An Overview

The Philippines and Regional Development

Arsenio M. Balisacan, Hal Hill, and Sharon Faye A. Piza

Excerped and adapted from
The Dynamics of Regional Development:
The Philippines in East Asia
Edited by Arsenio M. Balisacan and Hal Hill

Adapted from the forthcoming book, *The Dynamics of Regional Development: The Philippines in East Asia*, edited by Arsenio M. Balisacan and Hal Hill, published by Edward Elgar Publishing Ltd. and Ateneo de Manila University Press.

Accompanying CD-ROM contains:

- This condensed overview
- Complete first chapter of the book with tables and figures
- Online ordering information for the book

Asian Development Bank Institute
Kasumigaseki Building 8F
3-2-5, Kasumigaseki, Chiyoda-ku
Tokyo 100-6008, Japan
www.adbi.org

Produced by Grant Stillman and Patricia Decker for Knowledge Management Unit 10/06

Contents of this Overview

About this Volume

What kind of decentralization policies are best to promote regional development? How should countries in the Asia-Pacific region pursue their economic devolution programs?

This volume examines regional development in the Philippines to provide lessons that can be applied not only in that country, but also internationally. They are grouped below under two main headings: lessons in regional development dynamics and observations on the decentralization program.

The overview that follows the ten points below provides greater detail on the Philippine case in an Asian context. The CD-ROM that accompanies this volume contains the first chapter of *The Dynamics of Regional Development: The Philippines in East Asia*. The chapter includes detail and supporting tables and figures not given in this overview. Ordering information for the complete book can be found on page 34 of this volume.

Ten Key Lessons and Observations

1. Regions better connected to the global economy grow more rapidly, and this process may result in increased regional inequality

Trends in the global economy have shaped the economic geography of an increasingly open Philippine economy. Regions better connected to the global economy can be expected to grow more rapidly. Powerful international evidence on this includes the People's Republic of China's coastal regions, Mexico's border with the US, and Bali in Indonesia.

The Philippine case differs from those of the above countries in two ways. One difference is that although no single region in the country can be singled out as the most globally connected, a number of "enclaves" enjoy good global connections. These include Manila and its surrounds as well as Cebu, the second city. The other difference relates to the impact of international migration and remittances; remittances now amount to almost 50% of merchandise exports, and the workers probably come more from better-off regions. These two impacts from the global economy almost certainly increase regional inequality in the Philippines.

2. National growth and regional development depend on investments in key public goods, physical infrastructure, and human capital

As a corollary to the first lesson, investments in key public goods, physical infrastructure, and human capital are major drivers of both the national growth rate and regional development patterns. For example, the Philippines is significantly under-investing in infrastructure by East Asian standards.

This scarcity of infrastructure funds has affected regional development patterns. The Philippine Government (and donors) have invested more in internationally-oriented infrastructure (ports, harbors and associated facilities) than in domestic transport networks and corridors. This investment pattern has reinforced the globally connected enclaves but has inhibited a denser set of domestic connections from forming.

3. *Poor regions stay poor without changes in national policy*

No major changes have occurred in Philippine economic geography over at least the past two decades and probably for longer. The ranking of regions by socio-economic indicators has changed relatively little: the regions with above-average indicators continue to be Manila and its surrounds, while the relatively poorer regions remain so. Most of the traditionally poor regions of western Mindanao have slipped further behind owing to the prolonged state of conflict and local mismanagement. This lack of improvement highlights both the slow rate of national economic growth (rankings would be more likely to change with faster growth) and the absence of any major change in national policy settings, aside from the decentralization.

4. *Program neither a success nor a failure*

A decade and a half on after the main decentralization program began in 1992, decentralization in the Philippines has been neither a notable success nor a disappointing failure. The reform has not delivered what some of its proponents might have expected: a decisive shift of power and resources out of the center, a vibrant, efficient and responsive system of local government, and a general lift in the quality of governance. Still, the reform can hardly be termed a failure. It has broadly worked: some administrative and political authority has been transferred to the regions, and some local governments have performed well.

The program's success may have been limited by some shortcomings at the center. The Philippine Government has not reliably delivered three things that a decentralized system of government needs from central government to function effectively: good quality national governance, sound fiscal policy, and rapid economic development.

5. Program poorly executed despite good planning

The Philippine decentralization program was carefully prepared, well-documented, and generally based on sound principles. However, the record of implementation has been mixed.

