

## REGIONAL DISPARITIES IN THE PHILIPPINES: STRUCTURAL DRIVERS AND POLICY CONSIDERATIONS

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With 3 figures

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**Summary:** This article provides a review of regional inequalities in the Philippines, one of the most challenging countries in Southeast Asia due to its combination of continuing high population growth in both urban and rural areas and lack of gainful employment. The article connects structural drivers of regional disparities to policy options recently proposed in the important book *Inequality in Asia and the Pacific*, to bring about balanced regional development in Asia by: 1. improving regional connectivity, 2. transferring fiscal resources for greater investment in human capital and better access to public services in poor regions, 3. developing growth poles in lagging regions and 4. reducing barriers to within-country migration. While refinements of current policies and schemes with respect to the first three policy options might lead to curbing the persistence of regional disparities and to faster provincial poverty reduction, promoting more rural–urban migration will likely lead to a relocation of poverty to urban slums; in fact, the poverty incidence in several Philippine core provinces has risen in the last decade. The trends and patterns observed in the Philippines constitute valuable inputs for connecting structural drivers of regional disparities to specific empirical contexts in neighbouring countries and for improving regional policymaking.

**Zusammenfassung:** Im Fokus des vorliegenden Beitrags liegt die Betrachtung regionaler Ungleichheiten auf den Philippinen. Aufgrund einer Kombination aus beständig hohem Bevölkerungswachstum, sowohl in städtischen als auch in ländlichen Gebieten, sowie dem Mangel an Erwerbsmöglichkeiten, steht das Land besonderen sozialen und wirtschaftlichen Herausforderungen gegenüber. Diskutiert werden auf der einen Seite die strukturellen Antriebskräfte regionaler Ungleichheiten und auf der anderen Seite politische Handlungsoptionen, die jüngst in einem grundlegenden Werk zur Ungleichheit in Asien und dem Pazifikraum vorgelegt wurden: 1. Verbesserung der regionalen Konnektivität, 2. Steuerliche Umstrukturierung zur Förderung und Inwertsetzung des Humankapitals und einer Verbesserung des Zugangs zu öffentlichen Dienstleistungen vor allem in benachteiligten Regionen, 3. Entwicklung und Förderung von Wachstumszentren in benachteiligten Regionen, 4. Abbau von Mobilitäts- und Migrationshemmnissen innerhalb des Landes. Anhand vorliegender statistischer Daten lässt sich aufzeigen, dass politische Maßnahmen im Sinne der drei erstgenannten Optionen durchaus dazu geeignet sein können, regionale Ungleichheiten und Armut im Allgemeinen zu mindern. Eine Verbesserung der Mobilität hingegen hätte vermutlich die Folge, dass ländliche Armut lediglich in urbane Räume verlagert würde – ein Trend, der sich tatsächlich anhand der Daten der zurückliegenden 10 Jahre beobachten lässt. Die aufgezeigten Trends und Muster auf den Philippinen liefern wertvolle Hinweise auf die regionalen Ungleichheiten zugrundeliegenden Antriebskräfte und könnten als Ausgangspunkt für entsprechende und vergleichende Analysen in den Nachbarländern genutzt werden, um letztlich einen Beitrag zur Optimierung der Politik auf regionaler Ebene zu leisten.

**Keywords:** regional geography, economic geography, urban development, rural area, regional planning, developing countries, Philippines

### 1 Introduction

The interest in socioeconomic inequalities has enjoyed a significant global revival since the start of the financial and economic crises in 2008 (PIKETTY 2014, STIGLITZ 2013). The UNITED NATIONS (2016) included inequality in its tenth sustainable development goal adopted in 2015: “Reduce inequality within and among countries”. Scholars and policymakers in countries in Asia have paid more attention to inequalities as well (RIGG 2016, 23–53, PHONGPAICHTIT

and BAKER 2015, KANBUR et al. 2014, ADB 2012). With respect to both developed and developing countries, it is now recognised that fostering increases in the gross national income per capita is not a sufficient condition for improving living standards and reducing poverty:

“Within countries, the policy importance of addressing inequality will increase even as average incomes grow and human development indicators improve overall. And horizontal inequality across socio-politically sa-

lient groups, including by gender, ethnicity, religion, and region, will be central, not least to political stability and national cohesion” (CURRIE-ALDER et al. 2014, 901).

Based on a wealth of secondary sources, this article provides a review of regional inequalities in the Philippines, one of the most challenging countries in Southeast Asia due to its combination of continuing high population growth in both urban and rural areas and lack of gainful employment. The well-known coping mechanism of hundreds of thousands of households is to engage in “exodus capitalism” (KONDO 2014, 185). Approximately 10.2 million Philippine people reside abroad (COMMISSION ON FILIPINOS OVERSEAS 2013), and in 2013 remittances sent home were equivalent to 9.81 % of the Philippine gross domestic product (UNDP 2015, 263).

The aim of this article is to connect structural drivers of regional disparities to policy options recently proposed by RHEE et al. (2014, 89–92) in their important book *Inequality in Asia and the Pacific*, to bring about balanced regional development in Asia by: 1. improving regional connectivity, 2. transferring fiscal resources for greater investment in human capital and better access to public services in poor regions, 3. developing growth poles in lagging regions and 4. reducing barriers to within-country migration. To what extent are these proposals realistic for the Philippines, given the structural drivers and the Philippine economic geography? This review will demonstrate that reducing regional inequality requires a holistic approach. Urban employment, rural-urban migration and the remittances economy do not suffice to achieve a more inclusive process of regional and socioeconomic development. The increasing poverty incidence in and around the National Capital Region (NCR) as well as the persistence of poverty in various parts of the periphery highlight this complexity. The article consists of three major sections. The first section gives an overview of four drivers of regional differentiation in the Southeast Asian context, the second section introduces regional poverty trends in the Philippines and the third discusses RHEE et al.’s four policy proposals in light of sections 2 and 3.

