a large and broad component within the economy and includes such diverse elements as financial services, insurance and real estate, and wholesale and retail trade. These elements do affect urban growth through expansion, branching and transfers that encourage suburbanization and deconcentration but play a small role in the evolution of alternative growth centers (Hamer 1985). Obviously the segment that may have the strongest influence on urbanization trends is the nontraded personal and community services. They do not necessarily thrive in agglomeration economies—outfits offering personal services such as barber shops are “footloose”—and are more attractive in informal settings. Current literature on urbanization have emphasized the crucial part played by the informal sector in supplying jobs to migrants and in keeping price levels down in urban centers—key factors that fuel urban growth.

Figure 24 addresses in a preliminary way the hypothesized positive relationship between urbanization and nontradeable services in terms of employment. Employment in community, social and personal services in a particular region is measured as a percentage of that region's total employment. Using 1995 figures, the chart suggests that nontradeables

employment moves along with urbanization, but at a relatively slower rate.¹² That is, urbanization advances much faster than employment in nontradeable services.

Figure 22. Regional Services Output Shares

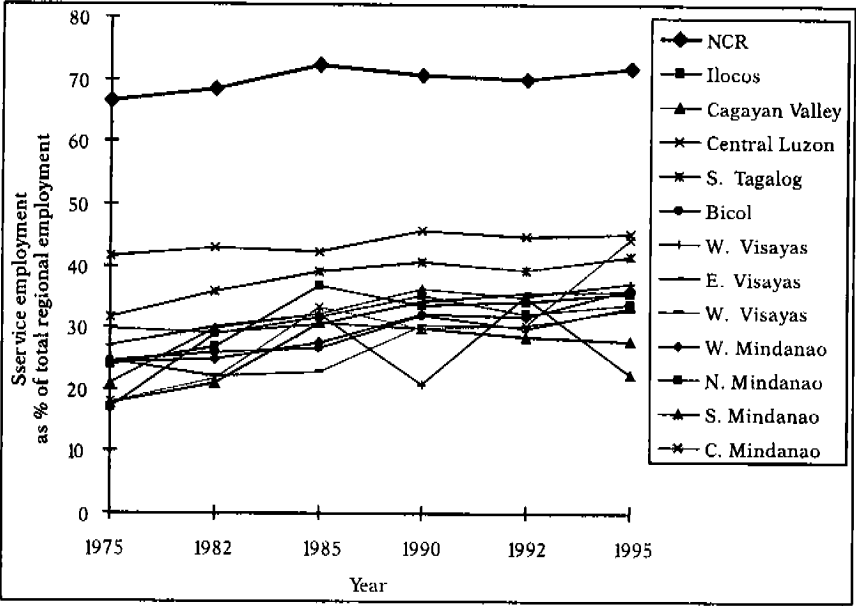


Basic source: National Statistical Coordination Board.

Output kept pace with employment in all regions in the personal, social and community services department. In Figure 25, production in this subsector is given as private services output (as a percent of GRDP), to remove public sector ingredients (e.g., most basic educational services). The hypothesized relationship is very much evident, with a wider spread among regions indicating a much more balanced relationship between nontradeables and urban growth. Among the regions, Northern Mindanao is clearly off the mark in both output and employment, suggesting that segments of the services sector other than non tradeables may be more relevant in its urban growth. Overall, the charts show an apparent link between the nontradeable subsector and urbanization, and this connection is addressed further in the concluding phase of this study.

¹² A similar exercise using 1995 urbanization levels and lagged 1991 employment rates in the nontradeable group yielded the same result. The relative positions of the provinces in the chart were unchanged.

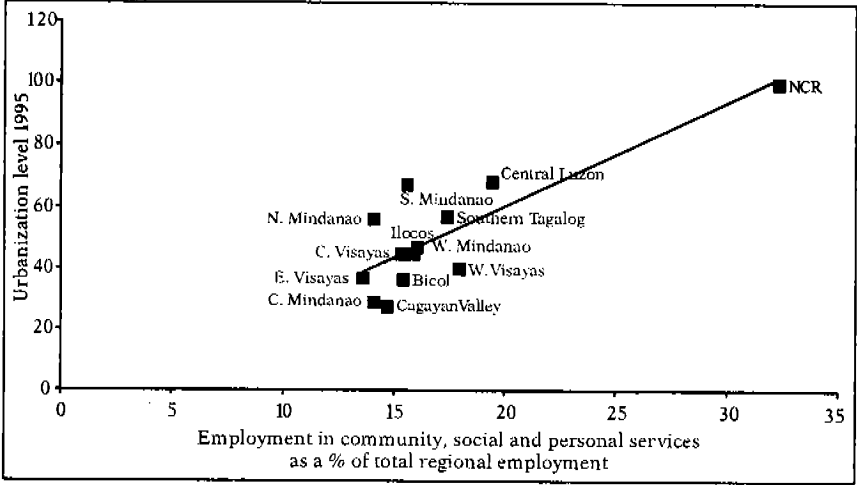
Figure 23. Shares of Services Employment Across Regions



Basic source: National Statistical Coordination Board.

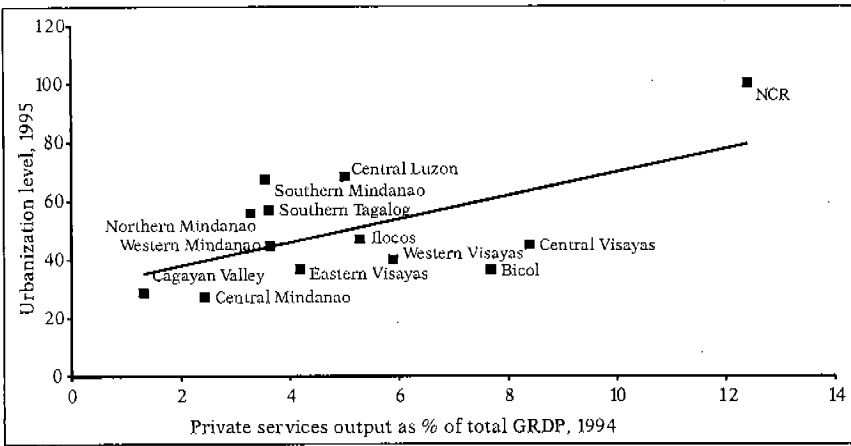
Metro Manila's services employment share is three fourths of its total employment

Figure 24. Link Between Urbanization Levels and Employment Rates in Personal, Community and Social Services



Basic source: National Statistics Office.

Figure 25. Link Between Private Services Output and Urbanization

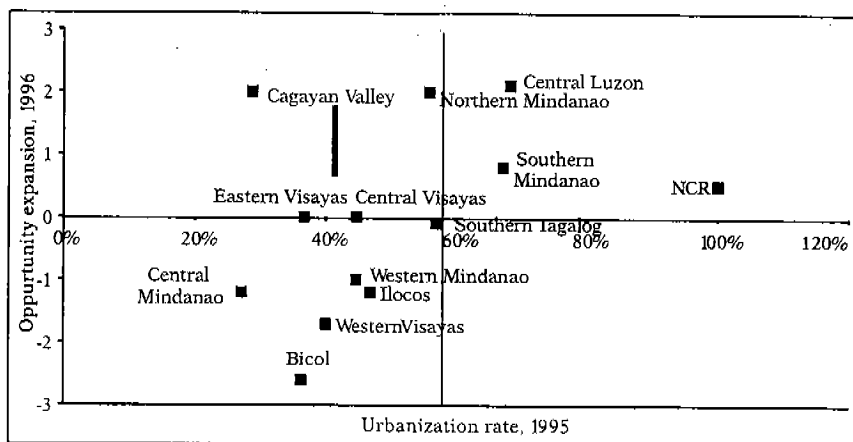


Basic source: National Statistical Coordination Board.

Does Urbanization Expand Job Opportunities?

From both economic and human development perspectives, urban decentralization is worth pursuing only if it is a job-creating growth. Employment should be considered not just in terms of how many jobs are being generated, but in terms of whether they can offset the growth of unemployment as well. A cross-sectional snapshot of the urbanization-job creation linkage in the different regions (Figure 26) in 1995-1996 offers two major conclusions.

First, opportunity expansion, defined by the United Nations Development Programme (UNDP) (1997) as the difference between the growth rate of employment and the growth rate of the labor force, is positively correlated with the rate of urbanization, as Figure 26 shows. Second, there are cases of urban growth with contracting opportunities, and opportunity expansion with low urbanization. For the purpose of analysis, Figure 26 can be divided into four quadrants. The upper right quadrant represents expanding job opportunities and high urban growth—what ideally urban decentralization should mean. The upper left quadrant also represents rising opportunities but with low urban growth. The lower right quadrant combines contracting job opportunities and high urban growth, a sure sign of unwanted urban pressures. Finally, the lower left quadrant represents an undesired outcome: declining opportunities for labor in a situation of low urban growth. Only NCR, Central Luzon (which had the most job opportunities), Southern Mindanao, and an unusual entry—Northern

Figure 26. Urban Growth and Job Opportunities: Different Outcomes

Basic source: National Statistical Coordination Board.

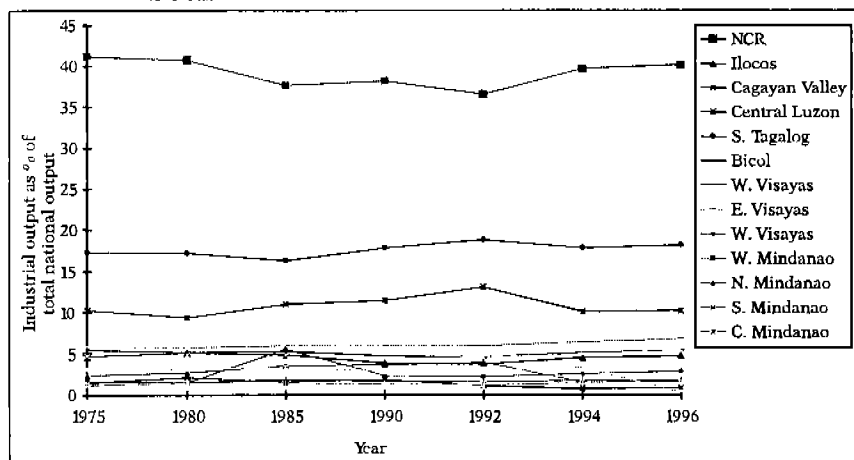
Mindanao, had both high urban growth and expanding opportunities. Cagayan Valley fared well in opportunity expansion despite its low urbanization level. For the rest, it was a case of low urban growth and contracting opportunities as their labor force grew faster than employment. Another surprise was Southern Tagalog, whose employment expansion was below zero despite its urban dominance. This suggests that urban deconcentration processes in the region have produced strong pressures for job creation as a result of the labor force spillover from Metro Manila.

Industrial Diffusion or Primacy Revival?

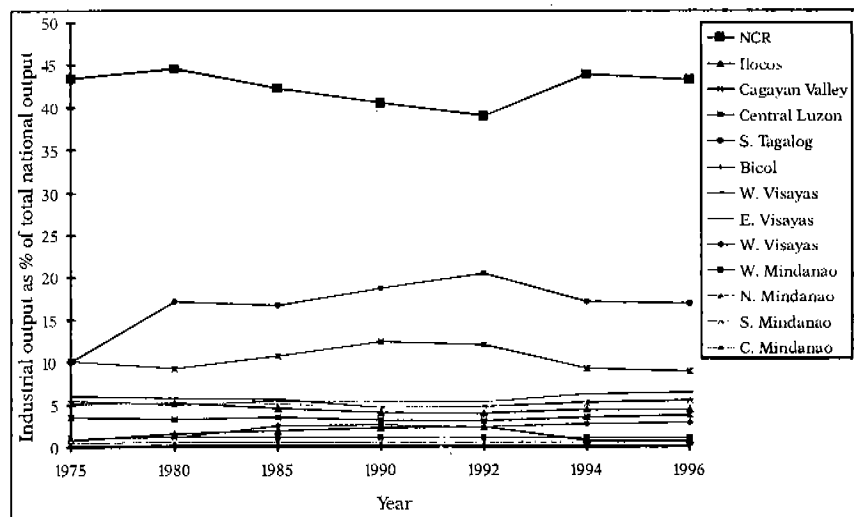
Metro Manila has been gradually forfeiting its urban primacy, but not necessarily its industrial primacy. Pernia and Israel (1994) has documented a slow but growing spatial deconcentration of the country's industrial (and manufacturing) output from 1975 until 1992.

As Metro Manila's huge industrial production slid from 43 percent to 37 percent during these years, its neighbors Southern Tagalog and Central Luzon, picked up the spillover. Isolated regions in Mindanao, meanwhile, made little headway.

Bringing regional output statistics up to date, however, means significant changes to the picture (Figures 27-29). From 1994 to 1996, coinciding with the Philippines' moderate economic upturn, NCR's share of industrial output bounced back to 40 percent. So did its manufacturing output, which is the main reason for the uptick in

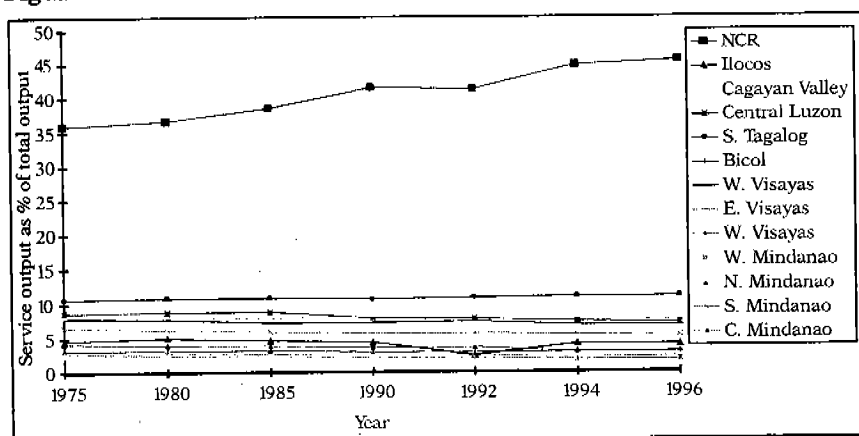
Figure 27. Rise in Metro Manila's Industrial Primacy After the Economic Boom

Basic source: National Statistical Coordination Board.

Figure 28. Manufacturing Shares as a Percentage of Total Output

Basic source: National Statistical Coordination Board.

The manufacturing scene is heavily skewed in favor of NCR.

Figure 29. Metro Manila's Performance in Services Production

Basic source: National Statistical Coordination Board.

industrial activity. Northern Mindanao also made slight gains, as did Western and Central Visayas, although their shares in both industrial and manufacturing production have remained at low levels (between 4% and 6% of the total country output). The rest of the regions, however, barely kept up with previous levels—a definite setback for industrial dispersal. Southern Tagalog and Central Luzon, in particular, showed moderate declines in industrial and manufacturing output shares. These trends reinforce the industrial primacy of Metro Manila and suggest that industrial location continues to be the key variable explaining regional growth differentials.

The pattern is repeated in the services sector, as shown in Figure 29. As Metro Manila's portion of services output rose to 45 percent in 1996, other regions struggled to maintain their own shares relative to the country total. This suggests that the bid to challenge Manila's dominance in the industrial and services sectors has momentarily stalled. The metropolis has picked up most of the gains from the growth momentum in recent years.

Income Levels and Wages as Determinants of Urban Decentralization

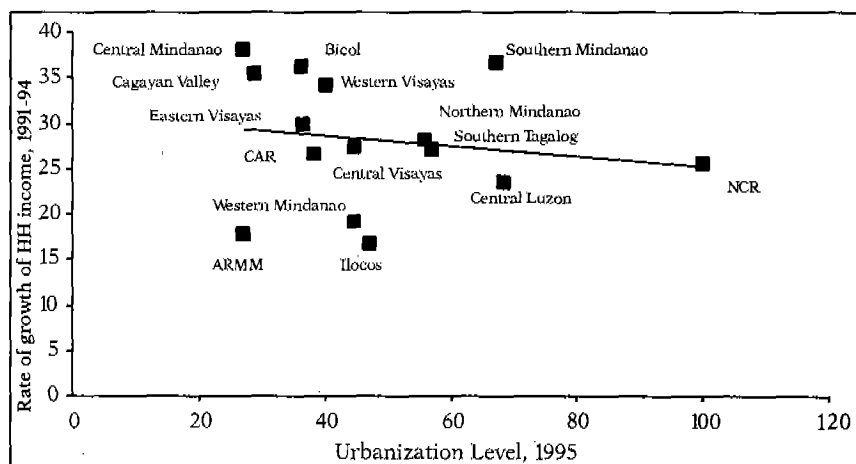
Per capita income growth

The growth of per capita income may explain decentralization, according to Mohan (1994), since regional dispersal acts as an equilibrating mechanism, lessening the disparities in income levels between metropolitan areas and the rest of the regions. Inter-urban

income differentials are one of the most powerful incentives for deconcentration and migration to more outlying centers, given that opportunity employment in old urban hubs (e.g., Manila) is at a standstill.

As Figure 30 shows, rising per capita income is a key determinant of urban growth. The rate of per capita income growth has slowed down in Metro Manila. Rates of income growth have been higher for the rest of the regions, especially in Southern Mindanao, Bicol, Western Visayas, Central Mindanao and Cagayan Valley, a mixture of moderately and underurbanized regions. Despite this, employment decentralization has not advanced very much.

Figure 30. Effects of Per Capita Income on Urbanization



Basic source: National Statistical Coordination Board.

The rate of growth of income per household declines as urbanization limits are reached.

The elements of urban income are urban wage, other sources, self-employment earnings, and the probability of finding a job. The last of these four elements is crucial to the decision to move out of congested cities. Migrants often make the relocation decision on the basis of how high the expected (rather than actual) income is, which is a function of the probability of getting a job. This implies, following Todaro (1994), that because urban incomes are defined in terms of both wages and employment probabilities, migrants might continue trooping

to old urban centers in spite of their high rates of unemployment if the expected income in those centers turns out to be greater than that in other regions.

Real regional wages

Wage rates are a large component of private income and in the past might have reflected payment to induce people to move on a more or less permanent basis to a new place of work. But in this age of temporary work tenure, the wage rate may simply reflect payment to a worker on a casual or temporary basis (see Box 1).

Box 1. Fiscally Induced Migration

A migrant's decision to move to another place is justified, according to Todaro (1994), as long as the present value of the stream of expected urban income over the migrant's planning horizon surpasses that of his current expected income. Yet, in making relocation decisions, people compare gross income (private income + fiscal benefits - cost of moving) at new locations when they should be comparing simply private income less moving costs on grounds of economic efficiency (Shah 1994).

The inefficiency arises, according to Shah, because of net fiscal benefits (NFBs), or the imputed gains from public services net of taxes. Some regions may have more valuable natural resources and therefore better access to a bigger revenue base. Or even in rare cases, some localities outside old metropolitan districts may have relatively better ability to raise receipts from existing bases. Some may have natural cost disabilities (high thresholds for agglomeration, oppressive terrain) and may be at a disadvantage.

It is argued that differential NFBs produce fiscally induced migration. Labor (and capital) may move to areas with positive NFBs (e.g., resource-rich regions) with only income considerations in mind. When a large number of people move, unintended economic outcomes, such as unemployment imposed on destination regions, occur. In general, the negative externalities occasioned by fiscally induced migration reduce net national welfare.

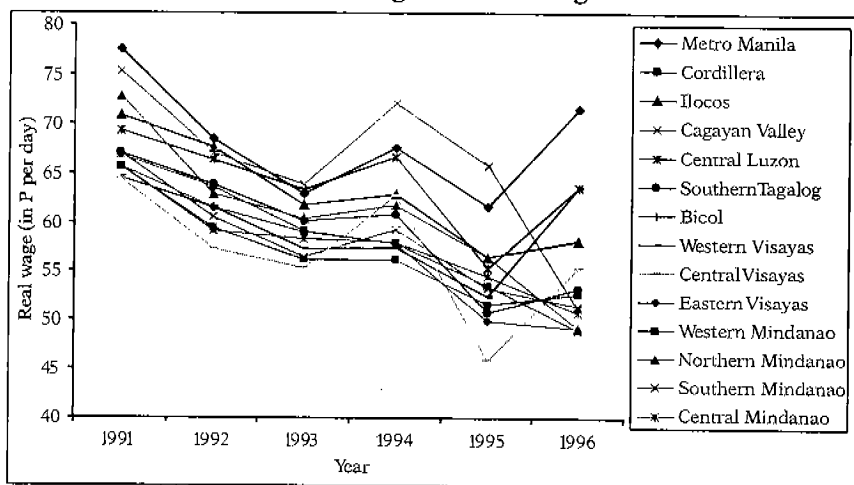
Urban wages have risen partly as a result of wage setting through regional wage boards. Minimum wage setting, it is argued, can be counterproductive because legislated wage floors often exceed the market wage, dampening direct investments (especially in regions

outside Metro Manila) and alternative urban employment openings. There are often calls for at least a reduction of wage distortions to lure more labor-intensive modes of production to underurbanized regions.

Real wages (nominal wages deflated by the consumer price index) measure the purchasing power of a worker's wages. Because real wages are partly determined by labor demand, they are also intimately linked with demand-inducing labor productivity. Appropriate investments in human capital as well as in production and infrastructure, and research and technology, all correlate positively with labor productivity. Real wages are thus both a measure of the quality of life (to the extent that they measure workers' purchasing power) and an indicator of the state of labor productivity determinants. Moreover, differences in real wages across regions point to differences in productivity-enhancing investments and endowments.

Figure 31 shows how the economic boom of the '90s did not necessarily translate to better market power for labor. Real wages have been on the decline in majority of the regions for much of the '90s although things started to pick up in 1995. This also shows that growth may not have been accompanied by big strides in labor productivity. Metro Manila had the highest levels of real wages for the most part of the decade except in 1993-1995 when Southern Mindanao overtook it.

Figure 31. Trends in Real Wages Across Regions



Basic sources: National Statistics Office; National Wages and Productivity Commission.

Chapter

3

Global Influences in Urban Decentralization

The country's economy has moved from a highly sheltered, import-substituting milieu to the current open, export-led environment. It is continually being restructured by deregulation and opening itself up to transnational flows of capital, goods and services, labor and technology. These global factors have important ramifications for urban decentralization. Solon (1996), for example, argues that direct foreign investments spur greater primacy in the Philippines, offset in part by exports which promote a more decentralized regional growth pattern. This section explores the critical role of three global influences on urban growth, namely, direct foreign investment, exports, and remittances by Filipino overseas workers. Some analysts speculate that overseas workers' earnings have expanded the growth of the nontraded services sector.

Foreign Direct Investments

The key to sustained growth *in any region* is investment in capital. Where domestic resources are inadequate, foreign direct investments (FDIs) can provide the much-needed capital to support growth. Along with capital, FDIs can promote development through technological spillovers they generate. It is assumed that FDIs bring with them advanced technology from their home country. Although doubts have been raised as to the type of technology being transferred, it should be noted that the presence of FDIs also stimulates competition in the domestic market by pressuring the latter to enhance its local technology.

In addition to capital contribution and technology transfer, FDIs contribute to employment creation and output expansion. Their impact on employment rests on the type of activities they are concentrated on and the linkage effects generated. Data suggest, however, that most FDIs have singularly focused their activities in the industrial-manufacturing sector, whose output growth has not been matched by a

corresponding rise in employment share. Starting in the 1970s, the bulk of FDI (averaging at 69%) has gone into manufacturing, an outcome of the early import-substitution policies adopted to promote rapid industrialization. The high capital intensity of production units applied by FDI and the high import content of their production processes might have even limited employment (Lindsey and Valencia 1981). Nevertheless, the linkage effects might have worked significantly not through direct employment but indirectly, through output expansion.

Various measures and incentives were drawn to encourage foreign investment. An early initiative was the promulgation of Republic Act 5186 (Investment Incentives Act of 1967), which favored capital-intensive industries by providing, among others, tax credit on domestic capital equipment and tax exemption on imported capital equipment. Indeed, significant inflows were experienced starting in the mid-1970s. After the second oil shock, outflows amounting to over US\$100 million impaired the economy in 1980. Although net FDI bounced back the following year, the ensuing periods were not so impressive and recovery was felt only after mid-1980s. Along with high economic growth, the late 1980s were marked by substantial net inflows, which reached a peak of US\$986 million in 1988. The issuance of Executive Order 226 (Omnibus Investments Code) and Republic Act 7042 (Foreign Investment Act of 1991), and the implementation of macroeconomic reforms contributed to rising net inflows beginning in the early 1990s. The aggressive promotion of FDI in the recent years resulted in high net investment levels of up to US\$1,558 million in 1994, a significant jump from US\$81.2 million in 1993.

Foreign direct investment and spatial concentration

The investment most likely to stimulate economic growth in Philippine regions is the commitment of local private savings in developed countries to build factories and other job-creating enterprises. FDI, however, can either reinforce the primacy of urban centers or create opportunities for a more balanced regional development. This largely depends on the choice of location of foreign investors and on critical factors that significantly affect their choice. These factors, which influence not just transnational firms but local enterprises as well, include access and transport, power, and information and communication (Pernia and Herrin 1987). If these factors are adequately provided in urban centers, FDI will expectedly be encouraged to locate in these areas.

A sectoral disaggregation of Board of Investments (BOI) and Bangko Sentral ng Pilipinas (BSP) data¹³ (Table 10) on foreign equity investments suggests that above more than 50 percent of investments from abroad goes to manufacturing, accounting for a large share of foreign equity going to industrial activities. Three-quarters of FDI's went to industry. Only one quarter of these investments went to the services sector.

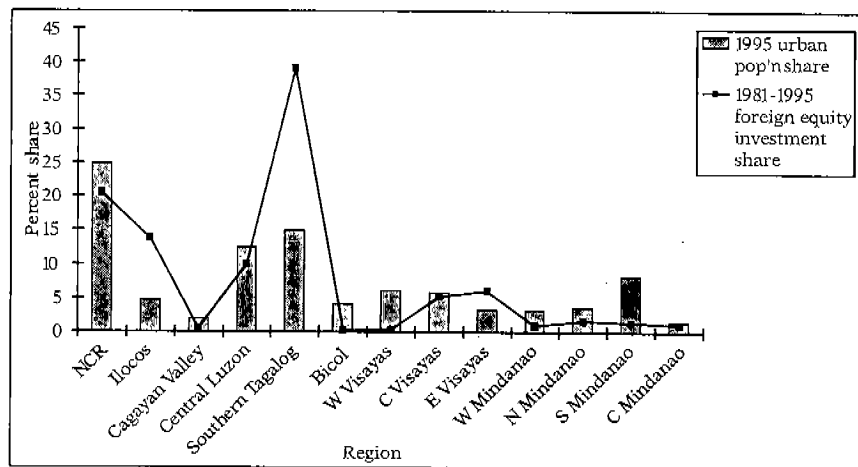
Table 10. Sectoral Disaggregation of FDI's

Sectors	BOI-approved		BSP-registered	
	1981-1995	% share	1995	% share
Agriculture	37	2.7	1,398	1.0
Industry	1,005	73.9	105,804	75.3
Manufacturing	702	51.6	80,612	57.3
Services	318	23.4	33,374	23.7
Total	1,360	100.0	140,576	100.0

Basic source: Bangko Sentral ng Pilipinas.

Regional analysis shows that foreign equity investments monitored by the BOI were concentrated in only two regions, NCR and Southern Tagalog. These highly urbanized areas together accounted for close to 60 percent of the total (Figure 32) foreign investments. A significant proportion of foreign investments also went to Central Luzon at 10 percent. FDI's thus tend to concentrate in regions with the highest urban shares. An exceptional case is obviously Ilocos, which had only 4 percent of the total urban population but had a high FDI share, next to NCR at 14 percent.

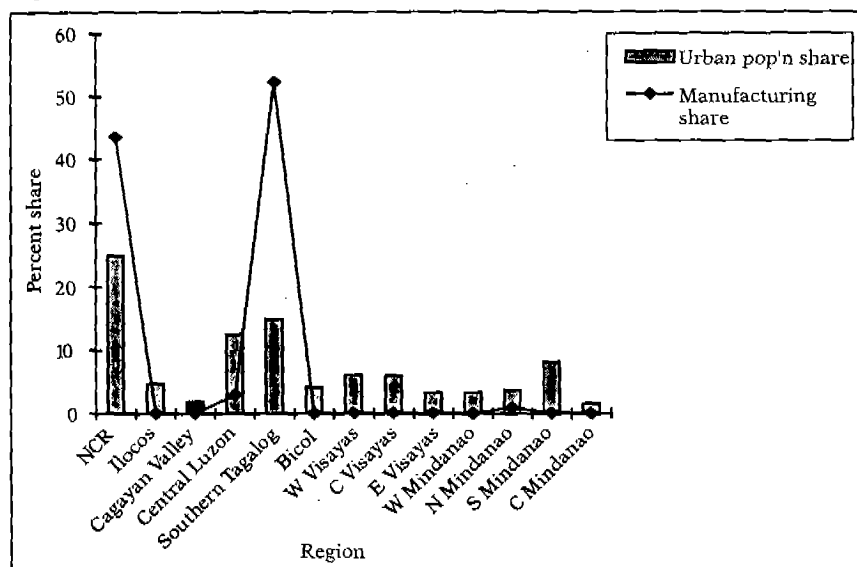
¹³ The main limitation of the BOI data is that they include only proposed foreign equity investments in new and expanded projects applying for domestic incentives. These data can be broken down by region. The BSP, on the other hand, collects data on all foreign equity investments of existing as well as newly registered enterprises but these data lack a regional disaggregation. The construction of the table above was a crude way of determining whether the BOI data closely approximate the BSP data. It does, suggesting that the use of BOI regional data on approved investments could proxy for data (which are unavailable) on actually existing enterprises.