On paper, the division of responsibilities between the central and local governments is clear, the assignment of functions across jurisdictions follows public finance principles, and there is reasonable clarity of expenditure assignment. In practice, however, current arrangements do not devolve efficiently and cleanly to local governments. The division of responsibilities remains ambiguous. The central government has a tendency to intervene arbitrarily in what are considered local government responsibilities, including the transfer of unfunded mandates. Over a decade on, it has yet to transfer all of the staff who were supposed to be relocated to local government units (LGUs).

6. Balance of central-local governments remains a problem

The record has also been mixed with regard to vertical and horizontal balance between and among the central and local governments. The LGUs remain relatively small actors in the Philippine economy; their expenditure amounts to just 3.3% of GDP after decentralization, a portion much smaller than that in most decentralized regimes. The vertical imbalance is growing between LGU revenues and expenditures: in terms of the public sector aggregate, the LGUs' share of revenue is three times larger than that of their expenditures. Moreover, the IRA allocations do not appear to be consistent with the objective of horizontal equity, although outcomes vary depending on the composition and size of ad hoc "categorical grants."

7. Government tiers lack coordination

Although the decentralization program was initiated over a decade ago, coordination between and among different tiers of government continues to be inadequate. An effectively functioning center-regional governance partnership requires a clear division of responsibilities, adequate funding, and bureaucratic capacity at both levels. The current Philippine arrangements are deficient in all three respects. A range of services, including roads, have a "missing middle" in their provision. In sectors such as agriculture, where large externalities are present (in R&D, extension, infrastructure, and environmental management), either a central government presence or effective coordination mechanisms among local governments (or both, mostly likely) are needed.

8. Governance quality varies among local governments

Governance quality varies considerably across local governments. In numerous cases, effective local leadership has reformed hitherto poorly governed regions. What remains unclear is whether one can identify structural determinants of the differences between regions that improve and those that do not, or whether instances of high quality governance are accidents of history, driven by the strongly personalistic nature of Philippine politics. Instances exist of emulation and replication, particularly in regions that share borders. Still, one would hesitate to argue that the ideal of competitive regionalism has become a feature of Philippine local government, in the sense that better governed regions are consistently being rewarded with a reform dividend of in-migration of mobile factors, especially investment and skilled labor.

9. Program has had little effect on regional disaffection

Has decentralization ameliorated local disaffection with the center in the country's troubled regions? This was one of the reform's intended objectives. Of course, regional disaffection has many dimensions—national and regional, economic and political—and a relatively modest decentralization program is unlikely to be able to overcome all the problems.

In a regional context, the Philippines could be seen as neither a success nor a failure in this respect. Unlike Indonesia, the country's territorial integrity has been preserved. Moreover, the central government does not have the option of repressing rebellion in disaffected regions, as some nearby states do. And even Thailand, long seen as a model for successfully managing disaffection in its Muslim south, has experienced serious problems in recent years.