## 2 Four structural drivers of regional disparities in Southeast Asia

Before focusing on the Philippines, it is instructive to give an overview of four important drivers shaping complex and dynamic patterns of regional development. While the focus here is on Southeast

Asia, the four drivers are essential as well in other parts of the developing world/Global South.

### 2.1 Natural disasters

Despite tremendous technological progress in the last 200 years, agricultural productivity still depends on nature. In Southeast Asia, five countries rank within the top twenty of the 2015 World Risk Report: the Philippines (3), Cambodia (8), Timor Leste (11), Brunei Darussalam (12) and Vietnam (18) (BÜNDNIS ENTWICKLUNG HILFT and UNU-EHS 2015, 64). The ranking is based on an index consisting of four components: exposure to natural hazards, susceptibility (“the likelihood of suffering from and experiencing harm, loss and disruption in an extreme event or natural hazard”), coping capacities and adaptive capacities. The November 2013 Typhoon Haiyan (Yolanda in the Philippines) serves as one of the most extremes examples. But countries with lower risk, such as Burma, Indonesia, Thailand and Malaysia, also suffer from disasters. The 2004 earthquake and tsunami that devastated coastal areas of Aceh, Indonesia, and annual floods in Thailand and Malaysia are powerful reminders of this. The unpredictability of extreme weather events makes it hard for farmers, urban coastal communities and policy-makers to be continually prepared in the long term. In most cases, the impact of typhoons and floods has a regional if not local dimension rather than a national dimension. It can take many years before the same area is hit again by extreme weather conditions, but it can also happen within the same year. In any case, the likelihood that extreme events are increasing due to climate change is making farmers and fisher folk more vulnerable to the natural environment. Coastal areas seem to be particularly challenged.

In the Asian context, NOY (2014) notes that “there is wider agreement that the combination of sea-level rise and deteriorated coral reef ecosystems will make coastal areas considerably more vulnerable to storms, regardless of whether storms will indeed be more frequent or more intense (or both)”. Henceforth, risks associated with natural disasters and climate change should be better integrated into rural development strategies (ANDRIESSE and LEE 2017). For instance, an earthquake or drought can completely and suddenly disconnect farmers from markets. No matter how inclusively farmers are inserted in agribusiness value chains, no matter how good farmer–buyer relations are, an extreme weather event is likely to lead to loss of income and higher

debts. In this respect, one way to support farmers is in the provision of microinsurance against calamities (NOY 2014, 82–103). At the regional level, organisations such as banks, microfinance organisations, rural cooperatives and slum associations could play instrumental roles.

## 2.2 Private sector development

Many regions enjoy comparative advantages, yet under what conditions do entrepreneurs successfully transform those advantages into vibrant and inclusive business? The body of knowledge on Asian business systems has pointed out that a healthy mix of competition and cooperation is one of the most important factors (WITT and REDDING 2014). Competition leads to lower prices, higher quality of goods and services, and process and product innovation, while cooperation - for instance, through chambers of commerce and rotary clubs - is essential for marketing industries and places, lobbying and attracting more domestic and foreign investments, as well as for a sense of togetherness and regional identity. Within Southeast Asia, the quality of available social capital at the national and regional levels have proven to be a key element in transforming comparative advantages into regional inclusive development. Ethnic and religious fault lines have often stymied the emergence of inclusiveness and hampered the creation of close relations between employers and employees, particularly in remote rural areas where elites have frequently exploited workers (ANDRIESSE 2014, 2015).

Most problematically, regions outside the core areas have had and will continue to have major difficulties in enhancing private sector development. For example, “Indonesian economic growth will continue to become systematically more oriented towards the urban areas of Java. For a country that spans 5500km across 900 inhabited islands the prospects for other regions within Indonesia would appear to be very much more limited because firms located in Indonesia’s outer islands are too far away to benefit from the agglomeration advantages associated with industries on the main island of Java” (ARITA et al. 2011, 178). And in Thailand economic activity remains heavily concentrated in the Bangkok Metropolitan Region. The region accounts for approximately 44% of the gross domestic product. Secondary cities and regions find it hard to generate more employment other than in tourism. The opening up of Myanmar/Burma has arguably led to

a surge in foreign investments, but given the complex social, ethnic and religious issues it remains to be seen to what extent non-core regions can benefit from the increased opportunities and witness the emergence of an inclusive private sector. Perhaps the most notable success story of a secondary region in Southeast Asia is the Malaysian island of Penang. Domestic and foreign firms have transformed Penang into a global electronics hub, facilitated by a proactive ethnic-Chinese leadership working within a regionally based multi-ethnic party since 1969 (HUTCHINSON 2008).<sup>1)</sup>

## 2.3 Local central relations

A healthy mix of competition and cooperation within the private sector needs to be facilitated by the public sector at the national and all sub-national levels. Government agencies are the prime actors for solving issues around market failures and from a geo-economic perspective to provide incentives for businesses to set up offices and factories in non-core areas. As HUTCHINSON (2008, 214) noted: “creating an ‘innovative environment’ in which firms are able to effectively collaborate and exchange ideas - thus increasing the performance of the sector as a whole - requires patient, long-term and tailored efforts that may surpass the capacity of even the most determined public servants.” Yet corruption and bureaucratic inefficiencies have also led to government failures in many countries (RIGG 2012, 46–80). For each country to strike the right balance between state, market and civil society has proven to be a daunting task (OSTROM 2010).