Figure 32. Distribution of FDIs Across Regions

Basic sources: National Statistical Coordination Board; Board of Investments.

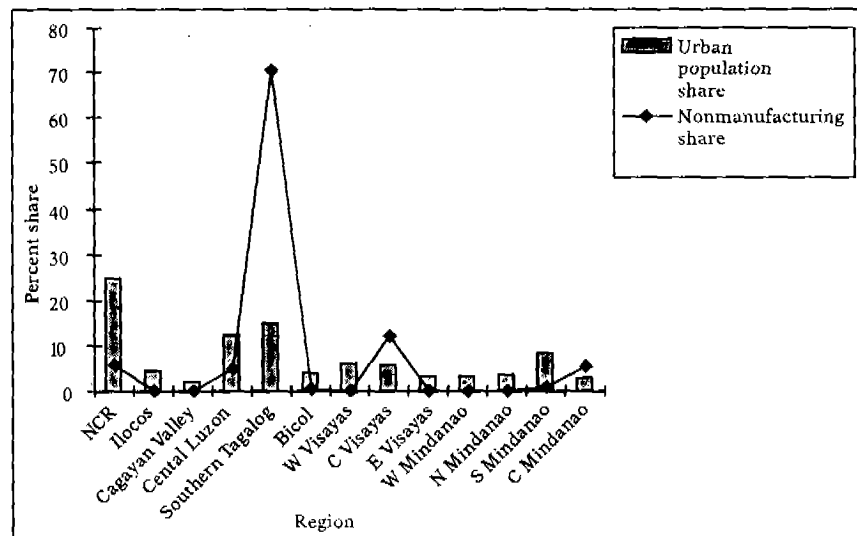
Foreign investments have gone mostly to NCR and Southern Tagalog.

In 1995 alone, over 90 percent of foreign equity investments approved by the BOI went to manufacturing, the bulk of which was concentrated in Metro Manila and Southern Tagalog (Figure 33). Except for Central Luzon, the rest of the regions had less than 1 percent share of total foreign equity in manufacturing. Even for nonmanufacturing type of investments, Southern Tagalog remains as the most favored location at 70 percent (Figure 34). Central Visayas is ranked second, but is way below Southern Tagalog, obtaining only 12 percent of equity investments from abroad (Cebu is known to have ventured heavily in tourism). Central Mindanao also had a good deal of nonmanufacturing foreign equity at 5 percent, largely due to investments in mining. These stylized facts provide additional evidence to Solon's (1996) contention that FDIs under a liberalized atmosphere will lead to more primacy, as foreign investors take advantage of the metropolitan area's built-in advantages in infrastructure, skills and financial services. They also support the findings reported in the previous section that Metro Manila and the peripheral regions are mostly the beneficiaries of current economic policies that encouraged heavy inflows of FDIs.

Figure 33. Regional Shares on FDIs for Manufacturing

Basic sources: National Statistical Coordination Board; Board of Investments.

Manufacturing FDIs have favored Metro Manila and Southern Tagalog.

Figure 34. Regional Shares of FDIs for Nonmanufacturing Sectors

Basic sources: National Statistical Coordination Board; Board of Investments.

Even nonmanufacturing FDIs have preferred Southern Tagalog.

Exports

As international trade in goods expands, demand for exports rises. The key to the Philippines' continued growth, according to the Philippine Medium-Term Development Plan or MTPDP, is export-oriented industrialization. For a long time, an overvalued peso unduly penalized the export sector. The balance-of-payments crisis in 1970 was probably the first turning point toward export-orientation. As the peso devalued, joint ventures in export industries were encouraged through the issuance of Republic Act 6135 (Export Incentives Act of 1970) and Presidential Decree 66, which established export processing zones in 1972. Between 1970 and 1980, exports increased by 20.7 percent. However, the world recession in the early 1980s and the operation of a managed float system battered the export sector. Both resulted in negative growth. The trade liberalization program implemented during 1980-1985 enabled exports to rebound in the late 1980s. Since the early 1990s, the value of exports has been growing at an average of 16.6 percent. The most notable increase occurred between 1994 and 1995 at 29.4 percent.

Policies promoting exports were also directed at stimulating export diversification toward nontraditional products. From a low 18.7 percent in 1973, the share of nontraditional exports such as garments and electronics increased to 55.4 percent in 1978 and 61.2 percent in 1983 (Department of Trade and Industry 1992). In 1995, the share of total manufacturing exports was 79.5 percent while traditional agricultural exports had only a 7.8 percent share. Garments and especially electronics to date are among the major exports of the country. To date, low value-added industries have not shown any signs of "deepening."

The exports-urbanization link

Export-oriented industries, especially those linked to manufacturing, are urban oriented and tend to create job opportunities in urban areas. Aware of this conjuncture between export-led industrialization and urban decentralization, the government had long promoted export platforms (in the form of export processing zones) to advance industrial dispersal and to counter the agglomeration advantage of the prime urban center, Metro Manila.

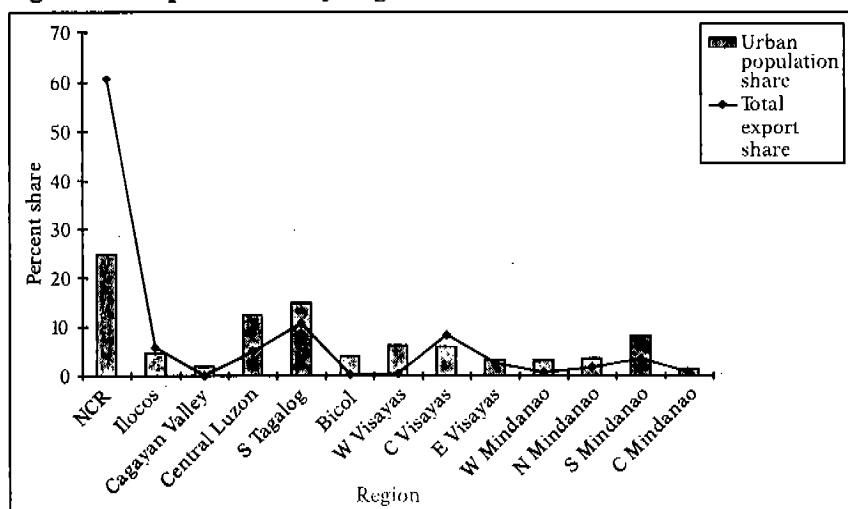
The first export processing zone (EPZ) was set up in Mariveles, Bataan in 1972. By 1980, additional EPZs had been established in Mactan, Baguio and Cavite. Some privately owned industrial estates have been also designated as special EPZs. Industries that locate in

EPZs are entitled to low land rents, priority in foreign exchange allocation for imports, and 100 percent foreign ownership, on top of fiscal incentives granted through the Board of Investments.

After more than a decade of operation, it is still questionable whether these EPZs have become important growth centers, although a few have managed to facilitate backward linkages through employment creation and to some extent, use of raw materials found within or near the area of operation. Today, in an era of export-led growth in many Asian countries, many regions are angling to position themselves as low-cost, labor-intensive export centers.

As of 1995, there are about 45 major ports for exports. Except for Southern Mindanao, all regions have about two to six major ports of origin. Yet evidence suggests that the bulk of exports, at 61 percent, still originate from Metro Manila (Figure 35). Relative to its urban population share, exports is disproportionately high. Other major exporters with high urban population shares are Southern Tagalog and Central Visayas, accounting for about 11 percent and 8 percent of total exports, respectively. Likewise, Ilocos had only about 4 percent of the total urban population, but attained close to a 5 percent export share. With its export of food and resource-based products, Southern Mindanao emerged with the highest export share and as well as the highest urban share in the whole of Mindanao.

Figure 35. Export Share by Region

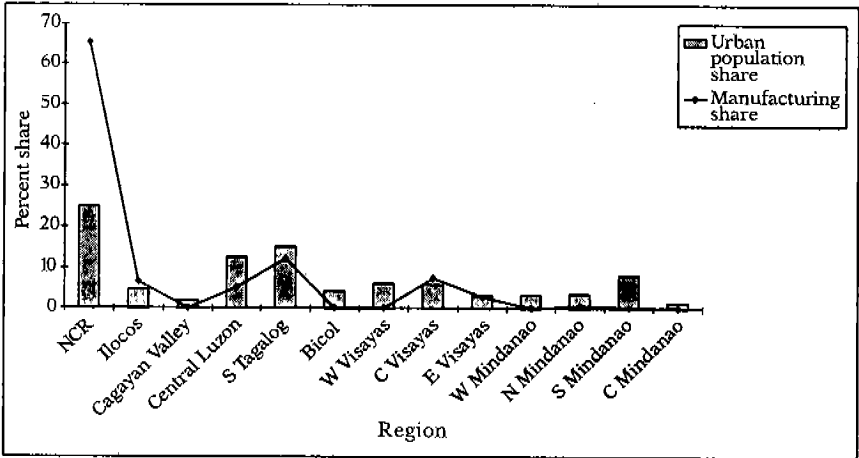


Basic sources: National Statistical Coordination Board; Board of Investments.

The bulk of exports still come from Metro Manila ports.

Since the manufacturing sector is urban-oriented, the link between exports and urbanization should be more apparent. By focusing solely on manufacturing exports and its correlation with urbanization, the link between the two can be observed for the Luzon regions (Figure 36). Urban population shares in the Visayas and Mindanao regions were, however, more closely linked with nonmanufacturing export shares (Figure 37).

Figure 36. Correlation Between the Regions' Manufacturing Exports and Urbanization



Basic sources: National Statistical Coordination Board; Bureau of Export Promotion.

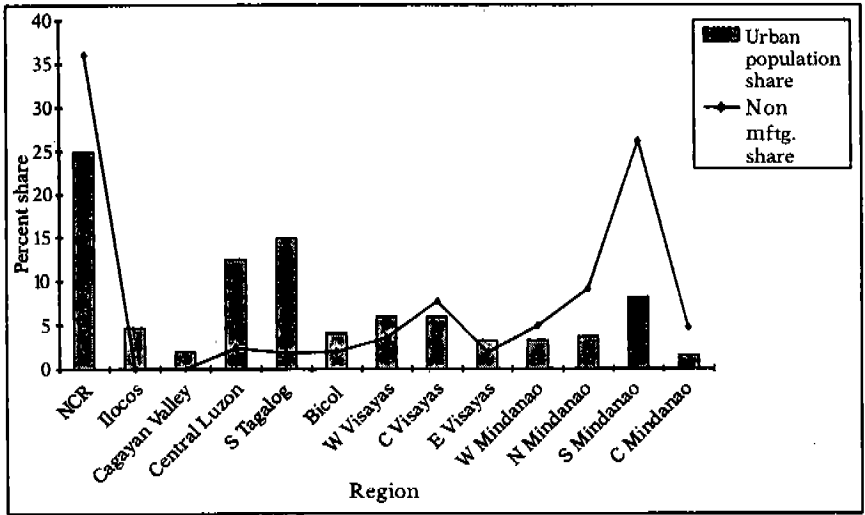
The manufacturing export-urbanization link is more apparent in Luzon.

The Question of OCW Remittances

An added dimension to the global influences in urbanization is the role of remittances from Filipino workers abroad, known as overseas contract workers (OCWs). In 1996, OCW earnings sent back to the Philippines accounted for 5 percent of the GDP, exceeding FDIs which were only 3 percent of GDP.

Will OCW remittances translate into a larger nontraded services sector? The hypothesis in this study is that if remittances are high, personal, social and community services tend to grow larger. In the process, a strong-demand pull factor that could attract semi-skilled or unskilled labor to regions getting the remittances is likely to happen. This in turn is expected to further urbanize those regions.

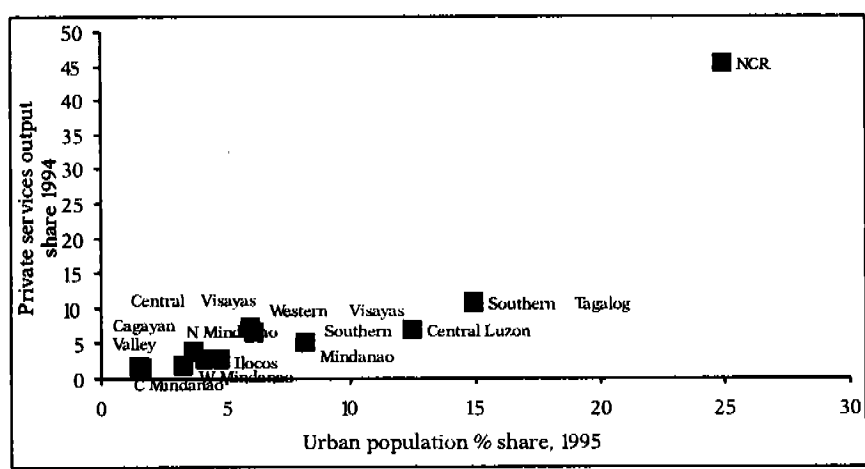
Figure 37. Correlation Between the Regions' Nonmanufacturing Exports and Urbanization



Basic sources: National Statistical Coordination Board; Bureau of Export Promotion.

Urbanization is more closely associated with nonmanufacturing export in Visayas and Mindanao.

Figure 38. Remittances vis-à-vis Private Services Output Per Region



Basic source: Family Income and Expenditure Survey 1994, National Statistics Office.

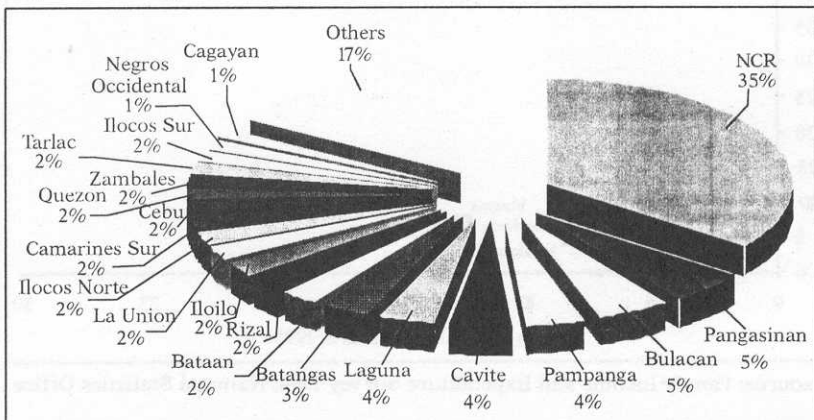
Regions receiving large remittances are the highly urbanized ones.

Preliminary evidence on this link is sketchy but worth pursuing. Figure 38 suggests that *some* association exists between shares of remittances and shares of private services output among regions. Regions that receive the highest shares of remittances—NCR, Central Luzon, Southern Tagalog—are the same ones with the highest private services output shares. In turn, they are also the most urbanized. However, the size of remittances going to Central Luzon and Tagalog are small and no different from those going to the other key regions such as Western Visayas and Southern Mindanao.

Provinces receiving substantial amount of remittances belong to Central Luzon (Bulacan, Pampanga and Bataan) and Southern Tagalog (Cavite, Laguna, Batangas and Rizal), which also comprise a large proportion of the urban population. These are also the provinces with a high level of employment in the service sector. In three succeeding FIES surveys (1985, 1988, 1994), Metro Manila was shown to have obtained 35 percent of these remittances; Pangasinan, 5 percent; Central Luzon and Southern Tagalog provinces, 25 percent; and the rest, 35 percent (Figure 39).

The OCW-urbanization connection is more established when employment shares are compared with remittance shares. In Figures 40 and 41, NCR and the two adjacent regions of Central Luzon and Southern Tagalog clearly have the largest shares of employment in the nontradeable services subsector. Notice that Figures 38 and 41 compare with Figures 24 and 25, respectively. They validate the close association between urbanization and the nontraded services.

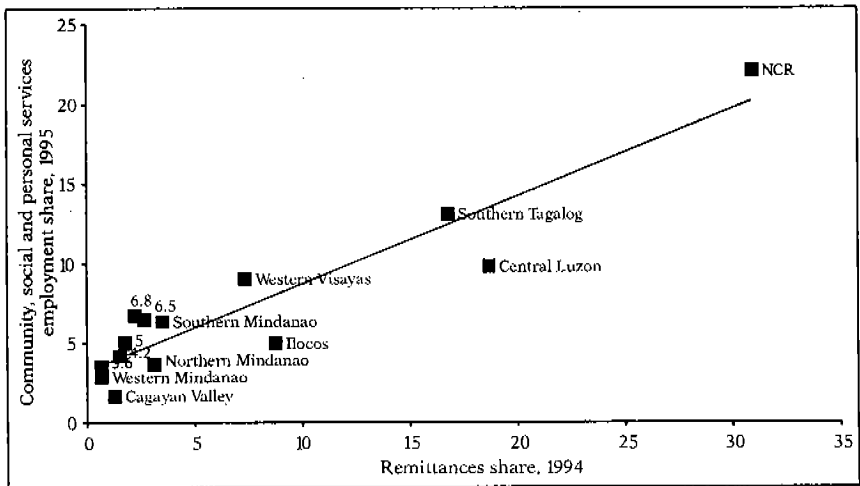
Figure 39. Regional Contributions to Total Remittances



Basic source: Family Income and Expenditure Survey 1994, National Statistics Office.

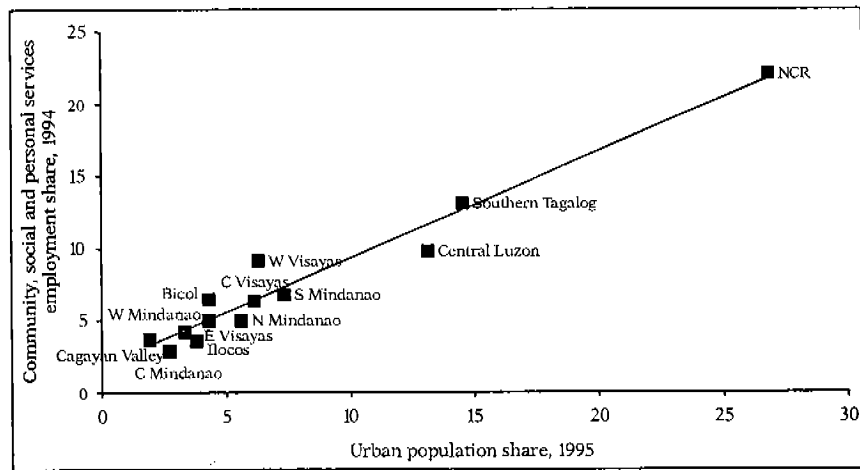
NCR and peripheral provinces get the lion's share of remittances in 1985-1994.

Figure 40. Link Between OCW Remittances and Employment in Non-tradeable Sector



Basic source: Family Income and Expenditure Survey 1994, National Statistics Office.

Figure 41. Link Between Urbanization and Nontradeable Sector



Basic source: Family Income and Expenditure Survey 1994, National Statistics Office.

Linking Urbanization with Infrastructure and Human Development

One urban area's success and another's failure in coping with population growth is determined in part by the level of infrastructure. Urban infrastructure, if amply available, influences economic growth by allowing the urban economy to benefit from efficiency gains—reducing the cost of production and raising the economic returns to labor. Electricity and water are basic inputs in economic production. But the services that infrastructure provide are used by households as well. Water supply and power generation, for example, are also central to enhancing the quality of life. Availability of safe water improves health and—turning full circle—raises productivity. Improved road networks and transport conveniences reduce travel time, increase accessibility and induce people to move further from the center, a process that leads to urban deconcentration.

When infrastructure acts to promote economic growth and advance human welfare, it induces economies of agglomeration and encourages population movements toward where it is concentrated. Since infrastructure is location-specific, each urbanizing area competes over time for public capital with which to move toward its efficient size. The presence of infrastructure—roads, water supply, electricity, telecommunication—in a given location may “crowd in” direct investments, thus pulling in additional resource flows (Kessides 1993). Thus, the rate at which agglomeration is reached in various regions is determined in part by the spatial distribution of infrastructure investments.

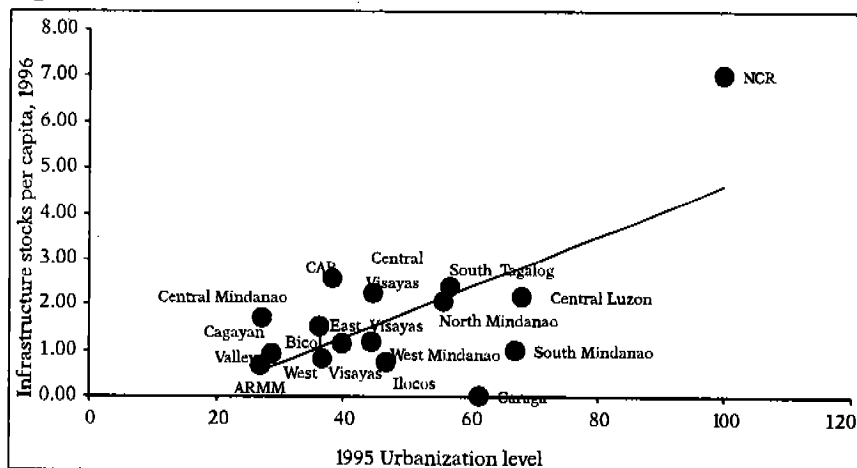
When infrastructure brings about disagglomeration and disamenities—congestion, as well as rising land and labor costs—productivity declines and urban growth suffers. Even when infrastructure investments are inadequate, as in most rapidly urbanizing

municipalities and cities, they could help swell out land prices by hindering land development. It is the level and spatial pattern of infrastructure that largely determine how and to what extent urban land can be developed (Dowall 1995).

Infrastructure-Urbanization Links

Infrastructure grows proportionately with urbanization, as Figure 42 suggests. Roughly, a 1 percent increase in infrastructure stock per capita is associated with a 1 percent increase in the urbanization level (which in this case acts as a proxy for income levels). Successful urban decentralization thus requires a minimum package of electric power, telecommunications, water supply and paved roads in alternative urban locations. Whether infrastructure services cause urban growth or urbanization fuels more infrastructure investments is a question that is not clearly answered.

Figure 42. Growth of Infrastructure vis-à-vis Urbanization

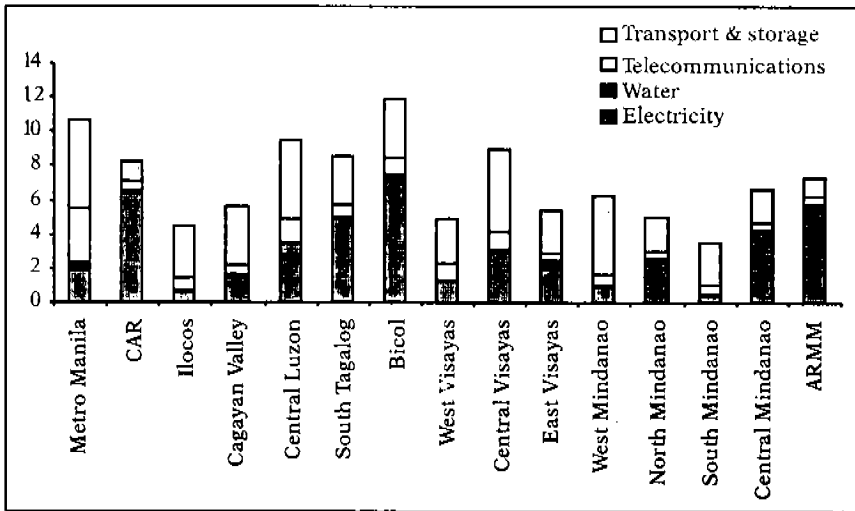


Basic source: National Statistical Coordination Board.

The growth of infrastructure has been tremendous in recent years. The per capita availability of power, water, roads and telecommunications has increased in all regions. But the biggest improvements, excluding Metro Manila, have been in a number of leading, intermediate and lagging regions such as Southern Tagalog, Central Luzon, Central Visayas, Cordillera, and Northern Mindanao. In these areas, the infrastructure gross value added (GVA) per capita in 1996 has been upwards of P2.00.

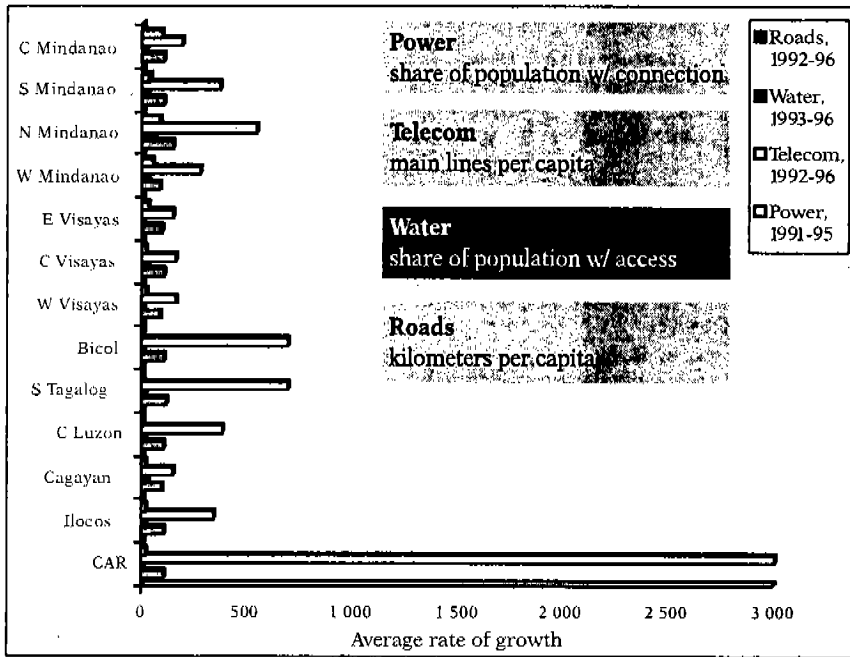
To date, infrastructure represents a large share of regional economies (Figure 43). Its value added accounts for at least 8 percent of gross regional domestic product (GRDP) in highly urbanized regions. The largest subsector is electric power, which accounts for roughly 4 to 7 percent of GRDP in leading and intermediate regions, but transport (including roads) is not really far behind. As regional economies mature into leading urban centers, their share of infrastructure stocks have grown considerably.

Figure 43. Share of Infrastructure Service to Regional Economies



Basic source: National Statistical Coordination Board.

The most dramatic performance is that of telephones. Between 1992 and 1996, phone lines per capita in most regions grew anywhere from 300 percent (for example, Central Luzon) to 600 percent (for example, Southern Tagalog, and quite nearly, Northern Mindanao). Cordillera registered a 3,000 percent increase, but that is because there were hardly any phone lines there to begin with. In 1991-1995, the number of households with electric connection rose by about 20 percent, on average. But the Mindanao regions had to be singled out for above-average growth: Northern Mindanao, 83 percent; Western Mindanao, 51 percent; Southern Mindanao, 34 percent; and Central Mindanao, 95 percent. Water supply coverage increased by about 20 percent generally between 1993 and 1996, with Northern Mindanao making tremendous strides at 57 percent. Roads in most regions lengthened a hundredfold, and again Northern Mindanao outgrew the rest with a 140 percent

Figure 44. Growth of Infrastructure in Regions

Basic sources: Local Water Utilities Administration; Metropolitan Waterworks and Sewerage System; Manila Electric Company; Land Transportation Commission; Department of Public Works & Highways.

increase in roads per capita. Thus, if there is any one region where urban decentralization can proceed quickly, that would be Northern Mindanao since substantial amount of infrastructure services are already in place and still increasing.

The strong association between urbanization and urban levels is as much evident in specific sectors as in a general sense. The stronger the urban growth, the higher the per capita availability of telecommunications, power and access to water (Figure 45).

Adequate supply of infrastructure is a key factor in the ability of regions to compete for industries and services. Regional differences in urban growth are related to regional differences in public infrastructure. Shifts in flows of infrastructure capital influence industrial location, which in turn, explain regional growth differentials. Public infrastructure generates externalities that bring about rising returns to scale and endogenous regional economic growth. In part, the externalities arise because infrastructure is configured on an

interlocking network of facilities (roads and highways, telephone cables, power and water distribution system): returns to one link will be greater as other links are added (Kessides 1993).