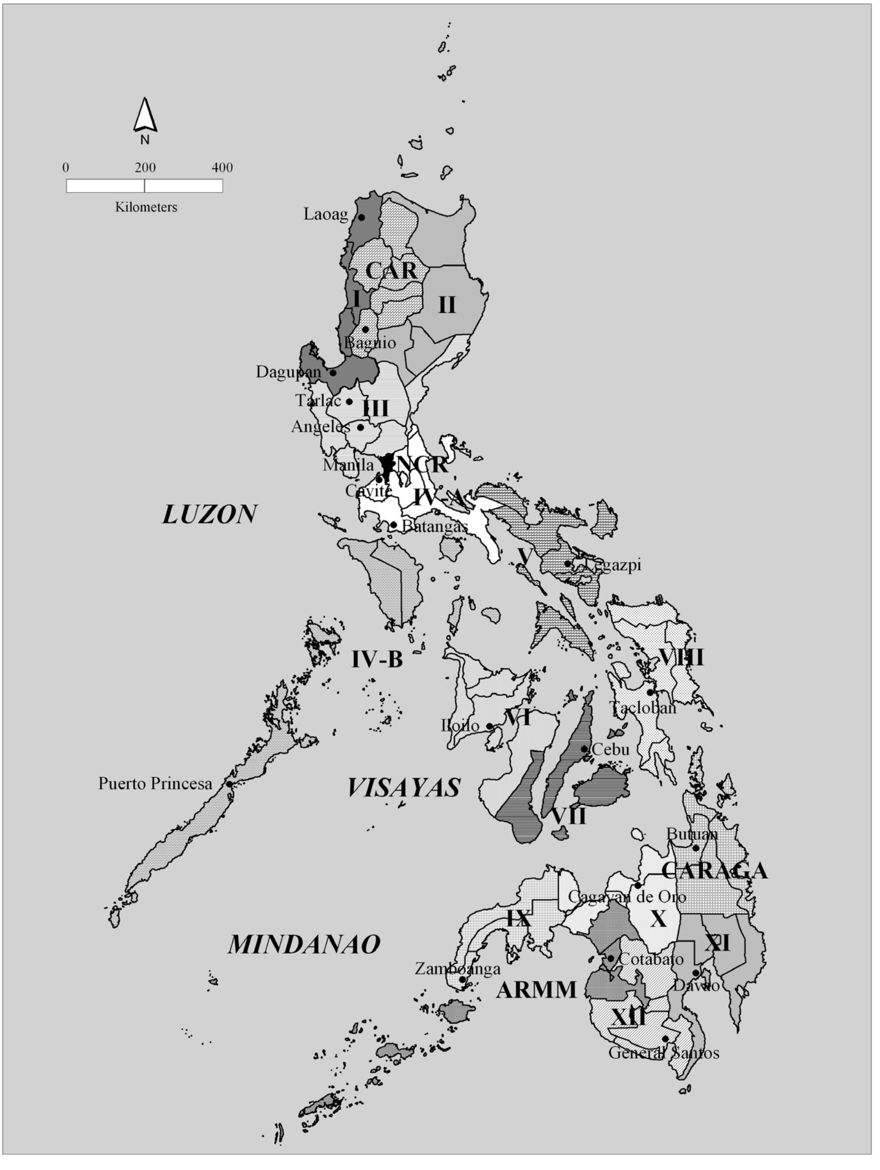
Nevertheless, the deep-rooted conflict in Mindanao goes on. Socio-economic indicators in the Autonomous Region of Muslim Mindanao (ARMM) have worsened relative to the rest of the nation. Governance in this autonomous region has been very weak, including its record on education. Although the primary responsibility for resolving the conflict lies with the central government the contribution of the decentralization program has also been minimal.

10. Nation-wide policy agenda needed in addition to addressing region-specific issues

The Philippines requires both a common, nation-wide policy agenda as well as a set of region-specific challenges. The nation-wide agenda should include policies to accelerate national growth and significant increases in public and private investment in physical infrastructure and human capital. Also needed is at least a minimalist set of nation-wide social objectives relating to education, health, and related sectors.

Regional policy, however, draws attention on diversity; a common policy template cannot be applied to all regions. For example, in Mindanao the most urgent goal is the resolution of conflict. Infrastructure, by contrast, is relatively good, reflecting the attention the region has received from the central government and donors. Elsewhere, the mix of required policy interventions differs. For regions with long-term poverty, infrastructure investment and attention to local economic opportunities will likely be the key, alongside national minimum needs and poverty targeting programs, though these will be focused more on individuals and households than on regions.

The Philippines: Major Administrative Groupings, 2003



The Philippine Case

Challenging physical environment

A glance at the map on the opposite page immediately draws attention to the Philippines' unusual geography. Its 7,100 islands are emphasized in the country's tourist promotion programs, but they also highlight a deeper reality. With a population nearing 90 million people, the country is extraordinarily diverse in terms of geography, ecology, natural resource endowments, economy, ethnicity, and culture. It is the second-largest archipelagic state in the world, after Indonesia. An estimated 110 ethnic groups live there, and 170 languages are spoken.

Unevenly distributed economic activity

Economic activity is highly uneven and is concentrated around the national capital and two adjacent regions, Central Luzon and Southern Luzon. Together, these three regions (out of a total of 16) produce about 55% of total national output. (In a more recent classification, Southern Luzon was split into two regions, Mimaropa and Calabarzon.)

It is increasingly evident that the regions of the Philippines that are the most connected to the global economy are growing faster than the rest of the country. In turn, these regions are as well connected to, for example, neighboring Hong Kong, China as they are to their hinterlands—these global connections may be even better than the domestic ones.

International trade has become an increasingly important driver of local-level development. The bridges to the global economy—ports, airports, telecommunications—determine how effectively these regions can connect to the growth engine of the world economy. For example, almost all the growth in Philippine exports since 1990 has originated from free trade zones. In consequence, where these zones and their accompanying infrastructure are located becomes a key arbiter of regional dynamics.

Uneven living standards

Socio-economic indicators also vary significantly across regions. In the case of poverty incidence, for example, geography matters. In 2003, poverty incidence in the national capital and two adjacent regions was estimated to be 13%, compared to the combined figure of 34% for the other 14 regions. The head-count poverty estimate for the two poorest regions, Western Mindanao and ARMM, both in the southwest of the country, was more than 10 times that of the national capital.