Within Southeast Asia, decentralisation has been perceived as one of the best strategies to improve local–central relations, to stimulate endogenous development in non-core areas (ARITA et al. 2011), to reach out to marginalised communities and to reduce government failures. The Philippines initiated a massive decentralisation scheme in 1991, Thailand in 1997 and Indonesia in 1999. Even in Vietnam and Laos, led by supposedly centralised Communist parties, provincial governments have been able to increase their room for manoeuvre to a considerable extent (Andriess 2015, McCULLOH and MALEKEY 2014). On the one hand, transferring power and financial budgets to lower government levels has resulted in more participatory forms of decision-making and in

<sup>1)</sup>Other thriving growth poles in Malaysia are the Klang Valley and Johor Bahru (near Singapore).

more opportunities for dynamic regions to take their fate in their own hands (GAINSBOROUGH 2010, 111–134). On the other hand, it has also brought about several unintended consequences such as vote-buying, dominance of local elites, corruption at the local level and marginalisation of the poorest regions due to less support from the central level. Furthermore, improving physical infrastructure and regional connectivity, education and healthcare in the periphery has become more dependent on the geographical origins of members of Congress/Parliament. Consequently, Jakarta and Bangkok have sought to swing the pendulum in the opposite direction by partially recentralising political space in order to mitigate certain decentralisation excesses (PATUNRU and RAHMAN 2014, 156). In sum, the mixed record of decentralisation schemes point out the difficulty of providing sufficient opportunities for peripheral regions without adequate resources and leadership.

## 2.4 Remittances

Despite decades-long economic growth, most Southeast Asian countries face a lack of available decent work: work without exploitation, but with a fair income, social protection and opportunities for personal development (ILO 2016). Instead, many men and especially women are forced to take up temporary, insecure, dangerous, exploitative jobs in the informal sector. Therefore, it is unsurprising that the poorest countries have become major sources of international and often irregular migrants. Approximately 2 million Indonesians work in Malaysia, and Thailand hosts 2.77 million labour migrants from Myanmar/Burma, Laos and Cambodia. But the most dramatic case is obviously the Philippines, which has become a global supplier of labour with 10% of the population abroad, either temporarily or permanently. Within Southeast Asia, Malaysia (793,580 persons) and Singapore (203,243 persons; COMMISSION ON FILIPINOS OVERSEAS 2013) are the most important host countries. Remittances have led to a vibrant retail sector, ranging from luxurious megamalls to home based sari-sari stores.

It is important to focus on the geography of international and domestic remittances since it is increasingly recognised that relatively poor regions are not in the position to compensate for a lack of economic dynamism with remittances. A disproportionate share of overseas Filipinos originate from regions that already perform better than average (FAIER 2013, HILL et al. 2007). A major reason is low education-

al attainments in the least successful regions. Poor households cannot afford to pay for skills training in order to prepare for overseas employment (CLAUSEN 2010). This also explains the persistence of large slums in the NCR and Metro Cebu (See AL JAZEERA 2014 for a shocking overview of slum conditions in Tondo, the poorest slum in the NCR). Rural–urban migration often merely culminates in a relocation of poverty. Therefore, the geography of remittances appears to reinforce regional disparities; it does not automatically trigger stronger agricultural performances in the periphery. This is a worrying trend since it adds another layer of complexity for the creation of balanced regional development. In this respect, it is also noteworthy that the relatively poor Philippine regions, in contrast to the remote areas of Indonesia and Thailand, are by no means sparsely populated. Future regional development remains crucial since the population projection to 2040 forecasts a growth of the population in *all* 17 regions of the Philippines (since May 29, 2015, the Philippines has 18 regions).

## 3 Philippine regional and provincial development

According to MERCADO (2002), regional development thinking and policies started to become an important and active part of national economic planning in the early 1970s. The National Economic Development Authority (NEDA) was established in 1972. Sub-national responsibility was created through the NEDA regional headquarters (MERCADO 2002, 38). Thirteen regions were created and since then five more regions were formed. The naturally most promising were and still are the NCR; Metro Cebu, the capital of the Central Visayas; and Metro Davao, the capital of Southern Mindanao. In the 1990s and early 2000s integrative thinking gained popularity. As a result of decentralisation in the early 1990s, regional authorities were encouraged to take the lead in fostering economic growth by connecting rural hinterlands and urban centres (the promotion of rural agro-industrial centres) and by connecting regions with each other through regional growth networks and corridors (CLAUSEN 2010).

Despite the efforts to create a better balanced regional development, HILL et al. (2007, 41) observed that “there have been no major changes in Philippine economic geography over the past two decades; that is, the ranking of regions by socioeconomic indicators has changed relatively little”. The NCR continues to account for more than one-third

of the gross domestic product, and spread effects have generated much economic activity and investments in the neighbouring regions of Central Luzon and Calabarzon. Figure 1 clearly shows the economic dominance of these three regions as opposed to the Visayas and Mindanao. Even Metro Cebu, often hailed as a successful secondary metropolis and model of endogenous development in Southeast Asia, has not been able to generate a significant number of spread effects to the rural areas of the Central Visayas. Economic dynamism has been confined to the urban area. The gross regional domestic product (GRDP) of the Central Visayas remains much lower than that of Central Luzon. In Indonesia, the other large archipelago in Southeast Asia, creating a better balanced pattern of regional development has proven to be challenging as well: “Indonesia’s regional development patterns have changed less than might have been expected on the basis of these far-reaching [decentralisation] reforms... The western region [Sumatra, Java and Bali] continues to be more dynamic than the poorer east” (HILL 2014, 20).