Figure 45. Effect of Urban Growth on Per Capita Availability of Major Infrastructure

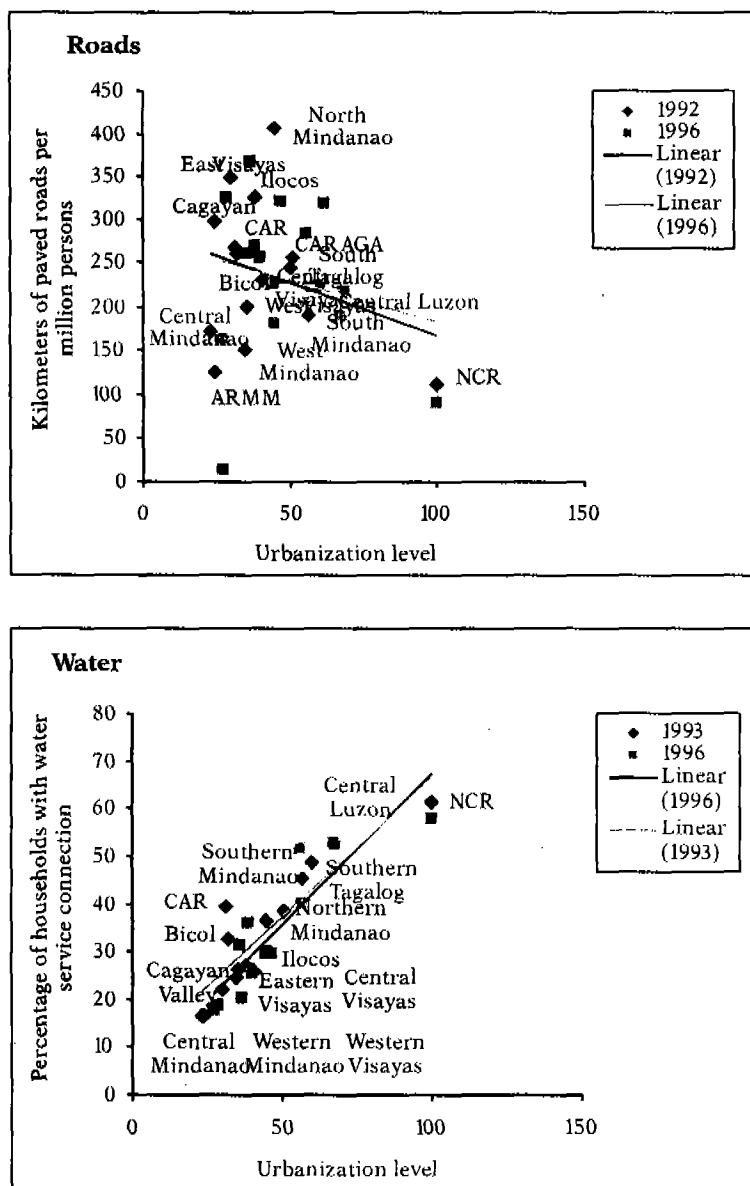
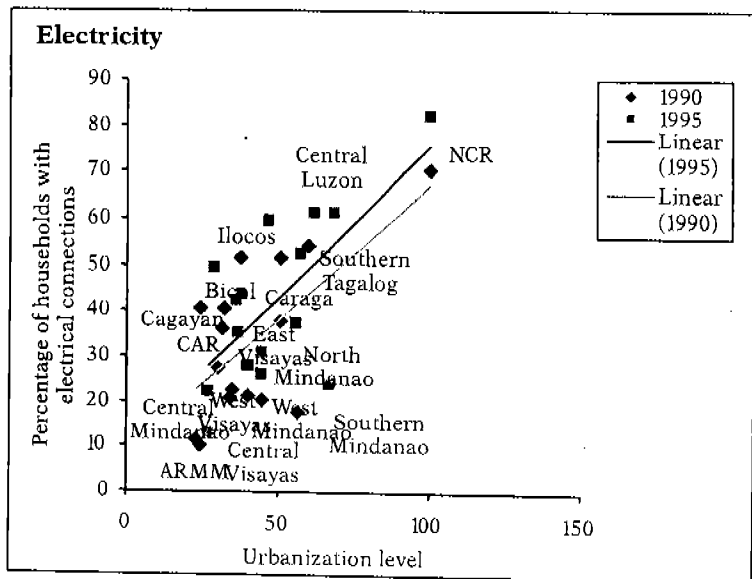
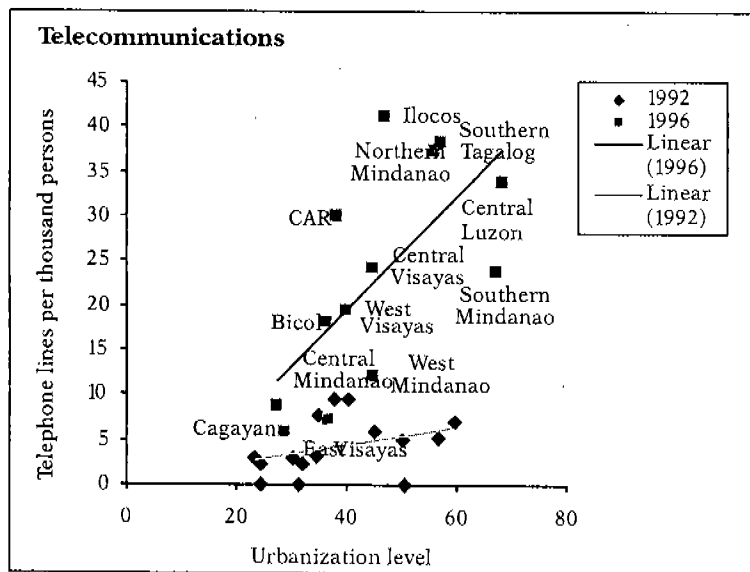


Figure 45. (continued)



Sources: National Telecommunications Company; Manila Electric Company; National Power Corporation; Department of Public Works and Highways; Metropolitan Waterworks and Sewerage System; Local Water Utilities Administration.

Roads are another story. Availability of roads grows inversely with urban growth, as Figure 45 indicates. This probably reflects efforts to increase capital investment in roads in underurbanized regions, in an attempt to induce agglomeration in these areas. This is a case where infrastructure appears to be ahead of economic growth, a situation where its impact on regional development seems to be indirect and felt only over the long haul. Whether infrastructure could energize the development of growth poles is open to debate, but empirical evidence suggests that infrastructure investments have low returns where urbanization (serving as a proxy for underlying conditions for economic growth) is itself low. The supply of adequate infrastructure seems to work best when a high level of economic activity is previously present.

To close this section, it would be useful to compare the Philippines' progress with the strides made by its Asian neighbors (Table 11). If the growth rates of infrastructure services in other Asian countries were seen as benchmarks, then the Philippines is still far behind. Although the following table is a bit dated—much has happened in the last six or seven years—it does suggest that infrastructure buildup in the country has a long way to go before it can catch up with stronger Asian economies. The notable exception is access to safe water, in which the Philippines is ahead.

Table 11. Comparison of Infrastructure Stocks and Services of Asian Countries

	Growth in infrastructure stocks and services				
	1980-1990 growth rates (%)				
	Paved road	Electric power generating capacity	Electricity production	Telephone main lines	Access to safe water
China		105	107	64	
Indonesia	106	312	534	184	11
Korea	120	134	197	299	18
Malaysia	36	107	143	301	15
Philippines	-20	48	46	45	36
Thailand	69	142	206	262	14

Source: Kohli (1994).

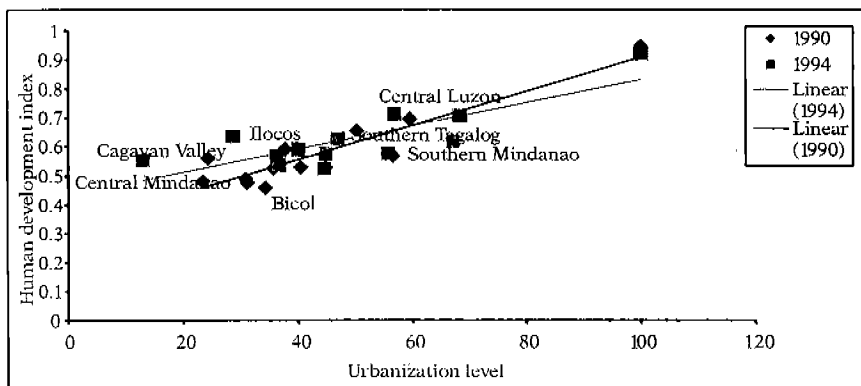
Human Development and Shelter Services

How closely connected is human development to urbanization? Philippine urban centers have more than half the nation's population, and the task is to enable cities and urban towns to function as the crux of human development. Urbanization is a process of spatial concentration of people even under a decentralized framework. High density often implies both opportunities and deprivation, and more attention therefore must go to the structure and quality of urban growth. As the nation continues to urbanize, the key social issues, apart from per capita income, are health and education (the components of the human development index) job opportunities, habitat and gender equality. In this section, some links between urbanization and human development are examined at a general level.

Urbanization levels and the HDI

Over the period 1990-1994, as the regions moved to higher stages of urbanization, improvements in human development also occurred (Figure 46). This is measured by the human development index (HDI), which combines income growth, the state of health, and the level of knowledge and skills into a single yardstick. There is, in fact, a strong correlation between urbanization and HDI, although that does not necessarily mean a routine connection between the two. Highly urbanized regions such as NCR, Southern Tagalog and Central Luzon dominate the high HDI category.

Figure 46. Connection Between Urbanization and Human Development



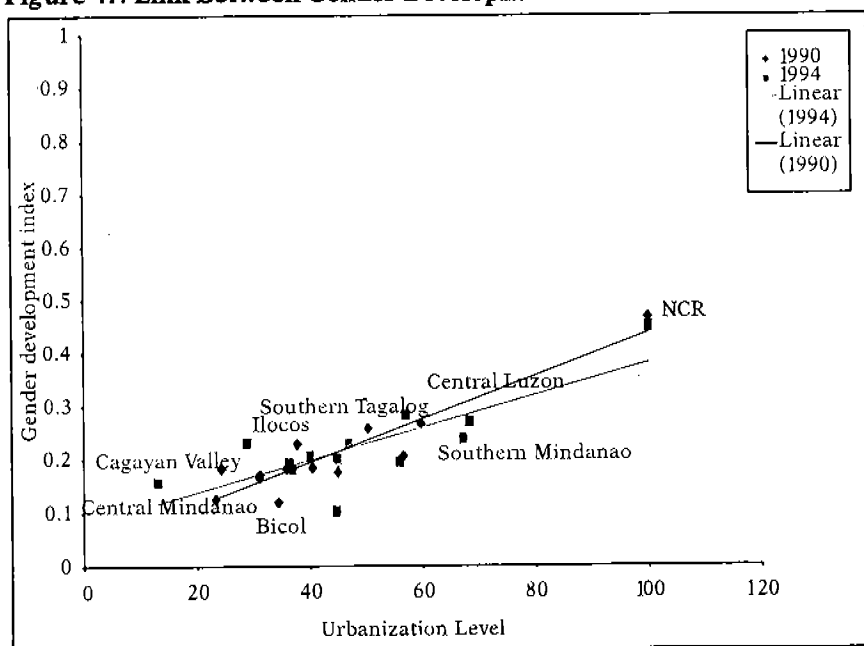
Basic sources: National Statistics Office; *Philippine Human Development Report 1997*.

Despite modest urban growth, some regions like Ilocos and Cagayan Valley also posted high human development gains. Southern Mindanao's moderate urban expansion was also matched by a modest human development enhancement. Underurbanized regions such as Bicol and Central Mindanao have inched up a bit in the human development department. Such improvements owe much, in varying degrees, to rising income levels, life expectancy and functional literacy (De Dios et al. 1997). But the uneven patterns of human development growth, much like those of urban growth, still leave much to be desired.

Urbanization and the gender gap

The association between human development and urbanization carries over to gender development. This is not an accident, since the measure gender development index (GDI) is an HDI "discounted" according to the degree of inequality between males and females. The lower the GDI, the higher the gender disparity. In Figure 47, the GDI also advances with the level of urbanization, but note the low values for all regions. That suggests that urbanization has not adequately raised gender equality in the regions. An extreme case is Western Mindanao, which experienced a deterioration in GDI as its urbanization progressed.

Figure 47. Link Between Gender Development and Urban Growth



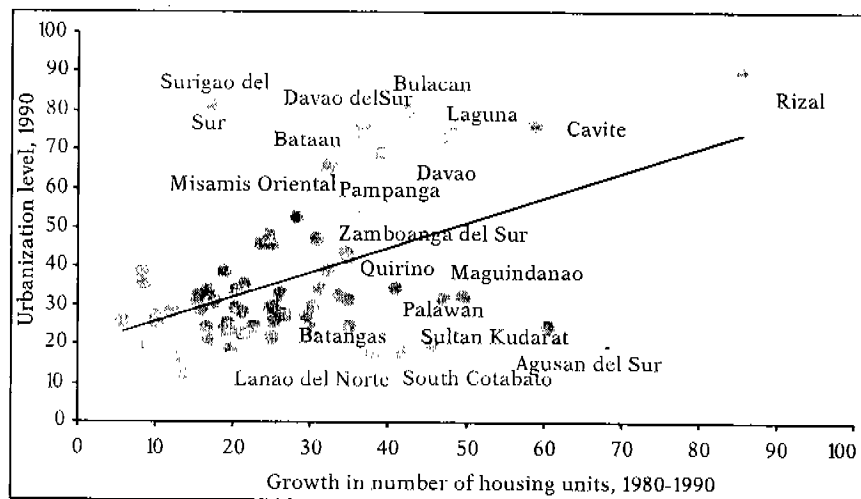
Basic sources: National Statistics Office; *Philippine Human Development Report 1997*.

The NCR, Southern Tagalog and Central Luzon once again prevailed in terms of GDI. However, Metro Manila's high GDI has declined somewhat while that of its neighbors is not anything to be proud of either. Women have substantially improved relative to men in terms of longer life expectancy, higher literacy and earning power, but the gap remains substantial, especially in incomes (De Dios et al. 1997).

Housing and urban growth

Shelter is one of the most important aspects of urbanization. Some 300,000 new households are added yearly to the cities and urbanizing municipalities across regions. They require an equal number of dwellings. For the most part, the growth in housing stock has kept pace with urbanization (Figure 48). During the 1980s, housing stock in the highly urbanized provinces immediately north and south of Metro Manila has grown immensely. Housing stock in Rizal grew by over 90 percent in the last decade, while that in Bataan, Bulacan, Laguna, Pampanga and Cavite swelled anywhere from 30 percent to 60 percent—not modest percentages by most standards. Surprisingly, even underurbanized provinces like Quirino, Maguindanao, Palawan, Sultan Kudarat, South Cotabato and Agusan del Sur experienced tremendous growth in housing stock in the 1980s.

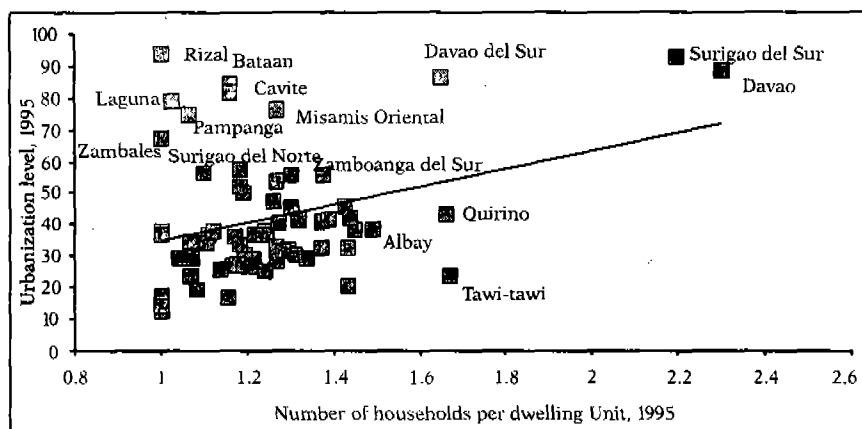
Figure 48. Growth of Housing Stock in Highly Urbanized Areas



Basic source: National Home Mortgage Finance Corporation.

The increase in the number of housing units is attributable mainly to increased household formation.¹⁴ In thickly populated areas, urban growth rates that have peaked or slowed down were due to falling household size, as Figure 49 indicates. These areas include highly urbanized provinces like Rizal, Laguna and Cavite, which have low household-to-dwelling ratios of between 1 and 1.2. There are exceptions, like Surigao del Sur and Davao del Norte, where more than two households share a house. This probably signifies an excess demand in housing in those areas.

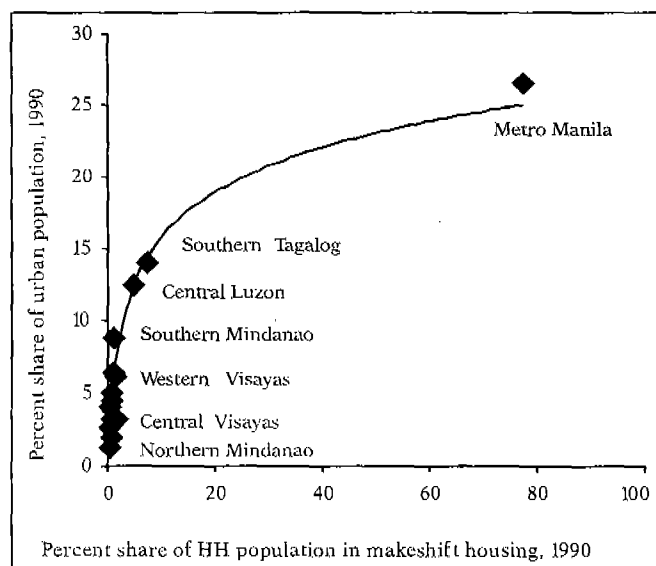
Figure 49. Housing Production vis-à-vis Demand



Basic source: National Home Mortgage Finance Corporation.

Figure 50 actually shows both the supply (dwelling units) and demand (households) side of housing. When the number of households per dwelling unit is 1, demand equals supply, which is a desired state. When the ratio exceeds 1 by a significant fraction, housing production is falling behind demand.

¹⁴The demand for shelter is determined not just by the rate and stage of household formation, but by household income, savings and prevailing interest rates. This demand also generates a derived demand for residential land which, together with infrastructure and construction materials, affect housing supply. In turn, land development is shaped not just by housing needs, but by commercial and industrial activities. In rapidly urbanizing areas, competing demand for scarce land helps inflate land prices and shelter costs. The high cost and low affordability of residential land and housing often give rise to squatter settlements in otherwise "coveted" neighborhoods.

Figure 50. Housing Supply and Demand in Regions

Basic source: National Home Mortgage Finance Corporation.

Even if the vast majority of urban residents are housed, there are very real problems of overcrowded living quarters—curiously, even in poor and underurbanized provinces like Tawi-tawi, Albay and Quirino. Supply is often undermined by the lack, or the high cost, of residential land, construction materials and infrastructure (World Bank 1993). Challenges on the demand side, on the other hand, are usually highlighted by many poor households that swell the ranks of urban dwellers.

While homelessness is not a problem in Philippine urban centers, unauthorized housing is. In 1995, 40 percent of urban residents belonged to the urban poor. Most of them are housed in unsafe, overcrowded shanties within slum settlements, where access to safe water, good sanitation and availability of transportation are serious problems.¹⁵ Often the higher the city's share of urban population, the bigger the informal settlements. It is no accident that Metro Manila, which has one-fourth of the total urban population, also has the biggest share of

¹⁵ Unauthorized settlements include households that have incomes above the poverty line. In Metro Manila, it is estimated that at least half of slum dwellers are not poor by definition, suggesting an immense crisis in the domestic urban land market.

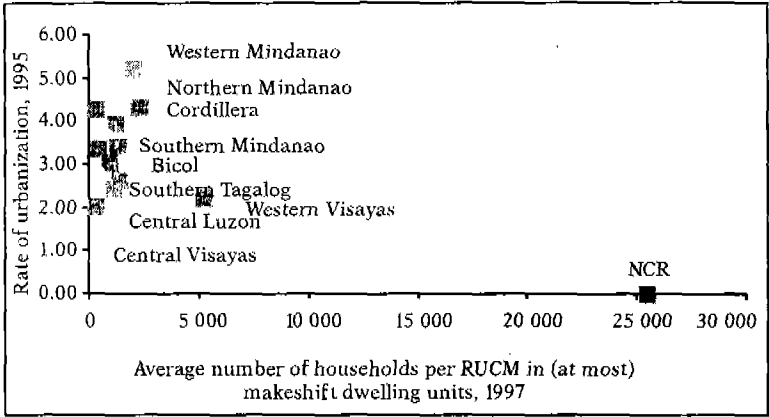
households in makeshift dwellings.¹⁶ In 1990, Metro Manila's share of urban poor households living in unauthorized housing units was close to 80 percent. Each of the other highly urbanized regions (Southern Tagalog, Central Luzon, Southern Mindanao, Western Visayas, Central Visayas and Northern Mindanao), because they hold only between 5 percent to 10 percent of the urban population, also have lower proportions of urban households in squatter housing (no more than 10%).

Statistics on the actual number of households occupying unauthorized dwellings are hard to come by, and Figure 51 only gives a rough count per city or urbanizing municipality among regions. Still, the figure suggests that most of the pressures to resolve shortages in formal housing center in Metro Manila, where in 1997 each component city held about 25,000 slum dwellers. No other region comes close to NCR in this respect—not even Central Luzon and Southern Tagalog, where obviously large open spaces still offer enough room for residential development. Fortunately, urban decentralization has not included informal settlements (at least not yet).¹⁷ Buried in the picture are some of the emerging metropolises such as Cebu City, Davao City and Cagayan de Oro. The resources of these urban centers for shelter services are being heavily taxed. That is, their housing conditions worsen as a result of the growing number of urban poor.

¹⁶ The urban poor spend a high proportion of their income on housing. Because of the availability of crude housing materials, the income and price elasticity of housing demand is low even among the urban poor.

¹⁷ Instead, to clear congested cities of informal settlements, the government relocates poor inhabitants to far removed sites-and-services areas.

Figure 51. Households in Makeshift Dwellings



Basic source: Housing and Urban Development Coordinating Council.

Unauthorized housing is not yet a problem in most regions.

Chapter

5

Impact of Growth Corridors on Urban Decentralization

Growth corridors help ease the pressures on primate urban centers by mobilizing investments in public infrastructure and services that could support markets and industries found in areas of emerging economic opportunity. To achieve urban decentralization through the establishment of growth corridors, what is needed is a conjunction of economies of scale, agglomeration effects, public infrastructure, and high nonland-to-land substitution elasticities in industry and services. Currently, shares in industrial output and employment remain to be heavily skewed, though diminishing, toward Metro Manila and its peripheral regions. Uneven regional growth and income distribution coincide with uniformly high urbanization levels throughout the country.

The growth corridor strategy was a major component of the 1998 Medium-Term Philippine Development Program (MTP). Seven growth networks were explicitly identified as priority strategy is part of the efforts to institutionalize area-specific development planning. The devolution of local governance and the decade-long efforts at liberalizing trade and investment controls provide an interesting backdrop to this strategy.

How effectively has the mix of explicit and implicit spatial policies influenced the patterns of development and economic dispersal? This discussion proceeds from the observation that the exogenous impact of implicit spatial policies may be just as pivotal, if not more, as the intended effects of the explicit ones. Most of the characteristics that determine the changing attractiveness of different regions are exogenous, and are the handiwork of broad policy levers that are applied implicitly over time. The growth corridor experience cannot therefore be analyzed outside the context of broader macroeconomic trade and fiscal policy reform.

This chapter begins with a conceptual framework linking the processes of urbanization, industrialization and spatial development. It then proceeds to describe the evolution of the growth corridor strategy and the key features of three growth corridor areas in the Philippines. It highlights the latest demographic, economic, infrastructural and human development-related indicators in the said areas and compares the performance with other provinces. The final portion analyzes these trends in the context of a broader policy environment.

Conceptual Framework

Pernia et al. (1983) offer a very useful framework linking the processes of urbanization, industrialization and spatial development. *Urbanization* refers to the extent to which population becomes concentrated in cities or urban areas. *Industrialization* is a concomitant phenomenon to this process. Due to its inherent locational flexibility and its multiplier effects, the industrial sector is the central point of the urban growth process. The economy's transformation from one based on agriculture to one based on industry denotes the location of new economic activities or industries in places of concentration where the advantages of urbanization and agglomeration economies can be maximized. *Spatial development* is the summary of changes in the organization of the spatial economy resulting from the continuing alteration of the country's economic landscape in the course of urbanization and industrialization. Urbanization can thus be seen as a by-product of economic transformation. A complete understanding of urbanization necessitates a critical mapping of the policies that bring about such transformation.

Government intervention in spatial development: rationale and measures

Governments manage the related processes of urbanization, industrialization and spatial development through implicit policies and explicit regional development measures. Nuqui (1992) outlines the rationale and measures for government intervention in regional development.

Government intervention in regional development is anchored on three basic goals: (1) to overcome natural physical barriers to distance and mobility through investment incentives favoring policies and projects that will reduce transaction costs; (2) to allocate more public funds to poorer regions; and (3) to promote regional economic growth

and poverty alleviation. Spatial decentralization, or the process of physically dispersing economic activities and population along desired spatial patterns, is the core of regional development.

The forms of government intervention are many and wide-ranging. These include (1) regulatory measures relevant to ownership, entry and exit, prices and other area-specific and restrictive measures; (2) positive incentives like the extension of fiscal privileges to favored certain industries; (3) direct provision of goods and services through public enterprises and local development authorities; and (4) development planning that involves the formulation of regional policies, development plans and investment programs.

The succeeding discussion zeroes in on the liberalizing trade and industrial policies and how they complement or contradict the growth corridor strategy.

Growth Corridors: Origins and Features

The dispersal of industries outside the NCR is one of the objectives outlined in the sustainable agri-industrial development section of the 1993-1998 Medium-Term Philippine Development Plan (MTPDP). A location-specific approach to agri-industrial development has been identified as one of the key strategies in attaining this goal. Using said approach, the government identified regional growth centers and growth cores using the following criteria: (1) marketability; (2) strategic location; (3) ecosystem implications; (4) minimum infrastructure requirement; and (5) food security. The development plan specifies that the national government will prioritize the off-site infrastructure development of one identified regional agri-industrial center (RAIC) (see Table 12) per region although local governments may develop other RAICs. Moreover, the plan explicitly identifies eight growth networks/cores (growth corridors, from hereon in this study) linking two or more growth centers.

Evolution of the growth corridor strategy

This section studies the evolution of the growth corridor strategy. It outlines, compares and contrasts the key features of three growth corridors, namely: (1) CALABARZON; (2) Cagayan de Oro-Iligan (CIC); and (3) South Cotabato-Davao-Zamboanga (CDZ) Crescent. It then places these location-specific plans within the context of the broader macroeconomic policies discussed in the next sections.

The roots of the growth corridor strategy can be traced to the development of industrial estates, export processing zones and regional

Table 12. List of Regional Agri-industrial Center (RAICs)

Region	Growth center	Size of existing/proposed agri-industrial area	Region	Growth center	Site of existing/proposed agri-industrial area
C Visayas	Metro Cebu	Mactan EPZ	W Visayas	Iloilo City	Pavia
N Mindanao	Cagayan de Oro	PHIVIDEDEC IE	W Mindanao	Zamboanga City	Ayala-Recodo
C Luzon	Mariveles, Bataan	Bataan EPZ	Bicol	Legaspi City	Brgy. Homapon
CAR	Baguio City	Baguio City EPZ	E Visayas	Tacloban City	New Kawayan
S Mindanao	Davao City	Panacan, Ilang	Cagayan Valley	Cauayan, Isabela	Cauayan, Isabela
Ilocos	San Fernando, La Union	Bacnotan	ARMM	Parang	Parang, Maguindanao
S Tagalog	Batangas City	Tabanao			

Source: 1993-1998 Medium-Term Philippine Development Plan.

Table 13. Growth Corridors, Ranked in Order of Priority

1.	Cavite-Laguna-Batangas-Rizal-Quezon (CALABARZON)
2.	Cagayan de Oro-Iligan (CIC)
3.	Northwestern Luzon Growth Quadrangle (Laoag-San Fernando-Dagupan-Baguio)
4.	South-Cotabato-Davao-Zamboanga (CDZ)
5.	West Central Luzon (Bulacan-Pampanga-Bataan-Zambales)
6.	Cebu-Iloilo-Tacloban
7.	Naga-Iriga-Legaspi
8.	Tuguegarao-Iligan-Cauayan

Source: 1993-1998 *Medium-Term Philippine Development Plan*.

industrial centers. Like growth corridors, industrial estates and regional industrial centers were established to encourage the growth of industry in areas outside of Metro Manila. Growth corridors can be seen as an umbrella institutional and spatial formation for growth centers and industrial estates.