Challenging center-region relations

Philippine policymakers have long grappled with the issue of how to promote broad-based regional development in such a diverse setting, and what center-region structures are optimal. The pendulum has swung back and forth between devolution and central authority. During the 20-year presidency of Ferdinand Marcos through to 1986, for example, the power of the center increased significantly. Next, a major decentralization program began in 1992 with the enactment of the Local Government Code, and efforts in devolution have continued since that time.

Lessons relevant to other decentralizing countries

Examining regional development in the Philippines can provide significant lessons to be applied not only in that country, but also internationally; other countries introducing more recent decentralization programs could learn much from its experience.

Central governments nearly everywhere are under pressure to devolve administrative authority and financial resources to the regions. In some cases, this process is linked to transitions from a centrally planned to a market economy (e.g., People's Republic of China, Russia, Viet Nam). In others, it occurs in the wake of serious economic and political crises, following the overthrow of a centralized, authoritarian regime (e.g., Marcos's Philippines, Soeharto's Indonesia). Fear of national integration (Indonesia again, post-Timor Leste) is sometimes a factor. Some experiments are "big bang" and hasty (e.g., Russia and Indonesia, much of Latin America), while other countries have a long history of federalism and have well-developed institutional structures governing center-region relations (e.g., India, Malaysia). We examine the Philippine case comparatively, in the context of the growing literature on the theory and practice of regional development in developing countries.

The Issues

Economic geography and regional development

Regional science is now at the forefront of development issues. In understanding the dynamics of regional development we consider the fusion of trade and geography, commonly referred to as the new economic geography. In this view, the notion of space has to be taken seriously in economic, social, and institutional analysis. We ask, in a Philippine and a comparative East Asian context:

- What determines sub-national patterns of development, and are these factors similar to those shaping inter-country differences?
- What determines trends in sub-national inequality, and should high inequality be an issue of concern?
- Are bypassed regions likely to become a serious national (and international) challenge as central governments retreat in authority and place less emphasis on inter-regional equity?
- As national boundaries become more porous and central governments less powerful, will cross-border "natural economic zones" become increasingly important in the global economy?
- What are the key issues and lessons in decentralization reforms, and why are some programs more successful than others?
- Is regional (sub-national) competition likely to improve local-level (and therefore national) governance quality?

The twin themes of *decentralization* and *globalization* unite and integrate our study. Both have profoundly altered the character of governance and the location of economic activity in developing countries. Decentralization has resulted in a restructuring of the bureaucracy and a significant shift in public sector resources toward local governments. Globalization has integrated local economies within the global economy. Policy reforms have driven this process, reinforced by rapid technological progress in telecommunications, information flows, and logistics.

Reasons behind decentralization

Of course, the motives for decentralization vary widely. Economic and political crises may trigger major (and sometimes hasty) decentralization programs, especially when authoritarian, centralized regimes crumble. Within the past two decades, for example, Indonesia, the Philippines and Russia have all experienced deep economic crises and far-reaching institutional and political change. Increased regional autonomy featured prominently in the democratic reform agenda of all three countries.

Especially in large, spatially diverse countries, disenchantment frequently arises with rule from the center. Local communities often see capital cities as corrupt, authoritarian, arrogant, and remote. Regional development concerns are also motivated by frustration with failed attempts to achieve progress in so-called bypassed regions. While capital cities might tend to ignore these regions, in many cases strategic and political considerations dictate that they should do otherwise.

In some countries, increased regional autonomy may be an incidental consequence of the transition from plan to market. As governments dismantle a command economy and the size of the state enterprise sector shrinks, economic authority inevitably passes from central government planners to private economic agents. The effect is that power is decentralized even in the absence of a formal decentralization program. The PRC, Russia, Viet Nam, and other formerly centrally planned economies are examples of this. Specific decentralization initiatives were also in place in all these cases, but the initial driving force was the decision to de-emphasize central planning.

How to achieve decentralization

Although there are diverse and powerful pressures to shift power and resources out of the center there is no consensus on how far and how quickly decentralization ought to proceed; it is not an automatic, one-size-fits-all fix. The general presumption is that policy competition between regions is desirable and that, beyond the obvious areas of central government responsibility, such as macroeconomic policy, law, foreign policy, and defense, decision-making should be as close as possible to stake-holders.

Moreover, to what level of local government should authority be decentralized? In turn, this leads to a question of definition: What constitutes "regions"? Official definitions are frequently arbitrary and are often changed. Boundaries may reflect political or ethnic divides rather than constituting natural economic zones.