Figure 1 also shows that agriculture in the Philippines is relatively underperforming in peripheral areas. This is mainly due to the remittance economy in provincial capitals, reflected in a relatively large share of services. Young people study subjects like nursing and marine engineering in order to work overseas in the future while family members of overseas Filipina/Filipino workers (OFWs) spend remittances in retail shops and have new houses built. Figure 2 presents the regional poverty incidence among families measured four times between 2006 and 2015. Despite robust economic growth rates, the Philippine poverty incidence decreased slowly, from 23.4% in 2006 to 21.1% in 2015.<sup>2)</sup> It is remarkable that the core areas of the NCR, Calabarzon and Central Luzon have not performed well. While these three regions remain the wealthiest nationwide, the poverty incidence among families has risen in a number of provinces (Fig. 3). A probable cause is in-migration combined with a lack of employment. For instance, KELLY (2013) commented on the case of Cavite: Between 1997 and 2006 “the province’s per capita income

(in constant 1997 pesos), has actually declined over time, and its unemployment rate has risen. Thus, despite phenomenal employment growth, incomes and unemployment in the province overall have actually worsened, suggesting that many remain excluded from the new growth that has taken place”. These problems have intensified since 2006.

One of the most important economic strategies in the Philippines is to strengthen its position as a global IT-BPO (information technology and business processing outsourcing; KLEIBERT 2015) leader, yet there appear to be few opportunities for unskilled workers and urban–rural linkages. The poverty incidence in the NCR has risen (Fig. 2 and Fig. 3), and in several provinces with cities that are secondary hubs for the IT-BPO industry, the socioeconomic situation has not significantly improved. For instance, Iloilo City employs approximately 10,000 IT-BPO workers, the majority of which are women, but the poverty incidence among families in Iloilo Province, part of the Western Visayas, was 20.8% in 2006, rose to 22.4% in 2009 and then declined to 21.0% in 2015.

The meagre results in terms of poverty reduction are to a considerable extent due to low agricultural productivity, few revenues and benefits along upstream agribusiness value chains as well as the impact of natural disasters (BORRAS 2007, ANDRIESSE and LEE 2017). As the PHILIPPINE DAILY INQUIRER (2016) put it: “Agriculture is seat of poverty”. This can be illustrated by the Eastern Visayas (Fig. 2). The poverty incidence among families in the Eastern Visayas has steadily *increased* between 2006 and 2015. One of the most important agricultural products cultivated in this region is coconut, yet coconut farmers are considered to be the poorest among Philippine farmers (PHILIPPINE DAILY INQUIRER 2016). Furthermore, in contrast to, for instance, Zamboanga Peninsula and Davao Region (Fig. 2), there is no large urban centre generating employment. Tacloban City, the largest city with 242,089 inhabitants, is small for Philippine standards and faces a serious lack of private investment (NEDA 2013). The 2013 Typhoon Haiyan (Yolanda), which killed more than 5,000 people, further deteriorated the socioeconomic situation. Poverty went up and the region experienced a recession; the 2013–2014 regional economic growth rate was -2.3% (NEDA 2013). Finally, few OFWs originate from the Eastern Visayas—only 1.1% of the total number of OFWs (PSA 2016c)—but the region hosts 4.4% of the total population. A major shortcoming is the lack of human capital formation (NEDA 2013, 130–131). This confirms the observation that the periphery is not well equipped to benefit from

<sup>2)</sup> According to the latest preliminary statistics the national poverty incidence decreased significantly between 2012 and 2015 (PSA 2016b). This could be attributed to socioeconomic policies initiated by former Benigno President Aquino III. In this article we use the fuller data released in PSA 2016a since the latest publication data does not contain sub-national data.