The importance of industrial estates to spatial development was appreciated by the Marcos administration. However, its National Industrial Estates Development Program (NIEDP) never took off. The development of industrial estates during that period was slow because the adopted development approach addressed only the on-site requirements and none of the support infrastructure and facilities needed by the estates.¹⁸ This led the Aquino administration to adopt a more holistic and integrated approach under its Regional Industrial Center Program (RICP) (Nozawa 1992).

The RICP, which was the seminal form of the growth corridor strategy, was characterized by comprehensive and integrated area-specific programs with the end goal of linking major centers of agglomeration with smaller secondary markets. The approach recognizes the presence of spillover crossing regional boundaries—in stark contrast to the Marcos regime's more insulated integrated area

¹⁸ As instruments for regional dispersal, industrial estates make good economic sense only if the lack of industrial sites and services are a binding constraint on industrial growth. Otherwise, given the tendency to rely on "leading infrastructure" as an incentive for industrial decentralization, the outcome might just be underutilized public investment in industrial infrastructure with its high opportunity cost. Major regional centers that have distinct competitive advantage, rather than pioneer locations with low market potential, should be the natural focus of industrial estate projects (Hammer et al. 1986).

development (IAD) approach. Under this program, one regional industrial center was identified per region using the following criteria: (1) proximity to markets; (2) presence of ports; (3) abundance of raw materials; (4) availability of social services and amenities; (5) population; (6) labor availability; (7) land availability and cost; (8) peace and order situation; (9) zoning expansion areas; and (10) extent of infrastructure development. Nozawa (1992) notes that most of these centers were selected based on the absence of potential social problems pertaining to land conversion, land acquisition and relocation of affected families. Moreover, majority of the sites have been declared for industrial use in town zoning ordinances approved prior to the enactment of the Comprehensive Agrarian Reform Program (CARP) of 1988.

The Ramos administration's efforts in developing the growth corridor concept are just a continuation of the Aquino administration's drive. Even as a slightly different set of parameters is used to determine each, the 1993-1998 MTPDP merely carried over the list of RICs under the previous Aquino MTPDP, changing some to reflect the re-alignment of provinces when the Autonomous Region of Muslim Mindanao (ARMM) was formed. The eight areas enumerated in Table 13 were the ones chosen by the Ramos administration as its target growth corridors.

Features of three growth corridors

Growth corridors are stretches of provinces, municipalities and/or cities with strong potential for complementarity and given promotional priority by the government as tourist and agri-industrial hubs. As early as 1991, the corridor development plans were already completed for CALABARZON and CIC, which were among the first growth corridors and considered the two most important of their kind in the Philippines. Table 14 outlines the key features of these two plus that of a rising new corridor in the south, the South Cotabato-Davao-Zamboanga (CDZ) Crescent.

CALABARZON is envisioned to be transformed into a balanced agro-industrial center. It is near Metro Manila, making the international airport and port and the central financial district vastly accessible. It is also the recipient of skilled labor that has spilled over from the overpopulated NCR. As a direct consequence of this proximity, its telephone density is second to Metro Manila. It also has the highest concentration of schools, shopping areas and medical facilities in the country. On the downside, it has been observed that the intermediate size urban centers are not well developed in the region due to the polarization effects of Metro Manila. The spatial development in Cavite,

Table 14. Key Features of CALABARZON, CIC and CDZ Crescent

Geographic scope	Industrial base	Preferred industries	Industrial estates: established and pipeline	Inventory of major infrastructure: existing and pipeline
CALABARZON 5 Provinces: Cavite, Laguna, Batangas, Rizal and Quezon Land area: 16,229 sq. km. Population: 8.3 million	<ul style="list-style-type: none"> oil refineries manufacture of industrial gases; non-alcoholic beverages; paper products; flour and feeds metal products; other consumer products; fabrication of marine vessels food processing power generation 	PIONEER/NON-PIONEER STATUS <ul style="list-style-type: none"> textile and textile products research and development activities power generating plants testing and quality control infrastructure projects for industrial estates/science and technology parks forest plantations environmental support facilities mining health (medical devices) tourism air and marine products inputs and services cement metal manufacturing/repair/overhauling and other metal processing-related projects electronics and telecommunication products PIONEER STATUS <ul style="list-style-type: none"> agri and marine products inputs and services (development and production of planting materials, breeders and genetic materials for cattle, hogs and poultry, veterinary medicines and microbial pesticides) primary and secondary processing of ferrous materials chemical products textile and textile products health products 	<ul style="list-style-type: none"> Cavite Export Processing Zone Carmelray Industrial Park First Cavite Industrial Estate Gateway Business Park Laguna Technopark, Inc. Light Industry and Science Park of the Philippines 	<ul style="list-style-type: none"> Batangas international port Lucena port Two railway systems connecting the region to Metro Manila Priority government projects - improvement of transportation network/links to Metro Manila - upgrading of energy facilities

Table 14. (continued)

Geographic scope	Industrial base	Preferred industries	Industrial estates: established and pipeline	Inventory of major infrastructure: existing and pipeline
<p>CIC</p> <p>5 Cities: Iligan, Cagayan de Oro</p> <p>17 Municipalities of Lanao del Norte and Misamis Oriental:</p> <ul style="list-style-type: none"> • Claveria • Jasaan • Villanueva • Tagoloan • Opol • El Salvador • Alubijid • Laguindingan • Gitagum • Libertad • Initao • Naawan • Manticao • Lugail • Linamon • Bacolod • Kauswagan • Maigo • Kolambunga <p>Land area: 187 km. Strip of coastal area in Northern Mindanao</p> <p>Population 1.5 million</p>	<ul style="list-style-type: none"> • manufacture of cement, • chemicals, packaging materials and refractory bricks • steel milling • industrial farming • power generation 	<ul style="list-style-type: none"> • iron, steel and other ferrous-based industries • mineral-based industries • metal working, machinery manufacturing • ceramics, garments, tourism electronics • food manufacturing • transport including ship building 	<ul style="list-style-type: none"> • PHIVIDEC • Alawna Business Park • Laguindingan • Lumbia • Kauswagan People's Industrial Enterprises • Metro Iligan Agro-industrial Center • Integrated Metal Industries Park 	<ul style="list-style-type: none"> • CIC Airport in Laguindingan Highways and farm-to-market roads including development of the North-South arterial, Iligan-Bukidnon, Marawi-Cotabato, Davao-Calinan-Bukidnon roads • City seaports – expansion and upgrading of Iligan and Cagayan de Oro sea ports • Telecommunications - improvement of the telephone service in the area • Power – development of a more diversified power base mix • NSC Integrated Steel Project • Philippine Integrated Steel Project of the Jacinto Metals Corporation

Table 14. (continued)

Geographic Scope	Industrial base	Preferred industries	Industrial estates: established and pipeline	Inventory of major infrastructure: existing and pipeline
CDZ Crescent Cities: Davao City, Zamboanga City and Gen. Santos City Population: 6.2 million	<ul style="list-style-type: none"> • industrial farming • manufacture of wood products, plastics, electronic gadgets, non-alcoholic beverages, tires, feeds and other metal products • power generation and distribution • steel making • mining 	GEN. SANTOS: <ul style="list-style-type: none"> • tuna processing • canning • corn processing • meat processing • coconut processing • fruit and vegetable processing DAVAO: <ul style="list-style-type: none"> • food processing • furniture and furnishings • gifts • toys and housewares • metal craft/metal working • packaging products • essential oil processing • integrated textile mills • garments • builders' woodwork • specialized paper from natural fibers • feedmills • jewelry making • electronic semi-conductors ZAMBOANGA <ul style="list-style-type: none"> • seaweed processing • tobacco processing • garments manufacturing • machine/equipment fabrication • gifts • toys and housewares (shell-based) • marine products • electrical products • agricultural tools and equipment • yacht/boat manufacturing • textile mills 		

Laguna and Rizal is strongly influenced by the development of Metro Manila (JICA 1991). The cornerstone strategy of the development plan is to subdivide the region into several geographic units on the basis of their present capabilities and future uses. These units are industrial subregions, agricultural areas and tourism circuits.

The CIC, on the other hand, is being groomed to become a heavy industrial center, emerging as a bulk supplier of industrial inputs and finished industrial inputs and products. Other than the cities and municipalities identified in Table 12, the provinces of Misamis Oriental, Lanao del Norte, Lanao del Sur, Bukidnon and Camiguin also fall under the influence of the corridor due to their proximity. Given that these provinces are rich resource basins, the CIC development plan also envisions the corridor to become a major agri-industrial trade center, bringing together and processing raw materials and unfinished goods. This corridor is the site of PHIVIDEC, the country's largest industrial estate, and the National Steel Corporation, both of which chose the region prior to the drawing up of the corridor plan. The strategy appears to be to develop the corridor primarily as an industrial enclave.

Finally, the South Cotabato-Davao-Zamboanga Crescent is being developed to become an agri-business center and major exporter of processed food and other products. It is expected to spur Mindanao-wide development in the context of the BIMP-EAGA cooperation. An interesting characteristic of this corridor is that the linkage of the three cities is not really explicitly recognized. It appears that the cities are being developed independent of each other. The Mindanao 2000 Development framework calls its spatial strategy the multipolar approach and recognizes the following as the primary growth centers in Mindanao: Zamboanga City in Western Mindanao, Cagayan de Oro in Northern Mindanao, Davao and General Santos Cities in Southern Mindanao and Cotabato City in Central Mindanao. It identifies the CIC and the Davao City-Gen. Santos-Parang-Maguindanao-Zamboanga Corridor as the two growth corridors that will help build a more integrated Mindanao economy.

Spatial Development Under a Liberalizing Regime

The import-substituting period (1948-1967) left deep imprints on the pattern of spatial development. The import controls, the pegging of the exchange rates and the tariff structure that characterized this much-studied period in Philippine economic history led to a bias for import-substituting, capital-intensive industries. This bias was reinforced by implicit measures. For instance, the policy of keeping consumption

goods prices down discouraged the local production of most agricultural commodities. The continued raising of the minimum wage—at levels invariably too high for rural areas—also reinforced the urban bias intrinsic in the controls. The structure of industrial incentives benefited NCR and the metropolitan periphery since most of the favored industries were located in these areas (Pernia et al. 1983). The legacy of the import-substituting regime was so deeply ingrained in the tariff and tax incentive structures that even when the exchange and export controls were dismantled in the 1960s, the bias persisted. The consequent liberalizing policies were actually measures meant to offset the distortions resulting from the policy biases of the said period.

The implementation of a liberalizing policy regime with a conspicuous awareness of the spatial dimension of development has been a long and continuing process. Regional awareness in development planning began in the late 1960s, alongside the policy shift from import substitution to export orientation. However, it was already in the 1980s, under the Aquino administration, when crucial policy reforms aimed at offsetting the persisting effects of the import-substituting era were instituted. This paper deems this as the onset of the liberalizing period and focuses its analysis on the subsequent policies.

Given the observed economic, demographic and social trends discussed in the preceding section, this part traces the institution of two key trade and industrial policy tools: (1) investment incentives structure; and (2) tariffication and tariff restructuring, and their direct implications on regional dispersal and the chosen growth corridors.

Investments incentive structure

The fiscal incentives given by the Board of Investments (BOI) to firms investing in identified priority areas have evolved over time to become one of the major tools through which the government pursues its regional dispersal objectives. The amendment of the original Investments Act of 1967 to include the regional dispersal of industries, export promotion and employment creation as major factors in the formula for the annual Investment Priorities Plan (IPP) was crucial in integrating spatial considerations in economic development planning.

The explicit de-emphasis of the NCR as an investment hub is the chief characteristic of the BOI incentive structure under the liberalizing period. This was done by promoting instead special economic zones and least developed areas outside the NCR. Under the Aquino years, the IPP included an explicit industrial location guide while it reduced the incentives to firms locating in the NCR. Additional incentives were given

to registered firms locating in less developed areas (LDA)¹⁹. The Ramos administration, moreover, gave additional incentives and priority investment areas to firms locating in the ARMM and export-oriented enterprises.

Table 15. Shares in New BOI-Approved Investments and in Employment Generated, 1997

	% Share in projects	% Share in new employment generated
NCR	18.24	9.57
CALABARZON	24.48	42.68
CDZ Crescent	9.24	7.72
CIC	2.77	0.00

Source: Board of Investments.

Various studies have shown these efforts to be ineffective in dispersing industries. Lamberte et al. (1993) found that close to 50 percent of the registered BOI firms were still based in the NCR as of 1990. The fiscal incentives have also been found insufficient to counter the agglomeration pull of the NCR (Louis-Bergen International 1996). Table 15 shows that in 1997, 43 percent of the new BOI approved projects were located in NCR (18 percent) and CALABARZON (25 percent). Fifty-two percent of new employment generated by these projects was accounted for the same areas.

The weaknesses of the incentive structure directly affect the growth corridor strategy because growth corridors do not have their own fiscal incentive structure. Of the preferred industries in the growth corridor areas, the majority are the same industries outlined in the investment priority plans of the liberalizing years. This is distinctively obvious in the CIC and the CALABARZON growth corridor plans, both of which were drawn up in the early 1990s under the Aquino administration. The list itself leaves little room for critique—it looks like a wish list of industries that have forward and backward linkages within the area. One caveat, as has been stated, is the unclear articulation of how areas in the corridor are to be linked. This is especially true in the South Cotabato-Davao-Zamboanga case, where the three urban

¹⁹ LDAs are determined by a working committee composed of representatives from various government line agencies using income, number of manufacturing establishments, level of employment and level of infrastructure development as weight factors.

centers appear to be nurtured on their own merits and independently of each other. However, in terms of vision, the growth corridor list appears to be in line with the BOI list.

To check whether the identified preferred industries of the respective growth corridor development plans were actually locating in the provinces, industrial concentration quotients were computed (Table 16).²⁰

In line with the growth corridor plans, urban areas in the CIC and CDZ Crescent exhibited a strong locational pull for firms engaged in processed agricultural goods such as food, beverage and tobacco (PSIC 31). Their proximity to agricultural production centers explains this pull to a larger extent. CALABARZON, on the other hand, had a relatively weak locational attraction for food processing even as the plans purport this as one of the existing industrial bases.

CALABARZON urban areas showed a strong locational pull for the manufacture of wearing apparel, leather and leather products and leather footwear (PSIC 32), even as the growth corridor plan does not specify the same as a target industry.

²⁰ The industrial concentration index helps answer this basic question: To what extent is a particular industry concentrated in a city type. For example, we might want to determine whether firms in a group of advanced technology industries tend to locate in metropolitan areas with populations of over 5 million. In the case of this analysis, the question becomes: **what is the tendency of particular firms of particular industry types to locate in urban centers of planned growth zones?** A measure of the tendency of firms in industry i to locate facilities in regions of type t could be derived as follows:

$$ICI_{it} = (E_{it}/PHIL_{it}) / (E_{it}/PHIL_t)$$

where

ICI_{it} = Industrial Concentration Index for Industry i in city type t

E_{it} = total employment in industry i in city type t

$PHIL_{it}$ = total Philippine employment in industry i

E_{it} = total employment in city type t

$PHIL_t$ = total Philippine employment

However, due to the nature of the data, total employment at the city level was unavailable. Population was therefore used as a substitute. The equation therefore now reads as:

$$ICI_{it} = (E_{it}/PHIL_{it}) / (E_{it}/PHIL_t)$$

where

ICI_{it} = Industrial Concentration Index for Industry i in city type t

E_{it} = total employment in industry i in city type t

$PHIL_{it}$ = total Philippine employment in industry i

E_{it} = total population in city type t

$PHIL_t$ = total Philippine population

Table 16. Industrial Location Quotients in Growth Corridor Regions vs. NCR

PSIC CODE	NCR	CALA-BARZON	CIC	CDZ Crescent	PSIC CODE	NCR	CALA-BARZON	CIC	CDZ Crescent
311	1.97				951	4.61	****	****	****
312	2.39	1.42	9.18	5.80	952	5.92	****	****	****
313	2.49				96	3.82	0.67	1.79	1.69
314	5.57				961	3.96	0.39	2.56	1.46
321	4.08				969	3.68	0.94	1.04	1.90
322	4.85	3.66	0.05	0.05	97	5.26	0.48	1.23	2.11
323	13.10				971	5.35	1.06	2.24	3.04
324	2.03				972	5.50	****	****	1.67
331	0.18	0.43	1.33	2.96	973	4.65	****	****	****
332	2.27				975	4.62	****	2.51	3.16
341	3.66				976	4.31	****	****	3.22
342	6.05	1.28	0.45	0.67	979	5.44	0.22	****	****
351	2.94				98	4.92	0.81	2.23	1.73
352	5.78				981	5.07	0.99	1.96	1.60
354	6.21	2.16	1.27	0.27	982	4.46	0.24	3.07	2.15
355	5.19				611	1.41	0.60	0.74	9.05
356	5.88				612	3.21	0.56	****	2.47
361	4.15				613	7.12	****	****	****
362	5.04	2.91	1.05	0.73	614	4.59	****	0.63	1.32
369	3.81				615	5.55	****	****	0.73
371	3.99	1.39		0.48	616	6.39	****	****	1.22
372	0.94				617	5.52	0.28	****	1.43
381	4.94				618	6.14	****	****	****
382	4.04				619	5.89	0.09	****	0.95
383	4.34	4.29	4.96	0.33	621	4.51	0.31	****	5.25
384	4.09				622	3.01	0.62	0.77	2.46
385	0.45				623	3.05	0.30	1.15	2.95
386	3.52				624	3.81	1.91	0.67	2.94
390	4.14	1.87	****	0.10	625	5.01	0.42	****	2.28
920	6.33	****	****	1.46	626	5.53	0.08	0.29	2.15
932	2.57	1.31	2.95	1.82	627	3.37	0.94	1.09	1.93
942	3.63	0.85	2.76	1.74	628	4.18	1.37	****	1.75
95	5.10	****	****	****	629	3.28	0.58	****	0.67

Basic source: National Statistics Office.

In line with its corridor plan, handicrafts and wooden furniture (PSIC 33) firms have a stronger tendency to locate in urban areas of the CDZ Crescent. Again, even if handicrafts and wooden furniture is not a target industry, the CIC exhibited strong locational appeal for firms in this field.

Paper and paper products and printing and publishing (PSIC 34), not a preferred industry in any of the plans, were mainly concentrated in the NCR, and to some extent, CALABARZON.

Chemical, petroleum and petroleum products production (PSIC 35), production related to minerals (such as pottery, glass and cement) and basic iron industries (PSIC 37) are also mainly concentrated in the primary city. Compared to other growth zones, CALABARZON acts as the strongest magnet for these industries although it still pales in comparison to Metro Manila.

Interestingly, both CALABARZON and CIC grew in the metallic goods production (PSIC 38 & 39) industries, its power almost equivalent to that of the NCR. The CDZ crescent, in contrast, showed little capacity to attract firms of these types.

Personal services, and wholesale and retail trade (PSIC 9 and 6, respectively) were mainly concentrated in the NCR. The CDZ Crescent had a strong showing with regards wholesale and retail trade (WRT), especially in terms of processed agricultural products such as food, beverage and tobacco (PSIC 611 and 621). This fact might be closely related to the concentration of producers of processed agricultural goods in this growth area.

In general, CALABARZON and NCR lord over other growth corridor regions in providing the locational pull for industries across types. The CDZ Crescent and CIC pull remains largely in the agriculture-based consumer and intermediate goods industries, although the CIC also has its own strong share of capital goods industries. It looks like the persisting agglomeration pull of NCR explains the limited success of the corridor plans, especially for the CIC and the South Cotabato-Davao-Zamboanga Crescent areas, in terms of decentralizing industrial activity. The case of the CALABARZON area is different because, as has been stated, one of its strengths is its proximity to the NCR, which renders it part of the concept of the Greater Capital Region (JICA 1991).

Tariffication and tariff restructuring

Protecting an industry through tariff walls implies its increased profitability. Because resources get allocated to the most profitable areas of production, tariff policies thus affect investment decisions. During the import-substituting era, tariffs favored import-substituting industries producing consumer goods or finished goods with relatively little value-added. This led to the concentration of investments in the NCR, Central Luzon, Southern Tagalog and Central Visayas.

The Tariff Reform Program (TRP) of 1981 is one of the major structural adjustment programs meant to correct the policy biases of the trade and industry incentive structure. It was a program designed,

in batches of five years, to reduce the tariff levels, limit the number of tariff categories and lessen the tariff spread. As there were cases where nontariff measures were more binding than the import levies, the TRP had to be accompanied by the Import Liberalization Program (ILP). These liberalizing efforts, however, were largely undermined by the ensuing economic crunch. With the balance-of-payment crisis in 1983, the ILP had to be postponed and import restrictions actually became more pronounced until 1986—what with the series of increasing ad valorem taxes on imports and a virtual ban on luxury goods and non essentials. The ILP was pursued with a renewed vigor in mid-1986 under the Aquino administration. Lim (1996) points out that the Aquino years of 1986 and 1988 were crucial years because it was during these periods when nontariff barriers and import quotas were removed.

Studies show that these efforts, while making the protection structure more transparent and moving toward freer trade, still failed to correct the strong bias against agriculture and/or export-oriented and labor-intensive industries. Effective protection rates (EPR) between 1979 and 1985 show that the agriculture and primary sectors remained penalized while manufacturing continued to receive higher protection. The unfavorable bias for importables (and against exportables) also persisted. The EPR structure between 1985 and 1988, on the other hand, yielded positive rates for agriculture and manufactures although declining relative to agriculture. But the overall bias against the export sector remained (Medalla 1986).

The Ramos administration could have marked yet another milestone in tariff restructuring when it formulated the government's liberalization program within an international framework with its accession to the General Agreement on Tariffs Trade-Uruguay Round (GATT-UR) in 1996. It has been pointed out that the concomitant abolition and tariffication of quantitative restrictions (QR) would have improved transparency, raised government revenues, decreased the budgetary and rent seeking-related costs of QR administration. The reductions in tariff rates would have also reduced distortions in price incentives within the overall economy. However, the specific agreement and the manner of implementation thus far suggest that none of the potential benefits from such an accession are forthcoming (David 1997).

For one, the tariff levels are not really going to be radically reduced. The binding tariffs the government has committed itself to are typically higher than the pre-GATT nominal protection rates. Tariffs on a number of agricultural products, considered close substitutes for commodities whose QRs were to be lifted (e.g., feed wheat and barley

as substitutes for corn), were even raised. Even the scheduled tariff rate reduction over the next 10 years will still be higher than the 5 percent average targeted by the TRP at the end of that period.

It has also been pointed out that the implementation guidelines of the minimum access volumes (MAVs) will inevitably result in rent-seeking. The MAVs are volumes at which agricultural commodities may be imported at a lower (than applied) in-quota tariff rate. Since MAVs have been pegged at just about 5 percent to 10 percent of domestic demand, large quota rents are sure to be created unless the right to import said volumes is auctioned and granted based on the highest bids. Under the existing implementing guidelines, these volumes are allocated by the National Food Authority ensuring that quantitative trade restrictions continue to be in effect.

Preliminary EPR estimates of Manasan (in David 1997) for the 1990s, taking into account the World Trade Organization agreement commitments, show that the effective protection of agriculture increased to levels beyond that of the 1970s and the 1980s while that of the manufacturing sector remained positive even while decreasing substantially.

Therefore, trade reform from the import-substituting era to that of export promotion brought down the level of protection and developed a dispersal of rates among sectors, thereby reducing any distorting effects on the production base. These changes implicitly affected spatial distribution in that they reduced concentration. Theoretically, if these trade policies were maximized and coupled with a strong export promotions program, industrial concentration in the NCR would have been significantly less and the industrial base more spatially dispersed.

As a preliminary guide to the impact of the trade protection on industrial dispersal, industrial location quotients were compared with changes in EPR. The results (see Table 17) show how industries with higher levels of protection in both 1983 and 1988 also had higher concentration values. This proves how protection shores up investments into the protected industries.

As earlier noted, CALABARZON's industrial structure is concentrated in wearing apparel and textiles, chemical and petroleum products and machinery and other metallic products. In the CIC and CDZ crescent, processing of agri products such as of food and beverage had the strongest concentration for various industry types. Wood and wood products, and wooden furniture closely followed this, with concentration indices exceeding even that of CALABARZON.

Table 17. Comparison of Changes in Effective Protection Rates (EPR) with Industrial Location Quotients

PSIC Code	Good Type	EPR 1983	EPR 1988	Change in EPR	NCR	CALA-BARZON	CIC	CDZ Crescent
311	Consumer Goods	32.9	22.3	-10.6	1.97			
312	Consumer Goods	11	21.3	10.3	2.39	1.42	9.18	5.80
313	Consumer Goods	83.7	52	-31.7	2.49			
314	Consumer Goods	147	60.6	-86.4	5.57			
321	Intermediate Goods	92.8	30.6	-2.2	4.08			
322	Consumer Goods	3.1	3.9	0.8	4.85	3.66	0.05	0.05
323	Intermediate Goods	13.9	1.7	-12.2	13.10			
324	Consumer Goods	-6.5	-5.3	1.2	2.03			
331	Intermediate Goods	2.1	4.5	2.4	0.18	0.43	1.33	2.96
332	Consumer Goods	-2.6	1.9	4.5	2.27			
341	Intermediate Goods	65	29.2	-35.8	3.66			
342	Intermediate Goods	68.3	72.4	4.1	6.05	1.28	0.45	0.67
351	Intermediate Goods	53.2	8.5	-44.7	2.94			
352	Intermediate Goods	37.7	44.8	7.1	5.78			
354	Intermediate Goods	74.5	-5.5	-80	6.21	2.16	1.27	0.27
355	Intermediate Goods	129.3	18.9	-110.4	5.19			
356	Intermediate Goods	119.7	20.9	-98.8	5.88			
361	Intermediate Goods	224.1	4.7	-219.4	4.15			
362	Intermediate Goods	67.1	37.4	-29.7	5.04	2.91	1.05	0.73
369	Intermediate Goods	280.3	17.4	-262.9	3.81			
371	Capital Goods	38.3	80.5	42.2	3.99	1.39		0.48
372	Capital Goods	-9.7	-11.3	-1.6	0.94			
381	Capital Goods	82.3	66.3	-16	4.94			
382	Capital Goods	28.1	11.7	-16.4	4.04			
383	Capital Goods	4.5	30.9	26.4	4.34	4.29	4.96	0.33
384	Capital Goods	50.6	48.8	-1.8	4.09			
385	Capital Goods	-13.2	21	34.2	0.45			
386	Consumer Goods	182.7	75.9	-106.8	3.52			
390	Others	8.1	4.6	-3.5	4.14	1.87	****	0.10

Basic source: National Statistics Office.

A more liberal tariff structure and the removal of quantitative restrictions are proofs of steps taken toward a freer trade regime. Because these efforts have been successful at reducing the biases against the primary sector, they have served the purpose of regional development—especially where the primary sector remains a substantial part of the regional economy. However, the increased protection in agriculture may also incur efficiency costs detrimental to the regional economies in the long run if the productivity-related problems—the more pressing source of bias against the agricultural sector—are unresolved.

Shift analysis results

The firms' tendency to set up operations in the Greater Capital Region has been established in the preceding sections. How has this affected growth patterns in NCR and CALABARZON? What effects does this tendency have on the growth of other regions? To get preliminary leads in answering these questions, published regional output data from 1986 to 1988 were subjected to shift analysis following the methodology in the studies of Lamberte et al. (1993) and Stevens and Moore (1980).

Shift-share analysis results in growth being broken down into three components: (1) growth that would have been registered by an area where output had risen had it grown at the average growth rate for all industry; (2) additional growth caused by the mix of industries in the area (this is the expected output if each sector in an area had grown at the national average rate net of the first component); and (3) a residual differential shift growth.

Table 18 shows some of the key results of the analysis. It highlights the (1) fast growing regions (i.e., regions with total net shift [TNS] greater than zero) and (2) regions with TNS less than zero but where there are growth corridor areas specified in this study. The second column identifies the sectors where these regions enjoy locational advantage (i.e., sectors growing faster than the average national rate). The years were subdivided into national growth and recovery years of 1986-1988 and 1992-1996 and national recession years of 1989-1991.

Based on the results, there are interesting leads to pursue about growth patterns and the industry/sectoral mix at the regional level (Figure 52). The NCR and Central Visayas continue to dominate the growth picture by being the only two regions consistently growing at a rate faster than the national average. The Mindanao regions have been doing poorly, although the newly formed Autonomous Region of Muslim Mindanao (ARMM) has been performing above the national average. The exclusion of a CALABARZON region, which is Southern Tagalog, in the fast-growing regions list of the 1992-1996 growth period is glaring. Also interesting is that regional performance, in general, seemed to have improved during recession years with traditionally ill-performing regions such as Bicol enjoying above-national-average growth.