Understanding regional differences

Much focus has been given to explaining international differences in growth rates, but inter-regional differences have received much less attention. Can one draw on the former to help explain the latter? In a world of perfect factor mobility and homogeneous nation-wide institutions, the answer is presumably no. However, institutions clearly do differ among regions in many countries; and factor and product markets in developing countries are often poorly integrated.

Similarly, the evidence on long-term trends in inter-regional inequality is mixed. One theory is that inequality rises through to some turning point, and then declines. The intuition underlying this reasoning is that, at early stages of development, rapid growth is an inherently unequalizing force. However, beyond some threshold, equalizing forces come into play; for example, markets begin to work better and governments introduce explicit fiscal equalization mechanisms.

East Asian Comparisons

We compare and draw lessons from the two major developing East Asian economies: the PRC and Indonesia. Both are decentralizing rapidly, both are considerably larger than the Philippines, and both, especially the PRC, have higher long-term average growth than the Philippines.

People's Republic of China

The PRC's rapid economic growth has been accompanied by rising inter-regional inequality, particularly since the early 1990s. Four main factors account for this recent increase in inequality. First, the regions differ dramatically in their international orientation. In the eastern zone, the export/GRP ratio was 41% in 2003—some eight times that of the western zone. Similarly, foreign direct investment constitutes about 11% of investment in the east, but only 1% in the still SOE-dominated economy in the west. Second, until recently, restrictions on labor market mobility, in particular the *huko* (household registration) system, meant that the labor market was unable to play a role as an inter-regional equilibrating mechanism. Moreover, some barriers to inter-regional commerce remain in place. Third, domestic physical infrastructure has not kept pace with the rapid growth, thus reinforcing the policy-induced international commercial orientation of firms in the eastern zone. Finally, the devolution to the PRC's regions has reinforced the general trend toward the "retreat from inequality."

Perhaps this rapid increase in inequality will plateau. In recent years, the central government has become more concerned with inter-regional equity. There are measures to boost investment in agriculture, infrastructure and public education in the central and western regions. Internal migration has been freed up and the lower cost base in the central and western regions is attracting more investment.

Indonesia

Indonesia shares more similarities with the Philippines. It is an archipelagic nation and it embarked on a decentralization program in the wake of a major economic crisis and a weakened central government. It also has resource-rich frontier zones with a long history of insurrection. Thus, lessons from the Philippine experience apply particularly well to Indonesia.

Nevertheless, there are also significant differences between the two countries. Although Indonesia was a highly centralized regime under Soeharto (arguably more so than was the Philippines under Marcos), regional development was remarkably broad-based. Most regions grew at similar rates, resulting in no significant deterioration in inter-regional inequality.

A second difference has been the concentration of resource-rich enclaves, principally in northern and central Sumatra, East Kalimantan, and Papua (Irian Jaya). Third, while there are parallels between the major islands of Java and Luzon, the differences are just as great. Java has a much greater population concentration. Moreover, the regional dynamics have differed and the two countries' sub-national development dynamics have thus differed significantly over the past quarter-century.

Finally, as in the PRC and the Philippines, successive Indonesian governments have struggled to promote growth in poor and bypassed regions. Much of the efforts have focused on the country's vast, marine-rich eastern islands. These have poorer infrastructure, more limited human capital (with some notable exceptions), and are distant from the commercial (and political) mainstream.

The Philippine Experience

Evolution of regional policy

The Philippines has evolved into a nation state since the highly decentralized Spanish colonial era, in which the Catholic Church was as much a national institution as the Manila government. In the Spanish period the central administration was weak and their formal structures were not as important as social relationships within local communities. These communities were largely self-sufficient and local histories and orientation made national development planning difficult.

Nevertheless, particularly from the American colonial period (1898–1946) onwards, national governments have become increasingly important. Philippine development thinking and planning in the 1960s began to take regionalization as a strategy to attain national development goals. Further commitment to this strategy was made in the 1970s.

In the late years of the Marcos regime, serious work began on a reformulation of center-local relations. In the 1980s, of course, the national political context changed dramatically with the return of democracy and the advent of a fiscally incapacitated central government. However much of the preparatory administrative work had already been undertaken, and on paper the division of responsibilities between the center and regions was reasonably clear. In fact, the Local Government Code (LGC) of 1991 is actually similar to a draft prepared in 1983. The Philippines was one of the first countries in East Asia, and indeed in the developing world, to embark on a program of decentralization, in 1991.