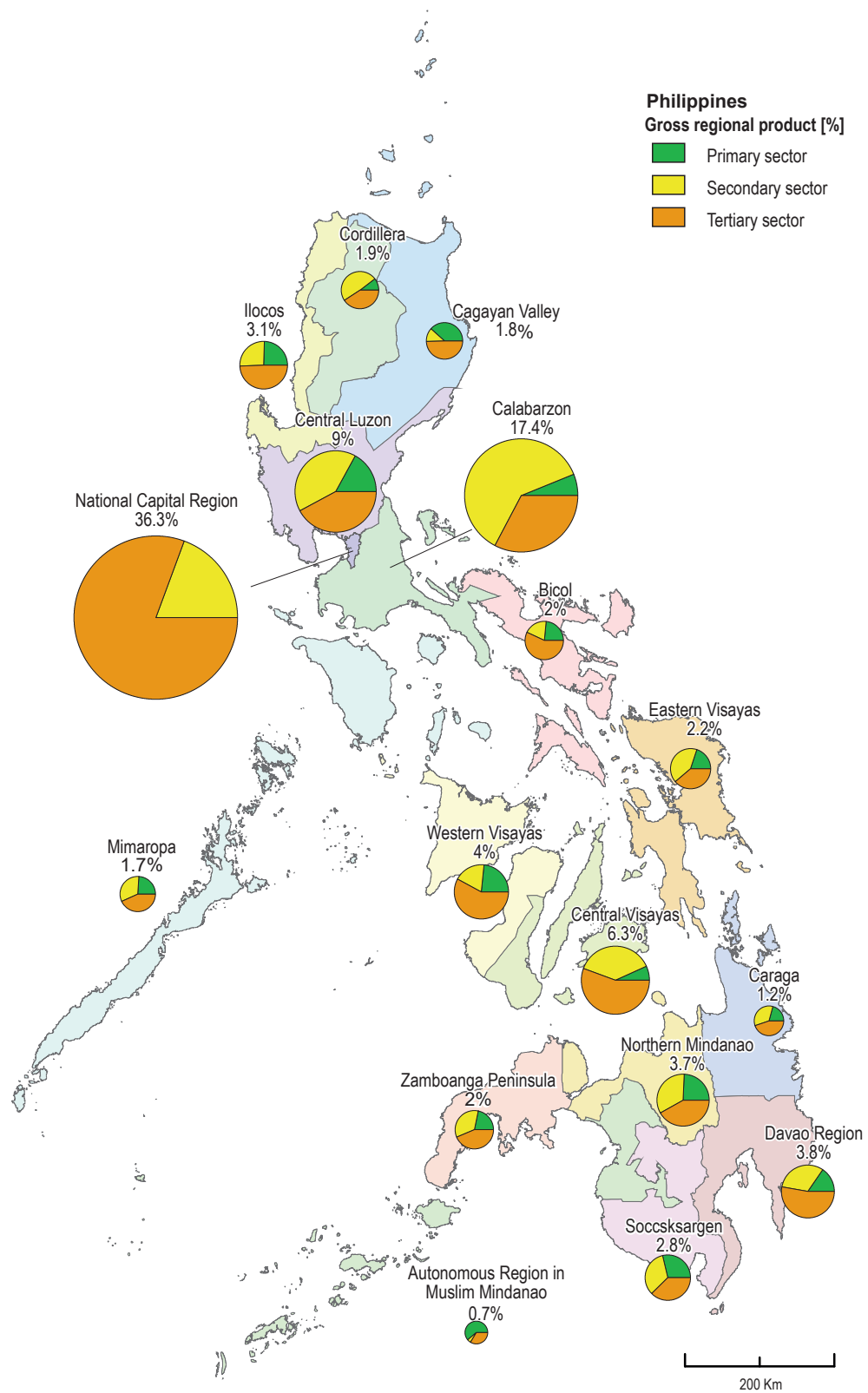


Fig. 1: Size and structure of gross regional product (GRDP). Source: NSCB 2013

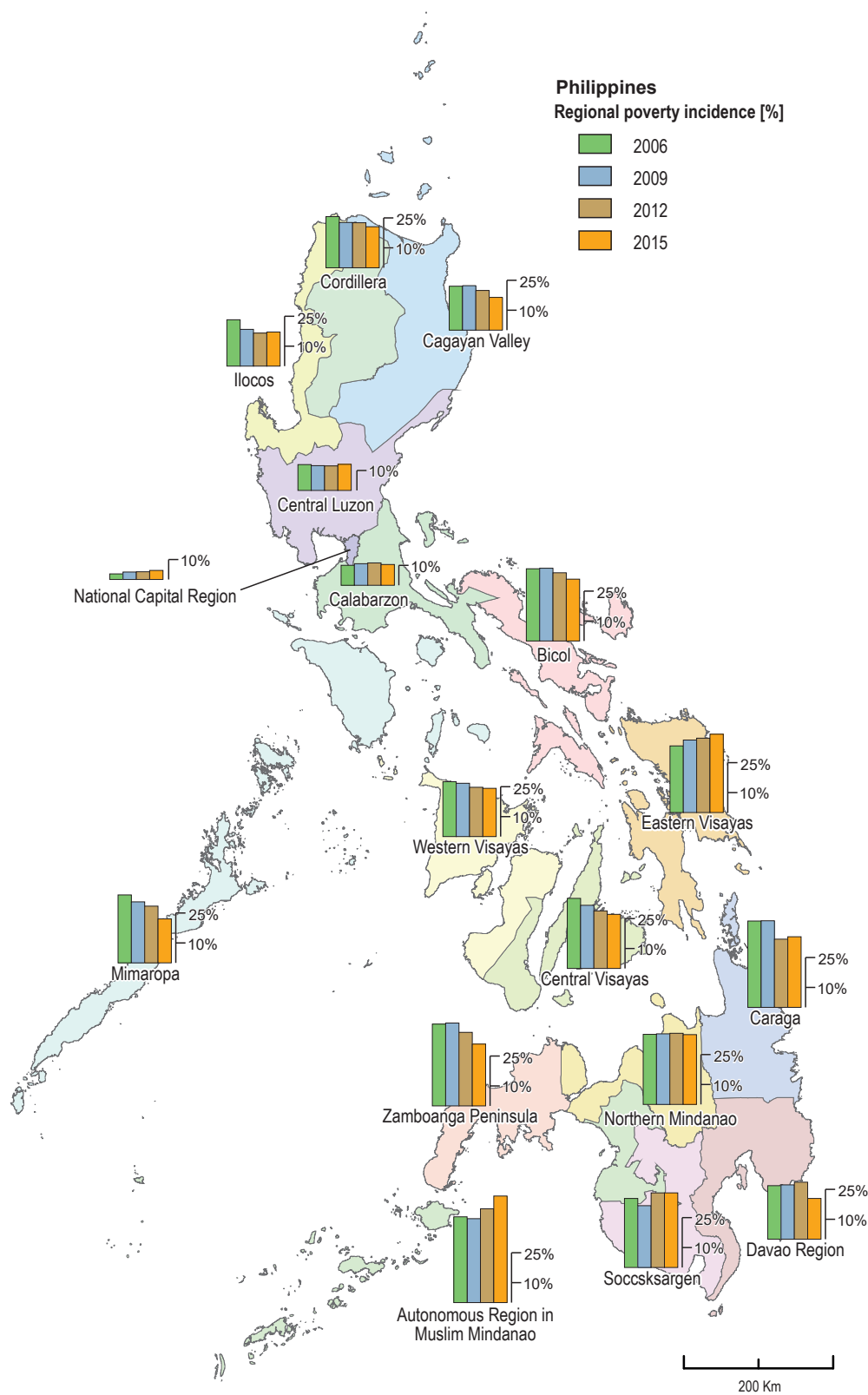


Fig. 2: Regional poverty incidence among families [%]. Source: PSA 2016a

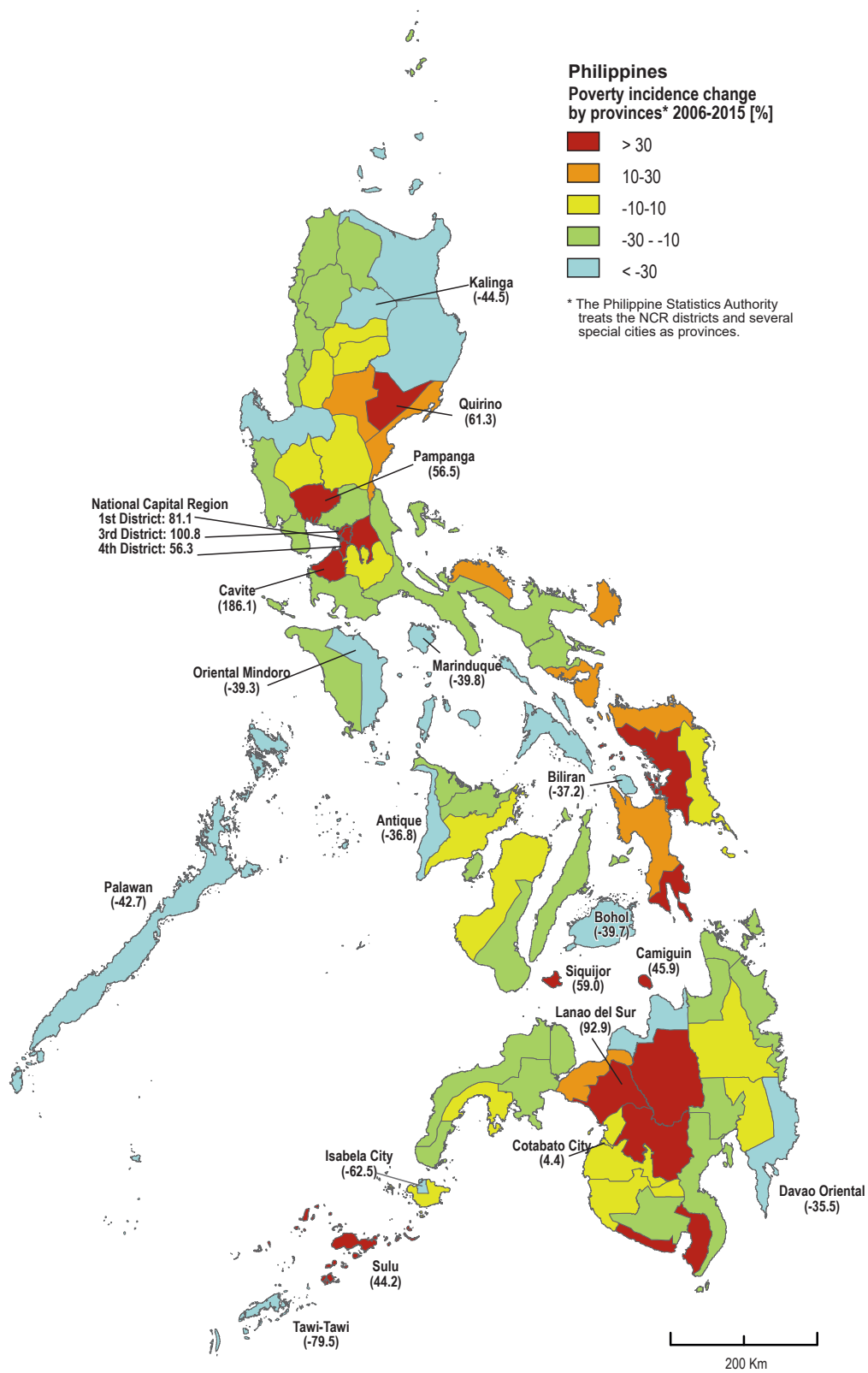


Fig. 3: Provincial trends in poverty incidence among families; top 10 performers and worst 10 performers highlighted (% change 2006–2015; negative numbers denote poverty reduction). Source: PSA 2016a



opportunities arising from globalisation (HILL et al. 2007, CLAUSEN 2010). Regional authorities consider agribusiness, tourism, and even the IT-BPO industry as the way forward for the Eastern Visayas, but the extent to which the region has a comparative advantage in the latter two industries can be questioned. It is likely that investors prefer to establish businesses in larger emerging secondary cities with secure power supply.<sup>3)</sup>

Figures 2 and 3 also show that Mindanao is a diverse island with respect to poverty reduction trends. Davao Region and Zamboanga Peninsula can no longer be regarded as the poorest parts of country. There is a substantial degree of intra-provincial variety. Most spectacularly, Tawi-Tawi Province recorded the best performance nationwide due to the absence of violent incidents, growing seaweeds and remittances sent by migrants working in Sabah, Malaysia (Fig. 3, CONFLICT ALERT 2016 and MAENTZ 2015). However, violent conflict between radicalised Islamic rebels and the Philippine government continue to take its toll on the prospects for stability and progress in several provinces. Since the signing of the Comprehensive Agreement on the Bangsamoro between the Moro Islamic Liberation Front in March 2014, there have been several disturbing violent clashes. In fact, the number of deaths as a result of incidents involving relatively new actors such as the Bangsamoro Islamic Freedom Fighters, Abu Sayyaf Group, and Jemaah Islamiyah increased from 321 in 2014 to 387 in 2015 and by early 2016 253 persons had already died (CONFLICT ALERT 2016, 42).<sup>4)</sup> Thus much still has to be done before permanent peace is guaranteed.