In terms of sectoral mix, the number of industries where the NCR enjoys advantages in terms of location has been decreasing over time; the advantages are now only in the services sector. Interestingly, the advantage in location as far as the industry sector is concerned has

Table 18. Results of Key Shift Analysis**1986-1988****Fast growing regions Locational advantage in:**

NCR	industry, service
S. Tagalog	agriculture, industry
C. Visayas	industry, service

**Growth corridor regions
under study with TNS<0**

W. Mindanao	None
N. Mindanao	Agriculture
S. Mindanao	None
C. Mindanao	None

1989-1991**Fast growing regions Locational advantage in:**

NCR	service
CAR	Industry
Ilocos Region	Agriculture, industry
C. Luzon	agriculture, industry, service
S. Tagalog	agriculture, industry, service
Bicol Region	agriculture, service
C. Visayas	agriculture, service

**Growth Corridor Regions
under study with TNS<0**

W. Mindanao	agriculture, industry
N. Mindanao	industry
S. Mindanao	none
C. Mindanao	none

1992-1996**Fast growing regions Locational advantage in:**

NCR	service
CAR	agriculture, industry, service
Ilocos Region	agriculture, industry
Cagayan Valley	agriculture, industry
C. Visayas	agriculture, service
ARMM	agriculture, industry, service

**Growth Corridor Regions
under study with TNS<0**

W. Mindanao	industry
N. Mindanao	industry
S. Mindanao	industry
C. Mindanao	industry

been shifting away from the Greater Capital Region and toward Mindanao growth corridor regions, Ilocos and the Cordillera Autonomous Region (CAR). Despite the pull exhibited by CALABARZON and NCR on manufacturing and other industry-based firms, the industry

account in the NCR has not been growing any faster than the national average. Although the CALABARZON region has consistently exhibited a location advantage in industry, this was not enough to spur the regional economy to grow faster than the national rate in the 1990s.

Figure 52. Shift Analysis: Patterns of Regional Growth

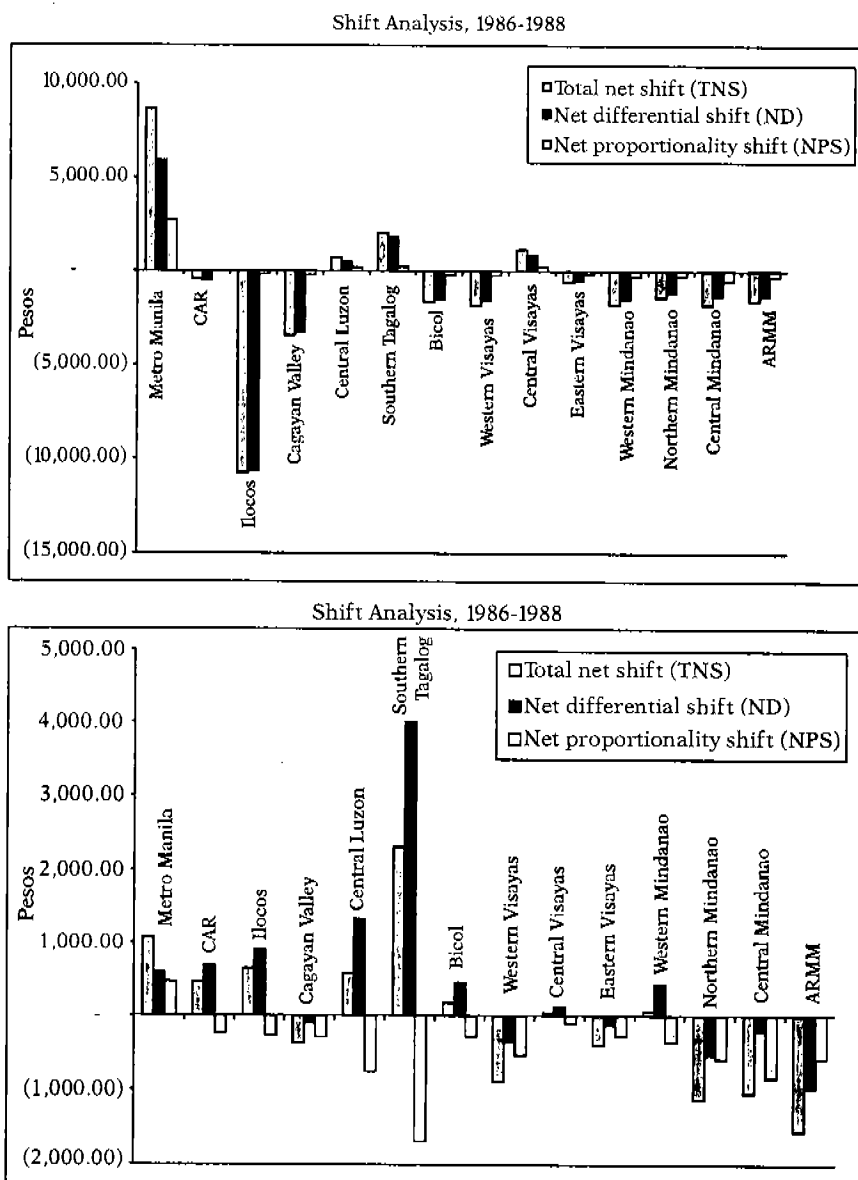
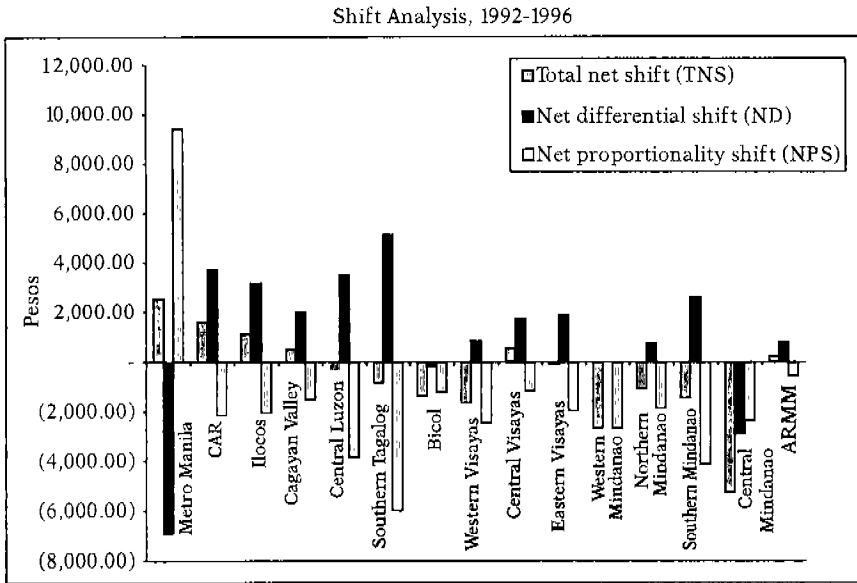


Figure 52. (continued)



The strong showing of Ilocos, CAR and Cagayan Valley in recent years, and the location advantages these regions have been exhibiting in industry needs further investigation. This could be linked to the presence of growth corridor initiatives in these area. This is in stark contrast with the poor performance of Mindanao, which was unable to sustain the growth it exhibited in the 1980s, notwithstanding the identification of major urban centers as part of the CDZ crescent. The location advantage that the Mindanao regions exhibited in the 1990s could also be an offshoot of growth corridor planning except that the same areas' inability to show some location advantages in agriculture seems to run counter to the growth corridor plans.

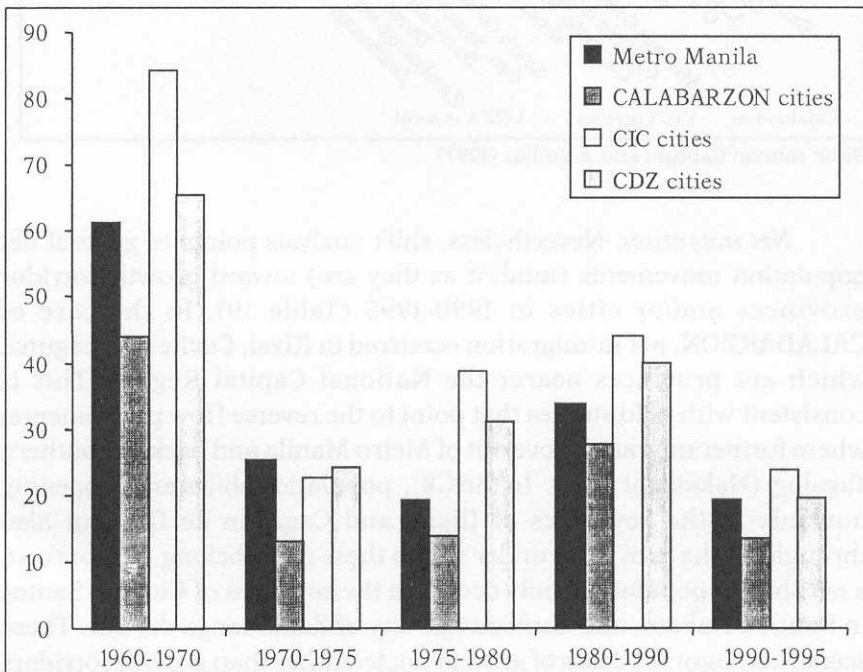
In a nutshell, as with the economic trends shown in the preceding sections, growth corridor regions do not exhibit common patterns. In terms of output growth, some growth corridors perform better than others. The agglomeration advantages in the Greater Capital Region partly led to the strong showing of Southern Tagalog in industry and NCR in services. There is preliminary evidence of economic growth dispersal with the good showing of northern growth corridor regions. But the stark contrast among the performances of growth corridor regions in the south somehow diminishes the credibility of the growth corridor strategy as the key explanation to the strong performance of regions in the north.

Some Baseline Indicators of the Chosen Growth Corridors

Demographic trends

Population density. At about the same time that Metro Manila was shedding off excess urban density, cities in the south belonging to the CIC Corridor and the CDZ Crescent were absorbing proportionately more people within their available geographic spaces (Figure 53). Population density in the CIC Corridor grew from 39 percent in 1975-1980 to 44 percent in 1980-1990, before declining to 24 percent in 1990-1995. In the CDZ crescent, density grew slightly less, from 31 percent to 40 percent within the same periods. These are considerably higher than the density growth rate of Metro Manila, and indicates that a fair rate of decentralization has taken place so far. The CALABARZON cities had slower density growth rates but, as suggested in a previous section, these cities were part of the wider arc in which metropolitan cities, other than Manila, belong.

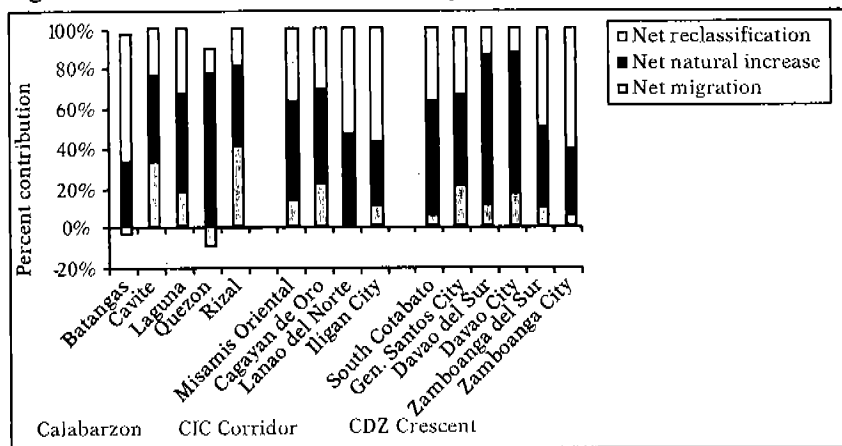
Figure 53. Gains of Growth Corridor Cities from Urban Decentralization



Basic source: National Statistics Office.

Natural population increase. In the 1980-1990 period, the growth corridor provinces increased their urban population bases mainly through net natural increase and rural-urban reclassification (Figure 54). In the CALABARZON and CIC areas, net natural increase accounted for more than 40 percent of the urban population increase. Practically the whole of Quezon (96%) and three-fourths of Davao del Sur grew due to natural increase. Migration was not as important in most areas, except in Rizal (where migration accounted for 40% of the urban population increase), Cavite (30%) and General Santos City (20%).

Figure 54. Natural Increase as a Major Factor in Corridor Provinces



Basic source: Cabegin and Arguillas (1997).

Net migration. Nevertheless, shift analysis points to general net population movements (modest as they are) toward growth corridor provinces and/or cities in 1990-1995 (Table 19). In the case of CALABARZON, net in-migration occurred in Rizal, Cavite and Laguna, which are provinces nearer the National Capital Region. This is consistent with field studies that point to the reverse flow phenomenon where former migrants move out of Metro Manila and back to Southern Tagalog (Nakanishi 1996). In the CIC, population shifts are happening not only in the key cities of Iligan and Cagayan de Oro but also throughout the provinces under which these cities belong. In contrast, a net shift in population only occurs in the key cities of General Santos in South Cotabato, and Zamboanga City of Zamboanga del Sur. These scenarios augur for cases of growth nuclei rather than growth corridors in the CDZ Crescent.

Table 19. Positive Population Shifts in Growth Corridor Provinces

Growth Corridor Areas	% Net Shift 1990-1995
CALABARZON	
Cavite	47.44
Laguna	14.15
Batangas	0.38
Quezon	-0.11
Rizal	32.53
CIC	
Misamis Oriental	6.87
Cagayan de Oro City	19.79
Lanao del Norte	3.80
Iligan City	7.94
CDZ Crescent	
Davao del Sur	3.11
Davao City	22.56
South Cotabato	-38.23
General Santos City	19.50
Zamboanga del Sur	-0.71
Zamboanga City	6.33

Basic source: National Statistics Office.

Urbanization levels are also generally increasing in all growth corridor areas (Table 20), although at a less hurried pace. Between 1980 and 1990, only South Cotabato exhibited a decline in urbanization level. It could be because urbanization is centered in the key city of General Santos City, thus putting in doubt again the effectiveness of the growth corridor strategy in this area.

Economic trends

Per capita incomes. Figure 55 shows that majority of the provinces have mean per capita incomes of less than ₱15,000 and urbanization rates of less than 50 percent. Following historical trends, mean per capita income was highest in the CALABARZON area at more than ₱15,000.

In general, per capita incomes are highest in the provinces close to NCR. Growth corridor provinces can be grouped into four quadrants:

Table 20. Increase in Urbanization Levels in the Corridor Areas

	Urbanization		Level
	1980	1990	1995 (projected)
CALABARZON			
Batangas	16.97	27.08	33.40
Cavite	59.79	75.88	82.13
Laguna	61.04	73.89	79.17
Quezon	29.14	32.98	34.98
Rizal	75.00	90.01	94.02
CIC			
Lanao del Norte	15.71	24.42	29.84
Misamis Oriental	39.32	65.66	76.67
CDZ Crescent			
Davao del Sur	44.94	76.45	86.64
South Cotabato	32.98	19.41	14.49
Zamboanga del Sur	19.63	42.50	56.34

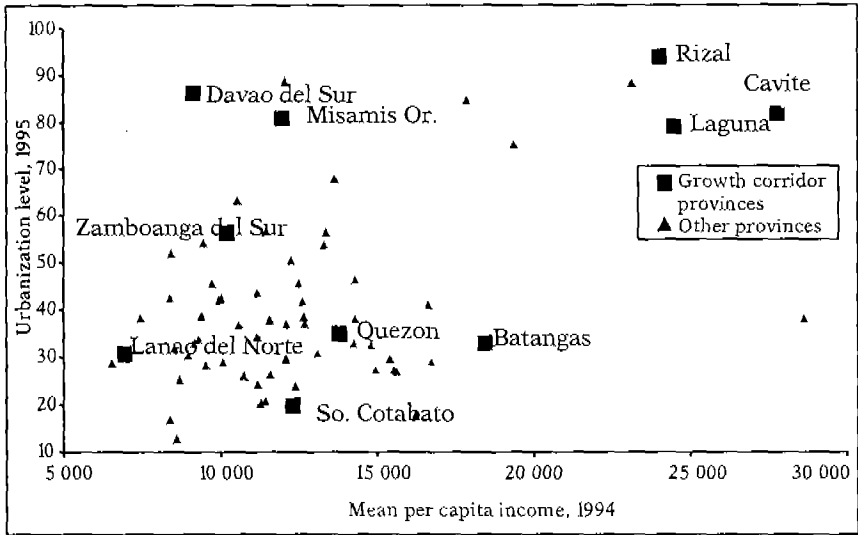
Source: National Statistical Coordination Board.

(1) low urbanization (less than 50%), low income (less than ₱15,000) such as Lanao del Norte, South Cotabato and Quezon; (2) high urbanization (more than 50%), low income such as Zamboanga del Sur, Misamis Oriental and Davao del Sur; (3) low urbanization, high income (more than PhP15,000) such as Batangas; and (4) high urbanization, high income such as Rizal, Laguna and Cavite.

Industry and service employment. Urbanization rates generally rise with employment in the industry and service sectors, a relationship apparently more pronounced in the latter (Figures 56 and 57). The industry sector absorbs less than 40 percent of the labor population in all provinces. Majority of the provinces have less than 25 percent of the labor population employed in the industry sector. Those with more than 25 percent of labor population in the industry sector are again concentrated in areas close to NCR, with the exception of Cebu.

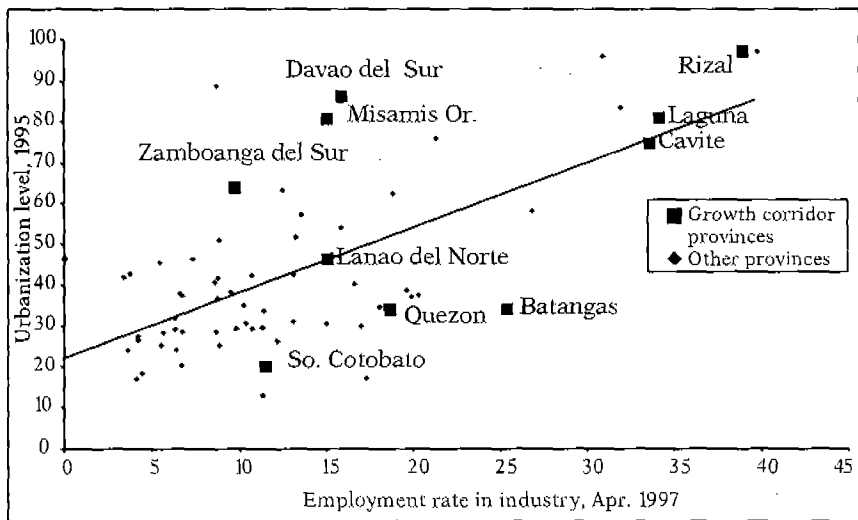
Interestingly, if provinces were grouped according to levels of urbanization and shares of employment generated by the industry sector, the exact same grouping as in the urbanization-and-income study is generated; that is, (1) low urbanization (less than 50%), low share of employment generated by industry (less than 25%), as shown by the cases of Lanao del Norte, South Cotabato, and Quezon; (2) high

Figure 55. Per Capita Income of Growth Corridor Provinces

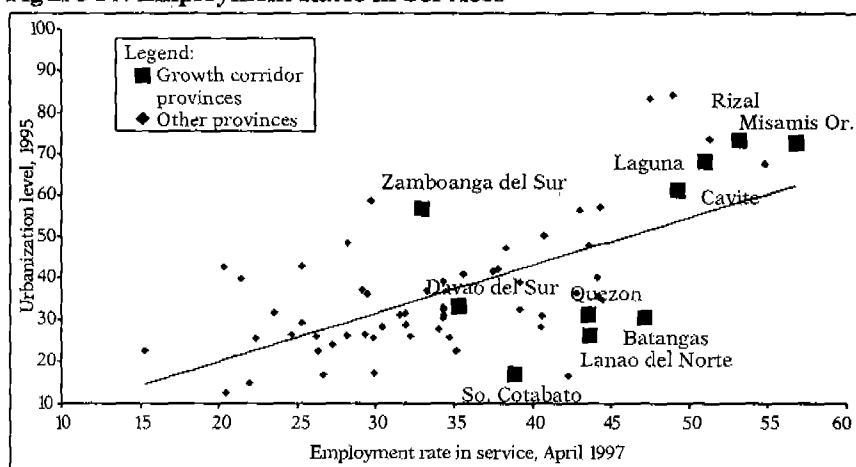


Source: National Statistics Office.

Figure 56. Rise in Urbanization with Employment Rate in the Industry Sector



Source: National Statistics Office.

Figure 57. Employment Rates in Services

Source: National Statistics Office.

urbanization (more than 50%), low share of employment generated by industry, as in the cases of Misamis Oriental; Davao del Sur and Zamboanga del Sur; (3) low urbanization, high share of employment generated by industry (more than 25%), such as of Batangas; and (4) high urbanization, high share of employment generated by industry, such as of Laguna, Cavite and Rizal.

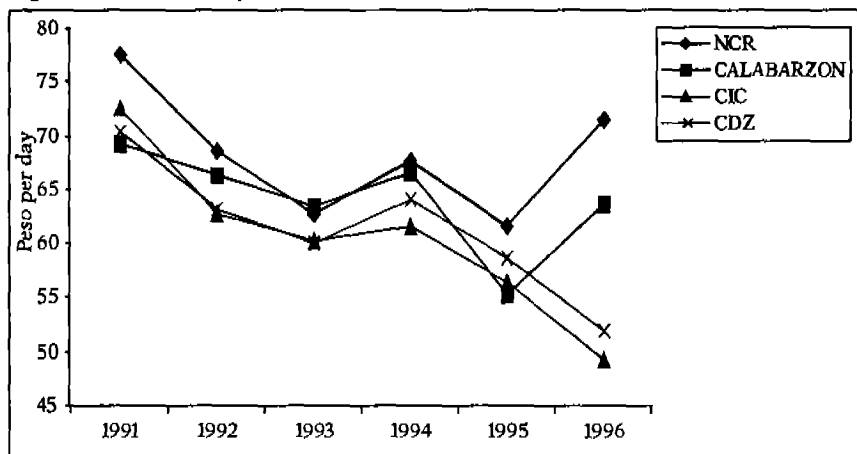
The service sector generates more employment than the industry sector—at less than 60 percent of labor population in all provinces. Note that CIC provinces, CALABARZON and other provinces close to the NCR have the highest share in employment generated by the service sector. Relative to other growth corridor provinces, only Zamboanga del Sur is characterized by high urbanization but with a service employment of less than 40 percent.

Real wages. If real wage differences reflect genuine economic difference in skills and cost of living, then the situation in the growth corridor areas—areas that are expected to be at the forefront of labor productivity improvements—is disappointing. Figure 58 shows how NCR still lords over the growth corridors in terms of real wage growth. The CALABARZON was next to Metro Manila in the early 1990s until it rose above the NCR in 1993. However, it went through a sudden decline in 1995—at a level even below that of the Mindanao growth corridor areas.

The inability of certain growth corridor areas to spur real wage improvements does not allow their respective population to cope with

the impact of inflation. Figure 59 shows the wide disparity between price growth as embodied by inflation, and real wage growth. It also highlights how only NCR's real wage growth was able to overtake inflation in 1996. CALABARZON trails closely behind NCR, but Mindanao growth corridor areas show inflation and real wages moving in the opposite direction. That is, the growth corridor areas, with growth in prices increased while that of real wages decreased. The erosion of the purchasing power in the growth corridor provinces is very much evident.

Figure 58. Real Wage Growth in Growth Corridor Areas

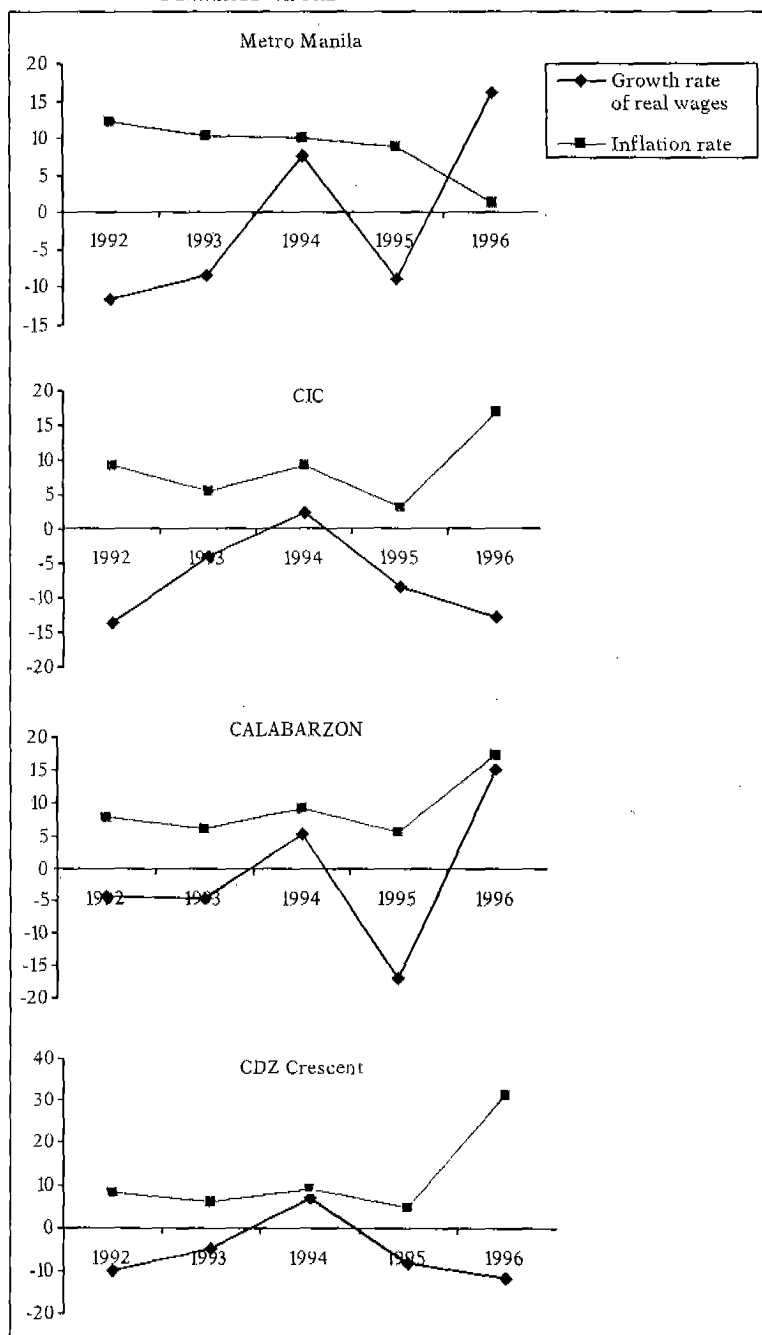


Basic source: National Wages and Productivity Commission.

Foreign direct investments. Based on the ranking of provinces in terms of cumulative foreign direct investments (FDIs), it appears that those in the CALABARZON area benefitted the most from FDIs due to their proximity to Manila and the presence of sound infrastructure and communication facilities. Except for Quezon, all CALABARZON provinces obtained FDIs that surpassed those in other industrial zones (including Cebu) in 1995 (Table 21). The FDIs in the CIC and CDZ Crescent in the same year were solely in manufacturing and equal only to a small proportion of investments in the CALABARZON. However, the FDI cumulative rankings of CIC and CDZ were still relatively high.

Among the corridor provinces, Batangas tops the list, which is encouraging since it is among the most underurbanized areas in CALABARZON.

Findings from firm-level surveys on foreign investors' motives for investing and their choice of location generally suggest that access

Figure 59. Growth in Real Wages vis-à-vis Inflation in Growth Corridor Areas

Basic source: National Wages and Productivity Commission.

Table 21. CALABARZON's Dominance over CIC and CDZ in Terms of FDIs

Foreign Equity Investments Approved under Various Investment Incentive Laws (in thousand pesos)					
Provinces	Manufacturing (1995)	Nonmanufacturing (1995)	Total (1995)	Rank in Cumulative FDIs (1980-1995)	Urbanization Level (1995)
Cebu	29,073	236,807	265,880	7	56.5
CALABARZON					
Batangas	15,884,654	-	15,884,654	1	33.40
Cavite	621,326	138	621,464	4	82.13
Laguna	1,260,696	1,760,378	3,021,074	8	79.17
Quezon	16,804	-	16,804	9	34.98
Rizal	281,782	884,000	1,165,782	10	94.02
CIC					
Lanao del Norte	-	-	-	14	29.84
Misamis Oriental	41,568	-	41,568	15	76.67
CDZ Crescent					
Davao del Sur	16,352	-	16,352	18	86.64
South Cotabato	329	-	329	25	14.49
Zamboanga del Sur	380	-	380	27	56.34

Basic source: Board of Investment-Department of Trade and Industry.

to markets is the primary consideration in investing. It is no accident, thus, that investments have mostly gone into CALABARZON because of its proximity to Manila, the major domestic market. NCR is an economic supermarket where investors can shop for a wide array of services, skills, and customers for firms as well as consumer goods, services and opportunities for workers across skill levels.

Financial incentives for locating outside the metropolis were important only to manufacturing firms catering to foreign markets but relying on domestic inputs (Pernia and Herrin 1987). The CALABARZON area is near markets, raw materials, and skilled labor while still offering adequate space for expansion. As long as infrastructure services are provided unequally across regions, there will be limits to diversified growth outside a few key areas such as CALABARZON. Other regions may just be scrambling for relatively smaller amounts of investment.