Current regional structures

The country is a unitary state, a presidential republic with a bi-cameral legislature. The central government has approximately 20 departments and agencies. The country is divided into 17 regions. However, with the exception of the Autonomous Region of Muslim Mindanao (ARMM), these are essentially administrative regions in which central government regional offices are located.

The lines of authority from the center changed in 1992. However, contrary to widespread impressions, there was no pronounced fragmentation of administrative and political authority. The number of regions increased by four, hence complicating statistical analysis. As of 2005, there were 80 provinces, 114 cities, 1,496 municipalities and 41,945 barangays. In 1991, immediately prior to decentralization, the relevant numbers were respectively 75, 60, 1,543, and 41,820. The major change has therefore been the near doubling of cities, accompanied by a decline in the number of municipalities. This change reflects in part the country's continuing high population growth and urbanization. But the more generous fiscal treatment of cities, especially chartered cities, has also been a factor.

The LGC provides a comprehensive framework for centre-region relations. It specifies the transfer to local government units (LGUs) of a wide range of functions and services, and divides responsibility for their provision among the various local tiers. Some 70,000 staff from central government departments were to be transferred to the LGUs, with the largest transfers from the Departments of Health (65% of the total) and Agriculture (25%). However, programs considered to be "national" are retained by the central government. The Code also specifies a division of responsibility with regard to revenue assignment.

The political economy of regional governance reflects national patterns. In particular, (a) there are frequent turnovers of administrations; (b) the bureaucracy is weak and much of it highly politicized; and (c) major families heavily penetrate both the administrative and political wings of government.

Regional development patterns

Manila dominates the Philippine economy, generating a little over one-third of the country's GDP in recent years. Luzon in aggregate contributes almost two-thirds of the national economy and is by far the largest of the three major island groupings. Its economy has also grown marginally faster than the national economy since the 1970s resulting in a gradual rise in its national share. The shares of the Visayas and Mindanao have changed little in recent years, and the latter's gradually declining share underscores the unfulfilled potential of this resource-rich region.

The regional income data draw attention to the country's large economic disparities. Manila is by far the wealthiest region. Its per capita income is about 2.75 times that of the national average, more than double that of the next richest region, and twelve times that of the poorest. Looking at the period 1985–2003, all of the poor regions, including ARMM, grew more slowly than the national average of 3.1%. At the other end of the range, the richest region, NCR, grew at about the same pace as the national average. The fastest growing region was CAR, which was also second to Manila in terms of per capita income in 2003.

Poverty and inequality

The Philippines is a high-inequality country compared to most of Asia. Due to the highly inequitable distribution of physical assets, particularly land, and to the mix of economic activities (mining, plantation agriculture, etc.), income inequality is particularly high in most of the Visayas as well as in Mindanao. ARMM is a notable exception.

The inequality *within* regions, not *between* regions, accounts for over 80% of the national variation in household incomes. High-inequality regions tend to have low steady-state growth rates compared to their lower inequality counterparts. Moreover, changes in poverty incidence (as well as other measures of income poverty) are due largely to changes in overall per capita income within regions, rather than to changes in income or asset inequality within or between regions. Unlike in the PRC or Thailand, the Philippine regions did not experience any major changes in asset or income inequality during the past two decades.

The comparatively high *level* of regional income and asset inequality blunts the effect of the income growth on poverty. The average growth elasticity of poverty is quite low in the Philippines compared to that in most other developing Asian countries. Hence, the country's unenviable record on poverty reduction in recent years is due not only to its low per capita GDP growth rate but also its weakness in transforming income growth into poverty reduction.

Conflict

Both the special development challenges of the southern region of Mindanao and conflict more generally must be mentioned in any discussion of regional development issues in the Philippines. Over 1986–2004, an estimated 91% of Philippine provinces were affected by ideology-based armed conflict.

Since 1986, a democratic Philippines has found that resolving the conflict has been just as elusive as it was in authoritarian times. The pattern of sporadic negotiation interspersed with conflict continued under the Aquino administration. In 1996, under the Ramos presidency the Jakarta Accord between the Philippine Government and the MNLF was successfully brokered with Indonesian cooperation and the ARMM was established. However, this peace settlement was also relatively short-lived. If these regions are to have a chance at development and their residents a chance at better standards of living, these conflicts must be addressed and resolved.

Population, labor, and migration

There is clear movement of population from poorer to richer regions. The younger and better educated have a higher propensity to move. Moreover, families tend to send their children to access the better quality national educational institutions in Manila and other major cities and the children generally remain in those places upon graduation. This brain drain to the major centers is further reinforced by the spatial patterns of employment creation in the wake of trade liberalization.