#### 4 Towards a better balanced pattern of regional development?

In light of the structural drivers and regional development trends discussed above, this section discusses the viability of four policies to reduce disparities proposed by RHEE et al. (2014, 89–92) in their book *Inequality in Asia and the Pacific*: 1. improving regional connectivity, 2. transferring fiscal resources for greater investment in human capital and better

access to public services in poor regions, 3. developing growth poles in lagging regions and 4. reducing barriers to within-country migration. The first and second policy options are related to natural disasters and local–central relations, the third to both local–central relations and private sector development, and the fourth to remittances and natural disasters.

##### 4.1 Improving regional connectivity

For a large, populous and complex archipelago like the Philippines, excellent surface, water and air transportation is indeed a must to ensure efficient flows of people and goods. This is especially relevant for peripheral regions. While air transportation has become much more important in recent decades, particularly since the arrival of low-cost carriers such as Cebu Pacific and Air Asia, poor people cannot afford to purchase airline tickets. In addition, high volume–low value manufacturing activities also need efficient ground and water transportation. Thus, ports and roads will remain an essential part of infrastructure. Nevertheless, Philippine politicians in recent decades have chosen to allocate “the bulk of government infrastructure spending for roads and bridges, telecommunication and power facilities to the NCR” (PHILIPPINE DAILY INQUIRER 2014). This has reinforced rather than reduced regional disparities. At present, the Philippines lags behind all other member states of the Association of Southeast Asian Nations (ASEAN) in terms of logistics efficiency. It is thus imperative for the administration of President Rodrigo Roa Duterte to reverse this trend (see THE ECONOMIST 2016 for the case of Indonesia); to work closely with regional and provincial governments; and, given the increasing likelihood of weather extremes (NOY 2014, 82–103), to build infrastructure which is less prone to floods, landslides and typhoons. There is a need to improve the so-called nautical highways, a combination of highways and roll-on, roll-off ferries as well as rural roads to connect farms to markets. These measures would enable farmers and fisher folk to be better inserted in agribusiness value chains. In addition, for Philippine secondary cities expected to grow significantly in the future potentially culminating in congestion planning for effective and efficient urban mobility inter-city mobility is essential (UNDP 2013, 32). In order to ensure spatial/regional fairness, it is crucial to reduce discretionary spending based on the origin of influential politicians (see section 2.3 as well).

<sup>3)</sup> In many peripheral areas power supply remains inadequate and costly. This is a major obstacle for IT-BPO firms.

<sup>4)</sup> Besides violence and death, the conflicts have also led to huge economic costs for the Philippine as a whole; see Molato 2015 for estimates

#### 4.2 Transferring fiscal resources for greater investment in human capital and better access to public services in poor regions

As outlined in section 2.3, the Philippines has seen a substantial devolution of power and finance from the central government in Manila to lower levels of government since the early 1990s. Nevertheless, it has become apparent that a lack of capacities and expertise exist at the lower level agencies to address complex programmes. ROLA (2011, 167–198), for instance, pointed out that managing water issues in a peripheral upland community in Bukidnon Province, Northern Mindanao Region, requires the support of the central government. Addressing these and other environmental pressures necessitates smooth local–central relations. Furthermore, attracting qualified teachers, nurses and doctors, water experts, social workers, etc., etc. is not easy given the limited fiscal space in lower tiers of administration in many countries, but the Indonesian experience shows that young graduates can be convinced to start their teaching career in remote islands (AL JAZEERA 2013). Therefore, in an eventually permanent peace agreement for the troubled areas in Mindanao, it will be important that provincial and local authorities in ARMM, Soccsksargen and Zamboanga Peninsula (Fig. 2) are not left alone to fend for themselves. That would not result in poverty reduction.

Human capital formation (both formal education and skills training), improving public services and improving regional connectivity discussed above are stymied by the persistence of local political dynasties. The more powerful dynasties are, the higher the chances of pork-barrel, discretionary public spending and local elite capture (MENDOZA et al. 2012).<sup>5)</sup> In a study on the potential local politicization of the Philippine conditional cash transfers programme (conditional on health and education requirements) LABONNE (2013, 84) warned that while strict targeting of poor households “decreases the central government’s ability to favor politically important constituencies, it also strengthen [the local] incumbency advantage. If poorer districts also have poorly performing local officials then it might have nefarious long-term consequences in areas.” Furthermore, intra-dynasty feuds could hamper

swift implementation of policies as was observed in Iloilo Province after the 2013 Typhoon Haiyan. (ANDRIESE and LEE 2017). There have been proposals to introduce anti-political dynasty laws, but so far without success. However, without effective and enforceable laws preventing nepotism, it will remain difficult for the Philippines to improve regional connectivity and public service delivery in poor regions in impartial ways.

#### 4.3 Developing growth poles in lagging regions

In theory, the promotion of growth poles is a suitable tool to try to curb the persistence of regional disparities, to mitigate overurbanisation in primate cities and to stimulate private sector development (section 2.2) nationwide. As mentioned in section 3, several secondary cities currently bet on the IT-BPO industry. Even the authorities in the impoverished Eastern Visayas (Fig. 2), consider information technology as one of the ways forward in terms of employment growth (NEDA 2013). While efforts to create alternatives for the services hubs of the NCR and Metro Cebu are welcome, policymakers and local politicians need to be aware that not all secondary cities can become successful growth poles, let alone leaders in the same industry. RHEE et al. (2014, 90) rightly point to the issue of agglomeration economies. For a growth pole to succeed, there needs to be a certain scale, ideally more than one dominant industry for pooling skilled labour and information flows as well as social capital. At present, it appears that too many Philippine secondary cities bet on IT-BPO. This is vulnerable since the industry is relatively footloose. Firms could easily relocate to other cities and countries if managers see cost advantages elsewhere. The challenge for the Philippines is to diversify and find suitable industries for potential growth poles. The country has few comparative advantages in manufacturing (OFRENEO 2015), so a broadening of the service sector seems most appropriate. Key private sector development actors such as chambers of commerce, investment promotion agencies and investors could think of medical tourism, international education attracting students from East Asian and Southeast Asian countries, and the meetings-incentives-conferences-exhibitions (MICE) industry. The government could have a meaningful role regarding bringing the various private sector players together and stimulate cooperation within the broad spectrum of services sector. Simultaneously, it is important that