Exports. Measured in terms of value of exports by port of origin, export strength is fairly dispersed and thriving among the export processing zones as shown in Table 22. Batangas, which was earlier shown to be most attractive to FDIs, also comes in strong on exports. The value of exports coming from its port amounted to about US\$2.2 billion in 1995 and was next only to that of Metro Manila. It should be noted that exports from CALABARZON, especially from the Cavite EPZs, are transported through either the Batangas port or the nearby Metro Manila ports.

At the lower half of the exports rankings are the growth centers in Mindanao led by Davao del Sur. Note that all provinces in the CIC Corridor and CDZ Crescent are included among the top exporters, although product-wise, these growth centers have a stronger preference for exports of either food and food preparation or resource-based products over industrial manufactures. Regardless of product type, the production of tradeable commodities has multiplier effects, bolstering even non tradeables for each activity devoted to export—a development that augurs well for balanced decentralization.

Remittances. A global influence, overseas contract workers (OCW) remittances may be contributing in meaningful ways to services employment but impact only on a few growth corridor provinces. Figure 60 suggests that the impact is more felt in Central Luzon and Northern Luzon provinces. Nevertheless, OCW remittances per capita make a moderate contribution in the services sector of Rizal, Batangas, Laguna, Cavite and Quezon.

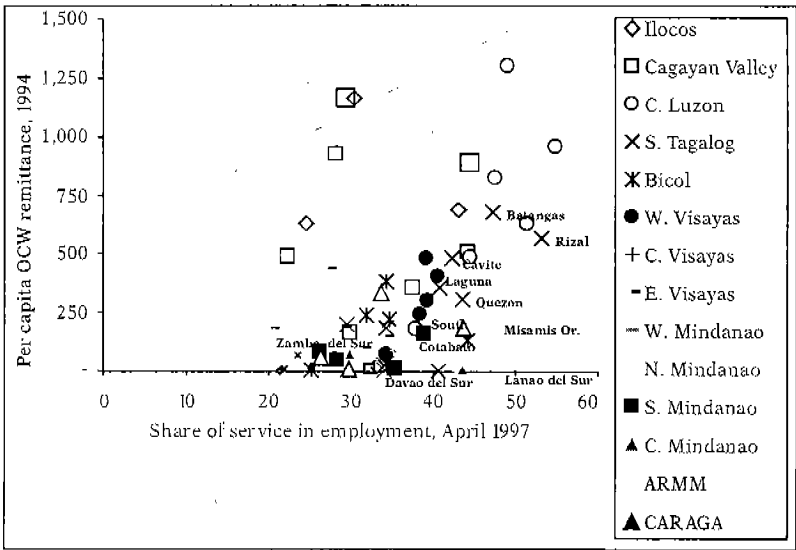
Table 22. Exports by Top 15 Provinces*, 1995

Provinces	Consumer manufactures	Food and food preparation	Resource based products	Industrial manufactures	Special transactions	Total
NCR	1,032	541,623	421,654	7,942,511	427,563	9,334,382
Batangas	78,650	7,539	22,275	1,933,825	120,751	2,163,039
Cebu	327,419	67,770	88,370	907,699	250,525	1,641,783
Benguet	13,758	-	276	1,104,204	21,535	1,139,772
Zambales	54,582	294,920	59,545	431,740	24,741	570,902
Leyte	-	5,627	38,188	450,647	7,956	502,418
Bataan	198,945	2,485	8	187,058	30,478	418,975
Davao del Sur	1,787	262,299	149,788	1,571	2,109	417,554
Misamis Or.	-	117,548	48,810	104,196	29	270,582
S. Cotabato	152	177,472	90,170	726	355	268,874
Zamboanga S.	947	82,439	66,346	710	355	150,444
Lanao del N.	137	10,553	110,731	25,575	-	146,995
Negros Or.	123	40,617	9,959	12,421	-	63,119
Misamis Occ.	16	3,438	48,528	-	-	51,981
Camarines N.	169	2,508	33,543	75	2	36,297

Source: Department of Trade and Industry.

* based on ports of origin

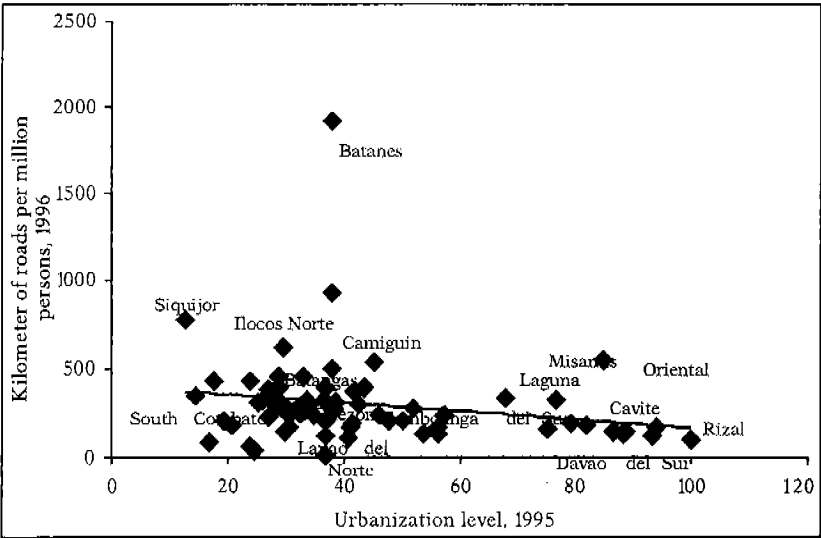
Figure 60. Impact of OCW Remittances on Growth Corridor Provinces



Basic sources: Family Income and Expenditure Survey; National Statistical Coordination Board.

OCW remittances have modest influence on services in CALABARZON provinces.

Figure 61. Roads Per Capita in Philippine Provinces



Basic source: Department of Public Works and Highways.

Infrastructure Services

Roads. The quantity of roads in growth corridors follows no set pattern, as Figure 61 suggests. Some highly urbanized provinces such as Rizal and Davao del Sur have relatively low per capita availability of road infrastructure. Contrast that with Batangas or Misamis Oriental, which, although moderately urbanized, have longer roads per capita. What all corridor provinces have in common is that they are bunched in the "500 or below kilometers of roads per million persons" bracket. Understandably, the high performers are tiny provinces with low population bases (Batanes, Siquijor, Camiguin), and Ilocos Norte, which benefitted heavily during the Marcos regime, being the former president's home province.

Power. Power per capita is highest in most CALABARZON provinces, in some cases even exceeding the power availability in Metro Manila (Figure 62). Proximity to the metropolis is an advantage for Southern Tagalog urban centers. In Mindanao, only South Cotabato manages to have a big share of investment in power, although it is probably concentrated in General Santos City only.

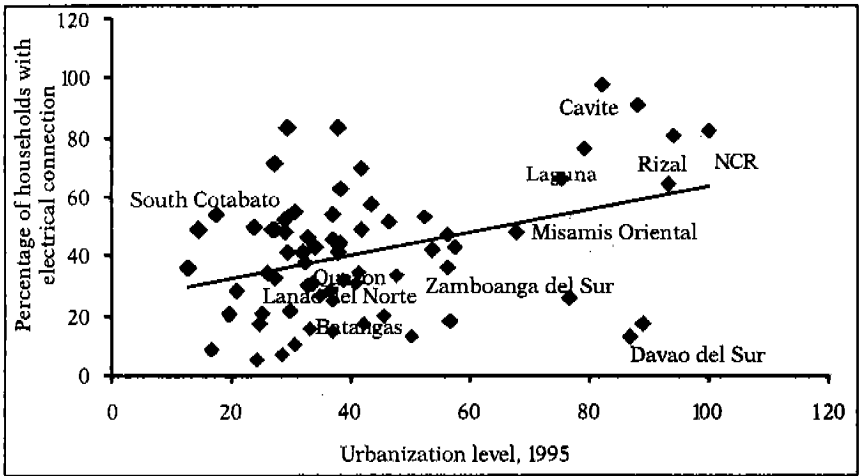
Human Development

Human development index. Previously, it was shown in this paper that urbanization level of regions is positively correlated with the level human development in the regions. Figure 63 elaborates on that relationship at the provincial level. High human development indexes HDIs characterize the highly urbanized growth corridor provinces of CALABARZON, CIC and the Davao-Zamboanga corridor. Not surprisingly, South Cotabato, which fares badly in many departments, has a low degree of human development.

Functional literacy. Figures 64 and 65 show two non-income components of human development. The first chart shows that urbanization level appears to have an inverse relationship with growth in functional literacy. Provinces with high growths in functional literacy are the least urbanized ones while highly urbanized provinces rank among the provinces with the slowest growth (some even negative) in functional literacy. It is also important to note that all growth corridor provinces have a functional literacy growth of less than 20 percent. This indicates that growth of functional literacy has reached its peak in more urbanized areas.

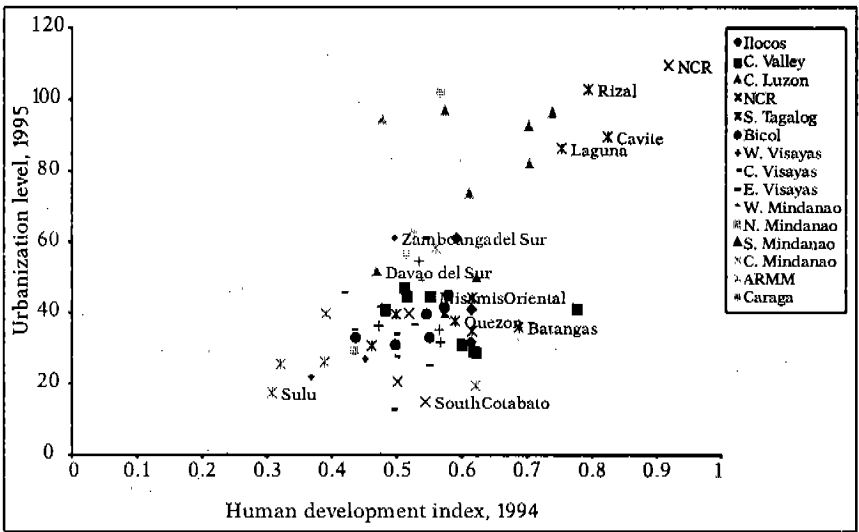
Safe water. Safe water, generally becomes more accessible when the urbanization level rises (Figure 65). With the exception of Capiz and Nueva Ecija, at least 40 percent of total households in all provinces

Figure 62. Power Availability in Urban Centers



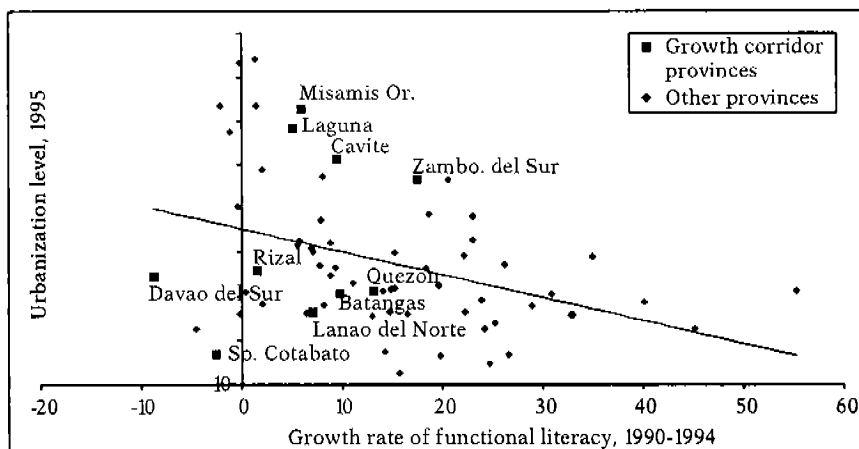
Basic source: Manila Electric Company.

Figure 63. Human Development Index of Philippine Provinces



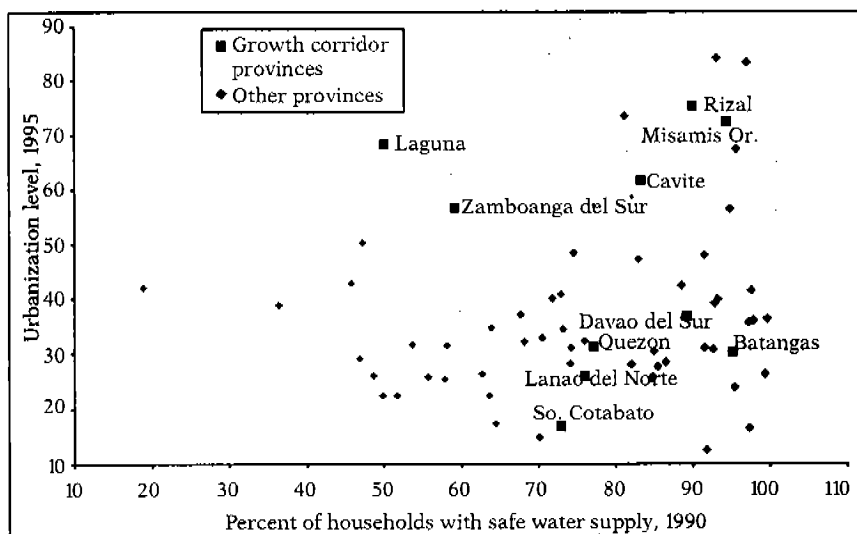
Basic source: *Philippine Human Development Report 1997*.

Figure 64. Inverse Relationship Between Urbanization Level and Growth Rate of Functional Literacy



Source: National Statistics Office.

Figure 65. Access to Safe Water vs. Urbanization Level



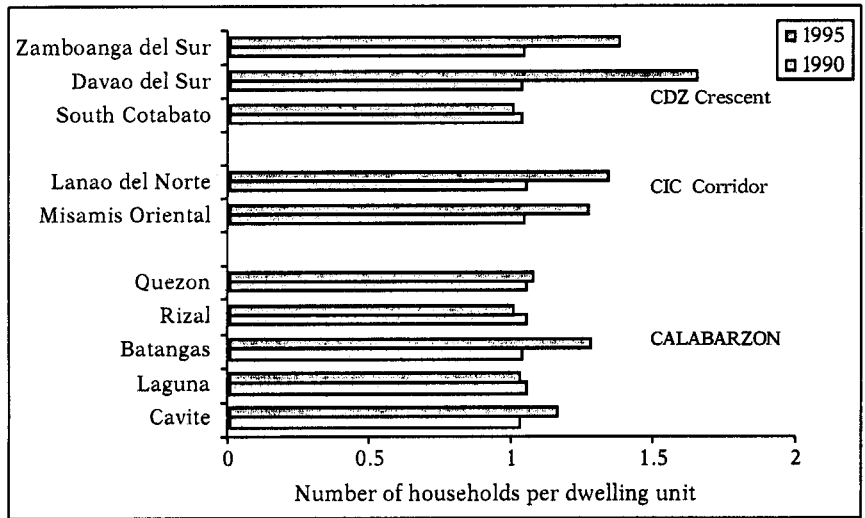
Source: National Statistics Office.

have access to safe water. At least 70 percent of total households in all growth corridor provinces, except for Zamboanga del Sur and Laguna (where shares are at least 50%), have access to safe water.

Housing. Curiously, shelter services are more wanting in the Mindanao corridor areas, on the account of higher households-to-dwelling ratios (Figure 66). As discussed, every one except a few has housing in the Philippines, so homelessness is not the problem but “crowding” in poor-quality houses is. Inadequate social housing is likewise a key issue in the urban centers of all growth corridor provinces.

Preliminary studies do not show similarities among all the growth corridor provinces, but provinces within a growth corridor tend to follow the same trends. Although as people are actually streaming into growth corridor areas, especially in their urban centers, the demographic expansion of the same is still largely due to natural increases. The CALABARZON provinces, especially the ones nearer Metro Manila, all enjoy the highest per capita incomes and the highest shares of industrial employment. The same regions receive the highest ratios of investments and exports. None of the growth corridor provinces exhibit outstanding performances in infrastructure provision, other than CALABARZON in terms of its power base. The developments in the urban areas of the growth corridor regions appear to be spontaneous rather than directed.

Figure 66. Apparent Housing Shortfalls in the Mindanao Corridor Provinces



Basic sources: National Statistics Office; 1995 figures are projections.

Chapter

6

Local Government and Decentralized Urban Growth

The emergence of growth corridors (and therefore, alternative metropolises and intermediate centers) has provided new possibilities for decentralizing urban growth and changing the profile of national goods and services production. There is a complementary process at work in ascertaining the speed of such a decentralized development: the manner in which features of local jurisdictions are redefined to attract new investments and maintain urban amenities at a high level. Key to this process is the central government's loosening of control over local governments so that the latter can efficiently take care of local public services. Demands for local coordination of urban investments and maintenance are in general beyond the means of the central authority, which has jurisdiction over rural populations as well. It would be far easier to carry out urban decentralization by encouraging endogenous responses from local governments.

Subsidiarity and Allocational Efficiency of Local Choice

Urban needs vary across regions and localities, making local governments' involvement crucial in crafting policies and implementing specific programs suited to each area's circumstances and requirements. Decisionmaking by local governments is more responsive to local preferences because they can grasp local concerns better. As a rule, central governments do not find it in their interest to redistribute resources from rich to poor regions in a generally proportioned manner. Thus, applying the principle of subsidiarity, urban functions (resource allocation, spending and regulation) should be exercised by local governments unless a strong case can be made for centralizing them. This implies, following Oates (quoted in Shah 1994), that urban services should be provided by the locality having control over the geographic area that would internalize the benefits and costs of such provision.

What central planners and local authorities should not attempt to do, however, is promote decentralized development by radically changing local characteristics that arise spontaneously, such as agglomeration economies (Hamer 1985).

Decentralization elicits flexible and innovative responses from local government units (LGUs). It allows the latter to compete among themselves in attracting firms and skilled labor through different bundles of local services, local taxes and user charges—to the extent allowed by the Local Government Code (LGC). A decentralized framework promotes the allocative efficiency of local choice—both over the directions of public expenditure on urban services and the scale of local taxing and spending (Davey 1993). By taking on a larger share of planning and maintaining investments, local governments free the central government, which then can use scarce resources to intervene more rationally and equitably in the delivery of urban goods and services on the national level (Hamer et al. 1986).

Backdrop for Asymmetric Decentralization of Urban Services

How should various public urban services be assigned to local governments? There are various considerations, according to Shah (1994), and they include scale economies, economies of scope (appropriate bundling of local public services) and cost/benefit spillovers, closeness to beneficiaries, consumer preferences and budgetary decisions on the composition of spending. Table 23 presents a matrix of local assignments on the basis of these considerations. Note that provision is not necessarily direct production, which may be more efficiently undertaken by sectors other than the LGU.

When scale economies and distributional aspects are not important (but political proximity is), and when there are no externalities, certain local services can be fully decentralized to all LGUs. These include road maintenance, refuse collection and fire/police protection. When scale economies matter somewhat, larger LGUs can take on the provisioning job. An example of a local service under this heading is land use planning.

Metropolitan governments (e.g., Metro Manila) or voluntary clusters of contiguous LGUs (e.g., Metro Cebu, Metro Davao) assume responsibility for provisioning when economies of scale are substantial, cost/benefit spillovers are considerable, and political proximity is crucial, but distributional consequences are minor. Examples of public

Table 23. Assignment of Major Urban Services to LGUs and Metropolitan Jurisdictions

Urban Service	Allocation criteria for provision						Composite
	Scale economies	Economies of scope	Benefit-cost spillover	Political proximity	Consumer preference	Economic evaluation of sectoral choices	
Road maintenance	LGU	LGU	LGU	LGU	LGU	Metro	LGU
Public transport	Metro	Metro	Metro	LGU, Metro	Metro	Metro	Metro
Water supply	Metro	Metro	Metro	LGU, Metro	Metro	Metro	Metro
Sewage disposal	Metro	Metro	Metro	Metro	Metro	Metro	Metro
Electric power	Metro	Metro	Metro	Metro	Metro	Metro	Metro
Public health	Metro	Metro	Metro	Metro	Metro	Metro	Metro
Control of air and water pollution	Metro	Metro	Metro	Metro	Metro	Metro	Metro
Regional planning	Metro	Metro	Metro	LGU, Metro	Metro	Metro	Metro

Basic source: Shah (1994).

services for distribution are public transportation, water supply, sewage, public health, electric power, air/water pollution and urban/regional planning.

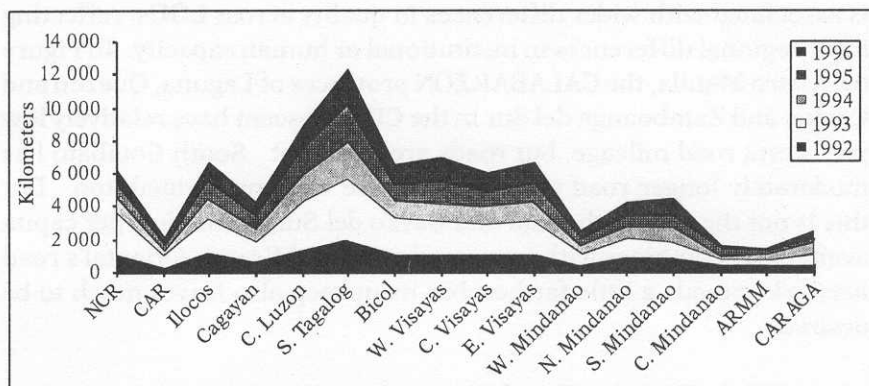
Providing Public Goods of a Localized Nature

Infrastructure

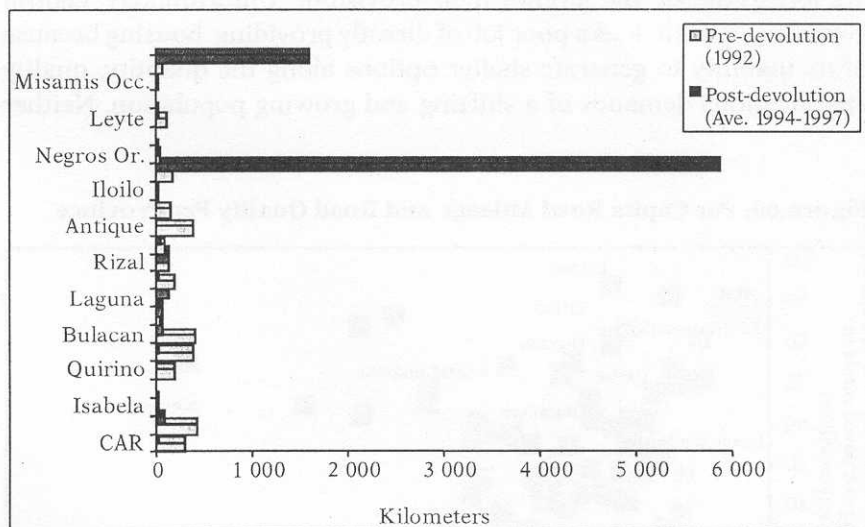
Improved infrastructure lessens the costs of doing business. It helps attract capital and labor to alternative emerging centers. Inadequate provision, on the other hand, will cause firms and skilled workers to locate in old prime centers because of the latter's overwhelming edge in infrastructural services. Decentralized responsibility offers an opportunity to improve provision in terms of choice, investment and maintenance. Nothing is more attractive than when "voice" is exercised by local infrastructure stakeholders and users. Moreover, infrastructure services are easy to provide on voter-preference grounds. That is, local government's expenditure initiatives favor capital facilities/investments, which attract the attention of voters more over other issues such as recurrent health spending. Infrastructure projects take priority in local budgets. Spending on roads and simple water systems has a greater political impact than spending on health care or on environmental protection; the incentive of the local government is to shift funds at the margin.

Roads. Since the passage of the LGC in 1991, trends in road building show a gradual decline in the number of kilometers of national roads. Figure 67 indicates that national road construction in all regions have decelerated between 1993 and 1995. It is not apparent, however, whether the decline is associated with expectations that local governments would pick up the slack. What is clear, however, is that the post-devolution road provision record of many provinces is a mixed one, with only a few provinces embarking on a road construction binge (see Figure 68). For the rest, it was "business as usual," indicating that on average, there has been no increase in local provision of roads.

It is possible that national roads could not realistically be devolved since they are primary highway networks whose benefits are more widely spread or that can only be cost-effectively provided by jurisdictions larger than provinces. Even in the case of maintenance, although LGUs have been made responsible over the road upkeep, regional authorities of the Department of Public Works and Highways have retained such local function, probably because LGUs still lack the necessary scale of operation to be economical.

Figure 67. Decline in National Road Building Since 1993

Basic source: Department of Public Works and Highways.

Figure 68. Mixed Record for LGUs in Road Building After Devolution

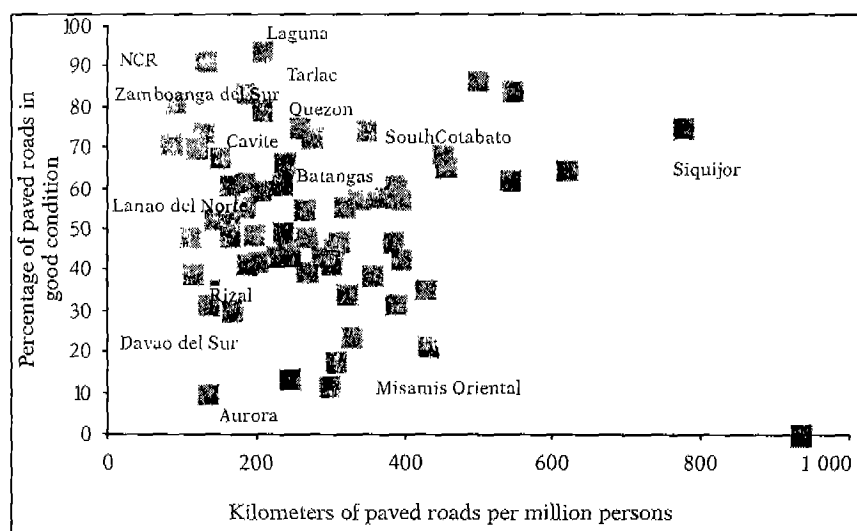
Basic sources: Department of Public Works and Highways; Department of Interior and Local Government.

Road quality is thus a key issue at the local level. Decentralization is associated with wider differences in quality across LGUs, reflecting inter-regional differences in institutional or human capacity. In Figure 69, Metro Manila, the CALABARZON provinces of Laguna, Quezon and Cavite, and Zamboanga del Sur in the CDZ Crescent have relatively low per capita road mileage, but roads are well kept. South Cotabato has moderately longer road stretches that are well maintained, too. But this is not the case with Rizal and Davao del Sur, whose low per capita availability combines with poor road quality. Misamis Oriental's road network extends a little farther, but its upkeep also leaves much to be desired.

Urban Housing Services

Residential investment is "linked" to infrastructure investment, and both play a major role in establishing efficient urban shelter services. Both housing and infrastructure services, because they partake of the nature of public goods, will be undersupplied if markets alone are left to decide the level of their provision. Unfortunately, central government itself does a poor job of directly providing housing because of its inability to generate shelter options along the quantity, quality and locations demands of a shifting and growing population. Neither

Figure 69. Per Capita Road Mileage and Road Quality Per Province



Basic source: Department of Public Works and Highways.

is it efficient in providing infrastructure (water, electricity, drainage, sanitation), which is considered the most effective way of expanding urban housing supply because it restrains speculative land price increases and stimulates private investment in shelter (UNDP 1994). At any rate, investment in shelter and infrastructure requires awesome front-end investments that central authorities can ill-afford.

It is estimated that nationwide, 3.7 million new housing units were needed between 1993 and 1998 to accommodate new household formations, and another 1.3 million units required renovation and upgrade. Since most of these were in the social housing category, it was not the lack of dwelling units itself that was the main problem; it was the lack of serviced land for housing, which required land acquisition and the development of serviced locations. For low income groups, urban dwelling units were incrementally constructed by individual households, and financing-wise are easier to deal with. It is the sites and services problem, which is too expensive for the national government to resolve alone, that must be paid serious attention.

There is a widely held consensus that to generate higher returns in urban housing, the urgent need is to decentralize shelter by enabling strategies that involve local governments and communities in sites and services programs. Since the passage of the LGC in 1991, there have been a number of policy initiatives on decentralized shelter. One is the Local Government Pabahay Program, a financing scheme for indirect housing provision launched by the Home Development Mutual Fund (HDMF), otherwise known as Pag-Ibig Fund. Under this scheme, the local government is granted financing by HDMF for land acquisition and site development, including the construction of housing units. When land development and housing construction have been completed, the units are turned over to beneficiaries (mostly LGU employees) who then directly amortize them with HDMF.