Meanwhile, international out-migration is rising rapidly. About 8 million Filipinos reside abroad, a number equivalent to almost one-quarter of the domestic labor force. Official estimates suggest that remittances in 2004 were about $8.5 billion (the third-largest among developing countries, behind only India and Mexico). Because these remittances tend to rise with household incomes they may increase inter-household inequality. And because overseas Filipino workers tend to originate disproportionately from the better-off regions (and those which are better connected globally), inter-regional inequality is also increased.

Infrastructure and integration

Effective infrastructure provision requires competent governance. First, many infrastructure projects require long gestation periods and therefore have particular financing and policy predictability requirements. Second, a number of sectors have "natural monopoly" characteristics (e.g., power generation, land-line telecommunications, major trunk roads, international airports), which in turn prescribe a role for government as regulator, though not necessarily as a provider. Third, there are major coordination issues: as part of the decentralization process, there are now many players in the industry, including several tiers of government, the state-owned providers, and some foreign firms, as well as a number of regulatory agencies.

Regions where per capita income is higher also have better capacity (and political influence) to fund better quality physical facilities. Looking at road density, access to water, electricity and irrigation, and telephone density illustrates this trend.

Although most indicators suggest a gradual improvement in availability and quality of infrastructure over the past two decades, three inter-related problems remain. First, the country is under-investing in infrastructure. The immediate cause of this under-investment is the chronic fiscal constraint since capital works are the first to be cut when the budget must be pruned. A tendency follows to rely on donor agencies, in the process resulting in an investment strategy that is short-term in orientation and is poorly integrated.

Donor reliance also compounds the politically-driven bias to favor new projects over maintenance.

Second, the overall regulatory framework lacks cohesion, coordination between national agencies and between the various tiers of government, and a clear division of responsibilities. About 30 national agencies are involved in infrastructure decision-making, yet in some respects it appears that "nobody is in charge." Hence, toll roads are not necessarily consistent with national priorities, and half-built bridges are a frequent sight in the countryside, particularly in the aftermath of elections.

Third, national level decision-makers appear unable or unwilling to deliver the long-term policy predictability and guarantees that major private (and especially foreign) providers require. The politicization of large infrastructure investments appears to be unusually severe in the Philippines.

Regional dynamics

The overwhelming beneficiaries of deconcentration are just three regions: the two Manila spillovers of Southern Luzon and Central Luzon and the Cebu-centred Central Visayas. Export growth from these regions has been rapid. Thus, trade liberalization has not led to any reduction in industrial concentration. Indeed, depending on how it is measured, this spatial concentration may actually have increased.

The specific form of the liberalization measures explains these trends. Exports have been the major source of dynamism, and they have come overwhelmingly from concessional facilities offered by the Government. The challenge for Philippine policymakers is to replicate the strategies that have made export enclaves successful by improving domestic infrastructure, and offering a level fiscal and regulatory playing field to all firms in the country regardless of location. In other words, the challenge is to move to a unified industrial policy strategy.

In emerging patterns of location in some of the new export-oriented service activities, a significant concentration can again be observed in and around the capital region. Manila and surrounds have a major competitive advantage as compared to more distant regions, which may lack telecommunications and international airports.

Center-region relations

Looking at center-region fiscal and administrative relations, the assignment of functions to the various tiers of government has been broadly consistent with public finance notions that power should rest with the jurisdiction best able to internalize the benefits and costs associated with providing these services. The main exception is education which was retained by the central government for political reasons.

There are serious misalignments of revenue assignments and expenditure responsibilities between the center and the regions and also among the regions. These misalignments have at least three dimensions. First, there is a growing imbalance between the revenue and expenditure responsibilities of LGUs. Second, little has been done to downsize national agencies and abolish their regional offices as their functions have been transferred to local government units (LGUs). Third, there are perverse incentives among the tiers of local government. The formula treats cities more favorably than it does municipalities and provinces. This spurs continuous political pressure from the municipalities to elevate their status to cities.

Still, the center is not to blame for all the ills. LGUs have generally been unwilling to raise their own revenue, particularly through potentially rich sources such as property tax. The widespread perception is that LGUs are invariably controlled by local elites who are unwilling to tax themselves. In addition, LGUs have generally been unable or unwilling to enact major fiscal reforms. Their financial records are poorly maintained and audited, and they lack transparency. Moreover, local governments continue to employ a significant proportion of non-career staff, which indicates that normal recruitment procedures have been bypassed.