<sup>5)</sup> While it can be argued most municipalities in the Philippines are led by dynasties there is a great deal of variety in terms of contextual factors, persistence, influence and impacts (See for instance DE DIOS 2007)

employees are also satisfied. Workers in the services sector and OFWs are not likely to move to a growth pole if salaries, career prospects and skills formation opportunities are low. Thus, for any growth pole to succeed, it is imperative to think in terms of domestic employability rather than focusing on success in global labour markets (BEEREPOOT and HENDRIKS 2013, KONDO, 2014).

#### 4.4 Reducing barriers to within-country migration

If jobs do not come to the people, people need to move to the jobs. This is one of the standard neoclassical policy prescriptions. While it could be an appropriate proposal for rural regions with a declining population and an overall process of degeneration, it is problematic in the Philippines. First, all Philippine regions will experience population growth. Encouraging more rural–urban migration would lead to even larger numbers of insufficiently skilled people arriving in the NCR and surrounding regions, Metro Cebu and Metro Davao—a *facto* relocation of poverty. Second, Figures 2 and 3 show that the poverty incidence among families is increasing in the NCR and provinces like Pampanga and Cavite. There is thus a lack of decent work in prosperous areas. RHEE *et al.* (2014, 92) also recognise that preconditions for effective migration are the availability of jobs and skills. Given these shortcomings, it would be more worthwhile for poor Philippine regions and provinces to find alternative solutions.

A first measure would be to get rid of exploitative labour arrangements in agribusiness. For instance, plantation workers in Bukidnon Province, Northern Mindanao, where the poverty incidence increased between 2006 and 2015, are believed to suffer from labour exploitation. The Philippine Department of Trade and Industry announced in August 2016 it will direct investments to agribusiness in marginalised areas including those in which out-migration is high (DTI 2016). The department envisions rural regions to benefit from the newly established ASEAN economic community as well. However, there are also regions that are unsuitable for agri-based capitalism. Therefore, policymakers could consider the option to deviate from mainstream capital accumulation and to focus on organic farming and alternative forms of economic activity (SALAZAR 2014, GIBSON *et al.* 2010). In other words: to prioritise cooperation over competition in vil-

lages. Additional advantages of this strategy are the chance to become less dependent on political dynasties and pork barrel politics as well the opportunity to keep families together and improve the psychological health of youth. As a result of domestic and international out-migration thousands of Philippine children are raised by one parent, grandparents and other relatives (SATAKE 2012, 82).

## 5 Conclusion

This article has sought to connect four structural drivers of regional disparities to regional trends and policy considerations in the Philippines. It has demonstrated that poverty reduction has proven to be difficult to achieve in a sustained and inclusive manner. Two features stand out. First, while the traditional core areas within the Philippine geo-economy remain the least poor, the poverty incidence among families in various places of these areas has increased considerably since 2006. This is alarming since it implies that the formal labour market, most notably IT-BPO in the NCR and manufacturing in surrounding provinces, is not capable of absorbing the thousands of annual in-migrants. Second, despite a substantial decentralisation scheme and decades-long efforts to create a better balanced pattern of regional development, most regions and provinces find it hard to create processes of endogenous development which not only result in regional economic growth, but also in regional poverty reduction. Decentralisation, then, should not be considered a guaranteed stepping stone towards improved regional socioeconomic capabilities and regional competitiveness. Furthermore, given the geographical diversity in a complex country like the Philippines, further research could explicitly address the sequencing of regional and transport policies as well as the balance between regional and national policies. Given limited fiscal space it might be impossible to implement many policies simultaneously. Since the presidential campaign of Mr. Rodrigo Duterte, president of the Philippines since June 30, 2016, there has been a debate on the idea to transform the country into a federation. Proponents argue that states and local government agencies will then be better positioned to spur economic growth and poverty reduction. Moreover, many people outside the core areas of the NCR and adjacent provinces have also repeatedly voiced their anger against “Imperial Manila”. Nevertheless, there is no guarantee that federalism leads to poverty reduction. Changing the administrative set-up does not automatically trigger

a process of more inclusive development. This article shows that a significant retreat from “Manila” might further complicate matters in the poorest provinces, especially provinces that are highly prone to natural disasters, have limited opportunities for endogenous private sector development, are dominated by local political dynasties and do not benefit from the remittance economy. Therefore, federalism will only succeed if local–state–federal relations provide safeguards and mechanisms, for example related to appropriate sequencing of policies, to support communities in need.

The Philippine experience provides food for thought for other Southeast Asian countries wishing to expand on policies to curb the persistence of regional disparities and to provide more economic and political opportunities for local government agencies. Most notably, Myanmar/Burma needs to have a constitution that secures peace in the long run and keeps the country together. Thailand is in the process of enacting a new constitution, and in the future the Greater Mekong Subregion countries of Laos, Cambodia and Vietnam could embark on democratisation and formal decentralisation schemes as well. In conclusion, the trends and patterns observed in the Philippines constitute valuable inputs for connecting structural drivers of regional disparities to specific empirical contexts in neighbouring countries and for improving regional policies.

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