Another initiative is the Community Mortgage Program (CMP). Similar to the Pabahay Program, the CMP provides funding for land purchase, shelter construction and site development. Housing loans are secured from national housing agencies such as the National Housing Authority or the National Home Mortgage and Financing Corporation. The difference is that under CMP, beneficiaries—mostly those in informal settlements—organize themselves into a community association to buy private land using a common fund. To facilitate matters, LGUs act as “originators” by helping to organize the beneficiaries and acting as go-between among the association, the

landowner, land developer and the funding agency.²¹ In some cases, LGUs also help finance sites and services. LGUs, however, have no brokering monopoly in CMP, since nongovernmental organizations (NGOs) and the national housing agencies themselves can likewise act as originators.

The Pabahay Program fared badly, however, since it accomplished less than 10 percent of its 1993-1996 modest target of 10,000 units. The Pabahay Program and the CMP combined have reached less than 8 percent of all households seeking housing, and account for less than 6 percent of the National Shelter Program (NSP) performance.²² Except for Palayan, Nueva Ecija and Lipa, Batangas, the Pabahay Program has so far no other LGU takers. The problem is partly caused by the program's poor information campaign—only few LGUs seem to be aware of the program—but the bigger setback is the lack of any prior study on how land markets operate in localities outside Metro Manila. Emralino (1997) documents a couple of LGUs that intended to avail of the program but had extreme difficulties in land acquisition due to the constraints imposed by the land pricing structure in the municipalities concerned.

Of the two programs, CMP deserves a closer look because of its ability to measure up to the requirements of decentralized shelter provision. Urban poor households seldom have the resources to buy a completed housing bundle (dwelling unit + services). That is why social housing programs undertaken by the national government have often been “captured” by middle class households. The answer is to “unbundle” the housing package, supply the infrastructure piecemeal, and let the urban poor invest in a gradual fashion (Mohan 1994). The CMP appears to be closest to this policy solution. Significantly, local groups—LGUs and NGOs—are in the best position to implement the “unbundling” project.

Local governments and NGOs often go for semi-development of available space within urban perimeters. A semi-developed site reduces the land price for poor households, who then can afford better housing over time. Small, independent developers are also contracted to do the

²¹ The LGU has to organize an urban poor affairs staff to qualify as an originator. The local chief executive negotiates with the landowner, while the staff help the recipient community organize into a housing association.

²² The National Shelter Program (NSP) unifies all public housing financing schemes under one roof. Before the NSP, housing assistance was provided separately by the National Housing Authority, the National Home Mortgage and Financing Corporation, the Home Development and Mutual Fund, and the Government Service Insurance System.

job to reduce development costs. At the same time, in order to avail of the CMP, the urban poor community has to organize a savings and land acquisition scheme (Karaos 1997). Since nowhere has it been proven that informal settlements are heterogeneous, *community ownership* would enable the poor to benefit from cross-subsidies by the nonpoor.²³ The local association in most cases supplies "sweat equity."

Some LGU originators have pushed decentralized shelter further by using local funds to purchase land, and asking CMP recipients to amortize their payment directly to the local treasurer. Mandaluyong and Puerto Princesa provided land downpayment funds. Davao allocated funds for direct land purchase. Naga City tried land swapping/sharing. In Cebu City, both LGUs and NGOs have jointly provided interim financing. Nevertheless, most LGUs have few resources and rely still on national housing agencies (Rebullida 1997).

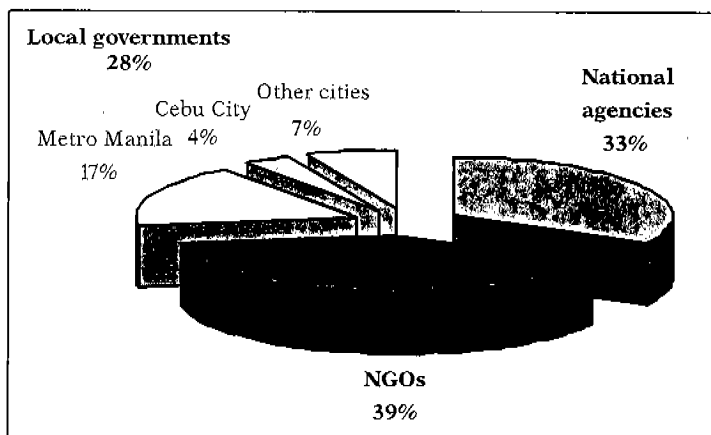
More LGUs and NGOs are expected to focus on increasing the supply of sites and services, adjusting rules and regulations to suit prevailing needs, and co-financing infrastructure improvements in existing settlements while guaranteeing land tenure. These measures might be the key to releasing large volumes of minimally serviced land onto the market, and encouraging the private sector to invest in socialized housing.

In a competitive and decentralized shelter framework, LGUs are expected to contend with NGOs, which have so far demonstrated more effectiveness because of their better capacity to mobilize the urban poor and to post higher collection efficiency (81%) than line agencies and local governments (Rebullida 1997). Figure 70 shows how the CMP pie is currently divided among the three originators.

Population Management

Urban decentralization is very much connected to reproductive behavior. Pressures on the human situation are brought about by urban congestion and "lack of public amenities." Improvements in the human condition also affect the pace of urban decentralization. Stabilized levels of population growth can accelerate the development of alternative centers by diverting resources from current consumption to investments. At the household level, major government policies have a bearing on the poor majority's access to social services and economic opportunities and thus influence the household's sense of security, which

²³ Community ownership has recently been discontinued because of lax repayments. Now each participant is made to pay for his/her mortgage share directly, undermining cross-subsidization.

Figure 70. Allocation of Community Mortgage Program

Basic source: Rebullida (1997).

plays a major role in child-bearing choices. High birth rates among the poor operate as a defensive mechanism against government's failure to open up, or unblock, sources of economic security beyond the family. In the 1970s, the long pause in the decline of birth rates in the Philippines is largely an outcome of the insecurity of poor groups in the 1970s (Lappé and Schurmann 1988).

Fertility reduction, thus, is due to a good population strategy as well as to key socioeconomic programs governing access to and use of life-sustaining assets—land, employment, health and the education needed to make the most of them—and contraceptive resources. In particular, family planning, health and education work best as handmaids to each other. Lappé and Schurmann (1988) explain the point: "Family planning cannot by itself reduce population growth, though it can speed a decline; it best contributes to a demographic transition when integrated into village- and neighborhood-based health systems that offer birth control to expand human freedom rather than to control behavior."

Good population management not only raises human welfare but makes good economic sense. Recent studies have shown that investment in population reduction and interventions supporting family planning are cornerstones of urban economic growth and generate a high yield of physical investment. Reduced population growth is the key to a leaner but more productive workforce, and in this way delivers positive economic returns.

Under the pre-devolution policy, the national government "owned" and run population programs. It still does today, through the Department of Health, since no devolution took place in the population sector. Instead, the LGC directly established in each LGU an office for population development headed by a local population officer.²⁴ The population officer serves both the local legislature or *sanggunian* (by formulating measures for legislative approval) and the local chief executive (by providing technical assistance) in the planning and implementation of population programs. These programs must "ensure delivery of basic services and provisions of adequate facilities relative to the integration of the population development principles and in providing access to said services and facilities."

The LGC, however, made the appointment of a population officer discretionary in the LGU. Despite this optional nature in the local population offices, population planning and programming now requires extensive coordination with LGUs—at least in theory—making central-local partnership pivotal in the implementation of population programs. One key integrated health and population management partnership is the LGU Performance Program (LPP), implemented by LGUs with funding and technical assistance from the Department of Health. The LPP receives donor support from the United States Agency for International Development.

Each participating LGU develops a comprehensive plan for providing integrated population, family planning and child survival services. The plan includes key activities already being funded by LGU/ other sources as well as activities requiring funding from LPP. It uses detailed situation analysis and high performance standards. Funds are released directly to the LGU, the amount of which is based on previously successful results. The LPP is to augment funds and not provide substitute resources.

Since local chief executives are responsible for the program coordination, LPP focuses on building management capacity and

²⁴ A key provision of the LGC which may have grave population implications in the future is the Internal Revenue Allotment (IRA) formula. A local jurisdiction's population is a crucial element in the IRA allocation formula. There are current initiatives from NEDA and the Department of Finance to increase the weight of population in the formula. While this will give LGUs greater fiscal resources to implement basic social services (including family planning), the possible downside is that it may create "moral hazard." Some LGUs may have the incentive to increase their population bases (through natural increase or internal migration) in order to acquire more fiscal allotment from the national government.

augmenting local resources. The LGUs are provided with skills and applied practice in analyzing baseline data, setting objectives and activities and developing budgets as well as seeking donor resources. They have authority over the direction and priorities of plan implementation, and thus “own” the program. The fund allocation includes budget for training or supplies and equipment, including vehicles.

The LPP links financial incentives to program achievements. Central to the program design is performance-based disbursement. LGUs must attain performance benchmarks to be eligible to receive funds for the following year. Performance benchmarks change each year: capability-building in the initial phase; service availability, quality and impact—providing communities with greater access to high-quality services and their health benefits—in the succeeding phases. Start up benchmarks ensure that structures are in place to support continued participation in the program. The standards are jointly selected by the LGU and the DOH.

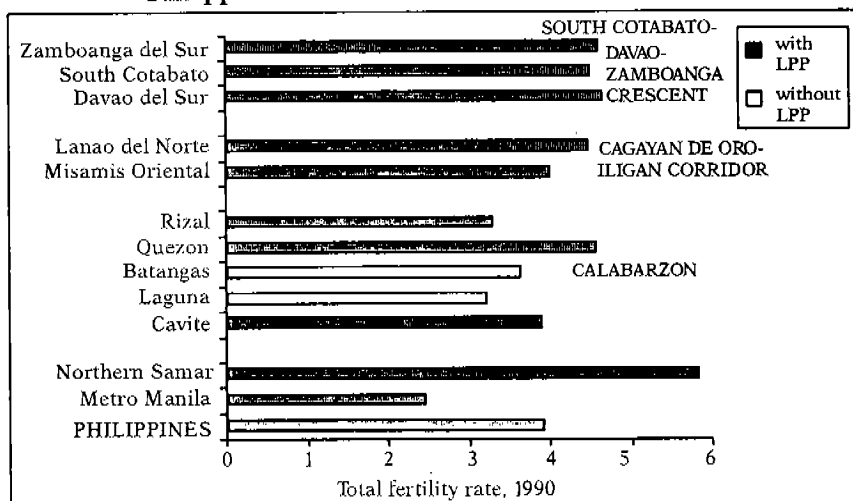
Between 1994 and 1998, 62 provinces and 24 cities have been covered by LPP. The program is applied to most growth corridor provinces (Figure 71). Laguna and Batangas are the conspicuous exceptions. This is because while the LPP requires local officials to be clearly committed to population planning programs, the Laguna and Batangas governors are known to be “pro-life” advocates.

Financing Urban Improvements

Local governments have several major sources of financing: the internal revenue allotment (IRA), which is governed by a fixed formula; local taxation; borrowing by local authorities; and cost recovery. Only IRA and local taxation are present in most LGUs. Do local governments have enough resources and the will to cope with urban density pressures?

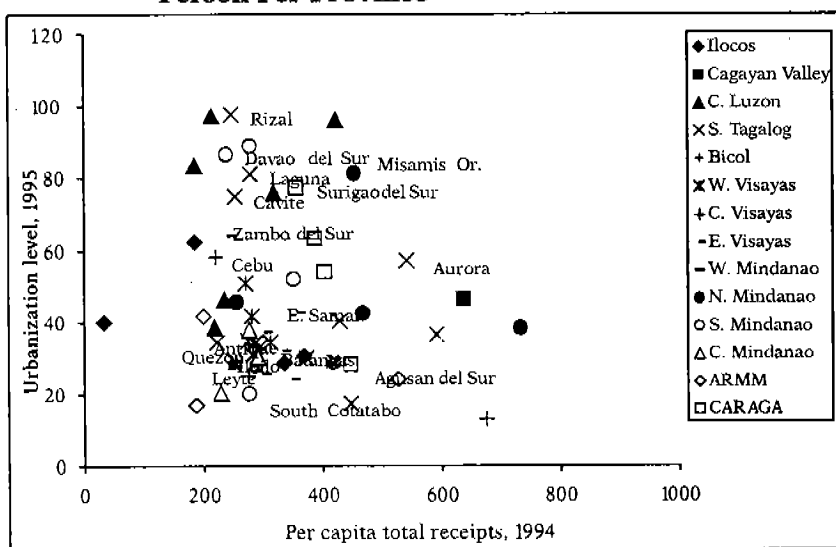
Availability of Resources

Ideally, high urban densities and lower resources per person go together. Figure 72 suggests this case: provinces with very high levels of urbanization such as those in the growth corridors (Rizal, Laguna, Cavite, Misamis Oriental, Davao del Sur) have lower per capita total receipts. The revenue bases of these key provinces do not expand as fast as their large population bases. But the relationship is confusing elsewhere. Cebu and Aurora both have urbanization levels above 50

Figure 71. Coverage of the LGU Performance Program (LPP) in the Philippines

Basic sources: Palmore et al. (1995); Department of Health.

Fertility rates have to go down further even in growth corridor provinces. In this regard, local family planning programs (like the LPP) may help.

Figure 72. Trends Between Urban Densities and Resources Per Person Per Province

Basic sources: *Philippine Human Development Report 1997*; National Statistics Office.

Availability of resources per person varies widely among growth corridor provinces.

percent, but Aurora commands more resources per capita. The same pattern goes with say, Agusan del Sur and Quezon, both of which are underurbanized.

The mixed results are partly because some provinces, especially the underdeveloped ones, obtained larger amounts of resources (i.e., internal revenue allotments) under the LGC (Manasan 1997). The code disrupted the level of availability of resources per person in all but a few of the local jurisdictions.

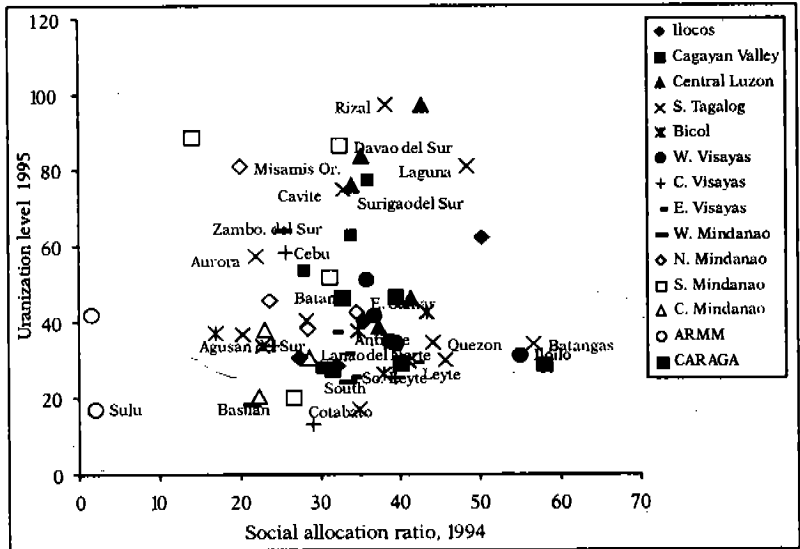
Urban social spending

Figure 73 shows whether the spending patterns of both highly urbanized and underurbanized provinces conform with the preferred social allocation ratio, which is the share of local government spending earmarked for social services. Meanwhile, Figure 74 relates urbanization levels with the human development priority ratio (HDPR), which is the share of local government spending set aside for human priority concerns. The HDPR is a "bottom line" indicator that measures the effort of local governments, considering their capacities, to supply basic health and education needs. The United Nations Development Programme (UNDP) has set a preferred option of 20 percent for human priority spending. Manasan (1997) recommends a 40 percent share in social services spending and within the social services budget, a 50 percent share for human priority concerns to come up with the UNDP norm.

Again, Figure 73 shows that among the highly urbanized growth corridor provinces, only Laguna managed to go beyond the 40 percent norm in social services spending in 1994. Rizal was a poor second, although it was quite close to the norm. Laguna, as well as two underurbanized growth corridor areas, Quezon and Batangas, have demonstrated an admirable effort to provide more social services despite low per capita availability of resources. Aurora was a stark contrast: It has higher per capita resources, but a low social allocation effort.

In the next chart (Figure 74), Lanao del Norte and Zamboanga del Sur join Laguna, Quezon and Batangas as provinces able to provide adequately for human priority concerns. Batangas has the highest HDPR despite lower resources and lower urban agglomeration economies. Lanao del Norte and Zamboanga del Sur, each of which had a relatively lower social budget, manage to spend most of it on human priority concerns. Aurora ranked last among provinces below the 20 percent norm, despite high per capita resources, suggesting that human development concerns were its least priority.

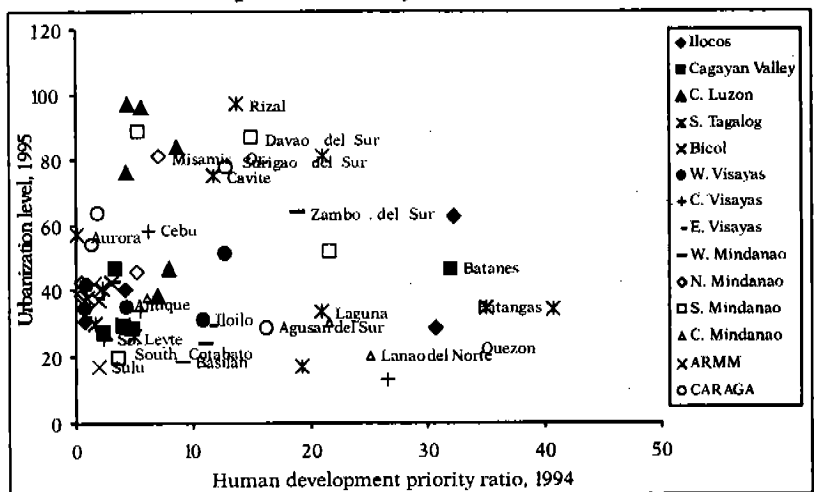
Figure 73. Spending Patterns of Provinces vis-à-vis Social Allocation Ratios



Basic source: *Philippine Human Development Report 1997.*

Few highly urbanized provinces have gone above the 40% social allocation norm.

Figure 74. Relationship Between Urbanization Levels and Human Development Priority Ratio



Basic source: *Philippine Human Development Report 1997.*

Again, only a few growth corridor provinces have been able to observe the 20% preferred for human development priority spending.

Fiscal decentralization implies that the revenue means should be matched as closely as possible to spending needs (Shah 1994). As the foregoing charts suggest, many provinces use their revenues for their relative needs and priorities, possibly through coordinated and strategic interventions in the provision of urban services. Of course, some poor provinces are clearly still unable to pay their own way. For those who do, they may benefit from recent findings that suggest local programs and projects are accomplished at one-half to two-thirds the cost incurred by centralized agencies.

Financial decentralization must be sustained since the central government alone is not in a position to know and identify local priorities, much less implement programs in a systematic, and coordinated fashion across scores of urban areas. However, it can help by promoting financing partnerships among LGUs, central agencies and the private sector. Subsidies assist in overcoming the incipient handicaps of some cities, but they can give the wrong signals about the associated resource costs of subventions.

Central government transfers such as the IRA are here to stay, but LGUs should have greater access to their own tax bases. Central government can help by matching grants and transfers (Shah 1994). Specific and appropriate grants are convenient tools for reconciling national policy objectives with the locally identified priorities and circumstances (Davey 1993). There is, however, a need to develop incentives that link increases in central grants or transfers to local tax effort. Well-off localities, on the other hand, should be encouraged to depend more heavily on local taxes and cost-recovery schemes (user charges), and compete with each other for commercial funds. Borrowing at commercial rates increase the propensity of LGUs to recover costs for urban services (such as water and electricity), improve tax collection (to service the debt) and offer incentives to control costs, improve accounting standards and manage urban operations efficiently (Hamer et al. 1986).

Central-Local Relations

The question then of how to divide functional responsibilities between levels of government is answered by the principle of subsidiarity, restated by Dillinger (1994) as follows: where the impact of local government behavior is largely localized, and regulation requires detailed knowledge of local conditions and priorities, the case for central regulation is hard to justify. Identifying and responding to local preferences is better left to local governments. Since preferences for

urban services differ among the various constituents of LGUs, welfare gains are attained by allowing the level and mix of such services to vary accordingly.

The organizational implication, Dillinger points out, is that answerability for particular types of public services is assigned to the level of government whose boundaries “enclose” the affected beneficiaries. This central-local division allows local communities to capture the “responsiveness benefits” of local decisionmaking, and larger entities to secure economies of scale in higher level policy actions.

Chapter

7

Conclusions and Policy Recommendations

The preceding chapters have shown how urban decentralization has proceeded in the Philippines, focusing on the economic characteristics and linkage effects in relation to explicitly geographic placement policies (such as export platforms and agri-industrial centers) and lately, global economic restructuring. The changing roles and configuration of Philippine urban centers and growth corridors were examined vis-a-vis the goal of regional economic balance. This study emphasizes the importance of decentralizing urban primacy, both through the creation of alternative growth centers and the devolution of urban functions to local governments. These actions help to redirect population, output and employment growth toward areas of emerging economic opportunity.

However, understanding the process of urban decentralization and looking for ways to accelerate it are two very different things. A basic question remains: What changes can be made to hasten the process of urban diffusion? To answer this question, this section first states the basic conclusions of the study to derive important lessons from the decentralization process. Then, within a framework that takes into consideration the dimensions of the challenge, policy options are advanced. For urban decentralization to be carefully managed, urban planners and decisionmakers must begin with sensible and doable policies.

Conclusions

1. *Although there are some signs of slackening, urbanization in the Philippines continues—but too unevenly. It is not sustainable unless geographic balance is achieved.*

The Philippines was estimated to be 54 percent urban in 1995. There were, however, indications that the pace of urbanization has weakened and the primacy of Metro Manila is gradually receding in the last few years. The absolute number of people in urban areas is daunting. From 1970 to 1990, it grew from 12 million to 30 million and was estimated to have further increased to 37 million by 1995. This is neither exactly a threat nor an impending crisis; it simply means that economic and social growth in the Philippines, already concentrated in urban areas, will be decisively more city-driven in the coming years. Philippine cities already contribute over half of the nation's wealth.

Of greater concern is the uneven distribution of urban population and growth. In spite of the apparent primacy reversal of the NCR and the emergence of rapidly urbanizing cities and municipalities, progress has been very slow in many regions. Southern Tagalog and Central Luzon, two regions surrounding Metro Manila, have almost exclusively enjoyed growth spillovers from the metropolis. Many of the other regions have missed out on the opportunities from metropolises. Even the better-off regions have often been left vulnerable to cutbacks in urban services.

Unless urban centers grow equitably, the gains of secondary cities may be difficult to sustain while struggling areas will be left behind even more. A slow urban decentralization will not necessarily buy time for Metro Manila, since a deteriorating quality and structure of growth will contribute less to long-term sustainability.

2. *Contrary to the traditional notion, rural-urban migration has been losing its impact on urban growth. As urban population bases stabilize, encouraging urban-urban migration would help the cause of urban decentralization.*

Although there was positive correlation between urban growth and migration in the late 1980s, recent data suggest that the flow of out-migrants has been gradually declining. Consequently, urban population bases have stabilized as the proportion of migrants in the destination areas diminished in recent times. Southern Tagalog remains the most favored destination, but migrants have also unevenly moved across provinces and regions. High urban growth areas still attract the chunk of this receding tide of rural-urban migration. In fact, city-to-city migration has accelerated, which helps decongest Metro Manila.

Province and city-level data indicate that the natural increase of people already in urban areas and net reclassification of formerly rural

areas into urban areas have brought about recent urban growth. In contrast, fertility, which in the past combined with internal migration to fuel urban growth rates, has declined in all regions, thus helping to slow down urban polarization. Total fertility rates in many provinces, though, remain unacceptably high.

Slowdowns in urbanization and migration are complementary processes; stalling one would restrain the other. It is during this slowdown when policymakers should focus on encouraging population movements from Metro Manila to outlying centers. That requires sustaining advances in less developed growth areas and making sure the new migrants—as embodiments of human capital—are given opportunities to participate in sustaining local economic growth.

A welcome development along this line is that rates of per capita income growth in many regions have lately exceeded those of Metro Manila. All other things being equal, lesser income disparities between regions and NCR could be a powerful incentive for moving out of the metropolis. But falling real wage levels across regions offset this advantage, resulting in little progress in employment decentralization. Narrowing disparities is ineffective in the face of welfare losses and is tantamount to redistributing a mere pittance to other regions.

3. *While urban centers drive economic growth, urbanization in the Philippines is most closely associated with the expansion of non-traded personal services. The focal point of urban policy must be on restoring the links between urbanization and industrial growth.*

High urban levels in the Philippines coincide with little economic growth. Between 1975 and 1996, urbanization proceeded while output and employment in manufacturing (which is the core of the industrial sector) stood still or showed little progress. It was output and employment in the services sector which grew, remarkably for some and modestly for other regions. Like the other components of urbanization, the growth in the services sector was distributed unevenly across the country, with the NCR getting the lion's share. These suggest that urbanization (and thus, urban decentralization) is more closely associated with the services sector. The segment that may have the strongest influence on urbanization trends is the nontraded personal and community services.

Until 1992, Manila's industrial primacy has stalled with the spillover picked up by Southern Tagalog and Central Luzon. However, between 1994 and 1996, NCR's stagnant industrial output (including

manufacturing) bounced back to life while other regions declined. The pattern is repeated in the services sector. This is a clear indication that either industrial diffusion or dispersal of the services sector is not accompanying urban decentralization.

Long-term economic growth can be achieved only with solid industrial and manufacturing bases. A number of recent economic studies (Lim 1991; Montes 1991; Tecson 1996) argue that sufficient industrial capacity (light and medium industries) will be necessary to fuel a balanced economic growth. Also needed is a balanced geographic growth, if the benefits of industrial expansion were to reach a wide segment of the population. Industrial dispersal remains valid as a central urban policy objective.

4. *Instead of promoting urban decentralization, global influences—foreign direct investments and exports—have reinforced urban primacy in the Philippines.*

Between 1981 and 1995, three quarters of foreign direct investments went to industry. Only a quarter went to the services sector. Over half of these investments from abroad were concentrated in manufacturing, accounting for a large share of foreign equity going to industrial activities. That is not exactly a bad ratio, but location decisions are made on the basis of superior infrastructure, agglomeration economies, a full array of business and financial services, presence of specialized labor and access to bureaucratic decisionmaking. Since metropolitan regions are better equipped than all rival centers, it is no accident that foreign direct investments tend to be concentrated in the NCR and Southern Tagalog. These are the same regions with the highest urban shares.

In its effort to advance industrial dispersal and as part of its export-oriented industrialization, the government created a number of export processing zones. As of 1995, however, 61 percent of exports still originate from Metro Manila. Considerable amount of exports also originated from Southern Tagalog and Central Visayas, both areas having high urban population bases. Generally, the link between manufacturing exports and urbanization was most apparent in Luzon while urbanization in the Visayas was most closely linked to non manufacturing exports.

A third global factor—remittances by OCWs—was also examined. The relationship between OCW remittances and the growth of employment in the nontraded services was found to be sketchy, and in

any case, only seems to prove further the dominance of NCR, Central Luzon and Southern Tagalog.

These findings suggest that the relative attractiveness of alternative urban growth centers is limited and of no match to that of the metropolis. Since it is impossible to alter urbanization-related advantages that arise rather spontaneously (e.g., agglomeration economies), a policy shift can be made to favor coordinated and more integrated urban services at alternative sites and discourage the usual practice of maintaining "enclaves" meant to isolate certain parties from nascent industrial hubs.

5. *Successful urban decentralization requires a minimum package of electric power, telecommunications, water supply and paved roads in alternative urban locations. Infrastructure development has generally kept pace with urban growth.*

Electricity and water are basic inputs in economic production. But they are also central in enhancing the quality of life. Availability of safe water improves health and raises productivity. Improved road networks and transport conveniences reduce travel time, increase accessibility and induce people to move further from the center, a process that leads to deconcentration.

In recent years, infrastructure has grown proportionately with urbanization. The strong association between urbanization and infrastructure growth is even more evident in specific sectors. Telecommunications, power and access to water have higher per capita availability as urban growth strengthens. However, the opposite is true with regard to roads. The availability of roads grows inversely with urban growth, which probably means that capital investments have been redirected to underurbanized regions in an attempt to induce agglomeration in the latter areas.

However, a certain level of urbanization has to be reached to get the most returns from infrastructure investments. Evidence suggests that infrastructure investments have low returns where urbanization (serving as a proxy for underlying conditions for economic growth) is itself low. The supply of adequate infrastructure seems to work best when a high level of economic activity is previously present.

6. *Advances in human development have accompanied progress in urbanization in most regions. But they may not be sustainable without further urban decentralization.*

As the regions moved to higher stages of urbanization from 1990 to 1994, improvements in human development, as measured by the HDI, also occurred. Expectedly, highly urbanized regions such as the NCR, Southern Tagalog and Central Luzon dominated the high HDI category. The good news is that all regions have posted more gains in human development than in income, which remains unevenly spread. Gaps in life expectancy and literacy narrowed. Similarly, gender development, measured by the GDI, also advanced concomitant with the level of urbanization, but the low values for all regions suggest that urbanization has not successfully raised gender equality in the regions.

