Is Economic Openness Good for Regional Development and Poverty Reduction?
The Philippines

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External influences on a country’s urban and regional development are not new. Such were common during colonial times when cities became the strategic contact points of the colonizer with the colony. The evolution of ports and local transport systems were strongly shaped by the trade and investment decisions of colonial authorities. Indeed, the location of ports had a decisive impact on the choice of what were to become the primary and secondary urban centers.

Urban primacy or spatial concentration that characterizes many developing countries appears to have been heightened, not lessened, by globalization. Capital and trade flows tend to operate in the world economy via the national capitals that evolve into megacities. This view is supported by empirical evidence on the tendency of foreign direct investment (FDI) to locate in and around the metropolises of East Asian countries (Fuchs and Pernia 1987). A contrarian view suggests that trade openness spurs growth of the countryside, given that exports are not directly linked to the domestic market and producers are induced to locate outside major urban centers where production costs are lower (Krugman and Livas 1996).

This brief derives from research on the relationship between economic openness and regional development (Pernia and Quising 2002). The study analyzes data on the Philippines’ 14 regions over the period 1988-2000, during which significant liberalization measures were introduced into the economy. Economic openness is indicated by the ratio of regional exports to gross regional domestic product (GRDP). Regional development is denoted by the growth of GRDP per capita, and poverty reduction is proxied by increases in consumption expenditure per capita of the poorest quintile. More balanced regional development simply means more dispersed development (or narrower disparities) across the regions.

Patterns of Regional Development

Concentrated spatial development characterizes the economy. Metro Manila, or National Capital Region (NCR), continues to dominate all other regions, with a GRDP per capita in 2000 more than twice that of the national average, almost double that of the next highest in the Cordillera Autonomous Region (CAR), and more than
five times that in the poorest region, Bicol (Table 1). CAR’s relative development has picked up recently owing to special attention from the government. More importantly, this region includes Baguio, a popular tourist destination and site of a major export processing zone. By contrast, Bicol has traditionally been the most backward region, partly because destructive typhoons pass through it several times a year.

Table 1. GRDP per Capita, Expenditure Per Capita of Poorest Quintile, and Regional Shares of Exports and FDI

<table>
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<tr>
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<tbody>
<tr>
<td>A Metro Manila</td>
<td>26,090 29,577</td>
<td>3,183 3,680</td>
<td>57.1 23.6</td>
<td>42.7 18.1</td>
</tr>
<tr>
<td>B CAR</td>
<td>11,066 14,952</td>
<td>2,021 2,063</td>
<td>0.0 6.5</td>
<td>0.0 1.9</td>
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<tr>
<td>Illocos</td>
<td>5,675 6,873</td>
<td>2,087 2,236</td>
<td>3.7 0.1</td>
<td>0.1 0.0</td>
</tr>
<tr>
<td>II Cagayan Valley</td>
<td>5,942 7,150</td>
<td>1,849 2,344</td>
<td>0.1 0.0</td>
<td>0.0 0.0</td>
</tr>
<tr>
<td>III Central Luzon</td>
<td>10,546 10,673</td>
<td>2,535 2,924</td>
<td>4.6 7.3</td>
<td>21.0 9.6</td>
</tr>
<tr>
<td>IV Southern Tagalog</td>
<td>12,784 13,179</td>
<td>1,917 2,516</td>
<td>3.7 52.3</td>
<td>28.8 63.4</td>
</tr>
<tr>
<td>V Bicol</td>
<td>4,789 5,227</td>
<td>1,546 1,487</td>
<td>0.4 0.1</td>
<td>0.1 0.0</td>
</tr>
<tr>
<td>VI Western Visayas</td>
<td>8,586 9,869</td>
<td>1,785 1,949</td>
<td>1.3 0.2</td>
<td>0.6 1.7</td>
</tr>
<tr>
<td>VII Central Visayas</td>
<td>9,696 11,118</td>
<td>1,256 1,365</td>
<td>6.7 5.6</td>
<td>3.2 5.2</td>
</tr>
<tr>
<td>VIII Eastern Visayas</td>
<td>5,334 5,828</td>
<td>1,433 1,493</td>
<td>5.9 1.0</td>
<td>0.1 0.0</td>
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<tr>
<td>IX Western Mindanao</td>
<td>6,393 7,494</td>
<td>1,536 1,446</td>
<td>1.8 0.5</td>
<td>0.5 0.0</td>
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<tr>
<td>X Northern Mindanao</td>
<td>10,356 11,659</td>
<td>1,722 1,703</td>
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<td>0.0 0.0</td>
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<tr>
<td>XI Southern Mindanao</td>
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<td>1,797 2,089</td>
<td>7.2 1.9</td>
<td>2.9 0.1</td>
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<tr>
<td>XII Central Mindanao</td>
<td>8,800 7,786</td>
<td>1,813 1,709</td>
<td>2.5 0.3</td>
<td>0.0 0.0</td>
</tr>
<tr>
<td>Philippines</td>
<td>11,125 12,178</td>
<td>2,002 2,266</td>
<td>100 100</td>
<td>100 100</td>
</tr>
</tbody>
</table>