Local institutions and governance quality

Decentralization in the Philippines has been in place for over a decade, longer than anywhere else in East Asia. In principle, bringing politics closer to the constituents should make public administration more transparent, more responsive, and quicker and more cost-effective. However, the evidence is mixed, the quality of governance has varied considerably across regions and over time, and the links between governance quality and development are muted.

Several practical obstacles inhibit the effective operation of a framework under which competition across regions delivers improved governance and higher growth. For one thing, standards of governance may be poor because the level of development is low. Moreover, local government elections in the Philippines have generally not been effective in exacting accountability. That is, political success is only weakly correlated with development achievements. Lags between improved governance leading to faster development may go beyond the local electoral cycle of three years, rendering investments in development (e.g., health and education) politically unattractive as compared to certain short-term, quick-gestation projects (e.g., basketball courts or waiting sheds) with low social rates of return.

Local democracy has been effective at rewarding good performance and innovation, but less effective at disciplining poor leadership. The traditional dominance of local wealthy families and clans continues, for example. A particular disappointment has been the record in the ARMM.

Although center-region relations are in need of major reform and the LGU deficiencies are well documented, activist, high-quality LGUs can make a difference. Quezon City, the largest of Metro Manila's cities, is a case in point.

In sum, although the record has been mixed, some achievements have been made. Transforming institutions, structures, processes, and (especially) mindsets is a slow, long-term process. The mechanics of transferring around 70,000 personnel from the central government to the regions have commenced but the process remains incomplete. Gradually, competition between the regions is increasing. The annual Galing Pook awards, which recognize local government excellence and innovation, are taken seriously. In the regions, citizens perceive more clearly the sources of poor decision-making in public service delivery, and local level accountability is generally on the rise. In addition, in the more internationally connected regions, some evidence indicates that the imperative of global competition raises standards of governance and thereby weakens the grip of the traditionally dominant families; this phenomenon is not observed in the more isolated regions. Finally, it is important not to forget that the process has been hampered by the slow national growth rate and persistent fiscal crises.

Conclusion

In this volume, we have provided an overview of our study of issues and experience in regional development and center-region relations in the Philippines and other Asian countries. Our core findings are that countries pursuing decentralization must:

1. Establish a clear, predictable, and stable regulatory environment that governs center-region administrative and financial relations,
2. Invest in infrastructure with regional developments in mind, and
3. Resolve regional conflicts for the local and national good.

We hope that the lessons and observations here can be adapted and applied for more effective regional development and, in turn, better national development.

For Further Information

This overview was adapted from the forthcoming book edited by Arsenio M. Balisacan and Hal Hill, *The Dynamics of Regional Development: The Philippines in East Asia*. Accompanying CD-ROM contains:

- This condensed overview
- Complete first chapter of the book with tables and figures
- Online ordering information for the book

For a list of the book's chapters and contributors as well as its ordering information, please see the following pages.

Contents of the Book

Contributors

Arsenio M. Balisacan
University of the Philippines

Joseph J. Capuno
University of the Philippines

Emmanuel S. de Dios
University of the Philippines

Emmanuel F. Esguerra
University of the Philippines

Jonna P. Estudillo
University of the Philippines

Hal Hill
Australian National University

Gilberto M. Llanto
Philippine Institute for Development Studies

Rosario G. Manasan
Philippine Institute for Development Studies

Chris Manning
Australian National University

Keijiro Otsuka
Foundation for Advanced Study on International Development

Sharon Faye A. Piza
Asia Pacific Policy Center

Budy P. Resosudarmo
Australian National University

Ligang Song
Australian National University

Tetsushi Sonobe
Foundation for Advanced Study on International Development

Gwendolyn R. Tecson
University of the Philippines

Yogi Vidyattama
Australian National University and University of Indonesia

John Weiss
Asian Development Bank Institute

Ordering Information

To buy the complete book internationally, please contact:

Edward Elgar Publishing Ltd.
Glensanda House
Montpellier Parade
Cheltenham Glos GL50 1UA UK

Tel: +44 1242 226934
Fax: +44 1242 26211
Order/sales enquiries: sales@e-elgar.co.uk
Web site: www.e-elgar.co.uk

The book's Philippine version is available from:

Ateneo de Manila University Press
Bellarmine Hall, ADMU Campus
Katipunan Avenue, Loyola Heights
Quezon City PHILIPPINES

Tel: +63-2 4265984, 4266001 ext 4612
Fax: +63-2 4265909
Order/sales enquiries: cdecena@ateneo.edu
Web site: ateneopress.org