Progress in human welfare has been possible even with slow economic growth. But such gains could have been easier to sustain had economic growth been more evenly spread. Simultaneously, it is easier to maintain the momentum of growth if human development is pursued vigorously. Urban decentralization and human development should be strongly linked as they move forward together.

7. *In spite of the tremendous rate of urbanization in many regions, the swelling number of unauthorized housing settlements remains to be Metro Manila's problem. In other key cities, squatter colonies slowly build up. Now is the time to look for preventive measures.*

For the most part, the growth in housing stock has kept pace with urbanization. Housing stock in both highly urbanized and under-urbanized regions has increased tremendously during the 1980s. The problem lies, however, in the increasing number of informal settlements, most of which are unsafe and overcrowded, and have limited access to potable water, good sanitation and adequate transportation.

The higher the urban population, the greater the number of people housed in makeshift dwelling. Thus, Metro Manila houses about one-fourth of the country's urban population and has 80 percent of the urban poor households living in unauthorized housing units. Although Southern Tagalog and Central Luzon come next to Metro Manila in terms of the share of the country's urban population, the number of squatter settlements in these two regions does not come anywhere close to that of Metro Manila. The NCR may have a wider tax base, but the number of squatter settlements can be a tremendous drain on its resources for human services. Social housing is a major solution but mostly requires high levels of subsidization, and is always vulnerable to being availed of by the middle income groups instead.

That the problem of informal settlements is just beginning in other key cities such as Cebu, Davao and Cagayan de Oro is no reason for complacency. These secondary centers can learn the lessons of Metro Manila and adopt anticipatory measures to prevent the buildup of squatter colonies in their localities. The continuous need to provide basic services for the squatters will be a big challenge to local governments. A careful study of local urban land markets, and "unbundling" expensive social housing services are significant starting steps in avoiding this problem.

8. *Despite the considerable amount of resources and incentives provided to CALABARZON, the Cagayan De Oro-Iligan Corridor (CIC), and the South Cotabato-Davao-Zamboanga (CDZ) Crescent, industrialization failed to accompany the process of urbanization in these growth corridors. But they scored well in human development.*

A number of implicit and explicit spatial policies were implemented by the government to correct the biases still carried over from the import-substituting period. Broadly, the changes effected were on tariffication and tariff restructuring, and on investments incentive structure. The latter became the seed of the current growth corridor strategy. As early as 1991, the corridor development plans were already completed for CALABARZON and the CIC, which were among the first growth corridors and considered the two most important of their kind in the Philippines. These two plus that of a rising new corridor in the south, the CDZ Crescent, were studied in this report.

Like other regions, these growth corridors posted population increases mainly through net natural increase and rural-urban reclassification. Though net-migration is not a significant factor in its population increase, shift analysis revealed a general population movement toward the provinces and cities of these growth corridors. With the exception of South Cotabato, the growth corridors were also characterized by increased urbanization.

In a situation where the industry sector absorbed less than 40 percent of the labor population in all areas, the provinces with the highest proportion of the industrial labor force are concentrated around areas close to Metro Manila. Cebu is the exception. Meanwhile, CIC provinces, CALABARZON and other provinces close to NCR have the highest share in employment generated by the service sector.

High HDIs, however, accompanied the high urban growth of the provinces of CALABARZON, CIC and the CDZ Crescent. Specifically, access to safe water generally increased with urbanization. Ironically, they have the slowest growth in functional literacy, an indication that functional literacy already peaked in the urban hubs.

This does not speak well of the rural agri-industrial development strategy of the government. The strategy has failed to catapult the growth corridors to respectable levels of industrialization. Advances in human development remain as consolation. These findings are further corroborated by the continuous decline in the real wages (as a reflection of genuine economic difference in skills and cost of living) in these growth corridors. CALABARZON's economy has been performing below par in terms of output growth beginning the 1990s. The widening gap between real wages and the inflation rate may be a direct consequence of this development.

9. *The mixed trends in growth corridor cities and provinces could be signs that the growth corridors as a development strategy should be examined.*

The economic and social trends do not show any commonality running through all the growth corridor provinces, although provinces within a particular growth corridor share the same trends. The CALABARZON provinces, especially the ones nearer Metro Manila, enjoy the highest per capita incomes and the highest share of industrial employment. In the case of CIC, the record is mixed. The provinces in South Cotabato-Davao-Zamboanga are all low-income provinces with minimal labor population in the industry sector.

No doubt, due to its locational flexibility, higher value-added and greater employment generation capability, a solid industrial base is still needed for long-term economic growth. That is imperative. What needs re-examination is how industrial dispersal is being carried out. A review of both explicit public policies that affect businesses' decisions on where to locate their offices and implicit rules that have tremendous spatial impact is urgently needed.

10. *Decentralization provides new opportunities for local governments to take over most of the urban functions. But the performance of local governments in the provision of several devolved urban services shows mixed results.*

On the basis of the principle of "subsidiarity," local governments should exercise urban functions (resource allocation, spending and regulation) unless a strong case can be made for centralizing them. Certain local services can be fully decentralized to all LGUs when scale economies and distributional aspects are not important; however, proximity to the political hub and absence of cost/benefit spill-overs are. These functions include road maintenance, refuse collection, and fire/police protection. On the other hand, metropolitan governments should take over functions where economies of scale are substantial and spillovers are considerable. Proximity to the political hub is crucial, but distributional consequences are of minor concerns. These include public transportation, water supply, sewage, public health, electric power, air/water pollution and urban/regional planning.

Since the passage of the Local Government Code in 1991, national road building declined because only a few provinces embarked on road construction. Neither did LGUs show much interest in shelter services. In spite of enabling strategies in social housing, local housing initiatives account for less than 6 percent of the National Shelter Program.

Local governments' spendings on social development likewise differ. A number of both highly urbanized and underurbanized provinces fared well in allocating sufficient resources for human development priorities. But other provinces with higher capital resources per person spent poorly on human development priorities.

Despite initial setbacks, local government units are in the best position to understand local situations and implement systematic and coordinated urban programs. Financial autonomy is required for this purpose. The task of providing most urban services is better left to local government units, primarily because the impact of government action is largely localized and planning requires detailed knowledge of the local situation.

Increasing urban financial autonomy and accountability is the key to unlocking local governments' initiative to assume responsibility. With enhanced local autonomy, LGUs can focus on local coordination of investments, maintenance and cost-recovery.

In a regime of contracting financial resources, however, inter-governmental fiscal partnership is needed. Instead of giving straight subsidies to local governments, central authorities would do well to encourage matching grants, loans and increased local tax effort and cost-recovery schemes. Individual LGUs, depending on their level of development and available tax base, should be encouraged to explore other means of raising revenues as stipulated in the 1991 LGC.

Policy Recommendations

1. *A top-down approach of developing growth corridors (national government in control of overall spatial decentralization) and a bottom-up approach of managing urban development (LGUs in command) might be just what are needed.*

The current move toward demographic diffusion indicates that the regional development efforts of the central government are finally paying off. Here, the national government's role in shepherding growth corridors must be recognized as possibly more administratively feasible and efficient than if local governments take the cudgel to do the same tasks.

Despite a number of drawbacks, the growth corridors analyzed in this study—CALABARZON, the CIC and CDZ Crescent—have distinguished themselves as areas of proven growth or as areas with potential. This is true even in the case of the CDZ Crescent where South Cotabato, Davao and Zamboanga's individual patterns of growth appear to have evolved independently of each other. Of course, a clearer policy to economically link provinces of growth corridors is necessary if they are to serve as spatial models in the development and expansion of industrial zones and estates' use in other key areas.

Since the regional agri-industrial centers have been identified, improving infrastructure-tune is now necessary to accelerate and sustain growth. How infrastructure can achieve scale economies and maintain agglomeration effects will be further tested in the growth corridor cities. Infrastructure partly facilitates access to urban services so it is important to improve links, especially regarding transportation and communication, within and among growth centers. Well-developed infrastructure improves and intensifies linkages among settlements, paving the way for an efficient integration and exchange of products and services. Unless access is substantially enhanced, physical proximity to resources and established markets will continue influencing the producers' choice of location. This is another way of saying that metropolitan areas will continue to be the choice of firms because of easier access to urban services.

Here, local governments have a large role to play in altering the relative attractiveness of urban centers. By taking fiscal and other economic initiatives meant to improve access to urban services, LGUs can help reduce the operating costs of business and attract new investments and skilled labor. By forming partnerships with private

entities to front-load infrastructure development, LGUs can tilt the “pull factor” in favor of a locality identified as an investment destination. LGUs are in a better position to know and identify local priorities, including urban functions that they can independently perform well and functions that would need assistance from the central government.

Because the type and mixture of infrastructure, services and economic activities cannot be in any way uniform, LGUs should be given the main responsibility to make the adjustments that will match requirements to local preferences. Aside from the lower costs entailed, LGUs offer greater sensitivity to the needs of their localities.

Then too, since industrial dispersal is the accepted convergence point for policy reform, aimed at creating overall industrial balance, LGUs in growth corridors can take advantage of the “natural” locational flexibility and multiplier effects of industry (especially manufacturing) in order to generate localization economies in their jurisdictions. While central authorities will continue maintaining industrial standards, LGUs ought to be given a free hand in creating a climate conducive to the growth of both local urban services and industry. More autonomy will allow LGUs to shift to demand-driven urban management which is in step with local capacities and needs. Complimentarity can also be developed between contiguous localities.

The central government should offer an alternative bundle of policies and economic programs in the already existing growth zones to enhance the industrialization-urbanization link. Economic gains, which translate into reasonable wage levels and improvements in household income, are powerful incentives in encouraging individuals to “vote with their feet” and relocate to secondary growth centers. But it must be remembered that regional balance should be in the form of decentralized concentration rather than forcibly dispersing growth out of Metro Manila.

2. *The goal of regional balance should be continuously pursued, but the policy should not hinge on indirect economic measures that reinforce the advantages of metropolitan areas. Central public policymaking should concentrate more on “steering” implicit policies that affect spatial development.*

This study recognizes that a balanced regional approach to national growth continues to be a central measure both in enhancing equity and in forwarding efficiency aims. The consequences of delayed

spillover from the other less ideal approach, which is to encourage growth nuclei, are too large to ignore. Other than the oft-mentioned equity concern that the benefits of growth nuclei are concentrated only on a minority, these consequences also include the huge congestion costs resulting from unnecessary migration to faster growing regions and the very serious allocative inefficiencies arising from poor selection of regions as growth nuclei.

Meanwhile, public policies, apart from those aimed at establishing optimum geography (through agri-industrial centers), do not have to be explicitly spatial to have significant effects on the location decisions of investments. The unintended consequences of some sectoral policies can increase the industrial gains of some locations at the expense of others. This is because most investments feel location-bound while some required inputs are concentrated in metropolitan locations: access to transport (for moving goods), access to the bureaucracy (for facilitating and speeding up transactions), access to urban services (water, power), etc.

Tarification policies and investment incentives favoring particular subsectors that rely on location-specific features and amenities will selectively reinforce the spatial imbalance; that is, they will continue to favor metropolitan areas and preserve the relative unattractiveness of other urban areas. Government cannot ignore the geographic consequences of these "implicit" policies, since their impacts can produce barriers to decentralized industrial growth. Such implicit policies should be reviewed for location-related bias.

3. *Market-friendly directions will increasingly take over government interventions in urban areas. The policy environment must encourage stronger competition among local governments in vying for investments and skills. Local governments should have significant control over the location and timing of urban growth and development.*

The current liberalization policy of the government can be tapped to further urban diffusion. A less restrictive economic environment encourages better flow of capital investment from the international private sector. That can combine with high technology skills and a reasonable wage structure to transform secondary cities and towns within the urban system into centers of economic opportunity. Leapfrogging several decades of stagnant growth would mean that growth corridor areas would have to actively espouse economic action

that has stronger priorities for growth, the removal of regional disparities and human development. Growth corridor areas, specifically, have to become proficient in new technologies to be able to compete effectively.

The national government will have fewer roles to play in influencing local urban development. When central and local governments do what they do best, majority of the urban service and goods provision function should be relegated to the local government units. The policy environment must thus encourage competition among local governments in enticing entrepreneurs and skilled workers by offering different packages of local urban services, tax incentives and cost recovery schemes. The local units could zero in on investors who are not interested in the distinct superiority of historically pre-eminent centers, and who may be attracted to lower costs offered by secondary urban hubs. After all, metropolitan areas may be quite costly when firms have to face problems associated with pollution, high population densities, and peace and order. As inter-regional communication improves, so should the relative attractiveness of alternative urban growth areas. This, in turn, should help re-route migration flows.

4. *Local participation and local governance are not mutually exclusive, and can go hand-in-hand in promoting urban decentralization.*

In many cases, only local jurisdictions—with LGUs and civil society banding together—possess the energies to marshal their available resources to overcome the inherent weaknesses at the local level.

There should be renewed efforts to recognize the multisectoral nature of local level development, regional resource endowments and current economic activities. In the past, policymakers often debated whether they should choose economic growth or extensive participation, as if the two were mutually exclusive. Today, voiceless growth no longer makes social and economic sense, and the trend is toward an increasingly demand-driven local urban management. Under a decentralized urban framework, LGUs are given full opportunities for social mobilization and participation, and control.

5. *Cities should have a variety of functions and development profiles. The possibilities of a decentralized system of differentiated and pluralistic urban centers should be exploited.*

A nationally designated hierarchy of settlements, according to the National Urban Policy Agenda drafted by the National Economic and Development Authority, no longer makes economic sense in the light of liberalization. It is an idea whose time has gone by. Globalization and competition imply radical shifts in relative roles of different cities and regions; sticking to a fixed classification and ranking of urban centers can therefore lead to market distortions. For example, the East Asian Growth Area (EAGA) initiatives among Malaysia, Indonesia, Brunei and the Philippines are dramatically transforming Mindanao, where comparative advantage, and free play at the local level have replaced pre-determined functions and services imposed by the central government on the island. This new development coincides more with the intentions of local officials and investors in Mindanao.

In lieu of a rigid hierarchy where fixed roles and rankings are reserved for urban centers, the widely held consensus is to develop new approaches that could lead to accelerated inter-regional competition, more effective use of local resources and comparative advantages, and the development of more efficient production activities.²⁴ In the case of EAGA, individual opportunities (market trends that favor local products, presence of scale economies, comparative advantages) can be exploited and constraints (i.e., regional distribution bottlenecks) can be resolved to lay the groundwork for regionally identified projects that harmonize with local preferences.

Each locality is uniquely brought about by the distinct combination of available human and natural resources. This uniqueness should be considered by the national government when designing a broad framework that will assign a variety of functions to specific local jurisdictions.

²⁴ Nevertheless, an interlude of transition may help, since even the National Urban Policy Agenda recognizes that the current urban hierarchy is expected to continue for some time. To the degree that the existing system of cities still offers a number of benefits, to *that* degree it must be exploited. As economist Cayetano Paderanga, Jr. points out, "While it is true that there are new influences such as BIMP-EAGA, it would probably still be useful to exploit the concept of a national urban hierarchy in planning in order to avoid going against strong currents of agglomeration natural advantage. The system of cities is an empirical regularity with strong logical underpinnings that has appeared in all geographic groupings of communities. (W)hile these new influences will stretch the city hierarchy in new directions, the underlying system of urban centers will remain." Paderanga also suggests that within the city system, larger cities are better equipped to provide the linkage with the international market that FDI's require, and second- or later-round effects can take care of spreading the impact of the stimuli. The impact of the linkage, particularly as regards the prospect of bigger markets in the regional/global arena, is greater output expansion and employment generation.

Without effective autonomy in fiscal matters, local governments will not be effective in managing urban change. A well-defined inter-governmental fiscal regime must be established.

Inefficiencies occur when the market fails to function effectively. The public goods nature of some urban services (e.g., housing and social infrastructure) dictates that they should be well supported by adequate financing. At the same time, experience has shown that local governments can provide services at lower cost; however, many lack the necessary financial and human resources needed to implement these projects successfully.

Local autonomy means weaning urban areas away from an inter-governmental fiscal regime based on straight central grants. Breaking the habit would require phasing in a mélange of matching grants, loans and increased local tax effort and cost-recovery schemes. Inter-governmental arrangements on these would make it possible for decentralized urban services to be extended across major cities and growth corridors since each area has partial "ownership" in these activities. At the same time, central-local cost sharing would lessen central government deficit and reduce transaction costs due to red tape.

6. *An enabling environment for human development programs and social housing can narrow quality of life differences between Metro Manila and the secondary cities.*

Decentralized urban growth and human development may be mutually reinforcing each other, but unless regularly reinforced by competent policy management, the gains can easily wear off. How can urban decentralization contribute to human development and vice versa? The answers, culled from a UNDP (1997) study, are varied but there are some common ways that can lead to an equitable decentralized setup:

- *Equity*: Distribution of economic opportunities so that they translate into improved human well-being which, in turn, translates into more growth for secondary urban centers;
- *Job Opportunities*: Promotion of heavily labor-intensive patterns of growth;
- *Access to Productive Assets*: Leveling of the playing field in land, physical infrastructure and financial credit;
- *Social Spending*: Allocation of more resources for high-priority social expenditure (basic social services);

- *Gender Equality*: Promotion of policies that lead to better access to education, child care credit and employment for women;
- *Population Policy*: More attention to reproductive health and child survival as instruments that reduce fertility;
- *Good Governance*: Encouragement of people to participate in decisionmaking at many levels to invigorate links between urban growth and human well-being; and
- *Active Civil Society*: A policy environment that allows nongovernment organization and community groups to augment urban services and extend them to underserved communities.

In housing, the best way the central government can assist is to unbundle large support packages and to create an enabling environment for community-based settlement and shelter improvement. Crucial policy steps include guaranteeing a competitive although regulated market in land, putting an end to highly subsidized financing, downgrading stiff housing standards, and encouraging communities to mobilize sweat equity for construction and maintenance.

Regardless of the source, the recent surge in the number of urban dwellers shows that there is a greater demand for localities to provide greater as well as better basic services. Problems occur when, as in the case of most cities and provinces, the economic base does not expand as fast as the population base, resulting in diminished available resources per capita. The inadequate formula followed in internal revenue allocation, i.e., generally, underurbanized areas get larger shares than highly urbanized ones adds little to alleviate the situation. Some localities, although not distressed by reduced per capita resources, show little commitment for human development as reflected in their budget for social priorities. There is a clear need for the national government to update its internal revenue allocation formula so those cities with higher population bases do not have to forego their social development concerns.

7. *Recognizing that investments in human capital create economic opportunities, there is an urgent need to promote capability-building: training professionals such as urban planners and city administrators to manage rapidly urbanizing towns and cities.*

Current development trends dictate that majority of functions catering to the needs of communities should be relegated to local government units. Yet local executives are simply ill-equipped to manage

their resources efficiently, a situation exacerbated by the inability to absorb devolved functions. With enhanced local autonomy, there should be more focused effort on modernizing the technical and planning skills of local government workers.

Most of the manpower with trained urban and city planning skills are found in central government offices. Since most of the planning tasks are now devolved to the LGUs (although the government still provides the broad policy framework for regional development), steps must be taken to overcome this limitation. A well-defined central-local partnership in capability-building can sustain training programs for LGUs dealing with urban planning, management and monitoring, investment programming, fiscal management, infrastructure planning, basic urban services delivery, local tax effort and human development planning.

8. *With migratory flows receding, it might be necessary to refocus attention to the urban population base. Local governments should be given the widest latitude possible in managing local population growth.*

Evidently, due to the great number of functions that LGUs have to implement, population management took a back seat. Some provinces (e.g., Laguna) that experienced decreasing fertility before devolution showed signs of reversal in the last few years.

Some measures can slow down population growth in areas whose resources have been overstretched to cope. One important action is to lower fertility through family planning and safe motherhood programs. This can supplement growth measures meant to induce a fall in population growth in many alternative urban centers. There are early signs of success in the local population management programs being undertaken by local governments and foreign funding agencies. They must be fully supported and expanded.

9. *There is a serious need to monitor whether urban decentralization is actually taking place.*

There is a need for high-profile monitoring and reporting on the situation of urban decentralization, at least until a more rapid pace is achieved. The availability of updated information is crucial both to local and national administrators as it would suggest the type and nature of development patterns that are workable in growth corridors and

emerging areas, and which could then be replicated in other regions. For this reason, a system of urban decentralization indicators should be developed and used in the monitoring and evaluation of urban diffusion programs.

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Appendix

Determinants of Urban Decentralization

To examine the factors affecting urban decentralization, a simple model was constructed using provincial-level panel data over two time periods (1990 and 1995). The model primarily attempted to test the significance of some variables earlier hypothesized as correlates of urbanization.¹

The dependent variable is presented in relative terms; that is, the share of the urban population of each province to the total urban population was adjusted for differences in land area to account for urban decentralization. A lagged dependent variable was used to account for the effects through time of the independent variables on changes in the urbanization pattern.

The independent variables include both policy variables and important economic determinants of urban dispersal. Policy variables are direct government measures that influence the allocation of resources among provinces (public sector infrastructure programs, internal revenue allotment). They may be considered as attempts to shift resources from locations to new growth centers.

The independent variables are as follows:

- a. *Infrastructure.*** A relatively even distribution of access to infrastructure among geographical units may contribute to the decline of urban primacy and the promotion of urban decentralization. However, critics of regional development policy claim that infrastructure tend to be concentrated in only a few favored areas, usually in the metropolis, thus reinforcing primacy and polarization.

In the regression model, infrastructure is represented by electricity, which is expressed as the proportion of households in each province with access to electricity over the proportion of total households in the country with access to electricity.

- b. *Local Finance.*** The internal revenue allotment (IRA) share of each local government unit (LGU) determines the amount of resources available to promote development in the area. The IRA follows a formula in which income level, population size

¹Not all variables introduced in the study could be tested because of data restrictions.

and geographic area are the components. Those LGUs with high IRA share are relatively more progressive and are thus expected to attract a growing urban population.

- c. ***Wages.*** Where wages are equitable, urbanization tends to be balanced among geographical areas. The variable chosen is non-agricultural wage since urbanization is identified with a rising proportion of nonagricultural activities.
- d. ***Global Factors.*** Solon (1996) earlier examined the global influences of urbanization. In his study, the distribution of foreign direct investments across regions contributes to urban primacy while exports are correlated with a more balanced pattern of urbanization. These results were tested using foreign direct investments in provinces and export shares.
- e. ***Services Employment and Output.*** The trend analysis in a previous section suggests that across regions, urbanization has advanced but industrialization has been left at a standstill. On the other hand, the services sector's share has been gaining a substantial portion of output and employment over time. Thus, the significance of the services sector as a correlate of urbanization was closely examined in the regression model.

There are two units of measurement employed for services employment and output shares in the regression. One is cast in terms of absolute share—services' employment and output shares were obtained with respect to the total employment and output for each province. The other is cast as relative share—taken as the ratio of the share in the employment/output of the services sector in each province to the national total employment/output for the services sector.

The sample was constructed from panel data drawn from various sources. Data on 1990 provincial urban shares came from the National Statistical Office (NSO); 1995 urban shares came from the NSO-University of the Philippines (NSO-UP) Population Institute projections. The other sources were Manila Electric Co. (Meralco) for electricity, Commission on Audit for the IRA, National Wages and Productivity Commission for wages, Bureau of Investments for exports and foreign direct investments (FDIs), and NSO for provincial-level services employment and output.

The regression results are presented in Tables 1 and 2, which differ in specifications only for services output and employment shares. A negative coefficient indicates contribution toward urban primacy while a positive coefficient is construed as contribution toward urban decentralization. This implies that for an average province, a rise in, for example, its access to infrastructure as a proportion to the national average tends to weaken urban primacy and promote dispersal. On the other hand, a fall in its share implies that infrastructure tends to be concentrated in only a few areas and can be taken to mean as strengthening toward urban primacy.

Table 1 shows the regression results using, as one of the independent variables, the services output/employment shares of each province to the national total. The outcome indicates that access to electricity appears significant in lessening urban primacy but only in the employment equation. Nevertheless, it does suggest the effectiveness of providing electrical power across provinces as a decentralizing measure.

**Table 1. Urbanization Estimates Using Services Output/
Employment Share to the National Total**

Independent Variables	Output	Employment
Electricity	0.274 (0.813)	1.035 (2.272)*
LGU Internal revenue allotment	-5.867 (-0.240)	-115.343 (-6.848)*
Nonagricultural wage	0.034 (1.487)	0.044 (2.908)*
Foreign direct investment	32.271 (4.309)*	-0.252 (-0.048)
Services sector	157.861 (29.578)*	268.179 (47.087)*
Constant	-3.712 (-1.455)	-3.791 (-2.278)*
<i>Adjusted R²</i>	.966	.986
<i>F-statistic</i>	721.924	1,728.324
<i>Durbin-Watson</i>	1.971	2.096

*Significant at 5%. Values in parentheses are t-statistics.

Local finance is significant also but only in the employment equation. However, it has a negative coefficient, suggesting that the IRA is disproportionately distributed in favor of a few key urban centers. The IRA thus reinforces urban primacy. It is worthwhile noting that

Metro Manila, which accounts for 14 percent of the total population and 25 percent of the total urban population, has also received about 8 percent of the total IRA while the rest of the provinces altogether had less than the half the share of Metro Manila.

The regression coefficient for wage indicates that the higher the share of nonagricultural wages, the higher the urban shares. Thus, the distribution of urban wages among the provinces has contributed toward the decline of urban polarization.

The distribution of FDIs contributes to the promotion of urban decentralization, which is contrary to the earlier findings, and those of Solon. Although this may indicate the effectiveness of incentives for foreign investors to locate in areas outside the metropolis, caution should be exercised in interpreting the results since data were based on FDIs that applied for incentives from the Board of Investments, rather than on actual investments made.

The growing services sector has accounted for a more balanced urban growth in both the output and employment equations. Its employment share, though, has a more significant impact than its output share. The importance of the services sector in affecting urbanization lies in its capacity to absorb the growing urban population.

Table 2, on the other hand, presents regression estimates using output/employment shares of the services sector to total provincial output/employment and includes export share in the set of explanatory variables. The results show that local finance remains significant in contributing toward urban primacy. Between the two global factors, it is export share that strengthens urban decentralization, lending support to Solon's findings. This suggests that the government policy of locating export-processing zones in different areas of the country has promoted balanced urban growth. The result for FDIs is inconclusive.

Considering how urbanization is affected by access to infrastructure, represented here by electrical power, the results show that access to infrastructure/electricity produced a more even distribution of urban population, which is similar to the outcome in Table 1. Since the type of infrastructure is limited only to electrical power, caution should be taken in interpreting the results. The strength of the relation between urban decentralization and infrastructure as well as the direction of causality may be verified in subsequent researches.²

² A more elaborate model with more clearly defined and narrower hypotheses could also be formulated and tested.

**Table 2. Urbanization Estimates Using Services Output/
Employment Share to the Provincial Total**

Independent Variables	Output	Employment
Electricity	0.787 (2.572)*	0.807 (2.586)*
LGU Internal revenue allotment	-46.600 (-1.994)*	-45.813 (-1.985)*
Nonagricultural wage	0.037 (1.576)	0.033 (1.545)
Export	172.812 (31.927)*	172.917 (32.104)*
Foreign direct investment	11.150 (1.505)	10.986 (1.489)
Services sector	-0.299 (-0.341)	-0.689 (-0.575)
Constant	-3.978 (-1.617)	-3.392 (-1.391)
<i>Adjusted R²</i>	.971	.971
<i>F-statistic</i>	704.793	706.097
<i>Durbin-Watson</i>	2.080	2.082

*Significant at 5%. Values in parentheses are t-statistics

As regards output and employment shares, the services sector appears insignificant in affecting urban primacy in terms of its share in the provincial total output or employment. Here, a growing proportion of services in one area (i.e., province) does not automatically signify any decline or rise in urban primacy, since the growth rate of services in that area is not independent of the effort being made to stall the expansion of the services sector in the metropolis. Thus, it is the relative share of each province in the services sector (to the national total) which is more useful as an estimator. Using relative shares, the outcome demonstrates that bigger services share relative to Metro Manila could positively induce urban decentralization.

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Managing Urbanization Under a Decentralized Governance Framework (Volume 2) is a companion piece to Volume 1, which offers the institutional details of managing and delivering urban services. This second volume, meanwhile, explores the setting in which these services are being delivered—one of rapid urbanization mostly unaccompanied by balanced regional growth—and the forces that have helped shape this environment.

During the past two decades, the government made several attempts to achieve a less Manila-focused distribution of economic power and political authority. These include industrial promotion schemes that explicitly sought to attract investments into other regions. In 1991, it passed the Local Government Code—envisioned to further fuel the decentralization process.

The outcome is there for all to see: no high levels of investments surged outside Metro Manila; consequently, there has been no sensational shift in local development patterns since the decentralizing measures were introduced. This book explains why, and suggests that the prospect of economic convergence between Metro Manila and the rest of the country would be gradual rather than dramatic.

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