Sources: Philippine Statistical Yearbook (National Statistics Office, various issues); Foreign Trade Statistics (National Statistics Office, various issues); FIES various surveys; Board of Investments data; Philippine Economic Zone Authority data; National Statistics Coordination Board data.

Evidently, regions bordering Metro Manila benefit from spillover effects. However, part of their relative buoyancy is attributable to international trade and FDI. Most of the export processing zones (EPZs)—are located in four regions: Metro Manila, Southern Tagalog,
Central Luzon, and Central Visayas, which are the main recipients of FDI. Similarly, these regions are the main sources of the country’s exports (Table 1).

Among the four regions, Metro Manila’s prominence in exports and FDI appears to on the wane, however, over the period 1988-2000. Southern Tagalog, which has seen a mushrooming of EPZs in recent years, has taken over the lead. NCR’s loss in exports and FDI, nonetheless, has apparently been offset by increases in domestic consumption. At the other extreme, all four Mindanao regions suffered drastic cuts in both export and FDI shares owing to peace and order problems in a few areas, resulting in adverse publicity for the whole of Mindanao. Overall, exports tend to be better distributed spatially than FDI because agricultural regions are also involved in exports.

An indicator of the welfare of the poor (or poverty reduction) is the consumption expenditure per capita of the poorest quintile. This varies considerably across the regions, with no discernible improvement in interregional inequality over the period 1988-2000. Another measure, poverty incidence (or the proportion of the population below the national poverty line), shows a similar pattern. Poverty incidence is lowest in Metro Manila at 5.6 percent, followed by Central Luzon, Southern Tagalog, and CAR at just under 20 percent. Western Mindanao and Bicol have the highest poverty rates at over 50 percent. What seems surprising is the relatively high poverty rate in Central Visayas (39 percent) despite its relatively high income level and good education and health indicators. This probably reflects sharper intraregional inequality, implying that aggregate economic and social benefits may not be trickling down fast enough to the lower levels (Monsod and Monsod 1999). This suggests the need for a subregional or more micro approach to poverty reduction. It could also reflect below-average performance of the agricultural sector on which the majority of the poor depend, implying the need for appropriate investments in this sector.

Social development differences (education and health indicators) across the regions do not appear to be as marked as the economic disparities. This may suggest that the relative effectiveness of public spending for social sectors at the local level varies little. Overall, poverty indicators track economic indicators more closely than social indicators.
Determinants of Regional Development and Poverty Reduction

Econometric analysis of 5-year panel data on the regions can shed further light on the issue of whether or not economic openness is good for regional development and poverty reduction. The results are distilled below.

Regional development appears to be strongly influenced by the degree of trade openness, as well as by public spending for infrastructure. In turn, regional exports and FDI are determined by SEZs, physical infrastructure, and human capital. In addition, exports are influenced by agricultural terms of trade that favor regions with comparative advantage in agriculture.

The welfare of the poor is significantly influenced by regional development (growth in GRDP per capita). Further, the poor’s well-being is directly affected by public spending for social sectors including agrarian reform, human capital, and the availability of roads and electricity.

However, trade openness does not appear to directly benefit the incomes of the poor other than through the growth of regional incomes. This is consistent with a recent survey on trade, growth and poverty (Krueger and Berg 2002).

Conclusion

Economic openness appears to be good for regional development and, indirectly, poverty reduction. Nevertheless, it seems that economic openness cannot by itself bring about more balanced regional development, i.e., narrower disparities in regional incomes and poverty. In the postcolonial era, further spatial development is set by domestic market forces and public policy, and external factors tend to follow such set pattern. FDI goes to where there is good infrastructure, human capital, favorable policy environment, and economies of agglomeration. Similarly, non-traditional exports tend to originate in areas with adequate physical and human capital. To foster more balanced regional development, the government must take the lead in providing infrastructure, implementing sound decentralization measures, and improving the climate for private sector investment and productivity.
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